

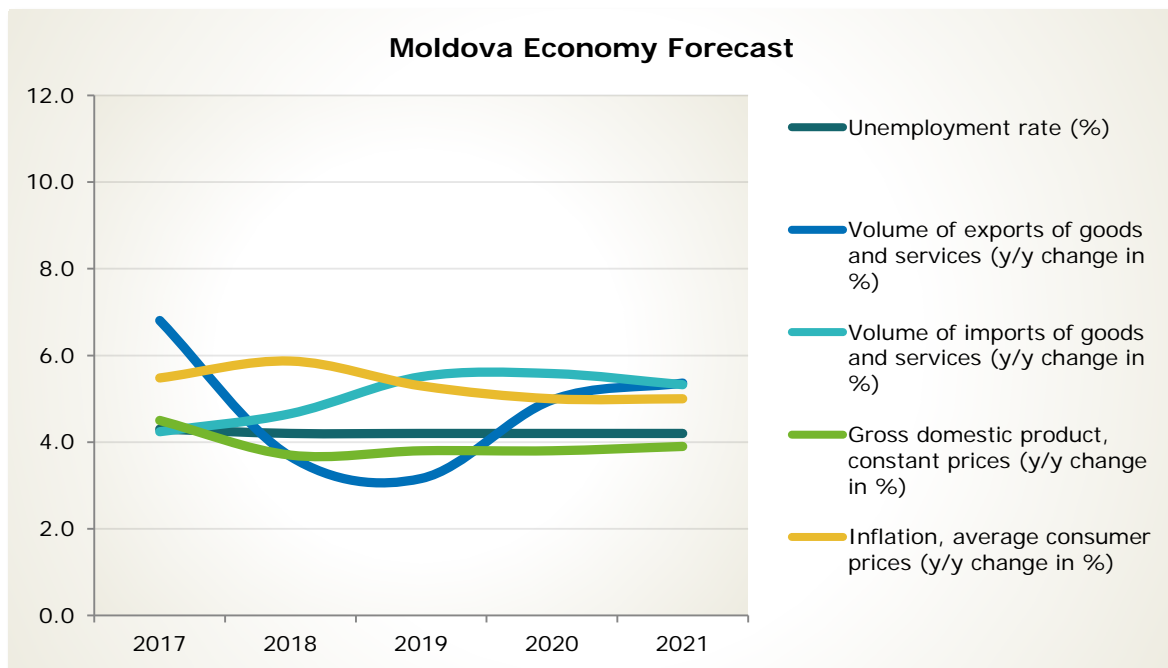
MOLDOVA ECONOMY REPORT Q1 2017

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1. MACROECONOMIC SNAPSHOT AND FORECAST

MOLDOVA – MACROECONOMIC SNAPSHOT AS OF Q1 2017	
GDP Growth	3.1% y/y
Industrial output	3.0% y/y
Retail sales	-4.4% y/y
Average annual inflation	4.3%
Unemployment rate	6.3%
Construction works value	11.3% y/y
Money supply	11.1% y/y
Household loans	10% y/y
Gross external debt	USD 6.689 bln
Current account deficit	USD 111.9 mln
Net FDI inflow	USD 41.9 mln
Foreign trade deficit	USD 502.5 mln
Number of foreign tourist overnights	4.5%



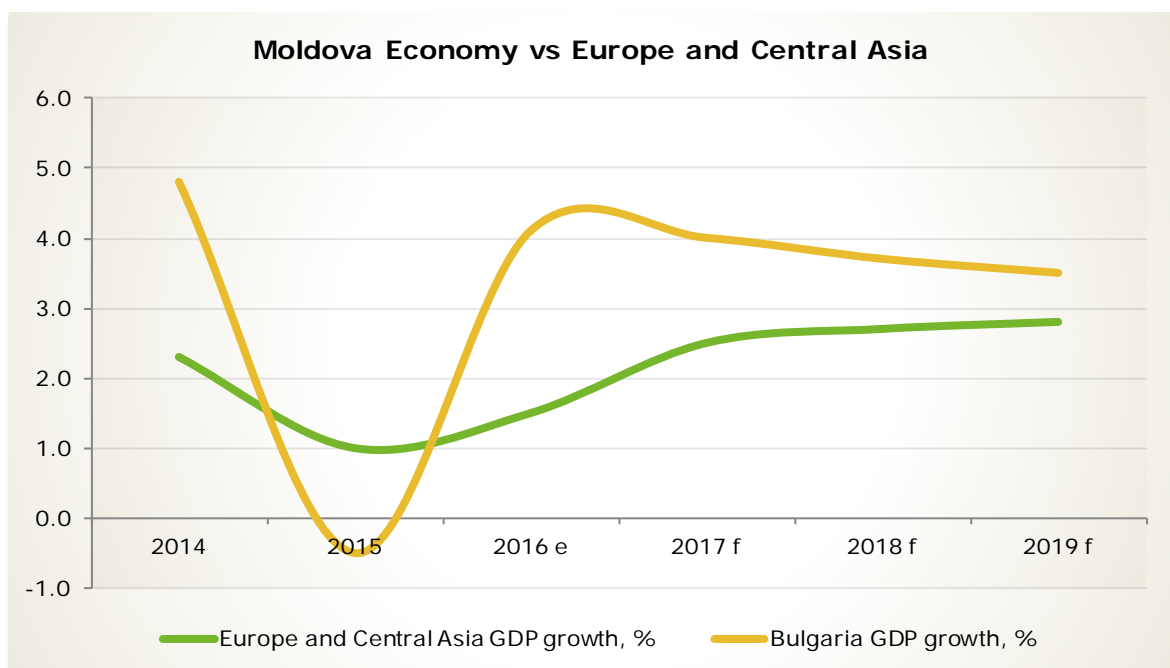
Source: International Monetary Fund (IMF) World Economic Outlook Database – April 2017

The International Monetary Fund (IMF) expects the economic growth in Moldova to accelerate to 4.5% in 2017, up from the realized 4.15% in 2016. Growth prospects for 2017 have improved on stronger carryover from 2016, and a more favorable external environment. In subsequent years, growth is expected to be supported by recovery of investment and more favorable external conditions, with more limited contribution from agriculture. In the period 2018-2021 IMF expects the economy of Moldova to rise by 3.8% per year on average.

IMF expects the inflation to rise to 6.5% in 2017, up from realized inflation of 6.4% in 2016. Planned adjustments of administered prices, higher international food and oil prices, low base effect, and strong domestic and external demand are expected to boost prices in 2017.

The current account deficit will widen to 5% of GDP in 2017, according to IMF. Despite the strong rebound in exports, imports will increase faster driven by the recovery in domestic consumption.

The fund sees risks to the macro outlook coming mainly from the rising populism in Moldova. Reform momentum could be dampened if political divisions or vested interest start to impede reforms, particularly in the financial sector.



Source: The World Bank

The World Bank also expects the growth momentum to be maintained in Moldova in 2017. The bank expects GDP growth of 4.0% in 2017, supported by consumption, fiscal stimulus and a good agricultural year. In the medium-term growth will slow to 3.7% in 2018 and 3.5% in 2019. Public investments and remittances are expected to further support the economic growth in 2018.

Inflationary pressures will keep inflation close to 5% in 2017-2019. The main pressures stem from increased liquidity in the banking system, the adjustments of utility tariffs and the recovery in economic activity, according to the World Bank.

The bank sees the 2018 parliamentary elections as a factor that could slow down the pace of implementation of reforms. Weaker than expected growth in key economies, including the EU and Russia, could have a negative impact on growth in Moldova.

