

Overview

- 2018: Economic growth at 4.0%; for 2019 a slow-down to 3.5% expected
- Growth primarily based on investment and consumption; potential for upward adjustment through rising wages and increased international support
- Low inflation is rising and should lie inside the National Bank's target corridor of $5 \pm 1.5\%$ in 2019
- Temporary devaluation of the Leu of ca. 6% partially compensated
- Remittances decrease due to low growth rates in EU and Russia
- Growth in exports and imports is slowing down; Turkey takes over from Russia as second-most important market for Moldovan products
- 2019 budget deficit expected to hit 3.9% of GDP; expenditures increased much faster than revenues in first half of 2019

Topics

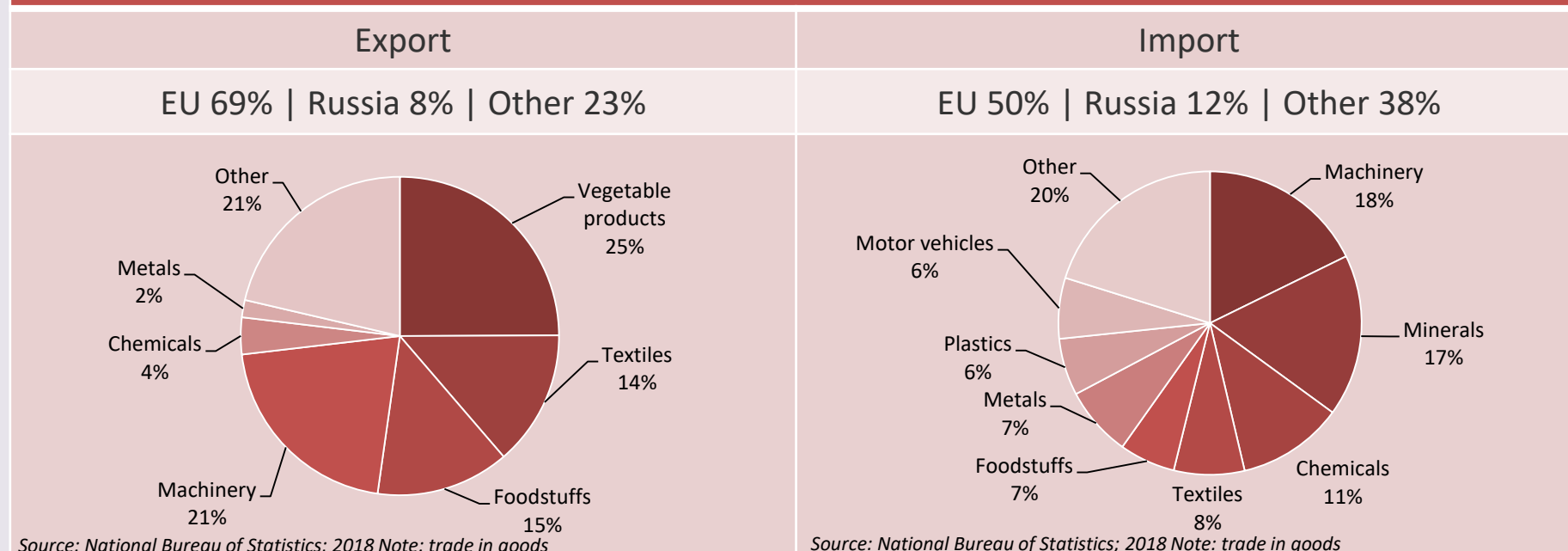
- **The new government.** Big challenges ahead for the unusual coalition of pro-Russian Socialists and pro-EU block ACUM
- **Economic effects of the DCFTA.** After 5 years of implementation we see a strong positive effect on exports to EU
- **Reorientation of Moldovan Investment Promotion Agency.** The reorganization also requires an adaptation of tasks and processes

Basic indicators

	Moldova	Georgia	Belarus	Ukraine	Russia
GDP, USD bn	12.0	17.2	61.0	134.9	1,610.4
GDP/capita, USD	3,399*	4,661	6,477	3,221	11,191
Population, m	3.5*	3.7	9.4	41.9	143.9

