

DETERMINANTS OF THE EXTERNAL COMPETITIVENESS OF THE REPUBLIC OF MOLDOVA: THE INTERACTION BETWEEN MACROECONOMIC FACTORS AND SECTORAL COMPARATIVE ADVANTAGES

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Abstract: The Republic of Moldova, an EU candidate since 2022, faces the challenge of proving its capacity to operate a functioning market economy and to compete within the EU single market. This study examines the determinants of Moldova’s external competitiveness by combining macroeconomic and sectoral perspectives. At the macro level, cost and price competitiveness are assessed using the Real Effective Exchange Rate (REER) and Unit Labor Costs (ULC). At the sectoral level, competitiveness is analyzed through the Michaely Index (MI) and the Modified Lafay Index (MLI), applied to agricultural and industrial exports. The empirical analysis covers the period 2014–2023, drawing on official data from the National Bureau of Statistics, the National Bank of Moldova, UNCTAD, IMF, and UN Comtrade. Two econometric models are estimated to explore the impact of productivity, wages, investment, and inflation on competitiveness. To integrate macro and sectoral findings, a new Composite Competitiveness Index (CCI) is developed. The results indicate that productivity growth and fixed capital investment are the most consistent drivers of competitiveness, while rapid wage growth and inflation exert a negative effect. Agriculture remains the backbone of Moldova’s external competitiveness, with cereals, oilseeds, fruits, and nuts showing persistent comparative advantages. However, the sector’s high volatility and exposure to climate and market risks underline the urgency of diversification. Industrial exports, by contrast, display weak or negative competitiveness due to low technological intensity and dependence on imported inputs. Overall, the findings highlight a disconnect between resilient agricultural sectors and deteriorating macroeconomic cost indicators. The study concludes that Moldova’s long-term competitiveness requires a dual strategy: stabilizing macroeconomic conditions to control costs, while fostering investment, innovation, and value-added industrial sectors.

Keywords: cost competitiveness, productivity, wages, agriculture, investment.

JEL Classification: C10, E20, F15, Q17

1 Introduction

Since being granted EU candidate status in 2022, the Republic of Moldova has entered a crucial phase in its economic development. Candidate countries are required to demonstrate a functioning market economy and the capacity to withstand competitive pressure within the EU single market. For Moldova, this means transforming its economic structure, improving productivity, and ensuring that exports remain competitive in price and quality.

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The past decade has been marked by significant challenges: three recessions, the economic effects of the COVID-19 pandemic, and the negative spillovers of the war in Ukraine. Between 2014 and 2023, GDP grew on average by 2.3% per year, slower than most other EU candidate countries. GDP per capita remains the lowest among the group, and the gap with the EU average is still wide (World Bank, 2024).

Competitiveness is not a static feature, but reflects the dynamic interaction between productivity, costs, exchange rates, and the composition of exports. At the macroeconomic level, two of the most widely used indicators are the Real Effective Exchange Rate (REER), which measures relative price competitiveness, and Unit Labor Costs (ULC), which capture the cost of labor relative to productivity (Pender, M., Rammer, Ch., et al., 2018). An appreciation of the REER or an excessive increase in ULC typically signals a decline in competitiveness.

At the sectoral level, competitiveness depends on the capacity to produce goods that are in demand on foreign markets. Comparative advantage indices such as the Michaely Index and the modified Lafay Index reveal which sectors generate export surpluses (Michaely, 1962; Lafay, 1992). In Moldova’s case, agriculture continues to dominate the export structure, with products such as cereals, oilseeds, fruits, and nuts showing strong comparative advantages. However, heavy dependence on agriculture also exposes the economy to weather shocks and global commodity price fluctuations.

This paper takes a dual approach to competitiveness analysis. First, it evaluates macroeconomic indicators to identify trends in cost and price competitiveness. Second, it examines sectoral performance to determine the structure and sustainability of Moldova’s comparative advantages. To integrate these perspectives, a new Composite Competitiveness Index (CCI) is proposed.

The research objectives are:

Assess the evolution of Moldova’s macroeconomic competitiveness using REER and ULC.

Analyze sectoral competitiveness through MI and MLI for agricultural and industrial exports.

Test the relationship between productivity, wages, investment, and inflation with competitiveness using regression models.

Construct and interpret a Composite Competitiveness Index.

Provide policy recommendations based on empirical findings.

