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Is Growth Good Enough for the Poor?

Contents

Abstract

Moldova is a young European country that got lost in the middle of a complicated and excessively long transition. After having passed through three thorny stages of economic transformation: the economic crisis followed by a sharp decline; a stable depression; the dynamization of the country's economy, it has finally attained the revival of economic growth. Oddly enough, this growth did not lead to the contraction of the poverty zone in Moldova. Stimulated by an unusually high demand, Moldova fell in a rather deep Inflationary Gap. There is a lack of confidence in the business market as well as the banks of this country, and the short-term investment perspectives are very low. The trade deficit is augmenting and the Human Development Index signals that urgent measures need to be taken. There are certain endeavors to alleviate the poverty situation of Moldova, but they have not yet proved to be successful. This paper attempts to analyze the current situation of this republic from the perspectives exposed above as well as gives explanations and possible solutions that could contribute to the positive evolution of Moldova.

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Introduction

Despite the fact that the economic evolution of the Republic of Moldova has not been too successful since it gained independence, it has been registering a *positive growth* beginning with the year 2000. Peculiarly enough, poverty remains to be a stringent problem despite the fact that we have been registering positive growth for *four consecutive years*. Is this a proper growth, generated by the traditional growth factors? What are the contribution levels of consumption, investment, government spending and net exports? Why hasn't the economy been strongly enough stimulated in order to optimistically impact the situation of the economically vulnerable layer of the society?

This work is intended to analyze certain changes produced in Moldova after the independence of 1991 and the way they contributed to the current situation of the country. It also tries to give an explanation as to why growth did not positively impact the poverty situation in Moldova. For the completion of this paper, an attempt to estimate the poverty situation of Moldova, its Human Development situation, as well as evaluate the anomalies of its growth, I have used materials published by the National Bank of Moldova, the Ministry of Economy of Moldova, the Department of Statistics and Sociology, the United Nations Development Programme, the World Bank, USAID.

What did Transition bring?

Although the Republic of Moldova was among the most progressive post-soviet republics through the reforms it initiated, the changes projected on its law system were not well-enough implemented, the economic and political ties with what used to be the USSR broke, the freshly elected government lacked experience, leading to the formation of a *handicapped democracy* coexisting with high levels of corruption, unemployment, labor migration, poverty (circa 40% of the country's population is below the poverty line) and a black market that emerged quickly after the 1991 independence. The flawed institutions' system and the Transnistrian problem certainly did not contribute to the well being of the newly born country. Thus the Republic of Moldova entered the stage of *transition*, a transition that proved to be much longer than expected.

The collapse of the Soviet system marked the beginning of the period of reforms: constructing a market economy, enhancing trade and investment, creating a new banking system, privatizing the state-owned property. The implementation of the reforms turned out to be inefficient since until 1996 the country's GDP fell continuously attaining in the end of that year "only 37% of the 1990 level."[1] Finally, in 1997, the country witnessed a 1.65% increase of GDP and forecasted an economic boom for the years to come. But, since Russia's economy was highly volatile at the time and faced a major crisis in 1998, and Moldova was and still is strongly dependent on Russia, Moldova also had to witness a strong recession illustrated by a drop of 6.5% instead of an increase of the country's GDP. (see graph 1) In 1999, the country's GDP indicator continued to drop being reduced by 3.4%. Beginning with the year 2000, the yearly GDP growth rate has been a positive one, growing at an increasing rate almost every year (see Table 1), which is, of course, promising for the state economy. Will this be a stable growth? What are the reasons for the growth of the country's GDP? What are the threats that could cause it to decline?

GDP Growth: Consumption is in excess. What about Investment?

In the developed countries, consumption normally accounts for circa 70% of the country's GDP, but for Moldova, *consumption surpasses 100% GDP*. The reason for this strongly consumption oriented pattern is the increase in the public's demand stimulated by the boost in the disposable income of households. This augmentation of the disposable income of households is slightly the contribution of the government wage raises but it is mainly the consequence of the remittances sent home by the Moldovan citizens working abroad, both legally and illegally. "According to the National Accounts, in 1997 the remittances of labor migrants accounted for 8.5% of gross disposable household income, and 19.5% in 2002."[2]

A country's GDP is formed of four components: Consumption, Government spending, constituting together the Final Consumption, Investment, and Net Exports

[1] Center for Economic Policy of the IDIS "Viitorul", Economic Statewatch, Chisinau 2004, 10.
[2] Government of the Republic of Moldova, Economic Growth and Poverty Reduction Strategy Paper, Chisinau, May 2004, 20, para 80.

