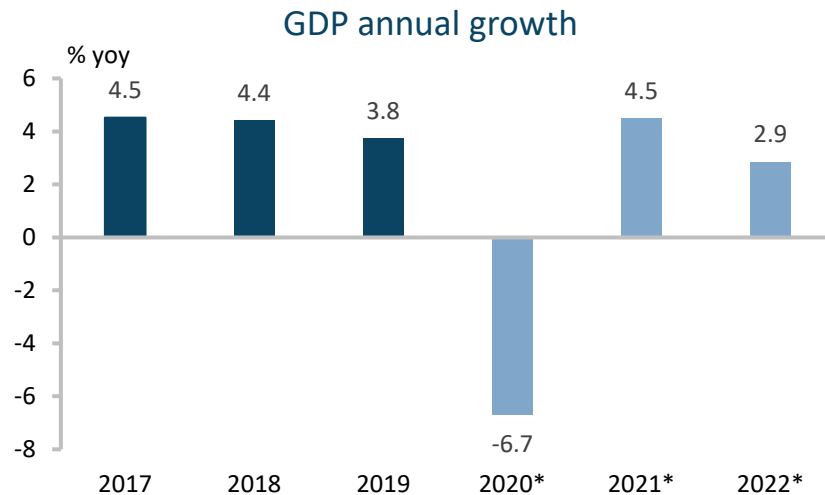


Economic Outlook in Eastern Partnership Countries

EBA Business Outlook, Chisinau, 16 March 2021

Dr Ricardo Giucci and Carolin Busch
German Economic Team

I. Moldova: Economic growth



Source: National Bureau of Statistics, *own estimate/forecast

GDP growth in 2020 – regional comparison

	GDP growth, % yoy
Moldova	-6.7
Ukraine	-4.6
Romania	-4.8
Belarus	-0.9
Russia	-4.1

Source: IMF, Belstat, own estimate for Moldova and Ukraine;
note: estimates

GDP in 2020

- Based on our macroeconomic model, we estimate a decline of GDP by 6.7% for 2020

Regional comparison

- Drop in GDP stronger than in peer countries
- Reasons:
 - Poor harvest because of drought; 2-3 pp.
 - Limited fiscal response to COVID

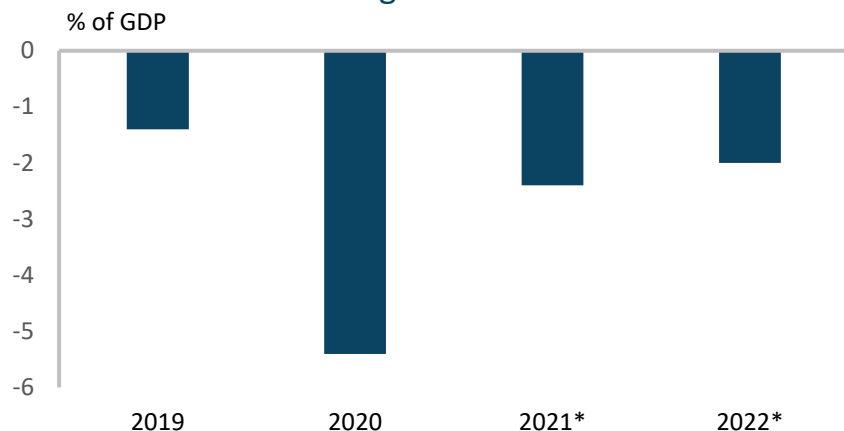
GDP in 2021

- Recovery expected with 4.5% growth
- However: downside risks to forecast
 - Will government be able to secure international financial support?
 - How long will political uncertainty last?

