

STATE OF THE COUNTRY REPORT

THE MOLDOVAN ECONOMY
IN THE CONTEXT OF EUROPEAN INTEGRATION



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Republic of Moldova 2023

STATE OF THE COUNTRY REPORT

În parteneriat cu:



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Abbreviations

AIPA	Agency for Intervention and Payments for Agriculture
CEE	Central and Eastern Europe
CIS	Commonwealth of Independent States
DCFTA	Deep and Comprehensive Free Trade Area
EU	European Union
EUR	Euro
FDI	Foreign direct investment
FACEM	Fund for Entrepreneurship and Economic Growth of Moldova
FES	Friedrich-Ebert-Stiftung
GCEI	Government Commission for European
GDP	Gross domestic product
HoReCa	Hotels, restaurants, cafes
ICT	Information and communication technology
IT	Information technology
MDL	Moldovan leu
NAC	National Anti-corruption Centre
NBM	National Bank of Moldova
NBS	National Bureau of Statistics
NCEI	National Commission for European Integration
NEA	National Employment Agency
OED	Organization for Entrepreneurship Development
p.p.	Percentage points
PPP	Purchasing power parity
R&D	Research and development
SCJ	Supreme Court of Justice
SCM	Superior Council of Magistracy
SME	Small and medium-sized enterprise
USD	US dollar
y-o-y	Year-on-year

Key messages



2023 marked a new historical stage in the Republic of Moldova's European integration process, with the European Commission's recommendation on launching accession negotiations.

This decision comes as a logical continuation after the Republic of Moldova obtained, in June 2022, candidate country status in relation to accession to the European Union (EU). At the same time, Moldova is about to embark on a complex process of negotiations with the EU and alignment with the Community Acquis against a background of weak public administration, a vulnerable economy, a large budgetary deficit and insufficient popular support for the European path. An analysis of the dynamics of political and economic relations between the Republic of Moldova and the EU shows that it has, de facto, always been driven by external constraints/shocks (e.g. the worsening of diplomatic relations with Russia, trade embargoes imposed by Kremlin and, more recently, the war in Ukraine) and, to a lesser extent, by reforms or improved competitiveness of the national economy. However, the European inte-

gration process cannot be driven forever by geopolitical factors amid slow domestic reforms (just as we cannot count indefinitely on financing the budget deficit based on development partners' support). Therefore, Moldova is at a historical turning point: it has a real (and probably a last) chance to capitalize on the credit of trust offered by the EU. So, the number one priority under these circumstances is related to strengthening the public administration by raising wages for public servants along with improving governance mechanisms: decision making transparency, performance indicators, institutional flexibility, accountability and, last but not least, effective engagement with civil society. Without real improvements in these critical areas, the country's European integration process will remain reversible, slow, and full of missed opportunities.

The Moldovan economy continues to be affected by a series of systemic problems that do not allow for a more accelerated convergence with other countries in the region.

Although the gap between the Republic of Moldova and other countries in Central and Eastern Europe (CEE) in regard to economic development is gradually narrowing, the pace of this process is quite slow. Gross domestic product (GDP) per capita (expressed as purchasing power parity (PPP)) increased from 30 per cent of the

average of CEE countries in 2010 to 36 per cent in 2022. In addition, labour productivity is de facto half the average of the CEE countries, which shows the low degree of technological endowment of Moldovan companies and the predominance of sectors focused on the production of goods and services with low added value.

After the 2022 economic recession, the economy is set to return to growth, but at too slow a pace.

In fact, 2023 will be the first year in two decades that growth will not be sufficient to offset losses from the previous year's recession. For 2023, we forecast an increase in GDP of only about 3.3 per cent, with this being propelled by the compensatory growth in agriculture of about 30 per cent due to a relatively favourable year for this sector. Without the contribution of agriculture, the economy would almost have stagnated. Industry and domestic trade

are set to stagnate due to weak domestic and foreign demand, and construction is set to remain in the red due to the high level of uncertainty and declining investment activity. Weak domestic demand will reduce imports, which will support the balance of payments and the national currency, but will negatively affect the budget balance, which is largely dependent on import receipts. Overall, however, the economy will still grow.

In 2024, the economy will grow at only 2.6%, being below its potential, because of weak domestic and external demand, and high uncertainty.

The slowdown in economic growth will be determined by the dissipation of the effects of recovery in agriculture, while other sources of growth will remain rather tepid. Thus, on the grounds of still high inflation in EU and, consequently, restrictive monetary and financial conditions, cou-

pled with the prolonged war in Ukraine and other sources of security destabilization in the world (e.g. Middle East crisis), the demand, both external and domestic, will remain low, while uncertainty will undermine investments.

One potential source of economic growth is the excess of liquidity in the banking system; however, the Republic of Moldova continues to be far below the average for countries in the region in terms of lending to the private sector.

Companies' insufficient capitalization, coupled with their limited access to bank loans, translates into technological underdevelopment: they use bank credit mainly to finance their current activities rather than investment projects. Effective meas-

ures to increase financial intermediation are therefore needed, which respond to the obstacles companies face in accessing finance, which are both cyclical and structural in nature.

Another area with great unexplored potential is the labour market, which is characterized by one of the highest rates of economic inactivity in Europe, in parallel with an increase in labour shortages.

The problem of a lack of labour is being reported more and more often by employers. The labour-force deficit is also determined by a very low employment rate, of about 42 per cent (in 2022): much lower than the average for countries in the region (about 60 per cent). At the same time, according to Expert-Grup's

calculations, in the coming years it is estimated that the gap between the demand for, and supply of, labour will deepen further, reaching around 25 per cent. The problems related to insufficient labour and underemployment are multi-dimensional, and an integrated approach is required in order to resolve them, one

which is not limited to aspects related to remuneration, but which also integrates other important aspects, addressing reconciling professional and personal lives, the availability of childcare services, and greater integration into the labour market of groups of people who are often excluded from the economic space (peo-

ple with disabilities, elderly people, etc.). Moreover, a focus should also be placed on the development of human capital and ensuring the conditions are in place for continuous training of the workforce, so that it is able to support the technological and digital transformation of the economy.

An overly complex framework of strategic documents, poor inter-institutional coordination in the strategic planning process, and the lack of a robust financial envelope have all undermined Moldova's ability to achieve many development objectives.

There is a need not just for better coordination between policy documents, but also for adequate funding for committed policy objectives. The "European Moldova 2030" National Development Strategy was adopted at the end of 2022. This sets the priorities for robust, sustainable and inclusive economic recovery. The success of the implementation of the strategy will, however, depend on its coherence with other policy documents, and on the identification of resources for implementing the necessary measures. Against a

background of limited own budgetary resources, attracting external assistance will be indispensable. A significant window of opportunity is represented by Moldova's status as a candidate country for EU accession, which facilitates the access to preferential funds for development. In order to capitalize on these potential resources, the Republic of Moldova must demonstrate that it has strong institutions and good absorption capacity, as well as viable projects that the given funds can be channelled towards.

Against the backdrop of multiple overlapping crises, companies are still in a wait-and-see mode, with moderate optimism, while investments are aimed more at technology and means of transport and less at new production facilities.

Having seen a substantial increase in energy, logistics and financing costs, while also facing the need to reconfigure supply and sales chains, Moldovan companies are still not fully convinced that the government is able to establish a stable and favourable climate for economic growth. However, data from the Business Barometer – a sociological survey carried out in December 2022 and May 2023 on a sample of more than 400 businesses – indicate an improvement in perceptions. Thus, the general index of the Business Barometer has improved – from -33.4 per cent in December 2022 to -19.2 per cent in May 2023 – nevertheless, the share of companies with pessimistic expectations remains higher than that of com-

panies expecting positive developments. The negative evolution of investments in residential buildings, production premises and infrastructure is mitigated by an increase in investments in technologies and means of transport. With respect to the former, figures for the first half of 2023 reveal a decrease of 4.9 per cent year-on-year (y-o-y). By type of fixed assets, the biggest decrease was in investments in the residential sector (-31.1 per cent y-o-y), but also investments in engineering constructions (-11.5 per cent) and non-residential buildings (-10.8 per cent). At the same time, there is a positive increase for investments in means of transport (+19.0 per cent), as well as in machines and equipment (+3.8 per cent).

The weak rule of law in Moldova continues to undermine the prospects for more meaningful and dynamic economic development in the long term.

International ratings reveal improvements in perceptions of the level of corruption and the framework for innovation, but also a worsening in perceptions of the level of economic freedom. In the Corruption Perceptions Index, carried out by Transparency International, the Republic of Moldova saw a seven-point increase between 2019 and 2022, and a jump in its ranking from 120th to 91st place in 2022. Also, the 2022 edition of the Global Innovation Index places the Republic of Moldova in 56th place out of 132 analysed economies, a climb of eight positions. According to this Index, the main strengths of the Republic of Moldova in regard to ensuring an adequate framework for innovation are the amount of public spending on education in relation to GDP, exports of information and communication technology (ICT) services, the value of trademarks by origin, and

the creation of mobile applications. At the same time, the vulnerabilities listed relate to the precarious level of development of clusters, policies for conducting business, logistics performance, and the level of collaboration on research and development (R&D) between universities and the private sector. Similarly, in the 2023 edition of the Economic Freedom Index, carried out by the Heritage Foundation, the score of the Republic of Moldova is 58.5, down by 2.5 points compared to last year's edition, thus moving the country from the "moderately free" category to the "more unfree" status. This decrease can be explained by the state of emergency established in the country since the beginning of the Russian aggression in Ukraine, which amplifies the risk of expropriation and reduces the enforceability of contracts, as well as weakening property rights.

The banking sector remains resilient and safe, but it is still far from fully fulfilling its primary function of financial intermediation.

As of 31 August 2023, the ratio of own funds in the banking sector was 31.6 per cent, an increase of 2.1 percentage points (p.p.) since the beginning of the current year, and well above the minimum limit of 10 per cent provided for in legislation. The liquidity coverage ratio (LCR) exceeds 240 per cent, while the minimum value of the indicator is set at 100 per cent. Despite the numerous crises, the quality of the credit portfolio in the banking sector has deteriorated only insignificantly. Thus, in 2022, the share of non-performing loans increased by 0.3 p.p., up to 6.44 per cent, and since the beginning of the year by another 0.29 p.p., up to the value of 6.73 per cent recorded in August 2023. At the same time, there has been a reduction in financial intermediation, so that the loans/ deposits ratio decreased from 0.65 in 2022 to 0.59 in August 2023. The level of intermediation remains below potential, including compared to the histori-

cal level of 0.81 recorded in 2013, although the parameters to aim for today are even higher. This can be explained by factors that affect both supply and demand, namely: i) banks continue to opt for less risky alternatives to generate income, ensuring the pressure in granting loans and exposure to risk is reduced; ii) compared to banks in other countries in the region, which manage to attract other capital to finance the economy, such as issuing bonds, Moldova's domestic banking sector is almost exclusively dependent on attracting savings (which are predominantly short-term), considering the fact that the Republic of Moldova has limited access to external capital markets; and, iii) the weak entrepreneurial culture means that many businesses are not "bankable"/ eligible for accessing financing, and others are not aware of the opportunity to scale businesses through attracting and accessing capital.

The purchasing power of the population has been substantially eroded by accelerating inflation, reducing household final consumption; high prices will continue to be a challenge for many families.

Although the real average gross wage and real average pension increased in quarter 2 of 2023 (Q2:2023), the pace of growth was quite slow (1 per cent and 4 per cent growth, respectively, compared to Q2:2022), while the economic growth forecast for the entire year 2023 and 2024 (around 3–4 per cent annually) will be insufficient to allow us to expect a significant increase in the population's income. Added to this is the downward trend of remittances – both nominal and real – received by Moldovan households. The ex-

pected decline in the inflation rate from an average of 13 per cent in 2023 to 5 per cent in 2024 will mean a reduction in the speed with which consumer prices rise, but not a reduction in the level of prices, which will still be beyond the financial means of many households. That is why, in order to maintain social resilience, it is important for the state to continue to implement social protection programmes, while improving their targeting towards the most vulnerable.

Having a job is not a form of insurance against poverty: the phenomenon of the “working poor” is quite widespread in Moldova.

Wages that do not get people out of poverty are one of the determining factors of the high inactivity rate in the Republic of Moldova. In Q2:2023, the inactivity rate of the population aged 20–64 decreased, but still remained high, at 41.2 per cent, which is twice as high as the rate in the EU. According to a forecast for the labour market developed by Expert-Group, in the medium term (2024–2026), the labour supply will increase, being favoured by an increase in real wages. At the same time, against the background of the resumption of economic growth, the demand

for labour will grow faster than the supply, which will intensify labour shortages. In order to solve the problem of labour supply, it is advisable to focus, above all, on attracting the economically inactive population, already present in Moldova, into the labour market. When domestic labour force reserves are exhausted, the employment of foreign workers may be carefully analysed as a possible solution to the problem of the deficit, particularly in terms of policies aimed at culturally and socially integrating the population arriving from abroad.

Special issue: How to increase the economic potential and resilience of the national economy

The economy of the Republic of Moldova continues to be affected by a series of systemic problems, which hinder a more rapid convergence with other CEE countries. The declining labour force, the low volume of investments in technologies and innovation, the low sophistication of national products and the permanent problems related to competition and access to finance, as well as the effects of climate change, lead to reduced competitiveness of domestic entrepreneurs in relation not only to foreign markets, but also within the internal market. Moreover, the recent series of crises shows that the national economy and local entrepreneurs are much more vulnerable to shocks than regional peers. As a result, policy interventions are reactive rather than proactive, aimed more at short-term stabilization rather than laying the foundations for long-term development. Therefore, in order to prepare the national economy for deeper integration with the economy of the EU, the Republic of Moldova needs a new vision on how to stimulate economic potential, with the objective of making the economy more resilient, more inclusive and more connected to regional and global trends.

Structural problems undermining convergence with countries in the region

The economic development gap between the Republic of Moldova and other CEE countries is gradually diminishing, but at a rather slow pace.

In 2022, the GDP/capita at PPP registered by the Republic of Moldova accounted for about 36 per cent of the average indicator calculated for countries of the CEE area, compared to the 30 per cent recorded in 2010. However, although convergence is apparent, it is not linear, having gone through significant fluctuations in recent years. Recent crises have undermined this momentum, indicating that the Republic of Moldova is much more affected by, and feels the consequences

of, recessions much more strongly compared to other countries in the region. Labour productivity, expressed in GDP/per employed person, is almost two times lower the average for CEE countries. In addition to the large share of the informal economy, this productivity gap also points to the problems related to technological complexity and the low degree of innovation of Moldovan companies, and thus the limited capacities to generate added value.

