

# ECONOMIC MONITOR

## GAGAUZIA

### Structure of economy

- » GDP of Gagauzia (GET estimate): USD 336 m or 2.3% of Moldova; low GDP/capita: USD 2,868
- » Economy heavily reliant on the agro-food sector
- » Structure of economy similar to other MDA regions, expect Chisinau
- » Low wages and increasing wage disparity gap with other regions, despite sizeable fiscal privileges
- » Foreign trade: stronger ties with CIS and TUR than average MDA
- » For comparison: TN region's economy much larger (USD 1.2 bn) and more industry-based

### Recent economic developments

- » GDP very volatile due to its strong dependence on agro-food sector
- » Weak performance (-8%) of agro in 2023 due to regional drought; on contrast MDA: +32%
- » Implication: also lower industrial activity, due to strong link to agro-industry
- » Foreign trade went up in 2022 due to higher re-exports; decline in trade in 2023 due to lower re-exports; same development as in rest of MDA

### Special issue

- » **Public finances.** Unlike other regions, ATU Gagauzia has the right to retain a larger share (100%) of taxes; as a result, it features the highest per capita revenues among all MDA districts. This in turn allows ATU Gagauzia to have the highest spending per capita in the country

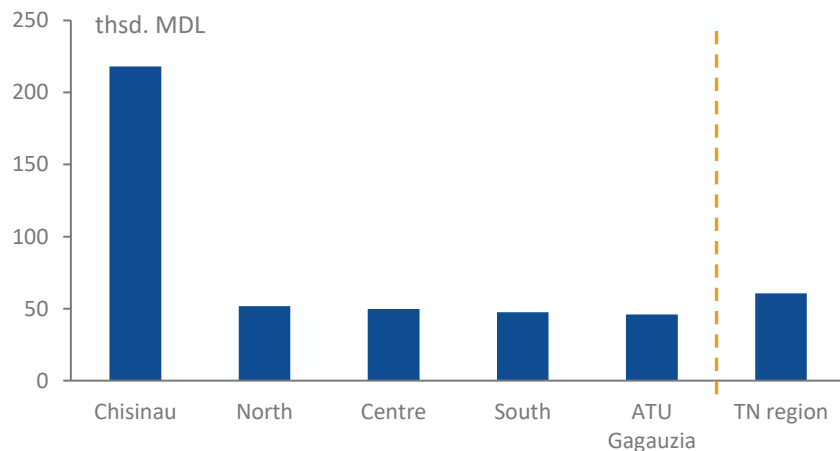
# Basic indicators: GDP

	Gagauzia	TN region	Moldova
GDP, USD bn	0.34*	1.2	16.6
GDP/capita, USD	2,868*	3,473	6,411
Population, m	0.12*	0.35	2.5

Sources: IMF, National Bureau of Statistics; Ministry of the de facto Economic Development of Transnistria;

Note: data for 2023, \* for 2022; according to the ATUG General Directorate of Economic Development and Tourism 2023: Population: 0.15 m.; TN region statistics report a population of 0.47 m

## Regional GDP per capita (2021)



Source: Invest Gagauzia; ATUG General Directorate of Economic Development and Tourism; De facto Ministry of Economic Development of Transnistria

## GDP

- » No official GDP data for Gagauzia
- » Own estimation for 2022: USD 336 m
- » Gagauzia's share in MDA GDP: ca. 2.3%
- » At the same time: Gagauzia accounts for 5.0% of MDA population

## GDP per capita

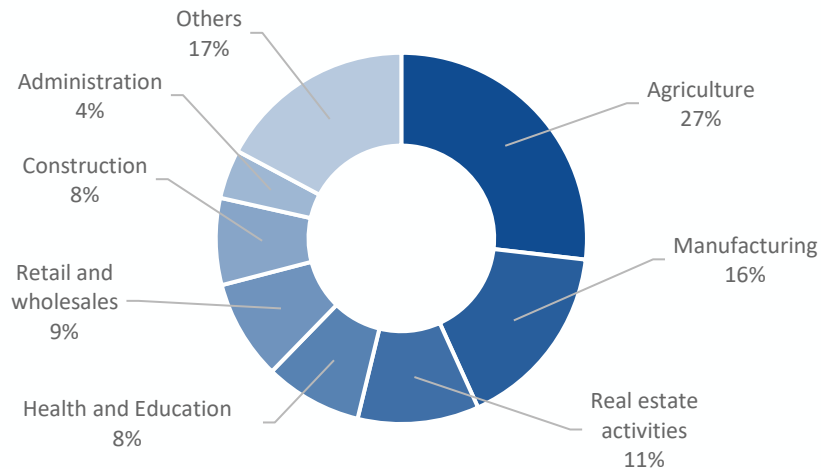
- » Gagauzia: ca. USD 2,868
- » Lowest in MDA, but not far from other regions apart from Chisinau

## Comparison to TN region

- » GDP much lower than in Transnistrian (TN) region
- » At the same time also lower GDP/capita
- Small economy and rather low GDP/capita

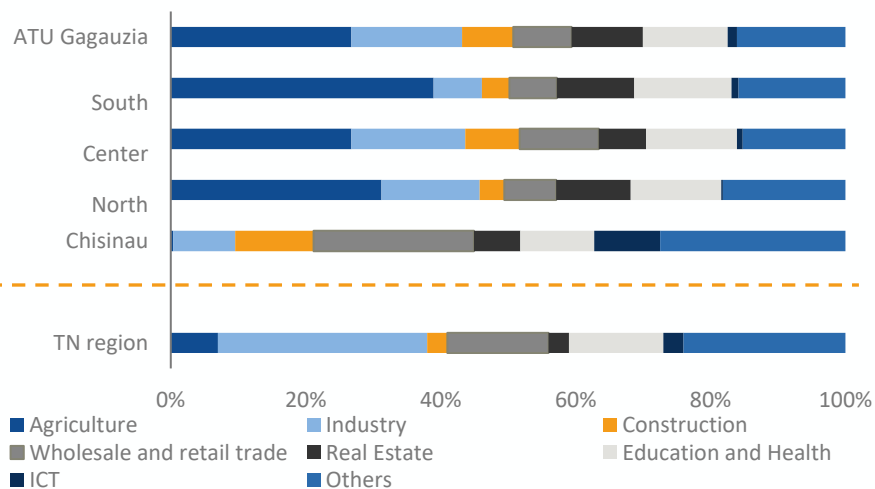
# Basic indicators: economic structure

Gagauzia's structure of GDP (2021)



