

# THE EXTENT OF MOLDOVAN ECONOMY'S DIVERGENCE FROM THE EUROPEAN UNION UNDER THE CURRENT ECONOMIC UNCERTANTIES

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**Abstract.** *The Republic of Moldova has been having the aspiration to join the European Union (EU) since 1999, when the European integration was established as the main strategic objective of its foreign policy. After periods of democratic reforms and important steps towards aligning to the European requirements, the Republic of Moldova finally obtained the status of a candidate country for the EU in June 2022. However, current geopolitical and economic uncertainties determined by the pandemic crisis and amplified by the Ukrainian war make more difficult the European integration path of the Moldovan economy. Moreover, there are significant economic and financial gaps between Moldovan economy and the EU that need to be approached in order to increase its capacity to cope with competition and market forces and to achieve a high degree of sustainable economic convergence. Against this background, this paper aims to uncover the divergence of the Moldovan economy from the EU member states under the economic uncertainties.*

**Key-words:** *European integration, Republic of Moldova, European Union, economic convergence*

**JEL:** *E30, E58, E61, F15*

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**Introduction.** After periods of democratic reforms and important steps towards aligning to the European requirements, the Republic of Moldova signed the Association Agreement with the EU in June 2014 and obtained the status of a candidate country for the European Union in June 2022. However, there is a long way to achieve economic convergence with the EU. According to the European Commission, once the Association agreement is signed, a candidate country must comply with accession criteria, i.e., Copenhagen criteria, to become a member state of the EU. More exactly, it must fulfil the political and economic criteria, by ensuring the stability of democratic institutions, the functioning of the market economy, and

an adequate level of competitiveness to deal with the European competition. In addition, the candidate should consolidate its institutional capacity to implement the acquis and to take on the related obligations. The acquis also stipulates that Member States must comply with the nominal convergence criteria (Maastricht criteria) in order to be able to adopt the euro in due course after accession, i.e., the achievement of a high degree of price stability, the sustainability of the government financial position, the observance of the normal fluctuation margins of the national currency against the euro and the durability of convergence in the long-term interest-rate levels.

Besides nominal convergence criteria fulfilment, the real convergence must be achieved in the medium and long term, i.e., the recovery of economic and social gaps in terms of living standards compared to the EU member states being essential for increasing the degree of integration. From the very beginning, the aim of the EU project was to reduce economic and social gaps between member states and to ensure a high level of economic and social integration, while in the Treaty of Rome, among the objectives was the development of the poorer regions. The goal of real convergence between member states was a fundamental pillar of the Lisbon strategy and remains a basic element of the EU.

Currently, the Republic of Moldova has the lowest GDP per capita compared to the EU countries, only 31% of the EU average (IMF, 2024), one of the lowest levels of financial intermediation, only 31% of GDP (World Bank, 2024), and one of the most underdeveloped stock markets in the EU, of 3.4% of GDP (National Financial Market Commission, 2024). In this instance, a major step towards fulfilling the accession criteria is to uncover economic divergences between Moldovan economy and the EU for consolidating its ability to absorb potential asymmetric shocks arising during the process of European integration, its capacity to cope with European market forces and to achieve a high degree of sustainable economic convergence. Moreover, current geopolitical and economic uncertainties determined by the pandemic crisis, post-pandemic inflationary shock and by the Ukrainian war make more difficult the European integration path of the Moldovan economy.

**Literature review.** Economic convergence is an essential component of the economic policy in the EU, being one of the main goals in the process of European economic integration. Numerous studies have approached the concept from various perspectives, with a focus on the EU integration and the progress of member countries in terms of economic and monetary convergence, on how much convergence is necessary and what actions should be taken to improve convergence in the EU, and on how much convergence can be achieved by improving the economic performance in underdeveloped regions, etc. According to the European Commission, the concept of convergence is defined as the process whereby the real GDP per capita levels of lower-income economies catch up, on a durable basis, with those of higher-income economies (Diaz del Hoyo et al., 2017).