(Y(GDP)=C+G+I+NX). But, instead of the expectable approximate 70%, final consumption constituted more that 100% of GDP since 2000 and has been growing since 2001. Therefore, from the relation exposed above, knowing that Consumption is predicted to continue growing in the years to come and that Investment varied only slightly, we can quickly infer that the Republic of Moldova has a negative Net Exports and is facing an acute trade deficit, with a lower value for net exports every year (see Table 1).

A higher demand leading to a higher level of consumption is certainly not a fatal deficiency of the economic system, it is a start and it is a plus, but what have been its causes and what are the future perspectives for it? The greater level of disposable household income has certainly deepened the gap and the discordance between internal demand and internal supply. Since the per capita consumption augmented mainly because of the inflow of money from the people employed abroad, and not as a consequence of increased productivity (represented by the ratio between the real GDP and the labor force, determined by the total factor productivity and the capital/labor ratio, which could be both enhanced through Investment), *imports went up, net exports went down* worsening the country's trade deficit: 21.1% of GDP in 2001, 23.3% in 2002, and 31.8% in 2003 (see Table 1). At the same time, Investment, which would strongly motivate the supply economy, grew only a little. This tendency is also forecasted for the year 2004. The forecasted information reports that final consumption will increase by 16.4%, out of which 16.1% of this change are represented by household consumption. Gross investment will go up, but only very slightly, by 1.4%, far from enough in order to stimulate domestic production. Thus the imports will grow once again and net exports will decrease by 9.8%. The GDP rate of change for 2004 is estimated to attain 8%, compared to the previous year's level. The GDP will grow once again due to the evident consumption orientation of the population.

We are already in an Inflationary Gap. Falling deeper?

Aggregate demand has been lifted up considerably, and, as a consequence of the non-synchronization of Investment, which has grown by ridiculously small amounts, the economy has reached a rather deep *Inflationary Gap*. This gap is predicted to become even wider by the end of the current year. The inflation level throughout the last four years was rather high, reaching 11.6% in 2003, and is said to attain the level of approximately 10.0% by the end of this current year. As a consequence, the prices have gone up. Unemployment usually decreases when the economy is in an inflationary gap, a movement that has been also observed in the economy of Moldova, but the changes have been very small (certainly not solving the unemployment problem) and they have taken place in the circumstances of a diminishing population (mortality rate>nativity rate) and a growingly labor-migrating one. If aggregate supply will not be stimulated in the near future, we run the risk of sinking even deeper in this Inflationary Gap. Internal production needs to be encouraged.

Domestic production has to be stimulated. The current situation has to be remedied since "more than 80% of the population of the country live in regions which receive less than 20% of foreign investments, account for less than 40% of exports, and have wage levels almost half those in the capital."[3] There are a number of potential solutions in order to fuel internal production, but there are also a number of obstacles we face in this direction:

- The country's economy needs higher investments, but:
    - The danger of inflation is highly persistent and we do not inspire confidence to the foreign investors;
    - Moldova is a country that is highly dependent on the energy and the raw materials that we lack and need to import, materials that are sold to us at very high prices;
    - The Republic of Moldova needs to diversify its market and maintain but not limit its interaction only with the CIS market;
    - This republic has a high foreign debt that also discourages foreign investment;
    - The business climate in the Republic of Moldova is underdeveloped, certainly not dynamic enough in order to confer optimism and confidence to the potential investors;

[3] Government of the Republic of Moldova, Economic Growth and Poverty Reduction Strategy Paper, Chisinau, May 2004, 20.

- The Government has to take a number of measures, but their options are:
    - Increase the share of investment within government spending and make it more efficient in order to stimulate internal investment, because government spending (a.k.a. public administration) is currently at a very low level;
    - Decrease taxes, which, for some companies, especially the small businesses, would represent the possibility of a longer and more stable existence, activating and energizing the market economy;
- The National Bank needs to perform contractionary monetary policy in order to contract the Money Supply: perform open market operations, increase the mandatory reserve requirement, increase the discount rate. Such measures would diminish the money supply and would stop the quickly growing demand. But these measures would not have the solicited impact because:
    - The banking system in Moldova is not yet well developed and a high percentage of the population still prefers to keep their money at home instead of depositing it in banks;
    - While in the developed countries the most frequently utilized tool in the economy are the open market operations, in Moldova the buying and selling of bonds exists only at an incipient, very rudimentary level;
    - In case of difficulty, not trusting banks, business owners chose to help each other out instead of lending money from the banking institutions;

