

ECONOMIC MONITOR

MOLDOVA

Overview

- » Considerable drop in GDP of 5.9% in 2022; effects of war in UKR and poor harvest as key drivers of contraction
- » 2023 forecast: moderate outlook of 2% GDP growth, but with considerable downside risks
- » Inflation remains high (Mar-23: 21.98%), but has started on a downward trend
- » Moldovan Leu depreciated by 7.4% vs the US dollar in 2022; moderate depreciation considering the very high inflation; implication: significant real appreciation
- » Increased budget deficit of 4.2% of GDP in 2022 and further increase to 6% in 2023 planned amid higher social spending, particularly in response to the energy crisis
- » Strong increase in exports (37.9%) and imports (28.5%) in 2022; partly due to record harvest in 2021, but also large re-exports to/from UKR

Special issue

- » **Export potential of fruits.** Further expansion of fruits exports to EU possible, but diversification to new markets also needed

Basic indicators

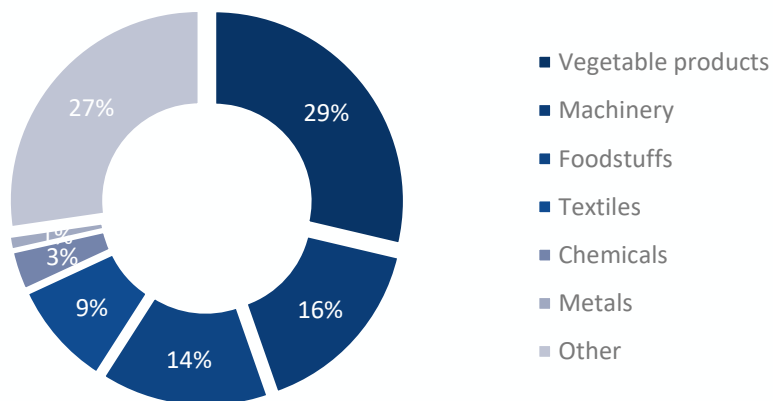
	Moldova	Ukraine*	Romania	Georgia	Russia
GDP, USD bn	14.4	200.2	301.8	24.6	2,215.3
GDP/capita, USD	5,671	4,882	15,851	6,671	15,444
Population, m	2.5	41.0	19.0	3.7	143.8

Sources: IMF, National Bureau of Statistics; Note: data for 2022; *Data for 2021

Trade structure

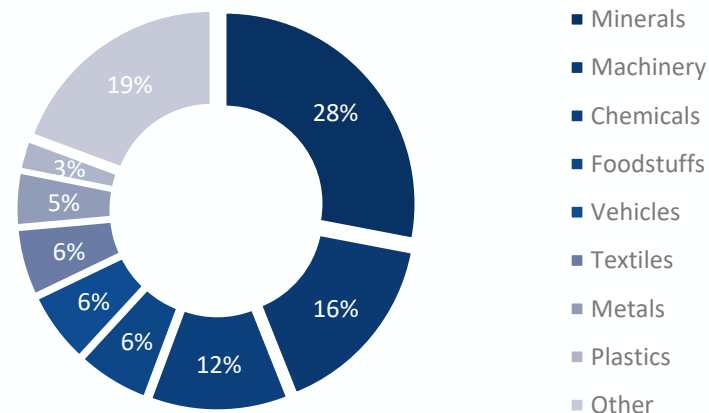
Exports

EU 58% | UKR 17% | TUR 7% | RUS 4% | Others 14%



Imports

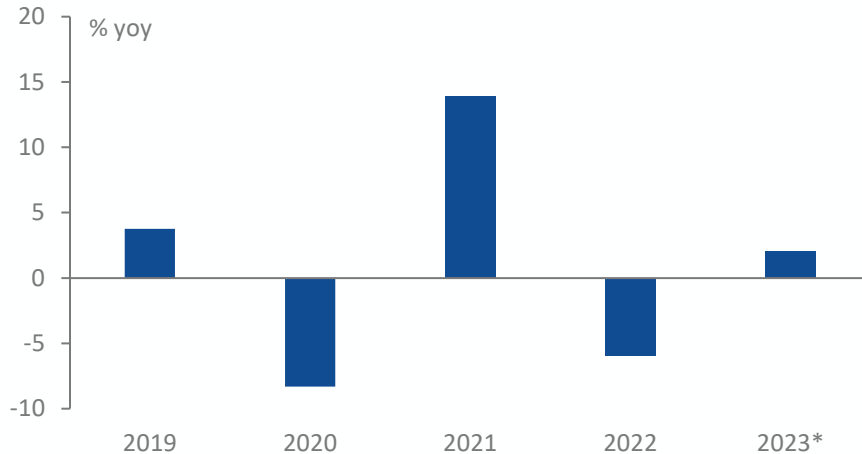
EU 46% | RUS 12% | CHN 10% | UKR 9% | Others 23%