➤ **Strong recovery expected, but downside risks**

Public finances

Budget balance



Source: Ministry of Finance for 2019-2020; World Bank for 2021-2022
*forecast

Fiscal policy measures in 2020, % of GDP

	Above the line measures	Below the line measures	Total
Moldova	2.2	0.4	2.6
Ukraine	3.4	0	3.4
Romania	2.3	3.2	5.5

Source: IMF, January 2021

Public finance in 2020

- Government secured substantial international funds to combat the crisis
- In particular: IMF emergency loans and EU COVID response
- On the back of these funds, a budget deficit of 8.0% of GDP was planned for 2020
- However, the budget deficit amounted to “only” 5.4% of GDP in 2020
- **Fiscal space was not fully utilised**
- **Fiscal response weaker than in neighbouring Ukraine and Romania**

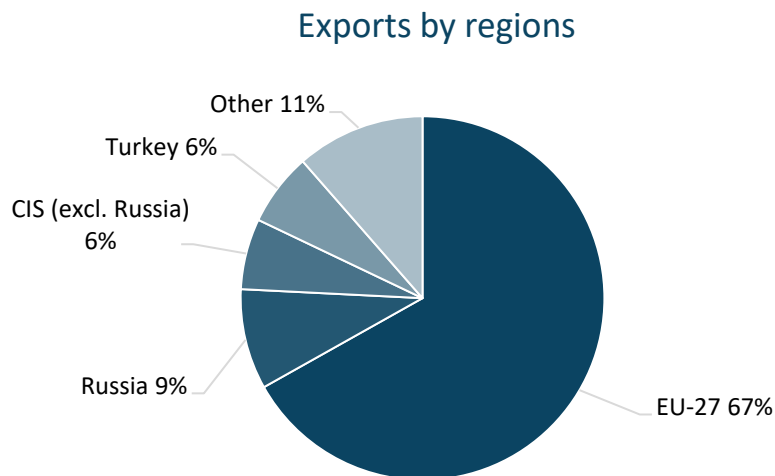
Budget 2021

- IMF and EU ready to allocate further support, provided MDA meets the necessary conditions
- In particular: maintaining successful reforms in banking sector; no roll-back of reforms
- **Key gov task: meet conditions and secure international funding to support the economy**

External trade



Source: National Bureau of Statistics, Ministry for Economy and Infrastructure;
*forecast



Source: National Bureau of Statistics, 2020; note: trade in goods

Exports

- Exports dropped by 11% in 2020
- Drivers: manufacturing (electronical parts in automotive & textiles) and agriculture

Imports

- Imports also declined strongly, by 7.3%
- Drivers: reduced imports of fuel, manufactured goods and machinery

Impact on trade balance

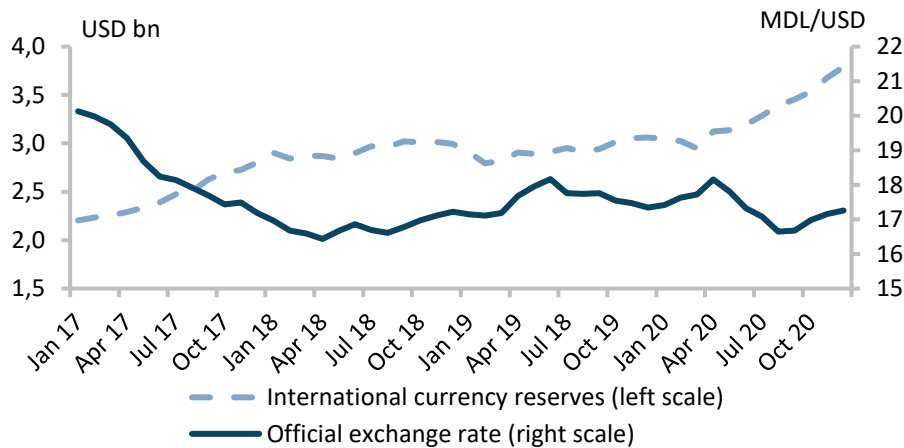
- Due to much larger size of imports, the trade deficit declined
- **Significant decline in trade, but no negative impact on trade balance & exchange rate**

