

Emerging Social and Economic Impact



This review is a part on the [UN Moldova policy series related](#) to the Covid-19 Pandemic. The objective of this review¹ is to identify the magnitude of Covid-19 vulnerabilities caused by the lockdown (travel restrictions, social distancing, quarantine, and closure of businesses) on Moldova's economy and to provide recommendations for policy development and donor support.

In April 2020, the United Nations released a [framework for immediate socio-economic response to Covid-19](#) that provides a set of tools for quick assessment of Covid-19 impact to support the design of recovery packages. The framework is built on five pillars addressing the needs and rights of people affected by the pandemic, while particularly focusing on the most vulnerable under risk of being left behind. These pillars are connected by the environmental sustainability and gender equality streams. When designing responses to the impact Covid-19, the guiding principle remains to give immediate support to health care systems while concurrently supporting economic recovery.

This review focuses on the emerging social and economic impacts of the Covid-19 pandemic in the Republic of Moldova. It provides an initial framework for further review of the key challenges faced by the economy, while it will also scope out the areas of support for vulnerable people, SMEs, and workers in the informal sector paying attention to measures for economic recovery and helping to guide the necessary fiscal and financial stimulus to make the macroeconomic framework work for the most vulnerable.

Based on this, the review will provide a quick overview of the potential threats and identify recommendations for support and policy response for social and economic recovery.²

CHART 1: FIVE PILLARS OF THE UNDS RESPONSE



I. **HEALTH FIRST**

Putting people first ...

The first case was confirmed in Moldova on May 8th. As of May 20, 2020, there are 6,553 confirmed Covid-19 cases, including 228 deaths in Moldova. Moldova has one of the highest numbers of cases per million inhabitants in the region, and an average rate of daily increase is 2.3%. Case fatality³ in Moldova is 3.5%⁴ whereas in neighbouring Romania it reached 6.6% but in Ukraine is only 2.9%.

¹ **DISCLAIMER:** the paper is subject to official data availability and is subject to further update and extensions.

² UNDP has begun a comprehensive socio-economic impact assessment of needs and impact of the pandemic in the Republic of Moldova

³ Source: mortality analysis, John Hopkins University, <https://coronavirus.jhu.edu/data/mortality> accessed on 20.05.2020

⁴ We should also look at the number of severe cases currently under treatment, which are close to 200 in Moldova, so potentially the fatality ratio may go up in the near future.

Contrary to other countries, the data shows more women continue to be infected with the virus than men⁵, 59% vs. 41%, and a slightly higher percentage of women have died from the disease compared to men, 51% vs. 49%. However, the case fatality rate among men is higher than among women, 4.2% vs. 3.0%. The higher morbidity from Covid-19 in women could be partly explained by the fact that the share of women over 50 years exceeds by 25% the male population in the same age bracket, however also by the higher share of women employed in the services sector (including health care).

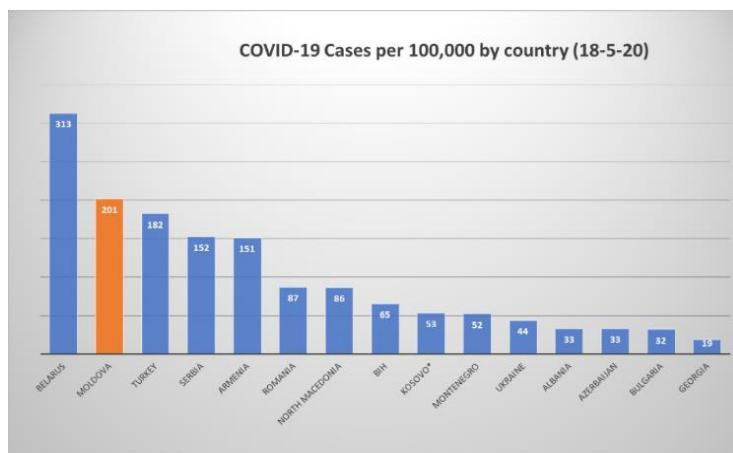
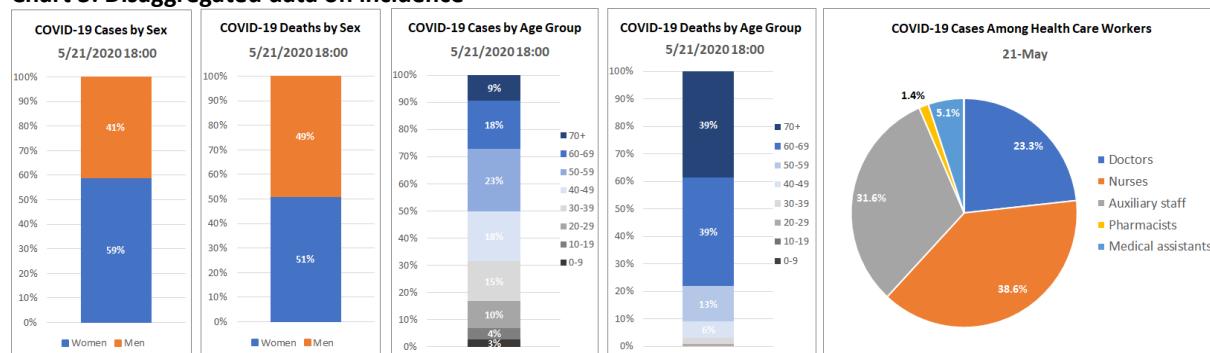


Chart 2: Incidence per 100,000 in the region

The distribution of by age has remained largely unchanged. Individuals in the 50-59 age group continue to be most affected by the cases disease, accounting for approximately a quarter of all confirmed cases. Those in the 40-49, 60-69 and 30-39 age groups follow, accounting for 15%-18% of all cases each. If the number of deaths is considered, older adults remain at a much higher risk of being seriously affected by the disease. While only 9% of all confirmed cases are people older than 70, about 40% of deaths from the disease have occurred in this age group. Also, over 3 in 4 deaths have occurred in people over 60, and over 90% of all deaths have been reported in patients 50 years of age and older. The average age of patients who have died from the disease is 66.2 years.

Moldova has a high number of health professionals (approx. 21.6%) affected by the virus. The share of health care workers in the total number of cases decreased slightly from 25% at the beginning of May to approximately 22% now. Overall, nearly 1,450 doctors, nurses, medical assistants and other staff from the health care sector have been infected with the virus since the beginning of the outbreak. The Global Health Security Index (2019)⁶ scores Moldova 42.9 out of 100 while it ranks 35 out of 43 countries in the European Region suggesting that the healthcare system is vulnerable to public health crises and preparedness for epidemics is low.