Chart 1.
GDP/capita and GDP/employed person,
compared to the average for CEE countries,
per cent

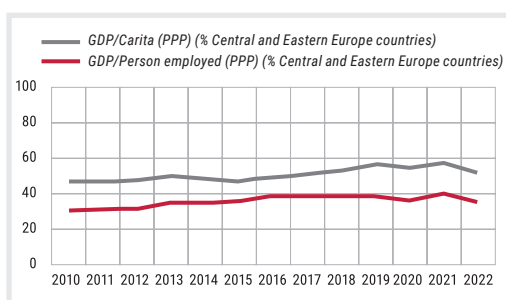
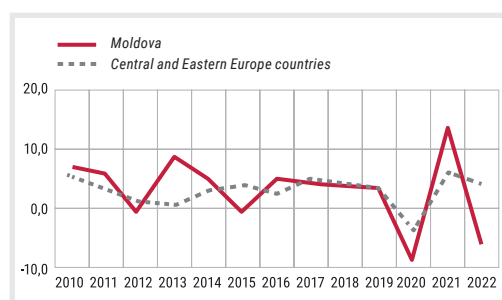


Chart 2.
The GDP growth rate in dynamics for the
Republic of Moldova and the average for
CEE countries, per cent



Source: Authors' calculations based on World Bank data.

Note: CEE includes the following countries: Bulgaria, Croatia, Czech Republic, Estonia, Latvia, Lithuania, Poland, Romania, Slovenia, Slovakia and Hungary.

Although Moldova has moved from the group of low-income to middle-income countries, the poverty rate remains high, with very large urban-rural income gap.

In 2022, about one-third of the country's population was below the absolute poverty line, with extremely large differences between urban and rural areas: 17.1 per cent and 40.1 per cent, respectively. The EU average was 21.7 per cent, with the highest rates recorded by Romania (34.4 per cent) and Bulgaria (32.2 per cent). Moreover, inequality will continue to be an obstacle to the process of developing an inclusive society, amplified by the increasing concentration of economic activity around large cities (mainly Chisinau and Bălți) and

the lack of employment opportunities in the regions. According to Expert-Grup estimates, in the medium term, a strong concentration of employees will continue to persist in Chisinau, where about half of country's employed people will be working, followed by the municipality of Bălți (about 7 per cent).¹ A reduction in territorial disparities, will not be overcome if measures are not taken to sufficiently explore solutions related to the location of economic activities in the regions, in order to seize their local potential.

The persistence of competitiveness problems for Moldovan exports does not allow the full exploitation of the opportunities offered by the European community market.

After shocks to Moldova's trade relations with the Russian Federation, most exporters have managed to reorient successfully towards the EU market, but they have not yet sufficiently capitalized on the benefits that this market offers. Thus, in terms of the geographical diversification of exports, the concentration indices have not recorded substantial improvements after 2014 (when the Association Agreement with the EU and the Deep and Comprehensive Free Trade Area (DCFTA) was signed) – neither for total exports, nor within the community market. There has been no positive evolution of export diversification, even by category of goods. Access to markets is affected by several factors at the macro level, such as constraints related to the regulatory framework in the

field of quality infrastructure, but also at the micro level, such as the quality and design of products, after-sales services, and the distribution network. Moreover, Moldovan exports are characterized by a low level of technological complexity. To overcome this structural problem, an approach aimed at revitalizing manufacturing industries with higher added value is needed. Although industrialization is often invoked by political decision-makers as a priority for the national economy, the Republic of Moldova does not yet have an industrialization strategy that clearly sets out the road map for this sector. While the development of such a document started a long time ago, due to the lack of political continuity, it has not yet been completed.

The Republic of Moldova is not fully exploiting its potential to attract foreign direct investment (FDI), with the volume compared to GDP being lower than that of other countries in the region.²

At the same time, according to World Bank estimates, about one-third of investments relate to cost optimization and efficiency. At the same time, a large part of these are directly channelled to segments of global value chains that are not technologically sophisticated (e.g. wiring assembly). Another peculiarity of FDI in

Moldova is that about 40 per cent of the FDI stock comes from Cyprus and Russia (according to data from the end of 2021³), and this may mean that the investments in question are "recycled capital" that was previously taken out of the country as a result of tax evasion, corruption or other illegal schemes. Further, consider-

¹ https://www.anofm.md/view_document?nid=20474

² <https://unctadstat.unctad.org/wds/TableViewer/tableView.aspx>

³ Coordinated Survey of Direct Investments by country, <https://www.bnm.md/bdi/pages/reports/dbp/DBP2.xhtml>

ing trends in the labour market, models of attracting foreign investment based on cheap labour are no longer valid and must be reoriented towards investments in more complex economic activities with higher added value. Likewise, new FDI inflows should be oriented towards integrating local suppliers into international technology and supply chains. An

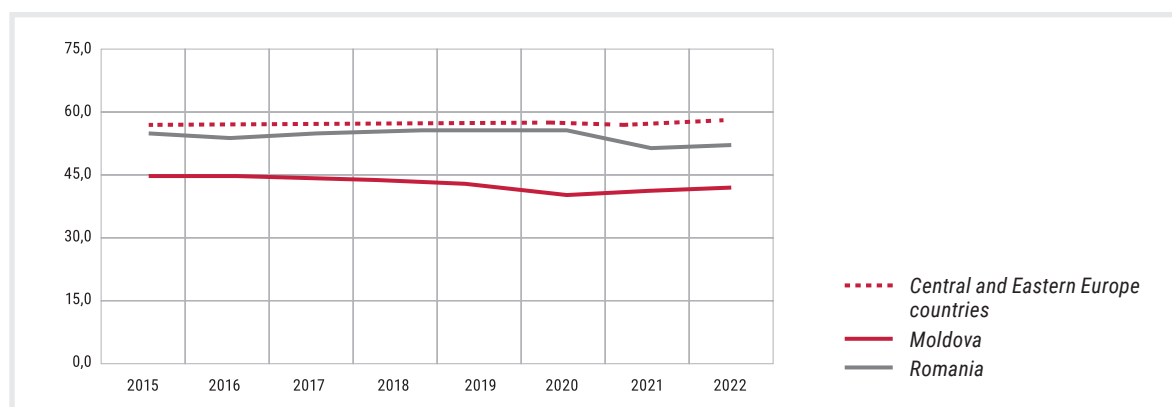
opportunity in this regard is served by the EU's post-Covid-19 policy, which focuses on the regionalization of production and the shortening of supply chains in order to reduce dependence on Asian countries. Thus, the Republic of Moldova must carefully monitor developments at the European level and capitalize on new opportunities.

The downsizing of the workforce increases the risks to the sustainable development of the economy.

Two decades of population decline in the Republic of Moldova have left a negative imprint on the country's socioeconomic development prospects. Although, at the moment, Moldova still has a demographic dividend (59.6 per cent in 2022),⁴ however, in the coming decades, generations larger in number will reach the retirement age, while only generations smaller in number will enter the labour market. Population ageing and declining replacement rates will have negative implications for two important dimensions: (i) labour availability, and (ii) the sustainability of the pension fund. The problem of labour availability is already being reported by many employers. At the same time, according to Expert-Grup's estimates, in the medium term the gap between the demand for, and supply of, labour will increase, so that, by the year 2026, it is forecast to reach around 25 per cent (for 2023 the estimated gap is 8.2 per cent). The labour-force deficit is also determined by a very low employment rate – about 42

per cent (in 2022), much lower than the average for the countries in the region (around 60 per cent). The large share of the inactive population points not just to problems related to salaries, which are not attractive enough, but also to working conditions that do not allow, for the most part, the reconciliation of professional and family roles. Likewise, with higher wages in European countries, labour emigration will continue to persist, deepening the gap between supply and demand. In this context, it is obvious that economic activities that are based on the intensive use of labour (i.e. labour-intensive) and that rely on cheap labour, such as those operating under the Lohn regime (inward processing tradet⁵), will no longer be able to address the challenges of labour shortages. Moreover, to achieve sustainable growth, the focus should be on developing well-trained human capital with capabilities to support the technological and digital transformation of the economy.

Chart 3.
Employment rate, per cent



Source: Authors' calculations based on World Bank data.

⁴ A demographic dividend occurs when the working-age population accounts for 55% or more of the total population.

⁵ Allows imported raw materials or semi-manufactured goods to be processed for re-export

The national economy suffers from a chronic lack of investment resources, which translates into technological underdevelopment; limited access to bank credit exacerbates this problem.

The relationship between the financial sector and economic growth has been analysed in numerous studies, and empirical evidence demonstrates that financial intermediation creates the necessary conditions for economic development, contributing to the real growth of GDP per capita, gross capital formation and improved efficiency in how economies use capital. Therefore, a reduced degree of financial intermediation represents a missed opportunity to stimulate eco-

nomical growth. The low level of lending to the private sector in Moldova reflects problems related to access to finance. The Republic of Moldova is far below the average for countries in the region in terms of lending to the private sector (loans granted to companies and the population), at only about 30 per cent to GDP, compared to other CEE countries, where this share is about 45 per cent, or about 90 per cent on average in the EU countries.

Domestic companies remain poorly capitalized, with insufficient capacity to self-finance investment projects.

At the same time, companies' appetite to resort to contracting loans from the financial system is reduced. If we refer to lending to companies, the stock of loans granted accounts for about 15 per cent of GDP (end of 2022). The concentration of enterprises, especially small and medium-sized enterprises (SMEs), in sectors with high volatility in respect of economic efficiency and a high sensitivity to external shocks does not ensure predictability and economic stability in the medium and long term. The feeling of uncertainty, accompanied by other aspects related to high credit costs and collateral requirements, represent systemic barriers to accessing finance.

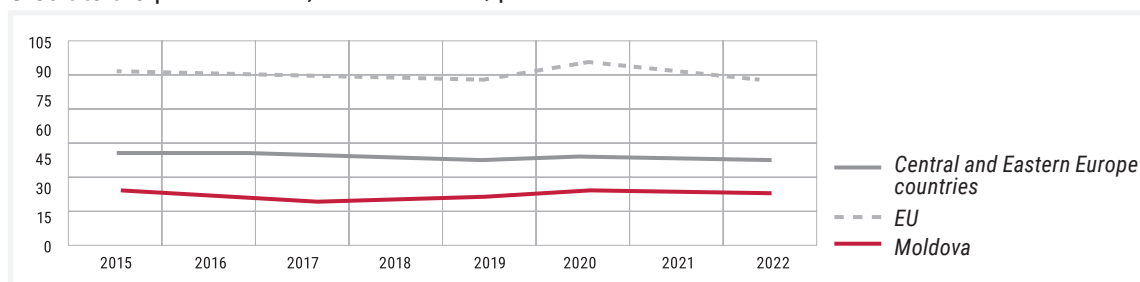
In the sector, in regard to the structure of the portfolio of loans provided to legal entities, the largest share belongs to trade, with almost 40 per cent of the total, while, incidentally, lending to manufacturing accounts for less than 18 per cent. Businesses mostly turn to short-term loans to meet temporary cash/ liquidity needs, while the proportion taking out loans for investment projects is insignificant. For example, in the first half of 2023, the banking system provided new loans to legal entities worth MDL 18 billion, of which the share of those with a term of over five years is only 7 per cent.

Financial intermediation problems inhibit the structural change of the economy to one with higher added value.

The low degree of financing of long-term investments is determined by the high-risk aversion of lending institutions, coupled with the inability of the financial system to provide long-term financing. This is another constraint on the intermediation process. This situation is caused

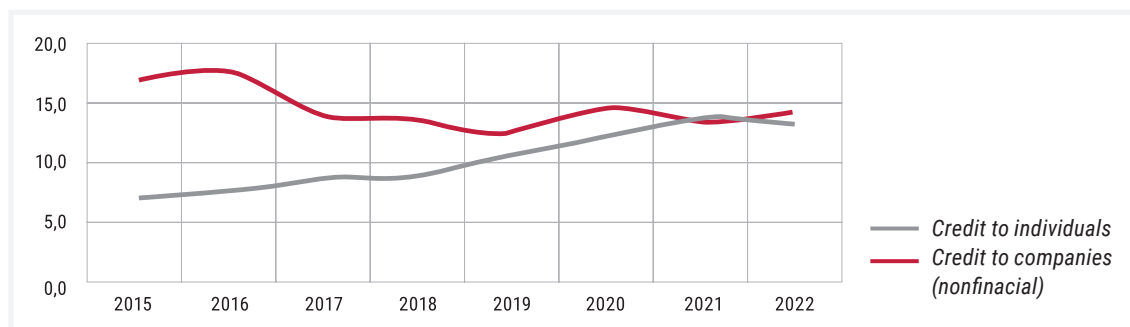
by banks' attraction of mainly short-term resources (about 80 per cent of total new deposits attracted by local banks in 2022 were with a term of up to two years) and the lack of "patient" institutional investors who have long-term resources, such as pension and investment funds.

Chart 4.
Credit to the private sector, relative to GDP, per cent



Source: Authors' calculations based on World Bank, NBM, and National Commission for the Financial Market data.

Chart 5.
Lending to households and firms, relative to GDP, Moldova, per cent



Source: Authors' calculations based on World Bank, NBM, and National Commission for the Financial Market data.

Moldova failed to fully ensure the conditions of fair competition for entrepreneurs.

Several factors continue to distort market competition, such as: (i) the extensive presence of state-owned companies in some sectors, which operate in the absence of competitive neutrality;⁶ (ii) insufficient monitoring and evaluation of “state aid” provided in various forms, including subsidies; (iii) the presence of obscure capital; and, (iv) the perpetuation of certain tax regimes and facilities. At the same time, the channelling of state resources to entrepreneurs who really need support to maximize their growth potential is hampered by the presence of many affiliated companies, but also by the large size of the informal economy. This

creates difficulties in the effective implementation of state intervention tools, so that they better target the needs of entrepreneurs. Additionally, in the context of an increasing integration of domestic entrepreneurs with the EU economy, it is necessary to evaluate the criteria that define access to support from the state, including the ceiling for what we call SMEs. The fact that only local entrepreneurs with a turnover of up to EUR 5 million can benefit from support programmes undermines their competitive advantage compared to EU entrepreneurs, who can benefit from support if they do not exceed a turnover of EUR 50 million.

Public investment in sustainable infrastructure is much lower than EU states, which represents another constraint on economic growth.

The national public budget assigns very high shares to recurrent expenditures, while investment-oriented expenditures remain fragmented and characterized by chronic under-execution. The national public budget expenditures for capital investments are modest (about 3 per cent of the total, while the EU average is about 7 per cent) and largely depend on the financial resources attracted within specific external projects for capital investments (about 60–65 per cent). Additionally, the under-execution of capital investments is a persistent problem. This is explained by the limited capacities in

the management of infrastructure projects, which undermines and delays the effective implementation of planned investments. As a result, many funds earmarked for externally financed projects remain unused. In the next years, investments in energy, regional development and transport infrastructure are absolutely necessary, both to improve connectivity with the EU and to capitalize on the opportunity for the Republic of Moldova to become an important logistics centre in relation to the reconstruction of Ukraine.