Numerous studies confirm that the expansion of the EU has benefited its members by maintaining stable economic growth rates, and new accession countries

from Central and Eastern Europe have, in particular, increased competitiveness in domestic and international markets (Vojinović et al., 2010; Strielkowski and Höschle, 2016; Campos et al., 2019; Dobrzanski & Olszewski, 2019; Rapacki and Próchniak, 2019; Szczepańska-Woszczyzna et al., 2022). Vojinović et al. (2010) observed that around the time of EU accession, beta convergence accelerates among EU members as new and poorer EU member states grow faster than old and wealthier states, and the income gap decreases but remains significant. Strielkowski and Höschle (2016) divided the EU countries into groups based on their EU accession and investigated whether they converge towards each other, with their conclusions moderately supporting the hypothesis of economic convergence within the EU. Szczepańska-Woszczyzna et al. (2022) analyzed the presence of economic benefits in the EU for countries that joined the EU in 2004. It was found that at the level of each EU country, as well as in newly acceded countries as a group, membership was correlated with a significant increase in the GDP growth rate compared to the rest of the Community, while export volumes, productivity, capital market structure, investment flows, etc., have also improved.

The Republic of Moldova has followed the European integration path for several decades. One of the biggest steps towards political and economic integration with the EU was the signing of the Association Agreement with the EU in 2014. Accordingly, the Deep and Comprehensive Free Trade Area (DCFTA) started to be available, leading to an increase in exports to the EU, with the quotas eliminated in 2014.

However, the Republic of Moldova faces the challenge of competing with more developed economies of the EU while maintaining trade relations with non-EU states (Sandu, 2014). While some criteria align with the EU requirements, there are significant divergences, especially in the standard of living, average salary, the level of financial intermediation, the level of capital market development, etc. Modest growth rates and an accentuation of income differences between the old EU member states and the Republic of Moldova raises questions about the prospects for achieving the goal of economic alignment in the short term (Holobiuc, 2021).

Against this backdrop, the article has the objective to unveil the current level of economic divergences of the Moldovan economy from the EU member states under the economic and geopolitical uncertainties.

**Research methodology.** Having in mind to uncover the economic divergence of the Republic of Moldova from the EU, we employed a mixed methodology, based on qualitative and quantitative analyses. We have conducted a comparative analysis of several important real convergence indicators of the Moldovan economy with the EU member states, i.e., the GDP per capita, the nominal hourly labour cost, the GDP growth rate, and the trade integration, during the period 2014-2023. The data on the GDP per capita and the GDP growth rate were gathered from the International Monetary Fund database, while the data for the average nominal labour cost were retrieved from the official database of the International Labour Organization.

Moreover, the data for the trade convergence were taken from the National Bureau of Statistics of the Republic of Moldova.

**Main results.** We will further analyse the degree of several important real convergence indicators of the Moldovan economy with the EU member states, i.e., the GDP per capita, the nominal hourly labour cost, the GDP growth rate, and the trade integration. Currently, the Republic of Moldova has a particularly low convergence of GDP per capita, 32% of the EU average, showing that there is a long way towards assuring an economic alignment with other member states (Figure 1). For instance, countries from Central and Eastern Europe have recorded significantly higher values, e.g., the Czech Republic with 91% of the EU average, Hungary with 79%, Poland with 78%, and Romania with 72%.

