MOLDOVA'S ECONOMIC GROWTH IN A POST-SOVIET CONTEXT

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ABSTRACT

Moldova's post-Soviet transition raises the question of how institutions, trade patterns, and macroeconomic fundamentals interact to shape growth. Studies comparing Eastern Bloc peers trace Moldova's export pivot from Russia toward Romania and other EU members. Moldova's EU-oriented policies, particularly the 2016 Deep and Comprehensive Free-Trade Agreement, have accelerated regulatory harmonization and opened product markets, yet the pace remains uneven. This article applies stepwise linear regression to cross-sectional data from a sample of European countries—including former Eastern Bloc states and current EU members—to identify key predictors of real GDP per capita in 2022 and 2023. Moldova's shift in trade toward the EU is situated within this broader regional comparison. The analysis finds that corruption control has the strongest positive association with income, while Soviet-era institutional legacies and elevated government spending are linked to lower performance. Findings emphasize the centrality of governance reform in Moldova's development trajectory.

Keywords: Moldova, European Union integration, foreign direct investment (FDI), governance reforms, corruption, post-Soviet transition

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INTRODUCTION

The 1991 breakup of the Soviet Union created 15 newly independent states and left Moldova—a small landlocked country—to rebuild its economy while moving from central planning to open markets. Today, three objectives guide national policy: reducing corruption, attracting investment, and joining the European Union (Morari, 2016; Pleșca, 2024). EU partnership initiatives—the 1998 Cooperation Agreement, the 2016 Deep and Comprehensive Free-Trade Area, and the accession negotiations launched in 2024—provide both reform benchmarks and privileged market access, yet progress remains uneven (European Union, 2024).

Moldova is still one of Europe's poorest countries, with its growth hampered by weak law-enforcement capacity and oligarchic influence (Kosárová & Ušiak, 2017), persistent corruption (Hitchins et al., 2024), and a declining population (Markevych & Marinkov, 2024). External shocks add pressure: the unresolved Transnistrian conflict continues to destabilize the eastern border (Kieff, 2024), and the war in neighboring Ukraine has disrupted regional trade flows. This article compares Moldova's recent macroeconomic record with that of its 14 post-Soviet peers, traces the nation's pivot in trade toward the EU (Stamule, 2017), and employs two lagged cross-sectional regressions to identify the variables that best predict real GDP per capita.

LITERATURE REVIEW

Moldova's Relationship with the EU

The relationship between Moldova and the European Union (EU) has evolved significantly since the dissolution of the Soviet Union. Internal political dynamics, geopolitical pressures, and governance challenges shape Moldova's aspirations for EU membership. Efforts to integrate Moldova into the European market began with the Partnership and Cooperation Agreement in 1998 (Morari, 2016). A major step was the signing of the Deep and Comprehensive Free Trade Area (DCFTA) Agreement in 2016, which focused primarily on aligning Moldova with western European norms and values by offering increased financial assistance for economic and political reforms (International Trade Administration, n.d.; Morari, 2016).

Tkachuk (2022) offered a longitudinal political analysis of Moldova's EU trajectory, highlighting the conflicting pressures from pro-European and pro-Russian political forces. Moldova's European aspirations have been consistently challenged by pro-Russian political parties and oligarch interests (Tkachuk, 2022). A phenomenon of nostalgic voting patterns, rooted in Moldova's Soviet past, further complicates the political landscape. This trend is consistent across other post-Soviet countries, such as Russia, Ukraine, and Belarus (Marandici, 2021).

Nevertheless, Moldova's trajectory shifted significantly with the election of President Maia Sandu in 2020, who defeated the pro-Russian incumbent, Igor Dodon, of the Socialist Party. Under Sandu's leadership, Moldova renewed its EU ambitions, culminating in the signing of a decree to launch EU accession negotiations in June 2024 (Pleșca, 2024). Fighting corruption remains a central pillar of Sandu's reforms, a major condition identified by both Moldova and the EU for progressing toward membership.

Gotișan (2019) offered a focused policy analysis of Moldova's strategic opportunities and vulnerabilities within the EU's Eastern Partnership framework. In a qualitative evaluation of Moldova's reforms and external relations, Gotișan highlighted persistent governance challenges that limit Moldova's potential. In a more quantitative assessment, Šiljak and Nielsen (2025) employed regression analysis on trade and investment data to evaluate Moldova's integration maturity relative to Georgia and Ukraine. They concluded that Moldova's performance is weaker, particularly in governance reforms, where progress lags significantly behind Georgia's.