Source: Statistical office Moldova

Regional GDP by economic activities and region (2021)



Source: Statistical office Moldova; ATUG General Directorate of Economic Development and Tourism; De facto Ministry of Economic Development of Transnistria

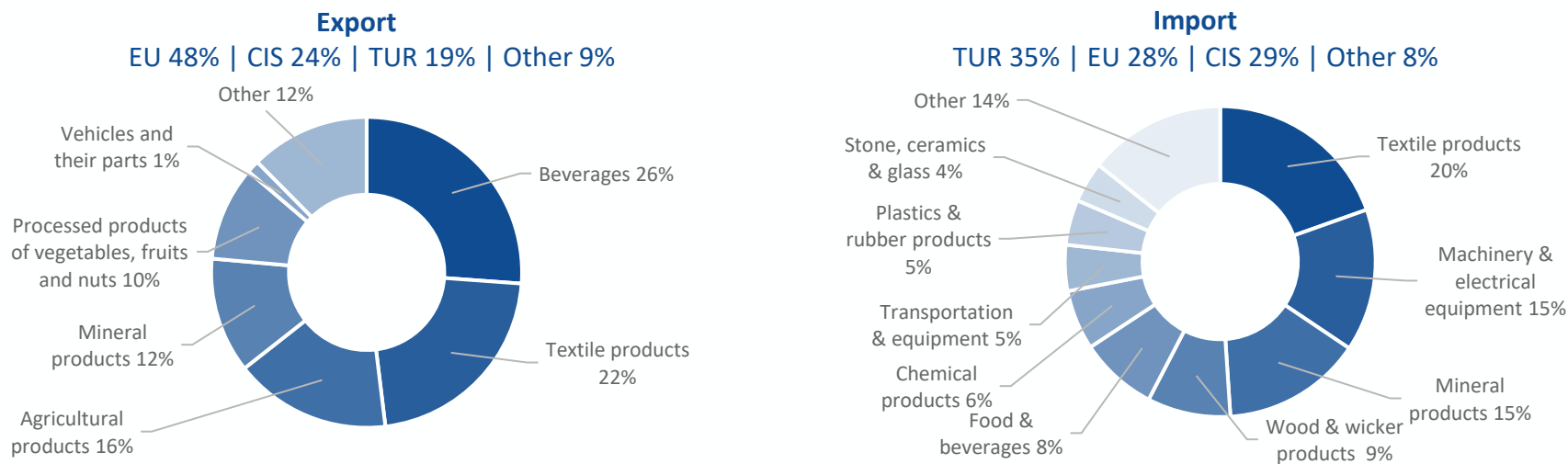
## Structure of GDP

- » Large share of agriculture: 27%
- » However, this is comparable with other regions of MDA other than Chisinau and even much less than in the southern region
- » Substantial manufacturing sector (16%), largely linked to food; thus, strong agro-food sector
- » Other sectors: no major differences with other regions of MDA

## Comparison to TN region

- » Very different economic structure
- » TN region: strong industrial base, small agricultural sector
- » Gagauzia: strong agro-food sector
- » Strong agro-food sector, backbone of Gagauzia's economy

# Basic indicators: trade structure



Source: ATUG General Directorate of Economic Development and Tourism; export/import data by country for 2023, the structure for 2022

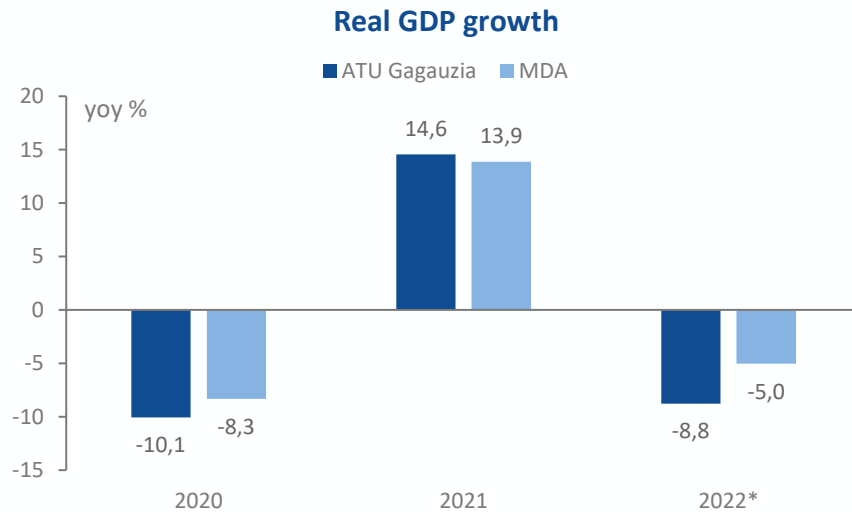
## Exports

- » EU main destination, but large share also goes to CIS (2022: ca. 10% UKR, 10% BLR, 2.5% RUS) and TUR
- » Key exports: beverages (wine), clothing (knitted garments) and agro-products (oilseeds & fruits)
  - Beverages mainly exported to CIS (46%), followed by EU (34%); TUR main trading partner for clothing; agricultural products mainly go to the EU (87%)

## Imports

- » TUR is the main origin of imports, probably linked to contract processing in textile sector; 29% of imports from CIS (22% UKR, 6.5% RUS); EU comes third, but a positive trend (+39%) since 2018
- » Substantial differences to trade structure of MDA (62% of exports to EU, 47% of imports from EU)
- But also strong differences with TN region (31% of exports to EU; 65% of imports from RUS)

# Economic growth



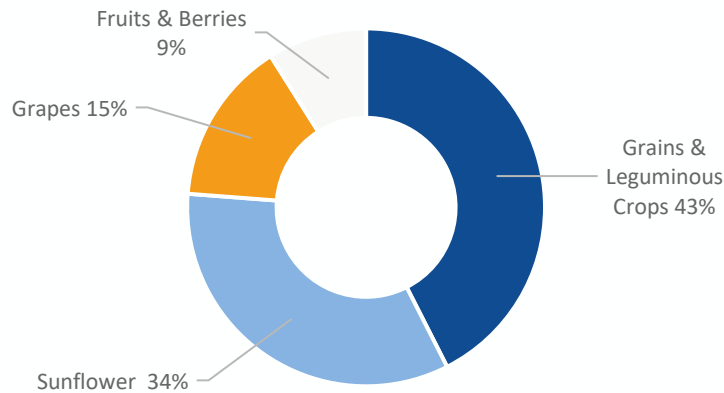
Source: Statistical office Moldova ; \*own calculations for ATU Gagauzia

