

Overview

- We forecast GDP to decline by 6.3% in 2020 due to COVID crisis fall-out – deeper recession than after global financial crisis
- Consumption, investments and exports all expected to decline; lower imports and higher government spending mitigate the negative effect on GDP
- Economy to recover strongly by 5.5% in 2021
- Inflation to decline to 1.3% in 2020 (after 4.8% in 2019) as economy runs below capacity
- As such, monetary policy rate expected to decline further and to remain low for the foreseeable future
- Exchange rate holding up so far amidst support by National Bank, but moderate depreciation possible in 2020 as economy opens up again
- Increasing public expenditures and falling revenues results in a budget deficit of 5.4% this year – assuming the government can access external assistance

COVID-19

- Cases rise unabated despite early and strict government response
- Government support muted due to lack of funding
- External assistance to date amounts to 2.5% of GDP; potential for further assistance worth 1.5% of GDP if conditionality is met

Basic indicators

	Moldova	Ukraine	Romania	Belarus	Russia
GDP, USD bn	12.0	153.4	249.7	63.1	1,699.9
GDP/capita, USD	4,476	3,670	12,864	6,658	11,587
Population, m	2.7	41.9	19.4	9.5	146.7

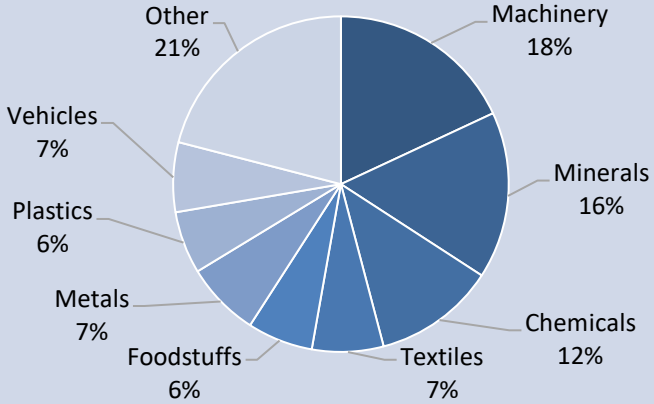
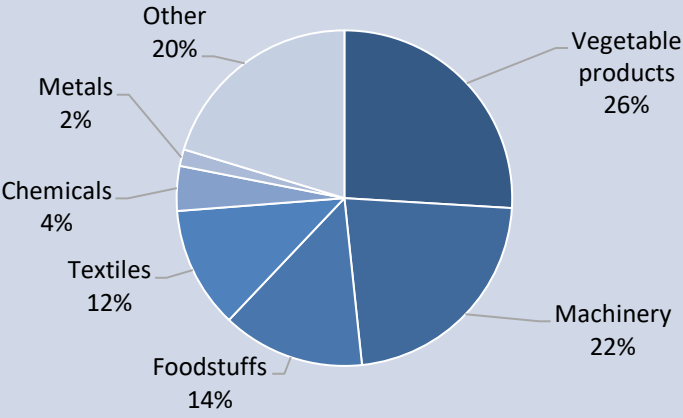
Sources: German Economic Team; Ukrstat; NIS Romania; Belstat; Rosstat; estimate for 2019