Although it did not grant immediate EU membership, this partnership benefited Moldova by supporting steps toward EU market integration. However, the process has faced significant challenges. Political instability, systemic corruption, and the unresolved Transnistrian conflict have posed major hurdles (Morari, 2016). Transnistria, an autonomous region in eastern Moldova, remains a flashpoint, with Russian troops stationed there since 1992. There has been ongoing Russian influence through gas supply and financial support. However, after Gazprom's five-year transit contract through Ukraine expired on December 31, 2024, Russian gas flows to the Transnistria region abruptly stopped (Kieff, 2024; Tanas, 2024; Euronews, 2024). The cut-off triggered rolling blackouts, factory closures, and a self-declared economic emergency. By mid-January 2025, the separatist authorities had reduced daily outages from eight to three hours, yet supplies remained critically low (Tanas, 2025a). Chișinău and the European Union stepped in with spot-market gas and a broader, two-year Energy Independence and Resilience Strategy (European Commission, 2025a, 2025b; Tanas, 2025b). Dependence on Western financing has deepened Transnistria's practical reliance on Chișinău and the EU, thereby eroding Russia's leverage in the region (Solovyov, 2025).

Moldova's trade realignment toward the EU has been structurally successful, as reflected in export volumes and formal agreements like the DCFTA. Yet macroeconomic vulnerabilities—such as dependence on remittances, low wages, and weak institutional safeguards—continue to undermine the sustainability of foreign investment and economic growth. Studies by Piroșcă and Stanef-Puică (2024) and Zhurauliou et al. (2023) emphasized that Moldova's limited gains from trade are tied to institutional fragility. Akin (2020) noted that in such environments, FDI can displace rather than complement domestic investment. Tiurina et al. (2023) demonstrated how Moldova's lack of institutional resilience during crises, such as COVID-19, dampened investor confidence. These findings reinforce that trade liberalization alone is insufficient. Comprehensive institutional reforms—especially in governance, enforcement, and transparency—may enable Moldova to convert market access into sustainable development gains.

Impact of Trade Shifts and Foreign Direct Investment

Moldova's post-independence economic strategy has focused on trade reorientation towards the European Union (EU) and attracting foreign direct investment (FDI). Moldova's history as a former Soviet republic has influenced its gradual shift towards the European market. Stamule (2017) provided a historical statistical analysis of Moldova's trade patterns from 2001 to 2015, demonstrating a pivot towards EU markets. One key finding was that Romania overtook Russia as Moldova's main trading partner during this period (Stamule, 2017). This trend continued, with 65.4% of Moldovan exports going to the EU and accounting for 53.7% of Moldova's total trade by 2023 (European Union, 2024).

The Deep and Comprehensive Free Trade Area (DCFTA) agreement of 2016 between Moldova and the EU removed most import duties, improved access to services, established standards for agricultural products, and facilitated business operations for foreign investors. In response to the regional disruptions caused by the Ukrainian-Russian war, the EU temporarily introduced full trade liberalization for Moldovan agricultural goods until 2025 to assist Moldova's economy (EU4Moldova, n.d.; Open Society Foundation, 2023).

However, the broader economic picture shows persistent vulnerabilities. Zhurauliou et al. (2023) compared labour markets and economic development across Ukraine, Armenia, Estonia, and Moldova from 1995 to 2020. Moldova remained highly reliant on personal remittances, with 15.7% of GDP in 2020 sourced from citizens working abroad, compared to 10.4% for Armenia and 1.6% for Estonia. The economic fragility was further illustrated by wage disparities: in 2020, Estonia's average monthly salary was 1,455 €, more than three times Moldova's 435 €. Although Moldova had the lowest unemployment rate among the group (3.82%) compared to Ukraine (9.48%) and Armenia (18.3%), Moldovans often accepted lower-paying jobs because they supplemented incomes with remittances (Zhurauliou et al., 2023).

Latkovska and Bila-Tiunova (2019) provided additional context by comparing governance metrics, finding that Moldova ranked 122nd on Transparency International's Corruption Perception Index in 2017–2018, while neighboring countries such as Croatia (57th) and Georgia (46th) ranked much higher. Moldova's Human Development Index (HDI) score of 107 was the worst among the countries studied, in contrast to Romania's ranking at 50. This indicates that governance, health, education, and financial stability issues constrained Moldova's development prospects.

