

Overview

- 2019: economy grew by around 4.2%, which is comparable to previous years
- Growth primarily driven by investment and consumption
- Inflation at 7.5% at the end of 2019 and thus relatively high, but expected to fall in 2020
- Exchange rate relatively stable against the US dollar, slight appreciation at the end of the year
- Growth of EU remittances, which already account for 46% of total remittances
- Slight increase in foreign trade; strong increase of exports to Turkey
- Budget deficit expected to be below 3% of GDP in 2019; higher deficit expected in the election year 2020

Topics

- **New government.** Socialist minority government still has to prove its commitment to reforms
- **Improving the business climate.** Proposals in cooperation with the European Business Association
- **Reform concept for the Investment Promotion Agency.** To make the Investment Promotion Agency more efficient, a target group-oriented approach should be followed
- **Intercity bus market in Moldova.** A strategic planning process is required, which should include an integrated mobility master plan

Basic indicators

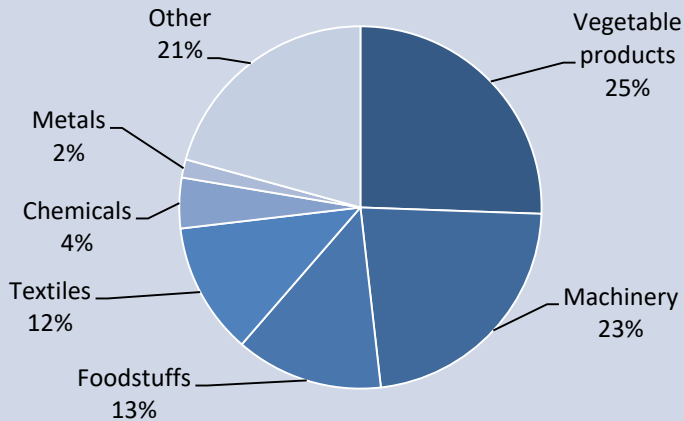
	Moldova	Ukraine	Romania	Belarus	Russia
GDP, USD bn	11.7	150.4	243.7	63.1	1,637.9
GDP/capita, USD	4,363*	3,592	12,483	6,659	11,163
Population, m	2.7*	41.9	19.5	9.5	146.7

Quelle: IWF, German Economic Team; Forecast for 2019; *Population according to the new methodology of the National Bureau of Statistics

