

## Transnistria's economy during the Corona crisis

The Transnistrian economy entered 2020 on a relatively strong footing. Metal exports and electricity production – the two main sectors – showed high growth after trade restrictions for metals were lifted and a new electricity contract with Chisinau was signed. However, the Corona crisis put an end to the economic upswing. Very strict containment measures, a collapse of remittances and external demand have led to a severe recession. To make matters worse, the fiscal situation, which was already strained before the crisis, means that there is little room for additional public spending. With no help from monetary policy - which is focussed on maintaining the fixed exchange rate - and no access to external financial assistance, GDP is estimated to decline by 11% in 2020. While the crisis has been contained so far, it becomes obvious that the Transnistrian economic model is in need for fundamental reform in order to improve access to foreign markets and international payment channels.

### 2019: strong fluctuations but otherwise stable

In 2019 the economic situation in Transnistria was still more or less stable with gross domestic product increasing moderately by 2% in real terms. However, the economy fluctuated quite strongly in 2019: GDP declined actually in the first half of the year as exports of metals were hit by trade frictions with Ukraine. The second half of 2019 showed an upswing of economic activity due to higher sales of electricity and improved metal exports. Notably, investments, and here mainly private investments, increased by 27% in 2019 following successful measures to kick-start lending.

### 2020: good start until Corona hit

The positive dynamic at the end of 2019 translated into a solid start into 2020 with industrial output up in January and February. However, as elsewhere, this positive dynamic came to a quick halt in March 2020 when the Corona-crisis hit Transnistria. Similar as in right-bank Moldova and other regions, the de-facto authorities in Tiraspol were forced to enact strict containment measures. Hotels, restaurants and most retail outlets, excluding food-stores and supermarkets, were closed.

Additionally, the authorities in Tiraspol enacted a curfew requesting people to stay at home. What is more, Tiraspol closed the internal boundary-line with right-bank Moldova and also the border to Ukraine preventing movements of people (including a significant number of Transnistrians working in right-

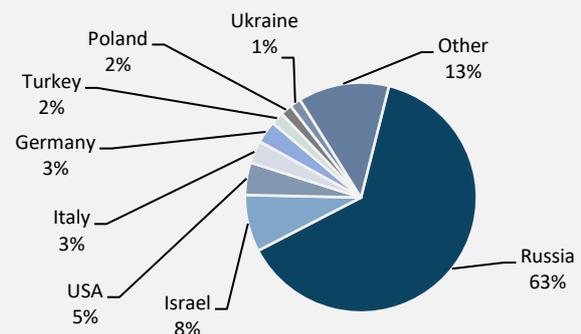
bank Moldova) and of goods resulting in additional economic damage.

### Since March: effect of Corona crisis

While no GDP data for the second quarter of 2020 is published yet, it becomes ever clearer that the crisis has taken a heavy toll on the Transnistrian economy. On top of the domestic effect resulting from the economic lockdown, comes an “external effect” resulting from lower external demand and remittances. According to EUBAM, the value of goods exported from the Transnistrian region (including goods sold to right-bank Moldova) fell by 15% over the period January to June 2020 when compared to the same period of 2019 (which was already very weak).

In addition, the Corona crisis is likely to reduce remittances, which amounted to 11% of GDP in 2019 and are of considerable economic importance to the region. With Russia, the main source country accounting for 63% of remittances, also in a steep recession, remittances flows have declined considerably. While remittances transfers through electronic channels still hold up well, this is probably more a sign of travel restrictions forcing people to transfer money through official channels as opposed to bringing it in their wallets as used to be their preferred means. On top of the effects resulting from the Corona-crisis, the agriculture sector is severely affected by the current drought.

### Remittances by country, 2019

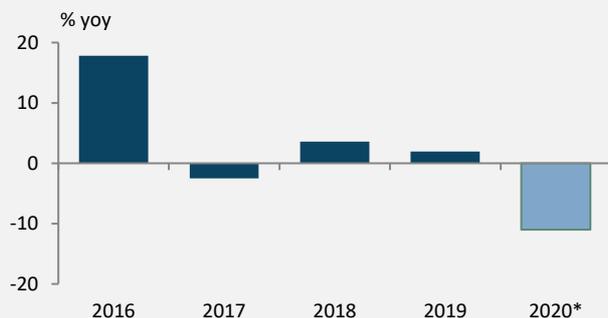


Source: Transnistria de-facto Central Bank

### GDP forecast for 2020: -11%

We forecast a decline of GDP of the Transnistrian economy of 11% in 2020. This is a considerably larger decline than expected for other economies, in particular right-bank Moldova, for which we forecast a decline of 6.3% of GDP in 2020.

### Transnistrian GDP real growth



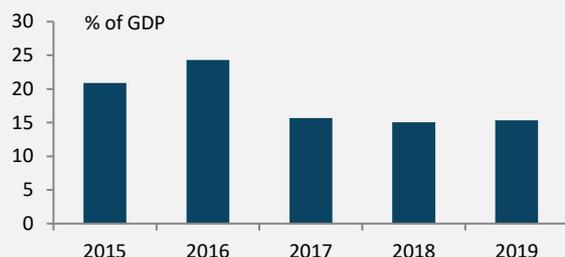
Source: Ministry of Economic Development of Transnistria; \*BE forecast

Unlike other economies, the Transnistrian region - due to its unrecognised status – has hardly any access to external financial assistance. So far Russia has not provided any meaningful financial assistance.

In addition, the Transnistrian government has very little room for fiscal support. In 2019 the public budget showed a deficit of 15% of GDP which could only be maintained through revenues from the sale of gas which Transnistria does not pay for. Increasing this deficit even further is not a viable option. As such any increase of expenditures for the health sector or social assistance is only possible through savings elsewhere – e.g. in capital expenditures.

As the Transnistrian central bank keeps the exchange rate of the Transnistrian Ruble fixed to the US-Dollar, it cannot engage in expansionary monetary policy.

### Transnistria budget deficit



Source: Ministry of Economic Development of Transnistria, BE calculations; including Social Security Fund

### Outlook

In the case of Transnistria, the Corona-crisis has hit an economy which has been in crisis mode for the last few years. However, despite the magnitude of the shock, lack of external support and limited room for fiscal expansion, so far, the economic situation seems under control.

In fact, recent economic data started to show an improvement of the economic situation. Exports have increased in June compared to May. Industrial production in the first half of 2020 is up 2% compared to the first half of 2019 – having said that, the first half of 2019 was very weak. An increase of metal exports and the extended electricity contract with Chisinau mean that the two most important companies are actually increasing output.

All this will not prevent a deep recession in 2020 and should not distract from the fact that the Transnistrian economic model is in need of reform. In particular a better integration of Transnistrian companies into international payment channels, further alignment of its trade policy with right-bank Moldova and a flexible exchange rate, would provide a much-needed boost to the Transnistrian economy.

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This newsletter is based on the [Economic Monitor Transnistria](#), which has been elaborated in the framework of the “Economic Policy Dialogue Transnistria”, a project financed by the Federal Foreign Office.

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