Moldova – GDP, Inflation, Current Account Balance and FDI Dynamics (y/y change in %)						
	2014	2015	2016 e	2017 f	2018 f	2019 f
Real GDP growth, at constant market prices, y/y change in %	4.8	-0.5	4.1	4.0	3.7	3.5
Private Consumption	3.2	-2.3	3.6	3.8	3.6	3.4
Government Consumption	0.1	0.4	0.1	1.0	0.5	0.1
Gross Fixed Capital Investment	10.0	-1.2	-3.0	2.9	3.8	4.5
Exports, Goods and Services	1.0	2.3	8.8	9.4	3.8	4.0
Imports, Goods and Services	0.4	-4.3	5.9	6.8	3.9	4.2
Real GDP growth, at constant factor prices (by sectors)	5.4	-0.4	4.8	3.3	3.8	4.3
Agriculture	8.5	-13.4	18.2	2.5	3.8	4.1
Industry	7.5	3.5	2.1	3.7	4.1	5.5
Services	3.8	3.4	1.4	3.4	3.7	4.1
Inflation (Consumer Price Index)	5.1	9.7	6.9	5.3	4.8	5
Current Account Balance (% of GDP)	-7.1	-6.4	-4.1	-4.5	-4.8	-5.3
Net Foreign Direct Investment (% of GDP)	3.9	3.5	1.9	2.9	3.4	4

Source: World Bank, Europe and Central Asia Economic Update, May 2017

2. REAL SECTOR

2.1. GROSS DOMESTIC PRODUCT (GDP)

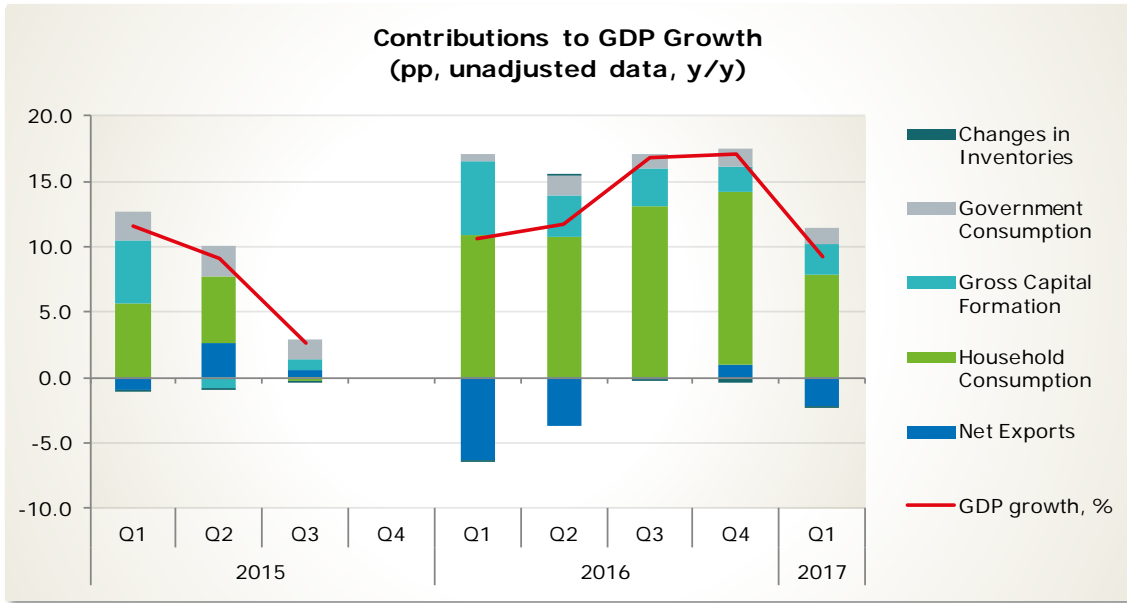
GDP growth at 3.1% in Q1 2017; Consumption growth slowed

The country's GDP increased by real 3.1% y/y and totalled MDL 28.070 bln in Q1 2017, according to the data of the National Bureau of Statistics of the Republic of Moldova (NBS). This is down compared to the third and fourth quarter of 2016, when the economy expanded by 6.3% and 6.5%, respectively, mainly on low base effects.

The final consumption in the economy decelerated its pace of growth to 8.2% y/y in Q1 2017 from 13.5% y/y in Q4 2016. Gross capital formation went up by 10.3%, while exports grew by 26%.

The positive evolution of GDP in the first quarter of 2017 was also due to the rich harvest of the previous year, which created premises for a pronounced increase in exports, according to the NBM. Exports surged by 26% y/y to MDL 14.914 bln in Q1 2017.

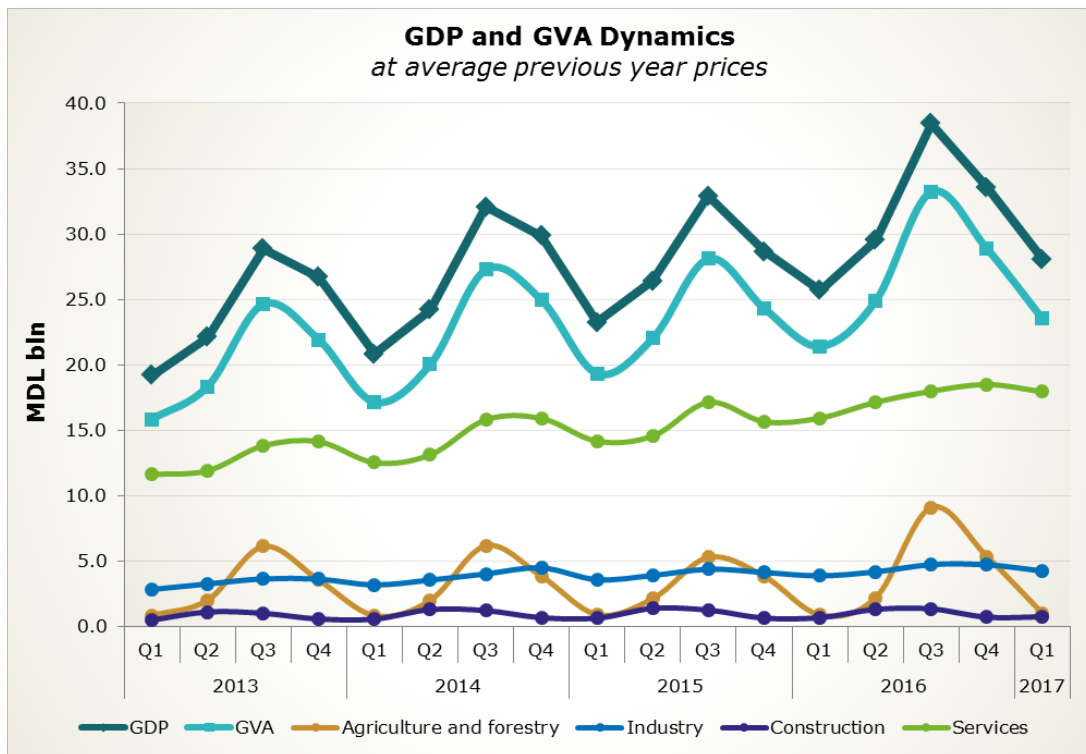
The largest contributor to the y/y growth during the first quarter was once again the household consumption with 7.8 pp, followed by gross capital formation which added 2.4 pp to the overall GDP growth. Country's net export had a negative contribution with 2.1 pp y/y.



Source: SeeNews calculations; NBS

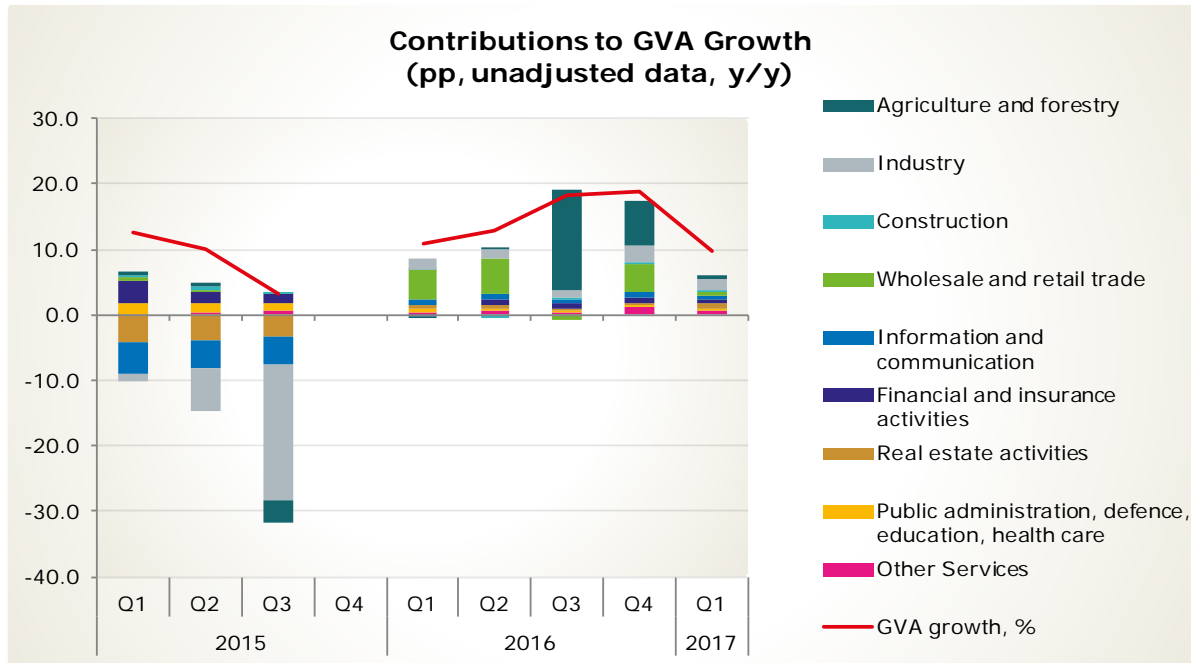
Note: Non-additive data due to direct chain-linking of GDP and its components. Contribution of changes in inventories has been derived as a residual; Data for Q4 2015 was not available.

