

MOLDOVA ECONOMY REPORT

Q1 2018

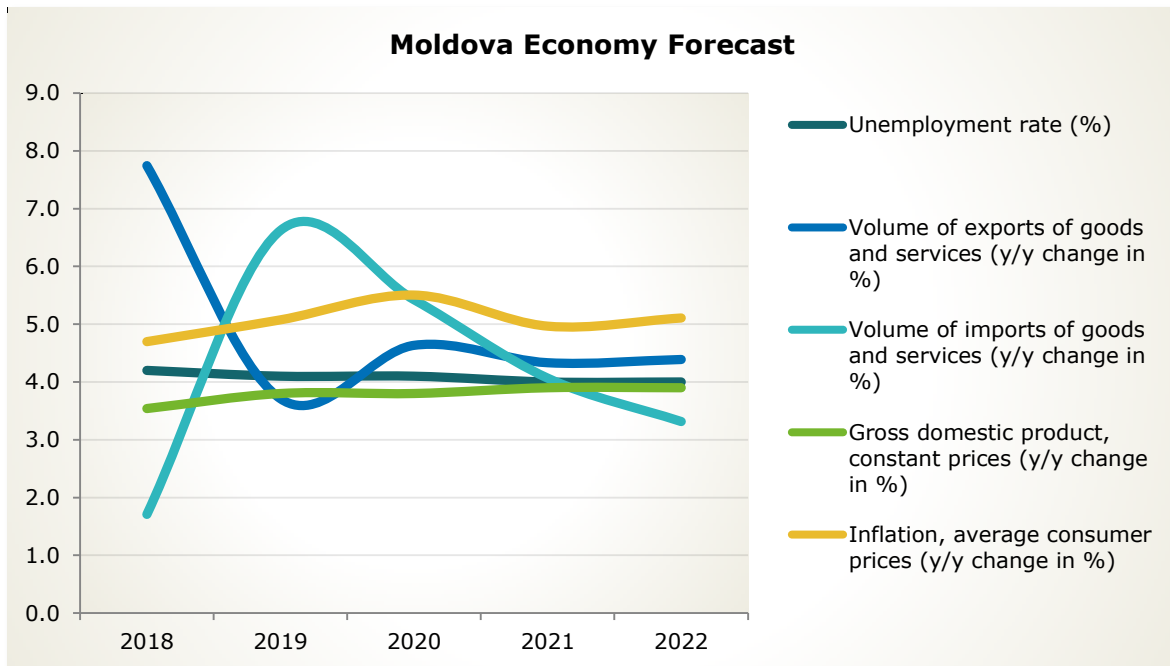
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1. MACROECONOMIC SNAPSHOT AND FORECAST

MOLDOVA – MACROECONOMIC SNAPSHOT AS OF Q1 2018	
GDP Growth	3.7% y/y
Industrial output	6.3% y/y
Retail sales	11.7% y/y
Wholesales	11.6% y/y
Average annual inflation	5.2%
Unemployment rate	4.1%
Construction works value	5.4% y/y
Money supply	9.6% y/y
Household loans	19.6% y/y
Gross external debt	USD 6.974 bln*
Current account deficit	USD 86.2 mln*
Net FDI inflow	USD 89.7 mln
Foreign trade deficit	USD 648.0 mln
Number of foreign tourist overnights	21.0%

