

Republic of Moldova

# STATE OF THE COUNTRY REPORT

2020

# Republic of Moldova 2020

## STATE OF THE COUNTRY REPORT

With the  
support of:



**Authors**  
(in alphabetical order):

Adrian LUPUȘOR  
Alexandru FALĂ  
Denis CENUȘĂ  
Iurie MORCOTÎLO  
Stas MADAN

**Disclaimer:**

This publication is produced by the Independent Think-Tank EXPERT-GRUP, in partnership with Friedrich-Ebert-Stiftung (FES). The views and opinions expressed in this document are those of the authors and are not necessarily shared by the FES and EXPERT-GRUP.

EXPERT-GRUP does not express collective opinions. The publications of FES are not for sale unless FES gives its written consent.

# Contents

ABBREVIATIONS .....	1
KEY MESSAGES .....	2
EXECUTIVE SUMMARY .....	7
SPECIAL TOPIC: The Impact of Covid-19 on the Most Vulnerable .....	9
COMPANIES .....	16
PEOPLE .....	25
GOVERNANCE .....	33
ABOUT EXPERT-GRUP .....	39
ABOUT FES .....	40

---

## LIST OF FIGURES

Figure 1. Position of Moldova compared to CEE countries according to GDP, HDI, GCI and CPI and total .....	6
Figure 2. Share of population that reported a decrease in wages (%) and deviations from the average value by main groups (p.p.) .....	11
Figure 3. Share of population that reported a suspension of wages (%) and deviations from the average value by main groups (p.p.) .....	11
Figure 4. Share of population who worked/stayed at home (%) and deviations from the average value by main groups (p.p.) .....	12
Figure 5. Share of population anticipating job loss (%) and deviations from the average value by main groups (p.p.) .....	12
Figure 6. Private and public investment, real growth y-o-y, per cent .....	18
Figure 7. Public perception of living standards and economic situation, per cent .....	27
Figure 8. Business cycle and population's disposable income .....	27

## LIST OF TABLES

Table 1. The evolution of the key macroeconomic indicators of the Republic of Moldova for 2020-2021, percentage real growth y-o-y, unless indicated otherwise .....	15
Table 2. Main indicators on inequalities monitored .....	24
Table 3. Main indicators monitored regarding the economy of the Republic of Moldova .....	25
Table 4. Economic growth and employment indicators in the Republic of Moldova, per cent .....	26
Table 5. The ratio between GDP per capita in the Republic of Moldova and in CEE EU, per cent .....	26
Table 6. Poverty rate, per cent .....	27
Table 7. Evolution of socio-economic inequalities, ratio of disposable income, per cent .....	32
Table 8. Main indicators monitored with regard to people's welfare .....	38
Table 9. Key governance indicators monitored .....	38

# Abbreviations

<b>BOP</b>	Barometer of Public Opinion
<b>CAGR</b>	Compound Annual Growth Rate
<b>CEC</b>	Central Electoral Commission
<b>CEE EU</b>	EU Member States from Central and Eastern Europe
<b>CPI</b>	Corruption Perception Index
<b>EU</b>	European Union
<b>FDI</b>	Foreign direct investment
<b>GCI</b>	Global Competitiveness Index
<b>GDP</b>	Gross domestic product
<b>HDI</b>	Human Development Index
<b>IMF</b>	International Monetary Fund
<b>MDL</b>	Moldovan Leu
<b>NBM</b>	National Bank of Moldova
<b>PDM</b>	Democratic Party of Moldova
<b>p.p.</b>	Percentage points
<b>PPP</b>	Purchasing Power Parity
<b>PSRM</b>	Party of Socialists of Moldova
<b>USD</b>	United States dollar
<b>VAT</b>	Value added tax
<b>Q1</b>	First quarter
<b>y-o-y</b>	Year on year

# Key Messages

*2020 was marked by the Covid-19 pandemic, which caught the Republic of Moldova unprepared. The repercussions of the virus have amplified the underlying vulnerabilities related to the state of the country.*

Already at the beginning of 2020, before the onset of the pandemic crisis, the economy of the Republic of Moldova had begun to slow down, the budget deficit was already increasing, and a number of key macroeconomic indicators (e.g. exports) were in decline. In addition, the country entered the pandemic with a low level of competitiveness (86th place out of 141 states according to the 2019 Global Competitiveness Report – similar to Ukraine, Tunisia, Sri Lanka and Lebanon) and economic freedom (87th place out of 180 states according to the Heritage Foundation 2020 Index of Economic Freedom – along with Belarus and Samoa), and with a high level of corruption (120th place out of 180 states according to the Transparency International 2019 Corruption Perceptions Index, along with Sierra Leone, Niger and Pakistan). According to surveys, the majority of

companies were unprepared for the pandemic, entering the crisis without (or with low) cash buffers and internal governance poorly adapted to crisis management, a low level of technological endowment, limited capacities to manage digital tools and a low level of diversification of suppliers and sales channels. All of these vulnerabilities, which have contributed to the country's decline from one year to the next, have increased substantially with the onset of the pandemic. Thus, the crisis caused by the Covid-19 pandemic undermined the competitiveness of the private sector because of restricted access to raw materials, markets and capital/ financial resources, as well as through the decline in labour productivity. At the same time, the quality of the democratic process, the legislative process and public policy-making in general has deteriorated.

*Moldova continues to lose external competitiveness and fails to converge with its neighbours and other countries from the Central and Eastern Europe.*

The analysis of the country's scores according to the most popular international indexes that are relevant for assessing the state of the country (GDP per capita,<sup>1</sup> Global Competitiveness Index,<sup>2</sup> Human Development Index<sup>3</sup> and Corruption Perception Index<sup>4</sup>) reveals that Moldova's position worsened compared to other ECE countries<sup>5</sup> and stagnated in comparison with its neighbours (Romania and Ukraine). The only positive improvement that could be observed was with respect to GDP per capita, where some marginal convergence has occurred. It reveals the poor quality and

sustainability of the economic growth that Moldova has registered during recent years, because it did not allow the country to improve its external competitiveness. During the Covid-19 crisis, the country's development gap compared to the ECE region will most likely continue to widen and this will generate significant medium- and long-term risks (e.g. failure to compete for foreign direct investments, emigration of the working age population, poor integration into international supply chains and globalization/regionalization processes etc.).

<sup>1</sup> GDP per capita, PPP (current international \$), reported by the World Bank in the World Development Indicators Database.

<sup>2</sup> Calculated under the annual Global Competitiveness Reports of the World Economic Forum.

<sup>3</sup> Calculated by United Nations Development Programme.

<sup>4</sup> Calculated by Transparency International.

<sup>5</sup> Albania, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovenia, Slovak Republic, Ukraine.

*The Covid-19 crisis also revealed the chronic deficit of public trust in government, which worsened amid the social and economic repercussions of the pandemic, in parallel with an inefficient and inadequate anti-crisis response from the executive.*

Low confidence in government has always been a problem in Moldova. Many opinion polls show that most citizens believe that things in the country are going in the wrong direction, and that the main state institutions (political parties, government, Parliament and the justice system) are the least trusted by the public. This further undermined the effectiveness of pandemic mitigation measures: people almost completely ignored basic personal protection requirements, such as wearing masks and physical distancing, which further aggravated the pandemic situation, creating a vicious circle. Moreover, the measures introduced to mitigate the economic and social repercussions of Covid-19 were neither sufficient nor effective. Invoking a rapid increase in the budget deficit, the Government failed to develop

a comprehensive anti-crisis programme for both companies and the population. Except for unemployment benefits (which benefited only a limited number of people), a postponement of tax payments for a few months, a moratorium on state inspections and a mechanism to subsidize loan interest payments of companies facing urgent needs (which was not popular among SMEs), the Government failed to provide any vision or more substantial measures to compensate, at least in part, the losses incurred by companies and the population in the context of the pandemic. The figures serve as proof: they show that the total intervention accounted for about 0.4–0.5 per cent of gross domestic product (GDP), which is about five to six times less than the anti-crisis programmes implemented by other states in the region.

*In addition to the pandemic, 2020 was also marked by drought, which highlighted another major vulnerability of the country – increased exposure to climate shocks.*

Extreme climate phenomena (droughts, frosts, hail, floods) are becoming more common in the Republic of Moldova, being a clear effect of global climate change, in parallel with poor environmental management (including corruption, weak institutions, failure to curb illegal deforestation, poor management of natural resources and water bodies, etc.). The neglect of environmental issues in recent years, manifested by sacrificing environmental goals in favour of economic ones, or in favour of vested interests (advocacy and lobbying), is a good example of the political myopia that politicians in the Republic of Moldova have long shown. The effects of this neglect of environmental objectives, and the constant undermining of environmental governance and the related institutional framework, are increasingly being felt by both the economy and the country in general. The 2020 drought is a case in point. Also in relation to this crisis, the government has not shown a vision and firm actions to immunize, in the short-term, the agricultural sector against such shocks, and, in the medium and long-term, no measures were undertaken to strengthen the current environmental institutional framework and governance. Thus, after

several protests, farmers were provided with tax facilities and subsidies in order to compensate them, at least in part, for the losses incurred because of the drought. At the same time, the government ignored the more fundamental issue of how to increase the resilience of the agricultural sector (e.g. through implementation of modern irrigation systems, reorientation of farmers towards more drought-resistant crops, stimulation of intensive agriculture with increased added value, elimination of anti-competitive arrangements among intermediaries of agricultural products, and facilitation of farmers' access to markets). No firm actions have been taken to ensure more sustainable and efficient environmental management (e.g. strengthening the Environment Agency, the environmental departments of the Ministry of Agriculture, Regional Development and Environment and other relevant institutions in the field; combating deforestation and ensuring a substantial increase in forest areas; more efficient regulation of the exploitation of water resources, etc.). Continual neglect of these issues will further weaken the state of the country, with increasingly serious repercussions for the agricultural sector, public finances and the environment.

*The way in which the authorities responded to the two major crises of 2020 (the Covid-19 pandemic and drought) reveals a fundamental vulnerability of the country: a low sense of statehood among politicians, government and society in general.*

By this we mean the sense of belonging to a country, a feeling which arises from a common desire for the nation to prosper in the long run. This fundamental weakness of the state of the country is revealed by the current weak management of the country, which is often inconsistent, unpredictable, influenced by vested interests and lacks a vision and systemic approach to priority development issues. A stronger sense of statehood would unite the government, politicians and society in the fight against Covid-19, help in efforts to mitigate the effects of the drought and, in general, ensure cohesion on issues that are critical for the long-term development of the country (e.g. a real fight against corruption, the develop-

ment of a functional market economy system, the integrated and sustainable management of natural resources, etc.). Added to this problem is the capture of the policy agenda by politicians whose horizons of interests and priorities are limited to electoral cycles. An eloquent example here is the dominance by politicians or high-ranking officials (the country's president, the head and some members of the executive) of the role of communicators on the management of the pandemic, despite the fact that none of these officials are experts in health issues or public communication. This has generated public disapproval, further weakening the relationship and trust between citizens and the authorities/the state.

*Against the background of the impact of both the Covid-19 pandemic and the 2020 drought, the state of the country in the coming years will be significantly undermined by worrying economic developments.*

It is already clear that there will be an economic decline in 2020, and the developments we can expect in 2021 are uncertain. Most likely the pandemic will continue during 2021, constraining the process of global economic recovery. In this context, the economic outlook for the Republic of Moldova is quite bleak. According to forecasts, in 2021 the economy will not manage to recover to the level before the crisis. The economy is forecast to shrink by 7.5% in 2020, as a result of two overlapping crises: Covid-19 pandemic and drought, making it a worse crisis compared to the recession of 2009. The most affected sectors are agriculture, where the gross value

added (GVA) will decline by 33.8%, followed by transport (-16.7%) and the industrial sector (-8.2%). It will undermine investment activity and exports, which will also be declining this year. Additionally, the budget deficit could reach a worrying level of 10% of GDP, limiting significantly the room for manoeuvre for the government. Nevertheless, according to our baseline scenario, the economy is planned to revert to positive growth in 2021 (+5.7%), due to the low comparison base (low economic growth in 2020), but also assuming that the Covid-19 pandemic will gradually fade away, allowing the economy of Moldova, and in the region, to breathe easier. A more detailed forecast is presented in Table 1 below.

*Another impact of the Covid-19 crisis is related to the deepening of inequalities, which even before the crisis posed important challenges to the state of the country.*

At the level of companies, inequalities have increased between small and medium-sized enterprises (SMEs), most of which were poorly prepared for such a shock, and larger enterprises, which are more resilient thanks to their technological endowment, liquidity reserves and long-term contracts with suppliers and customers. At the level of the population, the labour market and income indicators show that women, young people, people with a low level of education and those with low incomes (quintile 1) were most affected by the

Covid-19 crisis. In the absence of adequate response policies, the Covid-19 crisis has deepened the economic and social inequalities in the Republic of Moldova, which has major repercussions for the state of the country: increasing the poverty rate and social tensions; negatively affecting the competitive environment, with a negative impact on the welfare of consumers/the population; and, last but not least, the stimulation of a new wave of migration that could take shape after the lifting of international restrictions on movement.

*The Covid-19 crisis and the inefficiency of anti-crisis measures could stimulate a new wave of migration that will aggravate the demographic situation and lead to the loss of the demographic dividend.*

A possible increase in the emigration of the working-age population, after the elimination of international restrictions on movement, could be generated by the intensification of people's interaction with the healthcare system in the Republic of Moldova, which is weak and has previously led to emigration. Emigration could also be caused by the closure/restructuring of businesses, which will remove a significant part of the working-age population from the economic system. In a context of deepening inequalities, limited economic opportunities and

inefficiency/ lack of anti-crisis policies, this category of the population, which is also the most mobile, will become even more inclined to emigrate, further aggravating the demographic situation. This, in turn, could lead to the final failure of the second demographic dividend mentioned in the previous editions of the State of the Country Report, expected to be generated by the approach by the largest cohort of the population born during the demographic explosion of the 1980s to the age with the highest productivity and economic potential.