Source: National Bureau of Statistics, data for 2022, Note: trade in goods

Economic growth

Real GDP growth



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

Comparison of real GDP forecasts for 2023



Source: Respective institutions

2022

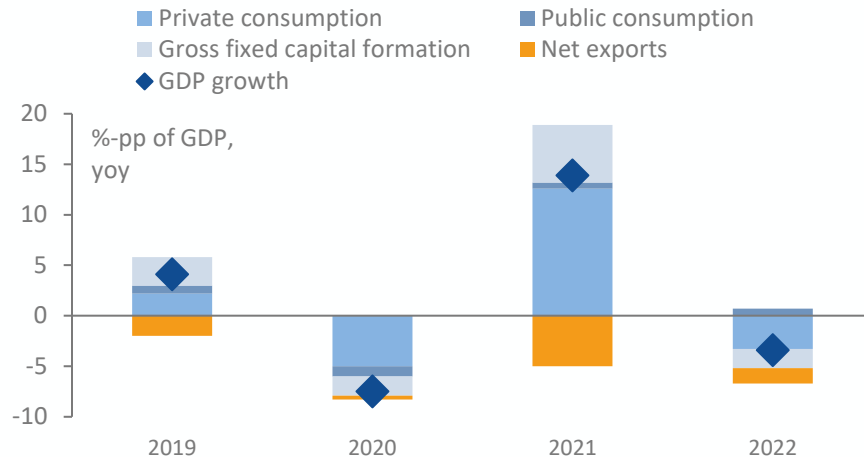
- » Considerable GDP decline of 5.9%
- » Main drivers
 - Weak agricultural year due to drought conditions and logistics problems
 - Economic impact of war in UKR, incl. high inflation & negative effect on investment

2023

- » Moderate growth expected
 - 2.0% yoy forecast by IMF
- » On-going war in UKR remains a problem for MDA, constraining investment in particular
- » Slowdown of inflation could contribute to more positive consumption climate
- » But considerable risks remain, as variance in GDP forecasts shows
- Only partial recovery for MDA in sight as war in neighbouring UKR continues

