

ECONOMY AND FINANCE

# HOW CAN THE ECONOMY BE RELAUNCHED IN 2021?



The pandemic crisis will cause this year the sharpest decline of the Moldovan economy in the last twenty years with an estimated economic decline of 6.5-7.5 per cent.



The support planned this year for the population and companies, directly related to anti-crisis measures, has been extremely limited, estimated at only 0.69 per cent of GDP.



In 2021 the Republic of Moldova should support initiatives that can contribute to increasing the production potential and ensuring participatory growth that benefits everyone and protects the vulnerable.

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## CONTEXT

### **The pandemic crisis will cause this year the sharpest decline of the Moldovan economy in the last twenty years.**

While at the beginning of the year the macroeconomic scenario predicted an economic growth by 3.8 per cent, the data used for the last budget rectification in August indicate an economic decline by 4.5 per cent. Moreover, the latest statements<sup>1</sup> of the authorities show a revision of the expectations according to which the economy will contract by 6.5 per cent this year, an indicator close to the previous estimates of 7.5 per cent by the Expert-Grup in the State of the Country Report. The actual data for the first half of the year indicate an economic decline by 7.2 per cent, the most affected sectors being those involving the population's interaction and mobility, but also those in the informal economy (HoReCa, household activities, art, leisure and recreation activities, transport). In the second half of the year, as a result of this year's drought, the economic sectors with the sharpest decline will also include agriculture, the figures for the first nine months of the year already showing a decrease in the agricultural production by 25.3 per cent.

**The latest forecasts of the National Bank indicate a perspective of persistent disinflationary pressure until Q3-2022 against the background of the decrease in the aggregate demand.** The anti-epidemic measures, the declining external demand, the negative cumulative fiscal impulse since the beginning of the year, the real appreciation of the national currency, and the unfavourable agrometeorological conditions, which have affected the volume of agricultural production, are the main factors contributing to the reduction of aggregate demand. The return of demand will take time, taking into account the uncertainty as to the evolution of the pandemic, the change of the population's consumption behaviour, the difficulty of the labour market conditions and the risk of the continuous migration trend of the economically active population. Under the current conditions, the central bank has pursued a monetary policy of easing the conditions by successively reducing the base rate to the historical low of 2.65 per cent, but also the rate of the minimum required

reserves in national currency to 32 per cent. These measures have led to reduced financing costs and have released several billion of liquidity for the economy, which have benefited, first of all, the state, which has been financing this year its budget deficit from the domestic debt in the amount of MDL 6 billion.

### **The business environment, especially SMEs, has been severely affected, including due to reduced adaptability.**

One of the recent surveys<sup>2</sup> conducted in July with the participation of over 200 enterprises show that only 13 per cent of respondents felt a positive dynamic or had a similar level of revenues compared to the same period of 2019, the rest being on a negative trajectory, including 40 per cent of companies that reported decreased sales of over 50 per cent. The local companies have been affected by the limitations imposed during the pandemic crisis and face challenges existing for a long time in their distribution networks. These challenges include administrative and mobility constraints, unstable supply chains, limited skills in accessing new markets, the underuse of IT solutions' potential to streamline business, bureaucracy and government regulations that hinder business processes, as well as poor operational access to financing. A study on the Covid-19 impact,<sup>3</sup> reveals that according to the statistics for the first months of the pandemic, the missed sales amount to MDL 86 billion, which implies lost revenues to the national public budget in the amount of MDL 17.3 billion or 27 per cent compared to its level in 2019. The developments in this period have also been accompanied by changes in the structure of entrepreneurial activities. The activities in the ICT and the IT and telecommunications equipment trade sector have excelled the best by far in terms of growth during this period, but also the food retail, which has partially occupied the HoReCa market, at the opposite pole being the businesses providing services to the population, but also the non-food trade. Postponing strategic and current investments, reducing the rental and administrative costs, reducing staff costs, reducing the operation/ production, as well as the attempts

<sup>1</sup> <https://realitatealive.md/prim-ministrul-ion-chicu-prezinta-raportul-programului-de-guvernare-la-1-an-de-activitate---117073.html?fbrefresh=1605258404>

<sup>2</sup> [https://www.amcham.md/st\\_files/2020/08/14/COVID-19%20Business%20Impact%20Aug.20.pdf](https://www.amcham.md/st_files/2020/08/14/COVID-19%20Business%20Impact%20Aug.20.pdf)

<sup>3</sup> <https://consecon.gov.md/wp-content/uploads/2020/10/Studiul-de-Impact-al-Pandemie-COVID-19-asupra-sectoarelor-economice-%C8%99i-Matricea-cu-politici.pdf>

to enter the online market have been the most widely applied measures by companies in their struggle for survival.