*The Republic of Moldova urgently needs both an anti- and a post-crisis strategy, with a short- and long-term vision, and firm measures, focusing on the most vulnerable.*

First, it is necessary to increase the financial envelope for anti- and post-crisis measures. Resources have to be identified both internally (monetary easing by reducing the mandatory reserves norm given the favourable inflationary environment, as well as increasing the issuance of T-bills, taking into account the low level of indebtedness of the country) and externally (improving relations with development partners, enhancing the coordination of external assistance and issuing of Eurobonds). According to the most modest calculations, these measures could allow the mobilization of about €1 billion, which will be enough to compensate for the losses caused by the pandemic and to ensure a rapid recovery in the post-Covid-19 period. Second, urgent and bold measures are needed to compensate for the losses suffered by companies and the population as a result of the pandemic. The support measures must aim at directly and immediately compensating 70–80 per cent of the lost income of employees, and fully guaranteeing loans contracted by companies for urgent purposes (e.g. paying wages and/or suppliers). In addition, there is a need for a radical change in the approach of the institutions that regulate the business environment (e.g. the Tax Inspectorate, the National Food Safety Agency etc.). The emphasis should be on providing advice to companies rather than on controls and fines. In this sense, a training programme is needed for

officials of these institutions, who need to switch from regulators to business consultants. Third, state programmes are needed, possibly co-financed by development partners, which would allow for a faster post-crisis recovery. These programmes should target five priorities: (i) digitalization of businesses (grants and subsidies for the development of online marketing and sales platforms, electronic payment instruments and training of employees to manage effectively digital mechanisms); (ii) training employees and the unemployed in order to make the labour market more flexible and to accelerate the reallocation of the labour force from the companies/ sectors most affected by the crisis to those that will be able to survive, or even grow; (iii) training, consulting and support actions to facilitate the access of SMEs to markets; (iv) grants and subsidies for processors using local raw materials, which will also support domestic raw materials producers, as well as boosting the creation of added value in the economy; and, (v) subsidies and state guarantees for loans aimed at increasing the level of technological endowment of companies and the orientation towards high value-added economic activities (e.g. advanced processing of local raw materials). These measures should target mainly the most vulnerable groups in the context of the crisis: SMEs, but also women, young people, people in rural areas and those with the lowest incomes.

**Figure 1.**

Position of Moldova compared to CEE countries according to GDP, HDI, GCI and CPI and total.



Source: Authors' calculations based on data from the World Economic Forum, World Bank, UNDP and Transparency International

Methodological note: the indicators reveal the level of convergence of the Republic of Moldova to the average of CEE countries based on 4 indicators: GDP per capita at PPP, Human Development Index (HDI), Global Competitiveness Index (GCI) and Corruption Perceptions Index (CPI). The value of zero reveals the maximum convergence (the situation in which the Republic of Moldova is at the level of the CEE countries), and something negative reveals the difference between the position of Moldova in relation to the CEE countries in the ranking in question. Convergence indices were calculated based on the ratios between the values recorded by Moldova and the average values recorded by the CEE countries minus 100. The values were normalized based on the maximum values for each year.

**Table 1.**

The evolution of the key macroeconomic indicators of the Republic of Moldova for 2020-2021, percentage real growth y-o-y, unless otherwise indicated.

Indicator	2020	2021	Indicator	2020	2021
Gross Domestic Product	-7.5	5.7	Household consumption	-9.8	9.3
Net taxes on product	-13.7	19.1	Investments in fixed assets, total	-8.3	-19.9
Gross value added, total	-6.5	3.8	Gross fixed capital formation	-7.0	-10.3
Gross value added, industrial sector	-8.2	0.0	Export of goods and services	-20.0	23.2
Gross value added, agricultural sector	-33.8	7.8	Import of goods and services	-16.3	12.6
Gross value added, transport services sector	-16.7	11.1	New bank loans provided to companies in national currency	-3.8	-8.0
Gross value added, trade sector	-7.6	-5.2	New bank loans provided to companies in foreign currency	-16.9	19.2
Gross value added, construction sector	-3.1	-5.2	Consumer Price Index	3.6	1.6
Average wage	-8.2	0.1	Deficit (-) / surplus (+) National Public Budget, % of GDP	10.1	2.4

Source: Expert-Grup estimates and forecasts

# Executive Summary

## Special Topic: The Impact of Covid-19 on the Most Vulnerable

The Covid-19 pandemic has triggered a major economic and social crisis, which has affected the vast majority of the population. The effects and duration of the current crisis are difficult to estimate due to the uncertainty regarding the ending of the spread of this new type of coronavirus, but initial estimates show that its impact has been significant. At the same time, this impact is felt unevenly by different groups of the population, some of them being much more vulnerable to the current challenges. Among the most vulnerable groups are young people, who, in times of economic crisis, are the first to lose their jobs. Thus, the results of the last Public Opinion Barometer (BOP) show that in conditions of economic restriction in the first half of 2020, as many as 70 per cent of young respondents mentioned that they were affected by a decrease in, or suspension of, their salaries.<sup>6</sup> Another vulnerable group in the current crisis are women, who have had

to reduce their economic activity in order to allocate additional time to childcare. This was necessary due to the closure of kindergartens and schools. As a result, as many as 32 per cent of women mentioned that they had to work from home or stay at home between April and June 2020, while the national average was 26 per cent. Finally, vulnerable groups include older people who are susceptible to infection and whose income from pensions are low, as well as people with low incomes and education. Over 25 per cent of poorly educated and low-income people believe they will lose their jobs in the near future. To combat the effects of the crisis and support the population, the authorities have approved a package of incentives and additional spending from the public budget. However, this support is quite small compared to that of other countries in the region and has a general character, lacking a more targeted approach to vulnerable groups of the population.

Covid-19 crisis undermined significantly both entrepreneurial activity and business confidence. The developments in the real sector show that agriculture is increasingly hit by unfavourable weather conditions, with a decrease of more than 20 per cent in agricultural production expected this year. Also, industry 'sneezed' strongly during the crisis, the most significant decreases being reported in branches linked to international value chains (automotive and light industry). In the field of services, those associated with human mobility have been most severely affected by the pandemic (tourism, hotels/restaurants/cafes, passenger transport, the arts, recreation and leisure activities), while IT and construction, which have had the most robust increases in the last two years, have shown resilience in the context of the pandemic. With respect to the labour market, the adjustment of the Labour Force Survey methodology to the 2014 census data has led to a significant change in many indicators, revealing new

trends and policy options, with an adjustment of the employed population from 1.2 million to less than 900,000 people. Against the background of the intensification of lending activity and the fiscal stimulation offered by the reduction of social contributions, the years 2018 and 2019 were marked by a boost in investment activity in both public and private sources. The banking sector faced the pandemic crisis well-capitalized and with an abundance of liquidity, while the increase in the loan portfolio in the last two years has been mainly due to individuals. Progress in the business environment is overshadowed by the vulnerabilities related to the rule of law and weak institutions, while the analysis reveals that the measures to support the business community in the context of Covid-19 are insufficient and highly conditional, and therefore they impact only a limited number of companies. The policy recommendations are based on the premise that exceptional economic situations require exceptional

## Companies

6 <http://bop.ipp.md/ro>

interventions, including measures such as: facilitating companies' access to capital and liquidity; supporting the digitalization process and online market entry; import substitution policies; and, adjusting agricultural policies to adapt to climate change. Likewise, the policy recommendations aim at the elimination of strategic constraints that affect the country's

competitiveness through policies on: investing in human capital and education to create a synergy between educational supply and the real sector's requirements; attracting investments in value-added activities; increasing the level of entrepreneurial culture; and, increasing the level of penetration of the financial sector in the country's economy.

## People

After the 5 per cent increase in GDP in 2014, and the economic decline in 2015, the economy of the Republic of Moldova has grown steadily, but modestly. The rates of economic growth during 2016–2019 have fluctuated at around 4 per cent. In this context, stable developments were observed in the labour market (the employment rate ranged between 40 and 45 per cent, while the unemployment rate did not exceed 5 per cent). At the same time, some progress was made in improving living standards. Between 2014 and 2019, disposable income increased in real terms by 15 per cent, and in 2018 – compared to 2014 – the poverty rate decreased from 29.5 to 23 per cent. This increase in income was also accompanied by an improvement in the public's perception of living standards, a fact confirmed by sociological surveys. However, economic factors (prices and low incomes) remained at the top of the population's concerns. In this context, the Republic of Moldova failed to catch up with the other countries of Central and Eastern Europe, remaining with the lowest level of income out of those countries. At the same time, the economic dynamics of the Republic of Moldova have been marked by an increase in the frequency and intensity of various economic, climatic and political

shocks, which negatively influence changes in the population's income. The year 2020 has been no exception, with a 7.5 per cent recession being forecast for the year. It is also possible that a probable recovery of GDP growth in 2021 will not compensate for the losses of 2020. The population has already begun to feel the effects of recession. The number of unemployed registered with the National Employment Agency at the end of July 2020 increased by 60.7 per cent compared to the previous year. At the same time, remittances are expected to show a positive trend in 2020 and to have an anti-cyclical effect in the face of a deteriorating economic situation. In order to improve the economic and social situation, stronger action is needed to mobilize internal and external resources, which would enable a more effective mitigation of the repercussions of the Covid-19 pandemic. This should mainly aim at contracting external financial assistance, increasing domestic lending and even the issuance of Eurobonds. A more active and firmer anti-crisis policy is needed to cover the losses incurred by the population and companies due to the restrictions imposed in the context of Covid-19, as well as to create the basis for a faster recovery in the post-Covid-19 period.

## Governance

Despite the political opportunities resulting from the removal of the country from a 'captured state' regime, democratic processes in the Republic of Moldova have entered a period of stagnation. Pressures on certain state institutions, and flagrant deviations from constitutional procedures, have generated suspicions about a return to the practices of the 2016–2019 period, the gradual restoration of the political independence of some institutions responsible for the rule of law has prevented the situation from deteriorating. However, the most serious challenge to the state apparatus is the Covid-19 pandemic. On the one hand, the health crisis has pointed to the weak policy areas of the state, in particular in the field of public health. On the other hand, the crisis has tested the effectiveness of government, which, although it has not collapsed, has also not de-

monstrated any strategic vision as regards managing the crisis. There has been a lack of professional and effective communication of the fight against infection, and some actions (e.g. fines applied to the individuals for breaching the epidemiological rules) of the authorities have been disproportionate. Also, despite the negative effects of the pandemic, the latter has become a catalyst for a new opening up by external and development partners towards the Republic of Moldova. In this situation, the government has not given up its multi-vector foreign policy, but has instead exploited it to seek help from both the East and the West. The authorities' focus should be on addressing systemic deficiencies by building institutional and budgetary capacity to manage effectively crisis situations and ensure an adequate level of resilience of the state.

# Special Topic:

## The Impact of Covid-19 on the Most Vulnerable

*The economic and social crisis triggered by Covid-19 has severely affected all countries in the world, including the Republic of Moldova. The pandemic is still ongoing and its impact is already significant. But despite the fact that the new coronavirus has impacted the life and activity of the majority of the population, some groups are more vulnerable to this challenge. In the Republic of Moldova, due to the low level of income, and the specific employment structure, a considerable number of people fall into vulnerable groups. The purpose of this chapter is to identify these vulnerable groups and to estimate the initial effects of Covid-19 on them.*

### Analysis of the Main Trends and Developments

*The Covid-19 pandemic has triggered a global economic and public health crisis, seriously affecting the Republic of Moldova.*

Following the rapid spread of the new type of coronavirus globally, and the strict quarantine measures imposed by various authorities in the first half of 2020, the world economy has entered a sudden and deep recession. The magnitude of the economic downturn can only be compared to the 2009 financial crisis, but the forecasts are increasingly bleak.<sup>7</sup> However, the impact of the economic and public health crisis

varies across different population groups, depending on their demographic and socio-economic characteristics.<sup>8</sup> These characteristics can be used to identify the population groups most vulnerable to the consequences of the coronavirus crisis, although the nature and intensity of the impact differ from country to country. Vulnerable groups can be identified by reference to the following characteristics:

- **Age.** Among the most vulnerable groups are young people, who during any economic crisis are the first to lose their jobs and find it harder to obtain new employment. This is due to the fact that employers prefer to keep workers with a higher level of experience and productivity. For example, after the 2009 economic crisis, the unemployment rate among young people aged 15–24 in the Republic of Moldova increased from 11.2 per cent in 2008 to 17.8 per cent in 2010, while among adults of 45–54 years of age this increase was from 3.1 per cent to only 4.9 per cent in the same period. Another vulnerable group in the current crisis are the elderly, who are most likely to be infected with Covid-19. Older people are also vulnerable in terms of having low pension incomes, which increases the risk of them experiencing poverty during this period.
- **Sex** The current crisis has disproportionately affected women due to the overlapping of several factors specific to the impact of Covid-19 on both the economy and public life. One such factor is the complete or partial closure of kindergartens and schools, with women taking on the main task of caring for their children. Under these circumstances, many women have had to reduce their working hours or leave the labour market in order to cope with the increased burden of childcare.<sup>9</sup> Another specific factor is the high share of women in the services and health sectors, and this fact exposes them more to infection with Covid-19. Both aspects are applicable in the case of the Republic of Moldova,

<sup>7</sup> [www.imf.org/en/Publications/WEO/Issues/2020/06/24/WEOUpdateJune2020](http://www.imf.org/en/Publications/WEO/Issues/2020/06/24/WEOUpdateJune2020).

<sup>8</sup> <http://pubdocs.worldbank.org/en/980491587133615932/Poverty-and-distributional-impacts-of-COVID-19-and-policy-options.pdf>

<sup>9</sup> <http://documents1.worldbank.org/curated/en/618731587147227244/pdf/Gender-Dimensions-of-the-COVID-19-Pandemic.pdf>

where schools and kindergartens were closed, and where women accounted for as much as 81 per cent of all employees in the 'health and social assistance' activity in 2019.