Trade structure

Export

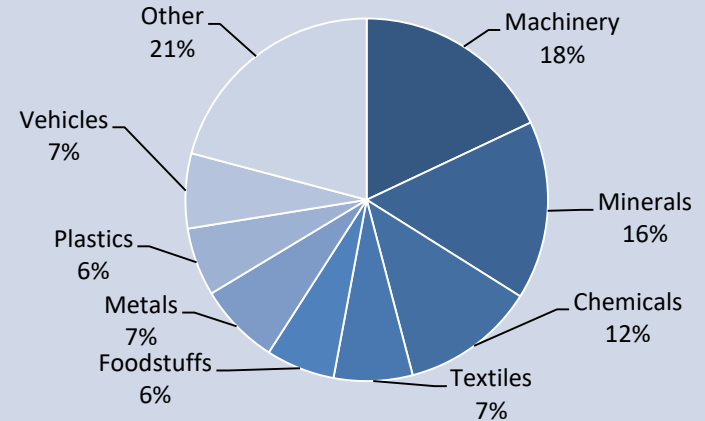
EU 66% | Russia 9% | Other 25%



Source: National Bureau of Statistics; 11M2019 Note: trade in goods

Import

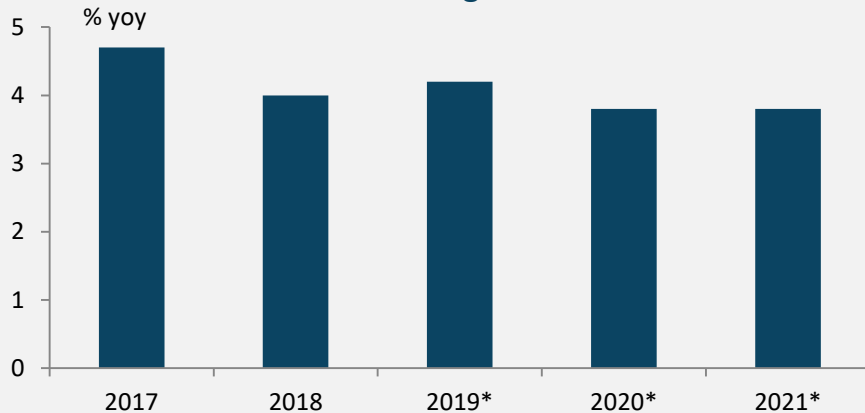
EU 50% | Russia 12% | Other 38%



Source: National Bureau of Statistics; 11M2019 Note: trade in goods

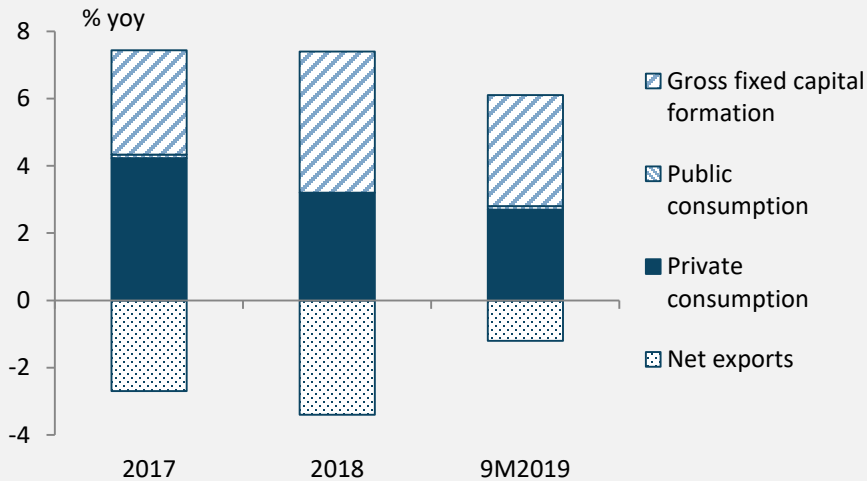
Economic growth

Real GDP growth



Source: National Bureau of Statistics; *forecast Ministry of Economy

Contribution to economic growth (real)



Source: National Bureau for Statistics

GDP 2019

- Growth forecast at 4.2%
- Main reason is increasing investment, +16.1% in 9M2019 vs. 9M2018
- Similar growth rate in private and public investment
- Private consumption also contributes to growth

GDP 2020

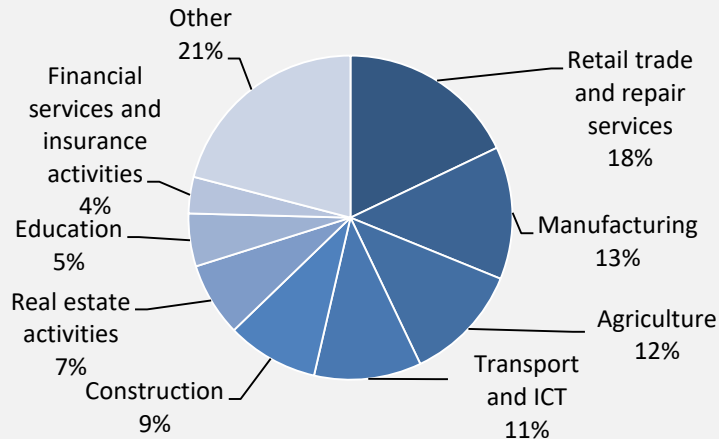
- Growth forecast at around 4%
- But uncertainty due to new political situation
- Course of the new minority government not included in the forecast
- Unclear to what extent international support will continue

Conclusion

- Investment und consumption remain growth drivers
- High uncertainty in 2020 forecast