**The pandemic has left vulnerable the most active category of people in the economy – the employees.** As shown in one of the presentations of the MACRO 2020 Conference, the current COVID-19 crisis does not seem to have a major impact on the groups that are traditionally regarded as vulnerable - the elderly or the women in rural areas. The employees have been hit the hardest this time, and their rehabilitation and economic reconversion is essential, because the longer they stay unemployed, the more their professional relevance will decrease or they will eventually find themselves forced to emigrate. These findings are also substantiated by actual data. Thus, the NBS data show that in Q2, the employed population<sup>4</sup> accounted for 821,5 thousand persons, being less by 8,8 per cent compared to Q2 2019 (901,1 thousand). In Q2 2020, every tenth person aged 15 and over, or over 217 thousand people, said that the epidemiological situation in the country has had a direct impact on their relationship with the labour market. Of these, the absolute majority- over 92 per cent- is employed and 7 per cent are people who have become inactive in the labour market due to the pandemic. The impact of the pandemic on the situation at work has manifested itself mainly by:

interruption/ cessation of activity, work from home, transition to part-time work, reduction of working hours etc. Another research of the NBS<sup>5</sup> on the “The impact of the COVID-19 pandemic on the households” in Q2-2020 reveals that only a little over half of households obtained income from work, about 1/4 obtained income from remittances, and over 90 per cent received salaries, pensions, and social benefits. At the same time, 17.0 per cent have mentioned reduction or loss of income from work, 8.3 per cent reported reduction or loss of remittances from abroad, and only 3.6 per cent reported delays in the payment of salaries, pensions, and social benefits.

**The economic reality of the pandemic has increased the pressure on public finances.** The data of the last budget rectification this year have shown that the state budget will lose MDL 7 billion in 2020, given that the expenditures will increase by 4.1 billion compared to the planned level, based on the natural need for the state intervention to limit the impact of the pandemic. Therefore, the initially planned level of the budget deficit of 3.6 per cent of GDP has been adjusted to 8 per cent. However, based on the latest information presented by the authorities<sup>6</sup>, the latter expect an effective budget deficit of 6 per cent of GDP, which also indicates a chronic lack of capacity to absorb resources, especially related to capital investments and infrastructure projects.

<sup>4</sup> <https://statistica.gov.md/newsview.php?l=ro&idc=168&id=6749>

<sup>5</sup> <https://statistica.gov.md/newsview.php?l=ro&idc=168&id=6773>

<sup>6</sup> <http://trm.md/en/moldova-in-direct/moldova-in-direct-din-3-no-embrie-2020-invitat-ion-chicu-prim-ministrul-republicii-moldova>