- **Socioeconomic status.** It is much more difficult for poorly educated and low-income people and households to cope with economic shocks, including those caused by Covid-19. The vulnerability of these people in the current crisis arises from the fact that they are employed in economic areas that have been subject to restrictions (e.g. hotels and restaurants, markets, or various types of professional services). In the situation of a reduction in income, which was already low before the crisis, these people will face barriers to accessing health, education and infrastructure services. In the case of the Republic of Moldova, where over 60 per cent of employees receive a lower than average salary, providing support for this group becomes even more important. At the same time, the phenomenon of 'envelope salaries' has to be taken into account, which distorts the official income statistics as the real income of many employees is higher than that which is officially declared.
- **Professional status.** Among the vulnerable groups based on this criterion are the self-employed and informally employed, because they do not have access to social protection schemes. In the Republic of Moldova, the share of self-employed and informally employed people is significant, which increases the risks for, and potential impact of, the economic crisis on these groups. In 2019, 22 per cent of workers were self-employed persons and unpaid family workers, while 23 per cent were informally employed.<sup>10</sup> Another vulnerable group is employed persons in micro (0–9 employees) and small (10–19 employees) enterprises, due to their limited capacities and reserves to cope with economic shocks. The share of employees in micro enterprises is also significant in the Republic of Moldova, accounting for 21 per cent of total employment in 2018.<sup>11</sup>
- **Activity and economic sector.** The Covid-19 pandemic has had a significant influence on a range of economic activities. Severely impacted were those companies providing accommodation and catering services, as well as those providing land and air passenger transport, which was completely stopped in the first half of 2020. The fact that the specific activity of these companies requires the physical presence of employees at the workplace did not allow a shift to remote working. At the same time, employees in other fields continued their work either in the workplace (e.g. public administration) or remotely (e.g. information and communication technology). Thus, people involved in economic activities that are most susceptible to the impact of Covid-19, who do not have the opportunity to work remotely, can be included in the most vulnerable groups.
- **Area of residence.** Urban areas are more susceptible to the spread of Covid-19 than rural, due to the higher population density. Also, the service-area companies most affected by the new type of coronavirus are located in urban areas. At the same time, rural areas in the Republic of Moldova have been affected by an additional shock this year – drought. This shock has overlapped with the impact of Covid-19 and will significantly affect the economy of rural areas, where a large number of people work. In 2019, the share of the population employed in agriculture accounted for 21 per cent of the total employed population. The share would be about double this figure if households that produce for their own consumption were taken into account. Thus, residents of rural areas are among the groups that are most vulnerable to economic shocks this year.

<sup>10</sup> The share of informally and self-employed people was higher before 2019, by 10–15 percentage points. The significant decrease starting this year is due to the changes in the definition of 'employment', in accordance with the new international standard relating to labour statistics. According to this standard, 'persons employed in subsidiary households (near the house) producing agricultural products for the household's own consumption' are excluded from the employed population.

<sup>11</sup> Data comes from the results of structural research in enterprises conducted by the National Bureau of Statistics (NBS). The research does not include enterprises with the following main types of activity: (i) agricultural activities; (ii) financial activities; (iii) public administration; and, (iv) education, health and social work, cultural activities.

The impact of Covid-19 and the drought is difficult to estimate at present due to the lack of statistical data, but alternative data sources point to a significant effect of these two phenomena on the identified vulnerable groups.

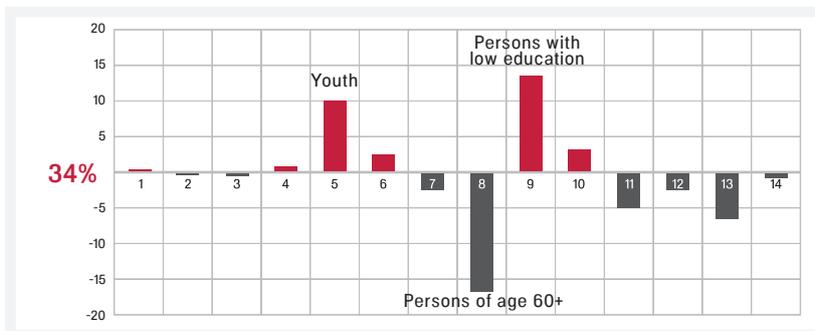
Among the few data sources that highlight the impact of the crisis on different categories of the population is the BOP.<sup>12</sup> Thus, sociological research carried out in June this year brought to the fore the

significant impact of the new type of coronavirus on all categories of the population, and in particular on people from the specific vulnerable groups mentioned above.

The restrictive measures imposed by the authorities in the first half of 2020, aimed at reducing the spread of Covid-19, led to declining wage incomes.

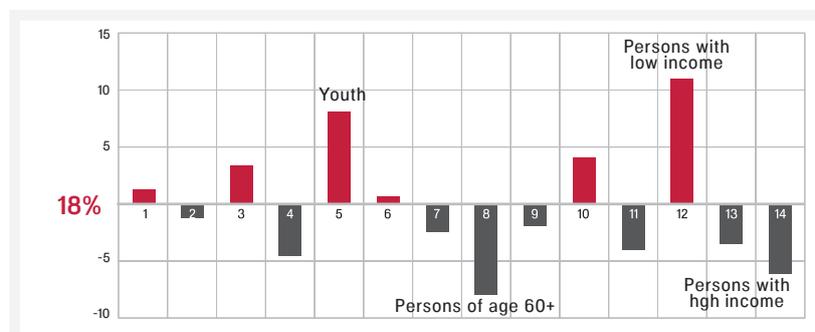
The interruption of many companies' economic activities due to the restrictions imposed, as well as the decrease in the domestic and external demand, led to difficulty in paying wages on time and at the expected amount. According to BOP data, in June 2020, as many as 34 per cent of respondents reported lower salaries in the previous three months (Figure 2). However, this decrease was extremely uneven across different population groups. The decrease in salaries affected young people (18–29-year-olds) to a greater extent, 44 per cent of whom reported a decrease in their salaries – 10 percentage points (p.p.) more than the national average. The group of people with a low level of education can also be

highlighted: 48 per cent of this group reported a decrease in their salaries. However, the number of respondents in this category was small and the results should be interpreted with caution. Among the factors that would explain the more drastic decrease in wages among young and low-income people is the significant share of young people in the economic activities that have been most affected by Covid-19. For example, in the wholesale and retail trade and accommodation and public catering activities in 2019, the share of young people (15–34-year-olds) accounted for 41 per cent of the total number of employees in these sectors, while the average across the economy is 31 per cent.



**Figure 2.** Share of population that reported a decrease in wages (%) and deviations from the average value by main groups (p.p.)<sup>13</sup>

Source: Calculations based on BOP data



**Figure 3.** Share of population that reported a suspension of wages (%) and deviations from the average value by main groups (p.p.)

Source: Calculations based on BOP data

<sup>12</sup> <http://bop.ipp.md/ro>

<sup>13</sup> The main groups for which the disaggregated analysis were carried out were: (1) men; (2) women; (3) urban; (4) rural; (5) 18–29 age group; (6) 30–44 age group; (7) 45–59 age group; (8) 60+ age group; (9) low educational level; (10) average educational level; (11) high educational level; (12) low socio-economic status; (13) average socio-economic status; (14) high socio-economic status. The number of respondents for group 9 was small, therefore the degree of uncertainty is high.

*In order to survive in the acute period of crisis, many companies resorted to suspending employment contracts, which, in turn, gave rise to the suspending of salaries.*

This measure affected a smaller number of employees than in the case of an explicit reduction in salaries, being reported by 18 per cent of respondents. As in the case of reduced wages, the suspension measure affected the young and low-income group more severely (Figure 3). The share of young people who reported a suspension of salaries accounted for 25 per cent. Thus, cumulatively, approximately 70 per cent of young people were affected by either a reduction or suspension of their salaries between April and June 2020. At the same time, the share of adults over the age of 45 affected by these measures was lower than the national average by at least 3 percentage points, which shows that employers tended to maintain the employment of more experienced work-

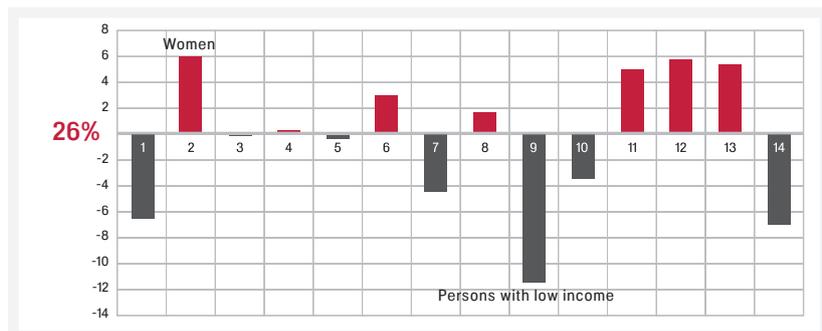
ers. Also, the significant share of low-income workers affected by the suspension of wages can be explained by the concentration of employment in the most affected economic activities. For example, the average wage in the accommodation and catering activities sector is one of the lowest in the national economy, comparable only to agriculture, including due to the phenomenon of 'envelope wages'. In 2019, the average salary in this sector was only 70 per cent of the average gross monthly earnings for the economy as a whole. Thus, a significant number of employees in the economic sector most affected by the crisis are also among the lowest paid, so these employees are extremely vulnerable to any economic shock.

*One of the consequences of the quarantine measures and travel restrictions has been the implementation of remote forms of working.*

The restrictions imposed by the authorities led to 26 per cent of respondents reporting that they either worked from home or stayed at home and did not work. However, the share of women who worked or stayed at home accounted for as much as 32 per cent, while the share of men accounted for only 19 per cent (Figure 4). This discrepancy results from the fact that one of the quarantine measures was the clo-

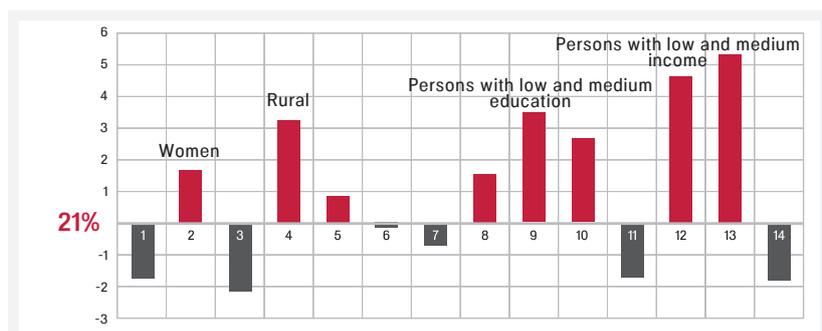
sure of kindergartens and schools, with women taking over childcare tasks. As a result, many women had to combine additional childcare activities with remote working from home tasks, or to temporarily give up the latter. Thus, women have been affected by the current crisis to a greater extent than men and there is a risk that the impact on women's participation in the labour market will be long-lasting.

**Figure 4.** Share of population who worked/stayed at home (%) and deviations from the average value by main groups (p.p.)



Source: Calculations based on BOP data

**Figure 5.** Share of population anticipating job loss (%) and deviations from the average value by main groups (p.p.)



Source: Calculations based on BOP data

*The magnitude of the economic shock in the first half of 2020 has caused a sharp and pronounced deterioration in the public's perception of their employment prospects.*

As much as 21 per cent of respondents estimate that they will 'probably' or 'certainly' lose their jobs in the near future. These estimates and perceptions fluctuate quite a bit for different groups of the population, being more prominent among vulnerable groups. People with below-average education and income feel the most vulnerable, with approximately 25 per cent of respondents in this category estimating that they will lose their job (Figure 5).

Women are also more pessimistic about their job prospects, including due to the factors mentioned above. In addition to the influence of the new type of coronavirus, the impact of the drought has led to 24 per cent of the rural population anticipating job losses. Thus, the crisis has amplified the vulnerability of specific groups of the population, requiring a set of public policies that are designed to support the population in these risk categories.

*In response to the effects of the economic crisis caused by Covid-19, the government has approved several measures to support employees and companies, but these have proved to be quite modest and general.*

The first measures to support the business environment and employees were approved in April 2020, one month after the declaration of a national state of emergency. The list of measures has gradually increased, aiming at supporting both companies and employees, as well as the unemployed (Box 1). At the same time, the estimated volume of support measures has been extremely modest: only 1.2 per cent of GDP, while most neighbouring countries have imple-

mented financial support packages amounting to over 2–3 per cent of GDP. Moreover, if measures to indirectly support the business environment (e.g. credit from the Council of Europe Development Bank) are excluded, the public budget support package amounts to only 0.4 per cent of GDP<sup>14</sup>. Moreover, the implemented measures are mostly of a general nature and do not aim at specifically supporting vulnerable groups, including the retention of existing jobs.

### Box 1.

#### Measures taken to support the business environment and the wider population in the context of Covid-19

During 2020, the authorities implemented a set of measures to support companies and the population in the context of the spread of the new type of coronavirus.<sup>15</sup> The main actions taken were:

- *Increasing the unemployment fund and matching the unemployment benefit with the value of the guaranteed minimum wage in the real sector of the economy (Moldovan Leu (MDL) 2,775). The list of people who can benefit from unemployment benefits has also been expanded, including those who have returned from abroad.*
- *Increasing the minimum guaranteed monthly income from MDL 1,107 to MDL 1,300 during the state of emergency.*
- *Introduction, by 1 June 2020, of a moratorium on state controls, including in fiscal and financial terms, the quality of products/services and labour protection rules.*
- *Extension of the payment period for income tax from entrepreneurial activity and of local taxes, as well as the extension of the period for submitting fiscal reports.*
- *Reimbursement, in the amount of 100 or 60 per cent, of taxes and fees on salaries, depending on the extent to which the company has been affected by the restrictions imposed and depending on whether they have resorted to technical unemployment or ceased activity.*
- *Interest rate subsidy for companies that will contract bank loans between 1 May and 31 December 2020 in a maximum amount equivalent to the cumulative amount of salary payments from December 2019 to February 2020.*
- *Reducing the VAT rate from 20 per cent to 15 per cent for companies in the hotel, restaurant, and cafe sector.*
- *Granting preferential loans through commercial banks from the loan provided by the Council of Europe Development Bank.*

14 M. Spataru, 'Socio-economic support measures in the context of Covid -19: Delayed, modest and rigid', FES Moldova, 2020. [http://fes-moldova.org/fileadmin/user\\_upload/2020/Publications/FES-Analiza-Masurile\\_COVID-19.pdf](http://fes-moldova.org/fileadmin/user_upload/2020/Publications/FES-Analiza-Masurile_COVID-19.pdf)

15 <https://consecon.gov.md/wp-content/uploads/2020/05/M%C4%83suri-de-sus%C8%9Binere-a-comunit%C4%83%C8%9Bii-de-afaceri.pdf>

## Policy Recommendations

The scale of the economic and social crisis triggered by the Covid-19 pandemic requires comprehensive and systemic measures to reduce the negative impacts, especially for vulnerable groups of the population.

The measures implemented so far by the public authorities are quite modest and are of a general nature, which reduces their impact. Also, the actions in question are not aimed at supporting particular vulnerable population groups or retaining jobs. Given these shortcomings in the policies to combat the effects of Covid-19, it is recommended that the following measures be taken:

- ***Maintenance and job creation programmes.***

It is recommended that programmes that would explicitly support the creation of new jobs and/or maintain existing ones should be introduced. In this respect, it is necessary to revise the amount and conditions of the subsidy allocation stipulated in the regulation on subsidizing job creation.<sup>16</sup> It is appropriate to also review the age of grant beneficiaries, the activities for which grants do not apply, the eligibility criteria etc.