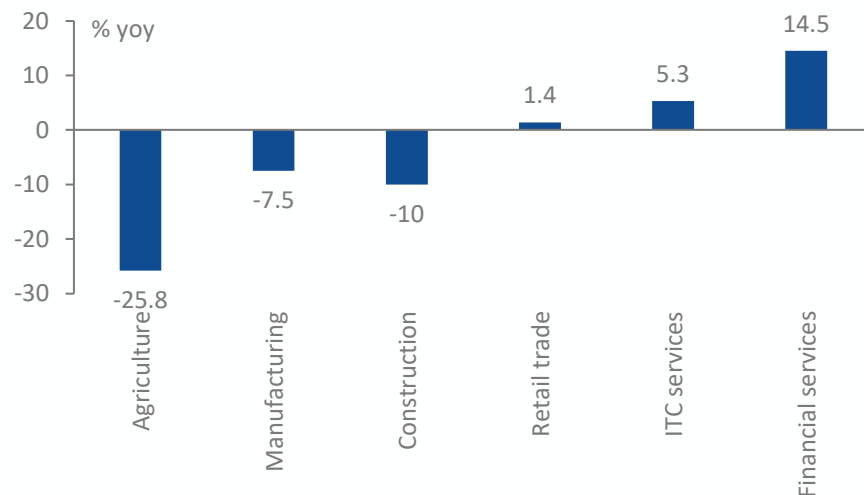
GDP: demand and supply

Contribution to real GDP growth



Source: National Bureau of Statistics

Sectoral dynamics



Source: National Bureau of Statistics; data for 2022

Demand-side dynamics

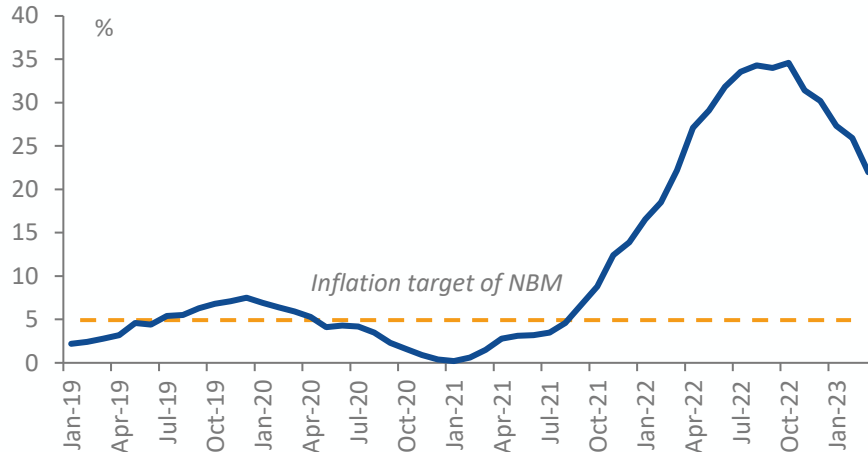
- » Weak consumption and investment main drivers of economic decline, small negative contribution of net exports
- » Only public consumption with positive impact on growth

Supply-side dynamics

- » Negative dynamic across agriculture, manufacturing and construction sectors
 - Agriculture: poor harvest due to drought
 - Manufacturing: impact of disrupted value chains due to war in UKR
 - Construction: high inflation and increased interest rates are barriers for investment in construction activity
- » Strong positive dynamic across financial and IT sectors, moderately positive for retail trade
- » Weak domestic demand and insecurity around war dampen economic growth