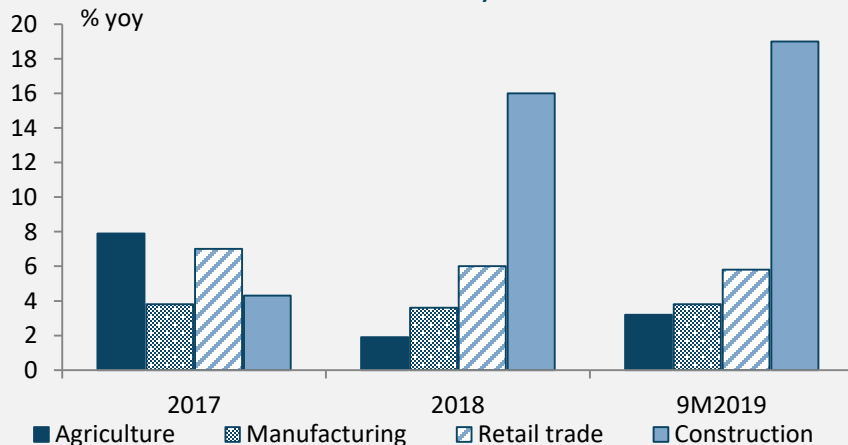
Sectoral perspective

Composition of GDP



Source: National Bureau of Statistics

Sectoral dynamics



Source: National Bureau of Statistics

Agriculture

- Growth the fourth year in a row; increase of 3.2% in 9M2019 vs. 9M2018

Manufacturing

- 9M2019: growth of 3.8% at about the same level as last year
- Strong dynamics in automotive sector in free economic zones

Retail trade

- 9M2019: increase of 5.8% vs. 9M2018
- Key growth driver; reflects robust consumption

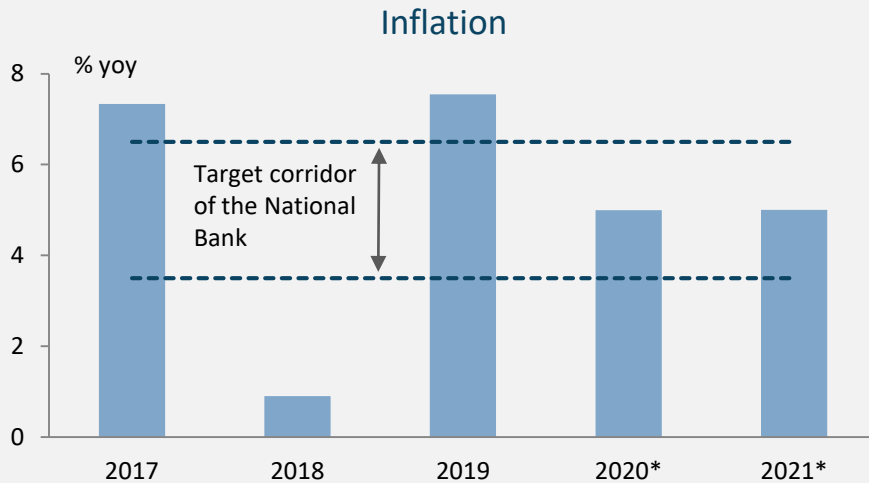
Construction

- 9M2019: Very strong growth of 19.0% is related to growing public and private investment

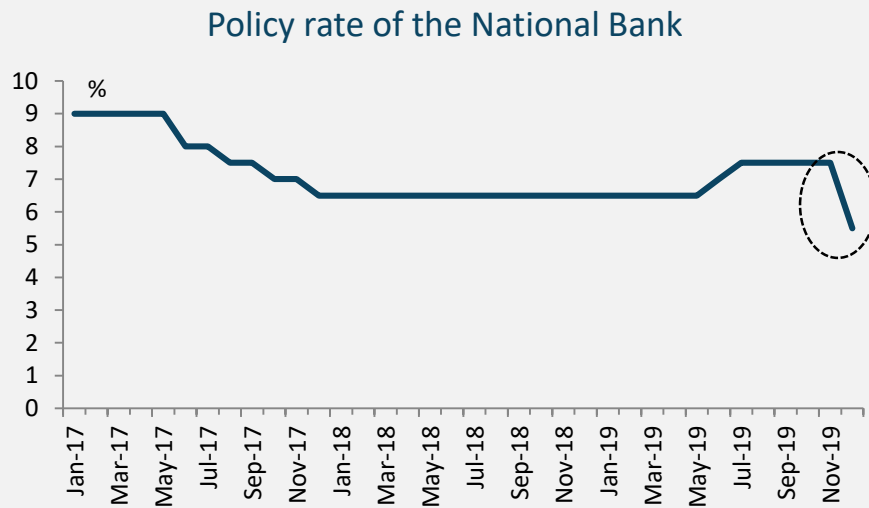
Conclusion

- Growth in all major sectors, strong dynamics in construction sector

Inflation und monetary policy



Source: IMF, *Forecast; Note: end of period (consumer prices)



Source: National Bank

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2019

- Significant increase of inflation to 7.5% at end of the year
- Reasons: higher food prices and increase of regulated prices