Chart 3: Disaggregated data on incidence⁷



<http://gismoldova.maps.arcgis.com/apps/opsdashboard/index.html#/d274da857ed345efa66e1fbc959b021b>

A National Public Health Emergency has been declared from May 16 to June 30, this follows on from the expiration of the National State of Emergency on May 15. The government will continue to remain

⁵ Online platform <http://gismoldova.maps.arcgis.com/apps/opsdashboard/index.html#/d274da857ed345efa66e1fbc959b021b> accessed on 23.04.2020

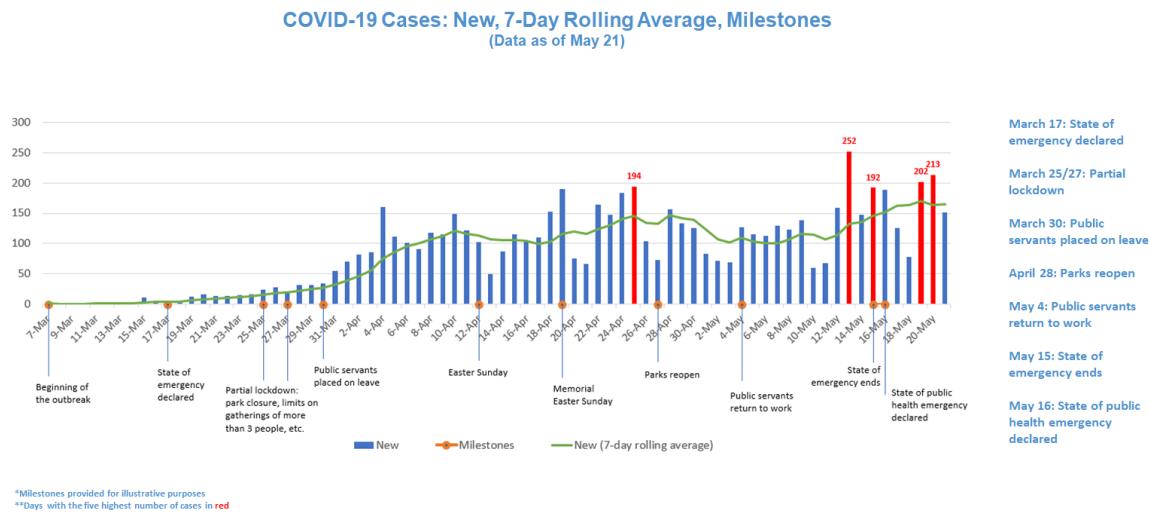
⁶ <https://www.ghsindex.org/country/moldova/>

⁷ Republic of Moldova Daily Statistical Updates on Covid-19 can be access [here](#)

at **Red Code Alert** which is defined as “imminent risk of triggering a public health emergency (activation level 3), which includes public health events with major risk (national and/or international with high transmission potential) affecting population health and it requires, first and foremost, concomitant measures of control, surveillance and information.” As stated by the government: “The end of the state of emergency does not mean lifting the restrictions imposed in the process of managing the epidemic and the authorities demand strict observance of social distance and health hygiene by every person. If the statistics of confirmed cases show increases, the authorities will impose further restrictions.

Covid-19 incidence in Moldova is not yet static or reducing and in recent weeks the incidence has increased. The last two weeks have seen the highest consecutive weekly totals of confirmed cases (May 9-15 with 1,017 cases and May 16 -21 with 1,109 in six days).

Chart 4: Rolling 7-day average against milestones



So, challenges remain in containing the spread of Covid-19. Containing the spread risk both government policy measures as well as community and individual attitude and behaviour change. Additional support will be required to;

- Monitoring the easing of restrictions on the evolving epidemiological situation;
- Support contact tracing to ensure adequate containment;
- Continue with a high level of both response and preparedness activities;
- Ensure adequate supply of equipment (PPE stocks etc)
- Planning for and supporting normal operations of the health care system for non-Covid related illnesses and readiness for a potential surge of both chronic and acute patients who may have delayed seeking support during the acute phase of the crisis.

II. PROTECTING PEOPLE

Leaving no one behind...

A. UNEMPLOYMENT, LOWER WAGES AND INCOMES

Even before the impact of the Covid-19 crisis rippled throughout Moldova's labour market, official statistics painted a gloomy picture of the situation. While official unemployment stood at 5% in 2019, new statistics suggest that labour underutilization reached nearly 10%, if time-related underemployment and the potential labour force⁸ is also considered. These figures are likely to

⁸ The potential labour force refers to persons not in employment who express an interest in this form of work but for whom existing conditions limit their active job search and/or their availability (ILO)

increase in 2020 and beyond as a result of the expected economic inactivity⁹ and large inflows of returning migrants. The IMF estimates that the unemployment rate is expected to rise to 6% by the end of 2020 and to gradually fall to 4% in 2022. However, experience from previous recessions suggests that after spikes in unemployment, matching workers and vacancies in the recovery is a slow process.

The economic inactivity of the labour force (30% of which are not employed or enrolled in training, i.e. so-called NEETs), informal employment (22% of all jobs) and behavioural precariousness are currently some key issues to be considered. All of this makes the working-age population in Moldova and their families extremely vulnerable to shocks.

According to the National Bureau of Statistics (NBS) in 2019 the employment structure revealed high employment rates in services (57%), followed by agriculture sector (21%), industry (14.7%, out of which majority are in food processing - 12.7%), and construction (7%). Consequently, the labour force structure is likely to be much affected by the containment measures implementation and the magnitude of its impact varies from sector to sector. Shifting employees to flexible working hours or remote work is difficult or impossible for many key sectors such as agriculture that employs every one-in-five workers in Moldova. Given that in agriculture, in which women are highly represented, is a sector permeated with low productivity, high vulnerability to unfavourable weather conditions and high informality it is very likely that this sector will be more affected.

Around 70% of female labour force participation is in the service sector, while only 47% of employed men work in this sector. A large share of women are employed in sectors that are acutely affected by the pandemic, such as education, healthcare, social assistance, retail trade, hotel and the restaurant business. Hence, we can expect the impact on unemployment might have a much higher socio-economic impact on women.

Given the relatively high levels of informal labour in agri-sector (12% according to NBS), **the effects of the lockdown will be disproportionately high for the rural poor and most vulnerable** as they are more likely to face impaired access to social assistance benefits.

The Covid-19 impact on the labour market is far from uniform across sectors: accommodation and food services, wholesale and retail trade, transportation and construction (sectors that give employment to nearly 180,000 wage workers) bear the brunt of the crisis.