Stan and Pincu (2020) further explore these dynamics, using a mixed-methods approach. Although the DCFTA created structural opportunities, political instability and corruption have undermined Moldova's ability to benefit from trade agreements fully. Piroșcă and Stanef-Puică (2024), using macroeconomic descriptive analysis, found that despite increased trade with the EU, Moldova's FDI remained volatile and unpredictable, largely because of persistent weak governance structures. Ballieu (2023), through a comparative case study of Moldova, Belarus, and Ukraine, highlighted that Moldova's domestic challenges—particularly ineffective governance—limit the country's ability to translate geographical proximity into sustained trade and investment gains. Emerson and Noutcheva (2018) emphasized that ineffective law enforcement bodies make Moldovan government officials more prone to corruption, which directly impairs the implementation and enforcement of reforms.

Akin (2020) explored the crowding-out effect of FDI on domestic investment. Moldova's volatile FDI and its shallow domestic capital base underscore these concerns, particularly given the fragility of governance structures. Tiurina et al. (2023) highlighted that Moldova's investor confidence eroded during the COVID-19 crisis due to insufficient institutional capacity and crisis management. In terms of FDI location dynamics, Cieślik and Gurshev (2023) showed that relative levels of skilled labor and capital in the Baltics influence multinational investment, particularly under conditions of tax planning.

Their findings aligned with Moldova's labour-intensive exports and underscore the role of institutional transparency in shaping FDI behavior. These findings affirm broader concerns that governmental decisions continue to constrain Moldova's economic success.

Moldova's trade realignment towards the EU is well underway, as evidenced by export statistics and by trade agreements such as the DCFTA. However, the country's economic vulnerabilities—including high dependence on remittances, low wages, persistent corruption, and weak institutional frameworks—continue to restrict the sustainability of foreign direct investment inflows and broader economic growth. Quantitative macroeconomic studies (Piroșcă & Stanef-Puică, 2024; Zhurauliou et al., 2023) and governance comparisons (Latkovska & Bila-Tiunova, 2019; Emerson & Noutcheva, 2018) consistently show that trade agreements alone are insufficient.

Impact of Corruption on Moldova

Corruption remains an obstacle to Moldova's economic development and European integration. Moldova's past as a Soviet republic made it easier for oligarchs to gain political and economic power after independence, leading to weakened governance structures and low public trust (Kosárová & Ušiak, 2017). One major illustration of Moldova's governance crisis is the 2015 banking fraud scandal, in which former Prime Minister Vladimir Filat was accused of accepting a $250 million bribe. Filat's former ally, Vladimir Plahotniuc, was considered the primary accomplice. Together with a network of politicians and businesspeople, they stole approximately $1 billion, equivalent to about 12% of Moldova's GDP (In-Cyprus, 2024).

Kosárová and Ušiak (2017) conducted a qualitative case analysis and classified Moldova as a failing state due to entrenched corruption networks. Markevych and Marinkov (2024) statistically assessed the impact of corruption on business operations using comparative data from Transparency International and the World Bank. Corruption ranked as the top problematic factor for businesses in 2018, ahead of policy and government instability. Moldova has consistently performed worse on corruption indexes like the International Country Risk Guide (ICRG), Transparency International, and the World Bank than other upper-middle-income countries and EU member states.

Despite efforts to reform, institutional responses have been insufficient. Moldova established the Anti-Corruption Prosecution Office (APO) in 2018, but the office has struggled due to underfunding and staffing shortages. As a result, investigations, such as the one into the 2015 banking fraud, were significantly delayed. In addition, Moldova adopted new Anti-Money Laundering (AML) and Combating the Financing of Terrorism (CTF) laws in 2017, incorporating some EU recommendations (Prohnițchi, 2018). However, flaws remained: the AML law omitted key crimes such as human trafficking, drug trafficking, and corruption with criminal money, and it failed to adopt a risk-based approach, resulting in inefficient reporting practices.

Persistent systemic corruption has tangible economic impacts. Comparative governance studies by Latkovska and Bila-Tiunova (2019) showed that Moldova scored poorly on human development and governance indexes relative to other Eastern Bloc countries such as Georgia, Croatia, and Romania. Consistent with governance-based explanations, Hayruni et al. (2025) find that Moldova collects far less tax revenue than its economic fundamentals predict, underscoring how weak institutions erode both state capacity and growth. Using cross-national statistical analysis, they attributed Moldova's underperformance to systemic institutional weaknesses. Crudu and Ignatov (2017), applying historical institutionalism and comparative case methods, argued that Moldova's corruption challenges severely hindered EU economic cooperation efforts.