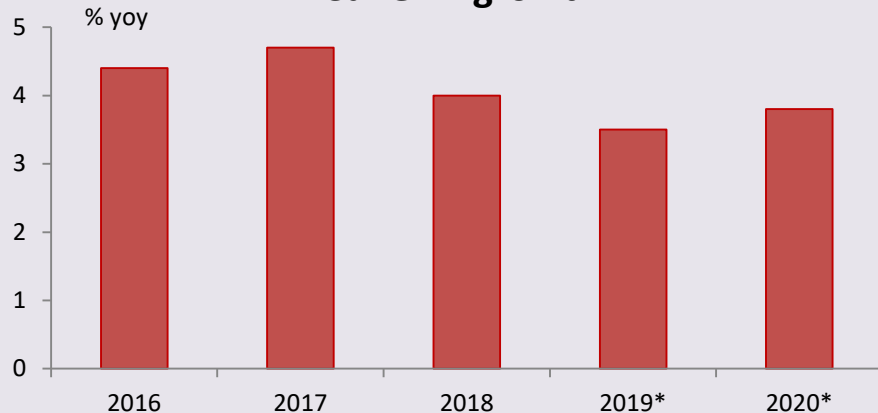
Source: IMF, estimation for 2019; *According to the census of 2014 only slightly less than 3 m inhabitants; based on this census GDP per capita amounts to ca. USD 4,000

Trade structure



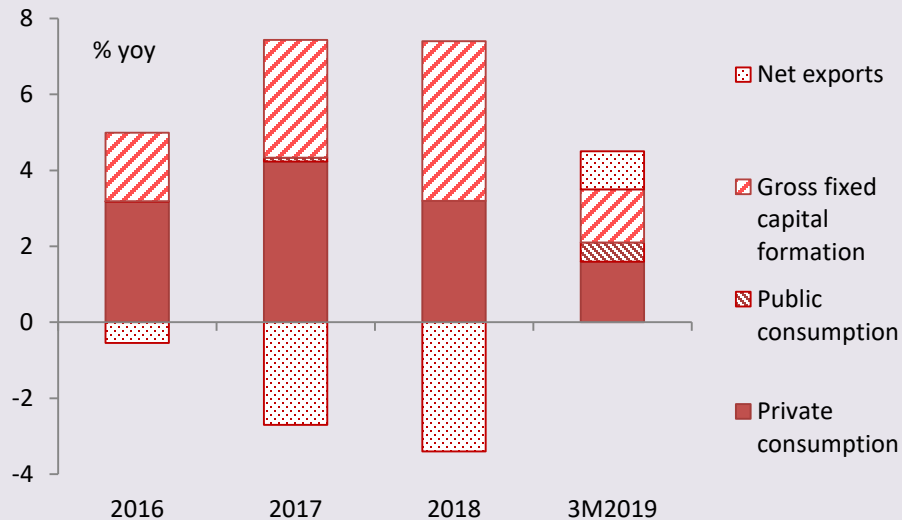
Economic growth

Real GDP growth



Source: National Bureau of Statistics; *Forecast

Contribution to economic growth (real)



Source: National Bureau of Statistics

GDP 2018

- Growth of 4.0%
- Growth driven by
 - Investment
 - Private consumption

GDP 2019

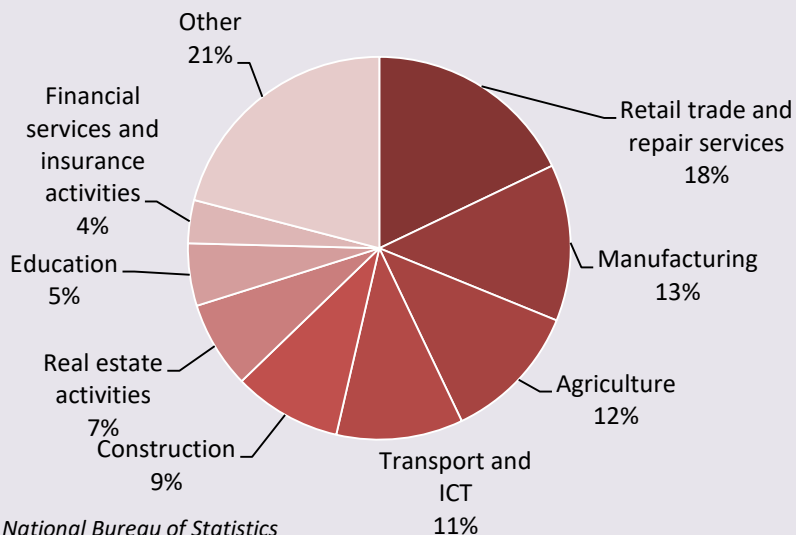
- Slight growth slow-down to 3.5% expected
- Reason: lower growth of investment and private consumption (also because of falling remittances)
- However, not taken into account are:
 - Effect of rising wages, especially in public sector
 - Possibly increasing international support for new government; therefore higher investment

