

Moldovan path to EU – current state, economic benefits and challenges

Stas Madan, Independent Think-Think "EXPERT-GRUP", Moldova

Development Day Conference

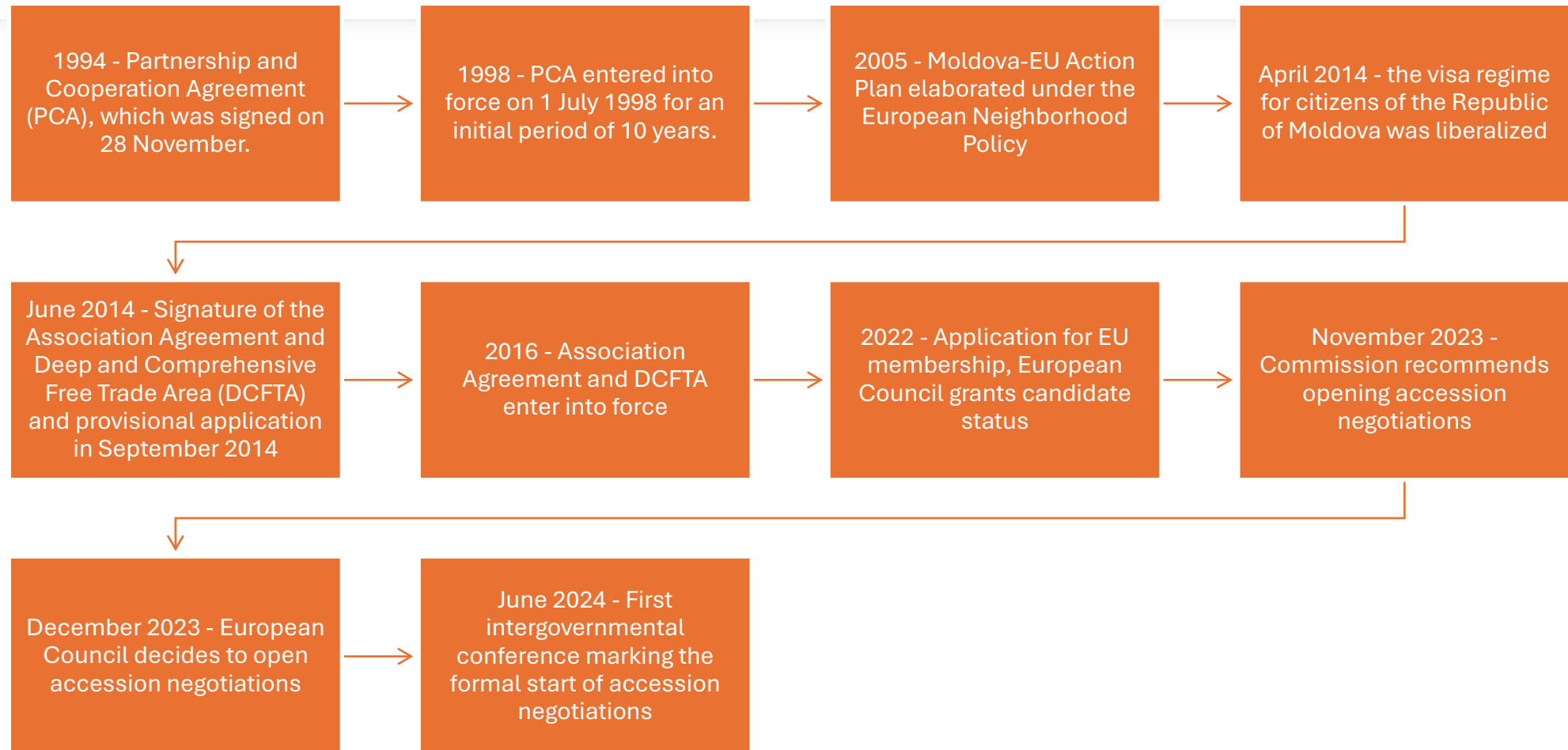
Stockholm, December 2024




STOCKHOLM INSTITUTE OF
TRANSITION ECONOMICS



Key milestones in Moldova-EU relations





1. Current state
of the Moldovan
reform process
towards future
EU accession



Key economic indicators

Moldova economic parameters in the last decade

Indicator	2014	2023
Population, thou.	2.858	2.458
GDP, current prices, million \$ US	9.400	16.545
GDP per capita, current prices, US \$	3.289	6.732
GDP per capita, PPP (constant 2021 international \$)	11.641	15.670
<i>compared to EU-27, %</i>	<i>25,0%</i>	<i>29,1%</i>
Public debt to GDP ratio	31,9%	35,9%
	2009-2013	2019-2023
GDP Real growth rate, %	3,1	1,1
Consumer price index (average), %	4,8	11,2

The shift of Moldovan economy to EU

Two thirds of Moldova's exports of goods go to EU countries - 65% in 2023 (47% in 2013). The export boost has helped reduce Moldova's trade deficit with the EU (from 14% of GDP in 2013 to 9% in 2023).

European investment in Moldovan enterprises currently accounts for **86% of the total stock** of foreign direct investment in the form of equity and equity participation

More than half (58%) of the personal remittances received by Moldovan residents in 2023 (including through informal channels) came from the European Union (about 1/4 in 2013).



Moldova in international rankings

Indicator	Last updates on Moldova
Corruption perception index, Transparency International	Moldovaan increase of 10 points between 2019 and 2023 and a jump in its ranking from 120th place to 76th place in 2023
Index of economic freedom, Heritage Foundation	Republic of Moldova's score is 57.1 and its country ranking is 99th worldwide . Decline for the third year in a row, mainly as a result of the prolonged state of emergency imposed after the Russian invasion of Ukraine.
Global Innovation Index	60th out of 132 economies Moldova's results were above expectations for its level of development.
Global Gender Equality Index, World economic Forum	Moldova is performing well in terms of ensuring gender equality , occupying 13th place out of 146 states in the 2024 edition
Democracy Index, EIU	Moldova's score (6,23) positioned the country in the group of Flawed democracies

Convergence to Acquis comunitare – level of preparation and progress

