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## Recession in the economy of the Republic of Moldova

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# RECESSION IN THE ECONOMY OF THE REPUBLIC OF MOLDOVA

GAINA BORIS<sup>1</sup>, FEDORCHUKOVA SVETLANA<sup>2</sup>, KOBIRMAN GALINA<sup>3</sup>

## Abstract

*The economy of the Republic of Moldova has entered, since 2009, an economic recession, which has become deep in the last period of 2019-2021. Previously, the Republic of Moldova was severely affected by the so-called "theft of the billion" from the three state-owned banks, which caused great damage to the state economy, and also was affected by the drought of 2019-2020. The situation became instantly critical, when the whole world was affected by the virotic pandemic, caused by STAR Cov-2, the consequences of which became detrimental to the economy and social life of this state. A large number of employees lost their jobs, and part of the active population was placed in isolation and quarantine. Production and trade relations have been severely distorted and activities in the HORECA system have been suspended for a long time. The research / development system also suffered a lot, due to insufficient funding and the decrease in the volume of technology transfer works obtained under state programs, as well as cross-border projects and those funded by the European Union.*

**Keywords:** economic recession, gross domestic product, research / development, drought, pandemic.

**JEL classification:** O3,Q1

## INTRODUCTION

In the Republic of Moldova, every year begins with better expectations from the business environment, with generous promises from the authorities, but also with a series of chronic unresolved problems in the real sector of the economy.

As a result of the impact of the political crisis, pandemic and severe drought, the economy of the Republic of Moldova fell into decline in 2020, GDP decreased by 7.0%. The main factors that determined this decline in GDP were the consumption of the population, which decreased by 7.0%. At the same time, quarantine measures led to the paralysis of trade in industrial products, and severe drought affected agriculture. The employment level reached the minimum of the last five years.

## MATERIALS AND METHODS

Data obtained by authors from the Ministry of Economy and Infrastructure, the National Institute of Economic Research, the Ministry of Agriculture, Regional Development and Environment, the Academy of Sciences of Moldova, the National Office of Vine and Wine, as well as quarterly reports were used as information sources. Annual reports of the National Bureau of Statistics of the Republic of Moldova were used too.

The set of working methods used: systemic analysis of data, their mathematical-statistical processing, determination of multiple socio-economic indices during the years 2008-2020, as well as determination and analysis of factors that contributed to the deep economic recession in the fields key for the Republic of Moldova.

## RESULTS AND DISSCUSION

The coming in 2009 of the "democrats" in power in the republic "untied" the hands of the oligarchy in the country, which produced a strong political and economic deception.

The main economic activities that contributed to GDP growth in 2020 were: construction with 0,3% and financial and insurance activities with 0,2%. The other areas had a negative impact:

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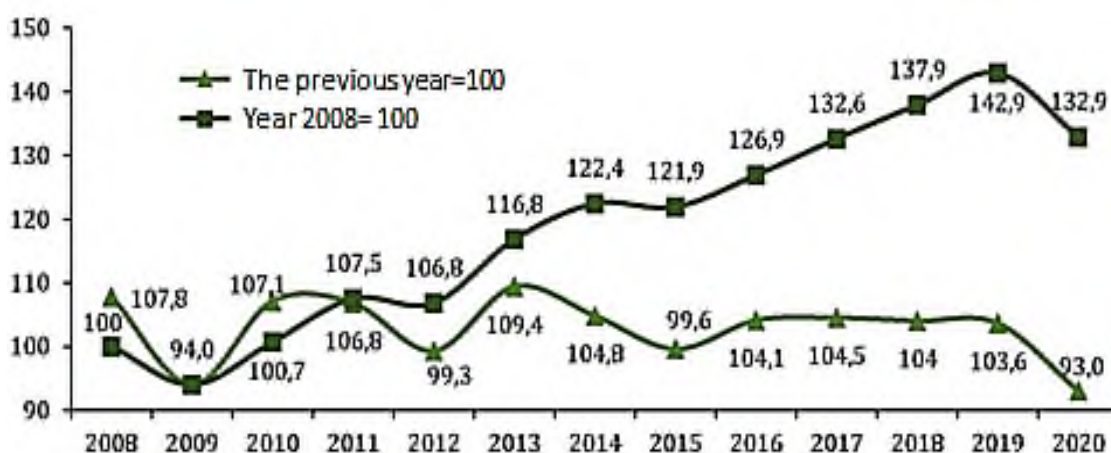
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agriculture, forestry and fishing by 9.5%, wholesale and retail trade, accommodation and catering activities by 9.6% and others.

