



# Planning for Reconstruction of Ukraine should Include Investments in Moldova Now

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**R** As Ukraine's brave resistance to Russia's war of aggression continues, the cost of the war - and the needs for reconstruction - continues to increase. The reconstruction of Ukraine will be a massive undertaking that requires advanced planning not just within Ukraine itself, but also in neighbouring countries, and in particular in Moldova. As the international community begins setting up the institutional frameworks and financial instruments to rebuild Ukraine, the impact of the reconstruction effort on Moldova should be anticipated and investments to improve infrastructure and connectivity, increase supply, and consolidate capacities should ramp up now.

The scale of destruction in Ukraine is staggering. Estimates indicate over \$100 billion will be required just to rebuild critical infrastructure like roads, bridges, railways, airports, and utilities destroyed in the war. Beyond infrastructure, immense investment will be needed for housing, schools, hospitals, commercial buildings, and factories. The World Bank estimates Ukraine's reconstruction costs could rise above \$350 billion. Ukraine has appropriately deemed the strategic planning of the reconstruction efforts to be an element of resilience both during and after the war.

To coordinate these efforts, institutions like the Ukraine Recovery Conference have been launched, bringing together government leaders, international organisations, and private sector stakeholders. The European Commission has also

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proposed a Ukraine Reconstruction Platform to connect rebuilding projects with funding from donors like the EU, G7, and international financial institutions. Multiple grant and lending programs are being set up, including the EU's Ukraine Facility of €50 billion.

Individual countries are also preparing assistance packages. Poland, for example, has passed legislation to accelerate and simplify construction permitting to enable Polish firms to support rebuilding projects in Ukraine. Romania has started bilateral discussions with Ukraine's government to plan out priority reconstruction areas like energy infrastructure. Local administrations in countries like France, Lithuania, and the Netherlands are planning to partner with affected cities in Ukraine to provide technical expertise and rebuilding support.

These preparatory steps underscore how Ukraine's reconstruction will reverberate far beyond its borders. The massive flow of financial resources, construction materials, technical equipment, and labour power will inevitably impact neighbouring countries integrated within the same regional economy.

For Moldova in particular, Ukraine's reconstruction will stress already limited capacities and resources. Since the beginning of the war, Moldova has been punching above its weight, receiving the highest number of refugees per capita of any European countries, supporting Solidarity Lanes to ensure that goods can be exported from and imported into Ukraine, and diversifying fully away from Gazprom gas. The multiple overlapping crises, however, are putting significant additional pressure on an economy that was already weak before the war, with outdated infrastructure and heavy economic reliance on remittances. In the last 18 months, Moldova has faced a profound stagflation, with the economy contracting by 6.5% of GDP in 2022, and inflation reaching a high of 34%. Although the macro-economic indicators are showing some signs of a potential recovery at the end of 2023, the cost-of-living crisis is making Moldova more vulnerable to elements of Russia's hybrid war.

Once Ukraine's reconstruction gathers momentum, Moldova could see critical road building materials diverted across the border, further delaying its own infrastructure projects. Technical personnel and construction companies may be pulled away for more lucrative work in Ukraine. The war has further depleted Moldova's labour force,

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as an estimated 1 million economically active Moldovans now work abroad. This brain drain of Moldova's workforce seems likely to increase as demand rises from Ukraine's rebuilding efforts.

Rising prices are another concern, as Ukraine imported a large part of its construction materials from Belarus and Russia, disruptions that will lead it to source more supplies from regional partners like Moldova. Cement and rebar costs are already up over 40% in Moldova, and further spikes seem imminent as local supply chains are redirected to Ukraine. Surges in real estate prices and rental rates also look unavoidable as speculators pour into the region hoping to profit from Ukraine's reconstruction needs.

For these reasons, Moldova cannot afford to wait idly as the process of rebuilding Ukraine unfolds. Despite the uncertainties about the scale, scope, and timeline of projects within Ukraine itself, Moldova and its partners must act now to reinforce its own economic capacities in strategic areas relevant to reconstruction efforts across the border. Ukraine and the broader region will not achieve increased resilience if Moldova remains behind.

Firstly, the EU and other partners should include Moldova in key institutional arrangements and financial instruments supporting EU member states in the preparations for the reconstruction process. Some proposed institutional arrangements, such as designated coordinators from the EU and/or member states for the reconstruction process could begin work in Moldova before expanding their work in Ukraine after the war.

Second, the EU and other partners should increase financing and accelerate plans already underway to upgrade Moldova's border crossing points, port facilities, rail lines, and road infrastructure providing vital trade links both to Ukraine and EU markets. Improving Moldova's connectivity will be crucial to supporting efficient flows of goods and workers essential to making Ukraine's reconstruction sustainable.

Finally, Moldova needs strategic investments to strengthen its domestic construction industry, attract strategic foreign investors, and nurture competitive clusters in relevant supply chain industries like cement production, machinery manufacturing,

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and logistics. Providing guarantees and risk insurance to prospective investors could help overcome Moldova's perceived country risks. This could also provide important additional capacity for absorption of funds.

While the devastation within Ukraine rightly has the world's attention now, Ukraine's smaller neighbour Moldova also needs targeted support to reinforce capacities that will be essential to stabilising the broader region. By accelerating prudent policies today, Moldova can play a vital role in supporting Ukraine's reconstruction and unlock the potential of this historical project to also catalyse sustainable development for its own citizens. With proactive preparation, Moldova can avoid becoming collateral damage from unintended spillovers once Ukraine's rebuilding gains momentum.