- ***Measures to support women during the pandemic.***

In the case of the reintroduction of new restrictions related to the activity of kindergartens and schools, it is recommended to provide additional leave for employees who have children of up to a certain age (e.g. 14 years). The government, in turn, would offset part of the cost of this additional leave. The measure would reduce the negative consequences of a possible closure of some educational institutions, and reduce the burden on women.

- ***Measures to support young people and women.***

In this regard, it is appropriate to increase funding for existing programmes to support entrepreneurship among women, such as Women in Business, implemented by the Organization for Development of Small and Medium Enterprises (ODIMM).<sup>17</sup> It is also advisable to implement similar programmes and funds for young people, or to introduce certain preferential criteria for young people in existing programmes.

- ***Supporting the digitalization of micro and small businesses.***

The implementation of digital tools for business and labour relations management is a condition for the survival of small companies in the new realities imposed by Covid-19. Such support is critical for the employees of these companies, most of whom do not have digital skills. A similar programme is already being implemented by ODIMM, but our suggestion is to increase its funding.

- ***Financial support for self-employed persons.***

People in this category are the most vulnerable to economic shocks because they are not socially insured and have limited savings to meet challenges. For this reason, it is advisable to provide these people with additional social assistance during the crisis, provided that they have paid social contributions for at least one month during the previous year. It is also appropriate to extend these people's access to the support funds for SMEs.

<sup>16</sup> [www.legis.md/cautare/getResults?doc\\_id=111635&lang=ro#](http://www.legis.md/cautare/getResults?doc_id=111635&lang=ro#)

<sup>17</sup> [www.odimm.md/ro/programe-odimm](http://www.odimm.md/ro/programe-odimm)

**Table 2.**  
Main indicators on inequalities monitored

	2017	2018	2019
<b>Gini coefficient, per cent disposable income</b>			
Total	30,8*	29,3*	31,5**
Rural	30,1*	28,1*	29,8**
Urban	29,1*	28,5*	31,3**
<b>Employment rate, per cent</b>			
Total	42,4	44,5	40,1
Rural	41,7	45,5	35,6
Urban	43,3	43,0	47,0
Women	39,1	41,4	36,5
Men	46,1	48,1	44,2
<b>Population's disposable income, per cent year on year (y-o-y) in real terms</b>			
Total	1,2	2,2	4,6
Rural	1,2	2,2	4,8
Urban	1,2	2,2	4,7
Women	1,6	1,4	4,2
Men	0,9	2,6	4,8
Turnover of SMEs, per cent y-o-y, in real terms	1,7	2,0	n.a.

Source: Authors' calculations based on data from NBS

Note: \* - indicator calculated for the stable population; \*\* indicator calculated for the population with an habitual residence

# Companies

*The state of a country is determined by the level of development and competitiveness of its companies, the welfare of its population, as well as the efficiency and quality of its governance. These three defining elements for a state, which are closely interconnected, are analysed in this State of the Country Report. The chapter below focuses on the first of the three elements and assesses the dynamics of the private sector in the Republic of Moldova, identifying the most significant recent trends. Increased attention is paid to the evolution of economic sectors in the context of the Covid-19 pandemic, presenting their state before the health crisis and how they have been affected by the pandemic. Though in terms of business regulation the Republic of Moldova is making some progress, the large gap in implementation, resulting mainly from corruption and selective justice, both slows and discourages entrepreneurship. The analysis also focuses on support measures for the business community during the pandemic, and notes their modest and narrow range compared to other states in the region. The policy recommendations call for a visionary and efficient approach in an effort to save businesses and jobs, and in boosting the digitalization process, which has become very relevant. At the same time, the recommendations highlight some problems that have deepened in recent years and that require urgent action, such as substituting imports of some categories of products for which there is domestic potential, but also increasing the level of drought resilience of agriculture, the incidence of which has been increasing in recent years.*

## Analysis of the Main Trends and Developments in the Real Sector

### Businesses face the Covid-19 crisis with a general sense of declining entrepreneurial initiative.

In 2019, the number of enterprises that submitted reports to NBS (56,700) increased by only 0.4 per cent – six times slower than the average growth (CAGR) of the last five years (2.6 per cent). At the same time, the latest data on company demography<sup>18</sup> show that both in 2017 and in 2018 the rate of closed companies exceeded that of newly created ones. After the 2015 crisis, there was an improvement in market conditions that led to an average annual increase in turnover of 9 per cent. This occurred mainly in large enterprises, while SMEs, with a share of 98.6 per

cent in the economy, grew more slowly, by an annual average of 7 per cent. In the last five years, the main source of investment financing for Moldovan companies has been their own capital, which increased by + 54.8 per cent in 2019 compared to 2015. These are, in particular, reinvested profits, while the debt increase over the same period was 2.7 times smaller (+ 20.4 per cent) than the increase in own capital, a situation that underlines the problem of access to capital from external sources and which, in times of crisis, becomes a serious problem, especially for SMEs.

### Agriculture has been increasingly hit by adverse weather conditions.

After the recovery of 18.6 per cent in 2016, and the increase of 9.1 per cent in 2017, the last two years have seen modest developments for the Moldovan agriculture sector, the latter registering an increase in the volume of agricultural production

of only 2.9 per cent in 2018 and a decrease of -1.9 per cent in 2019. In fact, 2019 is the first year in the last decade in which the share of agriculture in GDP fell below 10 per cent (9.9 per cent). Lately, droughts have hit at much shorter intervals, of two

to four years, and the drought this year is, according to scientists, an unprecedented one. The decrease of agricultural production in 2020 could exceed 20 per cent y-o-y. Recent analyses show that the sector has grown on account of crop production, its value in 2019 exceeding by 49.8 per cent the indicator for five years ago, while in the case of livestock production there is a decline of -6.5 per cent. Annual crops are dominated by low value-added crops – maize, sunflower and wheat – which account for 79.5 per cent of the total area sown in 2019. At the same time, there has been visible progress in fruit and viticulture, the branches with the highest added value, where investments in post-harvest infrastructure have increased refrigerated storage capacities and the level of competitiveness, allowing for more exports in the off-season.

For example, in quarter 1 (Q1) 2020, the Republic of Moldova managed to export 76,500 tons of apples, pears and quinces – three times more than in Q1 2014. In addition, starting in 2020, Moldovan farmers have benefited from increased export quotas in the EU: twice as much for table grapes, 50 per cent more for plums and a new quota of 1,500 tonnes for cherries. In the livestock sector, the situation is dramatic. By the beginning of 2020, the cattle and sheep population had reached its lowest level over the last 40 years. This took place in a context in which the livestock sector is mostly concentrated among individual households, is strongly fragmented and weakly institutionalized in various official forms of business, while, due to migration and the ageing of the rural population, fewer and fewer households own animals.

### Industry has 'sneezed' heavily during the Covid-19 crisis.

After registering growth rates of between 3-4 per cent in 2017 and 2018, Moldovan industry recorded a more modest increase, of only 2 per cent, in 2019, being supported by the positive developments in the manufacturing industry (+3.1 per cent), but pulled down by the dynamics of the extractive industry (-1.9 per cent) and the production and supply of energy, gas and hot water (-4 per cent). The most important growth poles of industry in 2019 were: the automotive sector (wiring), up by 24.4 per cent, as a result of the expansion of investors' capacities in the free economic zones; metal construction, and the manufacture of rubber and plastics products – with increases of 18.8 and 17.8 per cent, respectively – supported mainly by the rise in the construction sector; and, also in the manufacture of furniture, up by 12 per cent, due to improvements in the presence on foreign markets. The food industry grew by 5.7 per cent, after a decline of -2.9 per cent a year earlier, being directly related to the situation in agriculture. At the opposite pole in 2019 was light industry, where, against the

background of a declining demand in the EU, there were decreases of -13.9 per cent in footwear and leather products, -11.7 per cent in textiles and -6.5 per cent in garments. The pandemic situation has directly influenced the developments in industry through the need to stop activities in order to limit the spread of the virus, but especially by reducing demand in foreign markets. The results of the first five months of 2020 show a decline of -6.9 per cent in total industrial production, the most significant decreases being reported in industries that are linked to international value chains, with decreases of 35-40 per cent in the automotive industry and 15-20 per cent in light industry. At the same time, the manufacture of chemicals and the food industry recorded, in the first five months of this year, increases of 36.6 per cent and 9.8 per cent, respectively. For the whole of 2020, in industry a decline of 3-4 per cent is forecasted, caused by the contraction of demand, but also by the drought, while these developments could be partially offset by activities associated with the construction sector.

### Services associated with the mobility of people were most severely affected by the pandemic.

Compared to the last major economic crisis of 2009, which hit industry first and foremost, the current public health crisis has substantially affected a large part of

the service sector from the outset. As the statistics show, along with opinion polls, the areas most affected by the crisis are, by some margin, tourism, hotels/restaurants/

cafes, and passenger transport. Added to these are activities such as market and street trade, beauty services, recreation and sports – events organized in ceremony halls etc. Although, for the most part, these activities are part of the informal economy, they have an important social impact. In the last two years, construction and IT have been the services with the most robust growth. After recording growth of 17.6 per cent in 2018 and of 12.8 per cent in 2019, mainly against a background of public investments and real estate projects supported by the lending boom, construction seems to have maintained a strong level

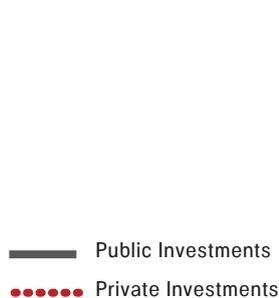
of resilience this year as well (only -0.5 per cent in the first six months of 2020). At the same time, the simplified tax regime in IT<sup>19</sup> gave a significant boost to the sector, so that in the 2016–2019 period, exports of IT services have tripled, reaching the value of USD 197.8 million in 2019, with a double-digit increase anticipated this year as well. Trade, which has steadily increased its share of GDP in recent years, to 15.8 per cent in 2019, will record a decline in 2020 due to declining incomes, but also due to most citizens abstaining from making certain discretionary purchases in conditions of uncertainty.

**The years 2018 and 2019 were marked by a boost in investment activity using both public and private sources.**

After the notable decreases in 2015 and 2016, and a modest recovery in 2017, the last two years have stood out through an intensification of investment activity, with sequential increases (in comparable prices) of 12.9 per cent and 9.4 per cent, respectively. As a result, in 2019, the investment rate per economy, measured as the share of gross fixed capital formation in the gross value added, reached 29.4 per cent, the second-best result in the last 10 years (in 2014 it was 29.8 per cent), an increase of 4.1 per cent compared to 2016, when this result reached its lowest level of the last decade. The intensification of the borrowing activity of companies and the fiscal stimulus offered by a reduction of 5 per cent in social contributions were the main factors that determined the in-

crease in investments in the private sector – of 7.2 per cent in 2018 and 13.5 per cent in 2019. In the second half of 2019, but especially in Q1 2020 (-31.6 per cent), there was a contraction of investment activity financed from the public budget. As the current year is a year of survival for business, postponing current and strategic investments is a solution that has been chosen by more than half of companies<sup>20</sup> in order to mitigate the economic impact of the pandemic. The level of investment reduction this year will depend on the extent to which the government implements its investment plan, especially regarding road infrastructure, and in this it is guided by electoral prospects, which have also led to the revival of the ‘*Drumuri bune*’ programme.<sup>21</sup>

**Figure 6.**  
Private and public investment,  
real growth y-o-y, per cent



Source:  
Authors' calculations based on NBS data

19 [www.legis.md/cautare/getResults?doc\\_id=121327&lang=ro](http://www.legis.md/cautare/getResults?doc_id=121327&lang=ro)  
20 [www.amcham.md/st\\_files/2020/08/14/COVID-19%20Business%20Impact%20Aug.20.pdf](http://www.amcham.md/st_files/2020/08/14/COVID-19%20Business%20Impact%20Aug.20.pdf)  
21 <http://asd.md/page/programul2020>

**On the labour market, the adjustment of the Labour Force Survey methodology to the 2014 census data has led to a significant change in many indicators, and shows new trends.**

Thus, as a result of the methodological review, the employed population decreased from 1.2 million people in Q4 2018 to 888,000 people in Q4 2019 (-16.9 per cent). The sharp decrease in the number of workers according to the new methodology did not lead to the adjustment of the relative indicators. Thus, the employment and unemployment rates did not undergo any major developments in the 2018–2019 period. Another change related to the exclusion from the employed population of

'persons employed in the auxiliary households (near the house)' led to a decrease in the share of informal employment in the total employed population from about 38 per cent in 2018 to 25 per cent in 2019. At the same time, a growing discrepancy between men and women in the labour market also came to the fore. While based on the old approach there was a difference of 4.2 per cent between male and female employment rates, the new data for 2019 indicate a gap of 7.7 percentage points.

## Analysis of the Main Trends and Developments in the **Financial Sector**

**The banking sector has faced the pandemic crisis well-capitalized and with an abundance of liquidity.**

Strengthening the regulatory framework and the transparency of shareholding were the essence of the achievements in the context of the last Memorandum with the International Monetary Fund (IMF), and the arrival of reputable strategic investors in the banks of systemic importance offers more predictable prospects for modernizing the sector. As of 30th June 2020, the rate of own funds in the banking sector was 26.8 per cent, an increase of 1.5 per cent since the beginning of the year. This increase was determined by the reflection of the 2019 profit and by the NBM recommendation for the banks to refrain from paying dividends, being at the same time well above the minimum limit of 10 per cent. The level of current liquidity exceeds 51 per cent, while the minimum value of the indicator required by regulations is set at 20 per cent. At the same time, the level of financial intermediary remains well below the potential. Although the loans/deposits ratio increased from 0.56 in 2018 to 0.59 in 2019, this is far from the value of 0.81 recorded in 2013. 2019 was also marked by a continuation of the reduction in the share of non-performing loans by 4

per cent, to 8.5 per cent. In the middle of this year, this indicator increased insignificantly, to 8.74 per cent, but this was due to the fact that the NBM allowed banks to reschedule customer loans without reclassifying them to a tougher category. The relaxation of monetary policy in the context of the pandemic, by gradually reducing the base rate to the historical minimum of 3 per cent, and of the minimum required reserves norm rate from 42.5 per cent to 32 per cent, released several billion MDL, which are largely oriented towards financing the budget deficit planned to be covered this year by state securities in the amount of up to MDL 6 billion. Digitalization and increasing operational efficiency are also gradually becoming essential elements in the domestic banking sector, and will be the main element of the banks' strategy in the coming period, especially in a still uncertain context, but also in an era of relaxing monetary policy, which will put pressure on the banks' lending revenues. In this situation, banks that will not keep pace with digitization and will not manage to increase operational efficiency may be forced to sell their shares due to lower profitability.