# 1

## STATE SUPPORT MEASURES IN THE CONTEXT OF THE PANDEMIC

### 1.1 DEVELOPMENTS IN THE REGION

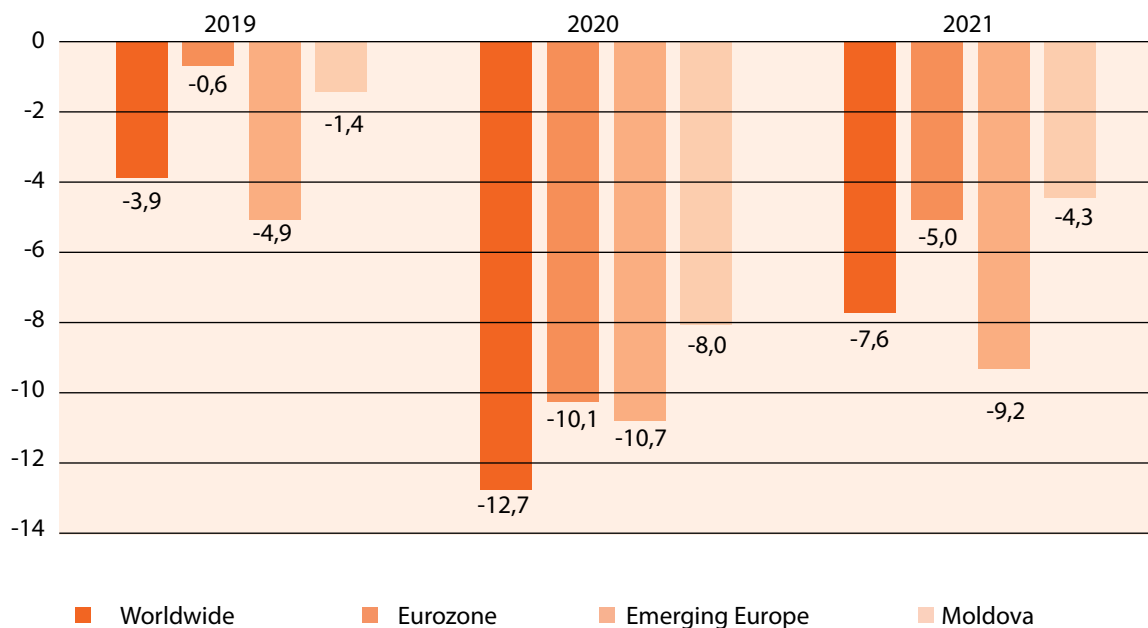
The impact of the pandemic on all economies is relentless, and globally, all the conditions for a worldwide crisis are already in place. In this context, the prominent role of the state in the economy has reappeared in the foreground. In response to the crisis, governments have come up with massive interventions to reduce the scale of the crisis and support the population and businesses. The International Monetary Fund (IMF) estimates show a total cost of intervention of about USD 11.7 trillion and a share of the public budget deficit in GDP of over 12 percent this year.

The states of the Central and Eastern European (CEE) region, to which the Republic of Moldova can also be attributed, have also been substantially affected by the pandemic realities, and the volume of the official support varies greatly between countries in this region as can be seen from Table 1, as well as the distribution between the direct support (direct payments and transfers, tax exemptions) and the indirect support (guarantees and other financial instruments).

The experience of the CEE states so far highlights a number of trends<sup>7</sup>:

- **The direct support for companies and employees has**

Figure 1.  
Budget deficit, % of GDP



Source: International Monetary Fund, Fiscal Monitor, October 2020

<sup>7</sup> [https://www.research.unicredit.eu/DocsKey/emergingmarkets\\_docs\\_2020\\_178012.ashx?EXT=pdf&KEY=l6KjPzSYBBGzROuioxedUNdVq1wFeRoiETVGOc4CclMYgA95iO7Gg==&T=1](https://www.research.unicredit.eu/DocsKey/emergingmarkets_docs_2020_178012.ashx?EXT=pdf&KEY=l6KjPzSYBBGzROuioxedUNdVq1wFeRoiETVGOc4CclMYgA95iO7Gg==&T=1)

**been most effective in fighting the recession.** The direct support has been distributed to four major categories: (i) the technically unemployed, the unemployed and the poor households; (ii) support for companies; (iii) tax exemptions; and (iv) other expenses, mostly related to investment. Where governments have invested more money in the direct support for companies and employees, the return has been faster, and the number of the technically unemployed workers or the workers that ceased employment has fallen at a faster pace. Poland, the Czech Republic, Romania, Slovakia and Slovenia have chosen this path. Where the focus has been on investment, as it was the case of Hungary, the positive impact on the economy will be more gradual and may be lower due to the more limited impact of some investment projects. Hungary also stands out for redistributing money from other public spending to anti-crisis support, which means that the net spending for reducing the effects of COVID-19 has grown more slowly and has been delayed compared to the neighbouring countries.