6 <https://www.imf.org/en/Publications/WP/Issues/2022/03/04/The-Nexus-Between-Public-Enterprise-Governance-Financial-Performance-and-Macroeconomic-513885>

Fiscal space remains limited, and in order to allow for engagement in more development projects, it is imperative to strengthen the collection of revenues for the public budget.

Reforms aimed at mobilizing domestic revenues should not necessarily be seen through the lens of increasing taxes and fees, but rather should aim at strengthening the general anti-evasion framework. This is necessary to counter tax evasion and abusive practices, rethink tax fac-

ilities (which must be well targeted) and, in particular, diminish the informal economy by encouraging the formalization of workers and by eliminating the institutional bottlenecks in addressing the problem of undeclared work.

Allocating sufficient resources for environmental protection is still a major challenge for the Republic of Moldova.

Climate change and environmental degradation are a significant threat to economic growth, including due to the fact that agriculture remains an important sector of the national economy. Despite the fact that Moldova has adopted an important number of environmental policies, strategies and programmes in recent years, securing sufficient financial resources for their implementation has been a problem. The government is focusing on reactively responding to the consequences of climate damage, rather than proactively mitigating risks. Investments in environmental protection have not been a priority to date, with the state almost always constrained by urgent problems in other areas. Thus, environmental protection measures remain underfunded, with the Republic of Moldova occupying the last place among Euro-

pean countries in terms of government spending allocated for environmental protection⁷ (0.1 per cent of GDP, while the EU average is 0.8 per cent, according to 2021 data⁸). The private sector does not provide significant investments in this field either (expenditure being estimated at 0.5 per cent of GDP, compared to the EU average of 1.1 per cent, according to 2022 data). However, some progress is still being made. Recently, the government instituted two programmes dedicated to entrepreneurs, aimed at supporting the adoption of greening practices in the production processes and tapping alternative energy sources. Development policies need to integrate the “green economy” dimension, which should represent a cross-cutting priority and should be applied to all sectors of the national economy.

An overly complex framework of strategic documents, characterized by poor coordination between processes and institutions and without a clear financial envelope, has compromised the achievement of many development objectives.

The large number of strategic documents on various narrow fields, which are poorly coordinated, creates an overly complex framework for planning, implementation and monitoring. To ensure the effectiveness of the strategic planning system, all policy planning documents should interact with one another and ensure a logical chain – from identifying and validating issues to integrating them into the budget planning processes and ensuring

the existence of human capacities and financial resources for implementation. In reality, however, the planning process is not always coherent. As a result, the arbitrary setting of development priorities, the excessive number of strategic documents on various narrow fields, which often overlap or even contradict each other, as well as the lack of financial resources, creates ambiguity and does not lead to the expected results.

⁷ <https://mediu.gov.md/indicatori/capitol5.html>

⁸ https://ec.europa.eu/eurostat/databrowser/view/gov_10a_exp/default/table?lang=en

Ensuring a sustainable economic future requires not only adopting appropriate measures to combat existing structural problems, but also having an awareness of new global risks in order to develop an early mitigation mechanism, based on proactive measures.

Economic growth will depend on the state's ability to create the opportunities for, and the necessary basis for, business development, strengthening the resilience of production chains, and also reorienting the economy towards the production of goods with higher added value. From a social point of view, there is a need to adjust the imbalances in the labour market, alongside improving the education and social protection system, which should also aim to reduce the inequalities

between the urban and rural areas. In addition, in the context of climate change, it is clear that any economic growth cannot be achieved in isolation from measures to ensure environmental protection and increase energy efficiency, respectively decoupling from pollution sources. Only by simultaneously supporting the three pillars – social, economic and environmental – can sustainable development be achieved.

Defining and applying an integrated approach to managing demographic and economic imbalances in the labour market.

The problems of a lack of labour and underemployment are multidimensional and require an integrated approach, targeting remuneration issues, structural barriers in the labour market that prevent people from finding jobs that match their skills and abilities, the availability of extra-family childcare services, and improving safety at work and other working conditions. The implementation of these measures, and the materialization of their effects, takes time and will not instantly solve the imbalances in the labour market. In this context, stimulating the growth of international mobility by making the conditions of access to the local labour market more flexible for foreign workers is a solution that many employers are already resorting to. A decision to further liberalize the conditions for admitting foreign

workers to the labour market, which is being discussed more and more in the public space, should be taken in consultation with all stakeholders (trade union and employers' confederations, agencies and institutions in the field of education and labour etc.), with the aim of incorporating multiple perspectives and making well-informed decisions. In general, the labour market should be the subject of extensive and permanent research that allows for the identification of trends and the development of medium- and long-term forecasts, and specific indicators (for example, measuring quantitative and qualitative labour-force deficits, at the territorial and occupational levels), to serve as a real benchmark for adjusting employment and professional training policies.

Effective measures to increase financial intermediation to address obstacles in accessing finance, which are both cyclical and structural in nature.

Business financing must specifically target productive activities that support economic growth by generating high added value, improving productivity and creating jobs. The state and development partners make substantial financial resources available to entrepreneurs,

which can contribute to increasing the competitiveness of the business environment, but to ensure the efficiency of these resources, the following are necessary: (i) well-governed institutions that operate without political influence; (ii) well-designed financing instruments

or products that address the main constraints to access to financing – namely, cost, collateral, and maturity; and, (iii) well-trained entrepreneurs who are capable of developing and implementing

investment projects. Moreover, the financing incentives offered to the private sector should also ensure entrepreneurs take greater responsibility for the financial resources they benefit from.

Well-coordinated and coherent economic policies.

Moldova has the capacity to do more to promote medium-term growth, especially by streamlining government policies in the area of economic development. Policy

measures should follow an integrated vision, ensuring synergy between the areas of entrepreneurship, internationalization, innovation, and digitalization.

Improving the business climate to stimulate domestic entrepreneurship, but also to attract foreign investment.

A favourable business environment that encourages the attraction of investment is the key to economic growth and income. Moldova's investment climate will depend both on the maintenance of macro-financial and political stability, as well as on the advancement of justice reform, which guarantees a business environment that is based on fairness and predictability, and on the protection of property rights, and which supports the

conditions necessary for fair competition. At the same time, a resizing of the state company sector is necessary to ensure competitive neutrality. State-owned companies should operate in sectors where the presence of the state is necessary, in order to correct certain market failure or for strategic and national security reasons, but in no case should it exclude the private sector or undermine competition.

Attracting foreign investment as a source of capital, technologies and access to markets.

Foreign investments can make a significant contribution to the socioeconomic development of the country. However, policies aimed at attracting FDI must be developed with caution, as not all foreign investment will produce the expected benefits. The development of the analytical capabilities of state institutions, in order to understand the current trends of FDI, as well as their evolution and impact over time on the economy, is a prerequisite for the development of policies and instruments to attract investments. These policies must consider the impact that foreign investments can produce: for example, if they will create conditions that are beneficial for the integration of local companies in global value chains, if they will contribute to increasing the degree of complexity of exports, etc. In this sense, a central role belongs to the Ministry of Economic Development and Digitalization and the Investment Agency: close cooperation between these institutions is necessary to achieve the desired goal of attracting foreign investments that contribute to in-

creasing competitiveness and intelligent specialization. In mid-2023, the Investment Agency was reformed,⁹ being transformed from a central administrative authority subordinate to the government into a public institution, which means it will operate based on the principles of self-management. In the future, the success of this reform will depend on the Agency's ability to attract the necessary resources to ensure efficient and stable management, which will enable the effective implementation of its mandate of attracting investments and supporting investment activity. Also, in this context, a new vision of economic diplomacy is needed – one that is focused more on increasing the visibility of the Republic of Moldova as an investment destination. This will involve developing the capacities of economic attachés, opening new commercial offices or developing existing ones, and also establishing clear mandates, accompanied by well-defined performance indicators, to ensure they are responsible for their activities, and to quantify their impact.

The chapter analyses the dynamics of the private sector in the Republic of Moldova, identifying the most significant trends from 2021 to 2023. Close attention is paid to the development of economic sectors in the context of the numerous crises the country is facing, presenting the challenges and the structural changes that have occurred. The analysis of the business environment reveals improvements in perceptions of the level of corruption and the framework for innovation, but also a worsening of perceptions of the level of economic freedom. At the same time, after many years when it has failed to do so, the government has for the first time respected the budget calendar regarding fiscal policy. However, in regard to strategic planning documents in the economic field, there are gaps related to the approval and coherence of implementation. The policy recommendations, formulated in this chapter, advocate for the launch and scaling of FACEM products, where capital for financing is provided by the state, to make the market of access to financing more competitive; for the stimulation of business development services and an entrepreneurial culture; and also, for the harnessing domestic resources in the labour market in view of the shortage reported by employers. A special focus is given to the preparation of institutions and implementation mechanisms for the absorption of European funds, in the context of Moldova's EU candidate country status. In addition, in the foreground, are recommendations for more targeted and strategic subsidies in agriculture, and also for supporting small producers by simplifying the operational regulatory framework and through support programmes.

Analysis of the main trends and developments in the real sector

The increase in companies' turnover in 2022, was "eaten" by inflation.

After nominal growth of 27.8 per cent in 2021, last year the corporate sector recorded a 25.4 per cent increase in turnover. This, however, is mostly just an adjustment to inflation (which was 28.7 per cent in 2022). The number of enterprises forming the statistics of entrepreneurship¹⁰ increased by 3.8 per cent y-o-y, to 62,600 units. It should be noted, however, that the increase in the number of Moldovan companies was mainly at the smaller end of the spectrum. Thus, in 2022 there were more microenterprises (+5.9 per cent) and small enterprises (+9.3 per cent), while the number of large and medium-sized enter-

prises decreased: -9.1 per cent and -7.8 per cent, respectively. At the same time, the average number of employees recorded a slight decrease, by -0.6 per cent y-o-y, up to 529,000, the indicator in question being below the parameters before the pandemic, by -4.3 per cent (-22,800 employees). From the perspective of profitability, in 2022 over half of companies reported turning a profit (53.2 per cent), over one-third recorded losses (35.4 per cent), while another 11.4 per cent of companies submitted reports showing neither profit nor loss, the given structure being close to last year's.

Against the background of multiple overlapping crises, firms are still on standby in regard to undertaking expansions and investments, showing moderate optimism about future prospects.

After seeing a substantial increase in energy, logistics and financing costs, and also facing the need to reconfigure supply and sales chains, Moldovan companies are still not fully convinced about the

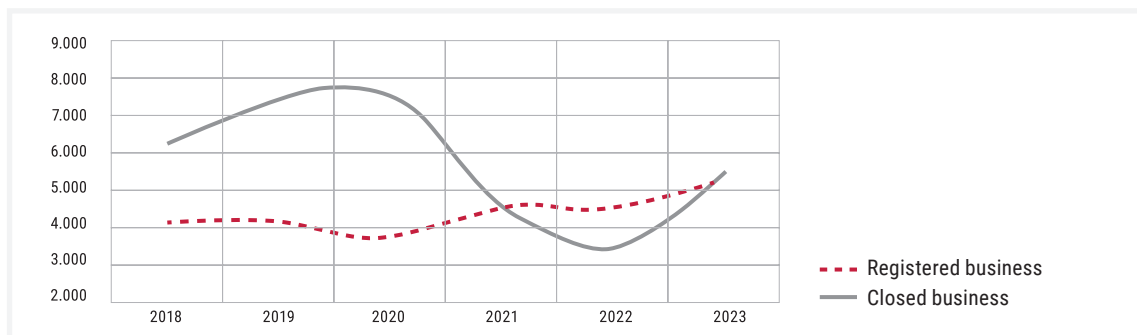
establishment of a stable and favourable climate for development. The Business Barometer, a survey carried out in December 2022 and May 2023 on a sample of more than 400 enterprises, indicates

¹⁰ which have submitted annual reports to the National Bureau of Statistics

an improvement in perceptions. Thus, the general index of the Business Barometer¹¹ improved from -33.4 per cent in December 2022 to -19.2 in May 2023, but the continued negative slope of this index suggests that the share of companies with pessimistic expectations remains higher than the share of those expecting positive developments. In the same context, National Bureau of Statistics (NBS) research on trends in the evolution of economic activity in the third quarter of 2023,¹² carried out with company managers to anticipate future developments in the economy, reveals moderately growing optimism. Thus, compared to the research in the second quarter, companies anticipate in-

creasing improvements in the economic landscape, as well as a slower increase in prices (from 14.1 to 9.0 per cent). The statistics regarding the number of new businesses registered in the first eight months of 2023 reveal an increase of 17 per cent y-o-y, up to 5,200 units, being the best result for the period 2018–2023. At the same time, the number of closed businesses in January–August 2023 increased by 57 per cent, up to 5,400 units, which resulted in a negative increase in the creation of new businesses. This indicator suggests an increase in the number of bankruptcies, or in the number of entrepreneurs giving up business, amid the impact of the multiple crises faced by the Moldovan economy.

Chart 6.
Dynamics of the number of newly created and liquidated enterprises, January–August



Source: Agency for Public Services.

With respect agriculture, in addition to the fact that 2022 proved to be another dry year, farmers have also had to manage a market situation involving a significant increase in costs.

After a sharp decline of 27.2 per cent y-o-y in 2020, amid severe drought, and a record harvest in 2021, with an increase in the agricultural production index of 58.0 per cent y-o-y, in 2022 Moldovan agriculture was not spared by the inclement weather, registering a reduction in the volume of agricultural production by -29.2 per cent y-o-y. For 2023, the estimates suggest an increase in the volume of agricultural production, by around 25–30 per cent, supported in particular by growing harvests of maize, wheat, sunflower and apples, and mitigated by decreases in the production of grapes and plums, but also in animal production. During 2022–2023, farmers faced unfavourable market conditions. On the one hand, there has been a considerable increase in the costs of agricultural inputs (fuel, pesticides, ferti-

lizers, etc.), accompanied by a substantial increase in financing costs. On the other hand, starting from 2022, the general international trend of prices for agricultural products has been downward. For example, in August 2023, the United Nations Food and Agriculture Organization Food Price Index¹³ was 24 per cent below the maximum level reached in March 2022. Moreover, the aggregate financial report of agricultural enterprises for the year 2022 shows a nominal increase by 13 per cent in sales, in the context of a 23 per cent increase in the cost of sales. The downward trend in international prices has affected several local producers, who have refused to sell their produce in season, preferring to keep them in warehouses in anticipation of higher prices. This fact also reveals, repeatedly, the lack of valid references for

¹¹ <https://barometru.md/ro/barometru/>

¹² https://statistica.gov.md/ro/tendinte-in-evolutia-activitatii-economice-in-trimestrul-iii-2023-9557_60491.html

¹³ <https://www.fao.org/worldfoodsituation/foodpricesindex/en/>

the prices of agricultural products in real time, as well as the market's limited planning and anticipation capacities. Similar to other dry years, agricultural production in 2022 decreased more in the case of agricultural enterprises (-35 per cent y-o-y) and less in the case of the individual sector (-20 per cent y-o-y), as well as more in the case of vegetable production (-35.9 per cent y-o-y) and less in the case of animal production (-3.2 per cent y-o-y). Despite the increasingly frequent climate shocks, the structure of annual crops continues to be dominated by maize, wheat and sunflowers, which in 2022 accounted for 82.1 per cent of the sown area. The giv-

en proportion, which has been constant in recent years, also reflects the equally constant practice of not applying crop rotation, in favour of maximising short-term profits. In the case of animal production, a decrease has been observed for the sixth consecutive year. This is generated by a reduction of the production base: namely, the number of animals in people's households. For example, at the beginning of 2018, the number of cattle in households was twice as high as at the beginning of 2023, while the number of pigs was 80 per cent higher. At the same time, the increase in the number of livestock in the case of enterprises has been slow.