## Lending is maintaining its growth trend, mainly due to individual borrowing.

In the last two years, the growth rate of the volume of new loans provided in national currency accounted for 20.5 per cent, respectively 22.5 per cent y-o-y. Increases in loans to individuals in MDL are impressive – at 36.5 per cent in 2018 and 36.2 per cent in 2019 – especially in the segment of real estate loans. Here, in 2019, new loans were provided in the amount of MDL 3.1 billion (almost four times more than in 2017), the process being driven by the ‘Prima Casa’ government programme, but also by

a lower and affordable level of interest. Lending in foreign currency recorded lower growth rates of 13.2 per cent in 2018 and 8.3 per cent y-o-y in 2019. In the first half of 2020, the value of new loans decreased by 10 per cent y-o-y, including loans in MDL by -8.2 per cent and those in foreign currency by -14.2 per cent. At the same time, while the volume of new loans provided to enterprises was lower than the y-o-y level by only 2.3 per cent, new loans disbursed to individuals decreased by over 27 per cent.

## Analysis of the Main Trends and Developments in the Business Environment

### Progress in the business environment is overshadowed by vulnerabilities related to the rule of law and weak institutions.

According to the Doing Business Report, in the last four years the Republic of Moldova ranked among the top 50 economies for ease of doing business.<sup>22</sup> In 2019, the country ranked 48th in that report, with an increase in the score of 1.3 points – to 74.4 out of 100, mainly due to improvements in areas such as obtaining building permits and executing contracts. At the same time, data from the World Bank’s Cost of Doing Business survey,<sup>23</sup> conducted on a representative sample, show that only 8 per cent of Moldovan companies think that all en-

terprises are treated equally before the law, which highlights the major discrepancy between the legal framework and its effective implementation. Despite the fact that in the last two years the inflow of foreign direct investment (FDI) has increased – by 102 per cent in 2018 and by 90 per cent y-o-y in 2019 – this is mainly due to investments in the financial and retail sectors that explore the domestic market, and less to investments in export-oriented sectors, where the Republic of Moldova continues to lose out to regional competition, for the most part.

### Measures to support the business community in the context of Covid-19 are limited and largely conditional, and therefore impact a limited number of enterprises.

From the series of actions taken by the authorities since the beginning of the pandemic, three programmes can be mentioned as directly supporting the business environment: (i) subsidizing the salaries of employees in technical unemployment or a standstill in the amount of taxes paid related to salaries/allowances until 31 August 2020 (at a planned budget cost of MDL 320 million); (ii) subsidizing loan interest in the amount of three monthly salary funds in the May–December 2020 period (MDL 90 million); and, (iii) VAT refund programme for enterpris-

es that record VAT amounts for deduction in the subsequent period, with an estimated cash infusion to companies of up to MDL 1 billion. However, the actual data show that this support is also conditional and difficult to access. Thus, for example, the figures from the beginning of August 2020 show that only 305 companies benefited from the payroll tax subsidy measure, in an amount of MDL 34.7 million, i.e. only 10.8 per cent of the planned amount in the budget, while for the May–June period the amount of subsidized interest exceeded by less

than 10 per cent the planned amount. The authorities' conservative approach to the pro-business support measures can also be explained by the fact that the main institution that developed and promoted the initiatives was the Minis-

try of Finance, whose primary policy objective remains to ensure the budgetary balance, while the Ministry of Economy, whose priorities also include the support of entrepreneurs, played a secondary role in this process.

## Policy Recommendations

Exceptional economic situations require exceptional measures.

*The worsening economic situation generated by the health crisis has forced governments to forget about the normal budget-fiscal rules and to intervene substantially in order to save the economy. Though the estimated budget deficit of the Republic of Moldova for this year of 8.2 per cent of GDP is within the average of the region, due to the higher dependence on consumption taxation, this figure covers to a greater extent the lost revenues and to a lesser extent – the support actions, especially for the business community. However, in addition to the rigour of measures aimed at limiting the spread of the virus, and the decrease in demand on foreign markets, the duration and severity of the recession largely depend also on the quality and extent of the government's response through the support policies introduced. Apart from the need for rapid interventions in the context of the pandemic, this year's health crisis and drought have brought to the fore the need for other areas of policy development:*

- **Facilitating companies' access to capital and liquidity.**

According to a recent business survey, 56 per cent of respondents indicated delays in collecting invoices issued as a major constraint affecting their businesses. Similar to other countries in the Balkan region, in the Republic of Moldova, commercial credit from suppliers exceeds several times the balance of bank loans contracted by companies. Thus, the risk of financial blockages between companies is enormous and the need for improved access to finance is acute. Even though in the current context the credit guarantee for SMEs is an instrument used by all EU Member States from Central and Eastern Europe (CEE), the Moldovan authorities have limited themselves only to an increase by MDL 50 million of the Credit Guarantee Fund managed by ODIMM. While, for example, in the case of 'SME Invest' in Romania, the guarantee scheme is designed to cover loans of up to 3 per cent of GDP, the annual number of beneficiaries of guarantees from ODIMM is less than 100 (66 in 2019), this being perceived as a bureaucratic and difficult to access tool, especially for companies affected by the crisis. However, in today's context, the private sector needs more confidence from the state and the establishment of large-scale schemes to facilitate access to finance for businesses in order to minimize the number of bankruptcies and to protect jobs.

- **Supporting the digitalization process and entering the online market.**

The Covid-19 pandemic found domestic companies unprepared, with estimates based on NBS data showing that on average only one in four companies with 10 or more employees has a website, while the number of e-commerce platforms<sup>24</sup> at national level, according to NBM, accounted for only 412 units in Q1 of this year, without any progress compared to the end of 2018. This year's situation, with a growing interest in e-commerce, has also highlighted the existence of many unclear elements at the legislative level that are open to interpretation, including in the area of international deliveries. In this context, we recommend that state policies focus on three key areas: (i) adjusting e-commerce legislation to make it functional, applicable, and unambiguous, in the spirit of the EU Digital Single Market Strategy; (ii) supporting local SMEs in accessing e-commerce tools (the SMEs digitalization programme, with a budget of approximately MDL 20 million, launched in the context of the pandemic is a good start, which should be institutionalized and strengthened through appropriate financial allocations to cover as many companies as possible); and, (iii) accelerating digitalization in the public sector and in interaction with the business environment, where, despite progress in some areas, there is still a significant need for growth.

- **Import substitution policies.**

The realities of the pandemic, which have disrupted international supply chains, have brought to the fore various dimensions of state security, including food security. In this regard, the Republic of Moldova has steadily declined in recent years, being a growing net importer of various agri-food products, despite the domestic potential. For example, in recent years, net vegetable imports have increased almost fourfold, from USD 15 million in 2014 to 56.6 million in 2019, given that, in the case of field vegetables, the share of enterprises in the structure of managed areas accounted for less than 10 per cent in 2019. This is also one of the main reasons why the sub-sector in question is becoming less competitive. In addition to policies to stimulate entrepreneurship in relation to certain key product groups, the state should eliminate certain barriers that have existed for years, such as differentiated VAT across the value chain, which is a major disadvantage for processing enterprises.

- **Adjusting agricultural policies to adapt to climate change.**

In the 2019 State of the Country Report it was reiterated that there is a need to increase the immunity of the agricultural sector, but also of the entire economy, to the effects of climate change. This year's severe drought puts even more emphasis on the need for concrete action. While the incidence of drought has increased significantly in recent years, the reaction of the agricultural sector and the state has been almost non-existent, with farming practices not being adapted to the new realities. Challenges that need urgent response and appropriate policy interventions include: the lack of levers for the state to monitor compliance with crop rotations; the drift of the national agricultural research system and its inability to compete with foreign corporations in the delivery of inputs; the lack of progress in increasing the share of irrigated land; and, stagnation in the afforestation of the country (11.1 per cent), with an increasing number of cases of illegal deforestation.

Beyond these issues, the elimination of strategic constraints that affect the country's competitiveness remains relevant, especially when the modest evolution of exports in 2019 (+ 2.7 per cent), but also the stagnation in the Global Competitiveness

Index (86th place in 2019), suggests that the current competitiveness model based on cheap labour and on products of little added value has reached saturation level. In this regard, acting on the following recommendations is imperative:

- **Investing in human capital and education to create a synergy between the educational offer and the requirements of the real sector.**

Although the statistical data show over-qualification in the labour market, with over 12 per cent of the employed population performing functions inferior to their educational training, the Republic of Moldova ranks among the lowest in the Competitiveness Index in regard to the 'Ease of finding skilled employees'.

- **Strengthening institutional capacities.**

Developments in recent years, but especially the management of this year's pandemic crisis, have revealed the vulnerabilities of state institutions. The lack of a systemic vision, the tardy and insufficient reactions in decision-making, poor communication and the low level of trust from people and companies indicate that the Republic of Moldova is in dire need of measures leading to more effective and inclusive institutions.

- **Attracting investments in value-added activities.**

Recent developments suggest that attracting large-scale investment projects focused on low labour costs are no longer feasible after the recent expansion of free-trade areas and against the background of external migration. The Republic of Moldova is thus in dire need of value-added projects in order to retain talent and increase the level of sophistication in the economy.

- **Increasing the level of entrepreneurial culture.**

For the most part, the local business environment continues to have an aversion to transparency as regards providing/ publishing activity data, and the auditing and accounting standards practices remain weak. At the same time, in the GCI, the Republic of Moldova is below 100th on indexes such as 'Growth of innovative companies' (129), 'Companies with disruptive ideas' (104) and 'Relying on professional management based on meritocracy' (113). The implementation of policies to develop an entrepreneurial culture is vital for the country's competitiveness.

- **Increasing the level of penetration of the financial sector in the country's economy.**

The financial sector remains dominated by the banking sector, and according to indexes such as 'Capitalization of the stock market relative to GDP' (122) or 'Venture capital availability' (116), the Republic of Moldova remains among the countries at the bottom of the ranking. The diversification of sources of access to capital for companies is an essential element for improving the country's competitiveness.

**Table 3.**

Main indicators monitored regarding the economy of the Republic of Moldova

	2018	2019
Agricultural production, y-o-y growth, per cent	2,5	-1,9
Industrial production, y-o-y growth, per cent	3.7	2
Turnover for retail trade, y-o-y growth	7.6	13.2
Turnover for services provided to population y-o-y growth, per cent	10,9	14,6
Turnover for services provided to enterprises y-o-y growth, per cent	4.1	8.2
Volume of construction, y-o-y growth, per cent	17.6	12.8
Gross fixed capital formation, y-o-y growth, per cent	14.5	12.9
FDI inflow, y-o-y growth, per cent	102	90.1
Consumer price indices, y-o-y growth, per cent	3	4.8
New loans, y-o-y growth, per cent	17.8	17.5
New deposits, y-o-y growth, per cent	-14	-10.9
Own funds ratio, per cent	26.6	25.3
Share of non-performing loans in total loans, per cent	12.5	8.5
Current liquidity, per cent	54.6	50.7
Long-term liquidity, per cent	0.72	0.72
Share of employees whose skills, compared to their educational training, is lower, per cent	12.4	n.a.
Innovation capacity, GCI rank, 0-100	30.2	29.9
Export of goods and services, y-o-y growth, per cent	11.6	2.7
Import of goods and services, y-o-y growth, per cent	19.2	1.4
Competitiveness Index, rank	88	86
Doing Business, rank	47	48
Index of Economic Freedom, score	53.5	59.1
Renewable sources rate in total final energy consumption, per cent	26.7	n.a.

Source: Authors' calculations based on data taken from: <http://statistica.gov.md>, <http://www.bnm.md>, <https://www.weforum.org/>, <https://www.doingbusiness.org/>, <https://www.heritage.org/index/>

*This chapter analyses the living standards of the population – a fundamental aspect that reflects the state of the country. To do so, the chapter highlights the way in which people's incomes, the level of poverty, and social disparities have evolved. Also, in this chapter we analyse the impact of the Covid-19 pandemic on the welfare of the population. The chapter concludes with a set of proposals that, in the short and medium-term, would mitigate the adverse effects of the Covid-19 pandemic and, in the long run, reduce the negative impact of various shocks on household income.*

## Analysis of the Main Trends and Developments

After the economic decline in 2015, against a background of steady but moderate economic growth (about 4 per cent annually) from 2016 to 2019, there were relatively stable developments in the labour market.

Although a methodological adjustment was made to the calculation of occupational indicators (households working for self-consumption were excluded from the employed population), employment and unemployment rates did not change significantly. Thus, based on the relative employment and unemployment indicators, we can get an idea of the dynamics of the labour market. In the 2014–2019 period,<sup>25</sup> the employment rate fluctuated between 40 and 45 per cent (Table 4). In addition, the indicators highlight-

ed gender disparities; namely, the level of employment was higher for men than for women, with the employment rate for men being in the range of between 45 and 48 per cent, while for women it was between 36 and 40 per cent. The unemployment rate fluctuations did not exceed the level of 5.1 per cent (the value recorded in 2018). The unemployment rate was higher for men, with fluctuations approaching 6 per cent, while for women unemployment did not exceed the level of 4.4 per cent recorded in 2018.

**Table 4.**  
Economic growth and employment indicators in the Republic of Moldova, per cent

	2015	2016	2017	2018	2019
GDP, growth	-0.3	4.4	4.7	4.3	3.6
Employment rate, total	43	42.4	44.5	40.1	42.4
Employment rate, women	40.2	39.1	41.4	36.5	39.8
Employment rate, men	46.1	46.1	48.1	44.2	45.3
Unemployment rate, total	4	3.9	2.9	5.1	4.7
Unemployment rate, women	2.7	3.2	2.4	4.4	3.4
Unemployment rate, men	5.2	4.5	3.4	5.8	5.9

Source: Authors' calculations based on NBS data

<sup>25</sup> In this chapter we analyse the evolution, starting with 2015 for occupational indicators and with 2014 for indicators reflecting the population's standard of living. Comparing data from series until 2014/2015 with those after 2014/2015 is impossible. The problem is caused by methodological changes. The data were adjusted to the results of the 2014 census, and for the calculation of statistical indicators, the stable population was replaced with the usually resident population.