The MSMEs and SMEs sector employs a vast majority of the population in Moldova (nearly 62 % in 2019). A dramatic and sudden loss of demand and revenue for MSMEs and disruptions along supply chains is affecting their capacity to function and causes severe liquidity shortages with impacts on wages and abrupt drops in capacity utilization. Seventy per cent (70%) of SMEs surveyed by the AmCham Moldova in April 2020 underlined the intention to cut related labour costs as a result of anti-crisis business survival measures.

Salaries in the private and public sector increased in the last three years and the gap between public and private sector wages was reduced. The average salary in the private sector is 7,627 lei versus 6,636 lei in the public sector¹⁰. Given the pandemic uncertainty and high risk of financial distress on businesses, the private sector employees might be either transferred to a part-time working schedule or discharged. Similarly, some public entities (e.g. education or other public service providers), as a result of the lockdown, reduced payment of performance bonuses, thus affecting households' disposable income. In addition, lower earnings as a result of lower aggregate demand for small

⁹ During 60-day emergency situation valid till May 15 the government implemented set of public health containment measures which either facilitated transfer of activities to remote and/or virtual environment or suspended physical activity of entities which would otherwise be conducive to spread of coronavirus disease.

¹⁰ Source: NBS data, 2019

business owners, freelance professionals (self-employed workers) and informal workers are likely to reduce households' disposable income and can increase their vulnerability to poverty. Workers who lose their jobs spend less, ultimately affecting the consumption-driven economy of Moldova.

Informal employment

In 2019, NBS reported roughly 7% of undeclared work among wage employees (50% of which are in the agriculture sector), in which verbal labour arrangements prevail (50%), followed by trade (15%) and construction (14%). According to other studies, unreported salaries represent almost one-quarter of all wages in the real sector of the economy while one-fifth of employees are under-reported (envelope salaries) or working unofficially¹¹.

The loss of disposable income from wages will be exacerbated by the reduction in remittances (as a result of job loss by labour migrants and their return to Moldova) in the longer term and might translate into higher poverty rates.

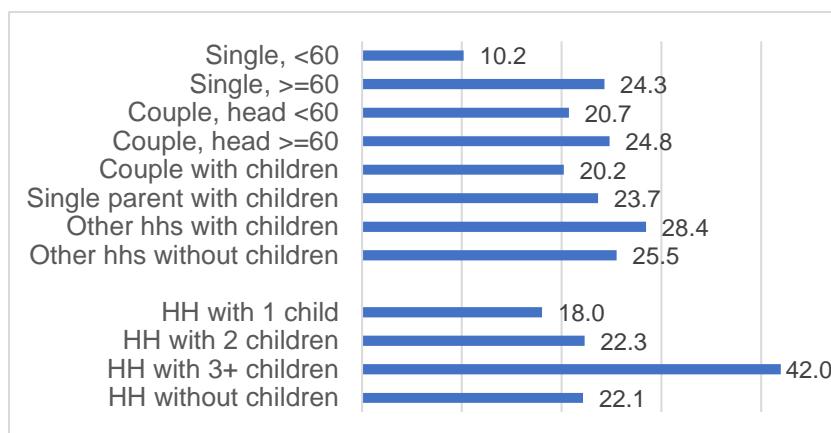
The strain on incomes across the economy is likely to devastate workers close to or below the poverty line with high incidence on the working poor. Some groups, such as migrant workers, self-employed, casual and gig workers, youth and disabled, are mostly affected by the economic consequences of the pandemics.

B. INCREASED POVERTY

Although in recent years Moldova has made substantial progress in terms of poverty reduction and inequality ([GINI 25.7%, 2018](#)), the share of the middle class did not significantly expand, and many people who escaped poverty in the past are still vulnerable and likely to fall back into poverty in the future¹².

Poverty is concentrated mainly in rural areas where livelihoods depend on agriculture. With over a half of the country population living in rural areas, 85% of the poor are concentrated there. Poverty incidence varies significantly across various groups with around one-quarter of Moldova's households living below the poverty line (the national poverty line was set at 1,819.2 lei while extreme poverty line at 1,467.2 lei), while the most affected are households with 3+ children (42% live below this poverty line). Poverty is expected to increase as a result of coronavirus pandemic as Covid-19 will hurt not only the bottom population quintiles.

Chart 5: Percentage of poor by household type (2018, NBS)



Source: *Draft Report on Poverty measures in the Republic of Moldova 2014-2018, NBS*

¹¹ Shadow economy index for Moldova and Romania (2016), T. Putnins, A. Sauka, A. Davidescu

¹² [Poverty and shared prosperity update](#), 2018, World Bank

In 2019, approximately 14% of the population experienced catastrophic health spending¹³, suggesting that people in urban areas are more affected (15.4%) compared to rural inhabitants (13.1%). Furthermore, the share of people who spend over one-third of their disposable income on housing and utilities is 11.5%, and it is equally distributed amongst the rural (11%) and urban (12.2%) population¹⁴.

Given that 41% of household spending in Moldova is on food and considering that most poor children were receiving free meals at school which have been closed since March 13th, the lockdown is negatively affecting food security and is likely to deteriorate children's nutrition.

The second most affected category are households with 60+ elderly who besides being at risk of infection, might face challenges in accessing healthcare and food.

C. REDUCED REMITTANCES AND INCREASED MIGRATION

Remittances are an important source of income for the poor, which remain high, although declining from almost a quarter of GDP in 2000 to approximately 16.05% of GDP in 2018¹⁵. According to NBS, during the pre-Covid period, about 30% of all Moldovan households received remittances from their family members working abroad. On average, remittances represent over a half of the disposable household's income, reaching 52.4% in 2018. In villages, the share of remittances in the disposable income stands at 59.7%, while in cities and towns this number is lower by 7.9% (2018). The proportion of households likely to be pushed into poverty if they do not receive remittances is 23.4%, while in rural areas this number reached 30.5%¹⁶.

In monetary terms, migrants' transfers increased by 4% in 2019, reaching \$US 1,812.44 mln¹⁷. Most of the remittances were coming from the EU, while transfers from the CIS region have seen a reduction of 10.6% compared to 2018.

At an early stage of the outbreak, the share of remittances from Eurozone witnessed a slight increase in February 2020 versus December 2019. However, as Covid-19 crisis hit hardest in Moldova's major migrant-receiving countries – Italy, France, Spain, Germany, and the United Kingdom - it is expected that the inflows of remittances will substantially decline and will become a much smaller contributor to economic growth and welfare enhancement in coming months. This happened during the 2015 financial crisis when the share of remittances fell by almost 30%. From a rapid diaspora survey conducted by IOM in April-May 2020, approximately 80% of migrants indicated either a decrease of remittances they send home or ceasing of remitting; about 43% send no more remittances at all, while 29% spend less than 50% of what they used to send prior to COVID-19 outbreak.