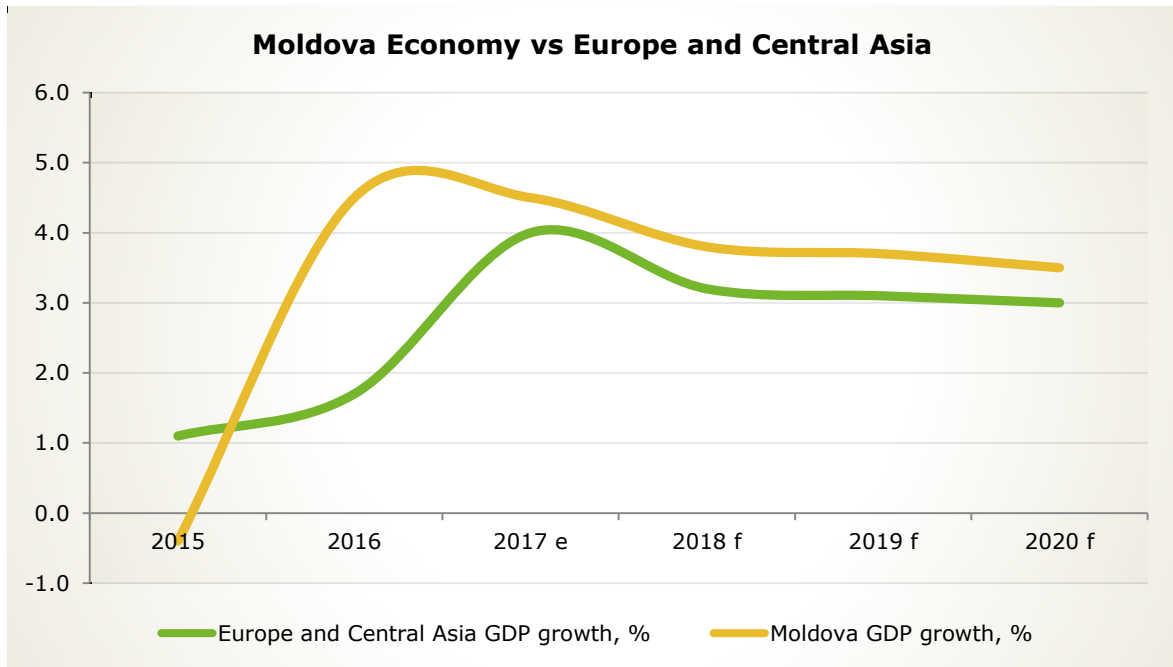
*data available as of December 2017



Source: International Monetary Fund (IMF) World Economic Outlook Database – April 2018

The International Monetary Fund (IMF) expects the economic growth of Moldova to remain solid in 2018 at 3.5%, driven by the rising real incomes, monetary policy easing and continued remittance inflows. Net exports are forecast to remain under pressure from a stronger exchange rate, less robust agricultural production, and growing domestic demand. Over the medium term up to 2022, growth is projected to be close to 4.0%.

CPI inflation is expected to come in at 4.7% in 2018 and 5.1% in 2019. The inflation will experience downward pressure from regulated energy prices, including gas and electricity and the appreciation of the exchange rate. Over the medium-term, the current account deficit is expected to narrow to about 6.5% of GDP, according to IMF.



