

MOLDOVA: HEIGHTENED POLITICAL RISK FOLLOWING RUSSIAN INVASION OF UKRAINE



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Event

On 25 April, unidentified individuals targeted the headquarters of the security force of Transnistria – the breakaway region of Moldova that is dominated by pro-Russians. The day after, two explosions damaged antennas used to broadcast a Russian radio station in Transnistria.

Impact

The recent attacks by unidentified individuals are a source of concern. Indeed, it could be the beginning of a destabilisation of the country that is deeply divided between pro-EU and pro-Russia political parties. At this moment, the government is dominated by pro-EU parties that officially applied for EU membership (along with Ukraine and Georgia) in March. Hence, without surprise, the authorities blamed Russia for the attack, whereas the authorities in Transnistria believe that Ukraine is trying to destabilise the pro-Russian breakaway region. In the meantime, there is a risk that Russia will try to control the southern part of Ukraine to have direct access to Transnistria.

The country's political risks are clearly on the rise as, in case of an extension of the conflict beyond Ukraine, Moldova – along with Georgia – might be one of the countries targeted by Russia. The heightened political uncertainty along with fallout from Russia's invasion of Ukraine has led to a rapid deterioration of the economic situation. After all, Moldova is heavily reliant on Russia for trade, remittances and gas supplies. Following a sharp rebound in 2021 (13.9%), real GDP growth is expected to be subdued this year (0.3% according to the IMF's WEO of April 2022). The country's fiscal and current account deficits are expected to widen (to 7.2% and 13% of GDP respectively) and gross foreign exchange reserves are under pressure. In this context, Credendo assesses the country's ST and MLT political risk outlook as negative.

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