

**EVALUATION OF THE ECONOMIC SITUATION
OF THE REPUBLIC OF MOLDOVA IN THE REGIONAL COMPARISON**

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The purpose of the research in question is to monitor the evolution of the Moldovan economy at the macroeconomic level during the transition to a market economy and to follow the road of it compared to other emerging countries. Research methodology is to select the top countries published by the UNDP (Human Development Report) and compare the results obtained from countries in transition to a market economy by the indicator of Gross Domestic Product (GDP) at purchasing power parity (PPP constant 2011 international \$). The results correspond to the purpose of evaluating throughout our country compared to other developing countries in the period 1990-2012, without reference to the causes for which influenced their evolution.

Keywords: *Gross Domestic Product, purchasing power parity, economic growth, economic reforms, level of development.*

Scopul cercetării în cauză constă în a monitoriza evoluția economiei Republicii Moldova la nivel macroeconomic în perioada tranziției la economia de piață și de a urmări drumul parcurs de ea în comparație cu alte state emergente. Metodologia cercetării constă în selectarea din topul țărilor publicate de către UNDP (Human Development Report) și compararea rezultatelor obținute de țările în tranziție la economia de piață prin intermediul indicatorului Produsul Intern Brut (PIB) la Paritatea Puterii de Cumpărare (PPP constant 2011 internațional \$). Rezultatele obținute corespund scopului propus de a evalua parcursul țării noastre în comparație cu alte state în curs de dezvoltare în perioada 1990-2012, fără a face referire la cauzele care au influențat evoluția acestora.

Cuvinte-cheie: *Produsul Intern Brut, paritatea puterii de cumpărare, creșterea economică, reforme economice, nivel de dezvoltare.*

(PPP constant 2011 international \$).

1990-2012,

JEL Classification: O11, O47, O57.

Introduction. In the early '90s, the Republic of Moldova, gaining independence and forming as a sovereign state, like other states of the former socialist camp started economic reforms; the strategic goal was to create a free and democratic society with a functioning and sustainable market economy. Underlying these reforms were put two documents: Parliament Decision of 25 July 1990 "On the concept of transition to a market economy" and "Program of transition to a market economy in Moldova" (1991). According to these documents, Moldova had to cross the path to a market economy in a period of

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approximate 1-2 years. But reality proved to be different. Inaccurate estimates on real capabilities of the new state and potential of development, did not help to identify clear objectives for development and safe paths of gradually access of Moldova to European structures, on the contrary, they have led to exaggerated expectations illusory economic growth.

Difficult conditions of the reforms at the initial stage, as a result of sudden collapse of the economic system of the former Soviet Union, generated major problems to ensure effective and rapid economic transformations. In result, costs of these transformations proved to be incomparably higher than was assumed.

In order to improve socio-economic situation, Moldova, like other countries in transition, during this period benefited by major financial aid from rich countries. These grants have contributed greatly to adapt Moldova to the new market conditions, development and prosperity.

And yet, during the countries in transition were too different, as the results obtained by them. There were selected 27 developing countries, which in 1989, 1990 started economic reforms (Table 1). They are arranged in order by the level of economic development (GDP per capita after PPP) at that time. This indicator was chosen because it is one of the main components of the HDI (Human Development Indicator) and it, in fact, characterized the economic development of any country.