Trade structure

Exports Imports

EU 66% | Russia 9% | Other 25%

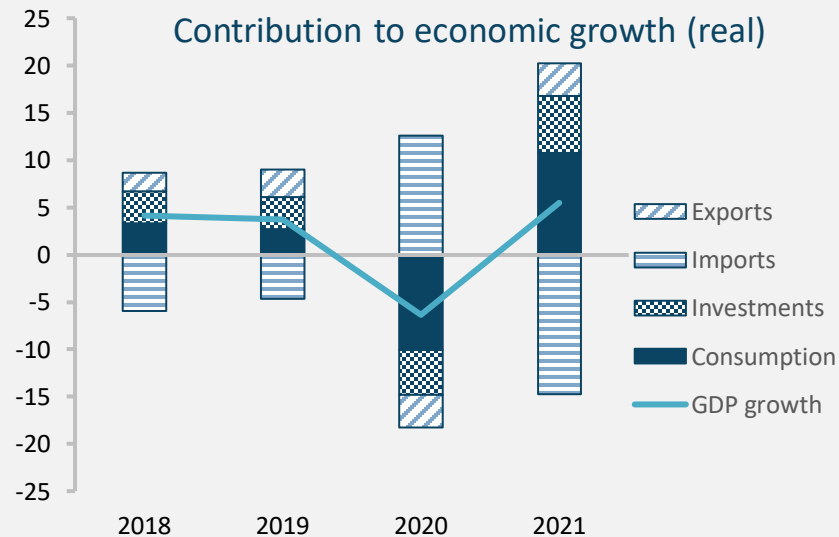
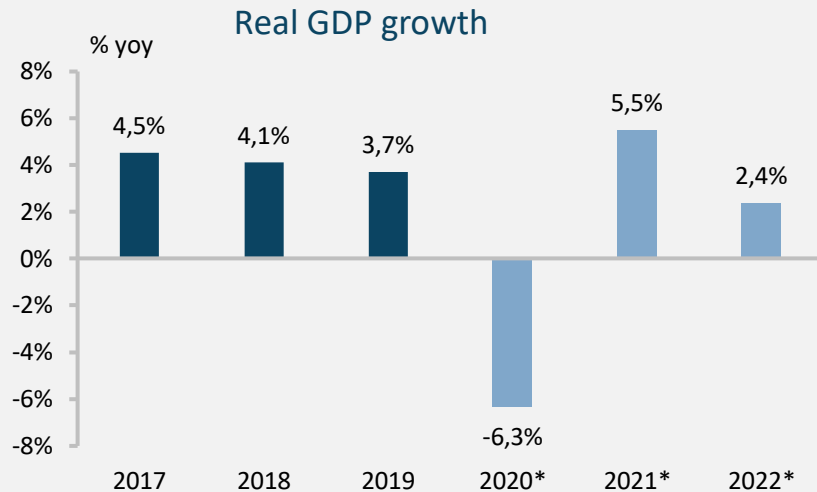
EU 50% | Russia 12% | Other 38%



Source: National Bureau of Statistics, 2019; Note: trade in goods

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Economic growth



GDP 2019

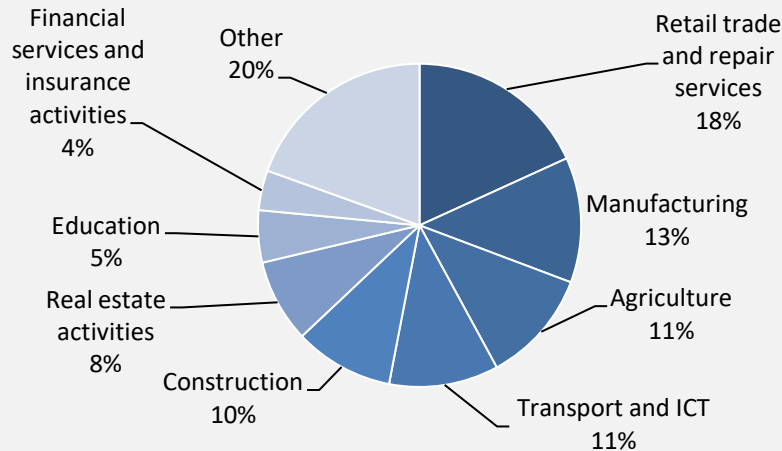
- Solid economic growth with 3.7% increase
- However, annual growth slowed already to 0.2% in final quarter of 2019

GDP forecast

- We forecast a 6.3% decline of GDP as COVID crisis triggers deep recession
- Decline larger than after global financial crisis
- While data for the first quarter of 2020 show already a 0.3% yoy decline of GDP, largest effect expected in Q2
- Strong decline of imports to mitigate some of the GDP decline
- Strong recovery expected in 2021 with 5.5% growth
- But GDP not expected to return to pre-crisis levels before 2022