The gross value added (GVA) generated by the national economy rose by 9.8% y/y in Q1 2017 and totalled MDL 23.523 bln. The industrial sector grew in value by 9.4% y/y, accounting for 18.1% of the total GVA. The services sector recorded a 12.6% annual increase, slicing a 76.3% share in the GVA. The agricultural sector registered an annual jump of 11.9%, slicing a 4.3% share in the GVA. The construction industry marked an increase of 9.7%, and its share in the GVA was 3.2%.



Source: NBS

In Q1 2017, the GVA growth was more balanced compared to the first and the fourth quarter of 2016. The different sectors contributed almost equally to the overall GVA – the industrial sector added 1.8 pp to the total GVA, the sector of information and communication contributed by 0.8 pp, while real estate sector and agriculture and forestry contributed with 0.7 and 0.5 pp, respectively.



Source: SeeNews calculations; NBS

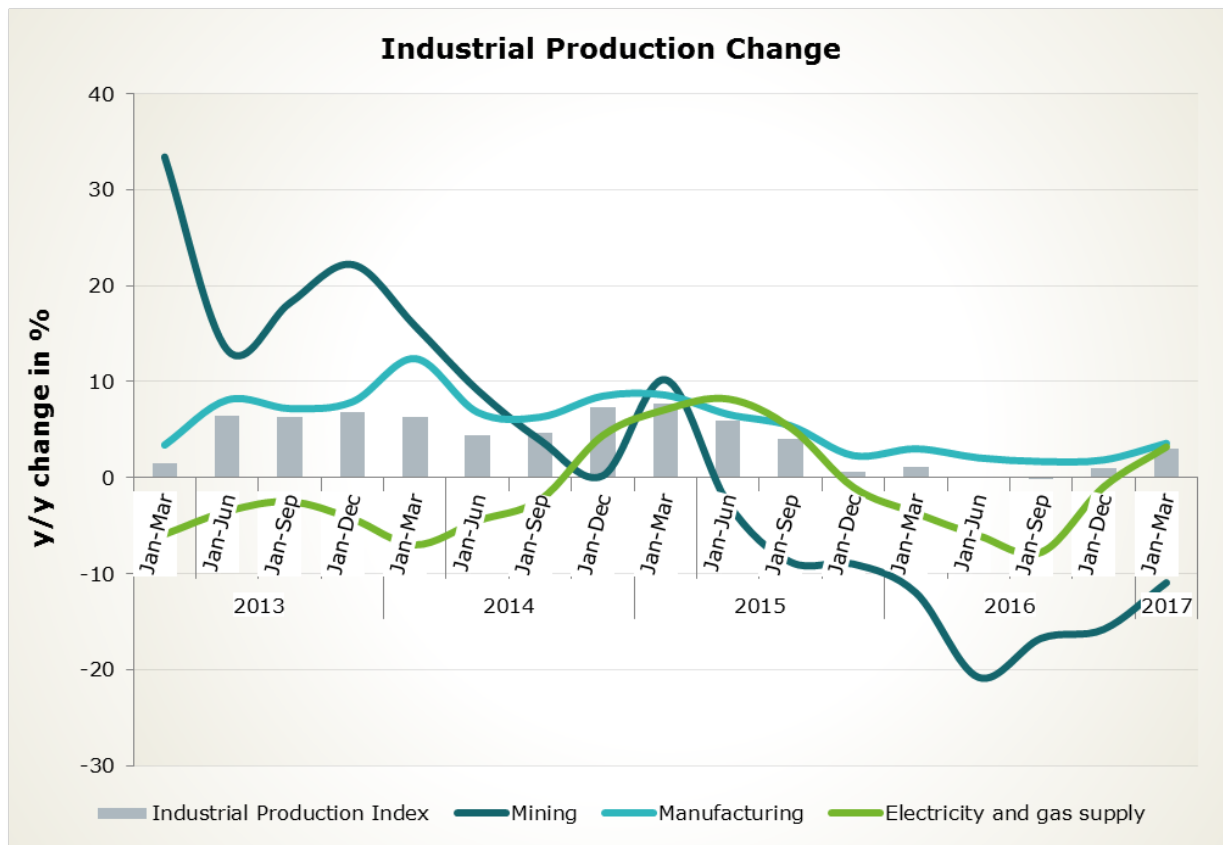
Note: Non-additive data due to direct chain linking of GDP and its components; Data for Q4 2015 was not available.

2.2. INDUSTRIAL OUTPUT

Industrial output speed up its pace of growth to 3.0 % y/y in Q1 2017

Industrial output growth accelerated in Q1 2017 to 3.0% y/y compared to 0.9% y/y growth in Q4 2016, according to NBS.

The manufacturing industry reported an annual rise of 3.6%, while the output of the electricity and gas supply industry went up by 3.2%. The mining industry slumped by 10% y/y during the first three months of the year.