The total gross value added per economy in that period decreased by 6.9% compared to the similar period of the previous year, thus contributing to the formation of GDP - 87.0% and a decrease by 6.0%.

During this period, allocations for research / development decreased from 0.63% of GDP in 2014 to only 0.23% in 2020. The situation worsened in 2018-2020 due to the economic crisis, drought and COVID-19 – pandemic, fig.1.(Stratan A. 2020)

**Figure 1. GDP evolution in the years 2008-2020, %**



Sursa:.(Stratan A.2020)

In 2020, the Republic of Moldova was significantly affected by two negative phenomena: the COVID-19 pandemic and the severe drought in the agricultural sector, which had a direct impact on the evolution of the national economy. Thus, according to the provisional data for 2020, the gross domestic product, amounted to 206352 million MDL, in current market prices, registering a decrease in real terms by 7.0% compared to 2019.

Agriculture of the Republic of Moldova is the most important branch of the country's economy, which provides jobs for about 25% of the population with permanent residence (out of 2640.4 thousand inhabitants). The population established at the beginning of 2019 was 3542.7 thousand inhabitants. During this period, there was a high rate of emigration from Moldova to the Russian Federation, the States of the European Union, as well as to the United Kingdom.

In some sectors of the national economy there is a lack of staff: in education and kindergartens, in the state hospital system, agriculture, food industry, construction and others.

For example, there has been a loss of 15-20% of the apple and grape harvest due to insufficient labor in harvest campaigns, but also unfavorable weather conditions: long rains, low temperatures with autumn frosts (Gaina B,2020).

The crisis in agriculture of Moldova is generated by several factors: enormous difficulties in the commerce of agricultural production on the markets of the European Union, Great Britain, China, USA, Canada, Japan, and others due to the COVID-19 pandemic. The mass infection of the population with the SARS-CoV-2 virus has affected the production activity in the HORECA systems, trade, services, including many technological operations in agriculture.

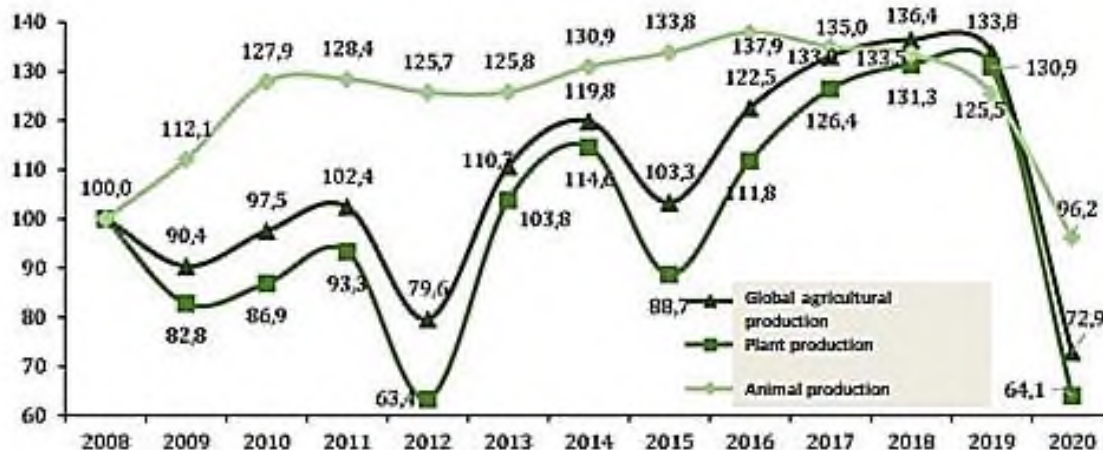
There is a significant increase in fuel prices every year, in the spring (especially) on the eve of the start of major works in the agro-industrial complex. For example, at the beginning of May 2021, fuel prices rose sharply (the price of 1 liter of A95 petrol was increased from 16.5 lei to 20.0 lei). And these unjustified increases are often made against the background of stable oil prices on the world market. And, as always, the rescue of the farmers of the Republic of Moldova consisted in the assistance of the neighboring state - Romania, which delivered 50 thousand tons of diesel fuel, which

is so necessary for the start and implementation of complex measures in the agricultural sector in the spring-summer of 2021.