- **There is also a lesson to learn on the exaggerated support.** The Czech Republic's spending plans are very large, but their effectiveness is debatable. Many local institutions, including the National Bank of the Czech Republic, have pointed out to the threat of the non-discretionary public spending growing. In the same vein, the anti-crisis support in Turkey has been strong and frontal, but the pressure on public finances and the rapid easing of monetary conditions have fuelled the depreciation pressure and forced the Central Bank of Turkey to tighten the financial conditions much faster than planned. This could result in a bigger macroeconomic volatility in a country with a credit-based growth model.
- **The experience to date also shows that in several Central and Eastern European countries, the timeliness and the extent of anti-crisis support have been affected by the bureaucratic procedures and inefficient and bloated civil service.** Thus, the crisis has highlighted the need for public sector reforms. At least in theory, the EU's focus on digitization for the 2021-27 multiannual financial framework could help make the transition to a better administrative apparatus. Not the entire economy is bad.
- **Several finance ministers from the CEE have openly questioned the need for bigger support in their countries,** questioning whether the private sector can absorb and use more funding effectively than has already been foreseen. This is especially evident in the case of indirect support. In many countries, companies cannot take on higher debt due to the high leverage effect and the fact that many of them were facing solvency and tax compliance problems even before the crisis. Such pre-existing conditions disqualify companies from anti-crisis support, which aims at reducing the liquidity gaps rather than mitigating solvency risk.

Table 1.  
**Volume of support measure taken by the CEE states, % of GDP**

No	Country	Fiscal direct support	Fiscal indirect support	Total
1	Bulgaria	4.50	2.50	7.00
2	Croatia	6.70	4.70	11.40
3	Czech Republic	6.10	17.20	23.30
4	Hungary	5.00	5.70	10.70
5	Poland	7.00	8.80	15.80
6	Romania	2.30	3.70	6.00
7	Russia	2.30	1.20	3.50
8	Slovakia	4.00	1.80	5.80
9	Slovenia	5.50	4.60	10.10
10	Serbia	8.10	4.40	12.50
11	Northern Macedonia	6.00	3.60	9.60
12	Turkey	3.50	6.80	10.30
<b>13</b>	<b>Moldova</b>	<b>2.00</b>	<b>0.33</b>	<b>2.33</b>

Source: Unicredit, CEE Quarterly, September 2020, calculations based on rectifications to the Budget Law for 2020

## 1,2 TYPE OF SUPPORT IMPLEMENTED IN THE REPUBLIC OF MOLDOVA

Since the beginning of the pandemic, the position of the authorities towards the newly created context has been that all the measures taken by the Government pursue three basic objectives:

1. Regular social payments (public sector salaries, pensions, social allowances)
2. Sustainability of the budgetary and banking system
3. Support measures to help the business.

Thus, the Government has considered that a possible imbalance of at least one of these objectives would substantially aggravate the crisis.

Table 2.  
**State support measures planned following budget rectifications**

Type of support	Value, MDL billion	Share in GDP
Support for the healthcare and education sector	2.24	1.09%
"Support for individual, micro, small and medium enterprises", support for large companies	0.56	0.27%
<i>Support measures for companies to mitigate the impact of the Covid-19 pandemic crisis</i>	0.26	0.12%
<i>Support for farmers to mitigate the effects of drought</i>	0.30	0.15%
Support for households, including	1.08	0.53%
<i>Measures to support employees, social allowances to mitigate the impact of the Covid-19 pandemic crisis</i>	0.48	0.23%
<i>Single support for pensioners in the amount of MDL 900</i>	0.60	0.29%
Support for local government	0.19	0.09%
Public investments	0.05	0.02%
<b>Total direct fiscal support</b>	<b>4.11</b>	<b>2.00%</b>
<b><i>including total support measures for businesses and population in the context of the Covid-19 pandemic</i></b>	<b>0.73</b>	<b>0.36%</b>
<b>Indirect support</b>		
Loan guarantees	0.05	0.02%
Loans	0.62	0.30%
<b>Total indirect fiscal support, including anti-crisis measures in the context of the Covid-19 pandemic</b>	<b>0.67</b>	<b>0.33%</b>
<b>TOTAL SUPPORT</b>	<b>4.79</b>	<b>2.33%</b>
<b><i>including Total Support for the population and businesses in the context of combating the Covid-19 pandemic</i></b>	<b>1.41</b>	<b>0.69%</b>

Source: calculations based on the rectifications to the 2020 Budget Law

The conservative approach of the authorities is understandable under normal conditions, emerging from the extremely limited fiscal space with which the Republic of Moldova has entered the pandemic, but the situation created is unprecedented, and the urgency of a bolder and more visionary plan of the state would have been absolutely necessary in the efforts to save businesses and jobs.