## Economic growth

- » Since 2022: no official GDP data for Gagauzia
- » On top: to our knowledge, no estimation of GDP available
- » Thus: need for our own estimation
- » 2022, own estimation: -8.8% yoy
- » Reasons: weak economy in MDA and severe drought, affecting the agro-food sector
- » Thus: decline more severe than in MDA
- » 2023: estimation not meaningful; but decline of real GDP due to a regional drought likely
- Due to its exposure to agro-food, strong volatility of Gagauzia's GDP
- Detailed analysis not feasible due to lack of data

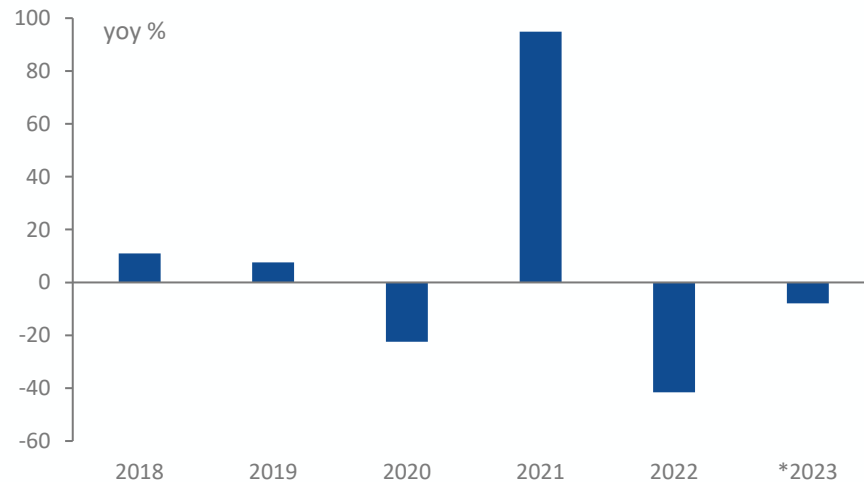
# Agricultural sector

Structure of agricultural sector (2023)



Source: preliminary data; own estimations based on data from ATUG General Directorate of Economic Development and Tourism; Statistical Office Moldova

Agricultural dynamics



Source: ATUG General Directorate of Economic Development and Tourism; \*2023 preliminary data

## Key agricultural products

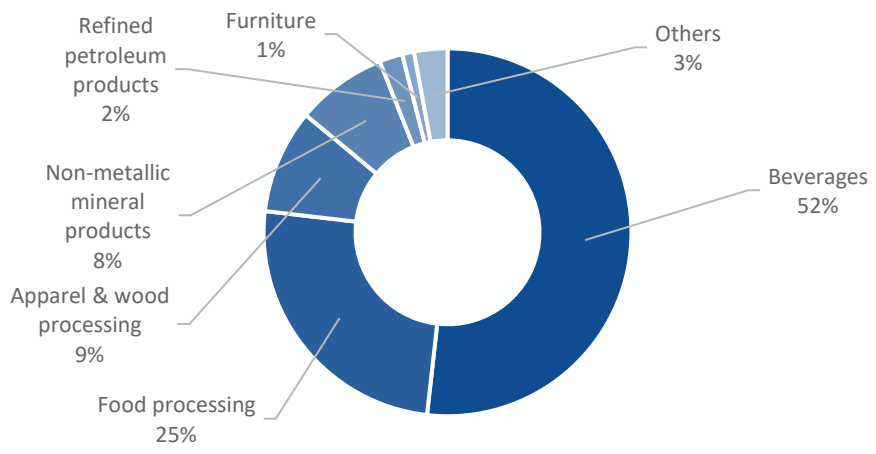
- » Grains (mainly wheat) and sunflowers
- » Grapes: mainly wine grapes (around 75%), but also table grapes
- » Fruits and berries: mainly apples, plums, cherries and peaches
- » Contribution to overall MDA production volume:
  - Peaches (ca. 19%), wine grapes (ca. 15%) most significant

## Dynamics

- » Movement of agricultural always in the same direction as GDP growth
- » 2021 record harvest in MDA; drought in 2022
- » Agriculture (2023): -8% yoy; contrary development in MDA (+32%)
- » Reason: regional drought (according to ATUG Directorate)
- **Strong focus on grains, sunflowers, but also fruits**

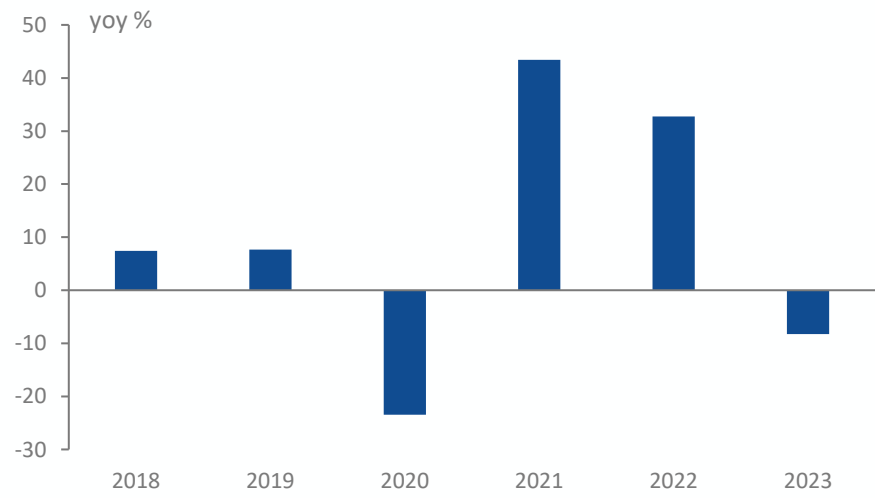
# Industrial sector

### Structure of manufacturing industry (2022)



Source: Statistical office Moldova

### Industry dynamics



Source: Invest Gagauzia; ATUG General Directorate of Economic Development and Tourism