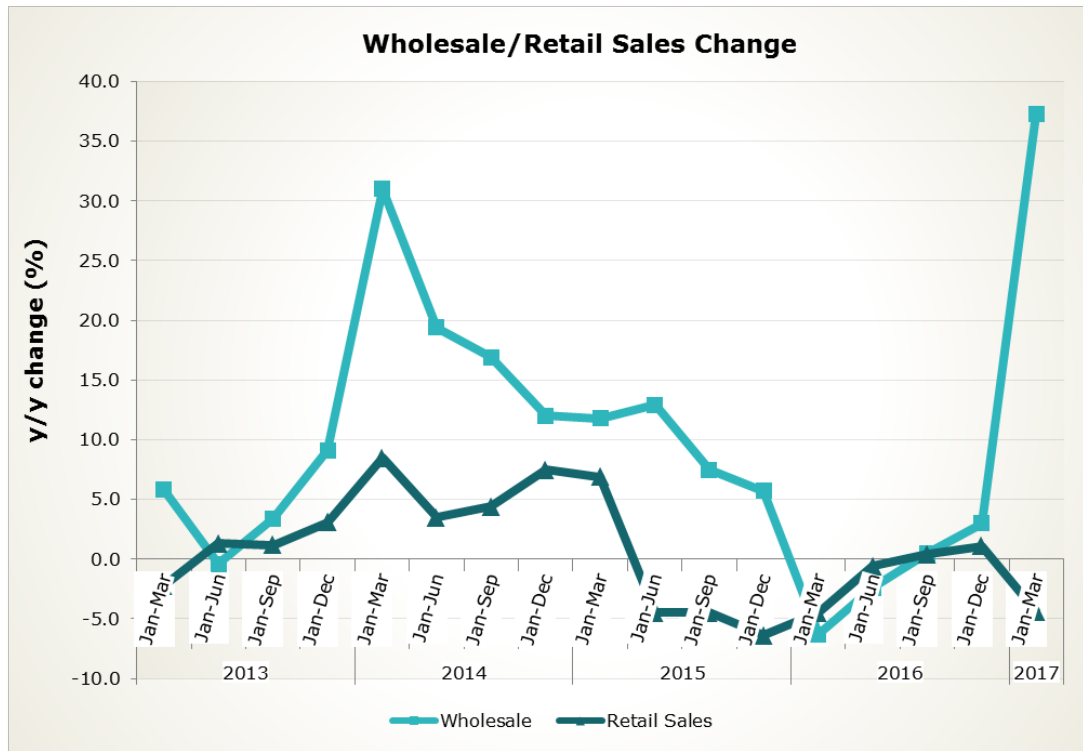


Source: NBS

2.3. WHOLESALE/RETAIL

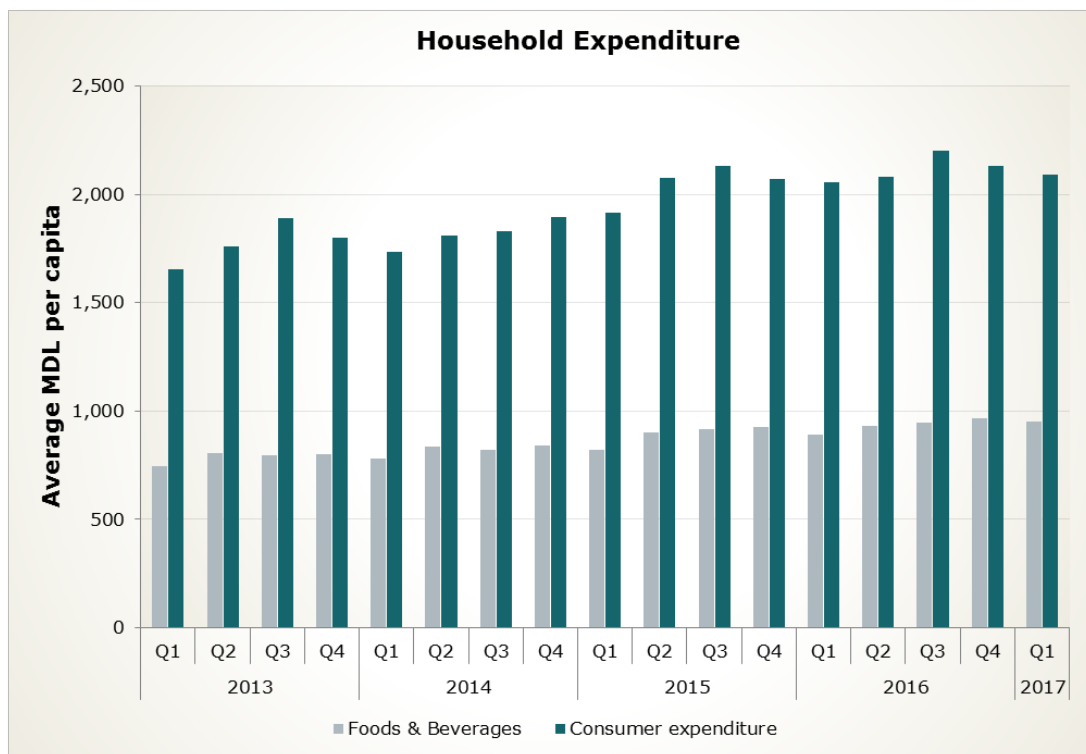
Wholesale sector surged by 37.3% y/y while the retail sector went down by 4.4% y/y in Q1

The wholesale sector grew by 37.3% y/y in Q1 2017, according to NBS data. The turnover of the retail sector marked an annual decrease, of 4.4%.



Source: NBS

In Q1 2017, average consumer expenditure per capita in Moldova increased by 1.6% to MDL 2,091 from MDL 2,058 in the previous year. The food and beverages product group marked a faster y/y growth, of 6.6%, to MDL 952.



Source: NBS

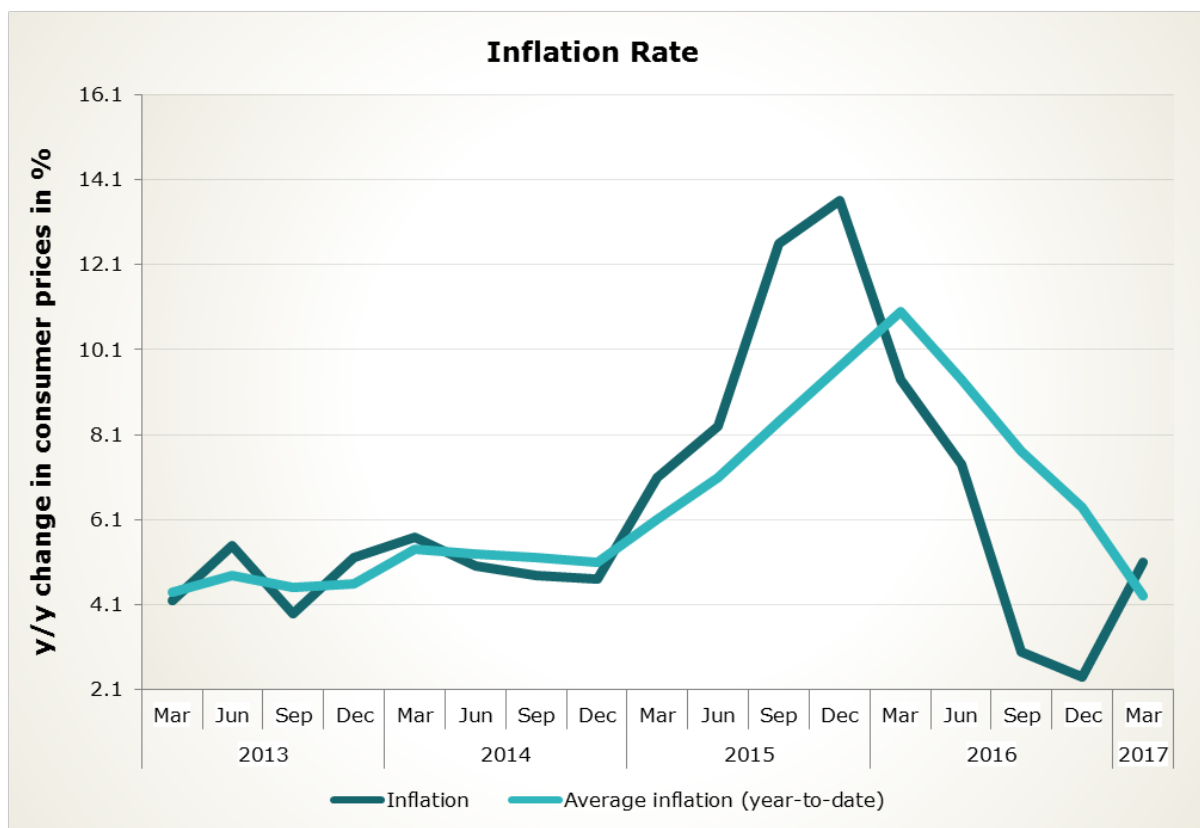
2.4. INFLATION

Average annual inflation of 4.3% in Q1 2017

Moldova registered average annual inflation of 4.3% in Q1 2017, which is 1.8 pp more compared to Q4 2016, according to NBS.