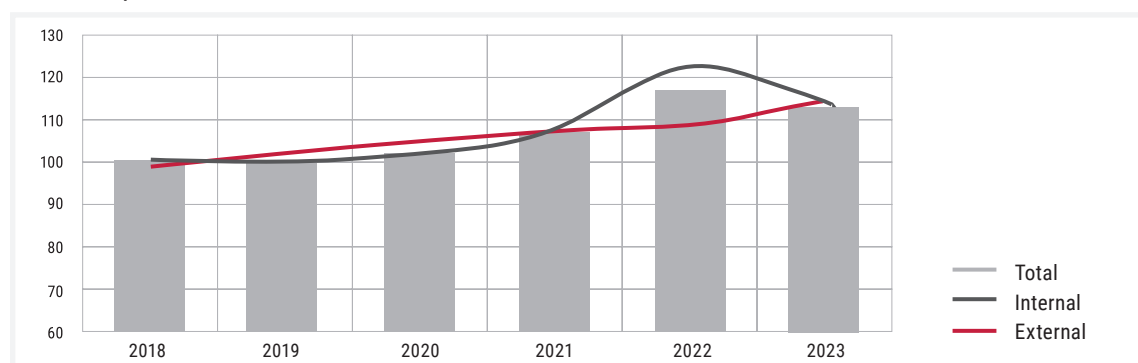
Contraction of external demand, rising prices of energy resources, drought and reduced construction work have generated negative developments in industrial production.

After a 12.1 per cent jump in 2021, on the back of a good agricultural year and the post-pandemic recovery, and after a -5.1 per cent decline in 2022 under pressure from rising energy prices and falling external demand, in 2023 Moldovan industry still seems to be having a hard time digesting the consequences of last year's factors. The areas that saw production volumes fall the most in 2022 y-o-y were as follows: electrical equipment manufacturing (-59.4 per cent); motor vehicle, trailer and semi-trailer manufacturing (-34.1 per cent); and furniture manufacturing (-29.8 per cent). At the same time, a doubling in the production of oils and fats mitigated the decline.

y-o-y), the metal construction industry (-16 per cent), the manufacture of clothing (-14.9 per cent y-o-y), and furniture manufacturing (-13.2 per cent y-o-y). This situation is due to the following factors: the effects of the increase in energy resource prices, last year's drought, modest developments in the construction sector and lower demand in foreign markets. In the second half of the year, industrial production will be positively influenced by the return of the food industry, given the existence of sufficient and accessible raw materials, while the more modest expectations regarding the economic developments in the EU represent the main source of uncertainty. Industrial prices have generally followed the trend of inflation, with an average increase in manufacturing prices in January–July of 14.5 per cent y-o-y. Compared to last year, when there was a considerable gap between the price dynamics of domestic and foreign markets, this year the differences have been negligible.

For 2023, regarding the results in the first half of the current year, the industrial production volume index remained negative (-7.6 per cent). The strongest decreases can be seen in the manufacturing of substances and chemical products (-37 per cent y-o-y), the food industry (-21.4 per cent

Chart 7.
Industrial production price indices in January–July, y-o-y, per cent



Source: Authors' calculations based on NBS data

Retail businesses are feeling the erosion of the population's purchasing power, while the IT and HoReCa sectors will make a positive contribution to GDP formation again this year.

The results for the first half of the current year reveal a decrease of more than 10 per cent in turnover for wholesale trade and an increase of less than 10 per cent for retail trade, while the inflation rate for January–June 2023 was 20 per cent. At the same time, in the first six months of the current year, the HoReCa sector recorded a nominal increase of 35–40 per cent in sales, after reporting an increase of 57.8 per cent in 2022. This trend reflects the consumption propensity of the population, which is willing to spend more on leisure and entertainment and less on savings and investments or durable goods. In the transport sector, passenger traffic increased by 28.3 per cent, mainly due to air transport, while the volume and distance of transported goods decreased by 11.3 per cent and 4.9 per cent, respectively. The railway sector was the most affected, with the passage of goods reduced by a third, this result being conditioned

by the much smaller volume of grain for export, compared to the previous year. After a 15.1 per cent decline in the volume of construction work in 2022, the sector continued its decline in the first half of 2023, with a reduction in comparable prices by 8.0 per cent y-o-y, which was mainly generated by the decrease in the volume of works in the residential sector (-22.9 per cent). The revival of the construction sector depends, to a large extent, on the development of a vision for the development of residential areas in Chisinau and the areas adjacent to the capital. The IT sector continues to be a source of growth. Exports of IT services reached USD 468 million in 2022, which is 4.5 times more than in the year before the opening of Moldova IT Park (2017). The upward trend will continue this year, considering the fact that, between January and June, the turnover of companies in this industry increased by about 25 per cent.

The negative evolution of investments in residential buildings, production premises and infrastructure are mitigated by the increase in financial flows in technologies and means of transport.

After the normalisation of economic activities in 2021, which was accompanied by an increase in real terms of investment by 9.8 per cent, the recession of 2022 was marked by a decrease by -11.9 per cent (in comparable prices) in financial flows. In 2022, investments in residential buildings suffered the most (-28.2 per cent y-o-y) with engineering construction (roads, railways, bridges, stadiums, etc.) following at -20.7 per cent y-o-y. The results for the first half of 2023 reveal a 4.9 per cent y-o-y decline. By type of fixed assets, investments decreased the most in the residential sector (-31.1 per cent y-o-y), but also in engineering construction (-11.5 per cent) and non-residential buildings (-10.8 per cent). At the same time, there was a positive increase in investments in means of transport (+19.0 per cent), as well as in machines and equipment (+3.8 per cent). In terms of funding sources, the decrease was mainly conditioned by the investments made

from companies' own funds (-12.5 per cent y-o-y), which financially covered about 61 per cent of the total investments made. At the same time, against the background of the completion of several projects within the "European Village" Programme, in the first six months of the current year, investments financed from the state budget increased by 59.6 per cent. Also, a positive dynamic of investments in fixed assets is anticipated in the second half of the year. On the one hand, the stabilization of prices, the lowering of interest rates on loans, and the launch of the government Programme „373” should restore confidence to the private sector in regard to carrying out investment projects. On the other hand, there has been an acceleration in the implementation of infrastructure and local development projects financed from the public budget, including in the context of the local elections in November 2023.

Analysis of the main trends and developments in the financial sector

The banking sector remains resilient and safe, but it is still far from fully fulfilling its primary function of financial intermediation.

As of 31 August 2023, the ratio of own funds in the banking sector recorded a value of 31.6 per cent, increasing by 2.1 p.p. since the beginning of the year, being well above the minimum limit of 10 per cent provided for in the legislation. The liquidity coverage ratio (LCR)¹⁴ exceeds 240 per cent, while its minimum value is fixed at 100 per cent. Despite the numerous crises Moldova has faced, the quality of the credit portfolio in the banking sector has deteriorated only insignificantly. Thus, in 2022, the share of non-performing loans increased by 0.3 p.p., up to 6.44 per cent, and since the beginning of the year – by another 0.29 p.p., up to the value of 6.73 per cent recorded in August 2023. At the same time, there has been a cooling of financial intermediation, so that the loans/deposits ratio has decreased from 0.65 in 2022 to 0.59 in August 2023. The level of intermediation remains below potential, including compared to the historical

level of 0.81 recorded in 2013, although the parameters to aim for are even higher now. This situation can be explained by factors affecting both supply and demand, namely: i) banks continue to have less risky alternatives to generate income, where the pressure in granting loans and exposure to risk is reduced; ii) compared to banks in other countries in the region, which manage to attract other capital to finance the economy, such as issuing bonds, the domestic banking sector is almost exclusively dependent on the investments attracted (which are predominantly short-term), considering the fact that the Republic of Moldova does not currently have an external economic reference;¹⁵ iii) due to the weak entrepreneurial culture, many businesses are not “bankable”/ eligible to access financing, and others are not aware of the opportunity to scale businesses through accessing attracted capital.

Despite the relaxation of monetary policy, lending has not yet picked up due to the crisis of confidence on the part of companies, but also due to the fact that banks are still maintaining high rates.

After a 35.8 per cent y-o-y increase in the volume of new loans provided in 2021, the year 2022 brought an increase of only 5.9 per cent, supported exclusively by the volume of disbursements to legal entities, which increased by 26.2 per cent y-o-y, but mitigated by the 34.9 per cent y-o-y decrease in lending to the population. The results for the first eight months of the current year reveal a modest increase of only 3.6 per cent in the volume of new loans provided to the banking sector. Thus, in the period January–August, lending to businesses in national currency increased by 11.7 per cent y-o-y, while lending in foreign currency decreased by 3.5 per cent, following the substantial increase by the NBM, up to 45 per cent, of the level of minimum mandatory reserves in foreign currency. At the same time, during the same period of

time, lending to the population recorded a 24.7 per cent y-o-y increase for consumer loans and a -25.6 per cent decrease in disbursements for real estate loans. A specific element of the last two years has been the significant oscillation of the difference between the average rates of new loans provided and the average rates of attracting deposits. Consequently, in the last 12 months, both the lowest and the highest margin between loan and deposit rates in at least the last 10 years was recorded. Accordingly, the substantial tightening of monetary policy by the NBM in 2022, by increasing the base rate to 21.5 per cent, forced banks to significantly increase deposit rates and, to a much lesser extent, the rates on the new loans provided. As a result, in November 2022, the margin between the rates on new loans provided

¹⁴ Calculated as the ratio of liquidity reserve to net liquidity outflows during a 30-day crisis period.

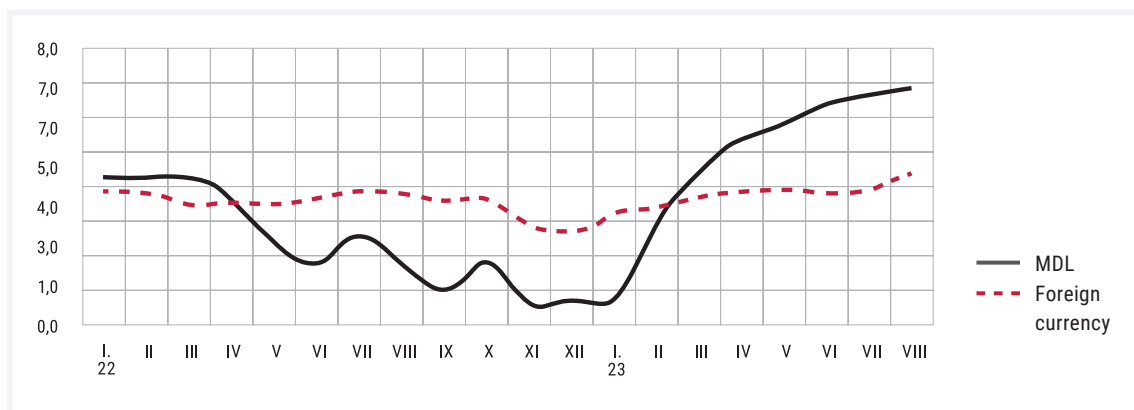
¹⁵ The Republic of Moldova has no government bonds on foreign financial markets.

and new deposits attracted accounted for a low of 0.58 percentage points. By contrast, during 2023, with the relaxation of monetary policy and the reduction of the base rate to 6 per cent, banks operated significant reductions in deposit rates and

much smaller reductions for new loans granted. Consequently, in August 2023, an average margin between new loans granted and new deposits attracted in MDL of 6.81 p.p. was reported, which is the highest level in at least the last decade.

Chart 8.

The difference between the average rate on new loans granted and new deposits attracted, p.p.



Source: Authors' calculations based on NBM data.

Analysis of the main trends and developments regarding the business environment

International ratings reveal improvements in perceptions of the level of corruption and the framework for innovation, but also a worsening in perceptions of the level of economic freedom.

In the Corruption Perceptions Index by Transparency International,¹⁶ Moldova saw an increase of seven points between 2019 and 2022 and a jump in ranking from 120th to 91st in 2022. Even though Transparency International¹⁷ points out that “Moldova has recently emerged from a turbulent political period and has shown a real desire to implement anti-corruption reforms”, the last score – of 39 points out of 100 – is still below the average of 43 points, i.e. there is still room to improve things considerably. At the same time, the 2022 edition of the Global Innovation Index,¹⁸ which is based on seven pillars (infrastructure, business sophistication, human capital and research, market sophistication, knowledge and technological outputs, creative outputs, and institutions), places the Republic of Moldova in 56th place out of 132 anal-

ysed economies, with an improvement of eight positions in the ranking. Moldova's main strengths in regard to ensuring an adequate framework for innovation are the amount of public spending on education in relation to GDP, labour productivity, the export of ICT services, the value of trademarks by origin, and the creation of mobile applications. At the same time, the vulnerabilities include the precarious level of cluster developments, the policies for conducting business, logistics performance and the level of collaboration on R&D between universities and the private sector. Similarly, in the 2023 edition of the Economic Freedom Index, carried out by the Heritage Foundation, the score of the Republic of Moldova is 58.5,¹⁹ with the country ranking 96th worldwide. At the same time, Moldova occupies only 40th position

¹⁶ <https://www.transparency.org/en/cpi/2022/index/mda>

¹⁷ <https://www.transparency.org/en/news/cpi-2022-eastern-europe-central-asia-growing-security-risks-authoritarianism-threaten-progress-corruption>

¹⁸ <https://www.globalinnovationindex.org/analysis-economy>

¹⁹ <https://www.heritage.org/index/country/moldova>

out of the 45 states in the European region included in the report. Compared to last year's edition, the score of the Republic of Moldova decreased by 2.5 points, thus leaving the "moderately free" category and returning to the qualification of "more un-free". According to the above-mentioned report, "the foundations of economic freedom are neither sufficiently well-established nor strongly protected." At the same time, the report also highlights the fact that the country's economic performance is below potential, and the weak rule of law undermines the prospects for

more significant and dynamic economic development in the long term. The declining score in the 2023 edition of the report was almost exclusively influenced by the decrease, compared to last year, of the property rights indicator – from 55.9 to 37.9 points. This decrease can be explained by the state of emergency in the country since the beginning of the Russian aggression in Ukraine, which increases the risk of expropriation, as well as reducing the enforceability of contracts, and undermining property rights and the law in general.