In order to have a more eloquent comparative picture of the support provided by the Republic of Moldova compared to the CEE states, this year's budget rectifications have been analysed and the figures have been systematized based on a matrix (see Annex 1) used for the above-mentioned states.

**The comparison with the CEE states shows that our country has provided the least support in the context of the pandemic.** As expressly shown in Table 1, the volume of support planned by the Republic of Moldova as a result of the budget rectifications accounts for 2.3 per cent of GDP, this aggregate figure including measures to adapt to the pandemic,

direct support to combat the effects of the pandemic and drought being close to the total figure estimated for Moldova according to the methodology applied by the IMF<sup>8</sup>, at circa 2,6 per cent of GDP.

**At the same time, the planned support for the population and companies directly related to anti-crisis measures is extremely limited, being estimated at only 0.69 per cent of GDP.** Moreover, these are planned resources, while the actual disbursements usually tend to be lower due to the mitigation of the growing budget deficit, reallocation of resources to other priorities or due to poor absorption of those resources.

**An analysis of the structure of direct support measures shows that most resources have been oriented towards**

<sup>8</sup> <https://www.imf.org/en/Topics/imf-and-covid19/Fiscal-Policies-Database-in-Response-to-COVID-19>



**the critical needs in the healthcare sector.** Thus, about MDL 1.4 billion was planned for equipment, mostly from external resources (World Bank and Council of Europe Development Bank), and another MDL 0.7 billion for salary increases in the sector. At the same time, over MDL 100 million was budgeted for the additional work of teachers, and another MDL 56 million for the protection of pupils and digitalization of the educational process.

**The support for households, which at the level of budgetary planning has exceeded one billion MDL, consists mainly of the single support granted to pensioners** (0.6 billion), an action that would have been implemented anyway for electoral reasons. At the same time, the direct support for the population related to mitigating the consequences of the Covid-19 pandemic accounts for only MDL 0.48 billion consisting mainly of increases in social aid (MDL 0.2 billion), 6-fold increase in the volume of unemployment fund, simultaneously with the increase in the volume of unemployment benefits for the existing beneficiaries, for which MDL 168 million was allotted. In this context, it is worth mentioning one of the conclusions of the MACRO 2020 Conference, namely that the Government should have supported, as a matter of priority, not those who were looking for a job, but those who were about to lose their job so that they continue to pay taxes to the budget. For example, the National Employment Agency (NEA) data show that the number of unemployed registered in Q2 has increased by only 14 thousand compared to the same period of the previous year, while the real estimate of lost jobs amounts to 60-80 thousand people (the employed population has decreased by 80 thousand people in the same period of time).

**In other news, the direct support for the business community to mitigate the effects of the corona crisis of only 0.12 per cent of GDP remains extremely modest.**

Moreover, the business support measures turned out to be with many prohibitive administrative requirements, which made few companies eligible for support, and the money planned was not fully spent. The most telling example in this respect is the facility offered to subsidize the salaries of employees who were technically unemployed or ceased employment in the amount of taxes paid, where from the initial amount of MDL 320 million planned only MDL 45 million has actually been paid<sup>9</sup>.

**The public investments were less affected by the budget rectifications because they were on the Government's agenda in the initial draft of the Budget Law voted by the Parliament.** Although the public investment, especially in the road infrastructure, has consistently been among the top priorities of the government, the estimates of the budget deficit falling below 6 percent of GDP suggest that the level of investment will be well below the expectations for this year, the problem persisting in the last years.

**With regard to the indirect fiscal support, materialized by facilitating access to finance and liquidity, the Republic of Moldova has planned to allocate only about 0.33 per cent of GDP** through preferential loans to SMEs via banks, from the loan of the Council of Europe Development Bank in the amount of MDL 0.62 billion and another MDL 50 million for the capitalization of the Loan Guarantee Fund managed by ODIMM. In a pandemic situation where disruption of supply chains and reduced demand have caused a substantial decline in revenues and liquidity, to which adds the fact that the commercial loans are the main source of financing the businesses activities, the financial blockages in the chain are inevitable. However, starting from these premises, it remains relevant to intensify the efforts to facilitate the companies' access to capital, in particular by establishing loan guarantee schemes with increased scope and applicability.