2020

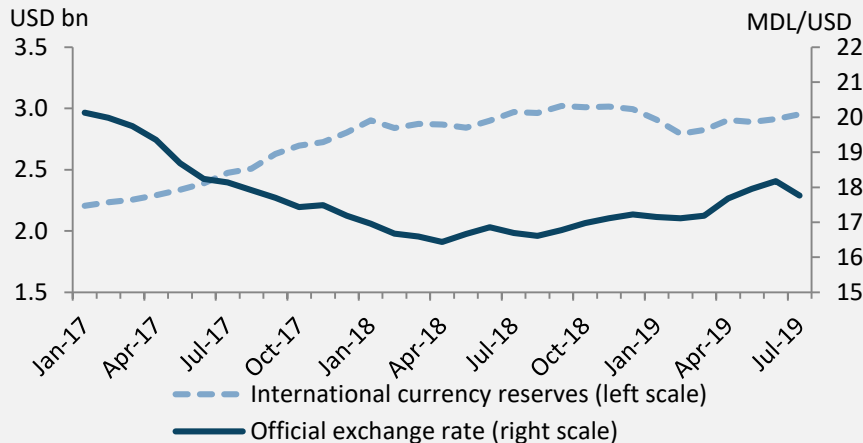
- Decreasing inflation expected
- Justified by falling food prices, weakening global economy and Leu appreciation
- National Bank reacted surprisingly strong to lower inflation expectations by decreasing the policy rate from 7.5% to 5.5% in Dec 2019

Conclusion

- Relatively high inflation at the end of 2019 should decrease in 2020
- Strong influence of external factors on inflation in Moldova

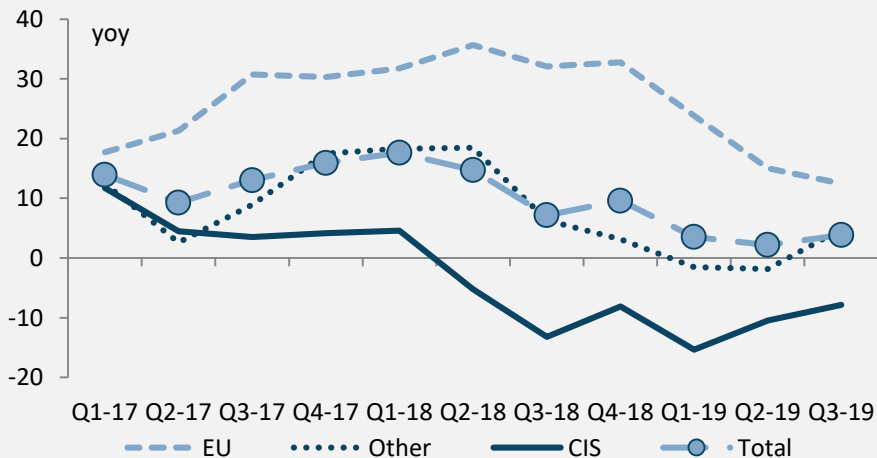
Exchange rate and remittances

Exchange rate and currency reserves



Source: National Bank

Remittances



Source: National Bank; Note: remittances in USD

Exchange rate and currency reserves

- Depreciation of Leu by about 6% between March and June 2019
- Continuous appreciation since June
- Currency reserves with slightly positive trend in 2019; over 5 months of import coverage

Remittances

- Q3-2019: 46% from EU, 30% from CIS, 24% from other countries
- Decreasing remittances from CIS, increasing remittances from EU

Conclusion

- Stable development of exchange rate and currency reserves
- EU most important region for Moldovan remittances

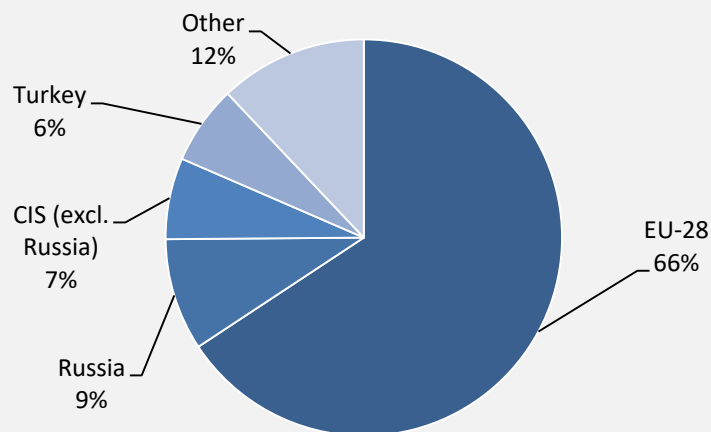
External trade

Foreign trade



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

Exports by regions



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

Import

- Only weak growth of 1.2% in 11M2019
- After two years of strong growth hardly any dynamics