2021

- Strong recovery of both exports and imports expected, as consumption / investment pick up

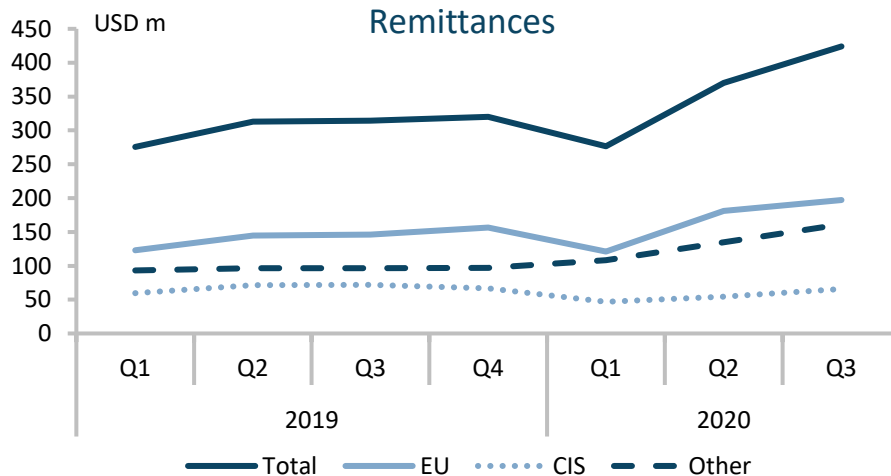
Exchange rate and remittances

Exchange rate and currency reserves



Exchange rate

- Exchange rate has remained relatively stable throughout the COVID crisis
- Stronger FX reserves on the back of emergency loans from IMF and EU
- **Stable exchange rate and higher FX reserves; positive**

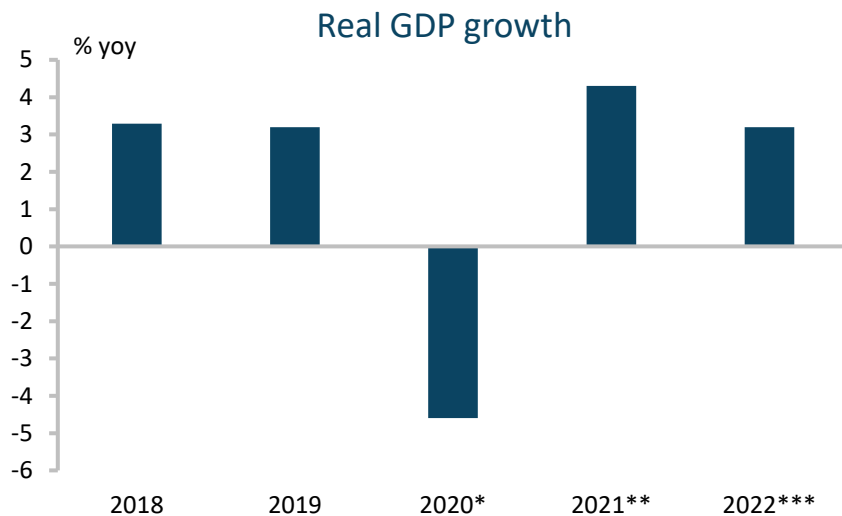


Remittances

- Decline in remittances at beginning of COVID-crisis, then strong increase beyond 2019 levels
- Main driver: remittances from EU
- Not clear: how come? Topic for further analysis
- **Remittances as a stabilising factor**
- **Stable external sector**