Thus, it is a difficult task to make this enormous step, to stimulate domestic production that would lead to the creation of jobs and would lead to a higher equilibrium GDP in the long run. Thus far, the GDP of the country went up indeed, but the poverty situation within the Republic of Moldova is still rather problematic. Despite the efforts of the government to increase the average wage in the Republic of Moldova, it is still below the minimum consumption basket. Still, there has been registered progress in this direction: throughout the first quarter of the year 2000, the average monthly wage was 349 lei, which constituted only 36.8% of the average quarter minimum consumption basket of 948 lei; whereas in the first quarter of the year 2004 the average wage was of 967 lei (forecasted to grow to 1201 lei by the end of the year) forming 68.4% of the 1386 lei minimum consumption basket (predicted to reach 80.2% of a 1497 lei minimum consumption basket in the last quarter of 2004). Even with this growth in the average wage, this is not enough to raise the population's standards of life: circa 40% of the country's population is under the poverty line.

Poverty in Moldova

The poverty situation of a country is a very important indicator of the life standards of its people. In Moldova, poverty represents a very acute problem that has not experienced any major improvements since 2002. After the 1998-99 economic crisis, the population percentage falling below the poverty threshold amounted to 52.0% of the population in 1998 and increased up to 73% in 1999. In 2000, the number of the poor started declining, reaching 40.4% in 2002. A similar fraction of the population is still poor now.

Poverty is not simply a function of income. It also depends on the level of consumption and employment, the quality of nutrition and the health condition, the access to education as well as the implication degree of the population in the state decision-making process. When a country experiences economic growth, the naturally emerging consequences would be positive, represented by a more dynamic industrial and agricultural sector, followed by a lower unemployment and a higher productivity, encouraging investment. The trade deficit would be diminished and the average wage would increase. This would respectively lead to an improvement in the health situation, as more people would be able to afford buying medicine and consulting a doctor, a higher attention given to education would be observed, and people would become more aware of the political situation in their country. Why did we not witness any of the above-enumerated changes?

The poverty line in Moldova is calculated according to the estimated necessary expenditures in order to ensure a person the normal alimentation according to the necessary daily consumption of calories (the extremely poor people) plus the minimum expenditures for non-food goods and services (the poor people). The *main causes of poverty* for the Republic of Moldova—an agro-industrial country in transition—reside in: the stagnation of regional economies, the low productivity of agriculture, the aging population, the lack of modern technologies, the high impact of the unstable weather on the national household income.

According to the household budget survey of the Opinions on the Poverty Phenomenon in the Republic of Moldova [4], 61.2% of the country's households, the majority, consider themselves poor. A great number of them identify poverty with low income (78.3%), poor health (33.6%), the third significant sign of poverty being insufficient nutrition (29.9%). Although, the rural areas have many inhabitants suffering from poverty (45.1% of the population of these regions), the zone that is most affected by this deficiency of the Moldovan society are the small towns (53.2% of their inhabitants) that were greatly dependent on the factories and businesses there, that could not survive the collapse of the Soviet Union. In the bigger cities, due to the creation of new companies, firms, thanks to the development of the services' sector of the economy, there were created more opportunities for employment, and poverty did not attack the cities' residents that harshly.

Analyzing the poverty situation in terms of age-groups, the poorest are the children and the elderly, thus having a job is crucial for being able to live in adequate conditions. The loss of a job deeply affects the income of a family. The well-being of a household also depends on the *education level* of its members. Out of the households directed by a person with no education, 59.9% are poor, whereas out of the households administered by university graduates, only 13.3% are poor. Therefore, we become aware of the importance of education and its role in the development of the country. The health situation of the poor is also unsatisfactory: the poor to non-poor hospitalization ratio is of 1 to 11. Thus the longevity of the poor is likely to be reduced, compared to that of the rest of the population.

It has also been determined that in the event of a critical financial situation, a large majority (almost 90% in the cities, and more than 92% in the rural areas) of households that consider themselves poor count on the help from outside. This help "from outside" includes financial support from their family, friends, some private borrowing, some people also count on the social protection of authorities. Therefore, because of poverty and the impossible-to-tolerate living conditions, many people were

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[4] Department of Statistics and sociology, Opinions of Poverty Phenomenon Survey, August 2002.

forced by various circumstances to migrate and find work abroad, in order to be able to help their close ones.

Another circumstance leading to poverty is *the income inequality*. In 2002, 46.2% of the total disposable income was received by the fifth quintile. The first quintile received 5.4% of the total disposable income, whereas the second quintile—10.7%. Thus, the best financially insured families receive an income that is circa 9 times higher than that received by the households included in the first quintile. The *Gini coefficient*, illustrating the income inequality, constituted 0.44 in the late 90's and later dropped to 0.42, by the end of the year 2002. Thus, the inequality of the disposable household income was and still is very sharp. The factors that lead to the deepening of this inequality since 1990 were the measures taken during the liberalization process, the mass privatization, the property redistribution and the employment reduction. Through a survey organized by the CISR, it has been determined that the people who have left abroad to work belong to the families in the second and third quintiles, thus the remittances they send home do not contribute in any way to the amelioration of the situation of the people in the first quintile, emphasizing even more the income inequality existing in the Republic of Moldova and leaving the worse off people as poor as they were before.