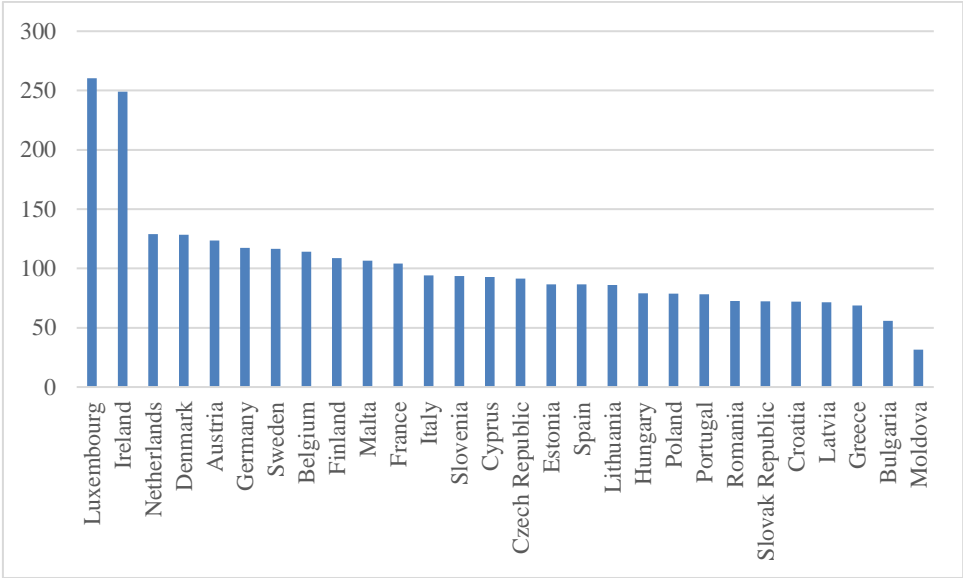


Figure 1. **The economic convergence of the Republic of Moldova with the EU member states (GDP per capita), in 2023 (%), UE=100**  
*Source: Representation of the authors based on IMF data (2024).*

Data related to the hourly labour cost in the Republic of Moldova are quite pessimistic, this convergence indicator reached in 2023 a level of only 10 dollars when adjusted by purchasing power parity (PPP) (Figure 2). At the same time, Central and Eastern European states stand much better, confirming the presence of a catching up process.

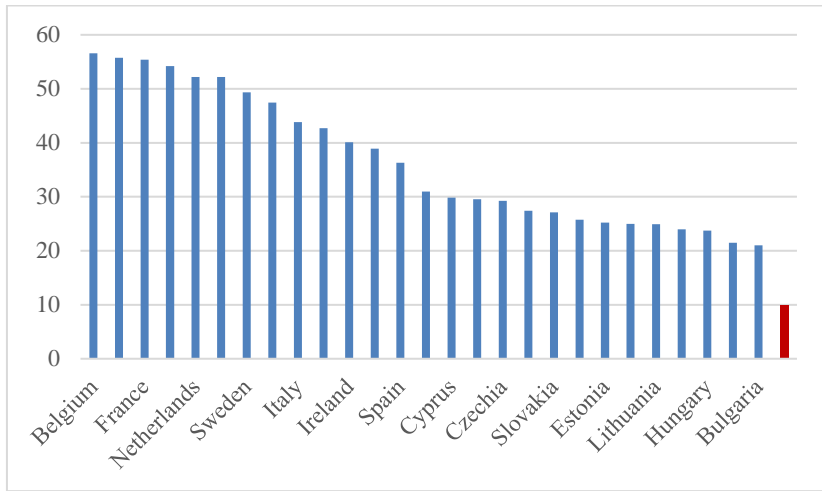


Figure 2. **The convergence of the labour cost of the Republic of Moldova with the EU member states in 2023 (nominal hourly labour cost per employee expressed in 2021 PPP \$)**

Source: Representation of the authors based on ILO data (2024).

In a positive way, Figure 3 reveals a high degree of synchronization of economic cycles between the Republic of Moldova and the EU. Also, although the Moldovan economy was more severely affected than the EU by the global financial crisis, the sovereign debt crisis, and the pandemic, shrinking by 9% in 2009, by 0.6% in 2012 and by 8.3% in 2020, it increased more pronounced in positive cycles. This development could facilitate the catching up process towards the EU.

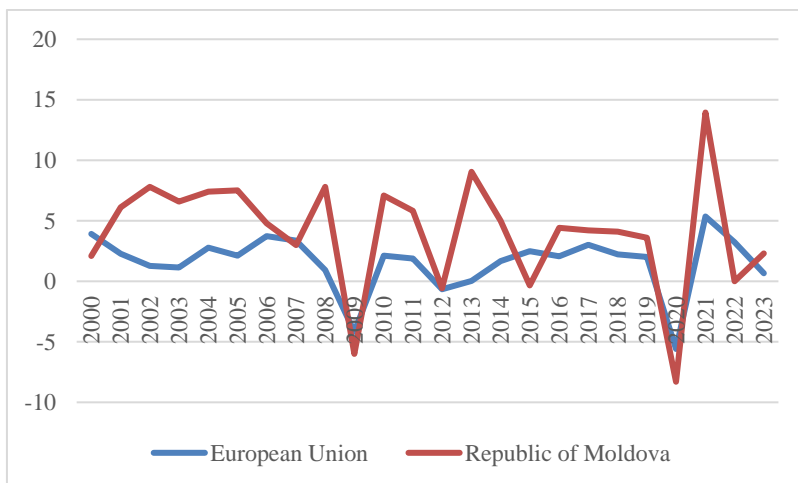


Figure 3. **Synchronization of economic cycles, in the period 2000-2023 (GDP growth rate, %)**

Source: Representation of the authors based on IMF data (2024).