Source: National Bank of Moldova

II. Ukraine: Economic growth



Sources: IMF, GET/IER, *GET/IER estimate, **GET/IER forecast, ***IMF forecast

GDP in 2020

- GDP declined by 4.6%

➤ **Strong drop, but less than in MDA**

Reasons for more moderate drop

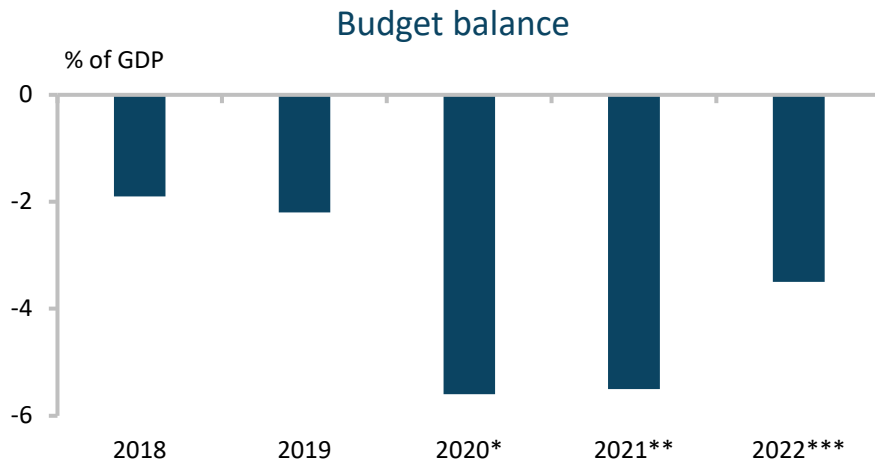
- Drought only affected Western part of the country
- Stronger fiscal response

GDP in 2021

- Recovery expected with 4.3% growth, but pandemic-related uncertainty remains

➤ **Ukraine is on a recovery path**

Public finances



Sources: NBU, Ministry of Finance, GET/IER, IMF, *GET/IER estimate, **Deficit in the state budget plan, ***IMF forecast

Public finance 2020

- 2020: strong increase of budget deficit to approx. 5.6% of GDP
- Main reason: sizeable fiscal policy measures to combat COVID
- Financing: to a large extent by international partners, especially IMF and EU

Budget 2021

- Limited fiscal consolidation planned despite economic recovery

Fiscal policy measures in 2020, % of GDP

	Above the line measures	Below the line measures	Total
Moldova	2.2	0.4	2.6
Ukraine	3.4	0	3.4
Romania	2.3	3.2	5.5

Source: IMF, January 2021

➤ **Fiscal response limited the drop in GDP**

- Remark: Fiscal response was only possible, because of pre-crisis consolidation

External trade



Source: Ukrstat; note: trade in goods

Exports of goods

- 2020: Exports declined by only 1.7%
- Negative contributors:
 - Metals: -11.4%
- Positive contributors:
 - Agrofood: +0.3%
 - Minerals: +9.6%

Import of goods

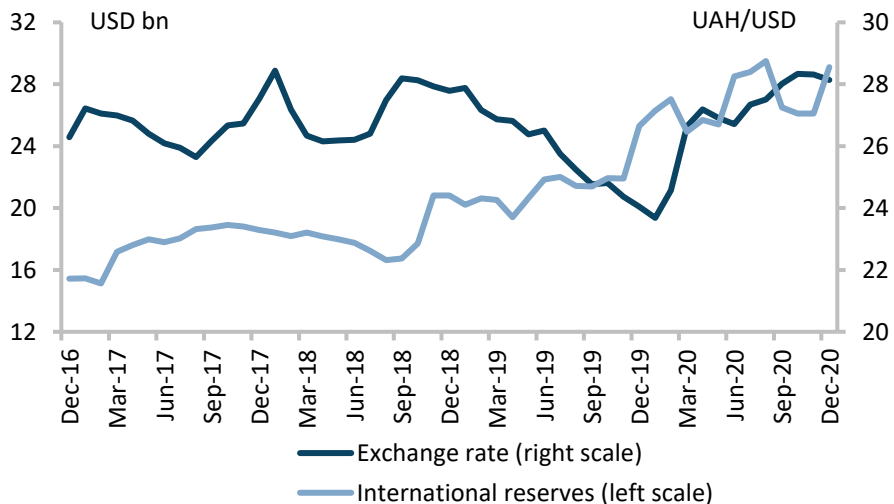
- Strong import compression
- 2020: -11%