After many years in which this was not the case, the government has respected the budget calendar regarding fiscal policy. However, in regard to strategic planning documents in the economic field there are gaps regarding approval and the consistency of implementation.

In July 2023, the parliament voted on the final reading of the fiscal policy draft for the year 2024, thus offering more predictability in the business environment. Among the fiscal policy measures adopted are the following: i) expanding the spectrum of fiscal incentives and revising the categories of expenses borne by the employer in favour of employees that are eligible for deduction for fiscal purposes, in order to increase the tools for maintaining employees; and, ii) standardizing the personal income tax rates, withheld for investment and financial income, by setting them at 6 per cent. In general, the sources of increases in budget revenues, which are expected in the next year mainly relate to indirect taxes (excise duties and VAT). At the same time, the government is behind the schedule in terms of developing a clear calendar for sectoral policy priorities, but also in complying with the policy documents that are in force. For example, the Ministry of Economic Development and Digitization does not currently have an umbrella document that reflects the strategic priorities for the coming years, and areas such

as attracting investments and promoting exports have not been covered by a policy document since 2020.

We witness a similar situation at the Ministry of Agriculture and Food Industry – in the case of this institution, the old development strategy expired in 2020, and the new National Agricultural and Rural Development Strategy for the years 2023–2030 was approved only at the beginning of 2023, while the implementation programme for that strategy is still waiting to be approved. Another problem in this context relates to the lack of regular reporting on how the policy documents are implemented, and also the consistency of compliance with the approved provisions. For instance, the draft law for the amendment of the „mode of road administration”,²⁰ promoted by the Ministry of Infrastructure and Regional Development, and approved by parliament in the summer of this year, contradicts the provisions of the Strategy regarding the administration of state property approved by the government at the end of last year.

²⁰ <https://www.expert-grup.org/ro/biblioteca/item/2552-disfunc%C8%9Bionalit%C4%83%C8%9Bile-majore-ale-procesului-de-promovare-a-politicilor-publice-descrie-pe-exemplu-proiectului-de-lege-pentru-modificarea-%E2%80%9EEmodului-de-administrare-a-drumurilor%E2%80%9D&category=7>

Recommendations

Launch and scaling of FACEM (Fund for Entrepreneurship and Economic Growth of Moldova) products, where capital for financing is provided by the state.

Access to finance remains a strong constraint for firms, especially SMEs. In this context, the operationalization of the normative framework related to the functioning of the FACEM²¹ will be welcome. Moreover, in 2023, the first product under the FACEM – Governmental Investment Stimulation Programme 373 – was launched.²² Even if the 373 Programme, which involves the state compensating SMEs for a part of the interest rate, is a beneficial one, it is not likely to make the investment credit market more competitive as a whole. At the same time, the launch within the FACEM of products that would provide the capital for financing from the state, at

a low cost, is a more viable and sustainable solution. Granting capital from state resources will force banks to adjust their own investment loan products to improve conditions for entrepreneurs. The advantage of this solution also comes from the fact that, despite an abundance of liquidity in the banking sector, resources with long maturities are limited. In addition, a FACEM investment product will be of a revolving type, and its capitalization over time, including the support of external partners, can create a genuine support tool to facilitate access to cheap investment resources for companies.

Capitalizing on internal resources in the labour market.

Statistical and sociological data clearly suggest the existence of challenges and imbalances in the intermediation of labour market demand and supply. Among the economic agents surveyed in 2022 by the National Employment Agency (NEA),²³ 17 per cent reported being out of work in the past 12 months. At the same time, the NEA data reveal that only one out of four registered vacancies on average are filled by the unemployed placed in the labour market. In recent years, including 2023, the authorities have made several changes to attract foreign labour, and some companies are already using this approach – and are doing so more frequently. However, the data clearly shows that there is a potential pool of labour in the local market – and it must

be brought/attracted from among the economically active population. In that sense, the need to reform the NEA is obvious,²⁴ including through a series of activities that should be prioritized; namely: i) sorting the NEA's beneficiary base by excluding those who pursue purposes other than employment/return to the labour market, ii) improving interactions with employers, iii) modifying the results and performance framework, iv) modernizing the NEA infrastructure, and v) more efficient planning, simplification, digitization and better inclusion in leveraging active employment measures, in parallel with increasing opportunities for continuous learning and training, to increase the adaptability of the workforce.

Stimulating business development services and an entrepreneurial culture.

The domestic business environment, especially in the case of micro and small businesses, is characterized by a limited business culture and knowledge, which is an impediment to their development and their ability to capitalize on existing

opportunities. For instance, among the main challenges that limit the demand for funding for the programmes of the Organization for Entrepreneurship Development (OED), the institution mentions the following:²⁵ limited knowledge of pro-

21 https://www.legis.md/cautare/getResults?doc_id=135918&lang=ro

22 <https://373.gov.md/>

23 https://www.anofm.md/view_document?nid=19888

24 <https://www.expert-grup.org/ro/biblioteca/item/2543-de-ce-avem-nevoie-de-o-reform%C4%83-a-agen%C8%9Biei-na%C8%9Bionale-de-ocupare-a-for%C8%9Biei-de-munc%C4%83?category=7>

25 <https://www.oda.md/files/rapoarte/2022/Raport%20anual%20IP%20ODA,%20anul%202022.pdf>

grammes; a low level of understanding of programmes; a reduced ability to develop and write business plans; and, a reduced ability of entrepreneurs to implement investment projects on time. Therefore,

it is necessary to put a stronger emphasis on entrepreneurship education programmes, and also to stimulate the development of the consulting market.

Preparation of the institutions and implementation mechanisms necessary for the absorption of European funds.

Moldova's EU candidate country status and the prospect of opening accession negotiations with the EU opens up significant opportunities to access European funds that can promote the development of the economy. However, the absorption rate for these funds will primarily depend on the capacity of the implementing institutions in the Republic of Moldova, as regards having efficient resource distribution mecha-

nisms, as well as a solid level of governance which ensures the equity of local companies and credibility with external partners. From this perspective, it is imperative to bring institutions such as the Agency for Intervention and Payments for Agriculture (AIPA), the State Road Administration, the Energy Efficiency Agency, NEA, OED, or the Investment Agency in line with the above-mentioned standards.

Subsidization in agriculture - more targeted and strategic.

Although the value of the Agricultural Subsidy Fund for 2022 (MDL 1.68 billion) was almost double that of 2018, farmers' grievances, and especially the expected impact on the economy, are still an issue. One of the problems regarding the distribution of resources derives from the fact that they are mostly allocated based on compliance analysis alone and do not take into account the viability of the project, the risks of a business, or its economic feasibility. In particular, post-investment measures accounted for three-fourths of the fund's value in 2022. For example, the construction of cold storage takes into account to a small extent its potential for exploitation (for example, if the beneficiary of the subsidy has sufficient production or has the capacity to sell its stored production). Therefore, it is necessary to expand the project evaluation framework, in order

to guarantee that public money is directed to sustainable projects that are aligned with strategic priorities. Another element that needs to be changed in the subsidy framework is to reintroduce the "first come, first served" principle. For the year 2023, AIPA will pay agricultural producers, as commitments assumed in 2022, about MDL 1.23 billion, i.e. about two-thirds of the value of the fund. This situation, in addition to the fact that it presents a derogation from the principles of public finances, represents a handicap, especially for small farmers, who are in the situation of waiting over a year to receive the subsidy from the state. The third element that needs to be changed in the subsidy model is the need for more pronounced modelling of the production behaviour of farmers, and to encourage them to respect crop rotation and adapt to climate change.

Supporting small producers by simplifying the operational regulatory framework and through support programmes.

Data from the Business Demography research show that in 2021 there was a discrepancy of 18.5 percentage points between the survival rate after the first year for the total economy (47.7 per cent), compared to the rate in the processing industry (29.2 per cent). Overall, the lower survival rate in production activities is explained by a higher level of sophistication of these businesses, which require more

complex knowledge and expertise, but also by their need for much larger initial capital. In addition, the larger discrepancy from the year 2021 reveals that the Covid-19 pandemic, and namely the distortion of supply chains, but also rising inflation, affected companies in the manufacturing industry to a greater extent. The development of Moldovan industry is also marked by strong regional imbalances, which for

objective reasons can only be mitigated by supporting small-scale production. Given that most districts with the lowest level of industrialization are also characterized by a low population density, it is obvious that attracting investors to create large enter-

prises with many jobs there is hardly feasible. However, supporting small-scale production activity can provide an impetus for increasing the level of industrialization and mitigating depopulation, as well as an opportunity to substitute a part of imports.

Adjusting legislation and exiting the state of emergency.

The perpetual state of emergency, established for over a year and a half, generates a high degree of insecurity in regard to property rights. This results from the large discretionary power available to the government, an aspect that was also found to be negative in the last edition of the Economic Freedom Index. It is recom-

mended that the government create the necessary normative levers to manage the country outside of the state of emergency, despite the existing circumstances, which are conditioned by the Russian aggression in Ukraine and which often require quick responses.

Table 1.
Main indicators for the economy of the Republic of Moldova

	2021	2022	2023 estimate
GDP, %	13,9	-5,9	3,3
Agricultural production, y-o-y, %	57,9	-29,2	30
Industrial production, y-o-y, %	12,1	-5,1	0
Gross Added Value in retail and wholesale trade, y-o-y, %	21,2	-2,1	0
Volume of construction, increase y-o-y, %	4,7	-15,1	-3,0
Gross fixed capital formation, increase y-o-y, %	15,5	-8,6	3,0
FDI inflow, increase y-o-y, %	149	51,4	n.a.
Consumer Price Index, increase y-o-y, %	5,1	28,7	13
New loans granted, increase y-o-y, %	35,8	5,9	10
New deposits, increase y-o-y, %	18,1	57,5	3
Share of own funds, %	25,9	29,5	n.a.
Share of non-performing loans in total loans, %	6,1	6,4	6,5
Long-term liquidity, %	0,74	0,67	n.a.
Export of goods and services, y-o-y, %	27,5	37,9	2
Import of goods and services, y-o-y, %	32,5	28,5	-2,5
Economic Freedom Index, score	61,3	58,5	n.a.
Global Innovation Index, ranking	64	56	n.a.

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

This chapter analyses aspects related to the population's standard of living. In the first half of 2023, the economic recession recorded in 2022 continued, and this was associated with a significant decrease in households' final consumption. Households' procurement of services fell steeply, particularly as a result of the increase in the price of utilities and housing services. Although the real average gross wage and real average pension increased in Q2:2023 compared to Q2:2022, their pace of growth was slow and the high level of prices continues to be a challenge for many households. The number of employed persons also increased in Q2:2023 compared to Q2:2022, but this increase was mostly due to employment in the public sector, as well as employment in the informal sector. These and other developments are described in detail below, while the chapter ends with a set of proposals to support the population's standard of living, as well as to contribute to overcoming constraints in the labour market.

Analysis of the main trends and developments

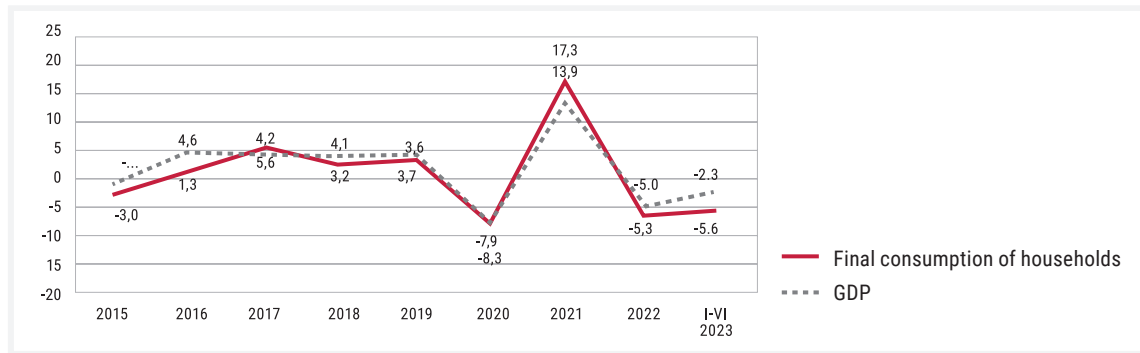
The economic recession registered in the Republic of Moldova starting from the second quarter of 2022 was primarily associated with a reduction of households' final consumption.

After a significant post-Covid compensatory growth in 2021 (+17.3 per cent in real terms), household consumption contracted in 2022 (-6.3 per cent) as a result of overlapping crises (a continued price crisis of energy resources and food, exacerbated by the outbreak of the war in Ukraine). In the first half of 2023, households' final consumption continued to decrease, although the rate of contraction slowed slightly (-5.6 per cent) (Chart 9). Households' procurement of services decreased steeply (-23.1 per cent in real terms), as a result of the increase in the prices of utilities and housing services (+20.3 per cent in June 2023 compared to the beginning of the year), especially central heating (+142.1 per cent) and natural gas delivered through the gas network (+38.5 per cent). It should be noted that pri-

or to that, in 2022, utilities already became almost twice as expensive (+94.3 per cent in December 2022 compared to December 2021). In order to mitigate the impact of the energy crisis, between November 2022 and March 2023, the government partially compensated for the increase in tariffs for natural gas, thermal energy and electricity through the „Help at the Meter” programme,²⁶ financed from the Energy Vulnerability Reduction Fund, established by Law 241/2022. Although about 80 per cent of households were classified as having a high degree of energy vulnerability and received the maximum level of compensation, the programme set certain ceilings in terms of compensated consumption. This resulted in households needing to save energy resources, which was reflected in consumption statistics.