**Moldova's entry into recession caused by the spread of Covid-19 followed a period of accelerated growth of the population's income.**

Between 2014 and 2018, the population's disposable income experienced an anaemic dynamic, with real rates ranging between -2.1 per cent and 2.4 per cent. As a result, in 2018, as compared to 2014, disposable income increased in real terms by only one per cent. However, in 2019, compared to 2018, there was a significant increase, with disposable income increasing by 13.6

per cent. Due to this improvement, the real increase in income in 2019, compared to 2014, amounted to 15 per cent. The increase was mainly due to salary increases. Between 2014 and 2019, salary incomes increased in real terms by 32 per cent. One of the factors that favoured the increase in labour remuneration was the wage reform in the public sector, carried out in 2018.

**Although there has been some progress, income levels remain much lower than other countries in the region.**

In recent years, the ratio of GDP per capita in the Republic of Moldova to that of CEE EU has been increasing. From 2014 to 2019, this ratio increased by 4.3 p.p. in nominal terms

and by 0.7 p.p. in real terms. However, Moldovan incomes remain very low, and GDP per capita in the Republic of Moldova is only one-quarter of the EU CEE average (Table 5).

**Table 5.**

The ratio between GDP per capita in the Republic of Moldova and in CEE EU, per cent

	2014	2015	2016	2017	2018	2019
GDP per capita in Republic of Moldova/ GDP per capita in CEE EU ( <i>USD, current prices</i> )	23.5	21.9	22.5	24.7	26.5	27.8
GDP per capita in Republic of Moldova/ GDP per capita in CEE EU ( <i>USD, constant prices</i> )	21.3	20.6	21	21.3	21.7	22

*Source: Authors' calculations based on World Bank data*

**Even though the income level recorded only a small increase in the 2014–2018 period, the poverty level decreased. Despite this progress, however, the level of poverty in rural areas has remained high.**

Currently, about one-quarter of the country's population lives below the absolute poverty line (Table 6). Between 2014 and 2018, the poverty rate decreased from 29.5 to 23 per cent. In the same period,

in urban areas, there was a decrease of 5 p.p., from 15.6 to 10.6 per cent. At the same time, in rural areas, the poverty rate remains very high and about a third of the population lives below the poverty line.

**Table 6.**

Poverty rate, per cent

	2014	2015	2016	2017	2018
Total	29.5	25.4	26.4	27.7	23
Urban area	15.6	11.2	11.6	11.8	10.6
Rural area	39.5	35.6	37.1	38.8	31.6

*Source: Authors' calculations based on NBS data*

**The increase in income was not accompanied by any improvement in social disparities, with some inequalities even deepening.**

In the 2014–2019 period, disposable income per capita in a household in the fifth quintile, which represents the citizens with the highest incomes, increased by 70.4 per cent. This was the highest increase in disposable income across the quintiles. For example, for the disposable income per capita in an average household in the first quintile (the lowest income population) the increase accounted for 67 per cent. As a result, the ratio between the average income per capita from a household in

the first quintile (poorest 20%) and that from the fifth quintile decreased from 32 to 31.3 per cent (Table 7). Also, the income of the population in urban areas has grown faster than the income of the rural population. The income of the population in urban areas increased by 68.2 per cent, while in rural areas the increase accounted for 66.3 per cent. As a result, the ratio between the income of the population in rural and that of the population in urban areas decreased from 70.5 to 69.8 per cent.

**Table 7.**

**Evolution of socio-economic inequalities, ratio of disposable income, per cent**

	2014	2015	2016	2017	2018	2019
Ratio between the average income per capita in households from quintile 1 and quintile 5, multiplied by 100%	32	31.4	31	31.8	32.9	31.3
Ratio between the average income per capita in households from rural area and from the urban area	70.5	69.8	69.7	69.3	69.4	69.8

*Source: Authors' calculations based on NBS data*

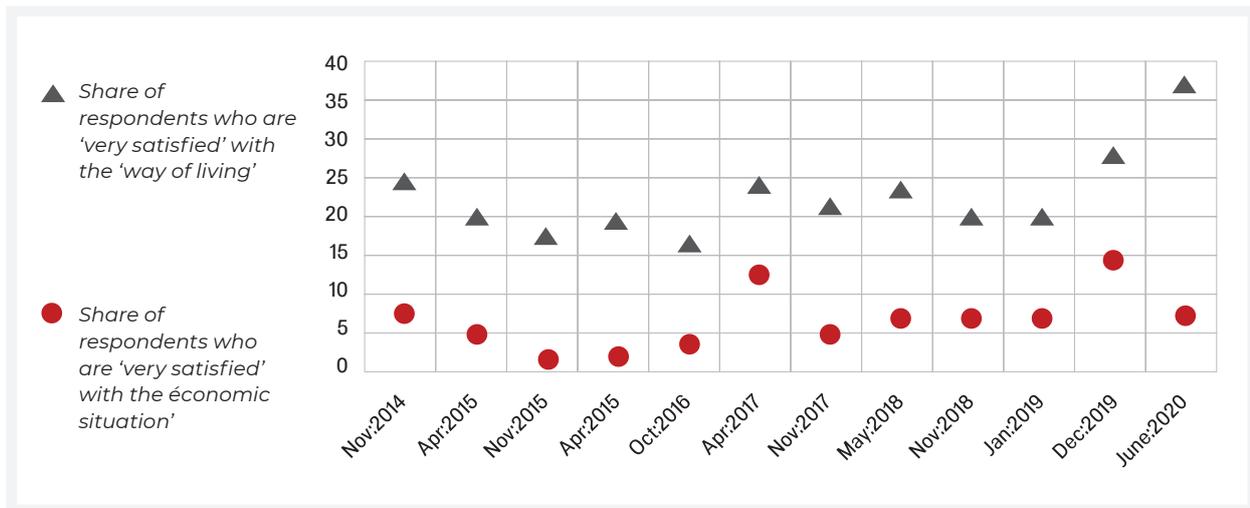
**The increase in income was also accompanied by an improvement in the perception of living standards.**

While the BOP from 2015 and 2016 shows that the share of respondents who are 'very satisfied' and 'quite satisfied' with the 'way of living' ranged between 15 and 20 per cent, in the polls from 2017, 2018 and January 2019, this share fluctuated between 20 and 25 per cent. Moreover, at the end of 2019, the share of satisfied respondents increased to 28.3 per cent and, paradoxically, in June 2020, in the context of the unfavourable economic conditions caused by Covid-19 and the decline in agriculture, this share exceeded one-third of the respondents (Figure 7). This jump is just a one-off result and can be explained by the delay between the economic dynamics and impact on living standards. The hypothesis in question is also support-

ed by the fact that there is a good correlation – of 65.3 per cent – between the share of 'very satisfied' and 'quite satisfied' with the 'way of living' answers from the survey from a certain period and the share of 'very satisfied' and 'quite satisfied' with the 'current economic situation of the Republic of Moldova' answers from the previous interview. Thus, the high level of satisfaction with the standard of living in June 2020 can be explained by the high satisfaction with the economic situation recorded in December 2019. At the same time, the decline in the satisfaction with the economic situation recorded in June 2020 should translate into a reduction in the satisfaction with living standards in the next survey.

**Figure 7.**

Public perception of living standards and economic situation, per cent



Source: Data taken from <http://www.bop.ipp.md/>

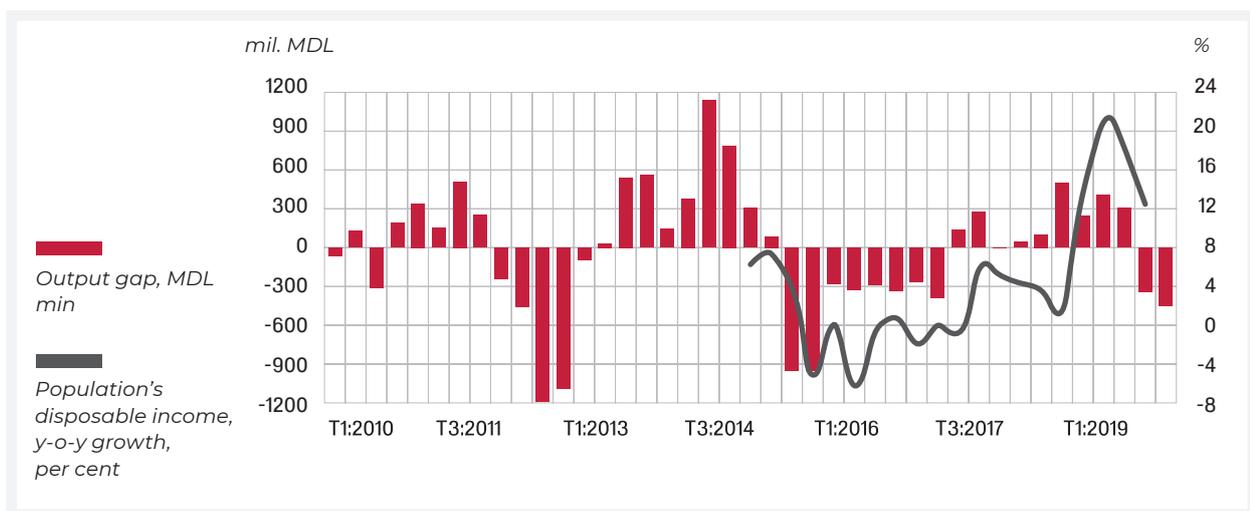
The economic dynamics of the Republic of Moldova are marked by an increase in the frequency of shocks, and, as a result, the evolution of the population's income is affected negatively.

In the 2010–2020 period, the Republic of Moldova experienced several crises. In 2012 there was a recession caused by the contraction of agriculture. In 2015, an amalgam of factors led to a reduction in GDP: the economic crisis in Russia and Ukraine, the decline of the agricultural sector and theft in the banking sector. As a result, there have been long periods in which the output gap has been negative. In fact, in just one decade (2010–2019) there have been

four years with a negative output gap. At the same time, during the periods of negative developments in the business cycle, households' income experienced an anaemic dynamic: decreases or very slow increases (Figure 8). Also, in the crisis caused by Covid-19, the Republic of Moldova has entered into a period of a new negative output gap, which indicates its poor level of readiness, and also its vulnerability to negative shocks that have already become chronic.

**Figure 8.**

Business cycle and population's disposable income



Source: Authors' calculations based on NBS data

**In 2020 the economy has again been affected by two strong shocks: the worldwide negative effect of the Covid-19 pandemic and the decline of agriculture due to unfavourable weather conditions.**

Globally, the impact of the spread of the new coronavirus will translate into a 3 per cent recession in the global economy, according to IMF forecasts. A more severe blow will be felt by the EU, which is the main economic partner of the Republic of Moldova. Thus, the EU economy is estimated to contract by 7.1 per cent. Similarly, the forecasts show that the decline caused by the pandemic will be much stronger than the 2009 crisis, when the global economy shrank by only 0.1 per cent, and when the recession in the EU amounted to a decline of 4.2 per cent. The current global recession has already

reduced exports (in January–June 2020 there was a 14 per cent y-o-y decrease in the exports of goods) and remittances (in January–June 2020 there was a 4.6 per cent y-o-y decline in personal remittances). The external shock was amplified by the measures restricting economic activity inside the country, applied between 17 March and 15 May. At the same time, the deficit of rainfall in January to July 2020 was unfavourable for crops, which will cause a significant contraction in the agricultural sector. We forecast that agricultural value added could decline by more than 30% in 2020.

**In the medium-term, the welfare of the population will be affected by the unfavourable economic developments.**

It is already clear that there will be an economic decline in 2020, and the developments for 2021 are uncertain. Most likely, the pandemic will continue in 2021, and this will constrain the process of global economic recovery. Against this background, the economic outlook for the Republic of Moldova is quite bleak. Most like-

ly, the economy will not be able to recover in 2021 to the level before the crisis. Thus, after the forecast decline of 7.5 per cent in 2020, an increase of 5.7 per cent is expected in 2021. As a result, the level of GDP in 2021 will be 2.2 per cent lower than in 2019 – a dynamic that will negatively influence the level of employment and income.

**The contraction of economic activity has already negatively affected the welfare of the population.**

In recent months there has been a rapid increase in the number of unemployed: at the end of July 2020, compared to March 2020, the number of unemployed registered with the National Employment Agency increased from 18,100 to about 29,100 people. It should be mentioned that in the same period in 2019, the number of registered unemployed decreased from 19,400 to 12,400 people. Thus, in July 2020, the number of unemployed increased by 60.7 per cent y-o-y. With respect to salaries, a reduction is

also anticipated. Between March and July 2020, taxes and insurance payments that are largely related to wages have decreased: personal income tax by 6.9 per cent y-o-y; state social insurance contributions by 8.1 per cent y-o-y; and compulsory health insurance by 8.3 per cent y-o-y. During the same period, personnel costs in the public sector increased by 5.3 per cent y-o-y. This discrepancy shows that the reduction in salary-related taxes is determined by the decrease in remuneration across the private sector.

**In the conditions of the economic downturn of 2020, those employed in the public sector have the greatest security, as they receive stable income flows.**

The normative framework guarantees the primacy of the payment of salaries for public employees. In the short-term, the deterioration of the state's financial situation may cause a blockage in the nominal

increase in pensions and salaries, but a cessation of these payments is unlikely. At the same time, private sector employees are in a much more vulnerable situation. The deterioration of economic activity causes

companies to reduce their costs, including by both reducing wages and laying off employees. According to a survey conducted in July 2020 by the American Chamber of Commerce in Moldova, about half of the companies surveyed (48 per cent) said that in order to mitigate the effects of the pandemic, they reduced staff costs.<sup>26</sup> The

closure of kindergartens, in turn, has also led to a new vulnerability; since young children are staying at home, it is often necessary for one of the parents to supervise them, and to accomplish this task most often one of the parents quits their job or parents switch to a part-time work regime. This reduces household income.

## Policy Recommendations

- ***In the short and medium-term, in unfavourable economic conditions, state policies should be oriented towards supporting economic activity, maintaining employment and ensuring the population's income, especially the most vulnerable groups, does not decline.***

The state will most likely have to extend some provisions of the 'Law on the establishment of measures to support entrepreneurship' into 2021, such as subsidizing loan interest for entrepreneurs or the VAT repayment programme. At the same time, it is not ruled out that there will be a need for an expansion of fiscal incentives 2021. There is also a need to expand opportunities for starting and developing businesses (e.g. expanding the access of self-employed persons to the SMEs support funds). Likewise, the state should ensure a minimum level of income for citizens. Here we refer both to the guarantee of unemployment benefits and to the possible establishment, for the period of the crisis, of allowances for people who have not worked as employees but who have lost their source of income (self-employed, returned emigrants etc.).