## Structure of manufacturing industry

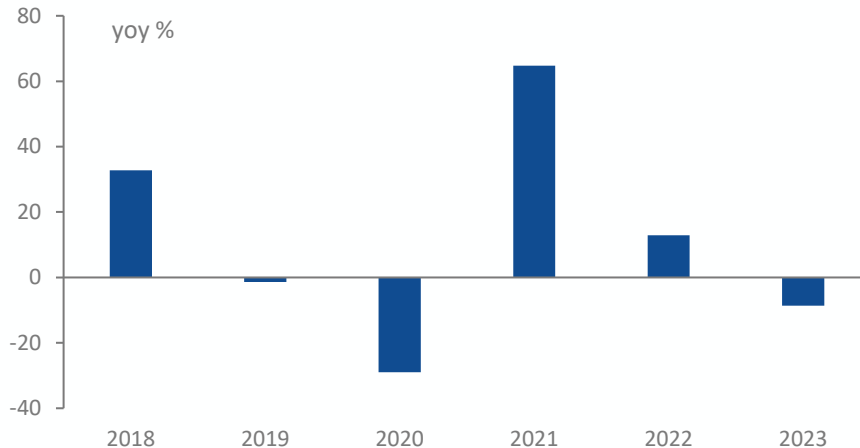
- » Main sectors: beverages (52%) and food processing (25%)
  - 2022: sparkling wine made 34% of total MDA production, divin (24%) and grape wine (21%) in volumes
- » Many companies based in the Free Economic Zone "Valkanes" (established in 1998)

## Dynamics

- » Volatile industrial sector influenced by its strong dependence on agricultural and harvest outcomes
- » 2022: positive growth in contrast to negative GDP growth
- » 2023: - 8% yoy; MDA: decrease of -12%
- Strong food and beverages processing industry
- Significant fluctuations in industry due to strong link to agriculture

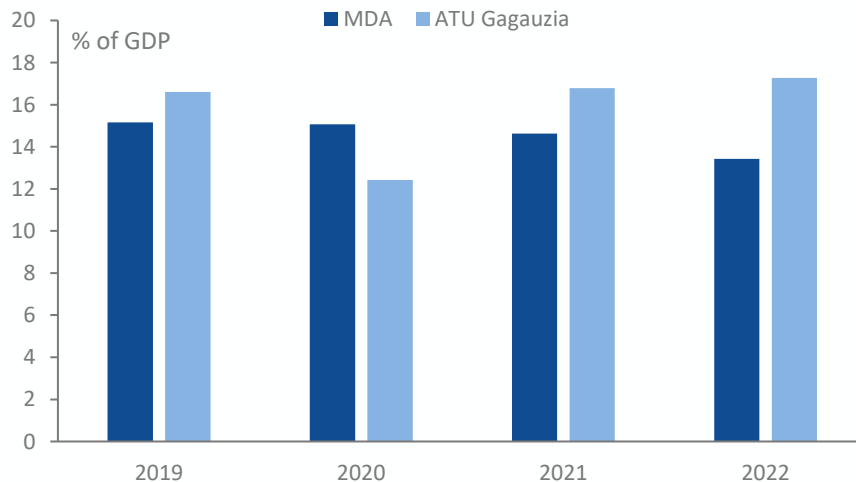
# Investment

## Investment in fixed assets



Source: Statistical office Moldova

## Investment in comparison



Source: Statistical Office Moldova

## Investment in fixed assets

- » 2021: +65% yoy: high growth due to investment in machinery and equipment
- » 2023: -9% yoy ; MDL 963 m, driven by -19% yoy in machinery and equipment
  - Likely linked to uncertain investment climate in the country

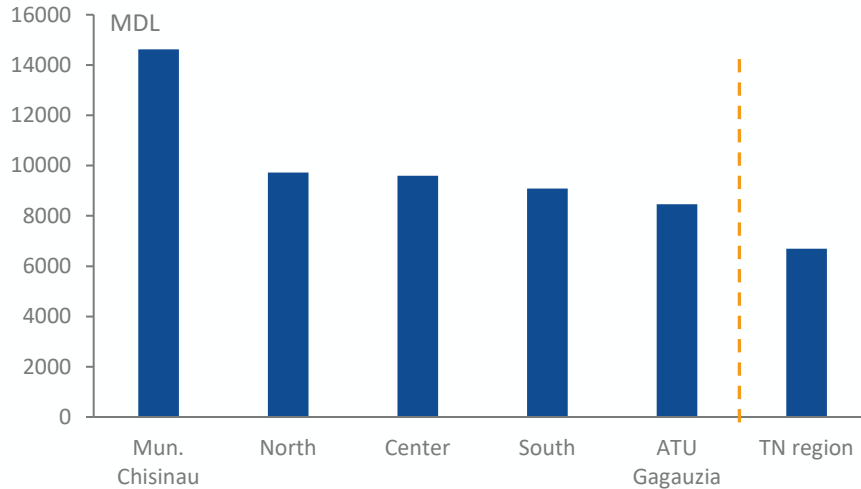
## Regional comparison

- » ATU Gagauzia has usually a higher share of investments as % of GDP than avg. MDA
  - In 2022: ATU Gagauzia: ca. 17 % of regional GDP; MDA: ca. 13 % of GDP
- » However, level of investment is low, with net investment likely approaching zero; same weakness as MDA in general
- » Low investment is a key issue; situation similar as in the rest of MDA
- » Decline in 2023, likely linked to uncertain political environment in MDA



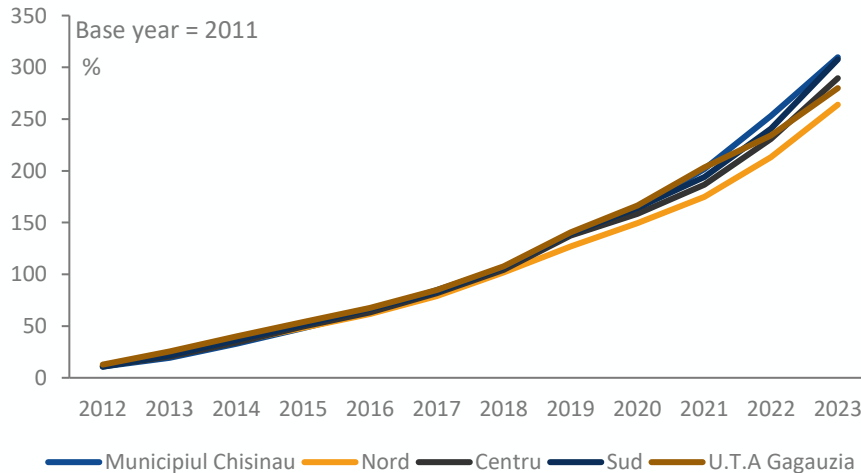
# Wages

## Average gross monthly wage per region (2023)



Source: Statistical office Moldova; National Bureau of Statistics; Ministry of de-facto Economic Development of Transnistria