For the Republic of Moldova, the year 2020 was a difficult year due to the drought that significantly affected, especially, the plant sector.

As a result, global agricultural production in households of all categories amounted to 30092.8 million MDL (in current prices), which shows a major reduction by 27.1% compared to 2019. This result was obtained following the significant decrease of vegetable production by 35.9% and animal production by 3.8% compared to the similar period of the previous year, (Figure 2)

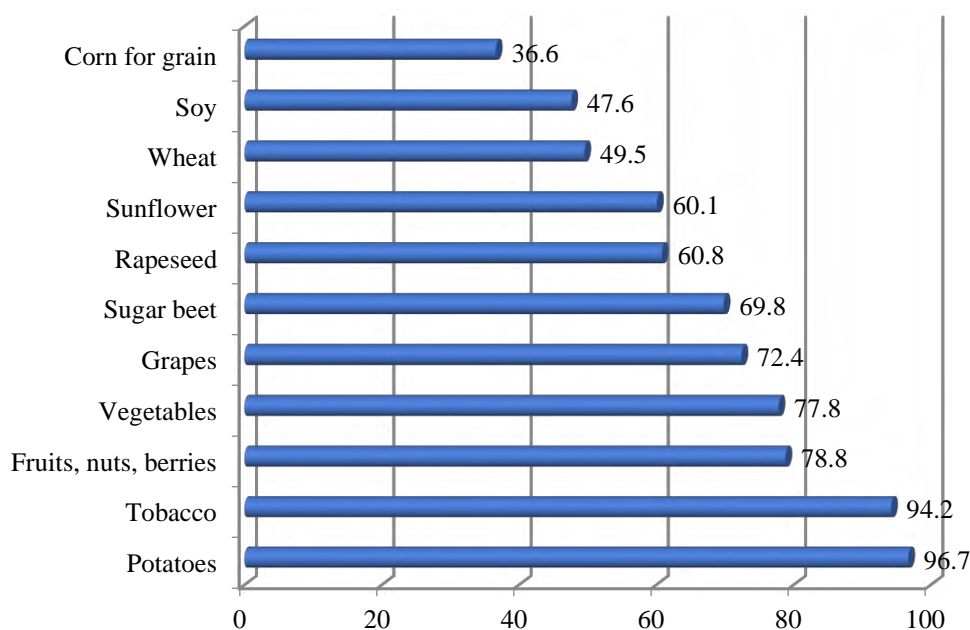
**Figure 2. Evolution of the volume of agricultural production in the years 2009-2020, compared to 2008, %**



Sursa: (Stratan A. 2020)

Severe drought caused significant decreases in the main agricultural products, the most considerable decreases in physical volume being recorded in the following crops: corn for grain (-63.4%); sunflower (-39.9%); wheat (-50.5%); fruits, nuts and berries (-21.2%); grapes (-27.6%) and vegetables (-22.2%), (Figure 3).

**Figure 3. Agricultural production index for the main agricultural crops in 2020, compared to the similar period of the previous year, %**



Sursa: (Stratan A. 2020)

During 2020, the livestock sector saw a reduction in the production of cattle and poultry (live mass) by 0.8%, a reduction in milk production by 12.4% and a reduction in egg production by 6.6%. As a result of the recession in 2019-2020, there was a reduction in global agricultural production by 27.1%, which is due to the decrease in vegetable production by 35.9%, and also of animal production by 3.8% compared to the similar period of the previous year (Stratan A.2020, Sturza R.2020).

Moldova's budget deficit has created problems in providing the country with vaccines of any production, in order to reduce the degree of COVID-19 infection, morbidity and mortality caused by this disease, which already lasts the second year (since 2020).

In this case of crisis, the Romanian state came with the much needed help several times with: vaccines, medical equipment and devices, consumables, etc., also with medical specialists - consultants in the fight against the pandemic.

The tourist industry has also undergone great changes. Due to the restrictions imposed by the Government of the Republic of Moldova (Commission for Exceptional Situations) in order to fight the viral infection COVID-19, during 2020 the agencies specialized in tourist services received in the country only about 125 thousand people, which is 33.0% compared to 2019. This fact led to the dismissal of people from the tourist business of the Republic of Moldova.