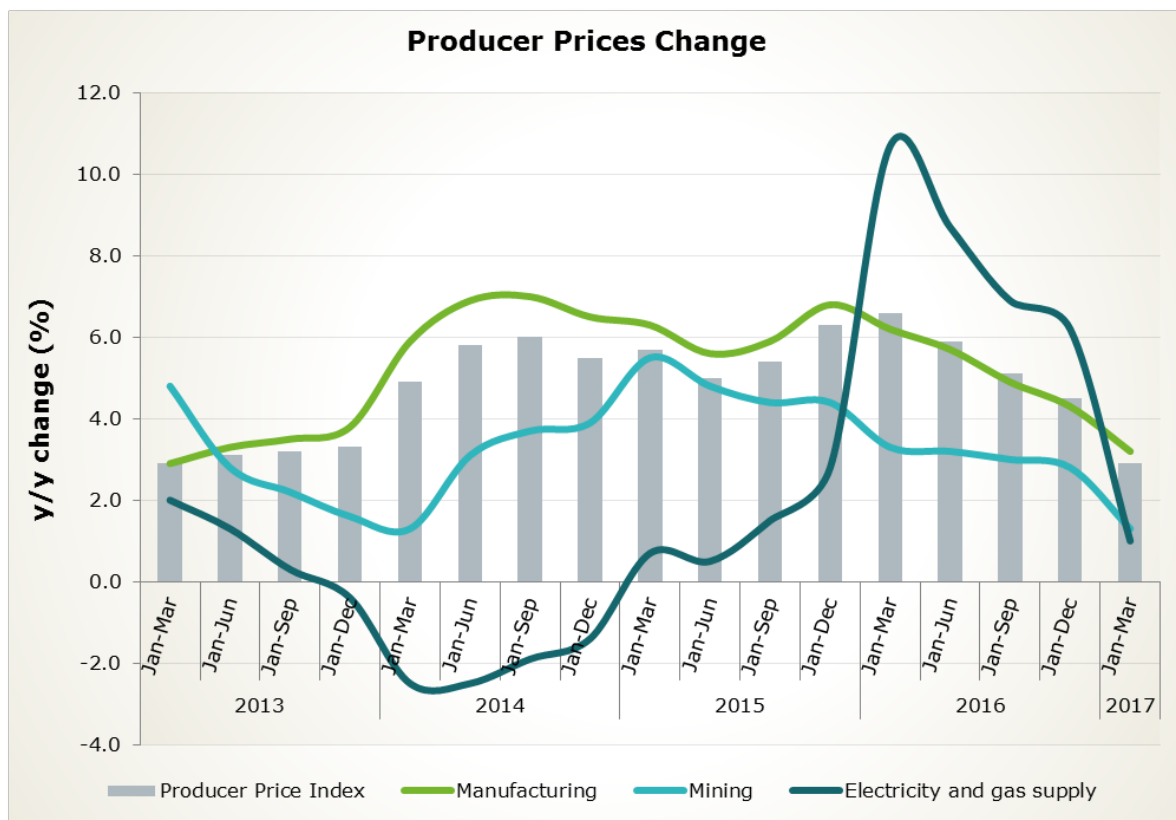
The increase of the annual inflation rate during the first quarter was determined mainly by the increase in tariffs for healthcare services, the adjustment of excise duty for some categories of products, certain pressures from aggregate demand, increase of oil prices and by low base effects in 2016.

According to NBS, the annual rate of core inflation continued its upward trend, increasing up to 4.6% in March 2017. Food prices increased from 2.8% in December 2016 to 5.0% in March 2017, while fuel prices went up from 1.6% in December to 12.5% in March 2017. At the end of the first quarter of 2017, regulated prices increased by 3.6% y/y.



Source: NBS

Producer prices grew by 2.9% y/y in Q1 2017 with all industries registering positive growth – from 1.3% for mining, through 3.2% for manufacturing, to 1.0% for electricity and gas supply.



Source: NBS

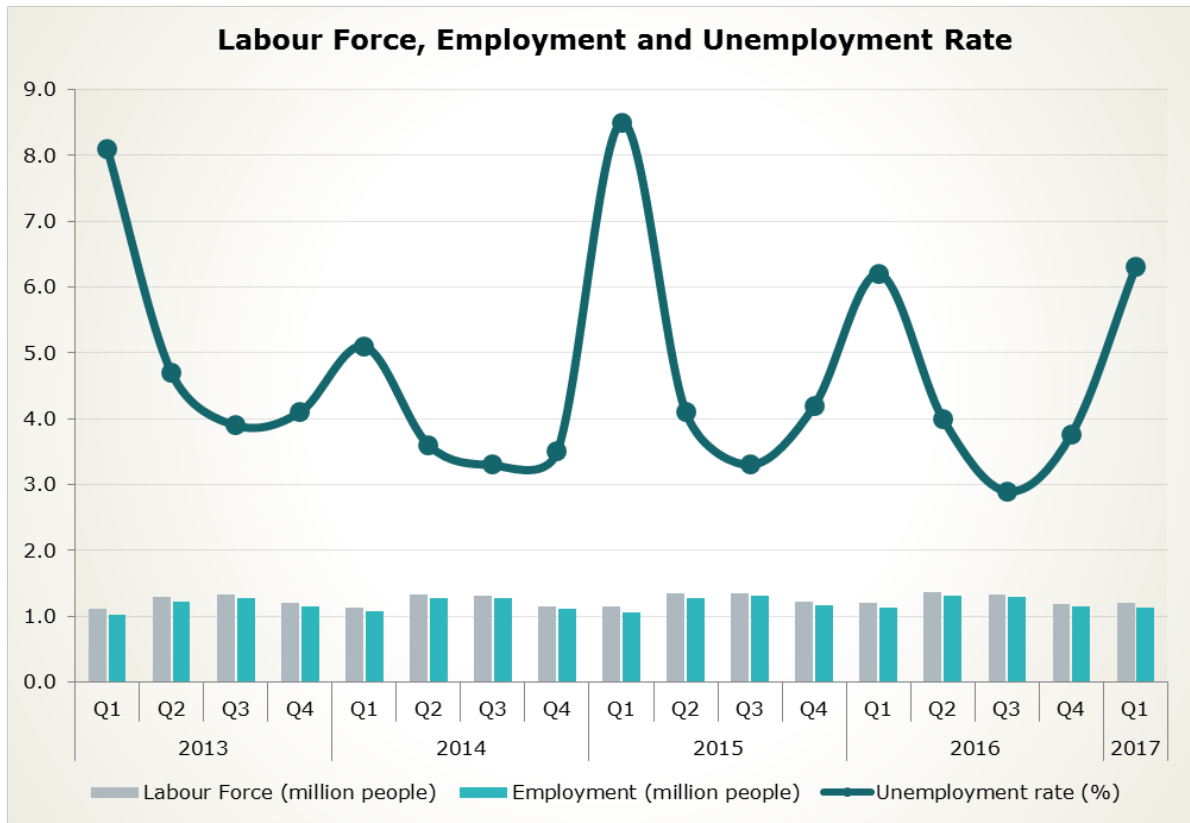
3. LABOUR MARKET

Unemployment rate at 6.3%, wages up 11.3% y/y in Q1 2017

Unemployment in Moldova increased to 6.3% in Q1 2017 from 6.2% a year ago, according to data of NBS. Youth unemployment rate (aged 15-24) went down to 12.7% in Q1 2017 from 13.9% in Q1 2016.

The employed population aged 15 years and older was 1.126 million in Q1, up 0.2% y/y.

As the labour market tightened, employees' compensations went up during the quarter. According to data of NBS, the average gross monthly salary in Q1 2017 rose by 11.3% y/y to MDL 5,219. In the public sector, it was MDL 4,726 and in the private – MDL 5,429.



Source: NBS

4. CONSTRUCTION AND REAL ESTATE

The value of construction works went up by 11.3% y/y in Q1 2017

The value of construction works carried out in Moldova in Q1 2017 inched up by 11.3% y/y and totalled MDL 1.034 bln, according to NBS data.

New construction works accounted for the larger share in the construction mix - 59.7%, while repairing and maintenance works accounted for the remaining 40.3%.

5. MONEY SUPPLY AND BANKING SYSTEM

5.1. MDL EXCHANGE RATE

The average exchange rate of the MDL against the EUR went down to MDL 21.245 in Q1 2017 from MDL 21.644 in Q4 2016, according to the National Bank of Moldova's (BNM) data.

MDL Average Exchange Rate			
Foreign Currency	Q1 2017	Q4 2016	Q1 2016
USD	19.956	20.037	20.074
GBP	24.719	24.936	28.755
CHF	19.866	20.042	20.194
EUR	21.245	21.644	22.126

5.2 MONETARY POLICY

BNM keeps base interest rate at 9.0%

In the first quarter of 2017, there were three meetings of the Executive Board of the National Bank on Moldova on monetary policy decisions. The Board decided to maintain the base rate applied on main monetary policy operations at the level of 9.0%.

In order to ensure and maintain price stability over the medium term, the National Bank's aim is keeping inflation at the level of 5.0% annually with a possible deviation of ± 1.5 percentage points. This target range is considered by the bank to be optimal for growth and development of Moldova's economy over the medium term.