## Evolution of average gross monthly wages by region



Source: Statistical office Moldova

## Gross monthly wage

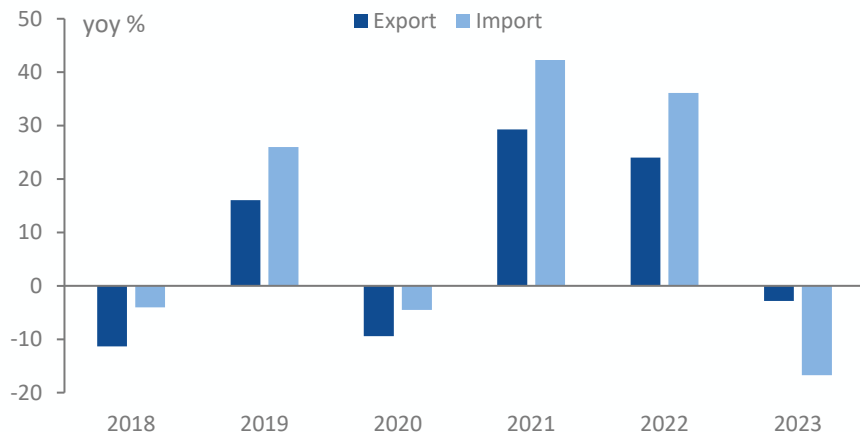
- » 2023: MDL 8,400, equivalent to ca. EUR 440
- » Gagauzia has the lowest average wages compared to other regions (7% to 42% lower than in other regions)
- » Less surprisingly, Chisinau has the highest average wage with MDL 14.6 thsd. (EUR 770)
- » Comparison to TN region: higher average monthly wage than in TN region

## Wage growth

- » Positive development in recent years, in line with MDA dynamics
- » But at a slower pace than regions like south, center and Chisinau
- » Since wages in other regions grow faster, the wage disparity gap with Gagauzia has grown
- Relatively low wage level compared to the rest of MDA
- Gagauzia did not close the wage gap with other regions

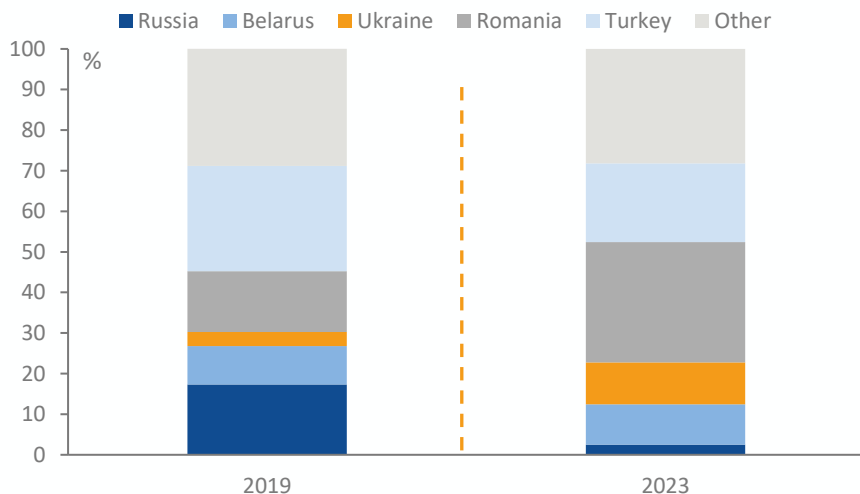
# Foreign trade

## External trade



Source: Invest Gagauzia; General Directorate of Economic Development and Tourism

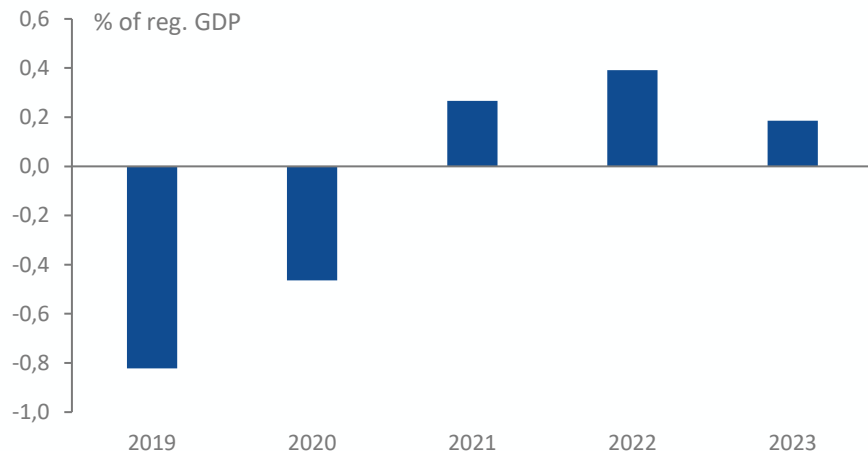
## Exports by destination



- » 2021: strong exports, driven by record harvest in line with MDA
- » 2022: high increase of exports and imports on the back of re-exports linked to UKR
  - Exports to UKR: +15pp
  - Imports from UKR: +9pp
  - This trend observed across MDA in its role as a key intermediate for UKR trade
- » 2023: weaker foreign trade
  - Exports: -3%; EUR 142 m
  - Imports: -17%; EUR 127 m
- » Main reason: lower re-exports
- » At the same time: share of exports to RUS dropped from 17% in 2019 to 2% in 2023
- » Positive development of exports to ROU
- Recently weak trade dynamic likely linked to lower re-exports to UKR and exports to RUS

# Public finances (1/2)

## Budget balance



Source: Ministry of Finance Moldova

## Breakdown of budget (2023)

### Revenues

Taxes and fees	37 %
Income tax	72 %
Property tax	4 %
Taxes and fees on goods and services (incl. VAT)	24 %
Received grants	0.2 %
Other revenues	4 %
Transfers received from the national public budget	59 %

### Expenditures

Personnel expenses	52 %
Fixed assets	23 %
Goods and services	10 %
Social benefits	10 %
Subsidies	1 %
Other expenses	3 %