As per IOM's current estimation, 150,000 labour migrants will likely be returning to Moldova during 2020, which represents around 10% of the domestic Moldovan working population. These returns could significantly contribute to a rise in unemployment. Up to 20% of Moldovan labour migrants already indicate their intention to return to Moldova¹⁸. Therefore, the country's preparedness to absorb the returning population in the short- and medium-term is crucial as unemployment in receiving countries is also likely to be high throughout 2021. At the same time, reopening of the Western EU markets and lack of seasonal migrants in the receiving countries forces them to relax

¹³ Catastrophic health spending is defined as out-of-pocket spending for healthcare that exceeds 10% of total household's incomes (some other definitions refer to 25% spending threshold) thus posing as a threat towards a household's financial ability to maintain its subsistence needs.

¹⁴ Source: NBS data

¹⁵ Source: WB database

¹⁶ Source: NBS, 2019

¹⁷ Source: National Bank of Moldova, 2019

¹⁸ Source: Rapid Diaspora Survey conducted by IOM

measures and organise corridors for Romanian labour migrants whereby Moldovans with Romanian passports would qualify. In this context, a part of returnees facing financial hardship and unemployment in Moldova will probably "re-emigrate" under safe and organized conditions stimulated by labour shortages in the receiving countries, for seasonal work.

III. ECONOMIC RESPONSE AND RECOVERY

The sooner we act, the earlier we'll recover...

A. GLOBAL AND REGIONAL PROSPECTS

The overall impact of the coronavirus pandemic on growth in the region will depend on how the outbreak evolves and how long it lasts. The situation is changing rapidly, yet it is already clear that the global economy will fall into recession in 2020. According to OECD estimates, the lockdown will directly affect sectors amounting to up to one-third of GDP in the major economies. For each month of containment, a loss of 2 percentage points in annual GDP growth is expected¹⁹.

Furthermore, the IMF within April World Economic Outlook projected that the global economy would contract by 3% in 2020. However, it is expected to bounce back to 5.8% growth rate in 2021 (if the pandemic crisis ends in the second half of 2020). Annual GDP is expected to fall by 5.9% in the United States, 7.51% in the euro area and 5.16% in Japan, and a slowdown in China would lead to a growth of only 1.18%²⁰.

Chart 6: IMF World Economic Growth projections



Furthermore, some economies could even face a medium-term contraction without a rapid recovery. In the first two months of pandemic, there was observed significant capital outflow from emerging market economies due to risk-averse behaviour of investors during crises that amounted to about \$100bn globally. This shock exceeded by more than three times the outflows seen during the financial crisis of 2008. However, as a result of monetary and financial measures adopted by central banks and Governments in the key national economies, recently there was observed some evidence of rebound. As a result of internal and external borrowings, it is likely that the public debt will hike during this year supported by excess liquidity led by monetary relaxation.

Given that pandemic caused consumption reductions simultaneously in many countries, the trade and tourism sectors were affected the most. Furthermore, the WTO projects that the world trade will fall by between 13% and 32% in 2020 as the Covid-19 pandemic disrupts regular economic activity and life around the world²¹.

Furthermore, IMF estimates that many countries around the world will face falling standards of living this year as a result of what it is called "the worst global economic crisis since the 1930s". The total global loss from coronavirus-crisis is estimated to reach \$US9 trillion, while 8% of the world's population could be forced into poverty.

The Covid-19 crisis led to decrease in global commodity prices with energy and metal prices falling substantially due to reduction in industrial activity, while crude oil prices hit the lowest level as OPEC+ coalition was broken down in March 2020 and the demand shock affected the oil storage capacities production reduction. As a result of demand shock linked to lockdown, the oil prices went into a

¹⁹ Source: OECD Outlook on the global economy, March 2020

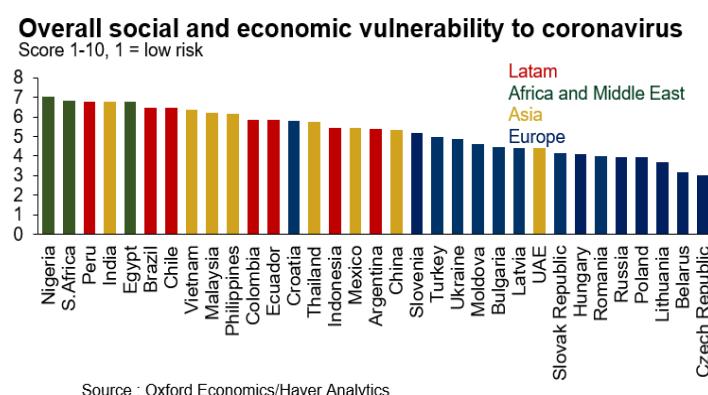
²⁰ Source: IMF data

²¹ Source: World Trade Organisation

negative trend despite the OPEC+ agreement to substantially reduce global production. Lower oil prices could produce a positive impact on Moldova's economy, particularly on transport sector and agriculture as seasonal works start, but also overall contributing to disinflationary effects. Conversely, prices for wheat increased as a result of countries' stockpiling efforts to ensure food security.

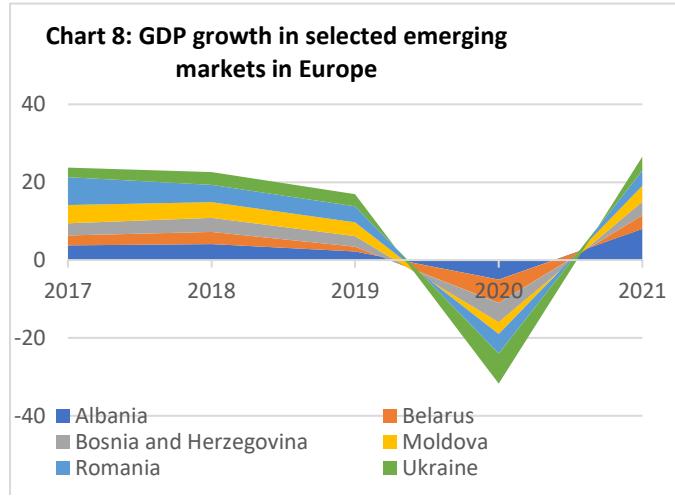
Globally the industrial production was substantially slowed down, while some companies suspended their activity because of the containment measures. This led to potential disruptions in the supply chains as many companies are operating based on just-in-time inventory; hence they are prone to supply shocks. The magnitude and complexity of the economic impact of such disruption vary from sector to sector and depends on cross-border trade. For instance, the European automotive industry for which the network hub is in Germany has been affected by the lockdown in China as they are the main supplier of spare parts. This had a contagious effect on other economies, in the case of Moldova, it affected the automobile cable production, which was the second-largest export commodity in 2018.