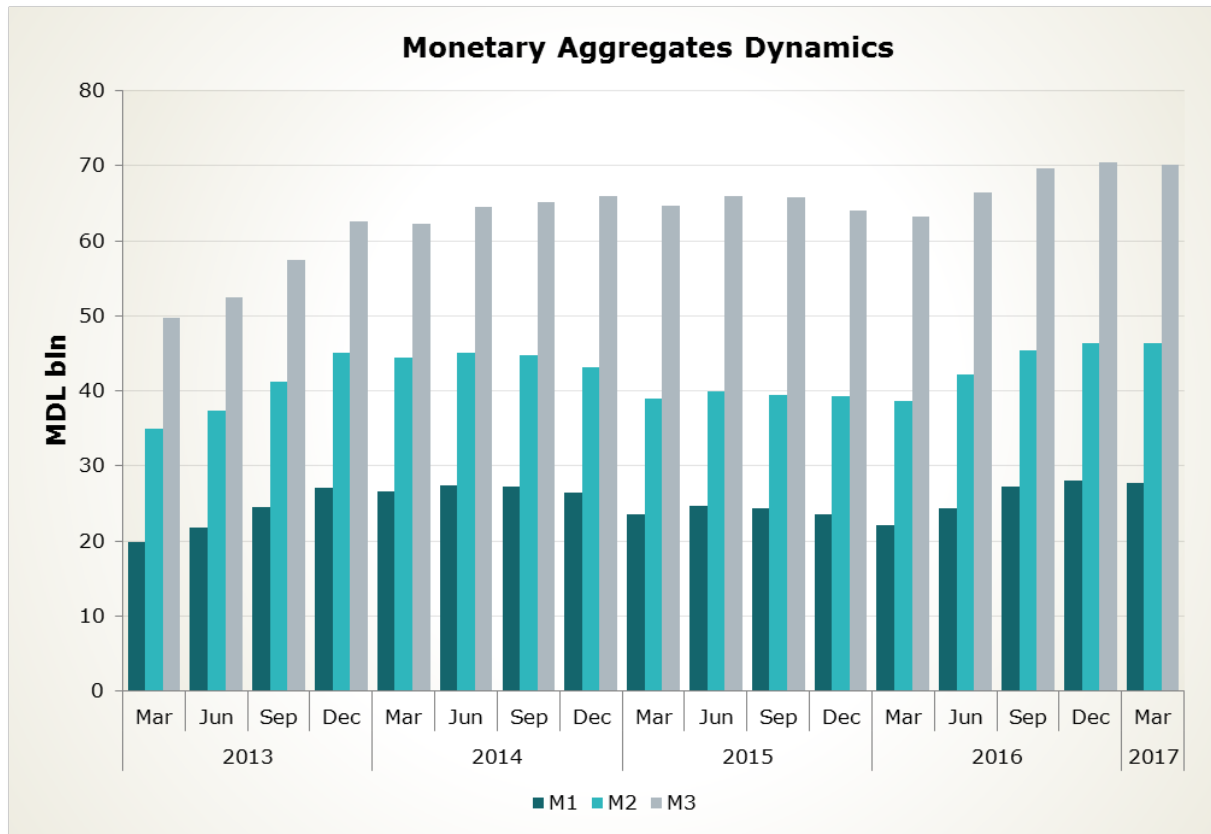
5.3. MONETARY AGGREGATES

Money supply up by 11.1% y/y at end-March 2017

Broad money (money aggregate M3) increased by 11.1% y/y to MDL 70.198 bln at the end of March 2017, according to data provided by BNM.

The M2 money supply went up by 20.1% y/y to MDL 46.37 bln.

Money aggregate M1, or narrow money, jumped by 26% to MDL 27.768 bln.



Source: BNM

5.4. BANKING AND INSURANCE

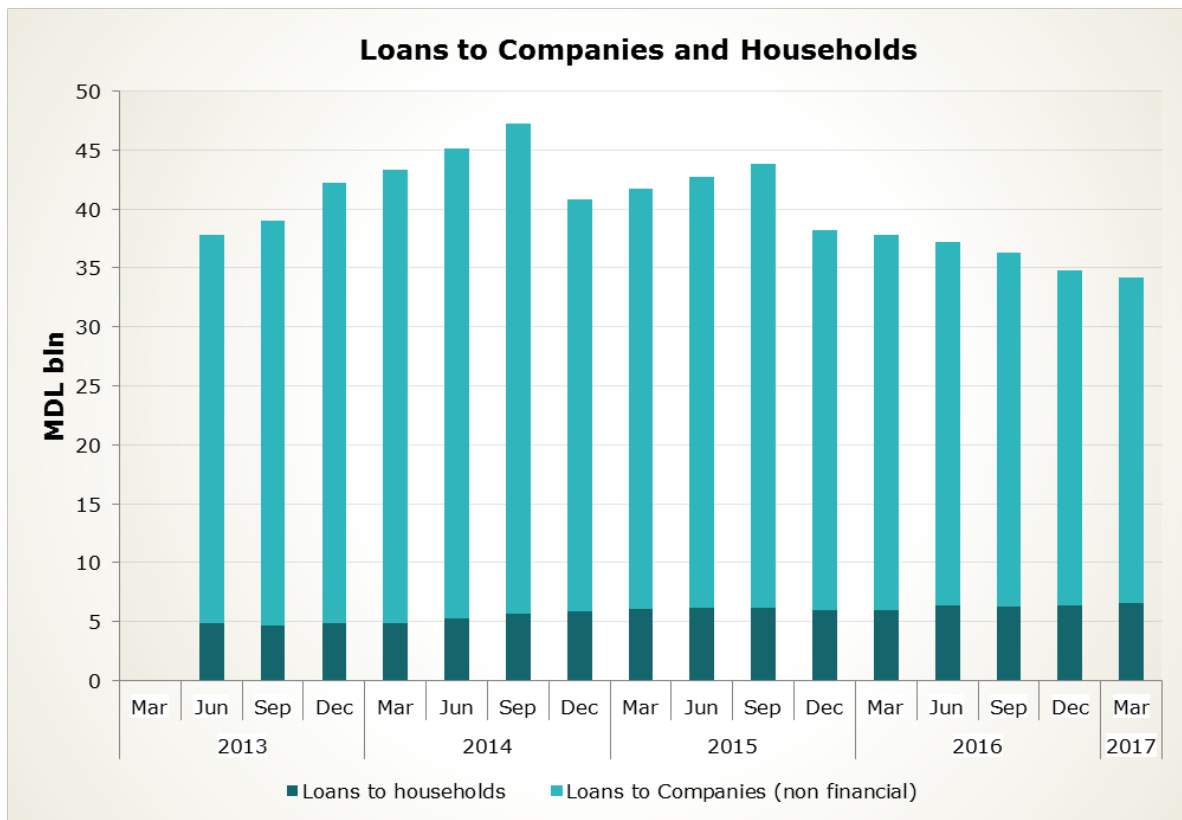
Household loans increased by 10.0% y/y as of March 2017

Loans to the non-government sector totalled MDL 34.188 bln as of end-March 2017, down by 9.7% compared to a year ago, according to BNM.

Loans to non-financial corporations sank by 13.4% y/y to MDL 7.619 bln while household loans went up by 10.0% to MDL 6.569 bln.

During the first quarter of 2017, the share of non-performing loans accounted for 16.2% in total loans.

According to BNM, the weighted average interest rate on new loans in national currency granted in March 2017 was 11%, decreasing by 4.5 pp compared to the same period of last year. The weighted average interest rate on new loans in foreign currency in March 2017 was 5.3%, down by 0.79 pp compared to March 2016.