Such a high, hardly controllable level of poverty as the one present in Moldova (40.4% of the population are below the poverty line) heavily impacts the social and economic development pace. And the growth of the country's GDP did not lead to the alleviation of this plague of the society of Moldova. There have been taken various measures but they did not have a positive, easily noticeable effect. Why? Where do we stand in terms of human development?

Where are we? The Human Development Index (HDI)

The United Nations Development Programme publishes every year a Global Human Development Report in which 177 countries of the world are classified according to their Human Development Index (HDI). One of these countries is the Republic of Moldova. The *human development* is "a process of expanding human choices by enabling people to enjoy long, healthy and creative lives"[5]. Although it does not provide us with an exact, irrefutable measure of the human development level of a certain country, it certainly gives us a good picture of where we stand among the other countries of the world in terms of income, health and education. It also offers us enough information in order to be able to deduce a number of conclusions regarding the development dynamics of this republic relative to other countries as well as the fields in which a number of measures need to be taken in order to improve our level of development; it shows us the countries that progressed, that could give us an example of reforms the implementation of which was proved to be effective and could also contribute to the advancement on the human development hierarchy.

The HDI evaluates the general accomplishments in a country in terms of *three basic aspects*: longevity (life expectancy at birth), knowledge (Adult literacy rate and Combined enrolment ratio), and a decent standard of living (Adjusted per capita income in Purchasing Power Parity PPP$). This year's report determined that, in 2002, Moldova was on the 113th place out of 177 countries of the world, with an HDI of 0.681 on a 0 to 1 scale. This way Moldova pertains to the category of Medium Human Development countries. In 1990 its HDI was of 0.736 and we were positioned on the 64th place, thus we are now twice worse off relative to the situation in the year 1990. Five years later, in 1995, Moldova had already dropped to the 113th place with an HDI of 0.684. Later, its situation deteriorated further, reaching a 0.673 HDI. Until 2002 we improved a little, growing to an HDI of 0.681, being ranked on the 113th place again (the same position as in 1995). According to the UNDP Human Development reports, Moldova was always *one of the countries with the lowest HDI among the ex-soviet republics*, but the gap between this republic and the other countries of the CSI has largely widened until now. Moldova currently has the lowest rhythm of economic growth amongst all the ex-soviet republics.

Comparing the data used to determine the HDI in both 1995 and 2002, we can analyze the structural changes this index experienced. Considering the components of the HDI in both those years, we are able to see in which areas the Republic of Moldova became stronger and which ones we only used to be better in. The evolution and

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[5] UNDP, Human Development Report 1998, Oxford University Press, New York, 1998, 16.

development tendency of Moldova's economy render these changes clear. We can observe that *life expectancy at birth* increased by one year (from 67.8 in 1995 to 68.8 years of age in 2002), a change that is very much comparable to that of the other countries, despite the high level of poverty and the low level of accession to healthcare by the segment of the population that is financially vulnerable.

In the *education* domain though, the situation worsened considerably. The adult literacy rate changed by 8.9% (98.9% in 1995 and 90.0 in 2002), and the combined first-, second-, and third-level gross enrolment ratio decreased by 5% (from 67% in 1995 to 62% in 2002). Why is now almost 9% more of our population illiterate? A large number of people cannot afford education, not even first- and second- level education that is public and free, a large number of children are obliged to work within their households and later, instead of attending the University a large number of them chose to work, within the country or abroad. Although the total number of learning institutions in Moldova is now bigger (1674 institutions in 1995 and 1778 in 2002), the total number of students pursuing their studies within these institutions has decreased: 766500 in 1995 and 738100 in 2002. Besides this, our population is steadily decreasing (4347900 in 1995 and 4228900 in 2003) and instead of the elderly people who had received an education, appears the new generation that is not too much aware of the importance of education. A number of qualified workers, teachers, doctors, etc. leave the country and the schools remain without the employees it once had. Sending their remittances home, all these people contribute to a higher GDP of their country, but a higher GDP does not mean a higher human development level.

