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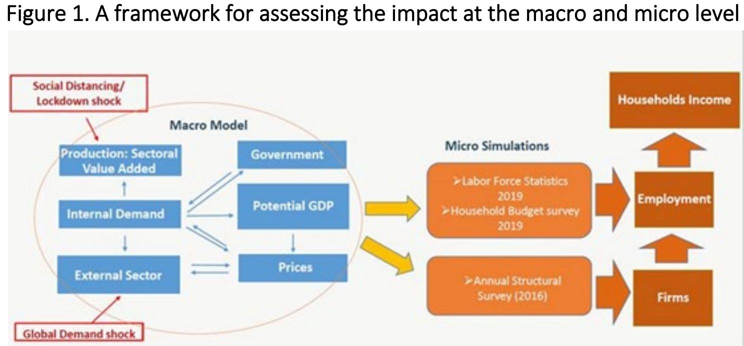
Moldova: Assessing the impact of COVID-19 and the drought on jobs, firms, and households

In 2020, Moldova has been simultaneously hit by COVID-19 pandemic and one of the most severe droughts in the past two decades. This twin shock is expected to have a heterogenous impact across households, firms, sectors and geographical areas. Employment is expected to drop by almost 8 percent in 2020, with an estimated 70,000 jobs lost, of which the majority in trade and hospitality,[1] followed by agriculture and industry. Young workers and micro firms are expected to be affected the most. Given such a heterogeneous impact, it is key to tailor and target Government response to the most vulnerable workers and households, and the most affected sectors and firms, to effectively mitigate the impact of the crisis and support the economic recovery.

COVID-19 and the severe drought are expected to push Moldova into a deep recession in 2020

The 2020 twin shock is expected to result in a severe recession with real GDP falling by 7.2 percent in 2020. COVID-19 cases have reached over 135,000 with more than 2,700 deaths in 2020,[2] creating health and social emergencies and putting a great strain on the economy. The needed containment measures both at national and international levels have both compressed demand and contained production and trade, affecting firms, employment and household income. In addition, the most severe drought since 2000 has hit the country, with agricultural production falling by more than 30 percent in the third quarter compared to the same period in 2019.

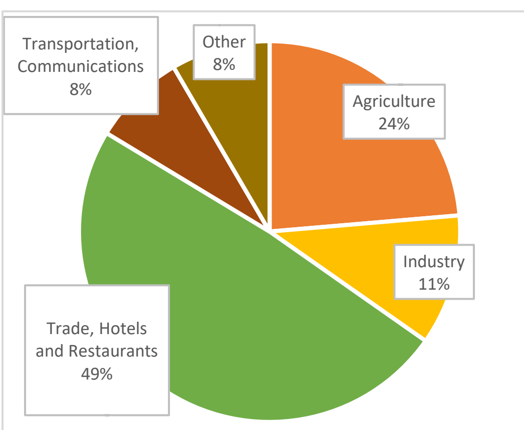
Figure 1. A framework for assessing the impact at the macro and micro level



Source: World Bank staff.

Job losses are expected to be unequally distributed across households, sectors, and regions

Figure 2 Share of expected Job Losses by Sector, 2020



Source: World Bank staff estimates based on 2019 LFS.

Employment is expected to drop by almost 8 percent in 2020. Almost 70,000 jobs are expected to be lost, predominantly in trade and hospitality, industry, transport (mostly formal) and agriculture (mostly informal). These estimates are based on simulations using a macrostructural model that forecast sectoral gross value-added growth, which feeds into the 2019 Labor Force Survey (LFS) to simulate the impact at a micro level (Figure 1). Chisinau is expected to be the most affected area with almost 40 percent of overall job losses, followed by the North and Center regions (23 percent each). By complementing the analysis with the 2019 Household Budget Survey (HBS) data, the model shows that the bottom deciles would likely bear most of the burden in the Center and the South, while the top forth deciles would likely be the most affected in Chisinau. In terms of age group, young workers (25-34 years of age) are expected to bear the brunt of the crisis and together with 35-44-year-old workers represent more than half of total job losses.

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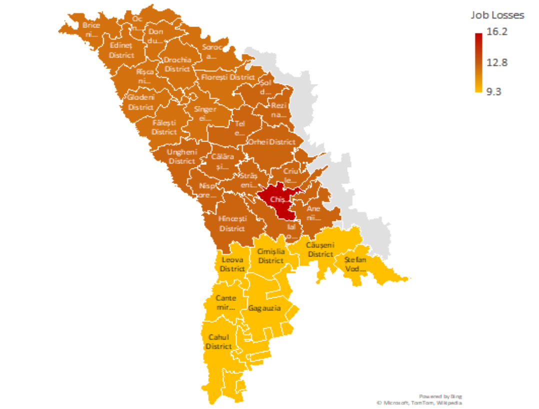
[1] Hospitality includes Food, lodging, travel, tourism and recreation.