Baltag and Bosse (2016) document Moldova's slow and inconsistent implementation of anti-corruption reforms through process tracing methods. However, recent institutional efforts have shown some activity: the National Anti-Corruption Center (NAC) submitted over 140 corruption cases and confiscated more than 1.7 million MDL since 2023. Still, the prosecution process lags; in 2020, the average prosecution time for corruption cases in Moldova was 2.4 times slower than the Council of Europe median (Markevych & Marinkov, 2024).

Poland and Romania are cited as successful examples where anti-corruption efforts have supported stronger economic growth. Strengthening Moldova's Anti-Corruption

Prosecution Office by allocating more financial and human resources is key. According to the European Commission, improved anti-corruption legislation and efficient enforcement mechanisms are prerequisites for Moldova's continued path toward serious EU candidacy (Markevych & Marinkov, 2024; EU4Moldova, n.d.). Mhonyera (2024) further emphasized that governance serves as a mediating factor between globalization and economic growth in Eastern Europe and Central Asia. Moldova's weak institutions likely undermine its ability to leverage trade and investment for long-term development, consistent with earlier findings on limited EU convergence.

These studies concur that entrenched corruption continues to obstruct Moldova's path to EU integration and economic modernization. Macro-level data (Markevych & Marinkov, 2024) and comparative case studies (Crudu & Ignatov, 2017) show that even high-profile scandals, such as the 2015 banking theft, have not catalyzed effective institutional reform. The Anti-Corruption Prosecution Office, while symbolically important, remains underpowered and slow-moving. Despite repeated EU conditionality and legislative alignment, implementation remains weak—a pattern also noted in other Eastern European states with similar legacies. Mhonyera (2024) reinforced this concern, arguing that without credible institutions, countries like Moldova cannot fully benefit from globalization or EU market integration.

METHODOLOGY

Macroeconomic Overview

Table 1 indicates some differences between Moldova and its peers in 2023. Moldova's total GDP in 2023 ($9.2b) is significantly lower than the EU average ($574.8b) and the average of its former USSR peers ($154.8b). Moldova's GDP per capita ($3,685) is around 10% of the EU average ($35,171) and half that of its former USSR peers. However, Moldova's unemployment rate is low (1.55%). Inflation in 2023 of 13.42% was higher than the average from the EU (7.13%) and former USSR peers (8.84%).

Moldova experienced a population decline of 2.07% in 2023. The EU and the former USSR peers experienced population growth (0.73% & 0.44%). Government expenditure was the lowest in Moldova (18.06% of GDP). The EU average was 20%, followed by the USSR peers (19.23%). The corruption rating is negative for Moldova (-0.28) and the former USSR peers (-0.36). In comparison, the average for the EU peers is positive (+0.93), indicating strong corruption control.

Table 1: Macroeconomic Metrics 2023: Moldova, EU Average, Former USSR Average

Indicator	Moldova	EU Average	Former USSR Average
Real GDP Total (USD 2015)	$9.2 billion	$574.8 billion	$154.8 billion
Real GDP per Capita (USD 2015)	$3,685	$35,171	$8,163
FDI Inflow (% of GDP)	2.52	0.92	3.17
Unemployment Rate (%)	1.55	5.75	5.55
Inflation (%)	13.42	7.13	8.84
Population Growth (%)	-2.07	0.73	0.44
Government Expenditure (% of GDP)	18.06	20.00	19.23
Control of Corruption (World Bank Rating)	-0.28	0.93	-0.36

Source: World Bank Data, 2024; Authors' work. The EU average includes all current EU members. Former USSR peers are all former USSR states. The WB Corruption Rating is a scale from +2.5 (perfect corruption control) to -2.5 (imperfect corruption control).

Moldova's Trading Partners

Moldova's trading partners have shifted, with trade spread across more countries and the percentage share of top partners reduced. In 2001, Russia was Moldova's largest export partner (43.7%), but by 2021 the share of exports to Russia had decreased to 8.8%. Romania went from fifth in 2001 (6.7%) to first in 2021 (26.5%). Turkiye, Germany, and Italy complete the top five.

Russia also plays an important role as an import source. In 2001, it was the second most significant import source (16.1%), close to Ukraine (17.1%). In 2011 and 2021, Russia was the biggest import source. Romania stayed consistently third. China entered the top five in 2011 and became the second-largest import partner in 2021 (11.7%).