Table 1

**Comparative data regarding GDP per capita
by purchasing power parity (PPP) in developing countries**

	GDP by purchasing power parity (PPP – 2011, thousands USD)										
	1990		2000		2005		2010		2012		2012 as against 1990, (+) advances, (-) falls in the top
	thousands USD	top place	thousands USD	top place	thousands USD	top place	thousands USD	top place	thousands USD	top place	
Russian Federation	19.3	1	13.2	7	18.1	7-8	21.7	5	23.2	6	
Czech Republic	18.4	2-3	19.5	2	23.9	2	26.6	2	26.7	2	(0,-1)
Slovenia	18.4	2-3	22.1	1	26.3	1	28.0	1	27.4	1	(+1,+2)
Hungary	17.0	4	17.7	3	22.0	3	22.0	4	22.1	7-8	(-3,-4)
Estonia	15.9	5	14.5	5	20.9	4	21.1	6	24.2	4	+1
Lithuania	15.7	6	11.9	8	18.3	6	20.7	8	23.6	5	+1
Slovakia	15.3	7	15.3	4	19.5	5	24.4	3	25.5	3	+4
Serbia	13.9	8	7.8	15	10.2	15	11.5	16	11.6	18	-10
Latvia	13.6	9	11.5	9	18.1	7-8	18.6	10	21.2	10	-1
Kazakhstan	12.7	10	9.7	11-12	15.6	10	19.6	9	21.5	9	+1
Romania	11.3	11	9.8	10	13.7	11	16.6	11	16.9	12	-1
Ukraine	10.5	12	4.8	20	7.3	19	7.9	21	8.3	21	-9
Macedonia	10.2	13	9.1	14	9.6	16	11.4	17	11.7	17	-4
Poland	9.9	14	14.2	6	16.7	9	21.0	7	22.1	7-8	(+6,+7)
Bulgaria	9.7	15	9.2	13	12.7	12	15.2	14	16.7	13	+2
Azerbaijan	8.5	16	4.5	21	8.1	17	16.0	12	15.9	14	+2
Turkmenistan	8.4	17	5.4	18	6.5	21	10.0	18	12.5	16	+1
Belarus	8.1	18	7.3	16	10.9	14	15.7	13	17.2	11	+7
Georgia	8.0	19	3.3	22	4.7	23	6.0	23	6.7	23	-4
Republic of Moldova	6.4	20	2.3	25	3.3	24	3.9	25	4.1	25	-5
Albania	4.2	21	5.0	19	6.8	20	8.9	20	9.2	19-20	(+1,+2)
Armenia	3.7	22	2.9	23	5.3	22	6.5	22	7.3	22	(0,0)
Tajikistan	3.6	23	1.2	27	1.7	27	2.1	27	2.3	27	-4
Kyrgyzstan	3.5	24	2.1	26	2.4	26	2.8	26	2.8	26	-2
Uzbekistan	3.0	25	2.5	24	3.0	25	4.2	24	4.7	24	+1
Montenegro	-	-	9.7	11-12	11.1	13	13.7	15	14.0	15	x
Bosnia and Herzegovina	-	-	6.1	17	7.7	18	9.1	19	9.2	19-20	x

Assign degree of development of countries by size of GDP per capita											
Highly developed countries	28.7	X	35.1	X	38.1	X	39.1	X	40.4	X	X
Developed countries	5.7	X	6.8	X	8.8	X	11.8	X	12.9	X	X
Countries with average development level	2.7	X	3.5	X	4.2	X	5.4	X	5.9	X	X
Least developed countries	2.0	X	2.0	X	2.3	X	2.7	X	2.8	X	X

Source: International human development indicators (<http://hdrstats.undp.org/en/indicators/62006.html>).

As it's shown in the table, it's evident particularly high difference in the level of development of the country from the first (Russian Federation) and last place (Uzbekistan), which was 6.4 times.

If it analyzes the evolution of the countries included in the table it's observed that over the next 25 years, the difference in the level of development of the country from the first (Slovenia with 27.4 thousand USD) and last place (Tajikistan with 2.3 thousand USD) did not decrease, but rather increased by 11.9 times.