Recipient tourism amounted to 6.9 thousand tourists and hikers, which is only 35.0% compared to the similar period of the previous year. Issuing tourism decreased by 76.0% compared to the similar period of the previous year registering 74.7 thousand tourists and hikers.

Domestic tourism compared to the other compartments of tourism had a smaller reduction by 7.1% compared to the similar period of the previous year registering 42.8 thousand tourists and hikers. Of the total number of foreigners who visited the Republic of Moldova through travel agencies and tour operators during 2020, 95.1% visited the country for leisure, recreation and leisure, 3.4% for business and professional purposes and 1.4% for treatment purposes.

Most non-residents were from: Romania (73.4%), Ukraine (14.9%), the Russian Federation (3.1%), Turkey (1.6%) and the United Kingdom of Great Britain and Northern Ireland (1.1%). (Stratan A.2020, AŞM,2021).

Revenues in the national public budget decreased by 0.5% in the fourth quarter of 2020 compared to the previous one of the same period. We regret to note that the share of expenditures of the national public budget in 2020 increased by over 11,0% compared to 2019; During the same period, there was a deficit in budget execution of 3.5 times, and the debt balance was increasing by 26,1%. In these circumstances, the public sector debt in the country's GDP at the end of 2020 reached the figure of 35.2% (with an increase of 7.8 percentage points compared to 2019).

The labor force in the Republic of Moldova also decreased by **5.7%** compared to the similar period of the previous year out of the 867.3 thousand people of the employed and the unemployed population. The average monthly salary in 2020 amounted to 8107.5 MDL (one of the lowest in Eastern European States), increased by only 6.2% in real value. The minimum subsistence level per person per month is 2088.4 MDL, being increased by only 2.8% compared to the previous year - 2019. (Stratan A. 2020, HG,2014).

The economic crisis in the Republic of Moldova has considerably affected the research / development sphere, which in 1990 reached a maximum of 0.73% of GDP. The revision of the legal framework for research activities began in 2004 with the adoption of the Code on Science and Research. At that time, the lowest share of financing was registered, namely 0.22% of GDP.

Thanks to the support of the state leadership, the Parliament and the Government of the Republic of Moldova in the next four years, research funding increased to 0,63% (in 2008), being the most significant. Real conditions have been created for the consolidation of the scientific community in the strategic direction of the country's development: medicine, food security, food safety, environmental protection, development of education, culture, science and so on.

By Government Decision no. 920 of November 7, 2014 on "Research and development strategy of the Republic of Moldova until 2020, provided that investments in research and development (% of GDP) will increase in 2020 to 1% compared to EU of 3.0%. The implementation

of the Strategy was to go through the following stages: elaboration of the normative framework, its approval, development of the research / development sphere, organizational reform, development of performances in the targeted field. (HG, 2014, Sturza R. 2020).

In reality, during the previous years, the allocations for science in the Republic of Moldova decreased respectively in 2012 to make up 0.4% of GDP and with a decrease of up to 0.23% in 2020.

This deplorable situation has harmed the research / development field, to which have been added: the economic crisis, the Covid-19 pandemic, the political crisis and other factors. Therefore, at the end of the exercise, we find irrevocably: the research / development strategy did not reach its provisions, which caused a modest success in the development not only of science and innovation, but also of the country's many economic fields during this time. (AȘM 2021).

The issue of the fight against global warming, especially with the frequent drought in the Republic of Moldova has become critical and therefore due to the unfavorable climatic conditions of 2019 and 2020, global grain production has decreased from 1.0 million. tons to 350-400 thousand tons, which is only the State Reserve. The English scientist Dr. Chris Foss calculated that in the years 2040-2050 in Dobrogea (Romania) and in the South of Moldova no branch of agriculture will progress (exist) in the absence of irrigation. (Chris Foss 2018).

In the Republic of Moldova, with the support of the US government, about 20 modern pumping stations for the waters of the Prut and Dniester rivers were resuscitated to economic agents - consumers of water for irrigation in vegetables, orchards, viticulture, but also for field crops. Several billion MDLs have been invested in these water pumping systems in the districts related to the mentioned sources: Vulcănești, Cahul, Cantemir, Leova, Hâncești (left bank of the Dniester), but also those on the right bank of the Dniester: Ștefan Vodă, Causeni, Anenii Noi, Criuleni etc.