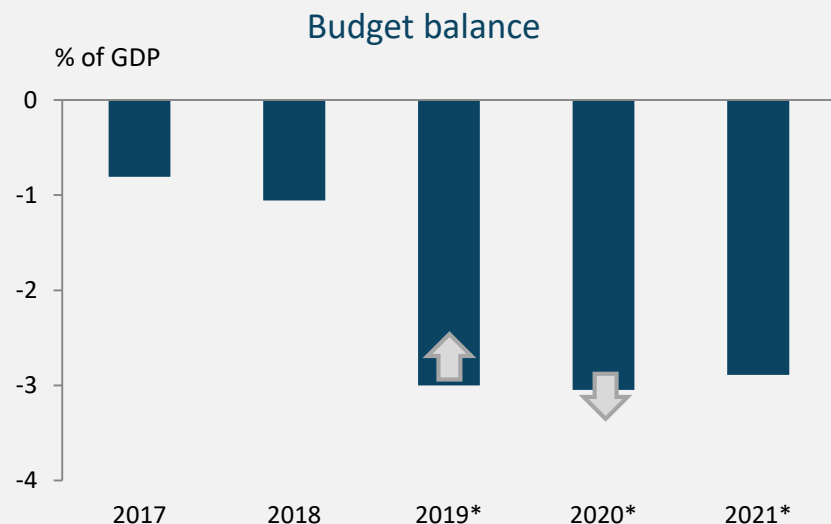
Export

- Increase of 3.0% in 11M2019 and thus also less dynamics than in previous years
- However, large differences among product groups
- 11.6% increase of cable harnesses export
- 11.9% decrease of textile export

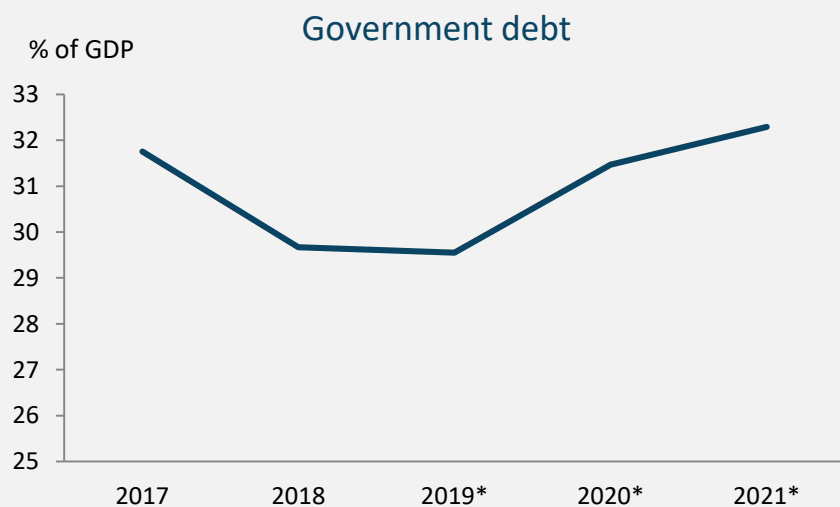
Export by regions, 11M2019

- Slight decline by 2.5% of exports to EU
- 4.7% increase of exports to CIS
- Strong 89% increase of exports to Turkey explained by trade diversion
- EU remains by far the most important export market for Moldovan products

