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# Before and After the European Neighbourhood Policy in Moldova: Past Economic Background, Current Developments

Ioana Sandu
*Bucharest University of Economic Studies*
*Ioanamarina18@yahoo.com*

## Abstract

*Ever since its independence in 1991, Moldova has been struggling to change its international status into a democratic country, with a functional market economy, worthy of being included in the EU 'ring of friends'. The country's economic heritage burdened the pathway to the EU approximation, whereas its corruption stigma still persists.*

*However, efforts to improve the difficult economic situation revealed the country as a fighter for autonomy and progress. Moldova has been constantly appointed as one of the EU's most obedient apprentices. Its inclusion in the European Neighbourhood Policy (2004) and, later on, in the Eastern dimension of this policy (the EaP) was reflected by steady growth.*

*Nonetheless, false friends – such as remittances – have engaged Moldova on a road to provisional success. It is in the hands of the country if reform is to be adjusted to the long term needs of this tiny, yet strong EU partner.*

**Key words:** development, market economy, growth, Moldova, reform
**J.E.L. classification:** F43, F55, F63, H31, H62

## 1. Introduction

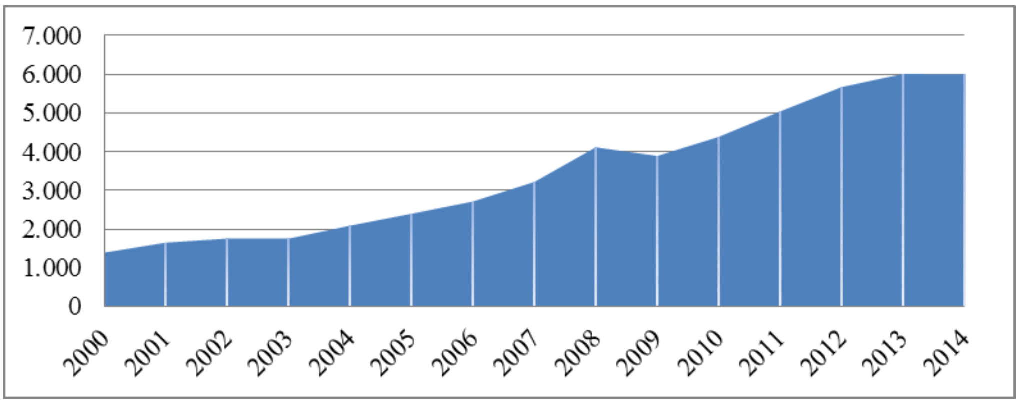
Despite punctual progresses related to the implementation of the Association Agreement with the EU, Moldova is still considered one of the poorest countries in Europe, highly dependent on agriculture and on the remittances of its citizens working abroad: in the EU, in Russia or in other ex-Soviet countries. Moreover, the country is also dependent on the Russian and Ukrainian energy resources. High political instability and weak administrative capacities contribute, along with endemic corruption and tensions in Transnistria, to a vulnerable Moldova, struggling to achieve democratic progress and a functional market economy.

This article aims to briefly analyse Moldova's economic background before and after the inclusion in the European Neighbourhood Policy (ENP) and determine what factors in the past mostly triggered its current development.

## 2. Moldova's economic profile between 2000 and 2014: a roadmap to recovery?

After its independence in 1991, Moldova experienced a difficult economic era in which the country's GDP reduced three times until 1999 (Republic of Moldova, official website, 2016).
After 2000, Moldova's economy was relatively stable, the output normalised and GDP values have been on the rise (according to Figure 1) until 2004, but especially afterwards, once Moldova was included in the ENP and, after 2009, in the Eastern Partnership (EaP). Thus, between 2000 and 2004, the country's GDP rose by 33.3% in absolute values.