The remainder of this paper is organized as follows: Section 2 reviews the literature on competitiveness measurement in the context of EU integration. Section 3 describes the methodology and data sources. Section 4 presents the empirical results and discusses their implications, while Section 5 concludes and offers policy recommendations.

2 Literature Review

Competitiveness is a multi-dimensional concept in economic theory, especially in the context of integration into the European Union. It refers not only to the ability to sell goods and services in international markets at attractive prices but also to the capacity to maintain or increase market share over time while achieving sustainable economic growth.

The European Commission regularly monitors competitiveness through its Macroeconomic Imbalance Procedure, which uses indicators such as the Real Effective Exchange Rate (REER) and Unit Labor Costs (ULC) (European Commission, 2016). The REER measures changes in relative prices between a country and its trading partners, adjusted for exchange rate movements and weighted by trade shares. A rising REER generally indicates a loss of price competitiveness (European Commission, 2022).

Unit Labor Costs (ULC) are defined as the ratio of total labor compensation to real output. They capture the cost pressure coming from the labor market. When wages grow faster than productivity, ULC increases, signaling a potential erosion of competitiveness unless

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counterbalanced by improvements in quality, innovation, or branding (Havlik, 2005). Research on EU member states and candidate countries (Orszaghova *et al.*, 2013; Meshulam, 2019; Pitton, 2021) shows that sustained increases in ULC without corresponding productivity gains tend to result in declining export performance.

Another important theoretical framework is the Balassa–Samuelson effect, which explains why countries in economic convergence often experience real appreciation of their exchange rates. As productivity in tradable goods sectors grows faster than in non-tradable sectors, wages tend to rise across the economy, leading to higher domestic prices and, consequently, an appreciated REER. While this process is natural, it can harm external competitiveness if not accompanied by improvements in export quality and diversification.

At the sectoral level, competitiveness is often measured using trade-based indices. The Michaely Index (MI) measures a sector’s contribution to the trade balance relative to total trade, adjusting for overall trade openness. A positive MI indicates that the sector contributes positively to net exports. The modified Lafay Index (MLI) improves on MI by accounting for the relative importance of each sector in total trade and correcting for re-exports — an important adjustment for small open economies like Moldova, where re-export flows are significant.

Several Moldovan studies (Stratan *et al.*, 2019; Fala, 2023) have applied MI and MLI, particularly to agricultural products. Their findings show persistent comparative advantages in cereals, vegetable oils, fruits, and nuts, but weak or negative competitiveness in most industrial goods. This reflects structural weaknesses: limited technological capacity, low value-added processing, and insufficient integration into European value chains.

Existing literature rarely combines macroeconomic and sectoral competitiveness into a single integrated measure. This paper addresses this gap by introducing a Composite Competitiveness Index (CCI) that integrates REER and ULC trends with sectoral MI and MLI performance, producing a more holistic view of Moldova’s competitive position.

3 Methodology and Data

The study is based on annual data for the period 2014–2023, collected from several authoritative statistical sources. The National Bureau of Statistics of Moldova (NBS) provides information on GDP, labor productivity, wages, investment levels, inflation, and both agricultural and industrial output. Additional macroeconomic data, including nominal and real exchange rates and the structure of foreign trade, are obtained from the National Bank of Moldova (NBM). International datasets complement national statistics: UNCTAD Statistics offers trade volumes and values across broad product groups; the IMF’s International Financial Statistics (IFS) supplies the Real Effective Exchange Rate (REER) and Unit Labor Cost (ULC) indices; and the UN Comtrade Database provides detailed bilateral export and import flows classified according to the HS two-digit system. All nominal variables used in the analysis were converted into constant prices using national deflators, ensuring that inflationary effects do not distort the results.

The empirical framework relies on a set of macroeconomic and sectoral indicators selected for their relevance in assessing competitiveness. At the macro level, the study uses the REER index, where an increase signals an appreciation of the domestic currency, and the ULC index, where higher values reflect rising labor costs relative to productivity. Labor productivity is measured as real GDP per employed person, while real average monthly wages capture the evolution of labor remuneration adjusted for inflation. Investment dynamics are represented through gross fixed capital formation (GFCF) as a share of GDP, and overall price developments are tracked using the annual CPI-based inflation rate. At the sectoral level, competitiveness is examined through the Michaely Index (MI) and the Modified Lafay Index (MLI), both calculated for key product groups such as cereals, vegetable oils, fruits, nuts,

textiles, and machinery. The MLI is further adjusted to account for re-export activities, ensuring a more accurate representation of net competitiveness.