Conclusion

- Growth expected to slow down slightly
- Room for upward adjustment through higher wages and more international support

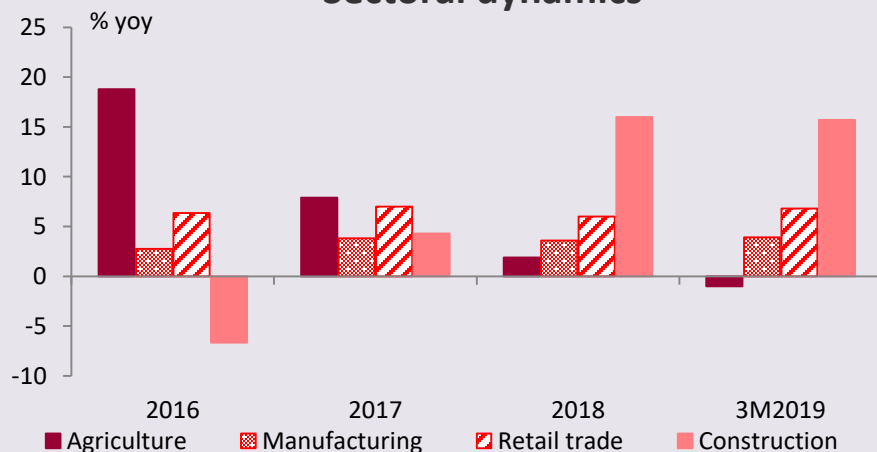
Sectoral perspective

Composition of GDP



Source: National Bureau of Statistics

Sectoral dynamics



Source: National Bureau of Statistics

Agriculture

- 2018: good harvest, slight growth of 1.9%, but much weaker contribution than in prev. year

Manufacturing

- 2018: growth rate of 3.6% comparable to previous year; 3.9% in 3M2019
- Growth driver is the automotive sector in free economic zones

Retail trade

- Robust growth of 6.0% in 2018, reflects relatively strong private consumption
- Similar development in 3M2019

Construction

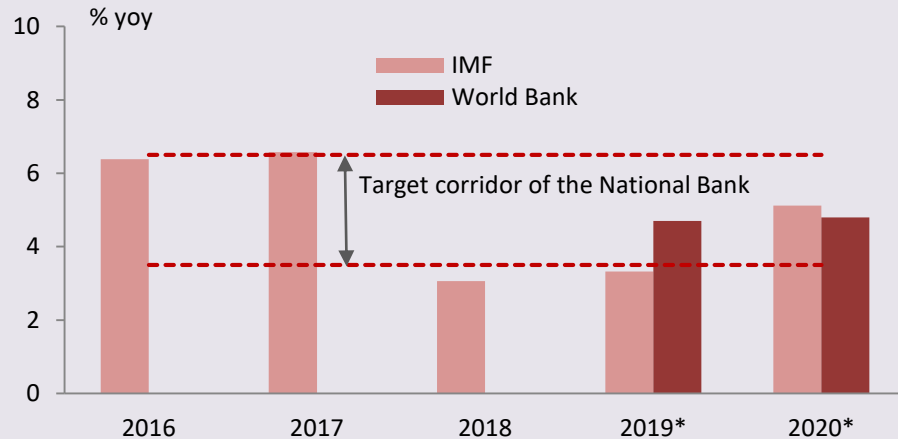
- Strong growth of 16% linked to rising investment in 2018
- Growth of 15.7% in 3M2019

Conclusion

- Broad growth base in 2018
- Little dynamics in agriculture, strong growth in construction