Public finances and government debt



Source: IMF; *Forecast



Source: IMF; *Forecast

Budget deficit 2019

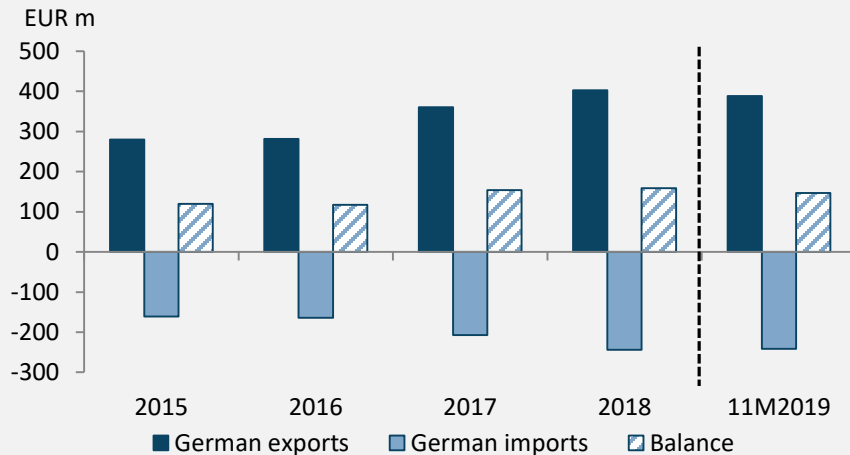
- 11M2019: faster growth of expenditures (+12.7%) than of revenues (+8.4%)
- Reasons
 - Increase of social expenditures and wages
 - Decrease of corporate income tax in 2018
- However, reduction of deficit due to
 - Numerous measures to stabilise the budget under Sandu government
 - GDP growth stronger than expected
- Overall, the deficit should be below the IMF's previous estimate of 3.0% of GDP

Outlook 2020

- Deficit should increase again as presidential elections are due and the new minority government foresees additional expenditures

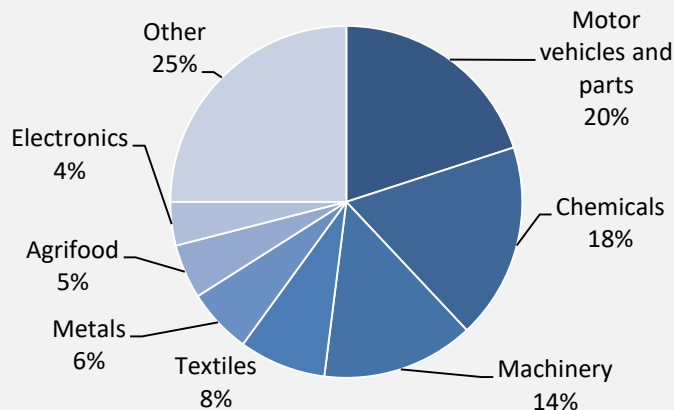
Bilateral trade between Germany and Moldova

German trade with Moldova



Source: German Federal Statistics Office

German exports to Moldova



Source: German Federal Statistics Office; 2018

Bilateral trade volume

- Trade volume of EUR 630 m in 11M2019; increase by 5.8% vs. 11M2018

German exports to Moldova

- Exports increased by 3.6% in 11M2019 and thus less than in the previous year
- German exports nevertheless more dynamic than EU exports
- Main export product groups are motor vehicles and parts, chemicals and machinery

German imports from Moldova

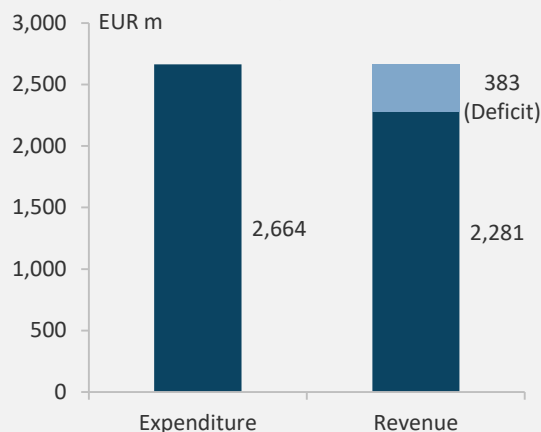
- Increase by 9.6% in 11M2019 vs. 11M2018
- Imports grew more slowly than in previous year

Conclusion

- Trade integration with Moldova continues
- 2019 less dynamic than 2018

The new government

Government budget for 2020



Source: parlament.md; exchange rate 1 EUR = 19.35 MDL

Background

- Maia Sandu's government was dismissed on 12 November
- The trigger was a disagreement in the coalition between ACUM and Socialists over the preselection of the Prosecutor General
- Two days after the dismissal, a socialist minority government was appointed with the support of the Democratic Party
- Western partners expressed worry, but said cooperation would continue based on principles of conditionality

Challenges

- Budget for 2020 was adopted in a rush and contains several social initiatives, that will lead to a deficit of around 3.25% of GDP
- Securing international support will be more difficult than for previous government
- Presidential elections due next autumn in which Igor Dodon and Maia Sandu are likely to compete against each other