Sectoral perspective

Composition of GDP



Source: National Bureau of Statistics, 2019

Sectoral dynamics

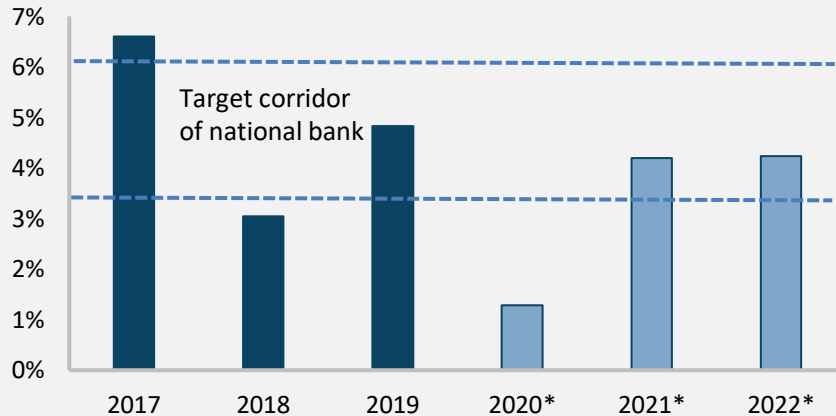


Source: National Bureau of Statistics

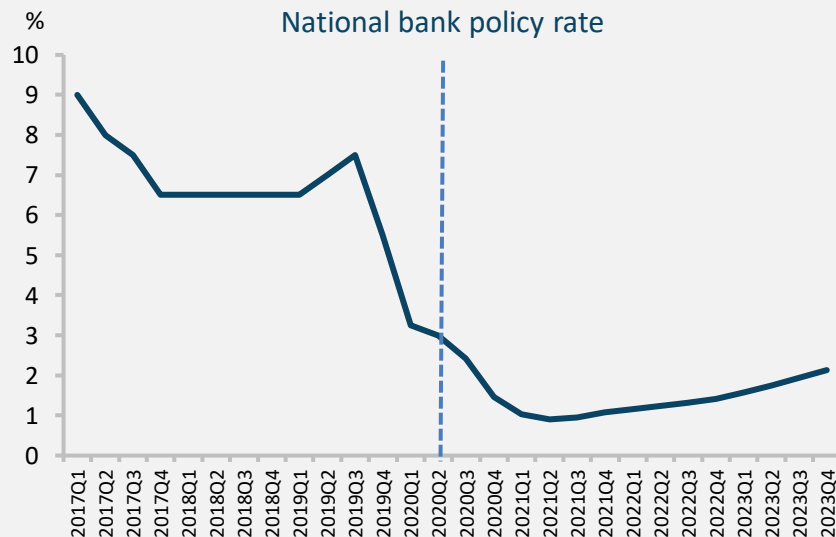
- **Manufacturing** has replaced **agriculture** in terms of economic importance due to strong growth over the last years
 - Indeed, manufacturing grew by 7% in 2019 as more investors in light manufacturing (such as car suppliers) set up shop in Moldova
 - However, stop of car manufacturing due to COVID crisis will put a stop to manufacturing growth
 - While **agriculture** should be less affected by COVID crisis, lack of rain in winter and spring could reduce harvest this year
 - **Construction**, which grew rapidly in 2018 and 2019, likely to be massively affected as public and private investments put on hold
- **Bleak prospect across most sectors during and after COVID crisis with only IT and agriculture expected to hold up to some extent**

Inflation and monetary policy

Inflation



National bank policy rate



Source: National Bank, own forecasts

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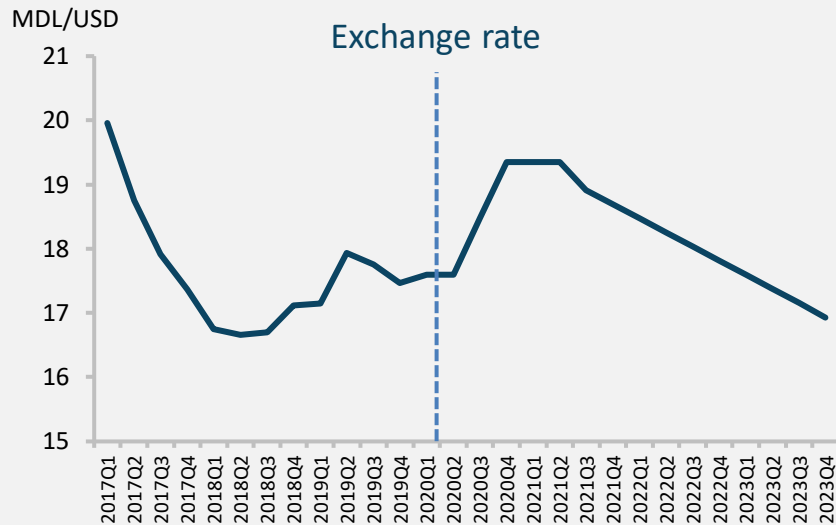
Inflation