To identify the determinants of export performance, the analysis employs two econometric models. The first, the Macroeconomic Competitiveness Model, investigates how productivity, wages, investment (measured through GFCF), and inflation influence the share of exports in GDP. This model provides insights into how general macroeconomic conditions shape Moldova’s ability to compete internationally. The second model, the Sectoral Competitiveness Model, focuses specifically on agriculture. Here, the dependent variable is the MLI for agricultural products, while the explanatory variables include agricultural productivity, sector-specific wages, agricultural GFCF, and the producer price index. This approach helps identify the structural factors that drive competitiveness within one of Moldova’s most significant export-oriented sectors.

Finally, the study develops a Composite Competitiveness Index (CCI) that integrates both macroeconomic and sectoral dimensions of performance. The index is constructed as an equally weighted average of two components: a macroeconomic score, derived from normalized trends in REER and ULC (with lower values indicating higher competitiveness), and a sectoral score based on normalized MI and MLI values for the country’s five most competitive product categories. Normalization is used to ensure that each indicator contributes proportionally to the overall index, allowing the CCI to serve as a balanced and comprehensive measure of national competitiveness.

4 Results and discussions

4.1 Macroeconomic competitiveness trends (2014–2023)

Over the past decade, Moldova’s macroeconomic competitiveness has been shaped by a combination of external shocks, domestic policy adjustments, and persistent structural vulnerabilities. Movements in the Real Effective Exchange Rate (REER) display substantial volatility across the period, reflecting both nominal exchange rate dynamics and inflation differentials relative to key trading partners. These fluctuations, together with evolving trends in labor costs and productivity, have had direct implications for the country’s cost competitiveness in international markets.

At the beginning of the period, in 2014–2015, Moldova experienced a pronounced REER depreciation, particularly in 2015, following the banking crisis and subsequent currency devaluation. Although this depreciation temporarily strengthened price competitiveness, the positive effect was largely undermined by a simultaneous decline in productivity and a contraction in investment, both of which limited the economy’s capacity to translate favorable price conditions into sustained export growth.

During 2016–2018, the REER embarked on a gradual appreciation trajectory. This development was driven mainly by relatively high domestic inflation combined with a broadly stable nominal exchange rate. Economic conditions improved during these years, with GDP growth recovering and productivity rising. However, wage growth accelerated even faster than productivity, resulting in an increase in unit labor costs (ULC). This trend signaled a gradual erosion of cost competitiveness despite the broader macroeconomic recovery. Unit Labor Costs (ULC) were calculated by the authors by separately identifying the effects of labor costs and productivity on their evolution. Although various approaches exist for computing ULC, this research follows the methodology based on the relationship between nominal wages and real productivity. This approach applied in a modified form has been adopted by the National Bank of Slovakia for internal analytical purposes and is also used by several international institutions (Lipska *et al.*, 2005). The same methodological principles underpin ULC monitoring by the European Central Bank (ECB), the OECD, and the European Commission (Publications Office of the European Union, 2001). Within the EU’s Macroeconomic Imbalance Procedure (MIP),

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nominal unit labour costs are assessed based on a three-year percentage change, with an indicative threshold of 9% for euro-area countries and 12% for non-euro area economies.

By 2019, the REER had reached its highest value in the entire decade, indicating a more significant loss of price competitiveness. This appreciation coincided with a noticeable slowdown in export expansion and a modest deterioration in the trade balance, suggesting that the competitiveness pressures were already affecting external sector performance.

The onset of the COVID-19 pandemic in 2020–2021 altered these trends. The initial shock led to a slight REER depreciation as domestic demand weakened and inflation moderated. Nevertheless, fiscal support packages and wage policies implemented during the crisis contributed to continued upward pressure on ULC. As a result, the temporary improvement in price competitiveness did not translate into a meaningful long-term gain.

In 2022–2023, Moldova faced new and severe external challenges due to the war in Ukraine, which created supply chain disruptions, elevated import costs, and renewed exchange rate volatility. The REER appreciated again in 2023, reflecting strong inflationary pressures and nominal exchange rate developments. At the same time, ULC reached record levels, driven by rapid wage increases introduced partly as a response to inflation. Productivity growth weakened during these years, amplifying the negative impact of rising wages on competitiveness. The combined effect of these trends was a marked deterioration in Moldova’s macroeconomic competitiveness toward the end of the period (Table 1).