Source: Ministry of Finance Moldova

## Budget balance

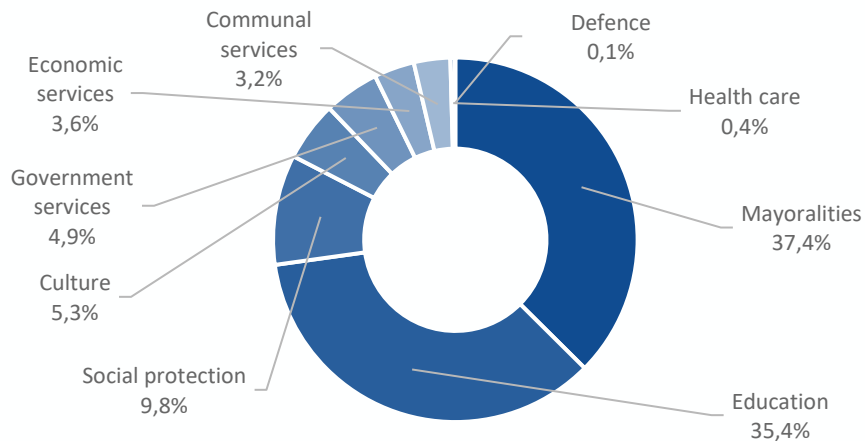
» Moderate deficit / surplus in recent years

## Revenues

- » 2023: MDL 1.5 bn or 29% of reg. GDP
- » Revenue retention varies for municipalities, districts, villages, and ATU Gagauzia
- » Key difference: ATU Gagauzia can retain 100% of personal income tax (PIT), corporate income tax (CIT), value-added tax (VAT) and excise duties unlike other regions (for details: see Annex)
- » In addition: VAT refunds are covered by central authorities, allowing ATU Gagauzia to retain all VAT revenue without covering the refund costs
- » Implication: high revenues from taxes and fees (37% of total revenues), on top of direct national budget transfers (59% of revenues)
- **ATU Gagauzia benefits from higher tax retention rights than other regions**
- **On top they receive national transfers, which are the main source of revenue**

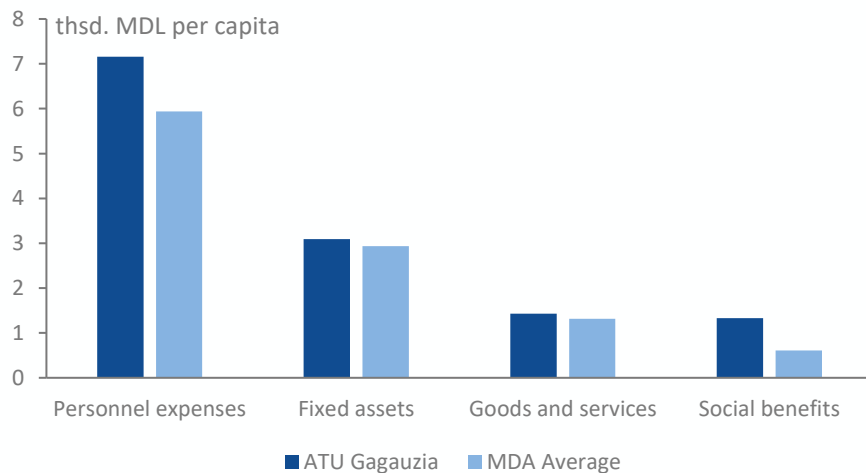
# Public finances (2/2)

## Expenditures per function (2023)



Source: ATU Gagauzian Budget; Note: planned expenditures

## Comparison expenditures per capita (2023)



Source: Ministry of Finance Moldova

## Expenditures (2023)

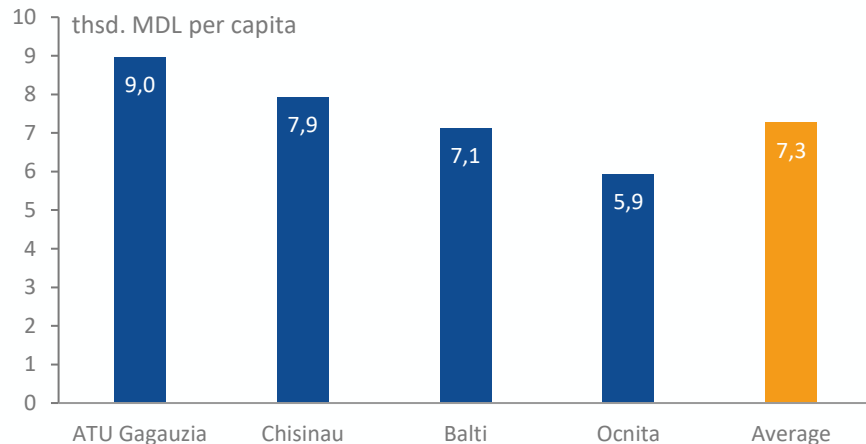
- » Main spending areas (excl. mayoralities): education (35%), social protection (10%) and culture (5%)
  - Education: 77% funded by national budgets special purpose transfers
  - Social protection: family/children (30%)
  - Economic services: funds supporting the reg. economy (MDL 5.5 m entrepreneur fund; MDL 5 m agricultural subsidy; MDL 1 m SOE horse farm subsidy; MDL 2.4 m agency investment attraction)

## Comparison

- » Compared to MDA average, ATU Gagauzia has higher spending on employees' salaries
  - Expected due to additional functions of the local public administrative authorities
- » But: also higher spending on social assistance benefits (especially cash benefits)
- Spending on personnel and social benefits exceeds the national average
- Limited subsidies to local businesses

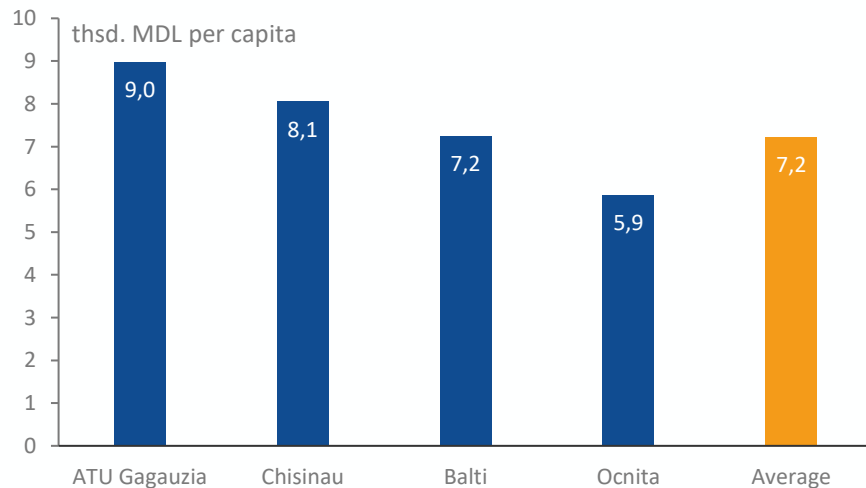
# Special issue: regional comparison of public finances (1/2)