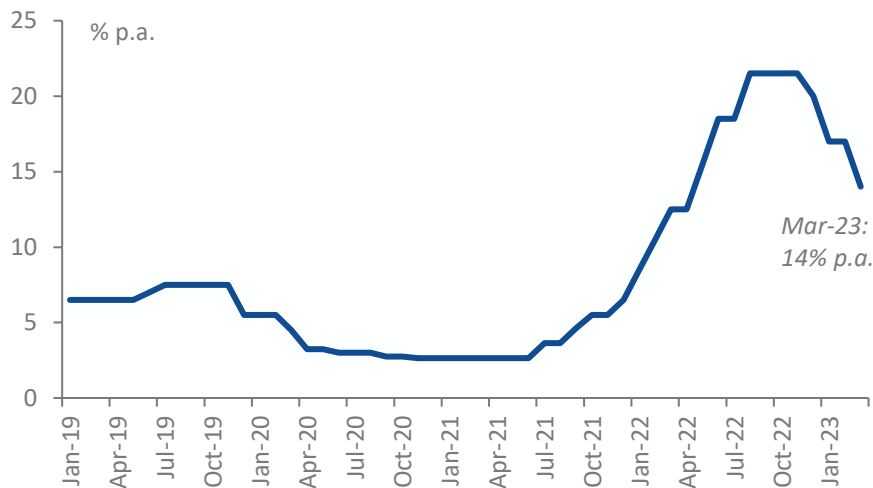
Inflation and monetary policy

Inflation rate



Source: NBM, Note: end of period

Policy rate of NBM



Source: NBM, Note: end of period

Inflation

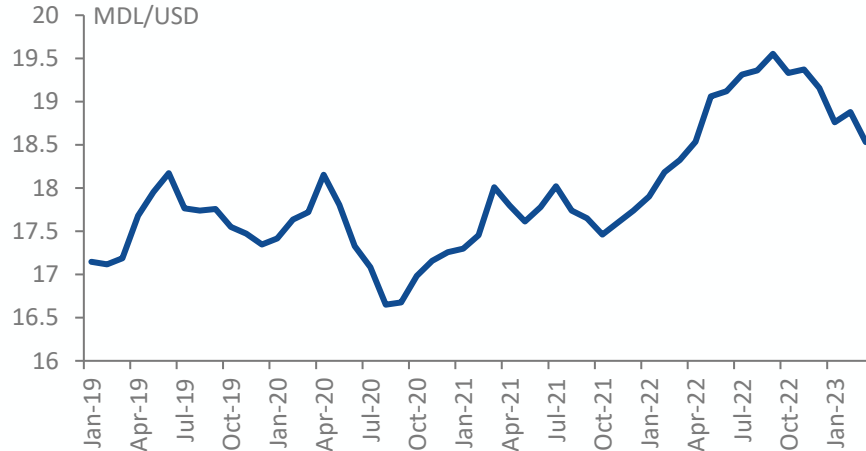
- » 2022: significant increase in inflation due to energy crisis and effects of war
 - But since Nov-22: inflation on a downward trend
- » 2023: 8.0% eop expected, thus still missing NBM inflation target
 - Mar-23: slowdown continues, but inflation still high at 21.98%

Monetary policy

- » Tight monetary policy in response to inflationary environment
 - Several policy rate hikes in 2022
 - Increase of reserve requirements to absorb excess liquidity
- » Since Dec-22, gradual easing as inflationary pressure decreased
- Gradual decrease in inflation has started, but level remains high

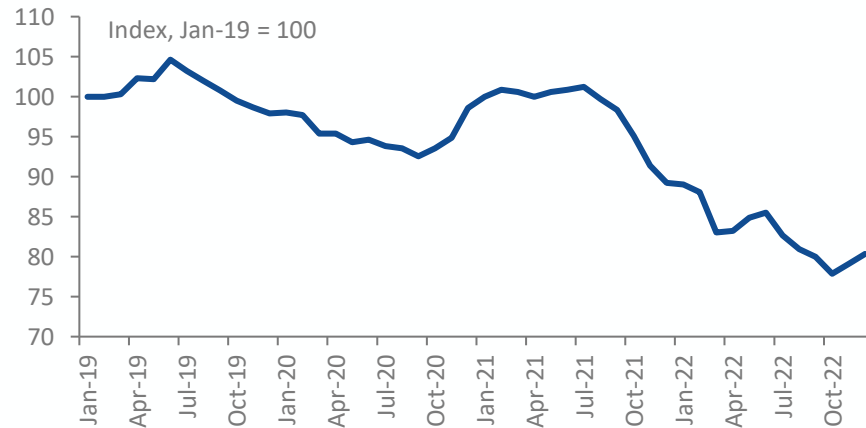
Exchange rate

Exchange rate



Source: NBM, end of period

Real effective exchange rate



Source: NBM; Note: increase of index indicates depreciation, decrease of index indicates appreciation

Exchange rate

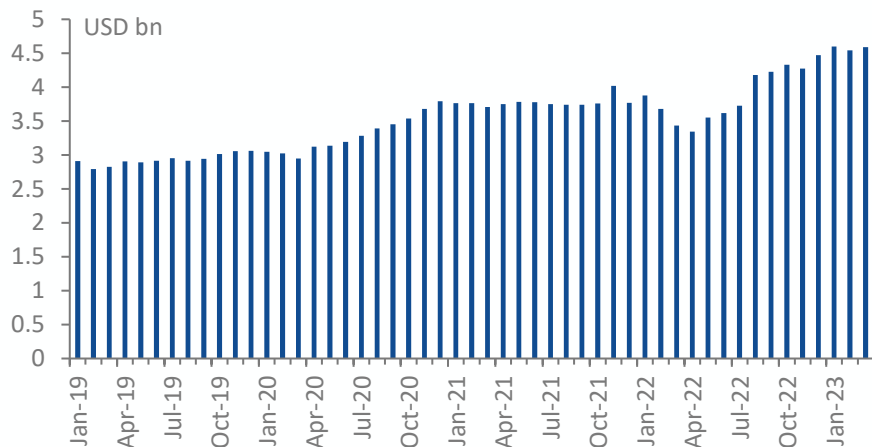
- » Depreciation of Leu vs US dollar in 1H2022, but stabilisation in 2H2022
- » Main reasons: FX inflows linked to ext. financial support and money transfers
- » In sum: depreciation by 7.4% in 2022
- » Q1-23: appreciation by 3.3%