*Figure 1 Moldova: GDP evolution in current prices between 2000 and 2014 (million euro)*




*Source: created by the author based on (Eurostat,2015a)*

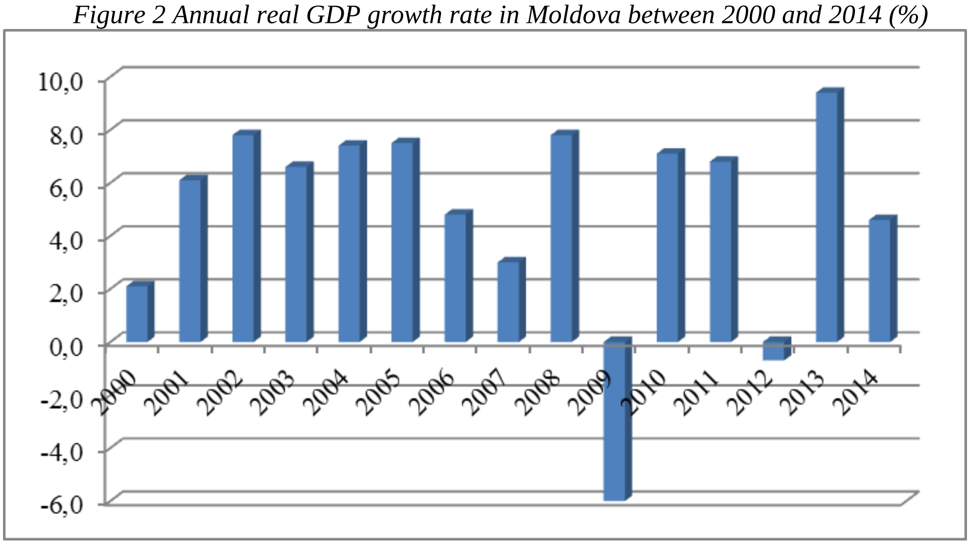
This evolution is also reflected by the real GDP growth rate for the same time sequence: from 2.1% in 2000 to 7.4% in 2004, with a maximum of 7.8% in 2002, later on equaled in 2008 and surpassed in 2013, when it reached 9.4% (according to data in Figure 2).

The difficult economic situation in Moldova between 1998 and 2000 was influenced by the crisis in Russia, but also by drought and by the rising of energy prices. Thus, within the framework of Poverty Reduction and Growth in Moldova, the International Monetary Fund (IMF) approved on the 15th of December 2000, a three-year loan of 142 million US dollars in order to help the country reduce its external debt, to support exports and promote a more efficient usage of energy resources (IMF, 2000).

Objectives of this program targeted a budgetary surplus of at least 2% of the annual GDP, thus a reduction of the external debt through the increase of revenue collection and paying down wage and pension arrears. At the same time, the program aimed to decrease inflation, which went from 39.3% in 1999 to 5.2% in 2002, then stabilized around 11-12% between 2003 and 2008 (Institute of Economy, Finance and Statistics in Chișinău, 2011, p.6).

Structural policies also aimed to privatize wineries and telecommunication companies owned by the state, to restructure or liquidate companies with large arrears to the state budget and to develop the legal framework for a market economy.