Source: World Bank, Europe and Central Asia Economic Update, January 2018

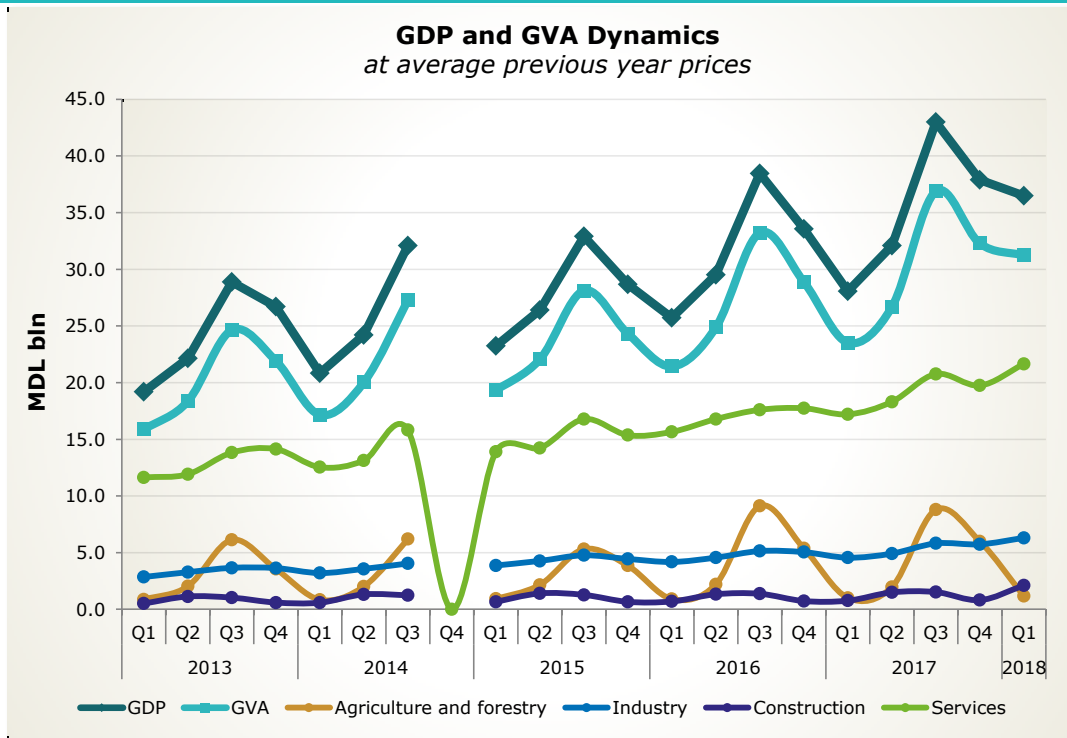
According to the World Bank estimates from June 2018, GDP growth is likely to come in at 3.8% in 2018, up from 4.5% in 2017. This will be higher than the projected growth for Europe and Central Asia, of 3.2% in 2018.

2. REAL SECTOR

2.1. GROSS DOMESTIC PRODUCT (GDP)

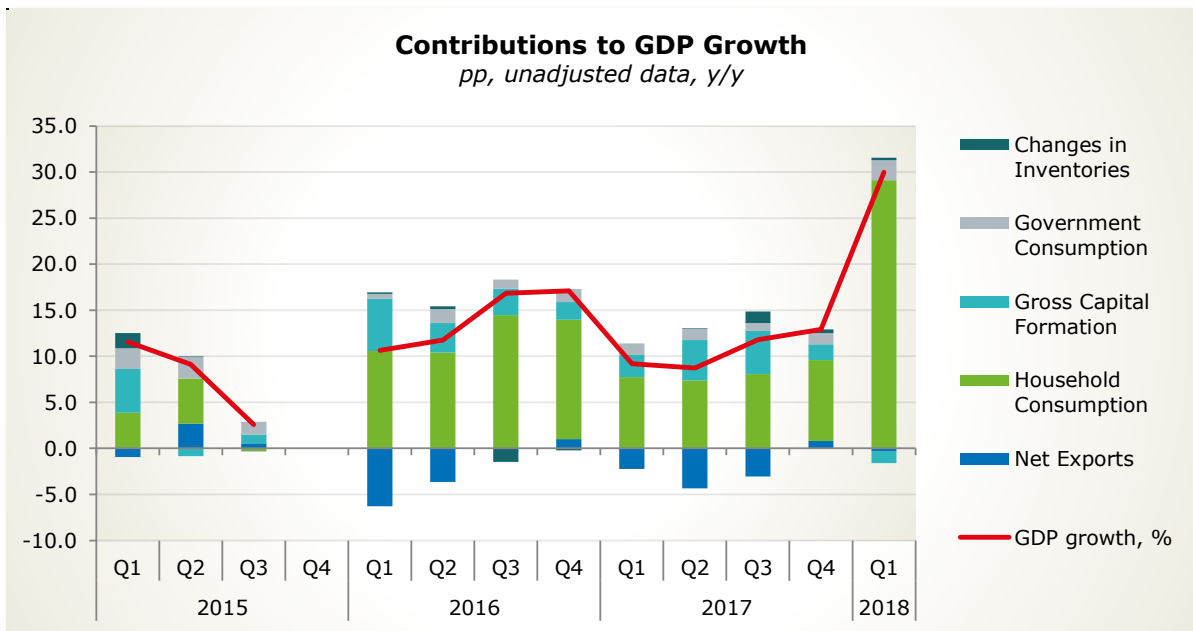
GDP growth at 3.7% y/y in the first quarter