Real effective exchange rate

- » Real effective appreciation of almost 10% in 2022, due to high inflation
- » Implication: negative effect on price competitiveness of MDA products; issue to be monitored
- Only modest depreciation in 2022 considering high inflation; negative effect on price competitiveness

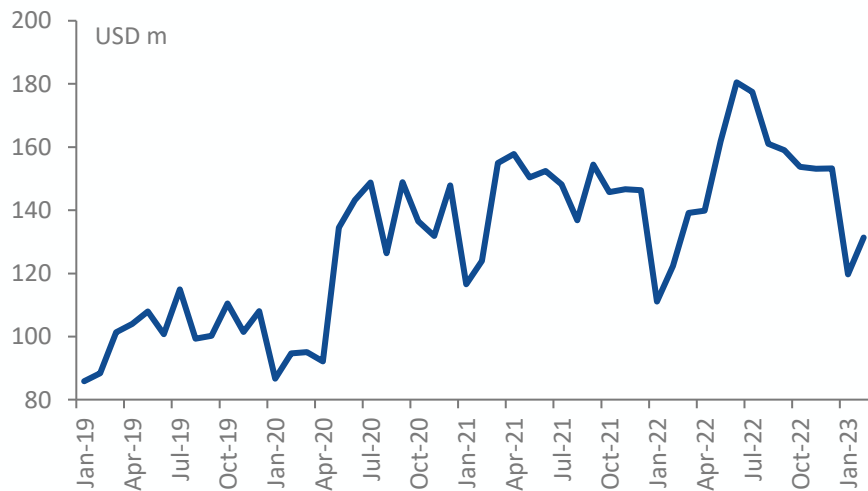
Currency reserves and money transfers

Currency reserves



Source: NBM, end of period

Money transfers in favour of individuals



Source: NBM

International currency reserves

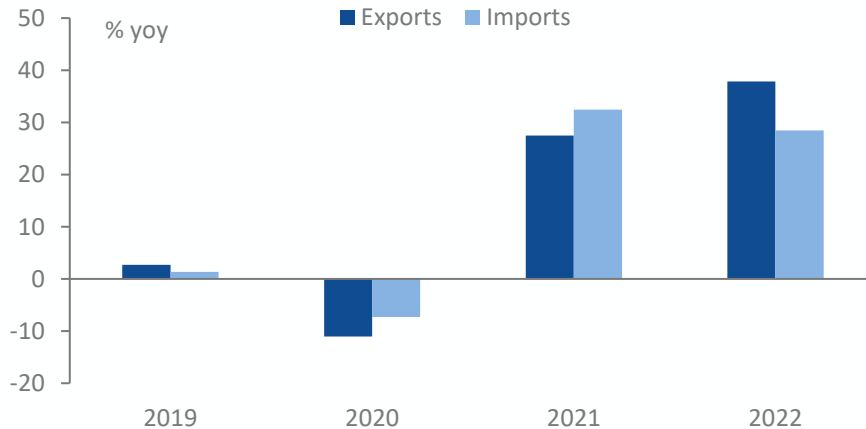
- » Since Aug-22: rebuilding of FX reserves to pre-war level due to external financial support and strong money transfers

Money transfers

- » After initial drop in money transfers in Mar/Apr-22 (-11% yoy), strong increase in Jun to Aug-22 (+18.6% yoy)
- » Possible explanations
 - Increased migrant remittances
 - Increased transfers to Ukrainians living in MDA temporarily
- Rebuilding of FX reserves despite difficult environment; positive signal