Conclusion

- The new minority government has quickly shown its ability to act, but has to prove that it is committed to conduct reforms and that its decisions are motivated not only by the upcoming presidential elections

Improving the Business Climate – Boosting Investment

Background

- Joint study of GET Moldova and European Business Association (EBA) with reform proposals
- Total of 21 proposals in 4 categories: labour law, general law, tax and accounting, sector regulation
- Goal: improve investment climate by solving practical problems of businesses

Methodological approach

- Bottom up: proposals from companies were analysed and edited by GET experts
- Focus on solutions to practical problems, complementary to work on big reforms such as justice reform

Example: Four „quick wins“ proposals

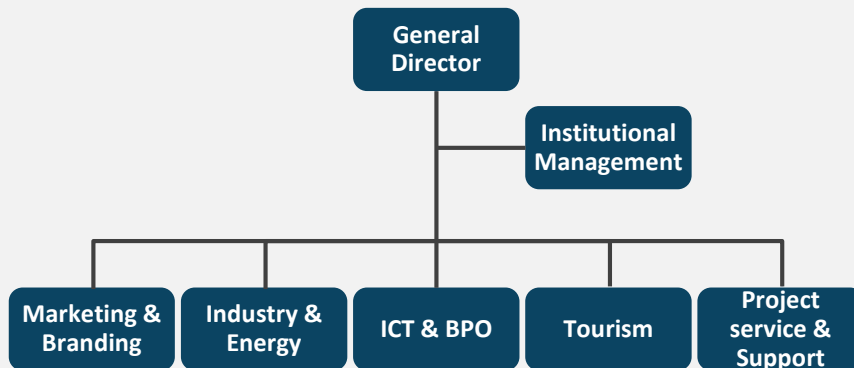
1. Simplify invoicing: abolish a clumsy system with pre-printed, numbered “fiscal factura” templates, move to regular invoices
2. Abolish the “act of completed works” in tax procedures: a relic from Soviet times that increases bureaucracy without additional information
3. Accepting EU certifications for imported goods and equipment: not requiring domestic certification and tests reduces costs of using/selling goods and equipment imported from EU
4. Including small-scale business services in the tax scheme for independent activities: provides a legal and efficient way for small entrepreneurs/craftsmen to offer services to companies

Conclusion

- In cooperation with European companies, realistic reform proposals to improve the business climate in Moldova were developed

Reform concept for the Investment Promotion Agency

Target group oriented organisational model



Source: German Economic Team

Background

- The effectivity of the Investment Promotion Agency should be increased
- The goal is to focus on target groups

Challenges

- Such an approach offers considerable opportunities – e.g. synergies between investment, export and tourism promotion
- At the same time, the reform process is complex and goes far beyond the development of marketing instruments

Conclusion

- A key success factor is an integrated approach that takes into account the organisational structure and processes
- Key Performance Indicators (KPI) should reflect the new focus
- A systematic approach is important in order to build up the necessary target group specific skills and contacts

Intercity bus market in Moldova

Moldovan bus network structure



Source: IGES Institut. Data: © Openstreetmap 2019.

Background

- The intercity bus sector is the most important public transport mode in the national transport system
- More than 7,000 routes are operated by almost 500 small and mid-size operators
- More than 50 % of the bus fleet is aged more than 26 years and the overall fleet is dominated by small capacity units
- Share of illegal transport is estimated at 30-40% by experts
- Regulated bus tariffs are not cost covering; regulation hinders competition
- The current system is lacking an adequate demand oriented strategic planning and regulatory approach

Recommendations of the German Economic Team

- A strategic planning process should be started; it should include an integrated mobility master plan
- A dynamic, transparent and more differentiated tariff regulation should be installed
- Quantitative and qualitative service requirements should be defined; restricting legal provisions should be removed
- A digital passenger information and e-ticketing system should enhance the service level

About the German Economic Team



The German Economic Team (GET) advises the governments of Ukraine, Belarus, Moldova, Georgia and Uzbekistan regarding the design of economic policy reform processes and a sustainable development of the economic framework. As part of the project we also work in other countries on selected topics.

In a continuous dialogue with high-level decision makers of the project countries, we identify current problems in economic policy and then provide concrete policy recommendations based on independent analysis.

In addition, GET supports German institutions in the political, administrative and business sectors with its know-how and detailed knowledge of the region's economies.

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