Source: BNM

Note: Data for March 2013 was not available

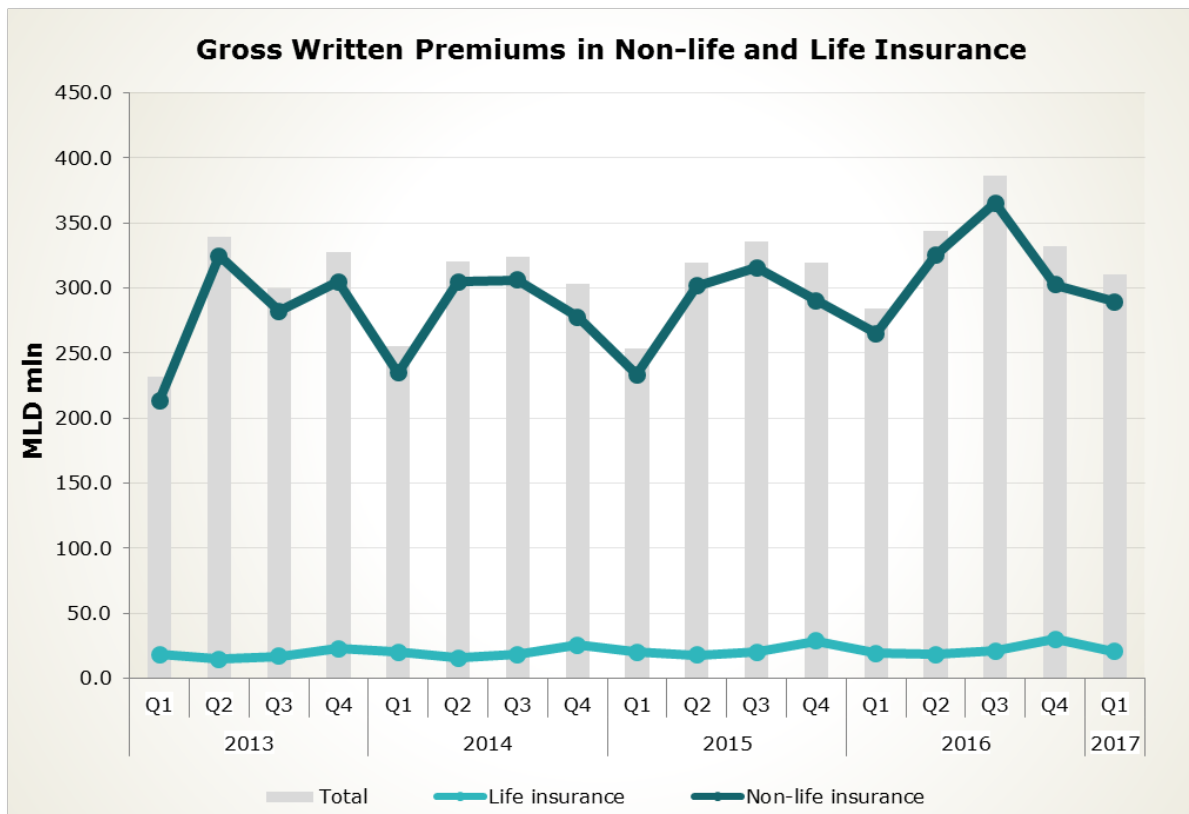
At end-March 2017, the total assets of the banking system totalled MDL 74.0 bln, increasing by 1.5% during the first quarter of 2017.

As of March 2017, the profit of the banking sector accounted for MDL 499.8 mln and decreased by 11.8% compared to the same period of last year due mainly to the decrease in interest-related income by 26.2%, according to BNM.

Insurance premium income up 9.1% y/y in Q1 2017

The total gross written premiums (GWP) of the non-life and life insurance companies in Moldova stood at MDL 310.3 mln in Q1 2017, up by 9.1% y/y, according to the National Commission for Financial Markets.

The growth was thanks to the 9.3% annual jump, to MDL 289.6 mln, of the non-life insurance market's GWP, while the life insurance segment increased by 6.8% y/y to MDL 20.7 mln.



Source: National Commission for Financial Markets

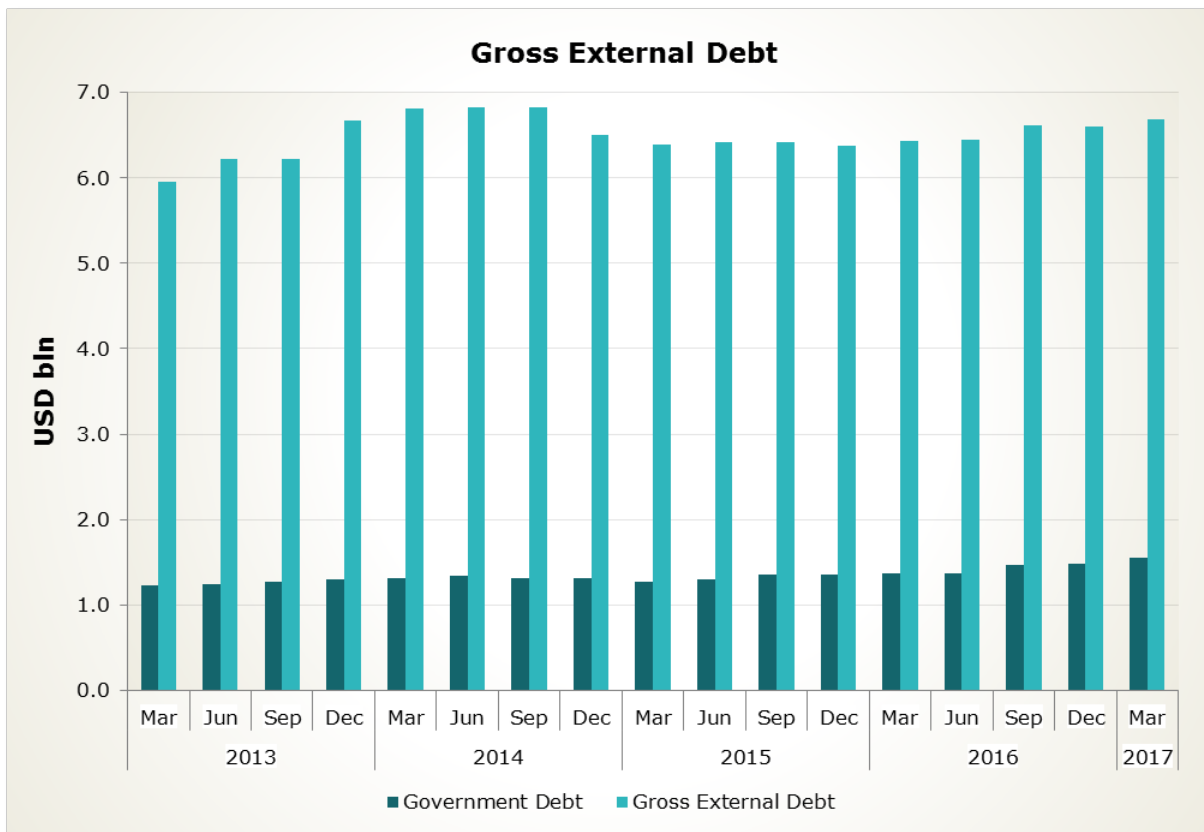
6. EXTERNAL SECTOR

6.1. FOREIGN DEBT

The gross external debt amounted to USD 6.689 bln as of March 2017

The gross external debt totalled USD 6.689 bln as of March 2017, according to central bank data. It went up by 3.9%, or USD 252 mln, compared to March 2016.

At the end of Q1 2017, long-term liabilities inched up by 1.4% y/y and amounted to USD 3.099 bln, or 46.3% of the total debt. Short-term liabilities came in at USD 2.493 bln, by 9.2% more than a year earlier, equal to 37.3% of the total debt.