The obligations of the Government of the Republic of Moldova provided for the subsidization of economic agents - consumers of water for irrigation, in the procurement of modern and effective irrigation systems: by drip, underground and by sprinkling (depending on the provisions of the submitted projects).

We regret to note that the state authorities have not honored their obligations, farmers have not benefited from subsidies, and the expensive highways to bring river water to the consumer have remained (at best) frozen, unused (except for 3-5 of them), and in some cases the pumps, motors, metal and other components were detached (stolen) and sold abroad or to used metal.

Within the so-called "reorganizations" of the research / development sector in the Republic of Moldova were merged: Institute of Fruit Growing + National Institute of Vine and Wine + Institute of Food Technologies + Vegetable Growing Center; as a result, a "monster" was created (practical staff reductions did not take place, only 4 accountants and 2 technicians out of the 420 employees in total) with the name "Scientific-Practical Institute of Horticulture and Food Technologies".

The "reform" of science, approved in 2018, by which the 18 academic institutes were transferred to the Ministry of Education, Culture and Research, which unbalanced the activity of several research / development and technology transfer projects, also failed.

Research funding has remained only at the level of previous years, to feel a decrease in state investment in agri-food research in the country. As a result, out of 21 PhD students (full-time and part-time), 10 people abandoned their research and emigrated to the European Union, being fluent in English, French, Romanian and Russian. The material base of the institute has remained poorly developed and at present, the experimental fields belong essentially to the economic agents (lease) and not to the state (de facto). (AȘM 2021, Taran A.2019).

Consequently, the number of technology transfer projects in this research / development entity has decreased 2 times, of the patents filed / obtained 3 times, of the articles with Impact Factor (IF) and in journals of categories A, B and C their number decreased 3 times. No Conferences, Scientific-Practical Seminars were organized in these fields, even online, which severely weakened the former science ties with practitioners in viticulture, fruit growing, vegetable growing and horticultural processing technologies. (HG 2014, Sturza R. 2020).

The welcome results in the field are due to the collaboration, and even to the help of Romanian scientists from the Academy of Agricultural and Forestry Sciences "Gheorghe Ionescu-Șișești" led by Professor Valeriu Tabără, and those from the Romanian Academy in the person of academician Cristian Hera and others, but also of the teachers of the numerous universities of agricultural sciences and veterinary medicine of the neighboring state - Romania.

In the conditions of the economic recession in the Republic of Moldova, no science reform will be successful if it is not supported by colleagues from the European Union, including Romania.

## CONCLUSIONS

In our view, it is necessary to take the following actions in order to recover the research / development situation:

1. To allocate for life, by Government decision, allowances for all researchers and teachers in the Republic of Moldova in the amount of 1000 MDL per month for holders of the scientific title of doctor and 2000 MDL for doctor habilitat. This practice exists in several European countries, USA, Canada, etc., which will motivate young researchers to write and defend theses in various fields of research / innovation.

2. To increase the salaries of PhD students from 800 MDL per month to 2500 MDL (with annual indexation) in order to provide young researchers from the Republic of Moldova with a necessary and sufficient material base for complex investments during their studies.

3. To extend the training of PhD and postdoctoral staff with scientists from scientific centers and universities in the EU, especially in Romania, USA, Canada, China and others, who are equipped with modern equipment and materials necessary for the high methodological level in research.

4. The Government of the Republic of Moldova to allocate state scholarships in the amount of at least 2500 MDL per month for students from "deficient" specialties that the national economy strictly needs, with the signing of legal obligations to work on the specialty for at least five years in the country. To provide young specialists with housing during their activity in these enterprises, entities, etc.

5. At the end of the COVID-19 pandemic, to resume practical activities in colleges and universities and to provide students with professional practices (pedagogical, technological, agricultural, zootechnical, etc.), which were stopped during the state of emergency in the Republic of Moldova.

6. To bring back within the Academy of Sciences of Moldova the 18 Academic Research Institutes in order to consolidate them and increase the overall effectiveness in the field of research / development in the Republic of Moldova. To approve by Government Decision the amendments formulated by the General Assembly of the Moldovan Academy of Sciences regarding the return of the academic institutes in its composition.

7. To provide in the state budget of the Republic of Moldova the financial resources necessary to start by the end of 2021 the elections of new members of the Academy of Sciences in accordance with current legislation and the Statute of the Moldovan Academy of Sciences, in order to fill vacancies and rejuvenate the academic body.

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