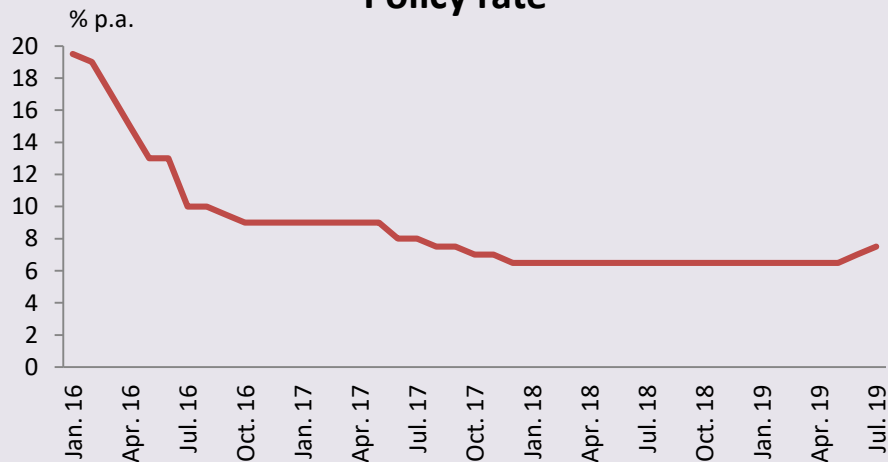
Inflation und monetary policy

Inflation



Source: National Bureau of Statistics; *Forecast; Note: Annual average (consumer prices)

Policy rate



Source: National Bank

2018

- Relatively low inflation of 3.0%
- Reasons: only slowly rising food prices and reduction of regulated energy prices

2019

- Increase of inflation expected
- Reasons: Increase of wages in public sector, increase in lending and food prices

Monetary policy

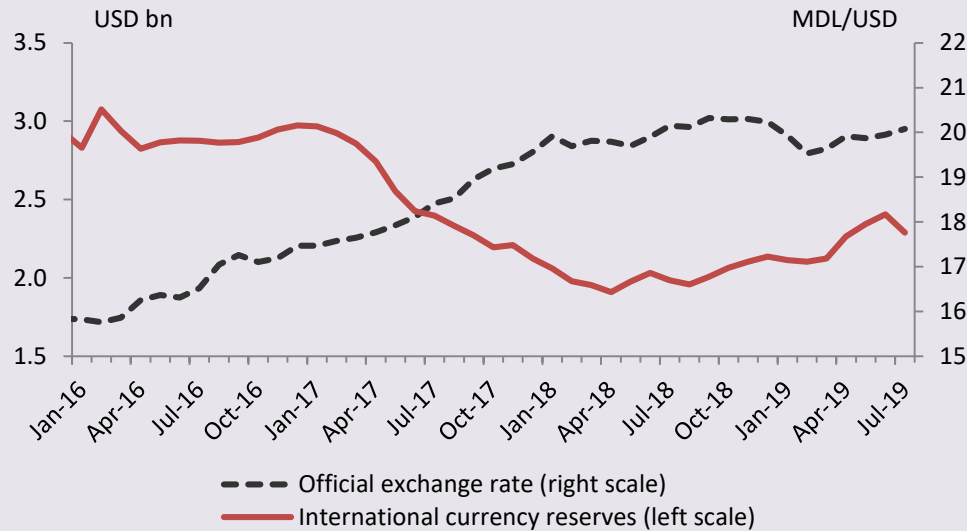
- National Bank reacted by raising the policy rate in two steps from 6.5% to 7.5%

Conclusion

- National Bank reacted adequately to increasing inflation pressure
- Increased lending is a positive development

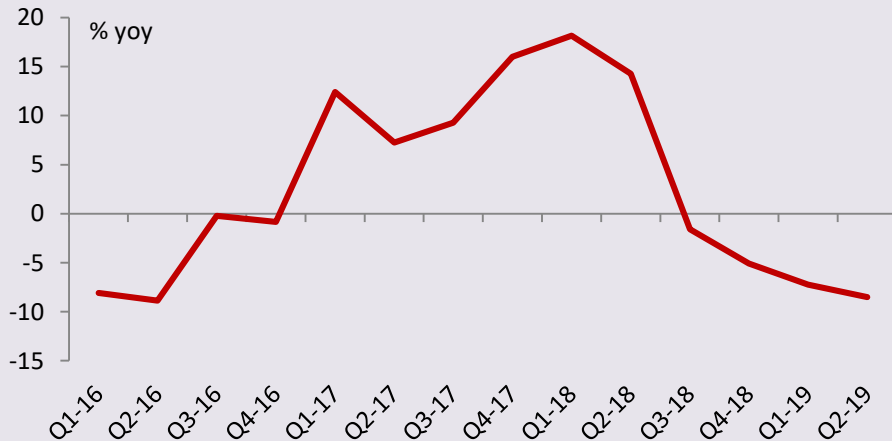
Exchange rate and remittances

Exchange rate and currency reserves



Source: National Bank of Moldova

Remittances



Source: National Bank of Moldova; Note: based on USD values

Exchange rate and currency reserves

- Temporary depreciation of the Leu of ca. 6% between March and June 2019
- Now: Leu appreciating
- Mostly stable currency reserves; import coverage of over 5 months