Table 2: Top Five Trading Partners of Moldova (2001, 2011, 2021)

Export Partners					
2001	**Export%**	**2011**	**Export%**	**2021**	**Export%**
Russia	43.7	Russia	28.2	Romania	26.5
Ukraine	10.1	Romania	17.0	Türkiye	10.0
Italy	8.0	Italy	9.7	Russia	8.8
Germany	7.0	Ukraine	6.9	Germany	7.8
Romania	6.7	Germany	4.8	Italy	7.6
Import Partners					
2001	**Import%**	**2011**	**Import%**	**2021**	**Import%**
Ukraine	17.1	Russia	15.9	Russia	14.7
Russia	16.1	Ukraine	12.4	China	11.7
Romania	10.5	Romania	11.1	Romania	11.6
Germany	9.4	China	7.7	Ukraine	9.3
Italy	7.2	Germany	7.6	Germany	7.6

Source: World Integrated Trade Solution (WITS), 2024; Author's work

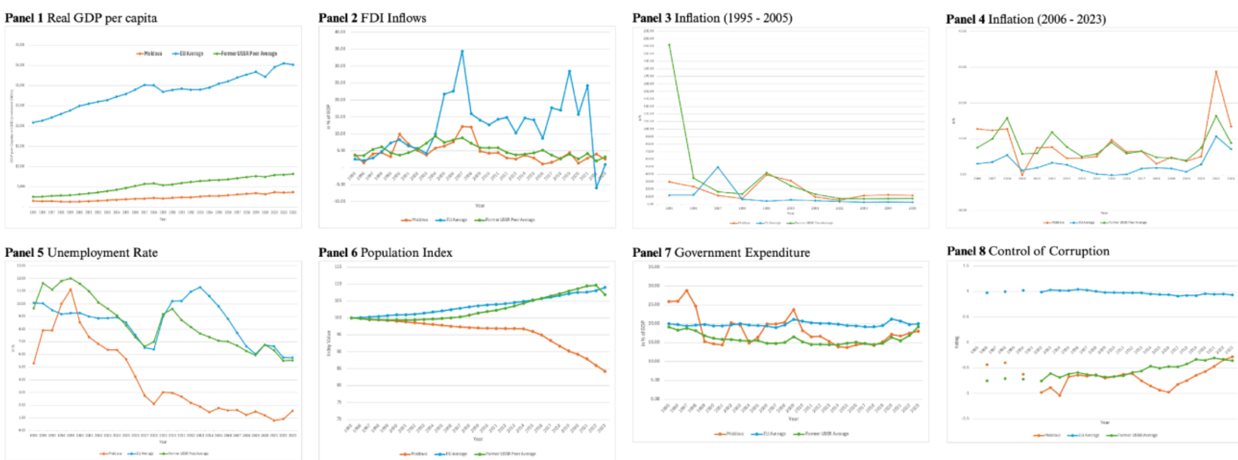
Macroeconomic Metrics

Figure 1 displays trends for eight key macroeconomic metrics from 1995 to 2023. From 1995 to 2023, Moldova's real GDP per capita (Panel 1) never surpasses its comparators: it ends at $3,685, versus $8,163 for former-USSR peers and $35,171 for the EU. After sliding to a 1999 trough, Moldova rebounds until the 2009 global crisis, dips again with Covid-19 in 2020, and otherwise tracks the same recession-driven swings seen in both peer groups. Moldova led FDI inflows (% of GDP) in the early 2000s, as shown in Panel 2. Moldova's inflows spiked to ≈ 12% of GDP in 2000, almost triple the concurrent EU mean of ≈ 4%. After 2004 the pattern flipped: the EU peaked at 4.4% in 2007 while Moldova slid toward ≈ 3% by 2019. An anomalous outflow in Luxembourg drags the 2022 EU average to –0.8%; Moldova and ex-USSR peers stay positive at ≈ 2–3%, before all three lines soften again in 2023.

Panels 3 and 4 highlight inflationary trends. Price pressures were extreme in the mid-1990s: ex-USSR peers averaged 212% and Moldova 30% in 1995. Both groups disinflated sharply by 2005, while an outlier-driven EU spike in 1997 (49%) quickly subsided. From 2006-19, Moldova's inflation hovered between 8% and 13%, briefly turning negative in 2009. All regions faced a Covid-era stimulus surge, capped by Moldova's 28.7% peak and a much lower 10.7% EU high in 2022; the ex-USSR median oscillated between those two benchmarks throughout the period.