In Moldova, *the GDP per capita grew* indeed between 1995 and 2002 (beginning with the year 2000), a change confirmed by the increasing *GDP index*: from 0.23 in 1995 to 0.45 in 2005 and the increasing *real GDP per capita (PPP$) rank minus HDI rank* index: from 23 in 1995 to 36 in 2002. Since the remittances sent home continue to increase, these numbers will most probably continue to augment as well. However we remain on the 113th place. The explanation is the lower level of education (a much lower literacy rate and a lower enrolment rate within the learning institutions), as well as the quick development of the other countries that were able to improve their HD level in a rapid manner, not allowing us to advance more on the scale of rankings. And, we have to keep in mind that in 2002, the HDI (0.681) was still lower than in 1995 (0.684).

According to the UNDP Global Human Development Report 2004 (describing the situation for 2002) Moldova is among the countries with a low level of income (with a less than $735 per capita GDP for the year 2002, as income). Thus it would be a paradox that, with such low incomes, consumption is so pervasive and accounts for more than 100% of the country’s GDP. The remittances sent home by the people hired abroad are the explanation: the import of goods (51% of GDP in 1990 to 79% in 2002) augmented much more than the exports (from 49% in 1990 to only 54% in 2002). Due to the fact that the GDP has been growing since 2002, this gap has become wider. More that 60% of the world’s countries have a higher HDI than Moldova.

The GDP growth strongly contributed to Moldova’s HDI, but this is not enough. We still have a long way to go. In the high human development countries, the average life expectancy at birth is circa 10 years higher than that in Moldova. Thus we have to invest more in health care. Education dropped in this country and enrolment in education institutions decreased (this percentage being of only 62%, compared to the high 80’s and low 90’s percentile of the highly developed countries). Therefore a higher attention has to be given to education. Health and education, besides the obvious per capita income, are also fully recognized indices of poverty. Therefore, in order to reach a higher level of human development, the best has to be done in order to eradicate poverty.

Social assistance in conformity with need

There have been a few attempts to alleviate the situation of the people who have been determined to be below the poverty line. One of the factors that diminish the degree of poverty in a country is *Social Assistance*. Social Assistance is a set of social services in cash or in kind rendered to the poorest and most vulnerable groups of the population that cannot overcome critical life situations on their own. Social assistance is financed from social contributions: taxes, grants, charity. Unfortunately, in Moldova, immediately after the independence of 1991, the economic and politic systems suffered a tremendous change and the challenges and difficulties the government encountered in reforming the newly born republic hindered and prevented the formation of an efficient social assistance system. The transition obstacles did not give a better opportunity for elaborating a new social assistance system or improving the one already existing.

In Moldova, up to the year 1999, the Social Assistance system was geared towards helping certain social groups, and not those who are in economic need. In order to make the distribution of aid more equitable and correctly distributed among those in true need, the government decided to change the Social Assistance mechanism with a new system. Thus, in May of 1999, the Parliament approved a new Strategy of Social Assistance Reform. Its key ideas were centered around the following points: the goal of offering both cash and non-pecuniary benefits to the people in need and testing the functionality of these mechanisms; decentralizing the social assistance system; augmenting the role of local authorities in the allocation of social assistance; supervising the efficiency of different types of social assistance; better organizing the procedure of granting the social assistance aid and receiving the proper documentation for it. After having introduced this new system, a new law on the special social protection of certain categories of the population was passed in July 2002. According to this new law, the established categories of beneficiaries were limited to 11, and these people were entitled to receive the Nominative Targeted Compensations (NTC). These are partial compensations for payments of the household utilities that constitute a substantial burden for the financially vulnerable part of the population.

The problem of poverty is an inescapable one. Only the fact that currently circa 40% of the population is below the extreme of poverty indicates the importance of this matter. The hardest to pay expenses are presently considered to be the bills for the household services: electrical power, gas, heating, water supply. The compensations for the public utilities are determined to be 25% of 50% of the value of a set norm for consumption. The recipients of aid are classified in the following categories: disabled people (including disabled children under 16 years of age and disabled people from childhood) – 56.4% of aid, veterans and their widows as well as other persons whose status is equivalent to that of a war veteran and the people who worked on the home front during WW2 – 21.9%, single aged people – 15.4%, families with many children – 5.6%, as well as the people who were in Leningrad during the blockade of Leningrad. The largest part of the compensations is given for the payment of electricity: 96.1% of all beneficiaries received some amount of funds in order to pay for this utility. 66.2% received funds for gas, 50.4% for the payment of the cold water supply, and 40% for buying coal or firewood. The funds allocated for the payment of the nominative targeted compensations represent 12% of the state social insurance budget expenditures.