*Figure 2 Annual real GDP growth rate in Moldova between 2000 and 2014 (%)*




*Source: created by the author based on (Eurostat,2015a)*

## 3. Economic activity distribution in Moldova vs. EU-28. Lessons from the more experienced

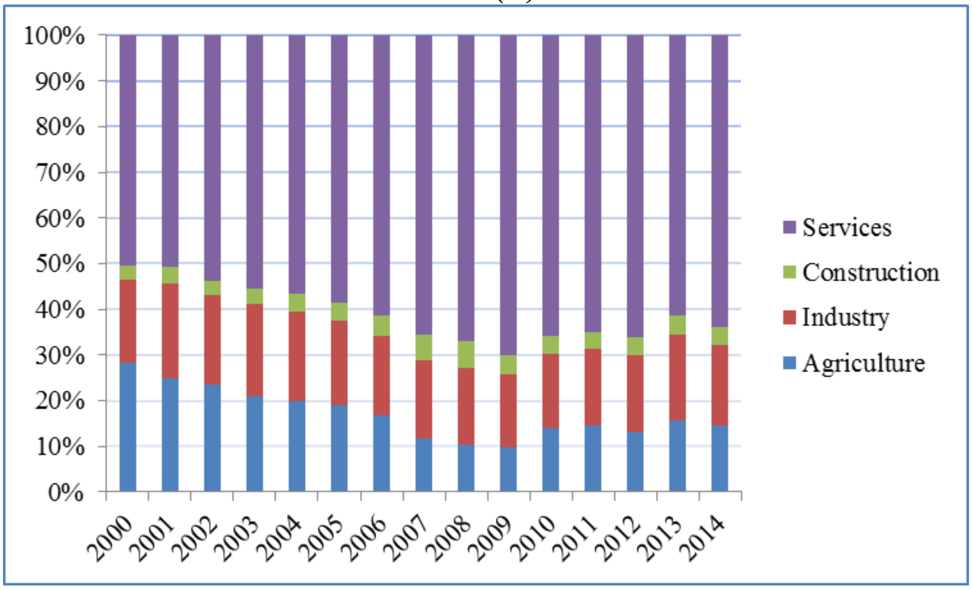
The volume of goods and services ranked depending on the type of economic activity reflects a high percentage of agriculture in the GDP, even if, for the analysed time sequence (before Moldova's inclusion in the ENP), values are in a slow decrease: from 28.3% in 2000 to 19.9% in

2004 (Figure 3). Industry, on the other hand, is taking a small share in the GDP, from 18.3% in 2000 to 19.6% in 2004, with a maximum value of 20.9% in 2001, for the considered time sequence.

Although services record a high share in the GDP – from 50.4% in 2000 to 56.6% in 2004 – these mainly hide remittances registered as financial services. This tendency holds in recent times as well, remittances covering 25% in the GDP in 2013 (Peiu, 2015a, p. 6).

It is commonly acknowledged that agriculture has the lowest relative value added. Moreover, in Moldova the share of agriculture in the GDP in 2003 was of 20.9 %, whereas for states in the EU-28 was of 2% in the same year. We can therefore conclude that the country should focus on encouraging the industrial sector and services, because the latter has the highest relative value added, especially in IT services or in financial and banking services (Peiu, 2015b, p. 5).

*Figure 3 Gross value added depending on the activity type (NACE Rev.2) in Moldova between 2000 and 2014 (%)*




*Source: created by the author based on (Eurostat,2015c)*

The development model of Moldova is characterized by dependence on remittances. These support the consumption of households, which in turn highly contribute to the GDP, thus to the dynamics of the national economy.

Although efficient on medium term, as it alleviates the impact of some economic shocks (the increase in energy prices, embargoes on Moldovan products, drought), this model is not sustainable in the long run as the country becomes more vulnerable once the host countries absorb Moldovan emigrants (Institute of Economy, Finance and Statistics in Chișinău, 2011, p.5-6). In order to provide the country with a sustainable development, investment and exports should represent a priority.

## 4. Conclusions

Several years after its independence (1991-1999), Moldova experienced a difficult economic situation, but after 2000, steady growth for the GDP in current prices indicates a struggle to recovery. Boosts of economic activity have been given by the IMF poverty alleviation program in 2000 and the inclusion of the country in the European Neighbourhood Policy in 2004.

Structural policies aiming to privatize companies with large arrears to the state budget demonstrated the country's engagement on the road to reform. However, even if Moldova has also been affected by the financial crisis in 2009, its involvement in the global economy was lower than for the EU members, thus the degree of economic downturn was proportionally lower.

Current developments show that Moldova is still trying to improve its performances. Growth, for instance, is for the moment largely due to remittances from Moldovan citizens working abroad. Agriculture still holds a huge share of the GDP, while financial and IT services are modest.

Moreover, corruption and the bank fraud in 2014 are likely to further contribute to this blurry situation.

All in all, Moldova is still learning to get closer to the EU and, by default, to a model of successful market economy, targeting long term growth and development of key areas in the Moldovan economy, that could help the country efficiently capitalize its assets on the international arena. Supporting investments and promoting exports is considered a better option when it comes to the success of this tiny EU neighbour, bordering both European countries and Russia.

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