- ***The spread of Covid-19 has generated new challenges, hence the need to create new tools to financially support the population.***

In this regard, it would be appropriate to create a mechanism to support families in crisis situations (epidemics, natural disasters), when kindergartens and schools are closed and children have to stay at home. Thus, families in which parents have to reduce their work schedule to supervise their young children should be compensated for lost income.

- ***The implementation of broad policies to support the business environment and the population will require a sustainable financial effort, but the Republic of Moldova has room for manoeuvre due to the low level of public debt.***

Despite the rapid growth of public debt in 2020, the country has entered the crisis with a comfortable level of indebtedness, which allows, in the medium-term, for access to loans to finance the rising budget deficit. In Q1–Q2 2020, the

government increased domestic loans, which led to an increase in domestic debt by MDL 3.1 billion: from 23.5 billion on 31 March to 26.6 billion on 30 June. For comparison, in 2017, 2018 and 2019, the public debt balance decreased in the second quarter compared to the first quarter in each year. However, in 2019, the Republic of Moldova had a public debt of about 27.4 per cent of GDP – a comfortable level if we take into account that the upper limit is conventionally considered to be 60 per cent.

- ***In the context of increasingly frequent climate shocks, it is imperative to adjust the structure of the national economy to provide new opportunities for the population employed in the agricultural sector.***

The increased vulnerability of the agricultural sector to climate shocks is a major source of risk to the incomes of those employed in this sector. The increased frequency and intensity of extreme weather conditions (droughts, frosts and floods) will affect the dynamics of the agricultural sector and, implicitly, the incomes of those employed in the sector. Currently, slightly over one-fifth of the employed population works in agriculture. At the same time, about 95 per cent of people employed in agriculture live in rural areas. In these conditions, it is imperative to promote policies that would ensure, on the one hand, agriculture with increased added value (e.g. organic farming, reorientation from technical crops requiring lots of water to crops that are more resistant to drought conditions, stimulating the processing of agricultural raw materials), and, on the other hand, the reorientation of the labour force from agriculture to other fields. An important role in achieving these objectives could be played by the country's reindustrialization policy, which could stimulate labour demand in industry and service sector and attract people employed in agriculture. Another recommended policy direction is to diversify economic opportunities in rural areas by developing non-agricultural activities.

**Table 8.**

Main indicators monitored with regard to people's welfare

	2017	2018	2019
<b>Impact of the economic growth on people's welfare</b>			
GDP (per cent y-o-y)	4.7	4.3	3.6
USD GDP per capita, ratio to the CEE EU average (per cent)	24.7	26.5	27.8
People's perception of their welfare (BOP) – share of people very and quite satisfied with their standard of living (per cent)	20.3	18.8	25.3
<b>Access to economic opportunities and income</b>			
Employment rate (per cent)	42.4	44.5	40.1
Unemployment rate (per cent)	3.9	2.9	5.1
Absolute poverty rate (per cent)	27.7	23	-
Growth of real salaries (per cent y-o-y)	5.1	9.8	8.8
People who are looking for a job abroad (per cent y-o-y)	-0.2	10.8	-
Remittances from abroad for individuals (per cent y-o-y, net basis)	11.2	5.6	-3.5
Gini index, per cent	30,8*	29,3*	31,5**
Household consumption (per cent y-o-y)	5.3	3.9	3.1
<b>Access to public services and infrastructure</b>			
Human Development Index	0.709	0.711	-
Share of expenses for education (per cent of GDP)	5.5	5.4	5.8
Share of expenses for health (per cent of GDP)	4.1	4.5	3.7
School dropout rate (per cent)	19.4	-	-
Share of population with access to the public water supply network (per cent)	68.5	70.0	-
Share of population with access to the public sewage system (per cent)	35.0	35.8	-

**Source:** Authors' calculations based on NBS, United Nations Development Programme, World Bank and Public Opinion Barometer data

**Note:** \* indicator calculated for stable population; \*\* indicator calculated for usually resident population

*The new impediments to democratic transformations in the local political scene in the 2019–2020 period have different causes to the ‘captured state’, from which the state ‘recovered’ through a common (geo) political effort in the summer of 2019. The emphasis of political rivalries has moved towards the authenticity of structural reforms, the optimal modalities and the speed of their delivery. The action against big corruption – by selecting an apolitical prosecutor or ‘purifying’ the judiciary – has deeply marked the political discourse. The spread of Covid-19 has become an additional area of fierce political competition, in particular due to the inefficiency of the authorities in managing the pandemic. The strategic calculations related to the autumn 2020 presidential elections, and the health and economic constraints, have kept political instability at a manageable level for the country’s main political forces. At the same time, as in previous years, the interactions with the external environment served either positively to speed up some reforms or negatively to manipulate the domestic information space.*

## Analysis of the Main Trends and Developments

**The effects of the Covid-19 pandemic have highlighted both the systemic weaknesses of the state and the inefficiency of the government in times of crisis.**

The overthrow of the oligarchic regime in the summer of 2019 created positive prospects for the relaunch of Moldovan democracy, but this political opportunity was not exploited by government, as shown partially by international rankings<sup>26</sup>. Thus, in 2020, the country maintained its rating of ‘partially free’ in terms of freedoms and rights, and ranked 91st in the freedom of the press ranking. At the same time, according to Transparency International’s assessments, there was a deterioration in the public perception of corruption (120th place in 2019, compared to 117th position in 2018). During the pandemic, the democratic climate has entered a period of stagnation, and some actions have raised concerns about the revival of older undemocratic practices (described in this chapter). Even while all resources were being mobilized – the yellow and red codes in public health (2 February – 15 March) and the state of emergency (18 March – 15 May), followed by the state of emergency in public health (starting May 15 and lasting till autumn/winter 2020) – the state has shown a new facet of its fragility. The state struc-

tures were taken by surprise and failed to adapt quickly to the new circumstances. **First, the authorities communicated inefficiently with the population**, starting with the detection of the first – imported – case of infection (March 2020) and later, during the state of emergency regimes. Some improvements, though tardy, have been made in providing data on quarantine restrictions upon arrival in the country. Overall, even after the first eight months of the health crisis, the government has not developed a clear enough strategic vision for managing the pandemic crisis. Also, no ‘crisis communication centre’ has been set up to report, in a professional way and using apolitical language, on the evolution of the pandemic and the actions taken by central and local authorities. On the contrary, the role of communicating information has been dominated by politicians and high-ranking officials (the country’s president, the head and some members of the Executive), who have no training in health/public communication. This has led to disapproval in society, weakening the relation of trust between citizens and the state.

26 Freedom House, Reporters without Borders („World Press Freedom Index”), Transparency International

*The second critical moment in the management of the pandemic was the involvement of the armed forces.* Although the Ministry of Defence has the human resources to strengthen the enforcement of the restrictive regime, the army should be used as a last resort. On the one hand, the premature involvement of the military sends an early message to the population about the inability of the civilian sector to control the situation. On the other hand, if the spread of the infection does not stop, it increases the risk that the image of the guarantor of security, which is what the National Army should be, will be compromised in the short and medium-term. *Last but not least*, the rapid spread of the COVID-19 has deepened the pessimism of the population, after the country reached one of the highest infection levels in Europe.<sup>28</sup> In parallel, the high number of infections among medical staff confirmed that the public health sector is extremely vulnerable (as at 28 August 2020 there were 3,833 cases among medical staff, or about 10 per cent of the total infected population<sup>29</sup>). Insufficient and belated technical endowment, rigid internal organization, weak capacity to respond to new diseases, and fragmented coordination of public-private testing efforts all require a detailed inquiry that can lead

to governance reforms in public health. Despite numerous systemic shortcomings, the medical sector has nevertheless demonstrated great skill and dedication in treating the infected population, with external assistance being provided by the World Health Organization, the EU and its member states (Romania, Poland, Hungary, etc.), NATO, China, Russia and the USA. The low level of preparedness of the state for crisis situations, as well as the inability of the authorities to adapt in a short time to an exceptional public agenda, show a low degree of resilience on the part of the country. The state's scarce resources have been further compromised due to frequent violations of restrictions by the authorities – in particular, by President Igor Dodon and Prime Minister Ion Chicu (non-compliance with quarantine, violation of pandemic restrictions for public and private events, etc.). Independent authorities must seriously study the shortcomings in the health crisis management in order to identify and remove the gaps in the event of other probable shocks, such as severe climatic conditions, impaired agri-food production, limited drinking water resources, and energy security and hybrid threats (involving external forces or relating to the separatist Transnistrian region).

**Restoration of the political independence of the key institutions responsible for the proper functioning of the rule of law was inconsistent and complicated.**

Regaining autonomy from political influence is a major priority for the country's state institutions. Due to the systemic importance of the functioning of the rule of law, the changes within the Constitutional Court and the General Prosecutor's Office have attracted special attention. More precisely, from the autumn of 2019, but especially in 2020, these institutions have adopted decisions that, contrary to the previous practices of political interference, were wholly legal. However, their decisions did not avoid political interpretation and accusations. The representatives of the Pres-

idency, the executive and the governing coalition – the Socialist Party (PSRM) and the Democratic Party (PDM) – disapproved of some decisions of the Constitutional Court, led by Domnica Manole, regarding it as an extension of the opposition. The government's reaction was a response to the Court's ruling on the unconstitutionality<sup>30</sup> of the procedure for revising the State Budget by the government, the negotiation of the € 200 million Russian loan, and the disproportionate sanctions imposed during the pandemic (e.g. fines of over MDL 20,000 for non-compliance with the quarantine).

<sup>28</sup> Ministry of Health, Labour and Social Protection of the Republic of Moldova, *Weekly Report on COVID-19*, 17 August 2020, <https://msmps.gov.md/minister/comunicare/covid-19/>. On 17 August 2020, the Republic of Moldova ranked fourth in the number of infections – 8,688 cases per million population – and 12th in deaths – 257 deaths per million population.

<sup>29</sup> *The Caucasus Eastern Partnership states (Armenia, Azerbaijan and Georgia) are not included in the Ministry's assessments, although Armenia has one of the worst results in the region.*

<sup>30</sup> *Decision of the Constitutional Court of 13 April 2020 on the assumption of liability by the Government, decision on 7 May 2020 on the Russian Federation's loan, and decision on 30 June 2020 on fines, <http://www.constcourt.md>*

A similar negative attitude towards the activity of the General Prosecutor's Office was observed from the opposition – the Action and Solidarity Party (PAS) and the DA Platform. They suspect the Prosecutor General, Alexandr Stoianoglo, of loyalty to the Socialist Party and to President Igor Dodon. The reason for this distrust is due to the inconsistency in investigating suspicions of illegal financing of the Socialist Party, attributed to the Russian Federation, and the oligarch Vladimir Plahotniuc, who is self-exiled in the USA. Despite pressure from the parliamentary opposition, the Prosecutor's Office reiterated that it operates in strict accordance with the constitutional principle of separating the legislature from the judiciary.<sup>31</sup> In the 2019–2020 period, the investigation of the 'theft of the USD billion' has moved forward, with the establishment of cooperative relations with 19 states for the recovery of stolen money, including

by setting up a joint investigation with the Latvian prosecutor's office.<sup>32</sup> A request for the extradition of Vladimir Plahotniuc, accused of several crimes, including 'stealing the USD billion', was also formalized and sent to the USA. However, so far, the stolen money has not been recovered. Restoring the credibility of the Prosecutor's Office depends on its continued depoliticization – a process that involves expelling corrupt staff, increasing institutional transparency and disavowing political accusations by educating the public (citizens, private entities, diplomatic missions) about the real powers and legal limits of the Prosecutor's Office. Moreover, public trust in the Attorney General depends on the quality of communication on notable cases – 'USD billion theft', the funding of the PSRM, President Dodon's sources of income, and political corruption involving the groups of Adrian Candu and Ilan Shor.

### Political corruption and tension between the ruling power and the opposition has reduced the government's room for manoeuvre.

At the beginning of the year, in March 2020, the PSRM and PDM coalition ensured a functioning government and a comfortable majority in Parliament (62 deputies out of a total of 101). However, the abandoning of the PDM by the group of Adrian Candu (a relative of the oligarch Vladimir Plahotniuc) caused an avalanche of other departures, which deprived the governing coalition of a parliamentary majority (as at 28 August 2020 it had 50 deputies). As in the 2015–2016 period,<sup>33</sup> the main assumption is that political corruption is causing 'political migration'. The PSRM retaliated against the intention of Candu's group (ex-PDM) to destroy the parliamentary majority (50 + 1 votes) and the failed attempt to dismiss the Ion Chicu government. The gravity of the political conflict was illustrated by the enormous pressures – from alleged bribery (Candu's group) to physical intimidation (the PSRM and Candu's group) – exerted by the two political entities on the PSRM Member of Parliament Ștefan Gațcan. It is true that in some vital dimensions, such as the introduction of

the state of emergency (March 2020), the denunciation of party switching (June 2020), and the law on NGOs related to EU assistance (June 2020), the parliamentary parties have shown political will to reach a tactical consensus and a unanimous vote. Also, the PSRM, PAS and the DA Platform ignored the risks of spreading Covid-19 when they supported their candidates in the new parliamentary elections in Hâncești (15 March 2020). At the same time, attempts to deviate from the 'rules of the game' persist. For instance, the parliamentary majority led by the PSRM has repeatedly avoided legislative procedures (in initiating negotiations for the Russian loan, in assuming responsibility by the government for amending the budget) or exploited their gaps (speeding up the procedures for examining the vote of no confidence against the Chicu government in July 2020). These actions disadvantaged the opposition and generated unconstitutional situations, which were identified and, where possible, corrected by the Constitutional Court.

31 Declaration of the General Prosecutor's Office, 30 June 2020, <http://procuratura.md/md/news/1211/1/8369/>

32 Ziarul de Gardă, 12 August 2020, <https://www.zdg.md/importante/igor-dodon-prezinta-cifre-despre-recuperarea-banilor-din-furtul-miliardului/>

33 In 2015, under suspicion of political corruption, over 20 ex-PCR and ex-PLDM deputies contributed to the formation of a governing coalition in 2016, controlled by oligarch Vladimir Plahotniuc.