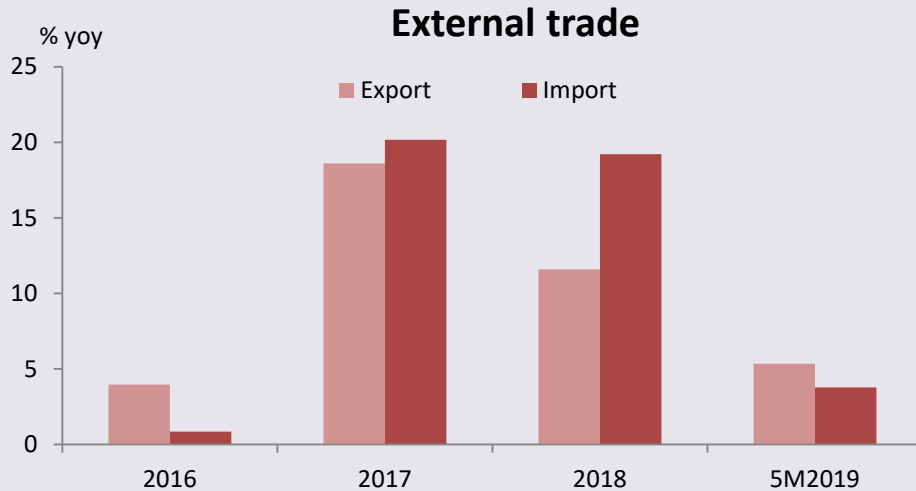
Remittances

- Declining since Q3-2018
- Main reason: weak growth in EU and Russia
- Decline negatively affecting private consumption in Moldova

Conclusion

- Moderate depreciation of Leu in 2019 partially compensated
- Decreasing remittances weaken consumption

External trade



Source: National Bureau of Statistics; Note: trade in goods

Import

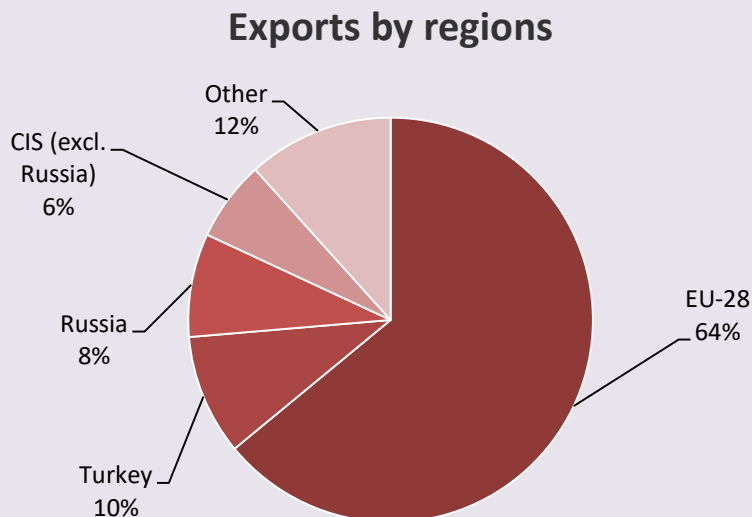
- In 5M2019 growth of 3.8% year-on-year
- Growth slowing down after two strong years

Export

- In 5M2019 increase of 5.3% year-on-year
- Particularly strong growth of cable harnesses export of 37%

Exports by regions, 5M2019

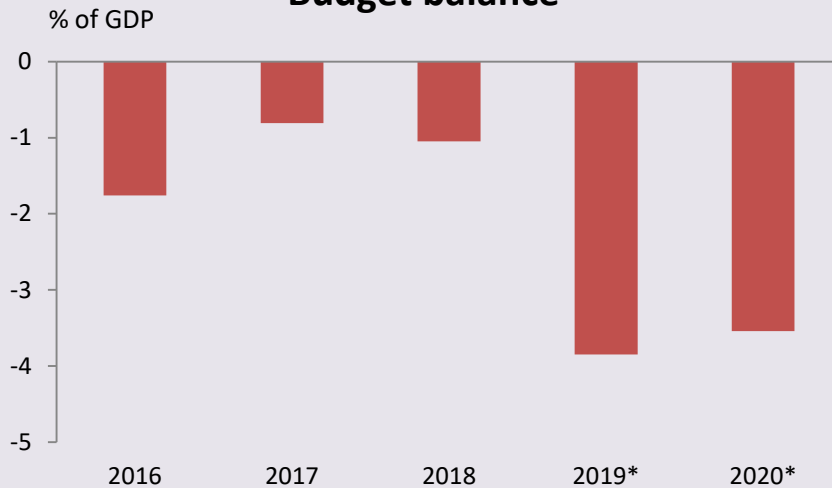
- EU biggest market with 64%, but smaller share than in entire year 2018
- Reason: Decreasing exports of vegetable products of -32%
- Turkey now second-largest market for Moldovan goods; very strong growth of 249% year-on-year