[2] Update as of December 20th, 2020.

Many firms, especially micro firms, would have to cut costs and jobs to remain profitable

Figure 3 Expected Job Losses by Region (% of Employment), 2020

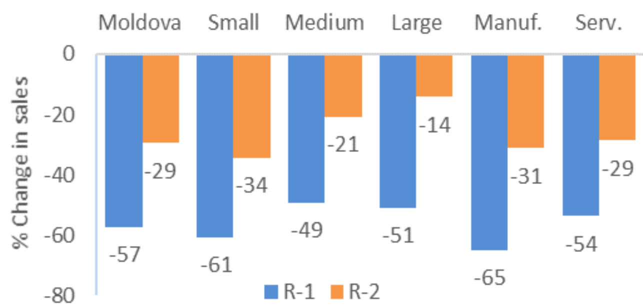


Source: World Bank staff estimates based on 2016 ASA

Even with an adjustment of intermediate costs to make up for reduced sales, still almost half of firms, mostly micro, may need to cut other costs, including labor costs, to remain profitable. Using the sectoral gross value-added growth forecast, we simulate the impact on sales and profits through the 2016 Annual Structural Survey. Assuming that firms can adjust some of their intermediate costs to make up for diminished sales, the operating profits are still expected to drop by more than 20 percent in 2020. While large firms are expected to experience the largest decline in profits, the microsimulation predicts that micro firms (0-4 employees), mainly in trade and hospitality sector in Chisinau,[3] will be forced to adjust the most of their labor costs to remain profitable.

While the impact of the crisis appears to be waning, firms have become more pessimistic

Figure 4. Average change in monthly sales compared to prior year for the two rounds of the surveys (%)



Note: The R-1 series shows average change in monthly sales in May 2020 vs. May 2019, and R-2 shows average change in monthly sales in October/November 2020 vs. October/November 2019.

While the private sector sees the impact of the crisis weakening, it has become more pessimistic about the future. The two rounds of enterprise surveys[4] conducted in Moldova show that in May respondents were expecting to reach an average year-to-year decline in sales of 57 percent, while the same firms in November expect to see only half of that decline, at about 30 percent, as firms continue to adapt to the changing circumstances. However, firms have become more pessimistic. When surveyed in May, firms expected to return to a normal level of sales by November 2020. When asked again in November, the timeline to return to normal levels of sales has increased by an additional 7 months, with an average return to normalcy only in mid-2021.

More and better targeted support is needed for a resilient recovery.

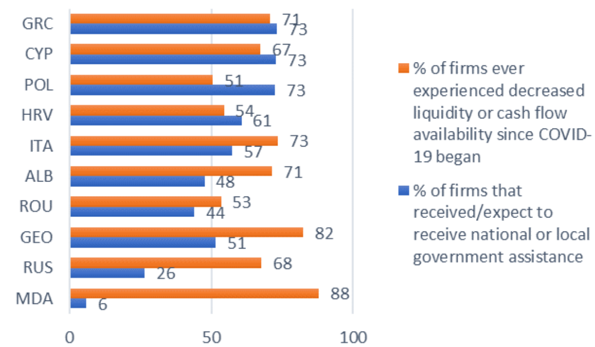
Both the magnitude and the composition of the Government response can play a critical role for a swift and resilient recovery. Strengthening social assistance is essential to reach the most vulnerable workers and households during this crisis, as more and more households see their sources of income significantly reduced. According to the 2020 HBS, 17 percent of households reported a reduction or loss of income from work, 8.3 percent a reduction or loss of remittances from abroad, and 3.6 percent the withholding of salaries, pensions, and social benefits. Support to businesses should also increase and be targeted towards the most affected sectors and firms. The enterprise survey shows that firms perceive the Government response to be insufficient, considering the severe liquidity constraints they are experiencing. As of November

[3] The 2016 ASA covers about 50 percent of LFS employment data and excludes informal employment and the agriculture sector.

[4] In 2019, after 5 years from the last round, a representative sample of 360 Moldovan firms were surveyed as part of the Enterprise Survey (ES) project. The survey does not cover Transnistria. A series of follow-ups to the 2019 survey is underway to assess the impact of COVID-19 on firms and employment. For info about the ES, visit the website [www.enterprisesurvey.org.](http://www.enterprisesurvey.org)

2020, almost 90 percent of firms report that they have experienced a decrease in liquidity or cash flow since the beginning of COVID-19, and an increasing number of firms had to delay payments. However, only 6 percent of surveyed firms, mostly medium and large companies, received government support since the pandemic started, or expect to do so. Among the respondents, 31 percent of the firms in Moldova did not know that assistance opportunities existed, while 22 percent did not qualify. Although the percentage of firms receiving assistance has doubled since May 2020, it remains the lowest in Europe and Central Asia.

Figure 5. The impact on firms' liquidity and access to government's support



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