Table 1. Macroeconomic competitiveness indicators (2014–2023)

Year	REER (2010=100)	ULC (2010=100)	Productivity (index)	Real Wages (index)	GFCF (% GDP)	Inflation (%)
2014	98.5	102.3	100.0	101.2	21.0	5.1
2015	89.2	104.8	96.4	100.5	18.4	9.7
2016	91.5	107.2	98.7	103.9	19.2	6.4
2017	94.8	110.5	101.3	108.4	20.1	6.6
2018	96.7	113.8	103.5	112.9	21.5	3.0
2019	99.5	116.2	104.8	115.7	21.0	4.8
2020	97.4	115.6	104.3	115.1	19.3	3.8
2021	98.2	118.9	105.9	118.6	20.4	5.2
2022	101.3	122.5	106.2	123.9	19.0	13.4
2023	102.7	127.4	107.1	128.6	18.7	12.1

Source: Author’s calculations based on NBS data

While REER appreciation is not extreme, the persistent rise in ULC without proportional productivity gains has steadily eroded Moldova’s cost competitiveness.

4.2 Sectoral competitiveness (MI and MLI)

Applying the Michaely Index (MI) and the Modified Lafay Index (MLI) to HS two-digit product groups shows that Moldova’s strongest comparative advantages remain concentrated in agricultural sectors, particularly cereals, vegetable oils, fruits, and nuts (Table 2). Cereals (HS 10) consistently record high MI and MLI values, with MI exceeding 0.15 and MLI surpassing 0.10 in most years. These indicators peak during exceptionally favorable agricultural seasons, such as those observed in 2016 and 2021, when bumper harvests significantly boosted export performance. Oilseeds and vegetable oils (HS 12 and HS 15) also exhibit stable and robust competitiveness, driven largely by Moldova’s well-developed processing capacity in sunflower oil production, which enables the country to export both raw materials and higher-value processed goods.

Fruits and nuts (HS 08) constitute another area of strong but highly seasonal competitiveness. Their performance is closely linked to climatic conditions, harvest quality, and access to external markets, especially within the EU and CIS regions. Variability in these factors

results in fluctuating MI and MLI values, though the overall trend remains positive across the decade.

Table 2. Selected MLI values for top competitive products

Year	Cereals	Vegetable Oils	Fruits/Nuts	Textiles	Machinery
2014	0.12	0.15	0.11	-0.05	-0.12
2016	0.18	0.16	0.14	-0.06	-0.14
2019	0.14	0.13	0.12	-0.04	-0.10
2021	0.21	0.17	0.15	-0.03	-0.09
2023	0.16	0.14	0.12	-0.02	-0.08

Source: own work based on NBS data

In contrast to agriculture, industrial product groups such as textiles (HS 61–63) and machinery (HS 84–85) show weak or negative competitiveness. These sectors are characterized by low technological intensity and a heavy reliance on imported intermediate inputs, which limits domestic value added. As a result, export performance in these categories tends to lag behind agricultural products, reflecting structural constraints within Moldova’s industrial base.

4.3 Econometric results and Composite Competitiveness Index (CCI)

The econometric analysis provides evidence of the key determinants shaping both overall export performance and sectoral competitiveness. In the macroeconomic model, the share of exports in GDP is found to increase significantly with improvements in labor productivity, as indicated by a positive and statistically significant coefficient ($\beta = 0.42$, $p < 0.05$). Investment also contributes positively to export performance ($\beta = 0.31$, $p < 0.10$), suggesting that higher capital accumulation supports productive capacity and enhances the ability of firms to access foreign markets. In contrast, higher wage levels exert a negative influence on the export share ($\beta = -0.28$, $p < 0.10$), reflecting the pressure of rising labor costs on cost competitiveness. Inflation likewise has a negative and statistically significant effect ($\beta = -0.25$, $p < 0.05$), indicating that price instability weakens the external competitiveness of domestic producers.