➤ **Strong reduction in trade deficit**

➤ **Foreign trade had no negative impact on exchange rate**

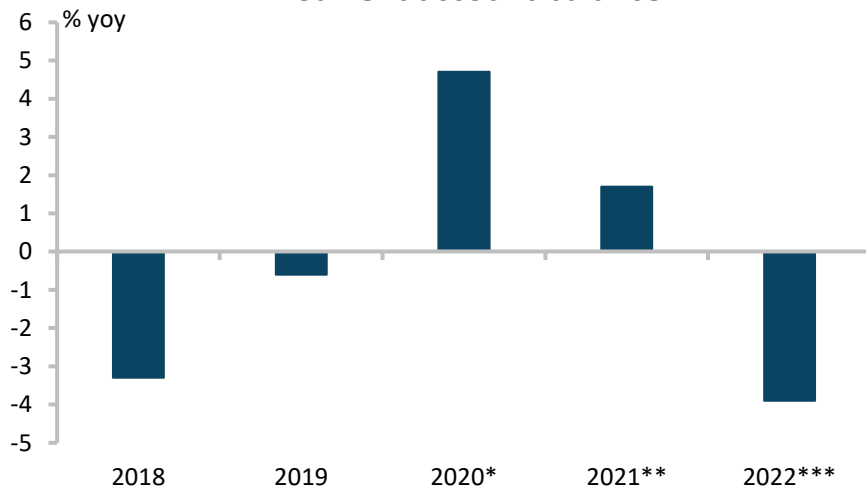
Exchange rate and current account

Exchange rate and international reserves



Source: NBU

Current account balance



Sources: IMF, GET/IER, *GET/IER estimate **GET/IER forecast, ***IMF forecast

Exchange rate

- 2020: only moderate depreciation

International reserves

- 2020: gradual accumulation despite crisis
- Import coverage: approx. 4.8 months