²⁶ <https://compensatii.gov.md/ro>

Chart 9.
Indices of physical volume, increase y-o-y, per cent



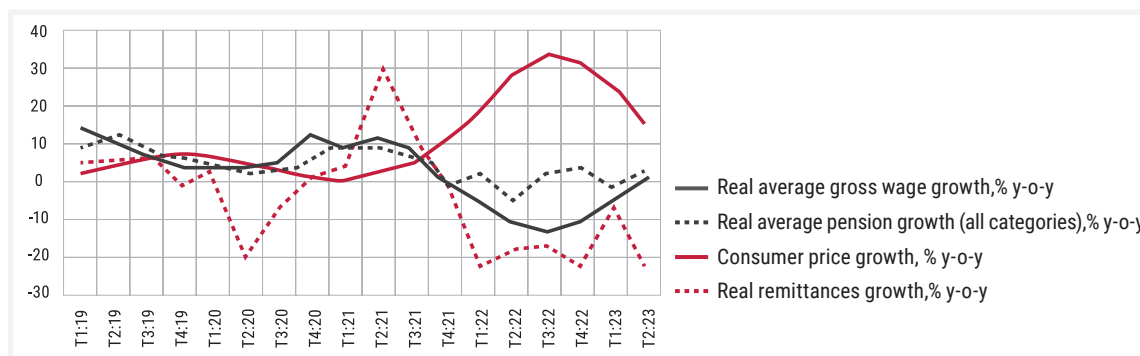
Source: BNS Data

The social support measures provided by the government during the cold period of the year improved, to some extent, the economic situation of households with low incomes, but did not manage to fully protect living standards.

During 2022 and the first quarter of 2023, accelerated inflation substantially eroded the purchasing power of people's incomes. Thus, at the end of 2022, the average gross monthly wage increased by 18 per cent compared to Q4:2021, but the higher increase in consumer prices caused real wages to decrease by 11 percent. In Q1:2023, the rate of decrease in the average real wage decelerated to -4 percent, and in Q2:2023, for the first time in a year and a half of decline, the average real wage recorded an increase of 1 per cent compared to Q2:2022, thanks to the tempering of inflation. The dynamics of the real average pension oscillated during 2022 and early 2023 between

increases and decreases, recording, after the April 2023 indexation, a real growth of 4 per cent compared to Q2:2022. Remittances received by the population in 2022, expressed in MDL, increased slightly in nominal terms due to the depreciation of the MDL (+3 per cent compared to 2021). However, the increase was far outstripped by the high rates of inflation, so that in real terms remittances fell by about 20 per cent. The decrease in real remittances continued in 2023: -7 per cent in Q1:2023 and -25 per cent in Q2:2023 (Chart 10), both due to the decrease in remittances expressed in foreign currency and as a result of the appreciation of the MDL.

Chart 10.
Consumer Price Index and real incomes, increase y-o-y, %



Source: Authors' calculations based on NBS and NBM data.

Because of accelerated inflation, poverty indicators increased in 2022, with the effects being unevenly distributed across various groups of the population.

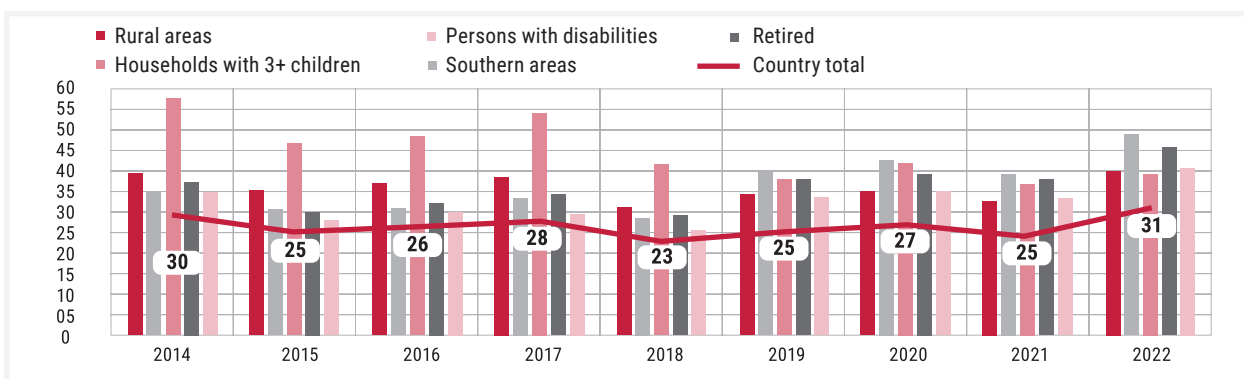
As a result of the increase in consumer prices, the absolute poverty threshold increased in 2022, from MDL 2,285 to MDL

2,942 per month. Consequently, the absolute poverty rate (the share of the population whose consumption expenditures

are below this threshold) increased from 24.5 per cent to 31 percent, returning to the level of 2014. It should be noted that the average monthly consumption expenditure was not very far from the absolute poverty threshold, amounting to MDL 3,712 (EUR 187) in 2022. The factors that expose the population to a disproportionate risk of poverty are: living in the countryside, living in the southern region of the country, having many dependent children, old age, employment in the agricultural sector, and disability. Thus, the absolute poverty rate in 2022 was: 40 per cent in rural areas, compared to 17 per cent in urban areas; 49 per cent in the southern region, versus 31 per cent in the northern region of the country; 40 per cent among households with three or

more children, compared to 23 per cent among households with one child; 44 per cent among the elderly (60+ years), versus 23 per cent among 30–39-year-olds; and, 41 per cent among people with disabilities, compared to 30 per cent among people without disabilities. The most pronounced gap in terms of poverty risk was recorded between people for whom pension is the main source of income – 46 per cent of these people live below the absolute poverty line – and people living on wages in the non-agricultural sector (19 per cent). This indicates that the salary replacement rate by pensions remains low. At the same time, no significant gender differences were recorded, with the poverty risks for men and women being approximately equal (31 per cent).

Chart 11.
Absolute poverty indicators, per cent



Source: NBS data

Statistical data on poverty rates and population distribution by income in 2023 are not yet available, but there are signs of an improvement in the economic situation being perceived by the middle-income population.

According to the results of the Public Opinion Barometer published in September 2023, the share of respondents who believe that their incomes are not sufficient even for the bare essentials has not changed substantially (21 per cent, the same as in previous years). At the same time, the share of those with incomes that are only enough for the

bare essentials has decreased (from 43 per cent in 2022 to 39 per cent in 2023) and the share of those who manage to have a decent living has increased slightly (from 26 per cent to 28 per cent), while the share of those who can afford more expensive goods or anything they need has increased: from 9 per cent in 2022 to 12 per cent in 2023.

It should be noted that having a job is not an insurance against poverty: in Moldova the phenomenon of “working poor” remains quite widespread.

Thus, according to the results of the Household Budget Survey, carried out by the NBS in 2022, 11 per cent of employees were in the first quintile by consumption expenditures (20 per cent of the population with the lowest expenditures). In

2022, the Government raised the minimum wage from MDL 3,500 to MDL 4,000 (approximately EUR 200) for a full working month of 169 hours (40 hours/week), starting from January 1, 2023, both for private and public sectors, although trade

unions demanded at least MDL 5,000 (approximately EUR 250). Despite the 14% raise, the after tax minimum wage is still just slightly above the absolute poverty threshold. Wages that are not sufficient to lift people out of poverty are one of the determinant factors of the high rate of inactivity in the Republic of Moldova.²⁷ According to the results of the Labour Force Survey, in Q2:2023, the inactivity rate of the population aged 20–64 (the proportion of the population outside the labour force aged 20–64 in the total population of the same age category) decreased compared to Q2:2022 (45.5 per cent), but still remained high at 41.2 per cent, which

is twice as much as in the EU (20.6 per cent in 2022).²⁸ Although the number of people employed increased in Q2:2023 compared to Q2:2022, this increase was mostly due to employment in the public sector (+15,000 people), as well as to the growth in precarious employment in the private sector. In Q2:2023, in the private sector, the number of people employed in informal sector enterprises increased (+14,000 people), while employment in formal sector enterprises decreased (-11,000 people). It should be noted that, at the same time, an increase was recorded in the number of underemployed people (+6,000 people) and the number of unemployed (+14,000 people).

According to the Moldovan labour market forecast made by Expert-Group,²⁹ in the medium term the demand for labour will grow faster than the supply, which will exacerbate labour shortages.

The demand for labour will increase because of the resumption of economic growth, and the supply of labour will be boosted by an increase in real wages. Thus, by 2026, the employed population will increase by 5.1–7.4 per cent compared to 2022, and the employment rate will reach the level of 43.7–44.8 per cent, the labour supply will range between 774,000–832,000 people, according to different scenarios. At the same time, it is projected that by 2026 the demand for labour will exceed one million people, and the gap between labour demand and supply will reach 18–25 per cent. The workforce deficit could also be exacerbated by the expected end of the war in Ukraine, because the post-war reconstruction of the infrastructure in the neighbouring country will increase the demand for labour in the region, which will intensify emigration from

the Republic of Moldova. Although the developments in the occupational sphere will be positive for employees, supporting their bargaining power (in 2024–2026, it is forecast that the real average gross wage will increase by around 5 per cent annually), salary increases that are unaccompanied by productivity growth could restrict the businesses' development ambitions or could even make the operation of sectors that are dependent on cheap labour impossible. For the Republic of Moldova, this could mean falling into the “middle-income trap” – losing its competitive advantage in the export of cheap goods due to rising costs, combined with the inability to keep pace with more developed economies in the market for sophisticated goods and services with high added value, because of the lack of technologies and qualified human capital.

The economic inclusion of refugees from Ukraine, who are currently living in the Republic of Moldova, remains weak.

Refugees enjoy some assistance and social services from the state and international and non-governmental organizations, but their employment rate remains low. According to the data of the NEA, in September 2023,³⁰ only 1,185 of the approximately 65,000 Ukrainian citizens, who had been staying in the Republic of Moldova for more than 90 days,³¹ were of-

ficially employed. There are a set of factors that prevent the employment of Ukrainians in the Republic of Moldova, such as not speaking the Romanian language, the insufficiency of childcare facilities, and salary levels in the Republic of Moldova (those who wanted to work have already left for EU countries).³²

27 Soloviova, M. (2023). How advisable is the liberalization of foreign workers admission to the labour market in the Republic of Moldova?: <https://www.expert-grup.org/ro/biblioteca/item/2488-c%C3%A2t-de-oportun%C4%83-este-liberalizarea-condi%C8%9Bilor-de-admitere-a-lucr%C4%83torilor-str%C4%83ini-pe-pia%C8%9Ba-muncii-din-republica-moldova?&category=7>

28 https://ec.europa.eu/eurostat/databrowser/view/LFSA_IPGA__custom_7596440/default/table?lang=en

29 https://www.anofm.md/view_document?nid=20474

30 <https://www.anofm.md/ro/node/20103>

31 <https://igm.gov.md/ro/content/cse-aprobat-modificarea-hg-212023-privind-protect%C8%9Bia-temporar%C4%83-persoanelor-str%C4%83mutate-din>

32 https://www.ipn.md/ro/sunt-simplificate-procedurile-pentru-angajarea-refugiatilor-ucraineni-in-campul-7967_1098523.html

The government should continue to promote social support policies for households, given the unfavourable macroeconomic context for the population's income.

Although the real average gross wage and real average pension increased in Q2:2023, the pace of growth was quite slow (1 per cent and 4 per cent, respectively, compared to Q2:2022), and the forecasted economic growth for the entire year 2023 and for 2024 will be insufficient to expect a significant increase in the population's income. Added to this is the trend of decreasing remittances received by households in the Republic of Moldova, both nominal and real. The expected fall in the inflation rate from an average of 13 per cent in 2023 to 5 per cent in 2024 will mean a reduction in the speed at which consumer prices rise, but not a fall in the price level, which will remain a significant challenge for many

households. That is why, in order to maintain social resilience, it is important for the state to continue social protection programmes, while continuing to improve their targeting towards the most vulnerable (by introducing more categories of energy vulnerability with differentiated support for each; introducing additional scoring points for households with children and persons with disabilities at the vulnerability assessment stage; adjusting the size of compensations according to the area of residence and tariffs; better checks on households' declared income). Considering that high financing needs for social expenditures will persist, the government will continue to need external financial support.

Policies should be promoted that aim to overcome existing constraints in labour supply and demand.

The demand-related constraint lies in the inability of employers to offer competitive wages due to low productivity. It is therefore necessary to prioritize boosting the efficiency of enterprises by improving management and by encouraging the technologization of processes. In order to solve the labour supply-side issues, it is advisable to focus, as a priority, on attracting the economically inactive population into the labour market. Measures aimed at increasing the economic activity rate of the present population should be elaborated and implemented before resorting to other solutions, such as the liberalization of immigration to Moldova of unqualified labour from abroad. Inactivity due to family responsibilities should be addressed by increasing parents' access to nursery and kindergarten services, including within businesses, by making working hours more flexible and by introducing remote working where possible. In order to reduce geographical frictions in the labour market, it would be beneficial to implement

seasonal worker mobility programmes (migration from villages to cities outside of the agricultural season). The lack of appropriate qualifications of the labour force can be addressed by supporting enterprises in conducting internal training of employees (for example, through allowing for the deductibility of expenses for the purchase of teaching equipment or the organization of internal courses), by continuing the voucher programme for training, by intensifying partnerships between educational institutions and businesses, as well as by liberalizing the conditions for the creation and operation of educational institutions, in order to stimulate competition between them. It is also necessary to ensure a greater degree of inclusion in the labour market for vulnerable groups (people with disabilities, national minorities, the elderly, young people, refugees).³³ Last, but not least, it is essential to carry out the NEA reform and ensure the functionality of the Labour Market Observatory and the sectoral committees.

³³ Specific policy measures are described in the National Employment Programme 2022-2026: <https://social.gov.md/wp-content/uploads/2023/04/Programul-national-de-ocupare-a-for-tei-de-munca-2022-2026.pdf>

An important step for increasing households' welfare is to accelerate the implementation of the measures proposed by the European Commission in its opinion on Moldova's request for accession to the EU.

Achieving the conditionality related to public administration reform implies strengthening the capacities of the administration by revising the salary system, as well as reducing the gap between salaries in the central and local public administration. The measures also include improving the population's access to public services through digitizing them and through operationalizing Unified Service Delivery Centres. Another conditionality is implementing the revised road map on local and regional democracy in the Republic of Moldova, signed by the government and the Congress of Local and Regional Authorities of the Council of Europe on 15

April 2021. Among other things, the road map provides for the allocation of sufficient financial resources for local public authorities, including through the creation of the National Fund for Regional and Local Development, and increasing the volume of local public authorities' own revenues by improving the system of local fees and taxes. This will contribute to a better consideration of the priorities of the population in different districts. Finally, the measures also provide for increasing the involvement of civil society in decision-making processes at all levels of public administration, which will empower households in their dialogue with the state.