## Digitalizing the Parliament's work, and securing voting and media freedom during the pandemic, are urgent requirements.

Due to the state of emergency and infections among deputies, the Parliament's work has been considerably restricted and virtual tools have not always been used to replace regular sittings. The incidence of infection among parliamentarians (PSRM, PDM, DA Platform, Shor Party) and ministers perpetuates the risk of the activity of state institutions being interrupted. During the state of emergency (17 March – 15 May 2020), out of 11 existing standing parliamentary committees, the most online meetings were organized by the Committee on Legal Affairs, Appointments and Immunities, while some committees did not hold any meetings at all,<sup>34</sup> In this context, the profile of the President and the government came to the fore in the public space. Although, according to the constitutional provisions, the Parliament is the primary institution in the governing process, the pandemic has substantially reduced its role, which has been replaced by members of the executive branch. In preparation for the November 2020 presidential elections, both Parliament and the Central Electoral Commission (CEC) are to take the necessary mea-

asures to ensure proper sanitary conditions at polling stations and prepare the regulatory framework to facilitate the registration of citizens returning from abroad to participate in the election.<sup>35</sup> Actions by the authorities aimed at countering disinformation about the pandemic were selective, blocking about 50 web pages with dubious content in the Romanian language, without extending the restrictions to Russian-language sources. The decision of the Audiovisual Council to demand the application of (self-) censorship by the press that had critically reported on the government's crisis management was annulled after public pressure. Public pressure was also strong in responding to the rhetoric of the prime minister regarding his critics. The mobilization of public opinion against the restrictive impulses of the authorities was due to civil society organizations, which united around the need to streamline public spending during the pandemic, the adoption of the Law on NGOs, the justice reform, the protection of the independence of the Constitutional Court, and the implementation of the EU Association Agreement.

## Interactions between trade unions and the authorities have been boosted as a result of the health crisis.

The return of Moldovan migrants due to the deteriorating economic situation in most destination countries is putting pressure on the domestic labour market. The International Organization for Migration estimates that the unemployment indicators could double by the end of 2020 (to about 80,000 people<sup>36</sup>). Meanwhile, the working conditions in the Republic of Moldova are unsatisfactory, including as regards the sustainability of pensions, motivating people to think about alternatives abroad (about 47 per cent of employees).<sup>37</sup> In order to protect employees already involved in the economy, the social partners – the trade unions

and the employers' associations – have asked the government to cover expenses for 'technical unemployment' in the conditions of the pandemic. In the same context, within the legislative process, the trade unions have spoken out on: 1) granting benefits to the families of medical workers infected during their work, and health care provision for medical staff; 2) the operation of amendments to the Labour Code that would allow the recall of employees on leave without their written consent (i.e. by force); and, 3) the need for technical support to ensure epidemiological safety and social protection of teachers.

<sup>34</sup> Number of online meetings during the emergency period: Public Administration Committee (1); Committee on Agriculture and Food Industry (2); Committee on Culture, Education, Research, Youth, Sport and the Media (3); Public Finance Control Committee (3); Human Rights and Interethnic Relations Committee (0); Economy, Budget and Finance Committee (2); Legal Affairs, Appointments and Immunities Committee (7); Environment and Regional Development Committee (0); Committee on Foreign Policy and European Integration (2); Committee on Social Protection, Health and the Family (1); National Security, Defense and Public Order Committee (2).

<sup>35</sup> Promo-Lex, Report No. 1: Moldovan presidential election observation mission from 1 November 2020.

<sup>36</sup> International Organization for Migration, IOM rapid field assessment of the impact of COVID-19 on the wellbeing of the Moldovan diaspora: an evidence base regarding migrants' coping strategies and contributions, [https://moldova.iom.int/sites/moldova/files/documents/IOM%20Diaspora%20Survey%20Report-EN\\_FINAL.pdf](https://moldova.iom.int/sites/moldova/files/documents/IOM%20Diaspora%20Survey%20Report-EN_FINAL.pdf)

<sup>37</sup> Syndex, Friedrich Ebert Stiftung, 'Situation of the employees in the Republic of Moldova: a structural crisis', 2019.

## External anti-Covid-19 solidarity has reduced the country's external isolation.

The government has not given up its 'multi-vector' foreign policy, which has blocked some channels of communication with the West, but the deepening of the health crisis in the Republic of Moldova has indirectly generated openness and solidarity among foreign actors. The EU and several Member States have provided financial or technical assistance and humanitarian aid, in the form of equipment purchases or donations. Additional aid has come through international organizations (United Nations agencies, the IMF, the World Bank, etc.). China's and Russia's health diplomacy has also mainly consisted of humanitarian aid. On various occasions, the central authorities' public discourse has highlighted Russian and Chinese aid, despite the fact that the most relevant and consistent assistance has been provided by European partners (up to € 300 million). The government has also ignored Russian disinformation, which has sought to discredit the EU's solidarity at home

and towards its eastern neighbours. The implementation of the Association Agreement has continued, but without remarkable progress. Following the fulfilment of the conditions, the macro-financial assistance was received, but late and without the third tranche (€ 40 million). The liberalized visa regime with the EU has been partially disrupted due to the travel restrictions for countries with a high infection rate, such as the Republic of Moldova. In an attempt to control the spread of the infection, separatist forces have restricted access to the country's constitutional territory, blatantly violating the right to free movement. The settlement of the Transnistrian conflict as such did not move forward. In turn, the more frequent high level political contacts between Chisinau and Tiraspol raised the suspicion of an intention to transport voters from the region to favour the pro-Russian candidate in the 2020 elections, as happened in the 2016 elections.

## Policy Recommendations

### ● ***Carry out an evaluation of the management of the health crisis in order to identify the normative, institutional and technical gaps that weaken the state's resistance to crisis situations:***

- Setting up a Parliamentary Commission to investigate the measures taken by the authorities during the pandemic and mapping the state's fragility in crisis situations.
- Evaluation and improvement, based on the experience of the pandemic, of the institutional response capacity and the degree of technical and human skills, but also the updating of external cooperation within civil protection mechanisms (EU, NATO, Commonwealth of Independent States) for new exceptional situations.
- Elaboration of a regulation at the governmental level on the 'stress testing' of the institutions responsible for crisis management, by replicating the 'Regulation on the organization and conduct of antiterrorism tests' on critical infrastructure.
- The equal application of pandemic restrictions, and of sanctions, for citizens and officials.

- ***Amending the regulatory-legal framework to prevent and combat political corruption within the legislature:***

- Strengthening the financial reporting mechanisms of parties by engaging with the Court of Accounts and the State Fiscal Service, but also the strict application of the sanctions policy by the CEC (CEC Regulation on financing of political parties – art. 92-93, Law on the functioning of the Court of Accounts - Article 32).
- Increasing the CEC's technical capacities in respect of monitoring the financial donations offered to parties by Moldovan migrants or the diaspora.
- Amendment of the Electoral Code and of the Law on Political Parties in order to introduce a mechanism of concrete sanctions for political corruption cases (bribery, money laundering), which will prevent changes of the political composition of the already elected Parliament via active or passive acts of corruption.
- Accelerating the reform of the judiciary, with a focus on the integrity of judges and prosecutors, and with the mandatory participation of pan-European international organizations and civil society, among others.

- ***Digitalization of parliamentary democracy to prevent bottlenecks in times of crisis:***

- Revision of the regulation of Parliament with a view to rendering it compulsory to use digital tools in order to ensure business continuity in both the standing committees and the legislature in crisis situations.
- Development of IT infrastructure (including the presence on the basic social networks) in Parliament, but also in other public institutions, in order to guarantee the continuity of the legislative and executive activities of the state in situations of emergency, while avoiding contagion risks.
- Adjusting the regulation of Parliament and the Law on Decisional Transparency to update the mechanisms for online public consultations and to strengthen the cyber security of the participatory consultation process.

- ***Intensify cooperation between trade unions and the authorities to adjust legislation to crisis situations:***

- Regulation of remote work ('telework') with respect to the right to remuneration, leave, etc.
- Update health and safety rules at work for health crisis situations (doctors, teachers, etc.).
- Digitalization and automation of work to ensure effective versatility between conventional and 'distance' work or education (technical equipping, IT literacy).
- Ensuring the presence of mechanisms to prevent domestic violence during homeworking.

• **Updating the mechanisms of European integration and de-personalization of bilateral relations with the Russian Federation:**

- Setting up a multilateral platform (EU–government–civil society) to assess objectively the fulfilment of conditions for future EU financial assistance.
- Updating and adopting the Association agenda for the 2020–2022 period, for the implementation of the Association Agreement, by organizing public consultations with stakeholders and including public health (provision of equipment, tests, and also the purchase of anti-Covid-19 vaccines) and civil cooperation at the top of immediate priorities.
- Attracting long- and short-term international observers to discourage any form of manipulation of the 2020 presidential election.
- Qualitative revision of Moldovan–Russian relations, in the post-electoral context, by strengthening the institutional cooperation framework and considerably reducing the personal factor, as well as eliminating the role of informal contacts at the level of country leaders.

**Table 9.**  
Key governance indicators monitored

	2016	2017	2018	2019	2020
Total public spending, per cent of GDP	30,1	30,5	31	29,9	33
Budget deficit, per cent of GDP	-1,6	-0,6	-0,8	-1,4	-10
Global Competitiveness Report, sub-component 'Institutions'	128 <i>(out of 138 countries)</i>	119 <i>(out of 137 countries)</i>	84 <i>(out of 140 countries)</i>	81 <i>(out of 141 countries)</i>	n.a.
Corruption Perception Index, Transparency International	128 <i>(out of 176 countries)</i>	128 <i>(out of 180 countries)</i>	117 <i>(out of 180 countries)</i>	120 <i>(out of 180 countries)</i>	n.a.
Number of corruption-related sentences, per cent of total <sup>38</sup>	84 <i>(182 cases)</i>	90 <i>(214 cases)</i>	87 <i>(321 cases)</i>	88 <i>(333 cases)</i>	n.a.
Number of acts (draft laws, regulatory acts) subjected to public consultations, per cent of total <sup>39</sup>	59,1 <i>(out of 1,645 approved acts)</i>	78,3 <i>(out of 1295 approved acts)</i>	79,4 <i>(out of 1434 approved)</i>	90 <i>(out of 1221 approved acts)</i>	n.a.

Source: NBS, Ministry of Finance, National Anticorruption Centre, Court of Accounts, State Chancellery, Transparency International, World Economic Forum, authors' calculations

<sup>38</sup> NAA Report, [https://cna.md/public/files/Studiu\\_sentinte2019.pdf](https://cna.md/public/files/Studiu_sentinte2019.pdf)

<sup>39</sup> Data on the proportion of acts adopted by the government and subordinate authorities out of the total number of acts on which the public were consulted, published on [www.particip.gov.md](http://www.particip.gov.md), published on <https://cancelaria.gov.md/ro/advanced-page-type/rapoarte-0> and verified with the State Chancellery.

## WHO WE ARE

**Expert-Grup** is a think-tank that specializes in economic research and public policy analyses. **Expert-Grup** was established in 1998 and started its research activity in 2006. We position ourselves as a politically and ideologically neutral organization, and we do not represent any economic, corporate or political interests.

## OUR MISSION

The mission of the organization is to promote the public interest and to come up with efficient and innovative solutions for the development of the Republic of Moldova. In order to fulfil this noble goal, **Expert-Grup** provides the necessary creative and institutional environment, encouraging the expression of free thinking, which makes us a leading source of unbiased economic analysis.

## FOUR CORE VALUES OF EXPERT-GRUP

1. **Independence and objectivity** – We encourage creative and critical thinking. We remain independent of any political or ideological influences.
2. **Integrity and transparency** – We use robust, relevant and transparent analytical tools. All sources used for research are quoted and all contributors to research are mentioned.
3. **Quality and relevance** – We aim to produce high-quality analytical products addressing topical issues for the economic and social development of Moldova.
4. **Avoiding conflicts of interest** – We do not accept activities and partnerships that are contrary to our values or that may undermine our independence.

## 10 PRIORITIES OF EXPERT-GRUP

1. A functional market economy: free competition and the protection of property rights.
2. Reasoned and rational economic and social policies, developed in the interest of citizens.
3. Free trade based on real competitive advantages.
4. An efficient, transparent and accountable public sector.
5. A business climate that is friendly and appealing for SMEs.
6. Fair labour market conditions for both employers and employees.
7. A flexible educational system that is connected to the economic, social and demographic realities.
8. Equal access to economic and social opportunities for all citizens.
9. A society that is familiar with the economic trends and basic principles of the economy.
10. Balanced regional development.

## WHO WE ARE

**Friedrich-Ebert-Stiftung** (FES) is a German political social-democratic foundation, which aims to promote democracy, peace, international understanding and cooperation. **FES** performs its tasks in the spirit of social democracy and participates in public debates to identify social-democratic solutions to current and future issues in society.

## FES IN MOLDOVA

In the Republic of Moldova, **FES** aims to foster European integration, democracy, peace and social justice through political dialogue, education and research. Our main areas of activity are the following:

### Democratization and political participation

The Republic of Moldova faces challenges related to strengthening its democratic institutions and developing a democratic culture that would make the country fully compliant with the standards of the EU. **FES** contributes to this by promoting political participation in civil society organizations, political parties and local public administration bodies. In this area, **FES** puts a particular focus on building the capacities of citizens in the regions. Citizens should be trained to follow critically and participate in public debates in order to monitor decision-makers, express their views and act in their own interests. Therefore, through its activities, **FES** has committed itself to promoting participatory democracy and citizens' civic and political culture at the local level.

### European integration

The Republic of Moldova is a part of the European Neighbourhood Policy and the Eastern Partnership. **FES** aims to support the European integration process of the country. Through a number of tools, such as radio debates, news bulletins, policy papers, publications and conferences, **FES** focuses on the main challenges related to European integration, facilitating people's access to up-to-date and reliable information on the topic, improving the dialogue between the civil society and decision-makers as regards the requirements for successful European integration, and strengthening, in this way, the efforts of Moldovan authorities to integrate into the EU. Additionally, **FES** supports non-government organizations in contributing to a peaceful resolution of the Transnistrian conflict, as a precondition for successful European integration in the long-term.

### Economic, social and environmental policy

**FES** supports its partners in developing and implementing policies for a sustainable and socially-balanced market economy that is able to address the needs of all citizens. The activity and projects in this area focus on such topics as: reforming social security systems, improving working conditions and labour market opportunities, and fostering sustainable development. Additionally, **FES** runs programmes that aim to promote social-democratic values.