- Source: Moldova Report 2024, Enlargement Package

Chapter / Cluster	Level of preparation, 2024	Progress in 2023 / 2024
Public administration reform	2	3
Economic criteria	1,5	2,5
Chapter 5 – Public procurement	2	3
Chapter 18 – Statistics	2	4
Chapter 24 – Justice, freedom and security	2	3
Chapter 23 – Judiciary and fundamental rights	2	3
Chapter 32 – Financial control	1	3
CLUSTER 1 - Fundamentals	1,8	3,1
CLUSTER 2 – Internal market	1,9	2,4
CLUSTER 3 – Competitiveness and inclusive growth	2,3	3,3
CLUSTER 4 – Green agenda and sustainable connectivity	2,1	3,5
CLUSTER 5 – Resources, agriculture and cohesion	1,4	2,2
CLUSTER 6 – External relations	3,3	3,5

Level of preparation: 1 - An early stage of preparation, 2 - Some level of preparation, 3 - Moderately prepared, 4 - Good level of preparation, 5 - Advanced level

Progress: 1 - no progress, 2 - limited progress, 3 - some progress, 4 - good progress, 5 - substantial progress

Civil society shadow report monitoring the implementation of the EU recommendations

Evaluation of the progress of the Republic of Moldova regarding the implementation of the recommendations of the European Commission in the context of the accession process to the European Union (**July 2024**) - chapters of the “**Fundamentals**” cluster. "Civil Society for European Integration" Project, financed by EU

Monitored topics	The degree of achievement
Security	4,3
Financial control	3,7
Democracy	3,4
Public administration reform	3,3
Fundamental rights	3,3
Fight against corruption	3,3
Statistics	3,3
Functioning market economy	3,1
Justice reform	3
Public procurement	3
Freedom of expression	2

Scale: 1 - Uninitiated, although some commitments have been made, 2 - Initiated but no noticeable progress, 3 - Initiated and in process of implementation, 4 - Implemented with some reservations, 5 - Implemented flawlessly.

https://www.euromonitor.md/wp-content/uploads/2024/07/Shadow-Report_MD-EU-Enlargement_final_EN-IA.pdf

2. EU integration
for Moldova – a
process with
mutual economic
benefits



Opportunity of being part of the Single Market

Free Movement of Goods - Elimination of tariffs and quotas, Harmonized standards and Regulations, Economies of scale



Free Movement of Services - Cross-border operations, Recognition of qualifications, Access to diverse markets



Free Movement of Capital - Investment opportunities, Access to funding, Encouragement of Foreign Direct Investment (FDI).