This new Social Assistance measure is certainly an efficient one that contributes to the amelioration of the bad life quality of the poor families, but it also has a few drawbacks. The people in need of aid are determined based on categories established on certain remainders of soviet principles like the merit of the respective person to the state, their health situation, etc. The criteria and method according to which the norm of consumption is calculated are old and do not represent the true situation. There are a high number of people who have false documents certifying that they are disabled: 17% of all the people claimed to have another health situation than the real one. There are also a high number of people beneficiating from these compensations who are not truly deprived, who work in the shadow market and receive a serious income that is not registered, people who have a vast agricultural activity. There are also the people who live in large apartments, which they received from the state years ago, that are expensive to maintain and that they do not rent to anyone, thus foregoing the possibility of receiving some income. There is also the problem of the unequal distribution of the social assistance compensation payments: 4.5% of the targeted compensations is received by the first quintile, whereas the fifth quintile receives 39.2%. Thus, there is still a long way before the social protection system will be radically improved. These shortcomings of the compensations' system explain its limited effect on Moldova's society and on the poverty reduction process.

Policy Remarks

1. The Republic of Moldova is a *young European country trapped in transition*. Its mission represents a triple task: forming a stronger state, building a more efficient market economy, fortifying the democracy. After having gained independence, the country passed through three stages of development: the economic crisis followed by a sharp decline; a stable depression; the dynamization of the country's economy and the revival of economic growth. As a result, in the

Republic of Moldova, there is now a period of macroeconomic stabilization, but there are still the structural reform problems that require a solution. These issues are: stimulating the small and medium businesses, which represent the moving force of the market economy, attracting foreign investments, augmenting and diversifying exports. But, solving these problems will be rather hard because of the burden lying on our country: internal and foreign debt. The negative result of transition is, thus, poverty.

2. *Poverty is still a severe problem*. Although economic growth has been registered for four consecutive years, 2000 - 2004, amounting to a total improvement of 21.7% of GDP (throughout 2000-2003, the data for 2004 has not been determined yet), this benefic modification has not positively contributed to the reduction of the poverty area in Moldova. Currently, circa 40% of the population is below the poverty line. The income inequality is eliminated at an extremely slow pace, leaving it a burning problem for this country: the Gini coefficient dropped only slightly from a maximum of 0.443 in 1999 to 0.421 in 2002. Despite the efforts invested in the creation of an efficient social assistance system, it has not yet succeeded in being oriented to the layers of the society that are in true need.
3. *The quality of the economic growth registered is of an unusual nature*. Although the demand of the public is very high, the real production sector is underdeveloped. The exports are very unstable and highly dependent on the rural households. There is an enormous trade deficit. Imports strongly prevail over exports. The main causes leading to the dominance of imports are the inevitability of importing energy resources lacking in Moldova (that are highly expensive), as well as the high internal demand stimulated by the remittances coming into the country from the people working abroad.
4. Although we still are among the countries with *medium Human Development*, *Moldova's position on the HDI (index) ladder has significantly dropped since 1990*. The rhythm of the quality and quantity of its economic growth are the lowest among the ex-soviet republics. The lacking of solid, sustainable growth negatively influences the dynamics of the HDI, which characterizes the life standards of the population of the respective country. Not only Moldova degraded

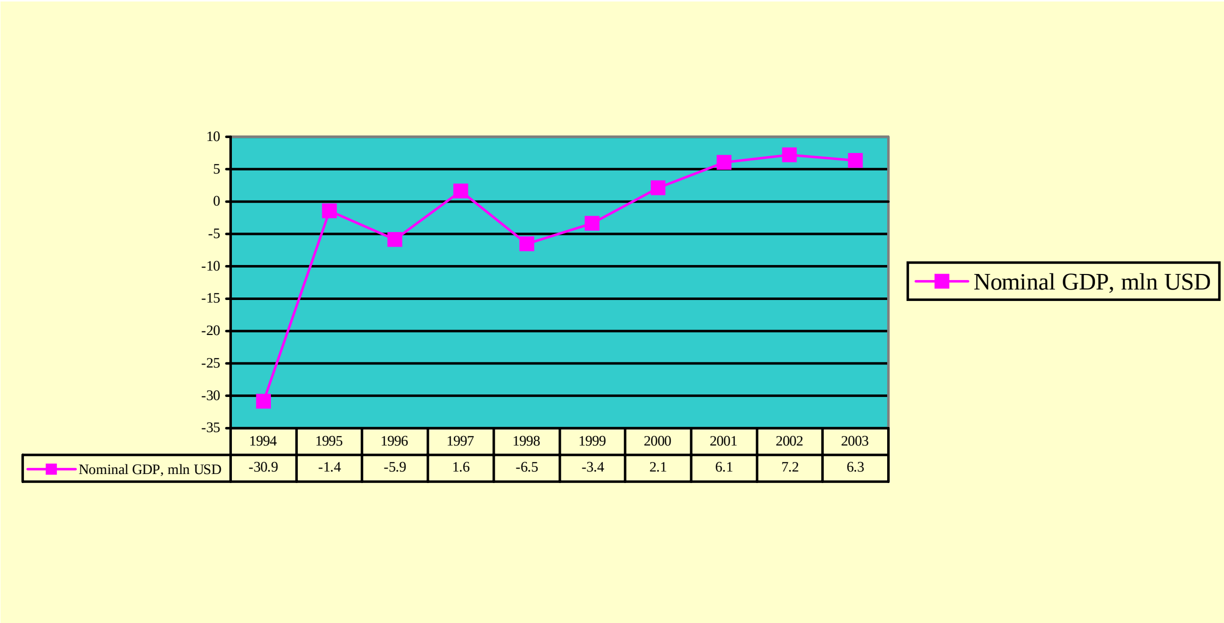
since 1990, but the other CSI countries proved to be capable of a much quicker advancement, pushing us lower and lower on the HDI list. If in 1990 Moldova positioned on the 64th place with and HDI of 0.736, in a little more than a decade it dropped all the way to the 113th place, with an HDI of 0.681 in 2002.