Another important convergence indicator is the level of trade integration with the EU. Once the Association Agreement with the EU was signed in 2014, and,

accordingly, the DCFTA started to be available, the trade integration with the EU has climbed.

More exactly, the Moldovan exports to the EU rose from 46% in 2013 to 65% in 2023 (Figure 4). On the other hand, the share of Moldovan imports remained stable during the period, evolving from 45% in 2013 to 48% in 2023, uncovering that the country has quite a low degree of dependence on imports from the EU.

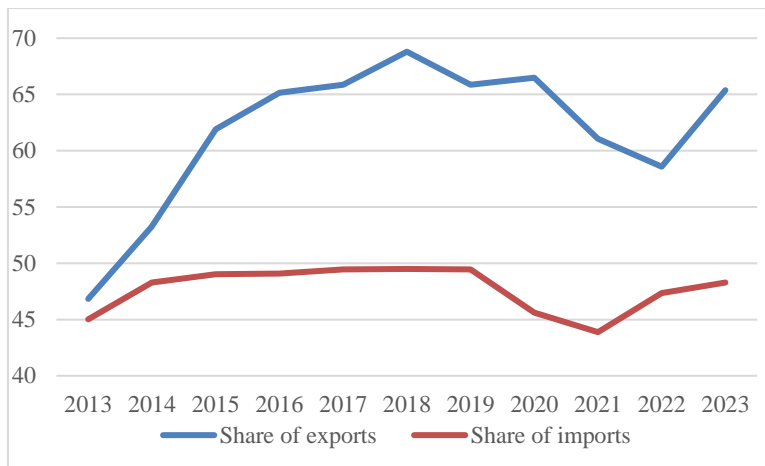
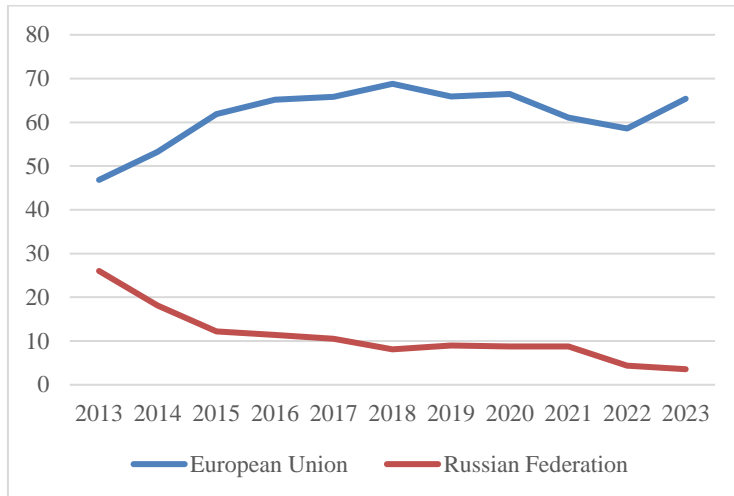


Figure 4. **Degree of trade integration with the EU, during the 2013-2023 period (% of total Moldovan exports/imports)**

*Source: Representation of the authors based on NBS data (2024).*

The establishment of the European integration path visibly increased the role of the EU as a trade market for the Republic of Moldova. The Moldovan exports to the EU overpassed those to the Russian Federation, which used to be the main export destination of the Republic of Moldova (Clichici and Iordachi, 2019).