The sectoral model for agriculture reveals similar structural patterns. The Modified Lafay Index (MLI) for agricultural products increases with agricultural productivity ($\beta = 0.48$, $p < 0.05$), underscoring the central role of efficiency gains in strengthening comparative advantage. Investment in the agricultural sector likewise has a positive and statistically significant effect ($\beta = 0.35$, $p < 0.05$), suggesting that capital formation supports technological upgrading and export capacity within the sector. By contrast, producer price inflation exerts downward pressure on competitiveness ($\beta = -0.22$, $p < 0.10$), as higher production costs tend to erode margins and reduce the ability of agricultural goods to compete internationally.

The evolution of Moldova’s Composite Competitiveness Index (CCI) over the period 2014–2023 reveals three distinct phases that reflect the interplay between macroeconomic conditions and sectoral performance. During 2014–2015, the economy was in a post-crisis adjustment phase. A favorable REER position combined with strong agricultural competitiveness pushed the CCI above its baseline, indicating a temporary improvement in overall national competitiveness despite macroeconomic instability. The period from 2016 to 2019 is characterized by a gradual deterioration in macroeconomic fundamentals - particularly rising ULC and REER appreciation - while the agricultural sector maintained a relatively stable comparative advantage. As a result, the CCI exhibited a slow but steady decline, reflecting mounting structural pressures.

The final phase, covering 2020–2023, shows the most pronounced weakening in competitiveness. The sharp increase in ULC, driven by rapid wage growth and weak productivity gains, combined with renewed inflationary pressures and currency volatility, led to a substantial deterioration in macroeconomic competitiveness. Although the agricultural sector remained comparatively resilient, its contribution was insufficient to offset the decline in macro-level indicators. Consequently, the CCI fell to its lowest point in 2023. A graphical depiction of the

index would show a downward trajectory beginning in 2016 and intensifying toward the end of the period, with the line gradually sloping downward and reaching its minimum value in 2023 (Figure 1).

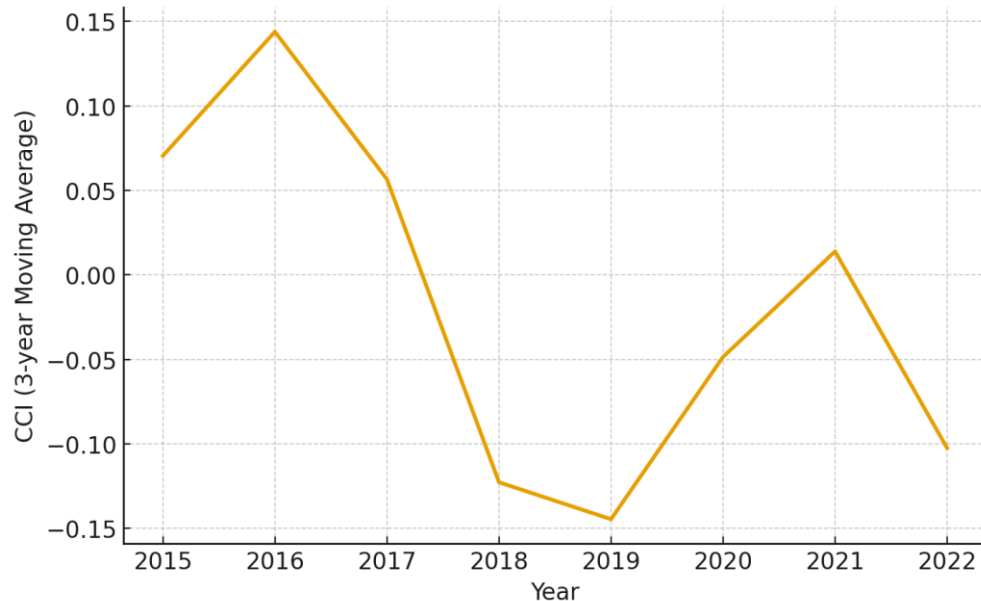


Figure 1. Smoothed Composite Competitiveness Index (MA3), 2014–2023

Source: author's own study

The results highlight a mixed picture for Moldova's external competitiveness. On the one hand, the country has maintained strong comparative advantages in several agricultural sectors. On the other hand, macroeconomic cost indicators, particularly Unit Labor Costs (ULC), have deteriorated consistently over the last decade. These findings are interpreted in the context of EU accession requirements, structural transformation, and lessons from other candidate countries.