Source: National Bureau of Statistics; 5M2019

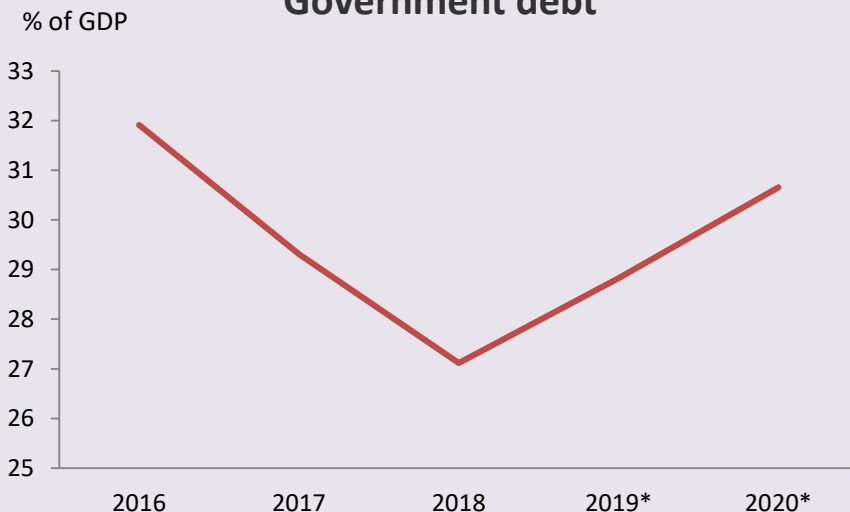
Public finances and government debt

Budget balance



Source: IMF; *Estimation/Forecast

Government debt



Source: IMF; *Forecast

Budget deficit

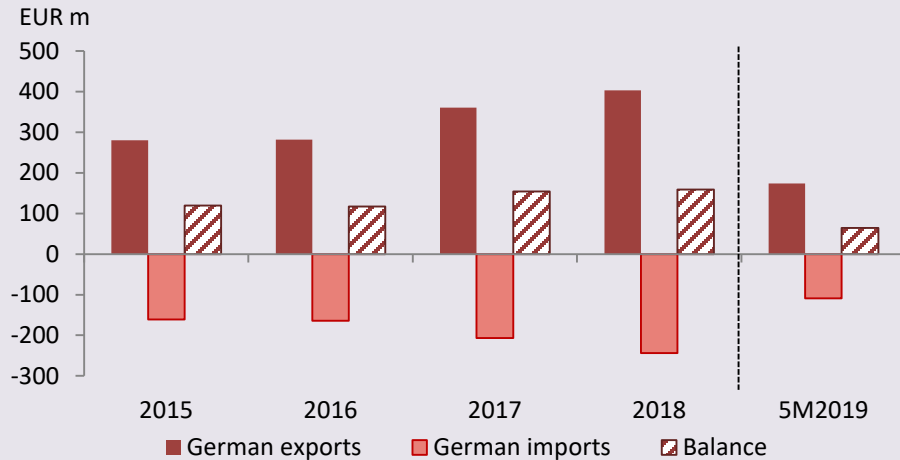
- 5M2019: expenditures growing much faster (+20.6%) than revenues (+7.1%)
- Revenues: lower corporate income tax through controversial reform in 2018
- Expenditures: significant increase in social spending and wages, partially a result of election promises
- Deficit expected to rise to -3.9% of GDP in 2019

Outlook

- Lower deficit expected in 2020
- But high forecasts uncertain because of
 - Stability and reforms of new government
 - Decision on new IMF programme; current one ending in 2019
 - Support through international donors