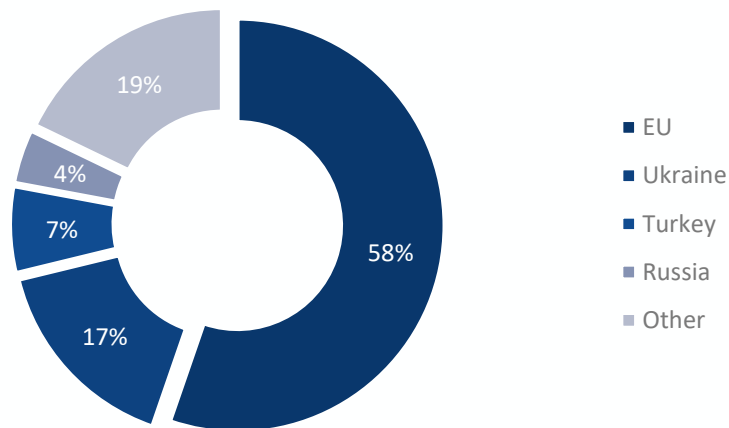
External trade

Foreign trade in goods



Source: National Bureau of Statistics

Exports by country



Source: National Bureau of Statistics, data for 2022

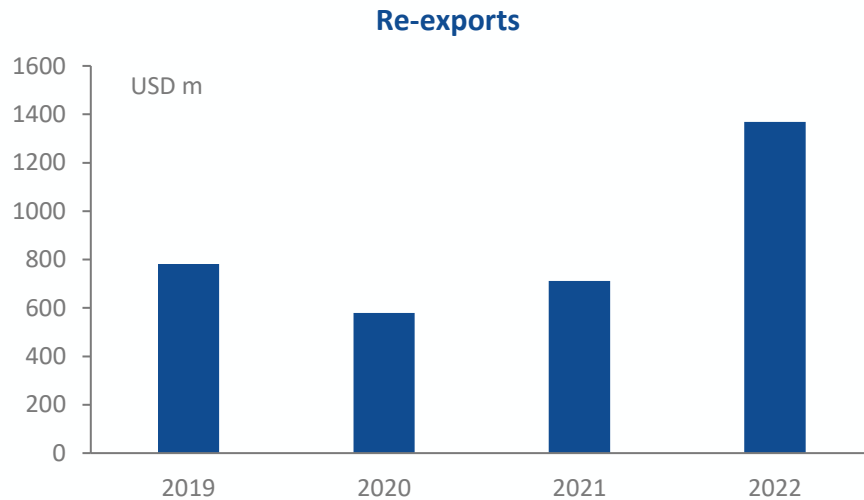
Exports

- » 2022: +37.9% yoy; very strong growth
- » Key drivers: strong agriculture exports in 1H2022 and re-exports to/from UKR
 - Record harvest in 2021 partly sold in 1H2022 at very high market prices
 - Re-exports account for about half of the export growth
- » Weaker exports expected for 2023

Imports

- » 2022: +28.5% yoy
- » Key drivers: high energy cost and re-exports to UKR
 - Strong increase in electricity imports due to disruption of sales from Transnistria
 - Increased fuel imports to MDA mainly re-exported to UKR
- Very strong trade driven by agriculture and re-exports to/from Ukraine

Re-exports



Source: National Bureau of Statistics

Increase in imports and exports of selected agri goods

Product	Imports 2022 (increase yoy)	UKR % share of imports	Exports 2022 (increase yoy)
Oil seeds	270%	79%	53%
Vegetable oils	550%	63%	310%
Cereals	55%	66%*	13%

Source: National Bureau of Statistics, UNComtrade, own calculations, *excl. Jan-Mar, where imports entail primarily seeds

Recorded re-exports

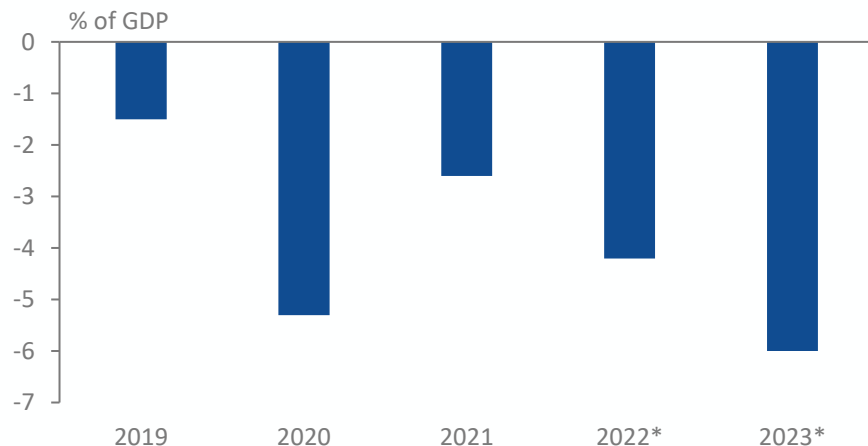
- » Re-exports increased by 92% in 2022, according to official data
- » Main reason: higher re-exports to UKR; roughly 90% of re-exports increase
- » Main item by far: fuel products