Panels 5 through 8 reveal broader structural stresses. Unemployment spiked to 11 percent in 1999 but has trended downward—remaining below 4 percent since 2019—even as the labor force continues to shrink. Moldova's population has fallen by roughly 16 percent since 1995, mirroring a region-wide demographic contraction but outpacing both EU and former-USSR peers. Fiscal policy remains comparatively restrained: general-government outlays have hovered near the others at 18–20% of GDP. Finally, the World Bank's control-of-corruption index shows slow progress: scores improved from –0.8 in 2000 to –0.4 in 2023, still lagging neighboring reform leaders but narrowing the gap. Overall, these mixed signals highlight the urgency of synchronized labor, demographic, and governance reforms.

Figure 1: Macroeconomic Trends of Moldova compared to averages of EU members and former USSR states



Sources: World Bank Data, 2024; Authors' work.

METHODOLOGY

The research goal is to investigate the impact of selected macroeconomic metrics on a country's real GDP per capita. Six independent variables are of particular interest based on their significance in prior studies and relevance to Moldova: FDI inflows, population growth, control of corruption, inflation, unemployment, and government expenditure. The data set includes Moldova and 36 other countries selected for their geographical proximity, EU membership, and/or membership in the former Eastern Bloc. Data was collected from the World Bank. All estimations were run in Python 3.11 with statsmodels.

Regression Framework

The estimation strategy utilized five macroeconomic metrics lagged one year (population growth, inflation, unemployment, FDI as a percentage of GDP, and government spending as a percentage of GDP for 2021 or 2022), three governance measures (control-of-corruption, government effectiveness, and rule of law ratings), and two structural dummies flagging Eastern-Bloc and former-USSR membership. Western bloc EU members were the omitted structural group. Data on 37 countries, including Moldova, were used. Multicollinearity was screened first by inspecting the lower-triangular correlations and then by calculating variance inflation factors after each elimination round; any predictor that pushed a VIF above 10 was removed. Final VIF values range from 1.2 to 2.3, indicating negligible collinearity. Government effectiveness and the rule of law were dropped because their correlation with control of corruption exceeded 0.90.

Table 3: Correlation Matrices

	Real_GDP_per_Capita_2022	Eastern Bloc	Past USSR Member	Pop_Growth_2021	Inflation_2021	Unemployment_2021	FDI_2021	Govt_Spend_2021	Govt_Effective_2021	Rule_of_Law_2021	Control_2021
Real_GDP_per_Capita_2022	1.00										
Eastern Bloc	-0.68*	1.00									
USSR Member	-0.50*	0.51*	1.00								
Pop_Growth_2021	0.43*	-0.38*	0.06	1.00							
Inflation_2021	-0.54*	0.58*	0.79*	0.07	1.00						
Unemployment_2021	-0.10	-0.25	-0.08	-0.10	-0.12	1.00					
FDI_2021	0.53*	-0.20	-0.14	0.25	-0.16	-0.01	1.00				
Govt_Spend_2021	0.28	-0.36*	-0.50*	-0.12	-0.54*	-0.09	-0.09	1.00			
Govt_Effective_2021	0.77*	-0.54*	-0.49*	0.33*	-0.64*	-0.04	0.28	0.58*	1.00		
Rule_of_Law_2021	0.75*	-0.53*	-0.57*	0.25	-0.71*	-0.07	0.28	0.62*	0.95*	1.00	
Control_of_Corruption_2021	0.79*	-0.56*	-0.45*	0.31	-0.57*	-0.07	0.25	0.58*	0.92*	0.94*	1.00

	Real_GDP_per_Capita_2023	Eastern Bloc	Past USSR Member	Pop_Growth_2022	Inflation_2022	Unemployment_2022	FDI_2022	Govt_Spend_2022	Govt_Effective_2022	Rule_of_Law_2022	Control_2022
Real_GDP_per_Capita_2023	1.00										
Eastern Bloc	-0.67*	1.00									
USSR Member	-0.47*	0.47*	1.00								
Pop_Growth_2022	0.52*	-0.39*	0.05	1.00							
Inflation_2022	-0.51*	0.55*	0.60*	-0.34*	1.00						
Unemployment_2022	-0.16	-0.20	-0.04	-0.04	-0.39*	1.00					
FDI_2022	-0.58*	0.22	0.10	-0.23	0.18	0.11	1.00				
Govt_Spend_2022	0.30	-0.32	-0.43*	0.09	-0.14	-0.21	0.05	1.00			
Govt_Effective_2022	0.79*	-0.55*	-0.44*	0.60*	-0.44*	-0.06	-0.26	0.51*	1.00		
Rule_of_Law_2022	0.76*	-0.50*	-0.48*	0.50*	-0.37*	-0.12	-0.23	0.56*	0.96*	1.00	
Control_of_Corruption_2022	0.80*	-0.52*	-0.37*	0.49*	-0.41*	-0.13	-0.23	0.56*	0.93*	0.94*	1.00