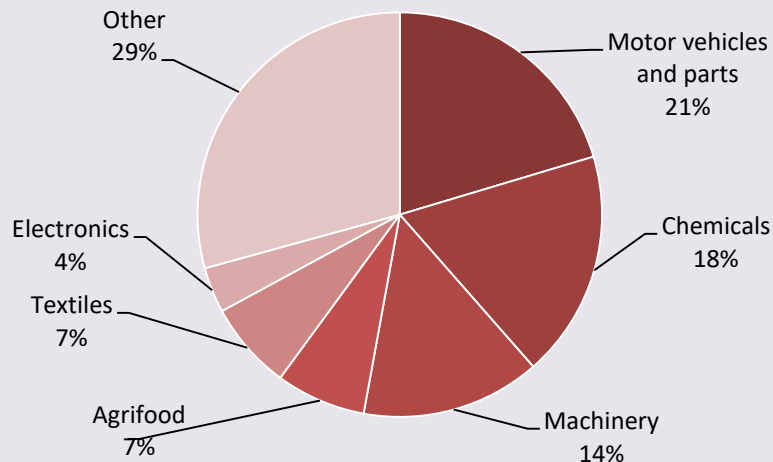
Bilateral trade between Germany and Moldova

German trade with Moldova



Source: German Federal Statistics Office

German exports to Moldova



Source: German Federal Statistics Office; 2018

Bilateral trade volume

- 5M2019: trade volume of EUR 283 m; increase of 7.0% year-on-year

German exports to Moldova

- Exports increase in 5M2019 by 4.2%; growth slowing down year-on-year
- High share of motor vehicles and capital goods in exports

German imports from Moldova

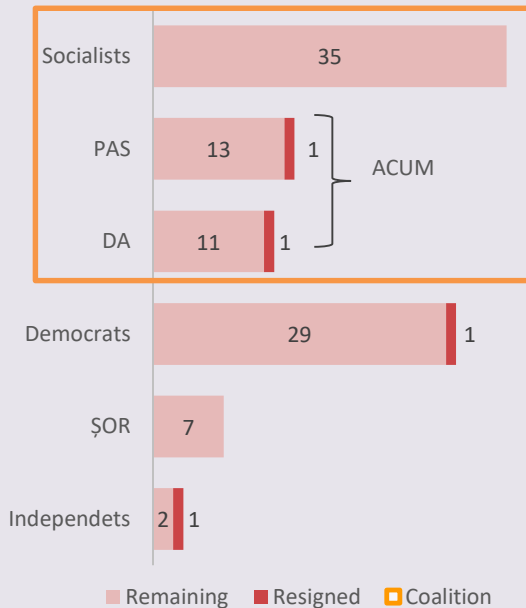
- Increase of 11.6% in 5M2019 year-on-year
- Imports grow faster than exports; slightly lower trade surplus expected compared to 2018

Conclusion

- Trade integration with Moldova continues
- German imports growing much faster than German exports

The new government

Number of MPs by party affiliation



Source: alegeri.md, parlament.md; Note: number of resigned is shown only for seats won in constituencies and which are up for grabs in new elections. Those who were elected on party lists (e.g. the Minister of Education from PAS) will automatically be replaced by new MPs from their teams.

Background

- To disempower the oligarch Vladimir Plahotniuc, an unusual coalition between the pro-Russian socialists and the pro-EU ACUM bloc was formed overnight
- It enjoys the support of the EU, Russia and the USA
- Despite a clear majority of votes, the Socialists appointed only two out of eleven ministers

Challenges

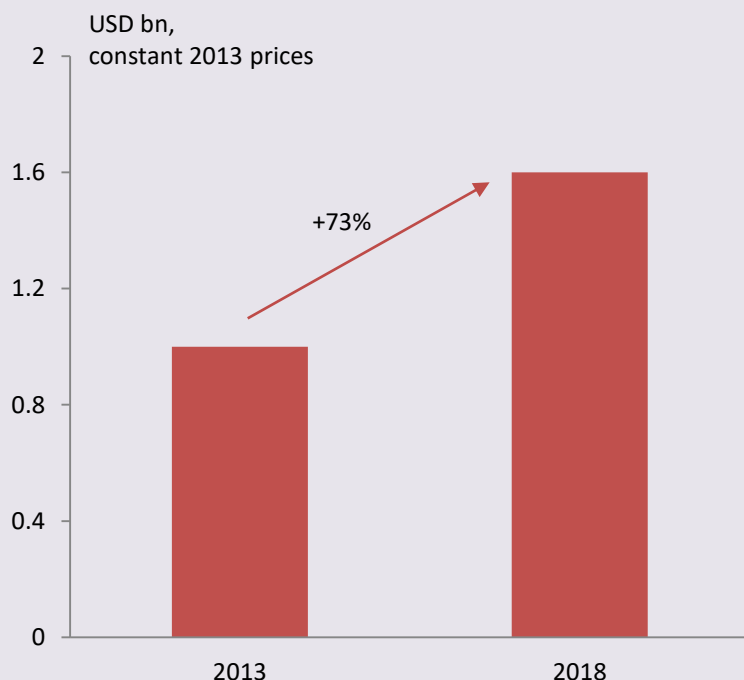
- The population expects rapid reform of the heavily compromised system
- Socialists demand new coalition agreement
- Local elections will be held on 20 October and both ACUM and the Socialists are aiming for the mayor's office in Chisinau; presidential elections will be held in 2020