Several countries (Ukraine, Georgia, Moldova, Tajikistan and Kyrgyzstan) so far have not reached the initial level of economic development (up to the start of reforms). Mainly these countries are located on the last places in the ranking of the top. We should note that the evolution of Moldova was one of the most unsuccessful of all countries concerned. It gradually slipped from number 20 in 1990 to 24 in 2005 and to 25 in 2012. As a result, the country was further distanced from the level of development of most countries. If in 1990 the GDP per capita was produced in country in amount of 6400 USD or 33% of the level of the developed countries in the top (Russian Federation) and in 2012 occurred only 4100 USD what to Slovenia's GDP (the highest level in the last year of assessment) it is only 15%.

Moldova is not better positioned in comparison with its neighbors. Thus, if in 1990 the correlation between GDP per capita in Moldova was about 57% against Romania and 61% - compared to that of Ukraine, then in 2012 this ratio was only 24% and 49%, respectively. And if in the not so distant past it was established with regret that we are the second lowest in Europe and that only Albania was less developed than us, then now certainly Moldova is on the last place and Albania, a country with a GDP per capita amounted to 9.2 thousand USD is far ahead of us.

About that how the national economy has evolved from 1990 to the present, but also the evolution of the neighboring countries: Romania, Ukraine and Belarus is shown in Figure 1.

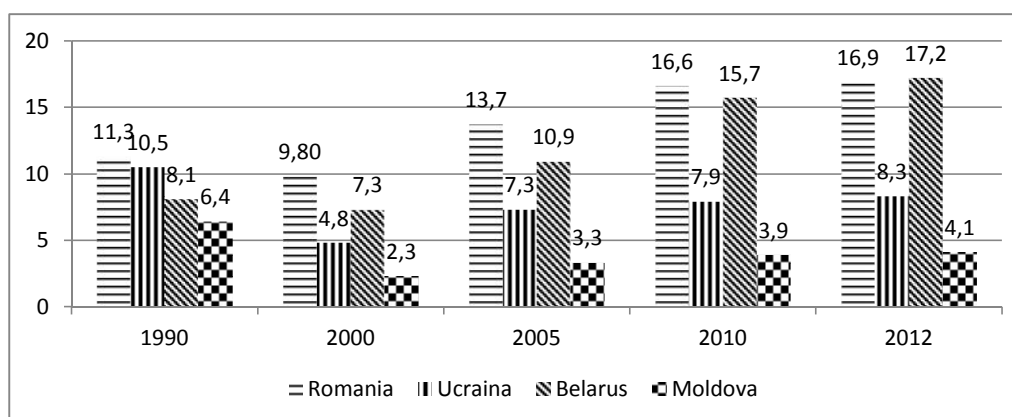


Fig. 1. Evolution of GDP per capita by purchasing power parity (PPP) in Moldova in comparison with other countries in the region (thousands of USD)

Source: Developed by authors based on UNDP data.

Looking at the picture, as a whole (Table 1), we can find that according to the classification of the UNDP selected country does not refer to category **highly developed** (with a GDP per capita of over 40.4 thousand USD). In the category of **developed countries** (with a GDP per capita from 12.9 thousand USD to 40.4 thousand USD) were included 15 countries (Slovenia, Czech Republic, Slovakia, Estonia, Lithuania, Russia, Hungary, Poland, Kazakhstan, Latvia, Belarus, Romania, Bulgaria, Azerbaijan, Montenegro) among the countries with **medium level of development** (with a GDP per capita from 5.9 to 12.9 thousand USD) are 8 countries (Turkmenistan, Macedonia, Serbia, Albania, Bosnia and Herzegovina, Ukraine, Armenia, Georgia) and **Lesser Develop Countries** (with a GDP per capita from 2.8 up to 5.9 thousand USD) was included 4 countries (Moldova, Tajikistan, Kyrgyzstan and Uzbekistan).

In the category of countries with the best performance during the covered period part Belarus – ensuring ongoing increase GDP by about 2.4 times and 7 – steps advancement in the top, Poland – increased by 2.2 times (+6,7 steps), Slovakia (+4 steps), Azerbaijan (+2 steps), Bulgaria (+2 steps).