Table 2.
Main indicators regarding population welfare

	2021	2022	2023 <i>(latest available data)</i>	2023 <i>(forecast)</i>
GDP per capita (percentage of EU Central and Eastern European average)	25	27	25 <i>(Sem. I 2023)</i>	-
Population's perception of welfare (Public Opinion Barometer). Share of those with incomes that are not enough even for the bare essentials, %	21,2	21,5	21,0 <i>(Sept. 2023)</i>	-
Population's perception of welfare (Public Opinion Barometer). Share of those with incomes enough for a decent living and more expensive goods, or enough for anything they need, %	10,3	8,8	11,7 <i>(Sept. 2023)</i>	-
Employment rate, %	39,8	40,5	43,7 <i>(Q2: 2023)</i>	40,0
Unemployment rate, %	3,2	3,1	3,8 <i>(Q2: 2023)</i>	4,0
Absolute poverty rate, %	24,5	31,1	-	-
Wage increase in real terms, % y-o-y	7,6	-9,6	1,3 <i>(Q2: 2023)</i>	4,9
Net emigration, % y-o-y	By 6 times	-5,3	-	-
Remittances, USD, % y-o-y	14	-4	0 <i>(Sem. I 2023)</i>	3
Gini coefficient (by total disposable income), %	33,2	32,1	-	-
Increase in household consumption in real terms, % y-o-y	17,3	-6,3	-5,6 <i>(Sem. I 2023)</i>	-1,0
Human Development Index	0.767	-	-	-
Life expectancy at birth, years	69,0	71,4	-	-
Anticipated years of schooling	14,4	-	-	-
Average years of schooling	11,8	-	-	-
Gross national income per capita (PPP \$)	14875	-	-	-
Public spending on education, % of GDP	5,53	5,82	5,74 <i>(2023 approved)</i>	-
Public spending on healthcare, % of GDP	5,59	5,01	5,39 <i>(2023 approved)</i>	-
School dropout rate, primary education, %	0,083	-	-	-
Households connected to the public water supply network, %	71,8	74,0	-	-
Households connected to the public sewerage network, %	32,8	31,8	-	-

Source: NBS, Eurostat, NBM, United Nations Development Programme, Ministry of Education and Research, Barometer of Public Opinion, authors' calculations.

This chapter examines the quality of governance through the lens of the reforms that the government has initiated to address pre-existing domestic problems and, in parallel, comply with the EU requirements for the opening of accession negotiations. The analysis covers the period 2022–2023. Broadly speaking, the authorities' actions in this period have been propelled by the need to meet the EU requirements in record time, which has given rise to concerns about the quality of some of the reforms. The major political focus has been on justice. The EU institutions have supported the government's political will to implement reforms. However, there are shortcomings in various policy fields, where institutional capacities are lacking or governance requires improvement. There is, however, a favourable political predisposition within the EU, strongly influenced by geopolitical considerations, for the initiation as early as 2024 of procedures relating to accession negotiations with the Republic of Moldova.

Analysis of the main trends and developments

In the context of the expectations raised regarding reforms that are imperative for the pre-accession dialogue with the EU, changes were made in the composition of the executive, which aimed to improve the performance of governance.

In accordance with the requirements of a presidential decree of 16 February 2023, the new government replaced three ministers in July 2023. The most recent changes in the composition of the Cabinet of Ministers had a predominantly political basis, with the existence – or, by contrast, the absence – of solid sectoral competences not being a predominant factor in the selection process. The shortage of personnel remains an existential problem for public institutions, which is why the salaries of 1,300 officials within the executive apparatus were increased.³⁴ The central argument invoked by the government for this was the need to increase the competence of public institutions.³⁵ In general, raising wages in the public sector is seen as an appropriate policy for

attracting and/or retaining talent in the system. At the same time, in addition to salary increases, identifying and attracting competent officials also depends on the use of competitions and the application of meritocratic principles in the public sector hiring process. Cases of contests being cancelled, such as occurred in the hiring of a director of the National Agency for Energy Regulation,³⁶ calls into question the government's unconditional adherence to the principle of meritocratic selection. The negative fluctuations in the energy, humanitarian and transport fields, fuelled by the prolongation of the military aggression of the Russian Federation against Ukraine, has required continuous interventions from the state institutions, but also external assistance.

The government extended the state of emergency, given the fact that crises continued. The war in Ukraine was used as a political justification to continue the special state of emergency.

The state of emergency was extended without interruption, starting with the energy crisis in October 2021 and continuing with the Russian military aggression against Ukraine, launched on 24 February 2022. Thus, between October 2021 and September 2023, the parliament adopted 12

resolutions on the state of emergency, and since the beginning of the war in Ukraine the state of emergency has been extended 10 times (Decisions 105/2022 – 244/2023),³⁷ the last extension being voted on 21 September 2023. Although it facilitates the decision-making process, the state of

³⁴ <https://mf.gov.md/ro/content/interviu-un-interviu-despre-salarii-politica-fiscal%C4%83-datoria-de-stat-dar-%C8%99i-alte-subiecte-de>

³⁵ <https://newsmaker.md/ro/alaiba-despre-leafa-de-ministru-in-ultimii-patru-ani-am-primit-cel-mai-mic-salariu-din-viata-mea/>

³⁶ <https://primelestiri.md/ro/scandal-in-jurul-concursului-anulat-pentru-functia-de-director-al-anre---130913.html>

³⁷ <https://gov.md/ro/content/dispozitii-cse>

emergency, which is continued automatically and which has an extended scope of application, allows the government to avoid robust political and inter-institutional control. Combined with the parliamentary majority secured by the Action and Solidarity Party (63 out of a total of 101 seats), the state of emergency gives the government considerable leeway, which should be monitored in order to prevent abuses or deviations from the legal procedures. The absolute political control of the ruling party had adverse effects on the consultative processes during the period under review. Thus, the level of consultation of legislative acts decreased, which had the potential to negatively influence the credibility of the legislative process. In the period 2021–2022, about 83 per cent of the total of 602 draft normative acts (of which 414 were draft laws) were not published on the parliament website in accordance with the legal requirement that they be published no later than five days from the

act being included in the legislative procedure.³⁸ At the same time, only about 9 per cent of all the draft laws adopted – or 39 acts – were submitted for public debates, while the 60-working-day public consultation calendar was respected in about 84 per cent of them. The situation seems to have been problematic also in regard to the accompanying of legislative acts with anti-corruption expertise. According to Promo-LEX observations, the National Anti-corruption Centre (NAC) provided anti-corruption expertise for 328 drafts of normative acts, or 54 per cent of the total. Other sources indicate a rate of 94 per cent.³⁹ At the same time, Promo-LEX notes that there are no records proving that the parliament's informative notes to the adopted draft laws were adjusted in accordance with the recommendations of the NAC's anti-corruption notices.⁴⁰ Neglecting anti-corruption expertise contradicts the EU requirement that the rate of uptake of NAC recommendations is increased.⁴¹

There has been some progress on governance, in regard to meeting the EU requirements, but the interpretation of progress has differed from one actor to another.

In total, the government formulated 60 actions that were integrated in an Action Plan that was adopted in August 2022,⁴² to fulfil the nine EU requirements. As noted in the Expert-Grup State of the Country Report 2022,⁴³ the implementation of the Government Action Plan depends not only on the individual possibilities and competence of the institutions, but also on their ability to collaborate and coordinate their steps. While only one institution is involved in the reform of public finances or the integration of anti-corruption recommendations, seven institutions are targeted in the case of “de-oligarchization”. Also, in the case of the NAC and the Anti-corruption Prosecutor's Office, an inter-institutional rivalry has been reported,⁴⁴ with counterproductive effects for the fulfilment of the commitments to the EU. According to assessments by civil society representatives, made public in June 2023, of the nine EU requirements, six are being implemented with some reservations, two are in the process of being implemented and one has been fully implemented.⁴⁵ Also, in June 2023, the Euro-

pean Commission presented its own interim assessment, which showed that only three of the EU's nine conditions were being satisfactorily met.⁴⁶ These related to the recommendations of the Venice Commission and the Organization of Security and Co-operation in Europe, the involvement of civil society in decision-making processes, and human rights. Upon careful examination of the level of fulfilment of the EU requirements, it can be observed that the balance between the total recommendations of the Venice Commission, and the rate at which the recommendations are taken into account by the Moldovan side, is not specified in the EU assessment. However, on sensitive areas, such as elections, the objections of the Venice Commission have been only selectively taken up by the Moldovan authorities.⁴⁷ Thus, the objections regarding the political composition of the Central Electoral Commission, the language used in the publication of ballots, the limiting criteria for candidates in the presidential elections (education, language skills and length of residence) etc. have been overlooked.

38 https://promolex.md/wp-content/uploads/2022/11/Raport_activitate_Parlament.pdf

39 https://moldovaeu.sens.media/uploads/EU_Moldova_Candidate_Check_Nr_1_13_04_2023_RO_f7895b33e8.pdf

40 https://promolex.md/wp-content/uploads/2022/11/Raport_activitate_Parlament.pdf

41 <https://neighbourhood-enlargement.ec.europa.eu/system/files/2022-06/Republic%20of%20Moldova%20pinion%20and%20Annex.pdf>

42 https://mfa.gov.md/sites/default/files/Plan_cnie_04.08.2022.pdf

43 https://www.expert-grup.org/media/k2/attachments/RST_2022_RO_Final_1_-site.pdf

44 <https://moldova.europalibera.org/a/conflictul-dintre-cna-si-procuratura-anticoruptie-ia-ampliare-/32450318.html>

45 <https://9pasi.euromonitor.md/ro>

46 https://ec.europa.eu/commission/presscorner/detail/en/statement_23_3460

47 [https://www.venice.coe.int/webforms/documents/default.aspx?pdffile=CDL-AD\(2022\)025-e](https://www.venice.coe.int/webforms/documents/default.aspx?pdffile=CDL-AD(2022)025-e)

In other news, the EU has signalled that, in the case of the other six requirements, the reforms are still lacking.

Despite the government's adoption of the Plan for Deoligarhization,⁴⁸ the EU has specified the need to improve the institutional capacities of the Competition Council and the Audiovisual Council as being among the measures that are still to be fulfilled. With regard to public finance management, it is necessary to clarify the legal framework for public-private partnerships, and regarding public administration reform, it is necessary to complete the functional evaluation of ministries and to continue the salary reform based on meritocratic principles. In the field of justice, the EU has expressly indicated the need to adjust the evaluation framework for judges and to fill

the vacancies on the Superior Council of Magistracy (SCM), including appointing the Prosecutor General. Regarding anti-corruption policies, it is imperative to increase the efficiency of the NAC and the Anti-corruption Prosecutor's Office concerning the quality of investigations and the conviction rate.⁴⁹ The most difficult tasks for the government are those related to justice. Politicians' interventions to speed up justice reform are perceived by those inside the system as a violation of the principle of the separation of powers in the state. On the other hand, the government believes that the slow pace of reform is determined by the resistance of corrupt groups within the system.

During the period under review, the reforms related to the EU's nine requirements became a political priority in relation to governance, but the process was not entirely inclusive.

In the years 2022–2023, the foundations of the GCEI were laid, resulting in the establishment of 35 working groups within the executive, which will deal with the negotiation and implementation of normative commitments relating to the 33 chapters of the EU accession process.⁵⁰ Established in April 2022,⁵¹ under the auspices of the presidency of the Republic of Moldova, the NCEI has become the main platform through which the central authorities coordinate the process of implementing the conditions set by the European Commission in its Opinion of June 2022.⁵² The composition of the NCEI has increased to 37 members and includes representatives of civil society (unions, employers, NGOs, business associations),⁵³ but omits representation of any opposition forces. Although some non-governmental participants, such as representatives of civil society, are part of the NCEI, the same principle is not applied to the extra-parlia-

mentary opposition. The inclusive nature of the EU, which conducts study visits for Moldovan parliamentarians with the participation of opposition MPs,⁵⁴ contrasts with the non-inclusion of any representative of these political forces in the NCEI. At the same time, the presidency's decision to exclude the Governor of Gagauzia and the President of the People's Assembly from Comrat from the NCEI⁵⁵ risks deepening the isolation of broad social segments that share other geopolitical preferences. Support for the EU membership fell from 56.8 per cent in June 2021 to 47 per cent in August 2023, when sympathies for the Eurasian Economic Union were expressed by around 32 per cent of the population.⁵⁶ One way to improve support for European integration can be to engage the authorities in a dialogue with Eurosceptic sociopolitical groups, and this requires expanding the composition of the NCEI.

48 <https://www.zdg.md/stiri/politic/comisia-nationala-pentru-integrare-europeana-condusa-de-presedinta-tarii-a-adoptat-un-plan-de-deoligarhizare/>

49 https://ec.europa.eu/commission/presscorner/detail/en/statement_23_3460

50 <https://gov.md/ro/content/la-guvern-s-desfasurat-prima-sedinta-comisiei-guvernamentale-pentru-integrare-europeana>

51 <https://presedinte.md/app/webroot/Decrete/441.pdf>

52 https://ec.europa.eu/commission/presscorner/detail/en/qanda_22_3801

53 <https://presedinte.md/app/webroot/Decrete/1104.pdf>

54 <https://www.moldpres.md/news/2023/07/03/23005297>

55 <https://anticoruptie.md/ro/stiri/decret-comisia-nationala-pentru-integrare-europeana-modificata-cine-sunt-noii-membri>

56 <https://ipp.md/wp-content/uploads/2023/09/BOP-2023-Prezentare.pdf>

Although justice reform has moved forward, some new powers being given to the future evaluation commissions for judges and prosecutors could conflict with the binding nature of court decisions provided for by the Constitution.

According to the legislation on the evaluation of judges and prosecutors, adopted in July 2023, the ethical and financial integrity of about 140 judges and 220 prosecutors in key positions is to be verified.⁵⁷ Those who do not pass the assessment will be excluded from the system for a period of up to seven years. The government decided to grant the future evaluation commissions the prerogative to challenge the decisions of the Supreme Court of Justice (SCJ), if they are considered “arbitrary and obviously unreasonable”.⁵⁸ The Ministry of Justice requested the opinion of the Venice Commission on this matter, in order to obtain an external validation of its aim to establish these prerogatives for future evaluation commissions.⁵⁹ The government’s preventive steps were determined by decisions by the SCJ to cancel decisions of the current Pre-Vetting Commission regarding the non-admission of 21 judges to competitions for positions within the SCM.⁶⁰ The representatives of the government interpreted the actions of the SCJ as a signal of an attempt to boycott the mechanism for checking the integrity of the judicial system.⁶¹ When evaluating the candidates for the SCM and for the Superior Council of Prosecution, the Pre-Vetting Commission passed less than 50 per cent of the candidates: in the case of the SCM, only 18 per cent of judicial candidates (five candidates out of 28) and 25 per cent of candidates

from among non-judges (three candidates out of 21); while in the case of the Superior Council of Prosecution it passed 44 per cent (seven out of 17).⁶² These indicators show that, in the extraordinary evaluation of over 300 judges and prosecutors planned to take place until 2025, the promotion rate could be just as low. In this sense, the government is seeking to prevent the repetition of the SCJ precedent regarding the 21 judges. Although the planned extension of the prerogatives of the evaluation commissions would help check the integrity of those in the system, it would generate a risky precedent in regard to the predictability of decisions adopted by the judiciary. At the same time, existing procedures for evaluating judges and prosecutors have experienced a crisis of credibility, which became acute after the disclosure of deficiencies related to the evaluation of Iulian Muntean, who was appointed to the SCM by the parliament, contrary to active files on corruption cases, which were not reported in the evaluation process. Therefore, scepticism remains about the ability of the Pre-Vetting Commission to conduct an objective assessment of the reforms. At the same time, the shortcomings related to the responsibilities of the NAC, the Information and Security Service (SIS) and the Anti-corruption Prosecutor’s Office to provide information on the integrity of evaluated candidates were exposed.⁶³

The anti-corruption measures taken by the authorities targeted the use of financial resources from unknown sources for the purposes of political corruption and bribing protesters.