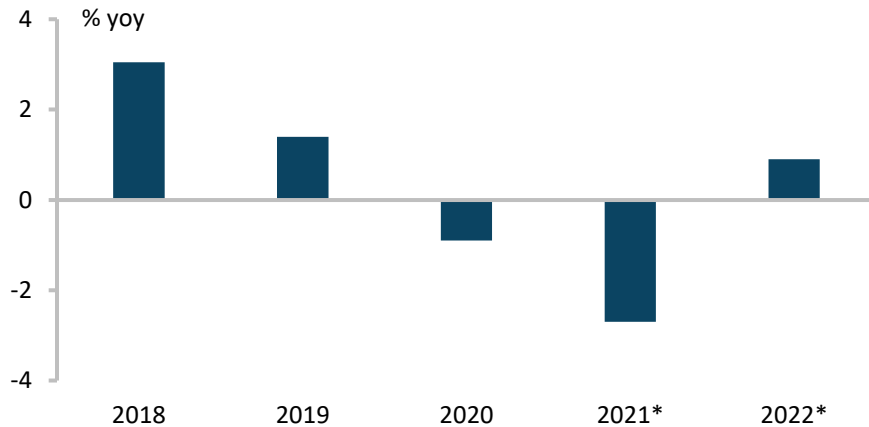
Current account

- 2020: substantial surplus
- Reason: strong import compression

➤ **Solid external position despite COVID**

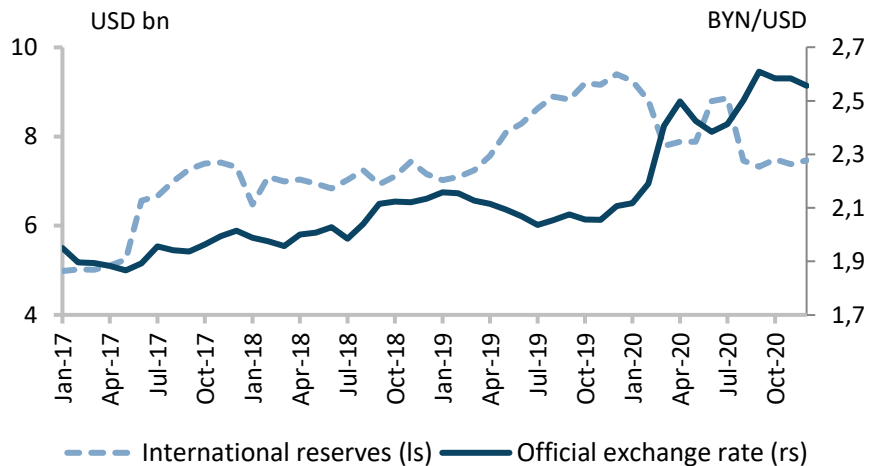
III. Belarus

Real GDP growth



Source: Belstat; *World Bank forecast

Exchange rate and currency reserves



Source: NBRB

GDP

- 2020: -0.9%
- Weak impact of COVID; hardly any restrictive containment measures
- 2021: -2.7% (forecast)
- Lack of growth drivers
- Continuation of political crisis expected

➤ **Weak outlook due to political situation**

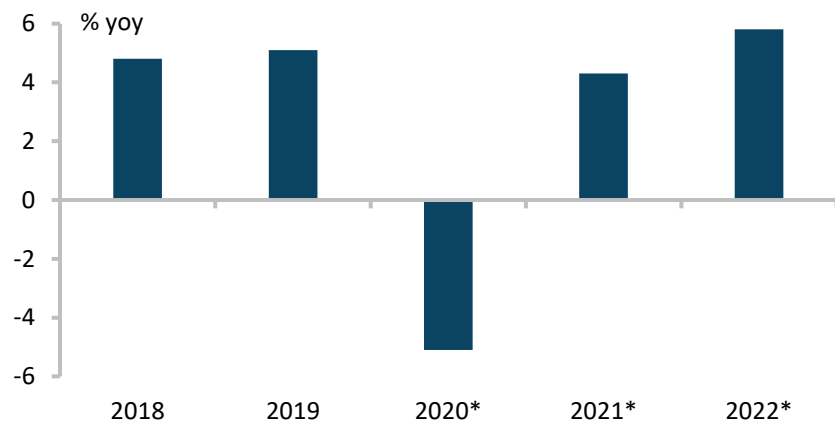
Exchange rate and FX reserves

- 2020: strong depreciation by 21%
- Currency reserves declined significantly
- Import cover only at 2.7 months

➤ **Significant worsening of external position in 2020**

IV. Georgia

Real GDP growth



Source: IMF, *estimation/forecast

Exchange rate and FX reserves



Source: NBG, 2020

GDP

- 2020: -5.1% due to sharp decline in tourism (-80%)
- 2021: +4.3% (forecast)
- However: downside risks to forecast