Conclusion

- Coalition faces the challenge of implementing complex reforms quickly; few observers believe it will last more than a year
- At the same time, the coalition has united society and gives hope for a better future

DCFTA: effects on exports to EU

Exports to the EU in constant prices



Source: WITS, authors' estimations; without re-exports as defined by the National Bureau of Statistics

Background

- 2014: DCFTA between Moldova and EU enters into force
- After 5 years we evaluate the economic effects of the agreement on Moldova
- Database: re-exports excluded

Effects on exports

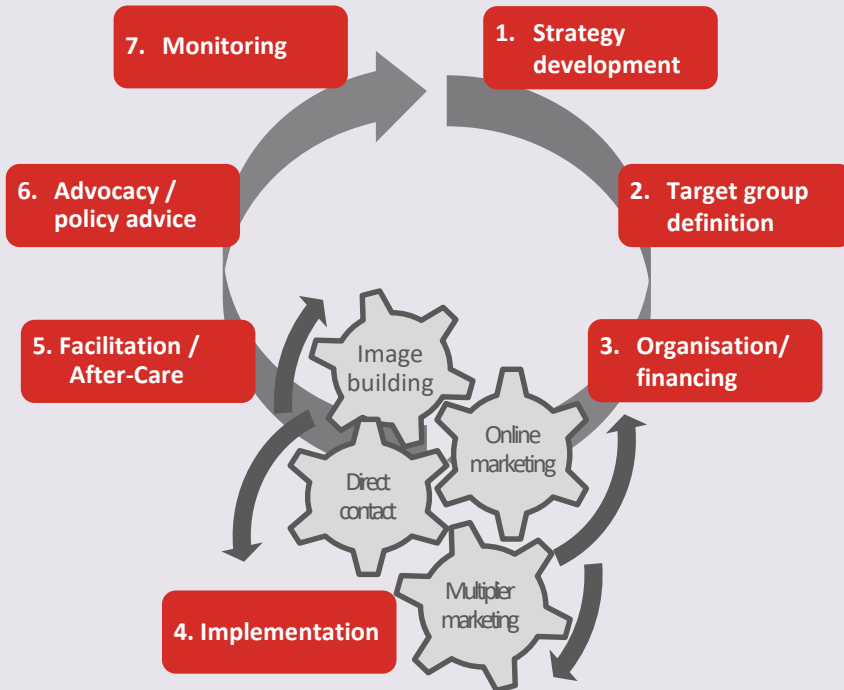
- Strong nominal export growth of 60% between 2013 bis 2018; in constant prices even 73%
- Main reasons: rising exports of motor vehicle parts and vegetable products
- Share of EU in Moldovan goods exports (without re-exports) increased by 18 percentage points
- However: DCFTA did not help to diversify exports, rather "more of the same"

Conclusion

- Strong positive effect of DCFTA on exports to EU
- This development is expected to continue

Reorientation of Moldovan Investment Agency

Investment attraction cycle



Background

- The Moldovan government has recently implemented a comprehensive administrative reform
- The agencies in the field of investment and tourism promotion were also reorganised and merged

Challenges

- The framework conditions for the Agency have deteriorated markedly
- This concerns, among other things, resources, employer attractiveness and overall flexibility

Conclusion

The reorganisation also requires an adjustment of the tasks and processes, in particular a

- concentration on core tasks - such as target group-oriented investment promotion
- Intensification of cross-organisational coordination and cooperation – e.g. with the Free Economic Zones
- Introduction of efficient monitoring processes

German Economic Team Moldova



The German Economic Team Moldova (“GET Moldova”) supports the Moldovan Government in stabilising the economic development and designing the necessary reform processes since 2010.

In a continuous dialogue with high-ranking decision makers we identify current economic problems and present concrete recommendations for action based on our independent analysis.

Furthermore, GET Moldova supports the German government, German companies and other German organisations by providing know-how and detailed information on the economic situation in Moldova.

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