Source: Authors' work. * indicates significance at the 5% level.

A hierarchical, stepwise ordinary least-squares regression was conducted to predict 2022 real GDP per capita from structural variables and one-year-lagged macroeconomic variables. In the full model, all eight predictors explained a substantial proportion of variance, $R^2 = .833$ (See Model 1). Three variables—USSR membership ($p = .129$), population growth ($p = .975$), and inflation ($p = .835$)—were non-significant and therefore removed. The resulting model retained five predictors and still accounted for 83.3% of the variance (Model 2). In this final specification, the Eastern Bloc dummy was a strong negative predictor, indicating that former Eastern Bloc countries had, on average, over $21,100 lower real GDP per capita; each one-point improvement in the corruption-control index predicted a $15,570 increase in income; every percentage-point rise in FDI contributed $643 to per-capita real GDP; each one-point increase in unemployment reduced income by $1,390; and each percentage-point increase in government spending was associated with a $1,306 decline in per capita real GDP. These findings underscore the enduring impact of historical-political legacy and institutional quality on national income levels.

The stepwise results for 2023 real GDP per capita followed a similar process but with slightly different outcomes. After controlling for institutional and macroeconomic factors, former Eastern Bloc membership and USSR membership remained strong negative influences on income, reducing GDP per capita by over $14,200 and $8,990, respectively (See Model 3). Population growth lacked statistical significance. Higher unemployment in the prior year was associated with lower income levels (–$1,573 per 1% increase in unemployment). Greater perceived control over corruption remains positively associated with higher income ($14,718 per one-point increase in the corruption index). Larger shares of government spending show a negative effect (–$1,382 per 1% of per capita GDP). After removing the weakest predictors, the model explained 90.4% of the variance (Model 4). Former Eastern Bloc and former USSR membership remained large negative factors (–$15,753 and -$9,257 per capita). Higher unemployment (–$1,452 per 1% rise) and greater reliance on government spending (–$1,527 per

1% of GDP) predict lower income, while stronger corruption control continues to boost real GDP per capita (+$16,024 per index point). FDI's contribution reflects a smaller, negative role (-$123). Again, these results underscore the persistent impact of historical-political legacies and institutional quality on economic performance.

Table 4: Regression Results

Independent Variable *(p-value)*	**Real GDP per capita 2022** **Model 1**	**Model 2**		**Real GDP per capita 2023** **Model 3**	**Model 4**
Intercept	70410.808 *<0.001*	62047.578 *<0.001*		67178.605 *<0.001*	66166.561 *<0.001*
Eastern Bloc, former member	-18614.367 *0.002*	-21126.775 *<0.001*		-14298.474 *0.001*	-15753.335 *<0.001*
USSR former member	-9321.206 *0.129*			-8990.781 *0.071*	-9257.622 *0.014*
Population growth, prior year	-65.138 *0.975*			969.282 *0.396*	
Inflation, prior year	261.698 *0.835*			-264.809 *0.575*	
Unemployment rate, prior year	-1430.088 *0.025*	-1390.476 *0.025*		-1573.539 *0.012*	-1452.892 *0.008*
FDI, prior year	605.966 *0.001*	643.682 *0.001*		-120.995 *<0.001*	-123.633 *<0.001*
Government spending, prior year	-1703.747 *0.014*	-1306.759 *0.031*		-1382.272 *0.001*	-1527.356 *0.002*
Control of corruption, prior year	15653.130 *<0.001*	15567.743 *<0.001*		14718.341 *<0.001*	16024.676 *<0.001*
Adjusted R-Square	0.835	0.833		0.902	0.904
Significance F	<0.001	<0.001		<0.001	<0.001
n	37	37		34	34

Source: Authors' work.