Free Movement of People - Labor mobility, Enhanced workforce flexibility

Allocation of EU resources will drive internal changes



Republic of Moldova could receive access to additional financial resources that it has not had at its disposal during the entire post-Soviet period



- **Pre-accession funds and structural aid** during integration process to strengthen governance, institutions, and economic resilience – i) Reform and Growth Facility for Moldova of €1.8 billion support package for next 3 years, ii) since 2028 Moldova’s needs incorporated into the EU’s multiannual financial planning process
- **Post-accession access** to substantial EU cohesion funds - support to EU Member States for investments through dedicated national or regional programmes to reach convergence.

Reduce infrastructure gap



According to the WB Logistics Performance Index Report, Moldova has accumulated a score of 2.5 out of 5 maximum possible. The lowest values were recorded for the score assigned to Customs and customs procedures, but also to the infrastructure quality - 1.9 for each.

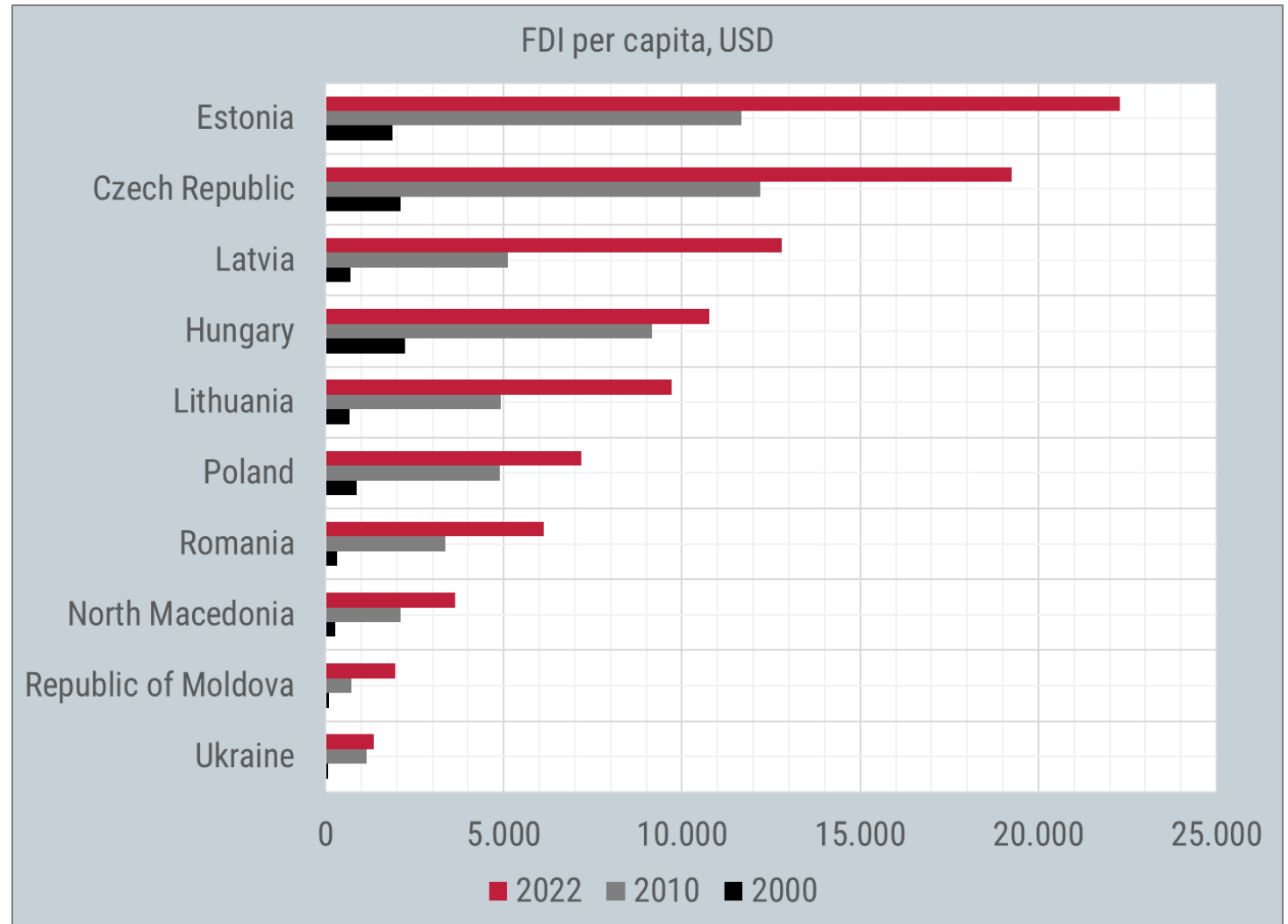


EU integration process will lead to improved infrastructure: Modernization of roads (e.g. Chisinau ring road, Odesa-Chisinau-Iasi road), urban transport, railways and building bridges over the Prut River, energy security (new power lines to connect Moldova to the EU power grid), Drinking water and sanitation.

Boost Foreign Direct Investment for Moldova

EU membership signals political and economic stability, attracting investors.

Access to EU structural and investment funds helps modernize industries and infrastructure.



More diverse and better- quality products for consumers

At the moment the diversity of quality European products in Moldova is limited - different legislation, customs controls, small market size.

The elimination of economic borders and the application of homogeneous market entry rules will allow the rapid expansion of corporations and brands on the local market. The ethno-linguistic affinity with Romania will allow the integration of Moldovan and Romanian consumers as a whole (economies of scale effect).



Economic Benefits for EU Countries

1. New markets for EU businesses
2. A more stable neighborhood with secure and reliable trade routes.
3. Supply chain diversification (including in the context of “near-shoring”)
4. Geopolitical Influence (counterbalance for Russian influence in the region)
5. Moldova's fertile land contributes to the EU's agricultural diversity, benefiting food security and supply chain resilience.