5. The economic situation in the Republic of Moldova has registered a positive change since the year 2000. The GDP stable growth is promising for the country's economy. But, in order to achieve progress and a normally evolving growth, the *economic policies and directives of the government have to be reoriented*. Attention needs to be directed to:

- improving the relations between the state and the economy, and abandoning the administrative methods of governing in order to replace them with market-oriented ones;
- ameliorating the development sphere of the small and medium businesses;
- augmenting the investments from abroad;
- decentralizing the central governmental power, federalizing the budget and enlarging the responsibilities of the local authorities;
- galvanizing the European integration processes within the Republic of Moldova.

The entire decade after becoming independent has been a tough period for the economy of the Republic of Moldova. We can hope that this was only the harsh beginning of the economic transformation of this ex-soviet republic, the period of adaptation of the population as well as of the economic entities to the new market economy conditions. Now the time has come in order to finally obtain an improvement of the qualitative components of economic growth, to evolve and to attain a strong, sustainable human development.

Graph 1: Real GDP, year-on-year growth rate, 1994-2003



Graph 2: Moldova's Human Development Index (HDI) dynamics

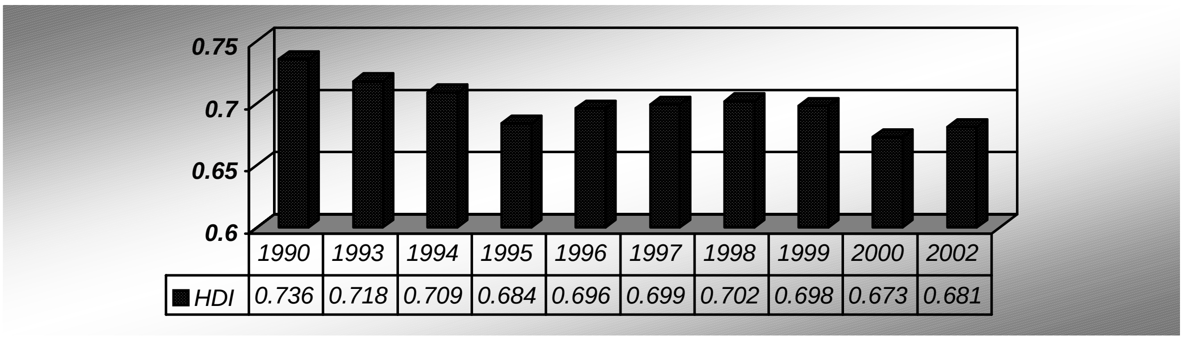


Table 1: The contribution of expenditure components to real GDP change, %

Year	1997	1998	1999	2000	200 1	2002	2003	2004 f
Final Consumption	11.0	-1.9	-15.9	15.4	4.5	9.8	13.8	16.4
Gross Investment	-1.3	1.7	-5.1	2.7	1.2	0.2	1.9	1.4
Net exports of goods and services	-8.2	-6.3	17.6	-16.1	0.4	-2.2	-9.4	-9.8
GDP rate of change	1.65	-6.5	-3.4	2.1	6.1	7.2	6.3	8.0