- Inflation stood at 4.8% in 2019, well within the central bank's inflation corridor
- Although Inflation temporarily reached 8% at the end of 2019, decline soon after on the back of slowing global demand
- Amidst output decline in 2020, inflation to slow to 1.3% in 2020
- Return to corridor in 2021 as recovery reduces output gap

Monetary policy

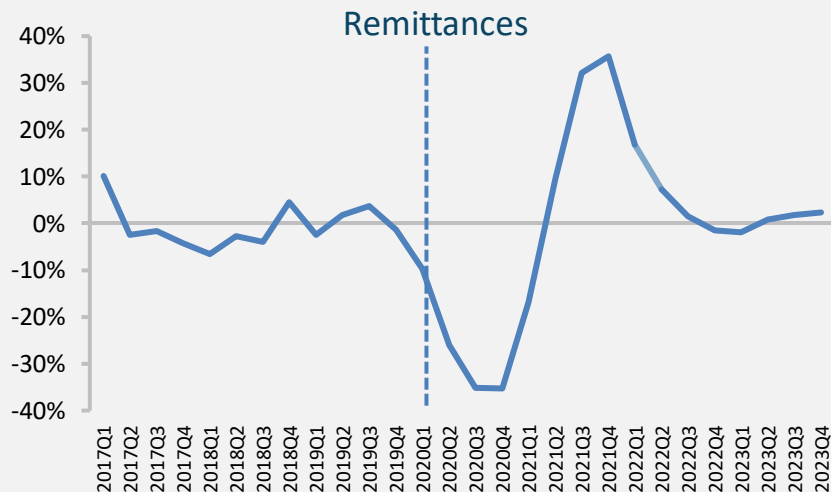
- National Bank already started reducing policy rate (and other levers) well before crisis amidst slowing demand of trading partners
- Further easing amidst COVID crisis
- Policy rate stood at 3.25% in May, compared to 6.5% one year earlier
- Further loose monetary policy to be expected with policy rate to stay low for the foreseeable future

Exchange rate and remittances



Exchange rate

- Depreciation pressure at the beginning of the year in the wake of COVID crisis
- National Bank reserves and granting of IMF emergency loans supported Moldovan Leu (MDL) for the time being
- But moderate depreciation of MDL possible as economic fall-out of COVID crisis unfolds and public finances are under strain

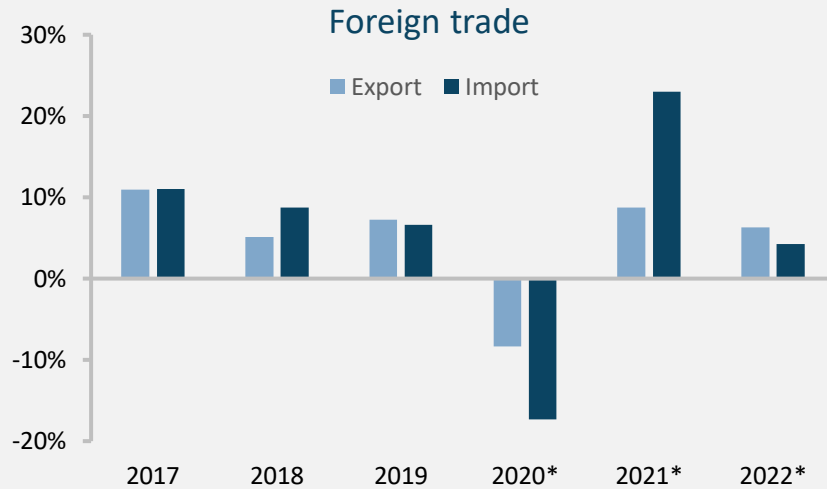


Remittances

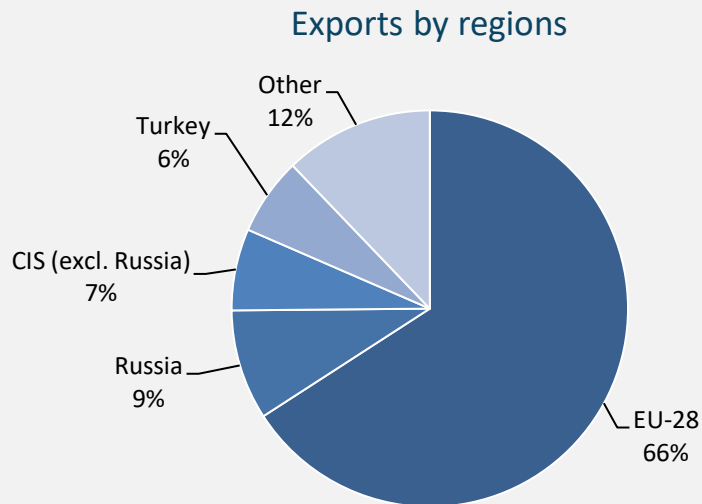
- Strong decline in remittances of up to 40% in 2020 as Italy, Russia and other source countries experience severe recessions
- Some migrant workers to return to Moldova for good