Chart 7: Social and Economic vulnerability to Covid-19



related to the structure of the economy, low buffers available to respond to external shocks and weak health care and social assistance systems. Moldova is the second most vulnerable country in Europe followed by Bulgaria, Romania and Russia to be affected by the corona-crisis. The economic costs for the country could be large, which in the context of strong political rivalry ahead of presidential elections, might lead to a prolonged period of instability.

B. ECONOMIC IMPLICATIONS FOR MOLDOVA



According to Oxford Economics, the total world trade in goods and services could fall by 10%-15% in 2020, compared to a 10% decline in 2009 during the global financial crisis. This fits with historical evidence that goods trade tends to fall faster than GDP in downturns due to the high trade intensity of the industry.

Like similar emerging market economies, Moldova's economy is characterized by many vulnerabilities

In 2019 Moldova's GDP grew by 3.6% and was projected to grow at 3.8% in 2020. Compared to other countries in the region, Moldova's GDP contraction is projected at -3% (IMF) is relatively mild while twice less than in Ukraine (-7.7%) and much lower than in Romania (-5%). According to the [European Economic Forecast²²](#) the economy in neighbouring Romania is expected to contract by -6%, while in Bulgaria -7.2%, France -8.2%, Italy -9.5%, and UK -8.3%. As per Oxford Economics forecasts, Moldova's GDP growth is expected to stand within the range of -

²² The eurozone economy will contract by 7.5% in 2020 and grow by 6.5% in 2021

3.6% to -6% y/y (based on two scenarios forecast)²³.

The structure of Moldova's GDP²⁴ by sources (in terms of gross value added) is still dominated by agriculture. However, it has been in continuous decline since 2017 (from 13.3% in 2017 to 11.3% in 2019). Food processing and the textile sectors also showed a decrease from 4.9% to 3.7% and from 3.1% to 2.1% respectively. Conversely, the increased contribution to GDP growth was on account of the construction sector (from 8% in 2017 to 9.9% in 2019) triggered partly by the government-funded "prima casa" program. Other sectors that have shown an increase in the GDP formation are wholesale and retail trade (increased by 0.5% and 0.1% accordingly), IT increased from 2.1% to 2.5% and production of automobile industry supplies grew from 1.1% to 1.6% and an increase by 0.2% was on account of plastic goods and other non-metal mineral products (each category accordingly). Production of electric goods increased from 0.4% to 0.6%, while the production of metal goods increased twice. In the context of containment measures implementation, it is likely that the construction sector like trade will also be substantially affected.

The relatively low reliance on tourism, the reasonable level of public debt (below 30% of GDP in 2019) and stable banking sector generally make Moldova's economy vulnerability to corona-crisis relatively moderate compared to other developing economies. However, the impact remains to be further seen as the situation evolves. At this time, more severe impact will be felt for the medium and small enterprises, which may not have the capacity to withstand a prolonged economic slowdown. The IMF projected Moldova's economy to bounce back in 2021 to 4.1% of GDP growth and continue to grow at the pre-Covid-19 level of 3.8% in the following years.

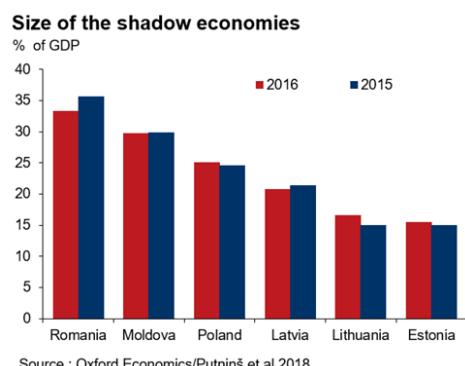
The size of the informal economy in pre-Covid-19 Moldova was estimated as a bit less than one-third of the country's GDP. Private businesses who were on the grey side of the economy will be affected. Yet, the magnitude of their financial losses will be difficult to assess, while they will be the first ones to recover.

Moldova is an open economy highly integrated into the global marketplace, exceeding the levels of openness of other similar countries with comparable income per capita. With a trade-to-GDP ratio of 120%, Moldova's trade openness surpasses that of regional peers of comparable sizes, such as Albania, Georgia, and Serbia²⁵. However, most of the trade openness is explained by the high share of imports, including the energy imports on which Moldova is highly dependent.

On the export side, Moldova is likely to be affected by the decrease in economic activity and disruption of supply chains of its main trade partners: EU (notably Romania and Italy), Russia, Ukraine, Belarus, Turkey. During the 1st quarter of 2020 Moldova's total exports decreased by 7.9% compared to similar period 2019, while most substantial reduction was observed in March 2020 reaching 18.3% (versus March 2019) as a result of containment measures implementation. Worth mentioning that export decrease occurred *inter alia* on the account of re-export (-27.1%) while export of domestic goods decreased by only 0.2% in the 1st quarter versus same period 2019.

In the first two months of 2020 Moldova's trade was not much affected by Covid-19. In this period, exports to the EU-28 increased by 3.8% (compared to January-February 2019) accounting for 68.5% in the total exports, while exports to CIS countries went down by 7.5% in the same period reaching the share of only 12.9%. On March 17th 2020 National State of Emergency was declared by the Parliament

Chart 9: Size of shadow economies



²³ Oxford Economics/United Nations joint paper on Assessing Moldova's Economic Vulnerabilities, May 2020