3. Major challenges in EU integration for Moldova



Limited administrative capabilities



Without a sufficient number of employees with knowledge of European affairs, the public administration could encounter difficulties in ensuring the uniform and effective transposition and application of European legislation.



If the country's administrative apparatus is not adjusted to act in accordance with the obligations of a member state, Moldova will not be able to make a qualitative leap in the pre-accession negotiations.

A mechanical approach to reform

- There is a need to avoid scenarios in which the reforms inspired by Moldova's EU candidacy status are suspected of not respecting the country's national sovereignty, otherwise they may be boycotted or fulfilled in a suboptimal way.
- The urgent needs of the population must be reflected in the European agenda of the central and local authorities.
- The explanation, justification and popularization of the Europeanized reforms should be part of the pre-accession process.
- A lack of connection between the public and the European agenda may compromise popular support for the EU in favour of local Eurosceptic elites, who advocate reorientation towards Russia



Lack of enough preparation for the absorption of European funds

Moldova's EU candidate country status and the opening accession negotiations with the EU opens 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 mechanisms, as well as a solid level of governance which ensures the equity of local companies and credibility with external partners.



A shrinking labour force 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. Currently, Moldova still enjoys a demographic dividend.
- In the coming decades, the ration between pensioners and working age population will increase significantly, putting more pressures on public finances and the economy in general. At the same time, there is a skill mismatch between the demand and supply of the labour force.



The slow pace of justice reform and related structural reforms compared to societal expectations.

Security threats
and decline in
investor
confidence
amid Russian
aggression in
Ukraine and
attempts for
destabilization

Apart from Russia and Belarus (parties to the conflict), Moldova is Ukraine's only non-NATO neighbor. This makes Moldova vulnerable given the decline in investor confidence and investment activity.



The situation is also exacerbated by the hybrid threats to which Moldova is constantly exposed from the Russian Federation.



Thank you for your attention!

Stas Madan – stas@expert-grup.org