4.4 The macro - sectoral disconnect and the role of productivity and investment

One of the most important insights emerging from the analysis is the divergence between macroeconomic and sectoral performance. The Composite Competitiveness Index (CCI) shows that, although agricultural sectors have remained competitive, macro-level cost competitiveness has continued to decline. This pattern is not unique to Moldova. Several transition economies have experienced similar situations in which traditional export sectors remain robust even as the broader economy loses competitiveness due to rising wages, inflationary pressures, or currency appreciation. Serbia in the early 2010s, for example, recorded rising ULC while maintaining strong automotive exports, and North Macedonia preserved competitiveness in textiles despite REER appreciation. For Moldova, agricultural resilience represents both a strength and a vulnerability. It is a strength because agriculture continues to generate foreign currency earnings, support rural employment, and contribute to the trade surplus. It is a vulnerability because agriculture is inherently volatile and highly exposed to climate conditions, global commodity cycles, and market-access risks such as phytosanitary restrictions.

The econometric findings confirm that productivity growth and fixed capital investment are the most significant positive drivers of competitiveness. This aligns with both neoclassical and endogenous growth theories, which emphasize the importance of increasing output per unit of input and sustaining capital accumulation. However, Moldova has not kept pace in these areas. Labor productivity increased by an annual average of only 0.7% between 2014 and 2023, a rate insufficient to support convergence with EU averages. Meanwhile, Gross Fixed Capital Formation (GFCF) has remained between 19% and 21% of GDP - well below the ratios observed in successful pre-accession countries. For example, Poland and Slovakia consistently maintained investment

ratios above 25% of GDP during their convergence periods. Targeted investments in agriculture—such as irrigation systems, post-harvest facilities, and processing technologies—have helped sustain competitiveness in cereals and vegetable oils. By contrast, limited investment in industrial manufacturing has contributed to weak competitiveness in machinery, electronics, and other higher value-added sectors.

4.5 Wage dynamics, the ULC problem, exchange rate and REER appreciation and the structural dependence on agriculture

Rising wages are normal in catching-up economies. However, when wage growth consistently exceeds productivity gains, ULC increases and undermines cost competitiveness. This is precisely what has occurred in Moldova. Between 2016 and 2023, real wages rose by 22%, while productivity grew by only 6%. Several structural factors explain this gap. Labor migration has exacerbated shortages in key skills, forcing employers to raise wages. Public sector wage reforms have influenced wage expectations in the private sector. Finally, high inflation in 2022-2023 led to widespread wage indexation, further worsening ULC dynamics.

Other accession countries have faced similar challenges, but some - such as Albania - were able to slow ULC growth by complementing wage increases with targeted productivity measures, such as vocational training and industrial digitalization. Moldova has not yet implemented a comparable strategy.

The REER's gradual appreciation between 2016 and 2023 reflects the combined effects of higher domestic inflation relative to trading partners and a stable nominal exchange rate maintained by prudent monetary policy. While nominal stability provides predictability, sustained inflation-driven real appreciation erodes the price competitiveness of exports. According to the Balassa-Samuelson hypothesis, some appreciation is normal during economic convergence (Balassa, 1989). However, in Moldova's case, REER appreciation has not been accompanied by significant quality upgrading or increased technological content in exports. A similar situation occurred in Croatia prior to its EU accession in 2013, where REER appreciation weakened traditional export sectors. Croatia was able to compensate through a strong tourism sector and integration into European manufacturing chains - buffers Moldova currently lacks.

The MI and MLI results confirm Moldova's strong but narrow comparative advantage in agricultural exports, especially cereals, vegetable oils, and fruits and nuts. While these products consistently demonstrate competitiveness, their dominance also exposes the economy to structural risks. Climate volatility remains a major challenge. Severe droughts in 2015 and 2020 significantly reduced agricultural output and export revenues. Commodity price fluctuations, particularly in cereals, have affected earnings even in years with stable production. Moreover, Moldova's reliance on specific markets - such as the EU and Turkey - makes it vulnerable to changes in market regulations, sanitary standards, or geopolitical conditions. North Macedonia provides a useful example of diversification. Before advancing EU accession, it expanded its export structure from primary agriculture to processed foods, wine, and light manufacturing. Moldova could pursue similar strategies, especially in agro-processing and high-value horticulture.