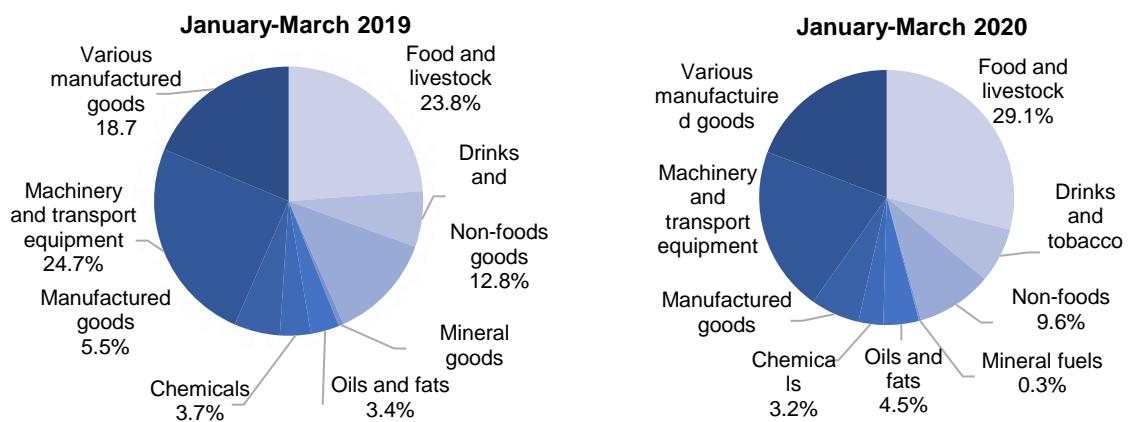
²⁴ Source: NBS data

²⁵ World Bank, 2018

and the country entered lockdown. As demand suffers due to industry's inactivity and consumers cutting their spendings, both imports and exports showed a downward trend in March and it is likely to be maintained throughout April. In particular, the quarterly statistics already shows an overall decline in exports to the EU by 2.5% (compared to the 1st quarter 2019) accounting for 66.3% in total exports. First quarter 2020 exports to CIS fell at a slower pace reaching on average 7.1% decrease versus same period 2019 while accounting for 14% in Moldova's total exports.

Overall, export to traditional trade partners such as Turkey (-41.6%), Italy (-25.8%), Russia (-8.8%), Belarus (-20.5%), Romania (-8.9%) declined in the 1st quarter of 2020 while exports towards other destinations such as Czech Republic, Portugal, Estonia, Kazakhstan, Hungary, Jordan, Philippines, and China increased more than twofold each and hence offset the negative export trends.

Chart 10: Structure of Moldova's exports (Q1'19 vs Q1'20) Source: NBS, May 2020

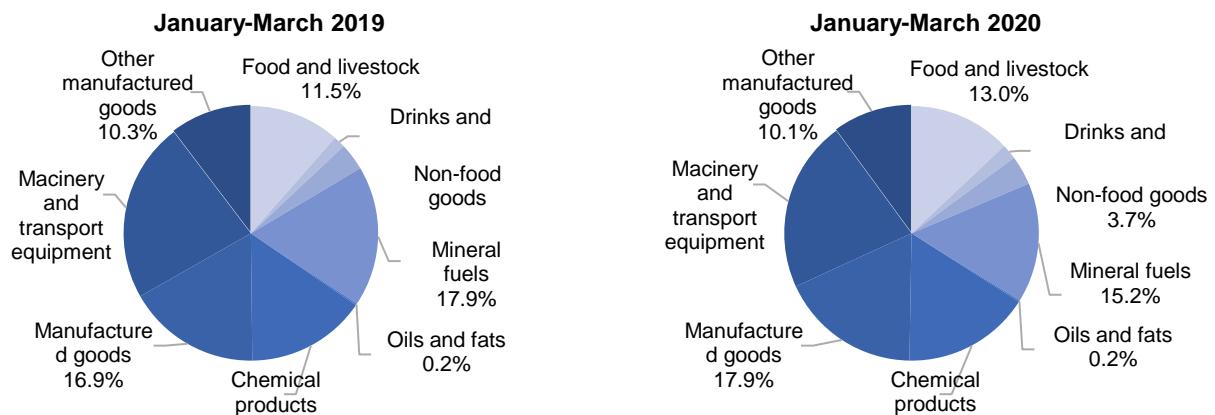


During the January–February 2020 Moldova's imports were on the growth trajectory having increased by 5.6% compared to similar period in 2019. Most imports were from the EU (47.3%), while import from CSI declined by 2.1% compared to the same period of 2019. The CIS share in total imports reached 27.1% *inter alia* due to reduced natural gas imports by almost a quarter in first two months of the year.

Conversely to external trade, the total imports in March 2020 increased with 3.3% versus February 2020, yet this is still with 6.1% less than in March 2019.

Overall, in the 1st quarter of 2020 imports from the EU increased by 1.4% (47.4% in total imports), while CIS witnessed significant decrease of 6.9% compared to the 1st quarter 2019 reaching the share of 26.9% in 1st quarter of 2020 exports.

Chart 11: Structure of Moldova's imports (Q1'19-20) Source: NBS, May 2020



Interestingly, imports from traditional trade partners such as Russia, Italy, China, Austria and Belarus decreased, while from other countries such as Azerbaijan, Kazakhstan, Bulgaria, Singapore, Saudi Arabia, Indonesia etc on the contrary substantially increased.

Decline in Moldova's exports increased trade deficit in the 1st quarter of 2020 by 9.3% compared to similar period 2019.

The trade statistics may show different trends based on the new NBS data for April and May, when both, regional governments and Moldova have embarked upon gradual relaxation of containment measures and as national emergency situation was replaced with public health emergency only.

Amid Covid-19 crisis, Moldova's local supply chains were affected by a mixture of supply and demand-driven factors: lower supply partly due to lockdown measures (e.g. in early March farmers could not access agri-stores to procure pesticides for land farms), reduced volumes of retail trade caused by limited ability to reach the consumers (e.g. markets closed and agricultural products could not be easily sold), while on demand-side behavioural risk-averse effects of the population to save on non-necessity goods reduced consumption and put on hold demand for durable goods.

Industrial activity in January – March 2020²⁶ increased by 0.2% compared to similar period 2019 due to growth in the extractive and processing industries (+4.8 % and +4% respectively). At the same time, in this period production of energy and utilities such as heating, hot water etc. decreased by 6.6%. Supported by the demand, agri-food industry grew on average by 3.3% in March 2020 primarily due to increased processing of wheat, meat, oils and fats, while offsetting the reduction in the production of fishery, diary and vegetables. As it was expected, production of non-food non-necessity items witnessed substantial decline, namely in metal and wood manufacturing, textiles and apparel, electric spare parts and devices, except manufacturing of medical supplies and pharmaceuticals, plastic, rubber and paper which has significantly increased.

Furthermore, **the Covid-19 crisis accelerated "virtualization" of economic and social relations:** fostered e-commerce development, stimulated e-learning, advanced digitalization of public services and use of big data (subject to personal data security). To respond to the current situation and to increase sales, Moldova's companies are switching to online sale: some companies already launched online trade, while others require financial assistance to build and utilize e-commerce platforms. In early April 2020, the NBM approved a [concept for the development national electronic payment systems](#) aimed at facilitating online trade and reducing its costs.

In recent months, annual inflation showed a downward trend reaching 5.25% in April 2020, approaching very close to NBM target of 5%. At the same time, the average consumer's prices grew by 0.17% in April compared to March 2020. This occurred on account of food price increase (by 1.17%) primarily for fruits and vegetables, while prices for non-foods declined by 0.8% being affected by the reduction in fuel price (-4.1%). It is expected that inflation will maintain this trend in the upcoming period.