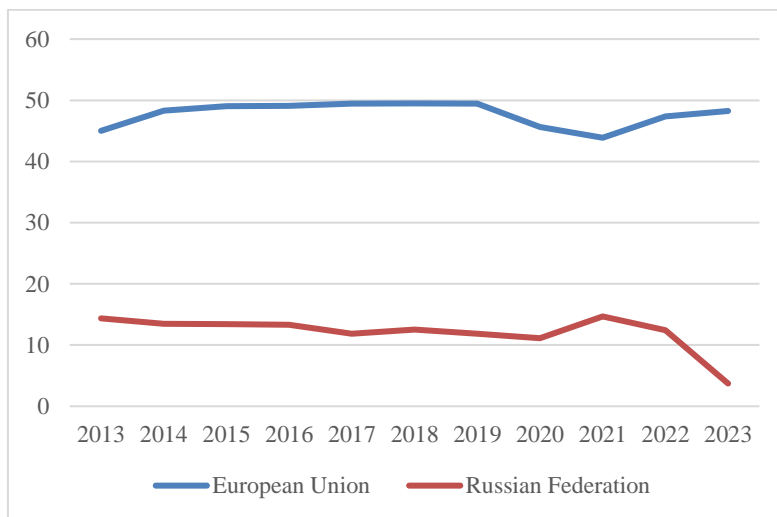
Moldovan exports to the Russian market have decreased from a share of 18% in the year the Agreement with the EU was signed to only 3.5% in 2023 (Figure 5). At the same time, the creation of a complex and comprehensive free trade area with the EU generated important opportunities for the Republic of Moldova, so that the EU member states have become the main destination of Moldovan exports.



**Figure 5. Reorientation of exports of the Republic of Moldova, during the 2013-2023 period (% of total Moldovan exports)**

*Source: Representation of the author based on NBS data (2024).*

At the same time, the EU member states represent the main source of Moldovan imports, holding a share of 48% of the value of the total imports of the Republic of Moldova, compared to the Russian Federation, of only 3.7% in 2023 (Figure 6).



**Figure 6. Reorientation of imports of the Republic of Moldova, during the 2013-2023 period (% of total Moldovan imports)**

*Source: Representation of the author based on NBS data (2024).*

Despite these positive developments, the European integration could be further hindered by the shocks generated by the military conflict in Ukraine. This ongoing conflict represents a serious threat to the national security of the Republic of Moldova, both from an economic and social point of view, given its immediate proximity to this state, which stretches over 1,200 km. More than that, Moscow still

maintains a military base and a stockpile of approximately 20,000 tons of ammunition in the secessionist region of Transnistria, which can be used at any time in this conflict by the Russian state.

One of the largest repercussions of the military conflict is being felt in the Republic of Moldova through the massive wave of refugees from Ukraine, whose number has dramatically exceeded the capacity of the government to offer them shelter and care. In addition, a severe economic impact has been determined by the collapse of imports from Ukraine, but also by the decrease in investor confidence. Under these conditions, the EU has a major role in providing financial and technical support to Moldovan authorities towards European integration, but also in strengthening the political and economic cooperation.

**Discussion and conclusions.** After periods of democratic reforms and important steps towards aligning to the European requirements, the Republic of Moldova finally obtained the status of a candidate country for the EU in June 2022. However, the country faces the challenge of competing with more developed economies of the EU while maintaining trade relations with non-EU states. Moreover, current geopolitical and economic uncertainties determined by the pandemic crisis and amplified by the Ukrainian war make more difficult the European integration path of the Moldovan economy. In this instance, the research had the aim to uncover economic divergences between Moldovan economy and the EU for consolidating its ability to absorb potential asymmetric shocks arising during the process of European integration, its capacity to cope with European market forces and to achieve a high degree of sustainable economic convergence.

The main results of the research uncover, firstly, that the Republic of Moldova has a particularly low convergence of GDP per capita compared with other EU countries, showing that there is a long way towards assuring an economic alignment with the EU. Secondly, data related to the average labour cost in the Republic of Moldova are quite pessimistic, while Central and Eastern European states stand much better, confirming the presence of a catching up process. Thirdly, positively, the analysis uncovered a high degree of synchronization of economic cycles between the Republic of Moldova and the EU, which could facilitate the catching up process towards the EU. Fourthly, once the DCFTA started to be available, the trade integration with the EU has climbed. The Moldovan exports to the EU overpassed those to the Russian Federation, which used to be the main export destination of the Republic of Moldova, and the EU member states represent now the main source of Moldovan imports. Despite these positive developments, the European integration could be further hindered by the shocks generated by the military conflict in Ukraine.

In conclusion, important economic gaps between the Moldovan economy and the EU depicted in this analysis need to be approached in order to increase its capacity to cope with competition and market forces and to achieve a high degree of sustainable economic convergence.

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