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<sup>9</sup> As a result of the first budget rectification in April, the amount of MDL 320 million was provided for this measure, the given program being extended until the end of August.

## 2

## MEASURES NEEDED FOR ECONOMIC RECOVERY

**The experience of other countries, as well as the recommendations of various international organizations, such as the IMF, suggests that the fiscal and spending measures should prioritize initiatives that can help increase the production potential and ensure participatory growth that benefits all and protects the vulnerable.** The additional debt incurred to finance such efforts is more likely to be covered due to the increase of the economy and the future tax base than if the loans were provided to finance non-value-added subsidies or wasteful current expenditures. At the same time:

- Investments in health, education and high-profit infrastructure projects, which also contribute to changing the economy towards reducing carbon dependence, can contribute to these goals.
- Research spending can facilitate innovation and technology adjustment - the main drivers of long-term productivity growth.
- Moreover, the protection of critical social spending can ensure the protection of the most vulnerable, while supporting short-term work, given that spending will be allocated to groups with a greater propensity to spend their disposable income than richer people.
- In all cases, compliance with the highest standards of debt transparency will be essential to avoid future difficulties.

**The spreading of the pandemic, the measures taken to manage it, as well as the efficiency, scope and time horizon of support measures taken by governments and central banks** are the three main sources of economic performance by the end of next year. Respectively, the year 2021 will most likely continue to be in the logic of the exceptional state in which states will have to actively intervene to further support the population and companies, while making derogations from the budgetary-fiscal rules. Even the IMF, which has always put prudence first, said in its latest World Economic Outlook Report that the temporary suspension of fiscal limits, combined with a commitment to a gradual consolidation - after the crisis

diminishes, to restore compliance in medium term - is necessary and justified as part of the governments' efforts to combat the public health crisis and alleviate the deep recession.

**In the conditions of a well-established and visionary anti-crisis plan, but also based on a sustainable public debt level, the Republic of Moldova can establish a larger budget deficit for next year,** within the limits of 6-8 percent of GDP, provided that the indicative figure for 2021, currently existing in the public space in the MTBF for 2021-2023<sup>10</sup> represents 4.3 per cent of GDP. In addition to continuing using the instrument of the deficit financing on the account of internal debt, the Government should target long-term external financing on favourable terms, which will maintain the long-term sustainability of public finances.

The list of proposed anti-crisis measures for economic recovery results from the current economic priorities, some of which have been earlier proposed by the Expert-Grup in other published reports.<sup>11</sup>

**Supporting the business environment by removing artificial barriers related to bureaucratization, administrative regulations, controls and excessive inspections:**

- Adoption in the final reading and operationalization of the Ombudsman for the protection of entrepreneurs' rights as soon as possible<sup>12</sup> with a view to protecting the rights and interests of the entrepreneurs by preventing their violation, monitoring and reporting on their observance at national level, promoting their defense mechanisms, and improving the legislation;

<sup>10</sup> <https://gov.md/sites/default/files/document/attachments/sub.2.pdf>

<sup>11</sup> [https://www.expert-grup.org/media/k2/attachments/COVID-19\\_Cum\\_salvIm\\_economia\\_nayionall\\_ui\\_pregltim\\_terenul\\_pentru\\_o\\_relansare\\_post-crizl\\_2.pdf](https://www.expert-grup.org/media/k2/attachments/COVID-19_Cum_salvIm_economia_nayionall_ui_pregltim_terenul_pentru_o_relansare_post-crizl_2.pdf)

<sup>12</sup> [https://gov.md/sites/default/files/document/attachments/su-biect-03\\_1.pdf](https://gov.md/sites/default/files/document/attachments/su-biect-03_1.pdf)

- Development of a draft procedural act for the state institutions and establishment of a permanent commission for the procedures' optimization under the State Chancellery that would periodically examine the notifications of the private sector (inconsistencies with the law, gaps that allow for abuses etc.);
- Improving the legal framework on the enforceability of financial instruments related to commercial transactions to minimize lawsuits and non-compliance with payment obligations;
- Evaluating the most frequent lawsuits on economic aspects and proposing to optimize the regulatory framework; clarification of rights, responsibilities and consequences and, where possible, avoid resolving them only in court;
- Creating, as soon as possible, all the conditions for the recently adopted law prohibiting the authorities to request information on paper from citizens in the process of service provision, if the requested information already exists in a state register, to become operational during 2021;
- For the sectors that remain most affected by the pandemic crisis, provide conditions for the restructuring of budgetary obligations, by adopting permissive provisions that exclude the procedures of execution and blocking of accounts in favour of agreements clearly provided by the tax authorities;
- Carrying out training programmes for the staff of control institutions to change approaches to the business environment, from often repressive bodies to bodies that provide advice and support to the entrepreneurs in order to prevent violations.