Source: National Bank; own forecasts, note: remittances in USD

External trade



Source: National Accounts



Source: National Bureau of Statistics, 2019; Note: trade in goods

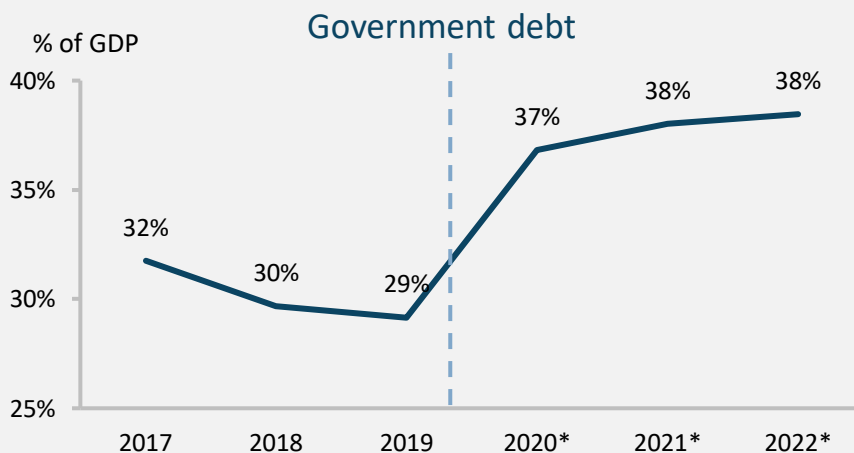
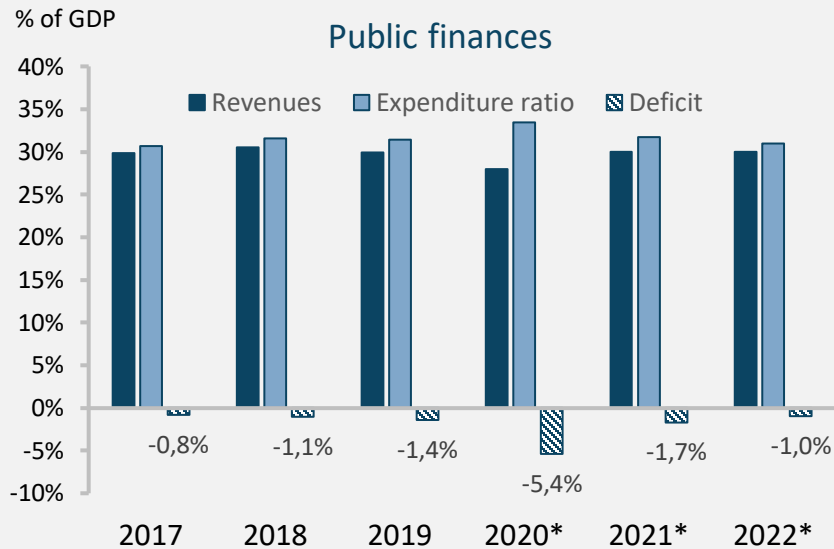
2019

- 2019: robust increase of exports by 7.3% on the back of growing manufacturing sector
- EU accounts for 66% of good exports

Forecast

- 2020 strong decline of exports by 8% in the context of global recession with manufacturing of car parts particularly affected
- But imports decline even faster as consumer spending and investments (a main source of import demand) drop
- Thus, net exports aside from government spending only positive growth contribution in 2020
- 2021: strong recovery of both exports and imports

Public finances and government debt



Sources: IMF, National Statistics; *own forecast

Revenues, expenditures and deficit

- Last years only moderate deficits due to lack of external financing
- COVID crisis to lead to a significant decline of tax revenues as imports and company profits go down; revenue ratio to decline to 28% of GDP
- At the same time higher expenditures for health care and social assistance
- Result: budget deficit of 5.4% of GDP in 2020
- However, this assumes that further external assistance such as the EU macro-financial assistance becomes available in order to finance the deficit. Otherwise expenditure cuts may become necessary