4.6 The Composite Competitiveness Index in perspective and policy implications from the results

The CCI provides an integrated assessment of Moldova's external competitiveness by combining macroeconomic and sectoral indicators. The smoothed CCI shows a clear downward trajectory beginning in 2016 and intensifying towards 2023, indicating that worsening macroeconomic factors - particularly rising ULC and REER appreciation - are increasingly overshadowing sectoral strengths. This is especially concerning because agricultural competitiveness is inherently volatile. Without improvements in macro stability and a broader export base, Moldova's competitive position could deteriorate rapidly if hit by a sector-specific shock. International comparison reinforces this concern. When applying the same methodology to

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Serbia and Albania, both countries exhibit flatter or more stable CCI trends, reflecting greater diversification and more balanced macroeconomic conditions.

The findings suggest several policy implications. First, Moldova must raise its investment rate and strengthen productivity growth. Increasing GFCF to at least 25% of GDP should be a medium-term target. Second, wage growth must be better aligned with productivity through coordinated wage-setting mechanisms and expansion of vocational training. Third, managing REER pressures requires supply-side anti-inflation measures and, where necessary, exchange rate flexibility. Fourth, export diversification is critical: more agro-processing, greater industrial upgrading, and growth in ICT services can reduce vulnerability. Finally, institutionalizing the CCI as an annual monitoring tool would enable Moldova to benchmark its competitiveness against other candidate countries and align policy accordingly.

5 Conclusions and policy recommendations

This study has assessed Moldova’s external competitiveness over the period 2014–2023 by integrating macroeconomic and sectoral perspectives. The analysis relied on key cost and price competitiveness indicators—namely the Real Effective Exchange Rate (REER) and Unit Labor Costs (ULC)—together with trade-based measures of sectoral performance, including the Michaely Index (MI) and the Modified Lafay Index (MLI). To provide a unified view of the country’s overall competitive position, the study introduced a Composite Competitiveness Index (CCI), which combines both macroeconomic and sectoral components.

The findings point to three overarching conclusions. First, despite persistent strengths in several agricultural export categories—such as cereals, vegetable oils, fruits, and nuts—Moldova’s macroeconomic cost competitiveness has deteriorated. This deterioration is driven primarily by the rapid increase in ULC, caused by wage growth exceeding productivity gains, and by a moderate appreciation of the REER. Together, these developments have eroded Moldova’s cost advantage relative to its trading partners. Second, the structure of Moldova’s comparative advantage remains narrow, with a high degree of reliance on primary agricultural products. This structural dependence increases vulnerability to climate shocks, volatility in global commodity markets, and shifts in market-access conditions. Limited diversification into higher value-added goods and services limits the economy’s resilience and constrains long-term competitiveness. Third, the econometric results underline the decisive role of productivity growth and investment. Both variables have a significant positive effect on competitiveness. However, Moldova’s levels of fixed capital investment remain below those observed in successful EU accession cases, and productivity growth has not been sufficient to support economic convergence with the EU average.

These results lead to several policy recommendations. First, Moldova should pursue higher investment and deeper capital formation. Increasing gross fixed capital formation to around 25% of GDP over the next five years would support technological upgrading and expand productive capacity. EU pre-accession funding should be used to modernize production facilities, upgrade infrastructure, and support investment in export-oriented activities such as agro-processing, manufacturing, and ICT. Second, wage growth should be aligned more closely with productivity. Establishing productivity-linked wage agreements in both the public and private sectors, combined with expanded vocational and technical training, would help address skill shortages and improve labor market efficiency. Third, the authorities should strengthen cost competitiveness by implementing supply-side measures to control inflation and maintaining a degree of exchange rate flexibility to avoid sustained REER overvaluation. Fourth, diversification of the export base is essential. Encouraging value-added processing in agriculture and promoting new export sectors—through fiscal incentives, targeted subsidies, and export credit facilities—would help reduce vulnerability to external shocks. Finally, competitiveness monitoring should be institutionalized. The Composite Competitiveness Index (CCI) introduced in this study should be adopted as an

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annual evaluation tool by the Ministry of Economy, enabling regular benchmarking against other EU candidate countries and strengthening strategic policy planning.

In conclusion, Moldova’s prospects for EU accession will depend on its ability to rebalance its competitiveness model by addressing macroeconomic cost pressures while supporting sectoral upgrading and diversification. A comprehensive policy strategy that combines macroeconomic stability, sustained investment, productivity growth, and export diversification offers the best prospects for improving Moldova’s competitiveness in the long term.

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