## Revenue per capita, average (2017-2023)



Source: Ministry of Finance Moldova

## Expenditure per capita, average (2017-2023)



Source: Ministry of Finance Moldova

## Revenue per capita (2017-2023)

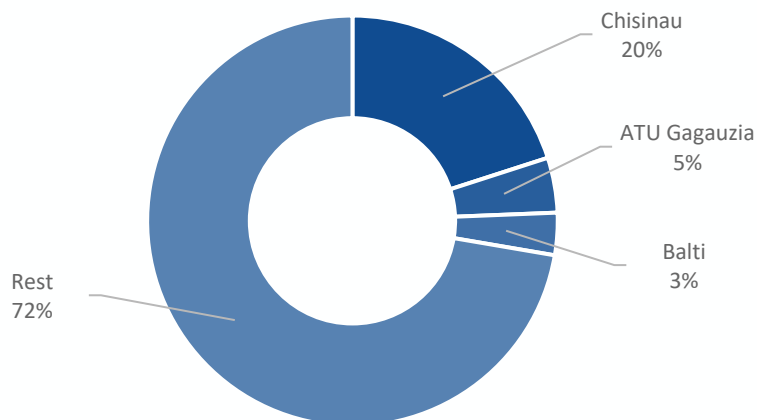
- » ATU Gagauzia has the highest revenue per capita among districts (level two)
- » Municipalities of Balti and Chisinau have lower revenue per capita
- » Ocnita district has the lowest revenue per capita

## Expenditure per capita (2017-2023)

- » ATU Gagauzia ranks first not only in revenue but also in per capita expenditure
- » Consistent with their revenue, Balti and Chisinau municipalities show lower per capita expenditure
- » Ocnita district has also the lowest expenditure per capita
- » Revenue and expenditure per capita are fairly balanced across districts
- ATU Gagauzia has the highest per capita revenue and expenditure among all districts

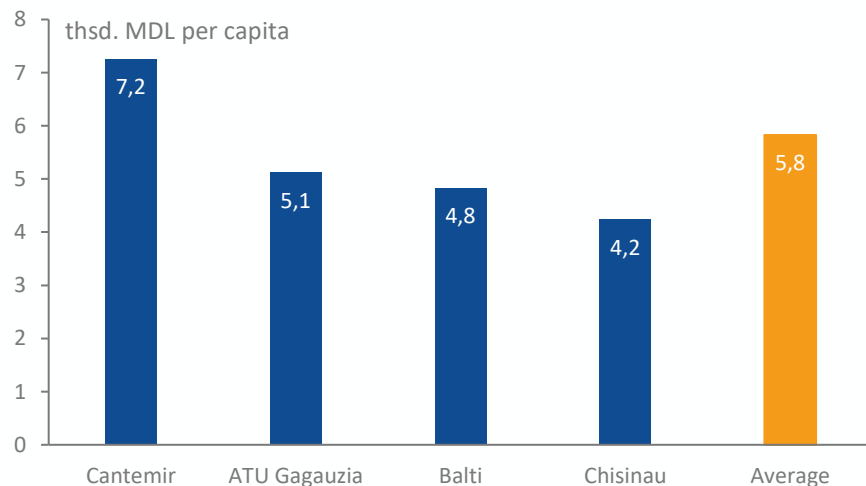
# Special issue: regional comparison of public finances (2/2)

Total transfers, average (2017-2023)



Source: Ministry of Finance Moldova

Transfers per capita, average (2017-2023)



Source: Ministry of Finance Moldova

## Total transfers from the national budget

- » Chisinau: receives the highest share with 20% (2023: MDL 4 bn)
- » ATU Gagauzia: 4%; (2023: MDL 0.9 bn), the second highest but notably less than Chisinau

## Transfers per capita

- » Cantemir receives the highest transfers per capita
- » ATU Gagauzia receives transfers in the lower-middle range per capita
- » Mun. Balti and Chisinau receive lower transfers per capita but also have more revenue retention rights than other districts
- » However, ATU Gagauzia has more extensive rights than municipalities Balti and Chisinau
- No evidence of significantly higher direct budget transfers to ATU Gagauzia compared to other regions

# 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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# Annex: background information on Gagauzia

- » ATU Gagauzia, established in 1994 by an organic law, is an autonomous territorial entity within Moldova
- » **Governor** (Bashkan)
  - Highest official and heads the Executive Committee
  - Directly elected for a four-year term
- » **People's Assembly** (Halk Toplushu)
  - Consisting of 35 deputies representing each village through the majoritarian electoral system
- » **The Executive Committee** (Bakannik Komiteti) holds permanent executive power
  - Members appointed by a majority vote in the People's Assembly, proposed by the Governor
  - Ensures the application of laws from both MDA and ATU Gagauzia and collaborates with central authorities on regional issues
  - Manages property regulation, socio-economic policies, budget execution, legal rights, safety, and cultural promotion within its devolved competencies

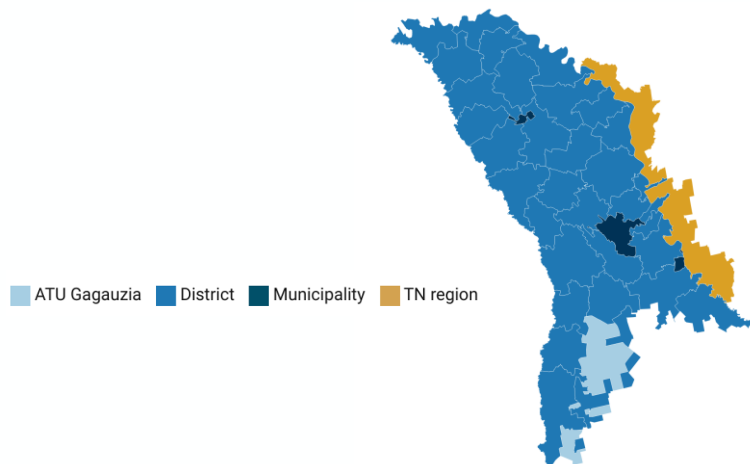


# Annex: overview of main companies by sectors

Sector	Companies
Textile, apparel, footwear & leather	Multiple companies
Automotive	"Fujikura Automotive": electrical equipment (closed down its activities)
Mechanical engineering	"ZETO": thermal electric equipment and heating boilers "Dormin Group", "Batstractor": spare parts for agricultural machinery
Furniture	Multiple companies
Pharmaceuticals	"Vitapharm-Com": Moldovan-American Company
Electronics	"Beurer": wellbeing goods, incl. medical devices
Food processing & beverages	Multiple companies
Other manufacturing industries	"Terra Impex": fiberglass production for construction "Veon POWER" : gas-electric generators
Agriculture	Multiple companies