#### **Supporting SMEs through measures increasing access to liquidity, digitization and encouraging the maintenance of small businesses in the formal economy**

- Extending the capitalization of the loan guarantee fund under ODIMM to facilitate financing/ refinancing of SMEs/ micro-enterprises;
- Promoting a VAT system on collection conditions, which involves calculation of VAT by the selling taxpayer at the time of collection of the value of deliveries/ services made, and not when it is issued. At least for the first stage, the applicability of such a tool is proposed for small businesses by capping eligible companies to apply this mechanism at a certain maximum level of turnover;
- Establishment for 2021 of a bonus system for the enterprises that pay the income tax on time;
- Simplification of the operating regimes of small and family enterprises by elaborating a separate chapter

with simplified provisions both in the Fiscal Code and the Labour Code;

- Supporting the digitization process and entering the online market through the full implementation of the Roadmap<sup>13</sup> to boost the process of digitizing the national economy and developing e-commerce, including by increasing allocations and strengthening the SMEs Digitization Programme<sup>14</sup> managed by the ODIMM;
- Establishment of fiscal incentives, such as application of a low level of VAT (ex 2 p.p) in the case of electronic payments via the Internet;
- Support for the digitization of industrial and production processes, stimulating innovation in local businesses to improve productivity and commercial availability;
- Strong financial support and appropriate institutionalization of the Business Support Programme with high potential for growth and internationalization<sup>15</sup> to attract a considerable number of SMEs with high growth potential from sectors with a significant impact on the economic growth of the Republic of Moldova;
- Optimizing the administrative barriers so that the measures applied by the state for business can be accessed by as many beneficiaries as possible.

#### **Supporting the population and the labour force through actions that would ensure the individual financial stability of the population and would attract the diaspora in the economic processes of the country**

- Support for the reintegration of the workforce, through NEA, including support for the skills consolidation mechanisms, retraining of returned migrants and skills development in the sectors affected by professional disqualification and brain drain;
- Grants for the professional training of employees - financing for employers who invest in the professional training of their own employees;
- Resumption of the wage tax subsidy programme for employees from the most affected sectors or distinct categories of employed population (young people, migrants) ensuring a higher applicability of the measure compared to how it has been applied this year;
- Transposition of the European concept of "financially vulnerable person", which makes it mandatory for all

<sup>13</sup> [https://mei.gov.md/sites/default/files/foia\\_de\\_parcur.pdf](https://mei.gov.md/sites/default/files/foia_de_parcur.pdf)

<sup>14</sup> <https://www.odimm.md/ro/digitalizarea>

<sup>15</sup> <https://www.odimm.md/ro/despre-internationalizare>

financial institutions to charge minimum interest on loans to low-income earners;

- Involving the diaspora in the country's economic and investment processes by introducing mechanisms to attract their savings into the economy, such as offering the possibility to purchase online state securities (SS) and invest in local enterprises (loans, share purchases);
- Extending and revising the PARE 1 + 1 programme for the economic reintegration of migrants, including by increasing the state co-financing ratio.

**Improving the decision-making system through operational data - the pandemic showed that it is necessary to review the statistical system, but also the use of data**

- Use of alternative indirect statistical data to make decisions based on correct records and trends (e.g. Google mobility map, electricity consumption data, data of mobile operators, etc.);
- Strengthening the NBS's capacity to provide statistical data similar to EUROSTAT (e.g. presentation of GDP data with a gap of 75 days, EU - 45 days);
- Make efforts to determine the exact population by locality in order to develop equitable development policies and allocate appropriately the resources.

**Increasing resilience of the economy to climate change**

- Accelerate afforestation programme simultaneously with proper monitoring and detection of illegal deforestation;
- Evaluate the current national agricultural research system, identify gaps and investment needs in order to provide competitive solutions for farmers adapted to climate change;
- Examine the possibility of including mechanisms of complying with the crop rotation of annual crops as a condition for accessing subsidies from the Agricultural Producers Support Fund.