Thus, only in the first half of 2023, the anti-corruption agencies managed to identify amounts from unknown sources, in national and foreign currency, totalling MDL 4.5 million,⁶⁴ used by the Şhor Party in order to mobilize anti-government protests. According to estimates, for the period 2022–2023,⁶⁵ financial transfers from abroad to this political group amounted

to approximately MDL 200 million (about EUR 10 million). That unhindered financial transfers of such proportions are possible highlights the fact that the law enforcement bodies face constraints in preventing corruption cases involving cross-border organized crime, including through the use of cryptocurrency transfers.⁶⁶

57 <https://anticoruptie.md/ro/stiri/adoptat-de-legislativ-start-pentru-evaluarea-externa-a-procurorilor-si-judecatorilor-din-functii-cheie>

58 <https://www.ziarulnational.md/obiectiile-presedintei-maia-sandu-la-proiectul-de-lege-privind-evaluarea-externa-a-judecatorilor-si-procurorilor-acceptate-de-parlament/>

59 <https://www.parlament.md/LinkClick.aspx?fileticket=9a7kLYw0mUE%3d&tabid=128&mid=506&language=ro-RO>

60 <https://www.venice.coe.int/webforms/events/?id=3564>

61 <https://www.moldpres.md/news/2023/08/02/23006195>

62 <https://www.bizlaw.md/csj-a-anulat-21-de-decizii-de-nepromovare-a-candidatilor-la-functii-in-csm-si-csp-reactia-comisiei-pre-vetting>

63 <https://anticoruptie.md/ro/stiri/deciziile-csj-in-drum-spre-comisia-pre-vetting>

64 <https://vetting.md/en/preliminary-data-on-the-extraordinary-evaluation-of-scm-and-scp-candidates-after-90-of-the-decisions-were-issued-by-the-pre-vetting-commission/>

65 <https://www.ziarulnational.md/olesea-stamate-acuza-procurorii-si-ofiterii-cna-de-sabotaj-in-cazul-lui-iulian-muntean-care-a-ajuns-prin-votul-parlamentului-membru-al-csm-desi-figureaza-in-tr-un-dosar-penal/>

66 <https://newsmaker.md/ro/foto/video-peste-45-mln-de-lei-suma-exacta-confiscata-de-la-reprezentantii-partidului-sor/>

The introduction of sentencing procedures “in absentia” allows for the accelerated trial of cases involving political corruption.

Similarly, the new provisions of the Criminal Procedure Code, the Criminal Code and the Enforcement Code⁶⁷ stipulate the procedure for extended confiscation of illegally obtained assets in the absence of the accused and in relation to third parties. Also, following the clarification of powers to fight corruption, the NAC will focus on the fight against systemic corruption, while the Anti-corruption Prosecutor's Office will focus on high-level corruption cases.⁶⁸ The completion of the trial against Ilan Șhor, culminating in a sentence of 15 years in prison, and the declaration of the Șhor Party as unconstitutional, are considered key results in the field of combating political corruption. As a result, about 100 representatives⁶⁹ of this party have been restricted from participating in the upcoming elections, starting with the local elections on 5 November, due to their affiliation with a political party that has been declared unconstitutional. At the same

time, suspicions of corruption related to four deputies of the Socialist Party, involving the Șhor group, were not addressed by anti-corruption agencies. The latter also failed to prevent the bribing of voters by the Șhor group in the Gagauzia elections, which resulted in the victory of Evghenia Guțul⁷⁰ to the position of governor of the autonomous region. Given the politicized nature of the fight against high-level corruption, neither the US⁷¹ or EU⁷² sanctions, nor the calls of the Moldovan national authorities to external jurisdictions, resulted in the arrest and extradition of the fugitive oligarchs Ilan Șhor or Vladimir Plahotniuc. Equally, there has been a lack of progress on the effective recovery of funds embezzled in the banking fraud of 2010–2014 (“bank theft”). Increasing the institutional efficiency of anti-corruption agencies is on the list of the EU's requirements and is highly pertinent to the process of European integration.

External support provided by Moldova's development partners facilitated the maintenance of the country's political and financial stability.

The holding of the Summit of the European Political Community in Moldova, in June 2023, the establishment and coordination of the Support Platform for Moldova by Romania, France and Germany, as well as the intensification of the bilateral political and sectoral dialogue with the institutions of the EU, USA, NATO, G7, etc., have strengthened the external image of the country. Moldova's support for Ukraine and condemnation of Russian military aggression has led to a further deterioration in the relations between the Republic of Moldova and the Russian Federation, with the latter being involved in disinformation and attempted subversive actions against the government in Chisinau. In parallel, the Republic of Moldova started to abrogate treaties signed within the CIS, with at least 20 documents⁷³ cancelled or where Moldova is in the process of withdrawing its signature (relating to metrology, labour protection, exceptional

situations, etc.⁷⁴). Against this volatile geopolitical background, European actors have increased their support for the inclusion of the Republic of Moldova in the EU enlargement package. The EU State of the Nation Address in September 2023,⁷⁵ Germany's Security Strategy 2023⁷⁶ and other documents at the European level⁷⁷ promote the accession of the Republic of Moldova to the European integration project, together with Ukraine and the states of the Western Balkans. “The Cypriot precedent”⁷⁸ allows accession to the EU under conditions where the given state does not control the entire national territory; at the same time, 64 per cent⁷⁹ of exports from the Transnistrian region depend on the EU market. However, the National European Integration Plan does not include concrete measures aimed at intersecting with efforts to reintegrate the Transnistrian region, these processes being separate and being achieved at different speeds.

67 https://www.legis.md/cautare/getResults?doc_id=132550&lang=ro

68 <https://gov.md/sites/default/files/document/attachments/subiect-02-nu-123-mj-2023.pdf>

69 <https://www.zdg.md/importante/update-aprobat-in-a-doua-lectura-unii-dintre-reprezentantii-fostului-partid-sor-nu-vor-putea-participa-la-alegerile-generale-locale-din-5-noiembrie/>

70 <https://procuratura.md/anticoruptie/comunicate/comunicate-de-presa/precizari-privind-episodul-alegerile-bascanului-uta-gagauzia.html>

71 <https://home.treasury.gov/news/press-releases/jy1522>

72 <https://eur-lex.europa.eu/legal-content/RO/TXT/?uri=uriserv%3AOJ.LI.2023.140.01.0001.01.RON&toc=OJ%3AL%3A2023%3A140I%3AFULL>

73 https://www.ipn.md/ro/republica-moldova-denunta-cateva-zeci-de-acorduri-din-cadrul-7965_1095400.html

74 <https://moldova.europalibera.org/a/inca-doua-acorduri-cu-csi-vor-fi-denuntate-r-moldova-ajuta-atunci-cand-e-nevoie-si-cu-acord-si-fara-32510093.html>

75 https://ec.europa.eu/commission/presscorner/detail/en/speech_23_4426?fbclid=IwAR2qP5H0x4MnH5tiZcqeZEWzWmTHB6XL_3VNBGc3rDvJ8zfzRjFob059yx0

76 <https://www.nationalesicherheitsstrategie.de/National-Security-Strategy-EN.pdf>

77 <https://www.primeminister.gr/en/2023/08/21/32363>

78 <https://www.intellinews.com/cenusa-the-cyprus-precedent-for-ukraine-moldova-and-georgia-283580/?source=georgia>

79 <https://eubam.org/wp-content/plugins/pdfjs-viewer-shortcode/pdfjs/web/viewer.php?file=https://eubam.org/wp-content/uploads/2023/02/EUBAM-Annual-Report-2022.pdf>

Policy recommendations

Reviewing the political approach to the use of the state of emergency regime, in order to adjust it to the current realities in the country.

Even if the geopolitical situation in the region justifies the use of a state of emergency as a governance tool in times of crisis, its scope of intervention must be limited in order to restore “checks and balances” in relation to the actions of the government, especially in the field of public procurement, and to exclude interference in the autonomy of other institutions. Extending the state of emergency out of inertia, with-

out any reason for doing so, as well as preserving a wide area of intervention by the executive, without any control from institutions that are politically independent of the ruling party, diminishes the balance of power within the state. Moreover, it negatively influences participatory democracy, good governance in the system of state institutions and even the attractiveness of the economy for foreign investors.

Expanding the composition of the NCEI, in order to increase its representativeness.

Although the formation of the NCEI from among supporters of European integration facilitates the achievement of a quick consensus, there is a risk of establishing “groupthink”, which can reduce the degree of penetration of critical views on the quality of the European integration process. The incomplete inclusion, seen through the prism of the current composition of the Commission, does not contribute to overcoming the existing resistance in some segments of society to the idea of European integration as a national strategic objective. In this sense, it is imperative that the Commission includes exponents representing ATU Gagauz-Yeri, and the parliamentary and extra-parliamentary

opposition. Increasing public understanding of the benefits and costs of European integration can occur if the process becomes fully representative and inclusive. At the same time, the NCEI’s activity includes examining the progress achieved by the GCEI, and the latter requires transparency and a mechanism for public sector accountability and intervention in the case of inter-institutional deadlocks. At the same time, strategic communication is needed on the tasks and performance of the NCEI and the GCEI in the political and policy process relating to European integration. This will help to manage public expectations and ensure comprehensive access to information for media outlets.

Conducting comprehensive public consultations to identify solutions related to the criteria proposed by the government for challenges to court decisions by future evaluation commissions for judges and prosecutors.

In this area, in addition to the opinion of the Venice Commission, the anti-corruption expertise of the NAC is needed in regard to the risks related to the new legislative changes. The amendments introduced risk instituting a new judicial practice that makes it possible to circumvent the binding character of final court decisions, as provided for in the Constitution (Article 120). The government’s intention to prevent the short-circuiting of integrity assessments in the judicial system is legitimate, but the proposed solution opens up opportunities for a

politicization of the procedures for challenging court decisions. In an unpredictable future political context, the political preferences of the members of these evaluation commissions (three national and three international members) could negatively influence the results. The instrument of challenging court decisions by invoking an abstract and subjective criterion regarding “evidently unreasonable” decisions must be reconsidered, as it represents a risk to the sustainability of judicial reform and the integrity of the entire judicial system.

Urgently developing a transparent mechanism for using financial assistance from the EU.

Pro-EU sympathies within Moldovan society can be strengthened if detailed reporting is provided on the financial assistance received from European sources

and spent by the government, including during the state of emergency, i.e. the years 2021–2023 and later.

Requesting targeted external assistance from EU member states for the acquisition of knowledge regarding strategies for negotiating funding quotas based on existing European funds.

Currently, there is a lack of certainty regarding the financing of the European integration process of the Republic of Moldova, which is taking on new commitments in record time, without capacitating the national institutions with regard to the implementation process. In the same vein, the Ministry of Foreign Affairs and European Integration aims to

create a unit that specializes in European budgetary affairs and/or to coordinate actions in the given field with the Ministry of Finance, in order to examine funding opportunities in the current EU multiannual financial framework of 2021–2027 to identify new European funds for which the Republic of Moldova is eligible.

Developing a realistic strategy that combines the objective of European integration and that of territorial reintegration of the Republic of Moldova.

The progress on the transposition of European legislation, with the development of the institutional and negotiation capacities in the accession process for the fulfilment of sectoral commitments in 35 fields, should take place in parallel with the preparation of an ambitious strategy for the reintegration of the country. Although European integration and the reintegration of the country proceed at different speeds, both processes must take place within a common framework of political priorities and policies. It is necessary to accelerate the process of realizing projects that reduce the levers of Russian influence in Moldova, including the Transnistrian region, especially through energy interconnection and the diversification of transport arteries. This can be achieved by

intensifying sectoral cooperation with Romania and Ukraine, but also on the basis of the receipt of continued financial assistance from the EU. The support packages from development partners include the management of the possible social-economic and political consequences disruption of Russian gas supplies, as a result of the non-resolution of the debt for the consumption of natural gas, which includes the debt accumulated by the Transnistrian region and that deriving from the activity of Moldova-Gaz SA. The proposed measures will strengthen the strategic sovereignty of the Republic of Moldova, constituting a considerable investment in the country's negotiating position in future international efforts to ensure a peaceful settlement of the Transnistrian conflict.

Table 3.
Main indicators for governance

	2019	2020	2021	2022
Nations in Transition, Freedom House (ranking)	58 <i>(of 100 countries)</i>	60 <i>(of 100 countries)</i>	61 <i>(of 100 countries)</i>	62 <i>(of 100 countries)</i>
Corruption Perceptions Index, Transparency International (ranking)	120 <i>(of 180 countries)</i>	115 <i>(of 180 countries)</i>	105 <i>(of 180 countries)</i>	91 <i>(of 180 countries)</i>
The number of sentences imposed in corruption cases, % of total	88% <i>(of 333 cases)</i>		62% <i>(of 376 cases)</i>	
The number of acts (draft laws, normative acts) subject to public consultations, % of total	90% <i>(of 1,221 acts approved)</i>	66% <i>(of 1,197 acts approved)</i>	44% <i>(of 786 acts approved)</i>	

Source: NAC, State Chancellery, Transparency International, Freedom House.

WHO WE ARE

Expert-Grup is a think tank that specializes in economic research and public policy analysis. Expert-Grup was established in 1998 and started its research activities 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 develop efficient and innovative solutions for the development of the Republic of Moldova. In order to fulfil this noble goal, Expert-Grup provides a creative and institutional environment and encourages the expression of free thinking, which helps to make us a leading source of unbiased economic analysis.

EXPERT-GRUP'S FOUR CORE VALUES

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 in our research are quoted and all contributors to our research are mentioned.
3. **Quality and relevance** - We aim to produce high-quality analytical products that address topical issues relating to Moldova's economic and social development.
4. **Avoiding conflicts of interest** - We do not accept activities and partnerships that are contrary to our values or that may undermine our independence.

EXPERT-GRUP'S 10 PRIORITIES

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 to, 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, having recently been granted EU candidate country status. FES aims to support the country's European integration process. 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 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 NGOs 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 activities and projects in this area focus on 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.