Source: DSS; estimates, computations and forecasts by ES

Table 2: Moldova's Main Macroeconomic Indicators

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Real GDP year-on-year growth rate, %	**-30.9**	**-1.4**	**-5.9**	**1.6**	**-6.5**	**-3.4**	**2.1**	**6.1**	**7.2**	**6.3**
Real GDP as % of 1993	-30.9	-31.9	-35.9	-34.8	-39.1	-41.1	-39.9	-36.2	-31.6	-27.3
Nominal GDP, Lei million	**4737**	**6479**	**7798**	**8917**	**9122**	**12322**	**16020**	**19052**	**22040**	**27297**
Nominal GDP, USD million	1165	1441	1694	1929	1698	1171	1288	1481	1624	1958
GDP per capita, USD	323	400	471	537	473	327	354	408	448	541
Industrial output year-on-year real change, %	**-27.8**	**-3.9**	**-6.5**	**0.0**	**-15.0**	**-11.6**	**7.7**	**13.7**	**10.6**	**13.6**
Industrial output as % of 1993	-27.8	-30.5	-35.0	-35.0	-44.8	-51.2	-47.4	-40.2	-33.9	-24.9
Agricultural output year-on-year real change, %	**-24.6**	**1.9**	**-11.9**	**11.4**	**-11.6**	**-8.4**	**-3.3**	**6.4**	**3.0**	**-14.1**
Agricultural output as % of 1993	-24.6	-23.2	-32.3	-24.6	-33.3	-38.9	-41.0	-37.2	-35.3	-44.4
Investments in fixed capital year-on-year real change, %	-51.0	-16.0	-8.0	-8.0	10.0	-22.0	-15.0	11.0	4.1	16.0
Investments in fixed capital as % of 1993	-51.0	-58.8	-62.1	-65.2	-61.7	-70.1	-74.6	-71.8	-70.6	-65.9
Exports of goods (fob), USD million	**618**	**739**	**823**	**890**	**644**	**474**	**477**	**567**	**660**	**806**
Imports of goods (fob), USD million	**672**	**794**	**1075**	**1238**	**1032**	**611**	**770**	**880**	**1038**	**1429**
Trade balance, USD million	**-54**	**-55**	**-252**	**-348**	**-388**	**-137**	**-294**	**-313**	**-378**	**-622**
as % GDP	-4.6	-3.8	-14.9	-18.0	-22.9	-11.7	-22.8	-21.1	-23.3	-31.8
Current account balance, USD million	**-82.0**	**-98.3**	**-191.0**	**-274.8**	**-334.7**	**-68.2**	**-115.5**	**-68.2**	**-51.8**	**-142.1**
as % GDP	-7.0	-6.8	-11.3	-14.2	-19.7	-5.8	-9.0	-4.6	-3.2	-7.3
Foreign direct investments (net yearly flows), USD million	**18**	**73**	**24**	**78**	**76**	**38**	**136**	**146**	**116**	**58**
Foreign direct investments per capita, USD	**4.9**	**20.3**	**6.6**	**21.4**	**20.9**	**10.4**	**37.4**	**40.2**	**32.1**	**16.2**
Public external debt, USD million	**506**	**659**	**766**	**1005**	**1003**	**935**	**1022**	**955**	**987**	**1008**
as % GDP	43.4	45.7	45.2	52.1	59.1	79.8	79.3	64.5	60.8	51.5
Internal state debt, Lei million	**270**	**477**	**737**	**984**	**1572**	**1910**	**2022**	**2400**	**2821**	**2920**
as % GDP	**5.7**	**7.4**	**9.5**	**11.0**	**17.2**	**15.5**	**12.6**	**12.6**	**12.8**	**10.7**
Consolidated budget deficit (% of GDP)	-5.8	-5.8	-9.7	-7.5	-3.3	-3.2	-1.0	-0.01	-0.5	1.6
Nominal wage (monthly average), USD	26.7	31.9	40.7	47.5	46.6	28.9	32.8	42.3	51.0	67.6
Real wage (monthly average, year-on-year change), %	-40.8	0.0	0.1	0.0	0.1	-0.1	0.0	0.2	0.2	16.0
Inflation rate (end of period), %	**104.6**	**23.8**	**15.1**	**11.2**	**18.3**	**43.7**	**18.4**	**6.3**	**4.4**	**15.7**
Average annual inflation rate, %	487.0	30.0	24.0	12.0	8.0	39.0	31.1	9.6	5.2	11.6
End-year exchange rate, Lei/ USD	**4.27**	**4.50**	**4.65**	**4.66**	**8.32**	**11.59**	**12.38**	**13.09**	**13.82**	**13.22**
Annual average exchange rate, Lei/ USD	4.07	4.50	4.60	4.62	5.37	10.52	12.43	12.87	13.57	13.94
Population - total, thousand persons	**3680**	**3604**	**3599**	**3654**	**3652**	**3646**	**3639**	**3631**	**3623**	**3612**

Source: National Bank of Moldova, Department of Statistics and Sociology, CISR