A direct comparison of the two trimmed equations shows broad consistency in the economic forces shaping real GDP per capita, but with one notable shift. The 2022 model (Adj. R^2 = .833) retained five significant predictors—Eastern Bloc membership, control of corruption, one-year-lagged unemployment, FDI, and government spending. Eastern-Bloc affiliation exerted the largest drag (–$21,127 per capita), while stronger corruption control delivered the biggest boost (+$15,568 per index point). Higher unemployment and larger government budgets were both costly (–$1,390 and –$1,307 per percentage-point, respectively), whereas each additional percentage-point of FDI inflows added about $644 to income. The 2023 specification (Adj. R^2 = .904) kept all five of those variables and, because it reached conventional significance (p = .014), re-introduced the USSR-membership dummy. Former Eastern Bloc countries still trailed by roughly $15,753 per person; former USSR members by a further $9,258; better corruption control lifted incomes by $16,025; and higher unemployment (–$1,453) and government spending (–$1,527) continued to depress them. The direction of FDI flipped: 2022-vintage FDI carried a small but significant negative coefficient (– $123).

Two forces may explain the reversal and attenuation of the FDI effect. First, the 2023 sample contains an extreme outlier, which pulled the ordinary-least-squares slope toward—and just beyond—zero. Second, global investment conditions genuinely worsened in 2022–23. As central banks tightened policy, supply-chain bottlenecks persisted, and geopolitical frictions intensified, multinational firms grew more cautious and delayed projects, so the immediate payoff from additional inflows shrank or even turned negative (Willis Towers Watson, 2023; UNCTAD, 2023, 2024; IMF, 2025).

Four mechanisms—crowding-out, allocative inefficiency, cyclical timing, and reverse causality—continue to account for the robust negative coefficient on government spending in both years. Larger public budgets can absorb domestic savings or push up interest rates, displacing higher-return private investment. Spending may also be steered toward lower-productivity activities (e.g., loss-making state enterprises or oversized bureaucracies). Because fiscal outlays rise in downturns and fall in booms, high spending shares often coincide with periods of weak private-sector performance. Finally, poorer countries tend to rely more heavily on the public sector for basic services, so part of the negative relationship may reflect low income driving high spending, rather than the reverse.

DISCUSSION

Several caveats apply. First, list-wise deletion reduces the 2023 regression to 34 countries, so the second equation rests on a narrower subsample than the 2022 equation (n = 37). Second, changes in FDI across years suggest that outlier ratios or crisis-year transactions may distort the estimates. Third, both unemployment and government-spending shares remain sensitive to business-cycle timing; a more explicit treatment of cyclical position could change their magnitudes. Fourth, the governance corruption measure is based on perceptions. Future work could (i) apply robust-regression estimators, (ii) impute the few missing macroeconomic observations to keep the full 37-country panel, and (iii) replace perception indices with event-based corruption metrics. Even with these limitations, the consistently strong corruption-control coefficient and the persistent legacy penalties on Eastern-Bloc and USSR dummies point to institutional reform—rather than short-run capital inflows—as a primary route to higher income in Moldova's comparative group.

CONCLUSION AND RECOMMENDATION

Moldova's post-Soviet experience illustrates how structural legacies, trade reorientation, and institutional quality jointly determine income growth. The literature review shows that while EU-backed instruments such as the DCFTA have boosted exports to Romania and other EU markets, progress is uneven because governance reforms lag tariff liberalization. Descriptive data confirm these vulnerabilities: GDP per capita remains one-tenth of the EU average, population is shrinking, and inflation volatility and migration signal continued fragility. Qualitative studies consistently attribute these patterns to entrenched corruption, weak enforcement, and limited fiscal capacity—factors that also depress foreign direct investment and tax collections.

Statistical evidence reinforces these narratives. Two lagged cross-sectional regressions explain over 80 percent of the variance in real GDP per capita across 34–37 comparator countries. Legacy dummies for Eastern Bloc and former-USSR membership remain large and negative, but the single most powerful positive determinant is better control of corruption. Conversely, higher unemployment and a heavier government-spending share are associated with lower income, and the growth payoff from FDI has weakened amid recent global shocks. Taken together, the findings point to a policy agenda: sustained gains will depend less on additional trade concessions and more on credible institutional reform—especially stronger anti-corruption enforcement, improved revenue collection, and a stable rule-of-law environment. Closing these governance gaps can provide Moldova with EU market access and external capital, thereby enabling durable prosperity.

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