Source: BNM

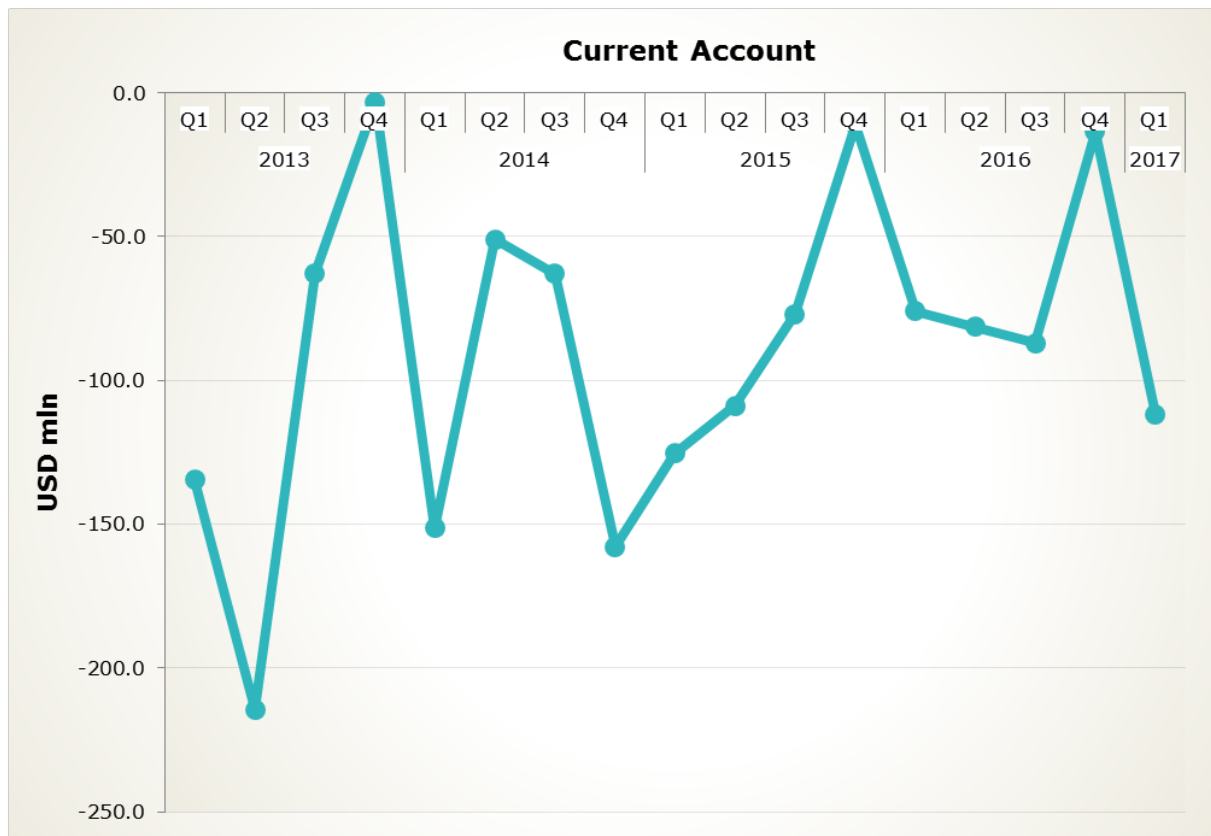
6.2. BALANCE OF PAYMENTS

Current account deficit surged by 47% to USD 111.9 mln in Q12017

The current account deficit narrowed to USD 111.9 mln in Q1 2017 from USD 75.9 mln a year ago, according to central bank statistics data.

The increase in the current account deficit by 47.4% in Q1 was due mainly to 15.0% increase in the negative balance on the net exports of goods to USD 486.7 mln. Net exports of services were positive at USD 24.95 mln while the positive balance on the income account amounted to USD 98.9 mln.

The net current transfers in Q1 2017 went up by 2.0% to USD 250.95 mln.



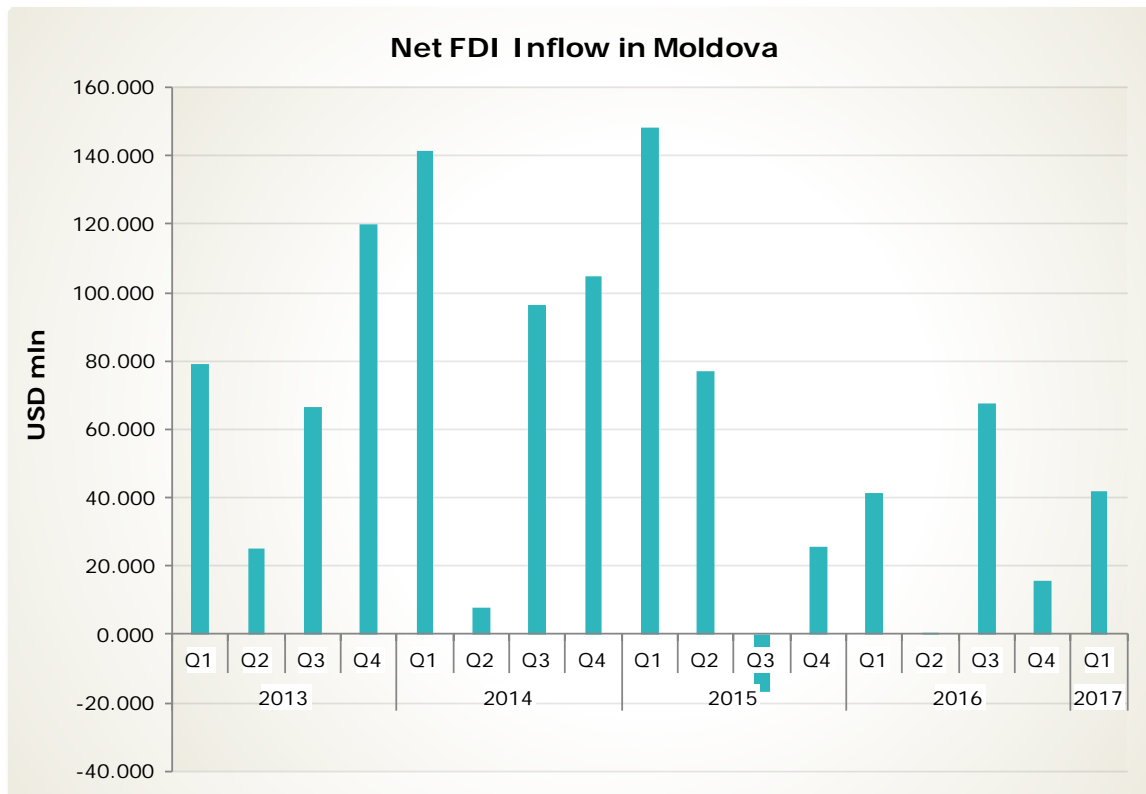
Source: BNM

6.3. FDI

Net FDI inflow at USD 41.9 mln in Q1 2017

Net foreign direct investments (FDI) in Moldova totalled USD 41.9 mln in the first three months of 2017, up 1.7% y/y, according to BNM data.

Of the total, equity capital investments amounted to USD 11.0 mln, while reinvested earnings came in at USD 33.1 mln.



Source: BNM

6.4. FOREIGN TRADE

Foreign trade deficit up by 13.0% y/y in Q1 2017

The trade deficit stood at USD 502.5 mln in Q1 2017, compared to USD 444.8 mln a year earlier, according to BNM.

In Q1 2017, Moldova's main export markets were Romania, which accounted for 24.0%, or USD 128.0 mln of the total exports, followed by Russia, with an 11.5% share equal to USD 60.8 mln and Italy with a 9.0% share, or USD 48.0 mln.

Most of Moldova's imports came from Romania – USD 139.0 mln, or 13.5% of the total, Russia followed with USD 160.0 mln, a 15.5% share, and China was the third major importer with USD 105.2 mln, representing a 10.2% share.



Source: NBS

6.5. TOURSIM

Number of tourist overnights increased by 4.5% y/y in Q1 2017

Tourist overnights of foreigners expanded by an annual 4.5% to 45,051 in the first quarter of 2017, according to NBS data.

The growth in the number of foreigners who visited the country was higher – 26.9% and they numbered 27,935.

In Q1 2017, the share of foreign tourists in the total overnights in Moldova inched up to 24.9% from 24.4% a year ago.



Source: NBS

7. MAJOR DEVELOPMENTS

Moldova needs to improve rule of law, tackle corruption – EC

Mar 13, 2017

Moldova needs to improve the rule of law and business environment, which is still affected by endemic corruption as well as inconsistent policy-making, according to the European Commission (EC). Moldova signed an association agreement with the European Union in 2014, which took effect fully in July 2016.

[Read the full story here](#)

Moldova's transition to stable market-oriented economy still fragile - Heritage Foundation

Feb 16, 2017

Moldova has gradually recovered from a sharp economic slowdown but its transition to a more stable market-oriented economy remains fragile, according to U.S.-based think-tank The Heritage Foundation. Moldova climbed up seven places in the Foundation's 2017 global economic freedom chart to the 110th place, with a score of 58 points from a maximum 100. Among the 11 Southeast European countries present in the chart, Moldova ranks last.

[Read the full story here](#)

Moldova collapses in Transparency Intl 2016 corruption ranking, ranks worst in SEE

Jan 25, 2017

Transparency International said on Jan 25, 2017 that Moldova lost 20 positions in the corruption watchdog's Corruption Perceptions Index (CPI) survey for 2016, ranking 123rd out of a total 176 countries and worst in Southeastern Europe (SEE).

Read the full story [here](#)

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