Non-recorded re-exports

- » Imports of oilseeds, vegetable oils and cereals from UKR increased sharply, so did MDA exports of these goods
- » Thus, we might be dealing with non-recorded re-exports
- Strong re-exports of fuel products to UKR; likely re-exports of agri goods from UKR
- Key role of UKR for re-exports

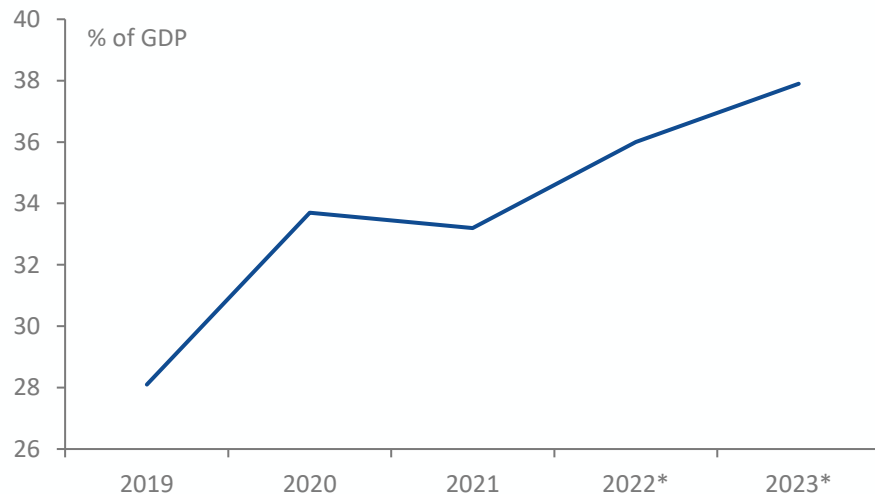
Public finances

Budget balance



Source: IMF, *estimate/forecast

Public debt



Source: IMF, *estimate/forecast

Budget

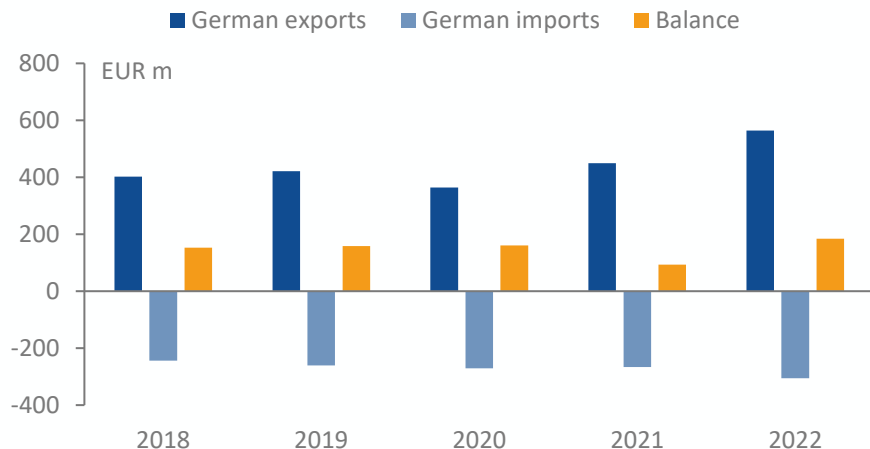
- » 2022: deficit increased to 4.2% of GDP
 - Deficit of 6.2% of GDP originally planned
 - But: revenues higher than expected and some under-execution on expenditures
- » 2023: deficit widening to 6% of GDP planned
 - Social spending to address energy vulnerability expected to continue
 - Increased expenditures planned to improve civil service capacities

Public debt

- » End 2022: increase to 36% of GDP estimated (IMF); overall, still considered moderate
- » 2023: further increase to 37.9% of GDP
 - Mainly financial support from international partners
- Higher deficit and public debt possible due to significant external support