Public finance

- Strong fiscal response
- Budget deficit 2020: 9.0% of GDP

Current account deficit

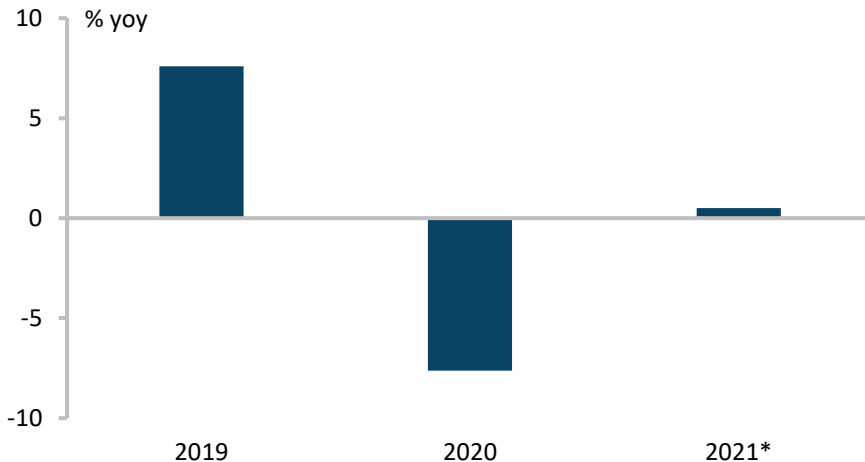
- Deficit of 9.8% of GDP

Exchange rate and FX reserves

- Strong depreciation, but adequate level of reserves
- **Huge impact of drop in tourism; twin deficits; overexposure to tourism**

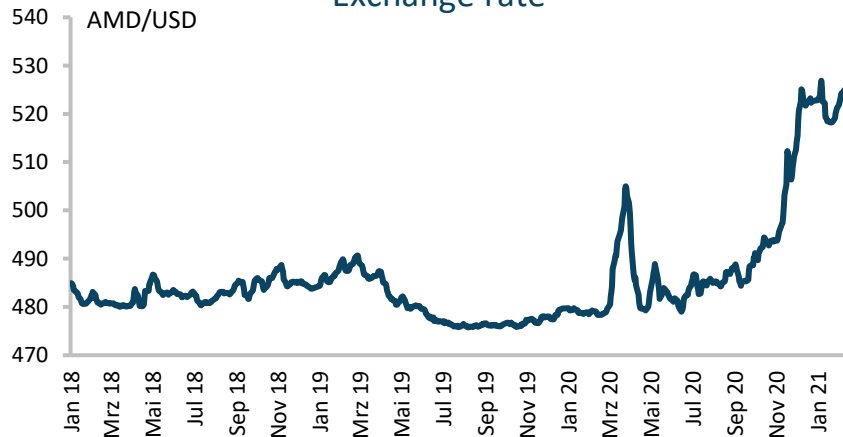
V. Armenia

Real GDP growth



Source: IMF/Armstat; *GET forecast

Exchange rate



Source: Central Bank of Armenia (CBA)

GDP

- 2020: twin shocks of COVID and military conflict; GDP contraction by 7.6%
- 2021: up to 0.5% GDP growth expected
- Reason for lack of recovery: medium-term impact of military conflict on investment

➤ **Slow recovery expected**

Exchange rate

- 1H2020: volatility due to COVID
- But: CBA managed to reduce volatility
- After conflict: depreciation due to political uncertainty

➤ **Depreciation not because of COVID, but of uncertainty after conflict**

➤ **2021 not an easy year for Armenia**

Summary

Looking back to 2020

- MDA: drought / poor harvest in addition to COVID
 - UKR: relatively moderate shock
 - BLR: special case due to practically no lockdowns and political uncertainty
 - GEO: strong exposure to tourism turned out to be a weakness
 - ARM: military conflict overshadowed COVID
- **Hard times for the region, but very different stories**

Outlook for 2021

- MDA: positive outlook, provided international financial support is secured
 - Key issue: no roll-back on highly successful banking reforms
 - UKR: good chance for recovery
 - BLR: unstable situation, outlook unclear
 - GEO: much depends on tourism; overexposure to one sector
 - ARM: negative impact of conflict will continue; no quick recovery
- **Mixed outlook for Eastern Partnership countries**

About the German Economic Team



Financed by the Federal Ministry for Economic Affairs and Energy, the German Economic Team (GET) advises the governments of Moldova, Georgia, Ukraine, Belarus and Uzbekistan on economic policy matters. Furthermore, GET covers specific topics in other countries, such as Armenia. Berlin Economics has been commissioned with the implementation of the consultancy.

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