Before Covid-19 outbreak, Moldova already witnessed a slowdown in GDP growth rates caused by low total factor productivity (TFP), underinvestment in public infrastructure, insufficient access by the private sector to domestic and international capital markets, small export sector concentrated in low value-added industries (e.g. agriculture), and human capital skills gaps hindering innovation and technology absorption. The lockdown will most likely further decrease TFP *inter alia* due to the large share of state-owned enterprises (SOE) dominating certain sectors²⁷, the productivity level of which is substantially lower than in the private sector. The SOE assets account for more than 35% of GDP and

²⁶ Q1'20 industrial production adjusted to number of working days and seasonality

²⁷ SOEs are present in 19 out of 30 sectors of economy.

employ 13% of the working-age population²⁸. The impact of coronavirus-crisis on the financial performance of key SOEs (wine-making, energy, telecommunications, railway, among others) shall be assessed as there is a high risk related to their financial position and performance deterioration: they often produce larger losses (financial discipline is very low) thus adding costs to the economy and affecting fiscal sustainability of the country²⁹.

Covid-19 impact on micro- and SMEs was assessed through a rapid survey conducted by AmCham Moldova amongst 315 companies from over 20 sectors within the period of March 30 – April 6, 2020³⁰. Most respondent firms reported they had faced demand shocks as a key challenge, out of which 64% were facing raw material and supply chain challenges, and 87% were affected by the recurrent capital shortage. More than 60% of private firms informed that they expect a reduction of their revenues by more than one third compared to 2019. The hardest-hit sectors are HORECA and tourism sector (63 and 64%, respectively) followed by textiles (50%), automobile (42%), financial non-banking sector and pharmaceuticals (40%), as well as the IT-sector (38%).

Given that the contribution of the tourism sector to Moldova's GDP is relatively low, the impact of Covid-19 contention measures from this side on the economy is expected to be moderate.

Businesses which loaded up on debt in recent years are especially vulnerable to reductions in the cashflow. The pre-Covid-19 banks' credits to the private sector as a share of GDP in Moldova stood below 30% whereas in emerging economies this indicator was twice as high. At the same time, Moldova's external debt of 65% (2018) was relatively high for a country like Moldova, yet it is primarily due to import operations.

Most of Moldova's SMEs faced access to finance as one of their key challenges primarily due to lack of loan collateral. Therefore, the impetus for economic stimulation will require the development of a "financial safety nets package," which could, among other things, be composed of a loan guarantee scheme and interest rate subsidy scheme to stimulate economic activity as the pandemic ends. In addition, implementation of enlarged corporate social responsibility financing schemes could consolidate and mainstream the public and private efforts towards addressing various needs.

In the context of Covid-19 crisis, the NBM as part of the monetary policy response to ensure liquidity adjusted base rate (reduced to 3.25%), interest rates on overnight loans and deposits (6.5% and 0.25%) and required reserves ratio (reduced to 34%). This policy remains unchanged for the next period.

In the 1st quarter of 2020, the banking sector witnessed higher amounts of money transfers from abroad (in real terms transfers increased by 2.1% in 1st quarter of 2020 versus 2019). In particular, the amount of money transferred to Moldova reached US\$276.3 mln, over 80% of which were through rapid money transfer systems. At the same time, the share of banks' liquid assets (primarily deposits) was in decline since 2020.

The non-banking financial sector represents an area of concern as lending operations were growing fast in the last years and the share of non-performing loans could be high amongst credit and savings associations and micro-lending organizations in the aftermath of Covid-19 crisis.

IMPACT ON AGRICULTURE SECTOR

Agriculture remains an important sector of Moldova's economy that employs economically active population, and it is the main source of income in rural areas. Agri-food exports account for roughly 50% of the country's total exports.

²⁸ World Bank, DFID report on the "support to state-owned enterprises preliminary diagnostics and reform assessment, Phase 1, 2017

²⁹ Detailed diagnostics of Moldova's SOEs is described in WB/DFID report on Support to SOEs preliminary diagnostics and reform assessment (Phase I), 2017: http://siteresources.worldbank.org/EXTCENFINREPREF/Resources/Moldova_SOE_Diagnostics_EN.pdf

³⁰ The report provides feedback from representatives of private business regarding the crisis situation: http://www.amcham.md/st_files/2020/04/16/6AmCham%20COVID%20Business%20Impact.pdf

There is clear evidence of Covid-19 impact on the poor rural farmers and small-scale food producers. Restrictions on people's movement and countries' lockdowns (both, within Moldova and its key trade partners) conducted to disruptions in trade (in Moldova's markets and exports alike) and limited the access to agriculture input products (e.g. fertilizers and seeds).

The impact of Covid-19 might be exacerbated by continuous unfavourable weather-related conditions throughout winter 2019 and the spring of 2020. Few waves of soil frost in spring and lack of humidity, followed by heavy rains in the end April-early May could lead to significantly reduced productivity of crops (primarily cereals and fruits), that in turn may produce spill over effect on livestock production and apiculture.

As European food supply chains (particularly for fruits and vegetables) were disrupted due to labour force shortage caused by labour migrants' outflow and strict containment measures impacting food processing, it is likely to create demand for agri-food exports to the EU market.

In the context of global prices decrease for agricultural products (in early 2020) caused mainly by a reduction in the demand, the prices for wheat went slightly up in March yet mainly due to countries' stockpiling efforts to address food security issues³¹. In the Eurasian Economic Union (EAU) countries, as of April 18th, 2020 introduced an exemption from import customs duties on several critical agricultural and food products, including rye, long-grain rice and buckwheat came into force. Moldova has not introduced a ban for export of cereals.

Moldova's total agricultural output in the 1st quarter of 2020 increased by 2.4% (in comparable prices) versus the similar period in 2019³². This occurred on account of the animal production increase (2.6%) as a result of raising livestock volumes (+26.4%) and reduced animal's mortality. The reduction in milk (-15%) and eggs (-2.7%) production was supplemented with imports (+43% in January-February 2020). According to NBS, the prices for agricultural production in 1st quarter of 2020 increased by 13.6% compared to the same period in 2019. The agricultural production price hike was on vegetable production (+15.9% on average) out of which prices for grapes increased twice, while for seed fruits by 67.7%, sunflower by 23.3%, potato by 9.8%. in contrast, the producer's process for animal products went down by 6.7%: out of which prices for pork (livestock) reduced by 18.3%, for poultry by 7.6% while the prices for sheep and goats went up by 30.5%, and for bulls by 6.7%.