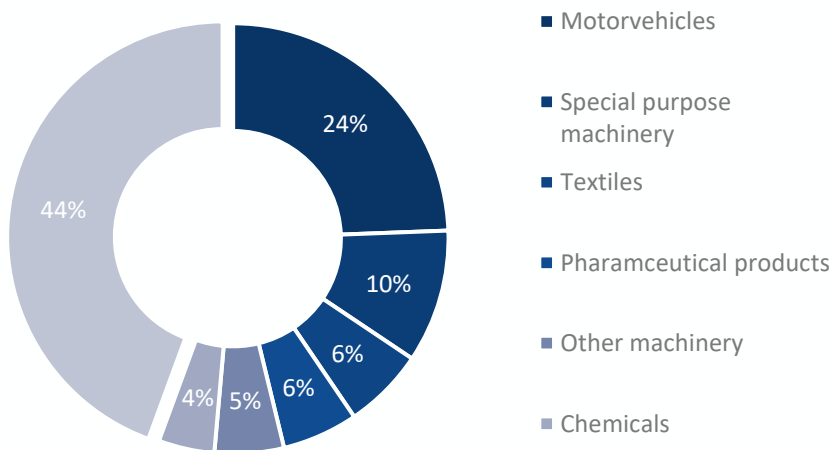
Bilateral trade between Moldova and Germany

German trade with Moldova



Source: Federal Statistical Office of Germany

German exports to Moldova



Source: Federal Statistical Office of Germany; data for 2022

2022

- » German exports: EUR 564 m; +25% yoy
- » German imports: EUR 305 m; +15% yoy
- » Trade balance: EUR 185 m

Exports to MDA in 2022

- » Main items include motor vehicles, other machinery, textiles and medicine
- » Growth in exports mainly driven by chemicals and pharmaceuticals

Imports in 2022

- » Main products: machinery, clothing and furniture, followed by agricultural products (fruits & vegetables, oilseeds)
- » Especially import of oilseeds and clothing increased significantly
 - Oilseeds likely to include non-recorded re-exports of UKR products
- Very positive development of bilateral trade in 2022

Export potential of fruits in the EU: top 10 products

Rank	HS2012	HS description	Composite score	MDA total exports, 2021, tt	EU total imports, 2021, tt	MDA <u>potential</u> share in EU total imports, %	MDA <u>potential</u> share in intra-EU trade, %
1	080610	Fresh grapes	89	58	1,438	4%	7%
2	080929	Fresh cherries	75	6	152	4%	7%
3	080910	Fresh apricots	74	5	143	3%	4%
4	081320	Dried prunes	73	8	62	12%	32%
5	080940	Fresh plums and sloes	72	45	252	18%	30%
6	081020	Fresh raspberries, blackberries	71	1	213	1%	1%
7	200799	Jams, jellies, marmalades, pastes of fruit	71	6	552	1%	1%
8	081340	Dried peaches, pears, other edible fruits	71	1	61	2%	3%
9	080930	Fresh peaches, incl. nectarines	62	3	859	0%	0%
10	081010	Fresh strawberries	55	3	422	1%	1%

Source: WITS, own estimates

- » Rank 1-3: fresh grapes, cherries and apricots. Reorientation of all MDA exports of these goods would signify only small share in EU imports ($\leq 4\%$) and intra-EU trade ($\leq 4\%$)
- » Rank 4-5: dried prunes and fresh plums. Here, full reorientation of all MDA exports to EU would mean considerable share in EU imports (12% and 18% resp.) and intra-EU trade (32% and 30% resp.) making MDA a significant competitor to EU producers; additional diversification of export markets is recommended
- » All other products: full use of MDA export potential would mean only small share in imports/trade
- MDA fruits have considerable export expansion potential in EU, but further diversification of export markets is needed for some products

About the German Economic Team

Financed by the Federal Ministry for Economic Affairs and Climate Action, the German Economic Team (GET) advises the governments of Ukraine, Belarus*, Moldova, Kosovo, Armenia, Georgia and Uzbekistan on economic policy matters. Berlin Economics has been commissioned with the implementation of the consultancy.

**Advisory activities in Belarus are currently suspended.*

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