Government debt

- Additional borrowing to increase government debt to 38% of GDP in 2021, up from 29% in 2019

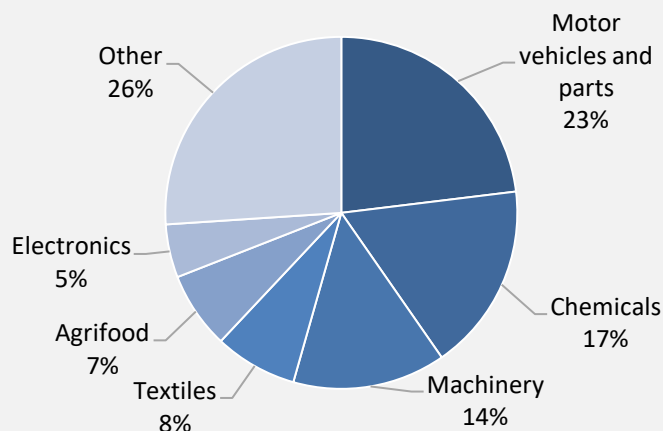
Bilateral trade between Germany and Moldova

German trade with Moldova



Source: German Federal Statistics Office

German exports to Moldova



Source: German Federal Statistics Office; 2019

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Bilateral trade volume

- Trade volume of EUR 681 m in 2019 – up 5.4% compared to previous year

German exports to Moldova

- Exports increased by 4.6% in 2019 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

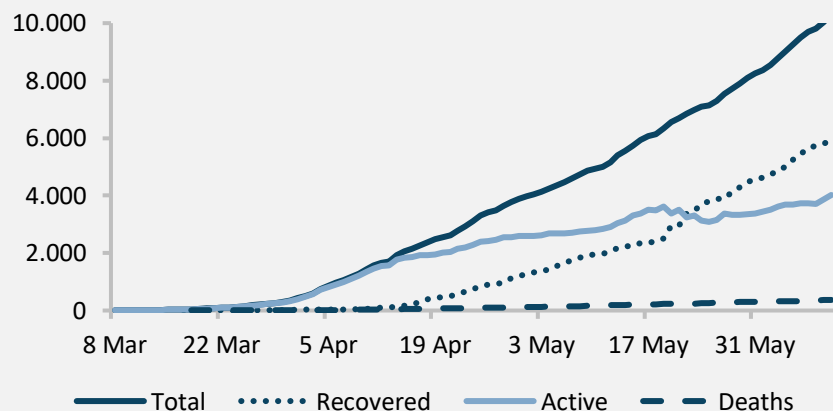
- Increase by 6.6% in 2019
- Imports grew more slowly than in previous year reflecting slowing demand in particular for car parts
- Main type of goods imported are apparel, furniture and electrical parts such as car wiring

Conclusion

- Trade integration with Moldova continues, although less dynamically than in 2018

COVID-19: overview of cases

Cumulative COVID-19 cases



Source: Johns Hopkins University

Domestic perspective

- Increase of registered cases continues unabated, despite strict lockdown measures