Among the countries that have yielded the most, noted: Serbia (-10 steps), Ukraine (-9 steps), Russia (-5 steps), Moldova (-5 steps), Macedonia (- 4 levels), Hungary (-3, 4 steps).

According to the logic a country with a low level of development usually should develop more accelerated pace than those with a high level of development. The poise of a growth percentage is much higher. But in our case this was not happen. So Moldova lost much of its ability to grow moving last in Europe.

As a result, after a quarter century of reforms, the country's economy according to statistical data produces only about 2/3 of GDP that we have after start reforms (Figure 2) which is identified with GDP by PPP.

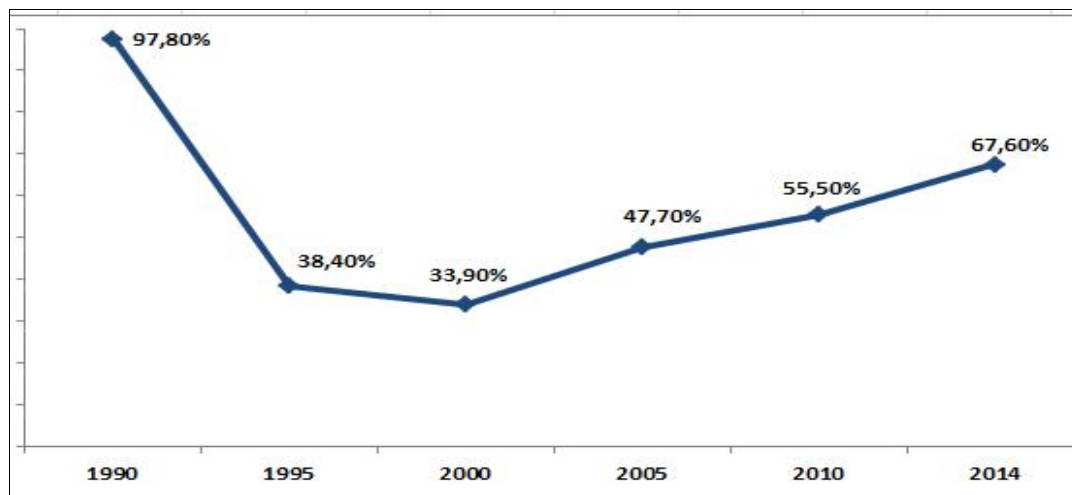


Fig. 2. Evolution of the gross domestic product of the Republic of Moldova during 1990-2014 as a percentage against of 1989

Source: Prepared based on statistical data of those years.

Conclusions. From the analysis the following conclusions can be made:

For Moldova, broadly, it might say that during transition to a market economy, the recession has lasted too long, the damage produced after the changes were too high and growth rates in the period of economic recovery (since 2000) were not sufficient to recover these losses, which occurred mainly in the early years of transition (1989-1994).

It is clear that much of the blame for this situation lies with inefficient governance of the state by the political classes. Given into account the socio-economic situation in the country and instituted perpetuation of the past development model would be a great danger to the economy. The political class is obliged to react promptly to change the situation. It's requires to implement other models of economic development, because this country geographically located in the center of Europe, according to the actual state of development, found itself between two countries that belong to another regions of the world.

Like this, in general, referring to the source "Human Development Report", might qualify current situation in Moldova. Thus, according to the source [1], [2], after the Human Development Index, the Republic of Moldova in the last two years has yielded five positions in 2013 with 0.663 index is placed 116th, between Bolivia and Salvador and from the former Soviet Union below the level of development of Moldova is only Kyrgyzstan (126) and Tajikistan (134).

To leave the group of Lesser Developed Countries and enter in the list of countries with a medium level of development, Moldova must have a GDP per capita higher than the 25-30 percent it currently has (according to preliminary data in 2014 GDP [4] per capita was 4.7 thousand USD); this requires the rapid advancement with annual average pace of 6.5% over the next four years.

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