# Annex: administrative and statistical divisions of MDA

## Administrative divisions



Source: own illustration; based on statistical office Moldova

## Statistical division by region

Mun. Chisinau	North	Center	South	ATU Gagauzia
	mun. Bălți	Anenii Noi	Basarabeasca	
	Briceni	Călărași	Cahul	
	Dondușeni	Criuleni	Cantemir	
	Drochia	Dubăsari	Căușeni	
	Edineț	Hâncești	Cimișlia	
	Fălești	Ialoveni	Leova	
	Florești	Nisporeni	Ștefan Vodă	
	Glodeni	Orhei	Taraclia	
	Ocnîța	Rezina		
	Râșcani	Strășeni		
	Sângerei	Șoldănești		
	Soroca	Telenești		

Source: Statistical office Moldova

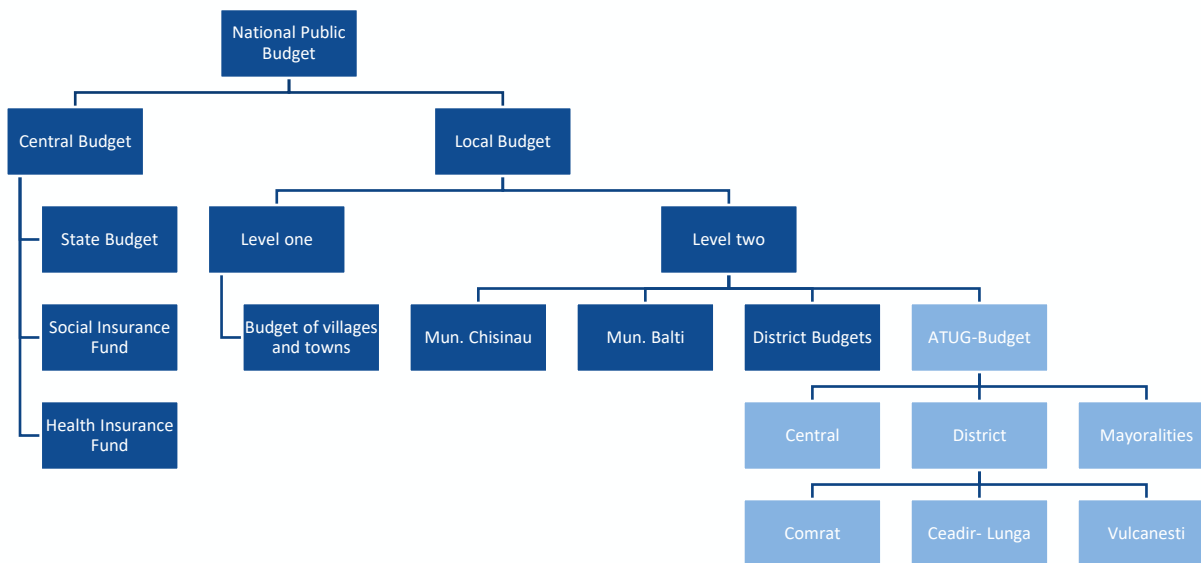
## Administrative divisions

- » Level 1: villages (communes) and towns (municipalities): 896 first-level territorial units
- » Level 2: 32 districts, municipality Chisinau and Balti municipality
- » Autonomous territorial unit of Gagauzia and the left bank of the Dniester (Transnistrian region)

## Statistical divisions

- » Five statistical divisions: Mun. Chisinau, north, centre, south and ATU Gagauzia

# Annex: budget of Gagauzia within MDA



Source: own illustration; based on illustration and data from the Ministry of Finance Moldova

- » ATU Gagauzia is part of the local budget and consists of three budgetary levels: central, district and mayoralties
- » Revenue retention varies for municipalities, districts, villages, and ATU Gagauzia
  - Biggest difference: ATU Gagauzia can retain 100% of personal income tax (PIT), corporate income tax (CIT), value added tax (VAT) and excise duties (for details: see next slide)
  - For comparison: Balti and Chisinau municipalities can keep 50% of PIT and none of CIT / VAT /excise duties
  - In addition: VAT refunds are paid by the national budget
- » As other regions, ATU Gagauzia also receives national transfers (according to law: LAW No. 397)
  - The main share of transfers for ATU Gagauzia are special purpose transfers with a focus on education
  - General purpose transfers are an exception for ATU Gagauzia

# Annex: overview of LAW No. 397

	Level 1		Level 2			
	Villages (communes) & towns (municipalities)	District seat municipalities	ATUG Central Budget	Mun. Balti	Mun. Chisinau	District
<b>Own income</b>						
Property tax	x	x		x	x	
Fee for the entrepreneur's patent	x	x		x	x	
Private tax	x	x	x	x	x	x
Local taxes	x	x		x	x	
Receipts from the lease of land and rental of goods	x	x				
Other income	x	x	x	x	x	x
<b>Breakdowns from the following types of state taxes and duties</b>						
Personal income tax	100%	50%	100%	50%	50%	25% (from district seat municipalities)
Corporate income tax			100%			
Value added tax			100%			
Excise duties			100%			
Natural resource tax	50%	50%		50%	50%	
<b>Transfers</b>						
General purposes	x	x				x
Special purposes	x	x	x	x	x	x
<b>Other</b>						
Grants	x	x	x	x	x	x
Special means	x	x	x	x	x	
Special fund	x	x	x	x	x	

Note: Overview does not include breakdowns of the tax for the extraction of useful minerals for illustration purposes; based on Law No. 397/2003