Notwithstanding, food security represents a key focus area as previous disease outbreaks had negative localized impacts on food and nutrition security, particularly for vulnerable populations, including children, women, the elderly, and the poor.

IMPACT ON TOURISM AND SERVICES SECTOR

The HORECA (**hotels, restaurants and cafes**) sector in Moldova has been growing in the past years, yet its contribution to GDP formation is still modest. It accounts for just about 1% of formal employment out of which about 80% is in the restaurant sector. The annual employment growth in restaurants and catering sector was on average about 4.5% within 2017–2019³³. Nevertheless, the share of informality persists, primarily in the form of salary under-reporting.

The NBS data suggest that in the 1st quarter of 2020 the tourism agencies slowed down their activity by 28.3% compared to the same period of 2019. This decline in overall touristic activity was primarily due to reduction in the number of tourists visiting Moldova by nearly a half (-45.4%) and by almost one third decline in Moldovan tourists travelling abroad (-29.4%), while internal tourism declined by roughly 22.4% (compared to 1st quarter 2019). As a result, tourism companies under collected revenues by 21.2%, most of which (-50%) is due to country's containment measures implementation and less incoming tourists.

³¹ Data source: [IMF, WEO 2020](#)

³² NBS, April 2020

³³ Source: IMF technical report 2019

Under a package of support measures, the government reduced VAT Tax from 20% to 15% for HORECA sector from April throughout the remainder of 2020.

The impact on services and trade will be primarily through disruptions in international and local trade, leading to increase in the cost of doing trade on the account that it will incorporate the costs related to maintaining labour force in jobs during the lockdown.

IMPACT ON CONSTRUCTION SECTOR

There are observed adverse effects of the crisis on the construction sector either because of containment policies affecting labour availability or because of temporary reductions in investments. According to NBS the total number of construction permits issued during the 1st quarter of 2020 reduced by 16.8% compared to the 1st quarter of 2019. This reduction is primarily in urban areas (-26.4%). However, new constructions of housing are less affected having still witnessed a small increase in authorisations issued in Chisinau and North of Moldova primarily due to implementation of Government-supported subsidy housing programme.

V. Conclusions

While the results of the health crisis and the lockdown are yet to be fully seen, the social and economic impact of the pandemic are showing to be significant. It is widely agreed that the Covid-19 pandemic will lead to an economic crisis with an increased impact on the vulnerable population. The Covid-19 crisis risks reversing decades of progress in the fight against poverty and exacerbating already high levels of inequality. However, the crisis might provide an impetus for companies going out of the shadow economy and for the government to implement structural reforms.

Pillar 1: HEALTH FIRST: protecting health services and systems during the crisis

Amongst the key areas of concern are: (i) adequate healthcare to population, particularly to those clinically at high risk of contamination while ensuring epidemiological surveillance strengthening and outbreak preparedness for repeated\recurrent waves, (ii) strengthening the health system to eliminate inefficiencies in the sector and modernize hospital infrastructure based on population health needs (iii) improve financial protection of population and strengthen health insurance mechanism.

Pillar 2: PROTECTING PEOPLE: social protection and basic services

Moldova's economy is fuelled by remittances, with large agricultural sector, quite high share of informality and thin layer of middle class. Caused by containment measures implementation, economic crisis is affecting businesses and people alike: it is very likely that reduced incomes will push people into poverty. Consequently, strengthening social safety nets for vulnerable and those at risk of poverty is of utmost importance.

Secondly, with a 48.5% demographic dependency ratio³⁴ Moldova is highly sensitive to maintaining people at jobs not only for the purpose of addressing poverty, but also to ensure and to sustain social services to the population.

As Covid-19 impact accelerated virtualisation of all parts of society and economy (in education, healthcare, public service provision and e-commerce) an upgrade of skills and knowledge shall be addressed to support people in meeting these challenges.

³⁴ Demographic dependency ratio is number of elderly and children per 100 inhabitants (15-64)

Pillar 3. ECONOMIC RESPONSE AND RECOVERY: protecting jobs, SMEs and vulnerable workers in the informal economy

Persisting financial vulnerabilities related to unemployment and disruption of supply chains; Moldova's economy depends on sectors such as agriculture, construction, IT, commerce, which are quite vulnerable to the corona-crisis. While construction and commerce are affected primarily by the country's lockdown and disrupted supply chains, the agriculture faces additional challenges of weather-related shocks characterized by a lack of humidity during winter and spring months, soil frost and high fluctuations in temperatures which could negatively affect the 2020 harvest.

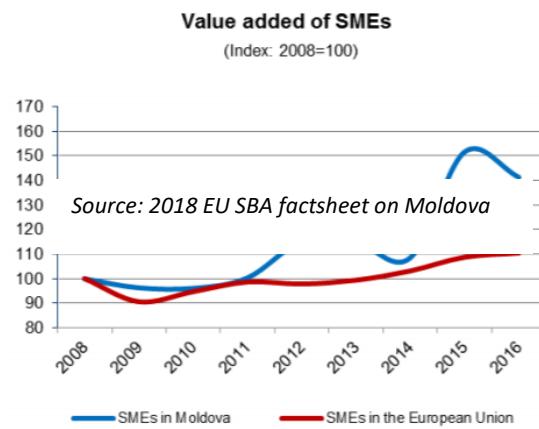
There is a large share of SMEs in Moldova's economy (over 97% of all businesses are SMEs) that accounts for almost 66% of total value-added, compared to 57% in the EU. At the same time, the SME employment share is at 63% (slightly below the EU average of 66%)³⁵. The increase by 50% in the SME value-added during 2008-2015 followed by almost 10% decrease in the aftermath of the financial crisis 2018, indicates its quite high volatility and adds to the country's overall economic vulnerabilities.

Reduction in remittances is likely to be high (approx. 25-27% as per Oxford Economics projections) due to economic lockdown and loss of jobs in the migrant-receiving countries that will affect households' disposable incomes and lead to reduced consumption.

Loss of jobs and lockdown measures can lead to reduction in people's spending which could produce negative effects due to (i) matching future vacancies with jobless will be slow and likely to require re-training (ii) negative effect on GDP on the consumption-related spending (iii) contribute to social distress.

Although the mix of policy recommendations may expand/alter, it is important that the following key aspects are respected: (I) suppress the transmission of Covid-19, stay alert and prevent repeated waves of disease spread until vaccine or other efficient treatment is identified; (ii) mitigate the Covid-19 impact on households and businesses while advancing key reforms: human capital development, strengthening the resilience of health system, developing the competitiveness of the private sector.

Chart 12: Value Added of SMEs



³⁵ Data source: https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/sba-fs-2018_moldova.pdf