**Development of public investment as a source of long-term economic growth**

- Targeting predominantly value-added investments (certification centres for expanding the range of products possible for export, creating post-harvest infrastructure in regions to place small producers in value-added product chains, developing industrial platforms to attract foreign investment and revitalize the regions etc.);
- Gap analysis of the constant under-execution of capital investments from the public budget;
- Improving the governance of public investment projects, especially of those related to the road infrastructure.

## ANNEX 1.

### LIST OF STATE SUPPORT MEASURES ANALYSED

Type of support	Direct fiscal support
<b>Support for the healthcare and education sector</b>	Equipment
	Salary increases/ bonuses for healthcare personnel
	Supplements for teachers' salary
	Equipment and education
<b>Support for individual, micro, small and medium enterprises</b>	Direct payments
	Tax exemptions/ reductions/ tax vacation
	Moratorium on loan repayments
	Coverage of interest for existing and new loans
	Support for the technically unemployed and workers who ceased employment
	Support to remaining/ returned workers
	Support to new jobs
<b>Support for large companies</b>	<b>Tax exemptions/ reductions / tax vacation</b>
	<b>Other</b>
<b>Support for households</b>	Payments for dismissed workers
	Payments for poor/ vulnerable households
	Payments for home-educated children
	Moratorium on mortgage repayment
	Tax exemptions
	Support for reintegration into the workforce
<b>Support for local government</b>	Transfers
<b>Public investment</b>	Infrastructure, research and development, human capital
	<b>Indirect tax support</b>
<b>Loan guarantee</b>	
<b>Loans</b>	paid through banks/ government agencies
<b>Support for commercial loans</b>	insurance, transfers
<b>Support for factoring</b>	
<b>Support for leasing</b>	

## ABBREVIATIONS

CEAM	Classifier of economic activities of Moldova
CEE	Central and Eastern Europe
EU	European Union
GDP	Gross Domestic Product
IMF	International Monetary Fund
MDL	Moldovan Leu
MTBF	Medium Term Budget Framework
NEA	National Employment Agency
OECD	Organization for Economic Cooperation and Development
ODIMM	Organization for Small and Medium Enterprises Sector Development
Q2, Q3	Quarter two, three
SMEs	Small and medium enterprises
USD	USD Dollar

## ABOUT THE AUTHOR

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## IMPRESSUM

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## HOW CAN THE ECONOMY BE RELAUNCHED IN 2021?



The pandemic crisis will cause this year the sharpest decline of the Moldovan economy in the last twenty years, and the latest forecasts of the National Bank indicate the prospect of persistent disinflationary pressures until Q3-2022 amid declining of the aggregate demand. In this context, the business environment, especially SMEs, has been severely affected, including due to the reduced capacity to adapt. At the same time, the pandemic has caused the vulnerability of the most active category of people in the economy – the employees, their rehabilitation and reconversion being essential for maintaining their professional relevance and curbing the migration wave.



The comparison with the CEE states reveals that our country provided the least support in the context of the pandemic. The volume of support planned by the Republic of Moldova following the budget rectifications is 2.3 per cent of GDP, this aggregate figure including both pandemic adaptation measures and direct support to combat the effects of the pandemic and drought. At the same time, the planned direct fiscal support for the population and companies related to anti-crisis measures is extremely limited, being estimated at only 0.36 per cent of GDP, to which are added indirect measures of increasing access to liquidity (loans, guarantees), estimated at only 0.33 per cent of GDP.



The anti-crisis measures to ensure economic recovery in 2021 should focus on saving businesses and retaining jobs, as well as on systemic vulnerabilities. Thus, it is necessary to support the business environment by removing the bureaucratic barriers, excessive controls as well as through measures aimed at increasing access to liquidity, digitization, and maintaining businesses in the formal economy. Ensuring the individual financial stability of the population, attracting the diaspora in the country's economic processes, increasing the resilience of the economy to climate change, and developing public investment as a source of long-term economic growth are elements that should remain among the priorities of the public agenda.

Further information on the topic can be found here:

[www.fes-moldova.org](http://www.fes-moldova.org)