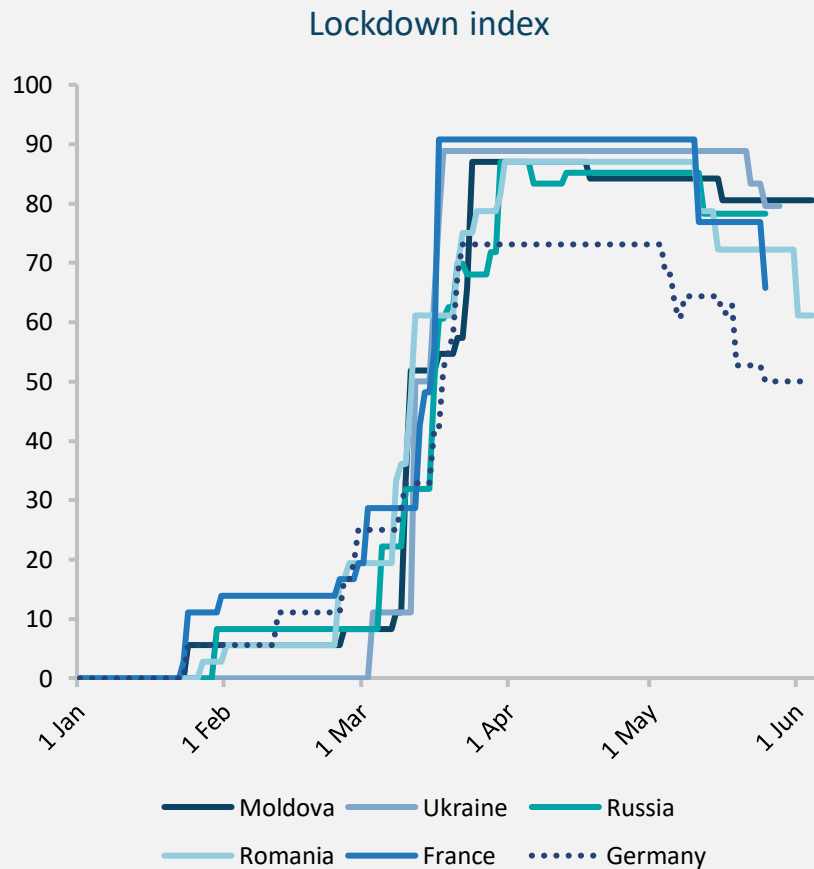
International perspective

- Highest number of cases per population apart from Russia
- Low testing numbers, although increasing, which may explain ongoing increase in case numbers

	Absolute numbers				Per 1 m population			
	Total Cases	Deaths	Recovered	Active	Total Cases	Deaths	Active	Tests
Moldova	10,727	375	6,072	4,280	2,659	93	1,061	15,697
Romania	21,182	1,369	15,283	4,530	1,101	71	235	27,626
Ukraine	29,070	854	13,141	15,075	665	20	345	10,435
Russia	502,436	6,532	261,150	234,754	3,443	45	1,609	95,080
Germany	186,795	8,851	171,200	6,744	2,230	106	81	56,036
France	155,561	29,346	72,149	54,066	2,383	450	828	No data

Source: Worldometer, data as of 11 June

COVID-19: containment measures and lifting



Source: Oxford COVID-19 Government Response Tracker

Note: the stringency index aggregates policy responses related to containment, closure and public information campaigns on a scale from 0 (lowest) to 100 (highest)

Domestic perspective

- Government enacted strict lockdown measures rather early during the pandemic
 - Closure of borders, airports
 - Closure of restaurants, hotels, non-essential retail and businesses
 - Closure of schools and kindergartens
 - Curfew, mandatory holidays
 - State of emergency

International perspective

- Early response with rather strict measures, although not always very strictly enforced

COVID-19: support by the government

Households

- Banks to reschedule mortgage payments
- Increase of “first house” programme
- Increased minimum income for disadvantaged families
- No dismissals during state of emergencies

Source: Government of Moldova, Note: selection, measures as of 15 June 2020

Business

- Deferral of payment of income tax
- Moratorium on state controls of entrepreneurial activity
- Suspension of patent fees
- Repayment of social insurance contributions during periods of closure for the employees in technical unemployment or stoppage
- Interest subsidy programme for loans taken to pay the salaries of employees in stoppage or technical unemployment
- VAT refund programme
- Reduced VAT rate for hotels and restaurant from 20% to 15%

COVID-19: international support

International assistance by IFIs/donors

Amount	Organisation / instrument	Status
USD 20 m	IMF Programme (last tranche)	approved
USD 235 m	IMF Emergency loans	approved
USD 60 m	Worldbank IDA credit	approved
USD 315 m	Approved assistance equals 2.5% of GDP	
USD 75 m	Last tranche of EU macro-financial assistance	open
USD 110 m	New EU macro-financial assistance (Covid 19 response)	open
USD 185 m	Open assistance equals 1.5% of GDP	
SUM = USD 500 m	Potential assistance equals 4.0% of GDP	

Sources: IMF, European Commission, Worldbank

- Moldovan government already secured assistance amounting to USD 315 m
- Equal to 2.5% of GDP in 2020, significant but not enough to finance expected deficit
- Additional funding worth 1.5% subject to conditionality, which has yet to be met
- Securing outstanding funding would go a long way in meeting financing needs in 2020
- Russian loan of USD 200 m, which was first granted and then ruled unlawful by the Constitutional Court due to loan conditions, unlikely to become available any time soon

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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