Moldova's economy expanded by 3.7% in real terms in Q1 2018, mainly on the surging household consumption, according to the data of the National Bureau of Statistics of the Republic of Moldova (NBS). Moldova's GDP grew by 6.4% in Q4 2017 and by 3.1% y/y in the same quarter of the previous year.

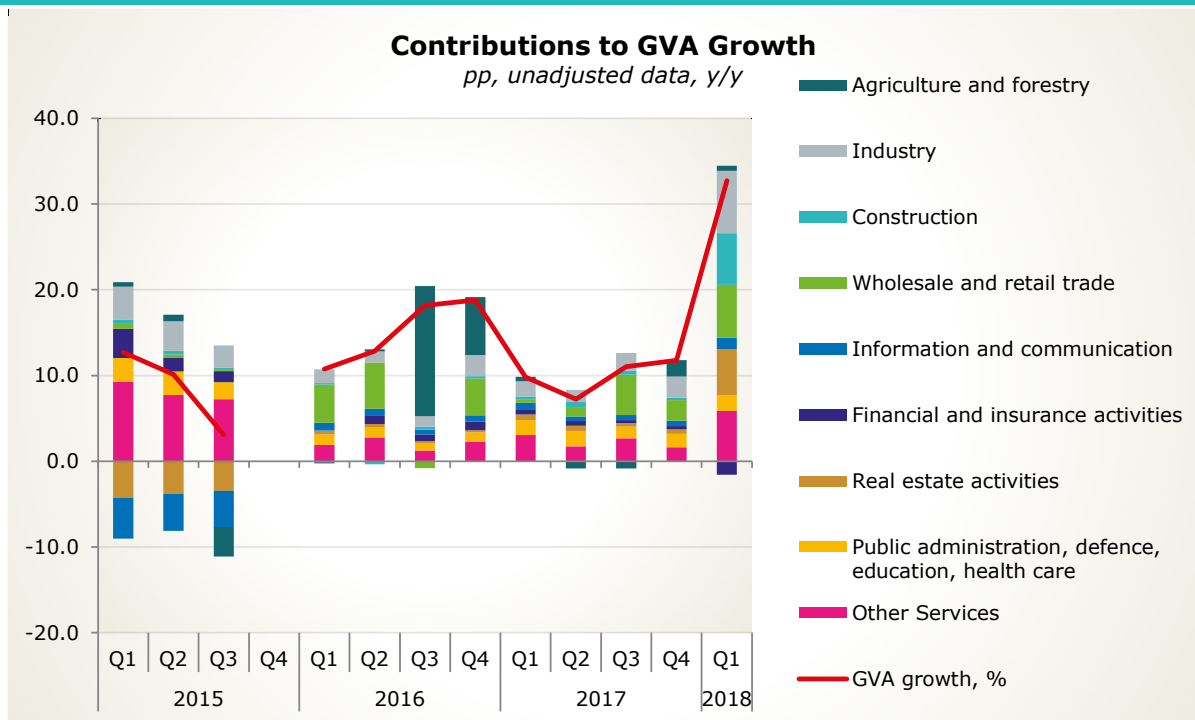


Source: NBS

A negative contribution to GDP growth was recorded by gross capital formation, of -1.3%, and net exports, of -0.3%, which was the result of the higher contribution from goods and services imports compared to exports.



Source: NBS



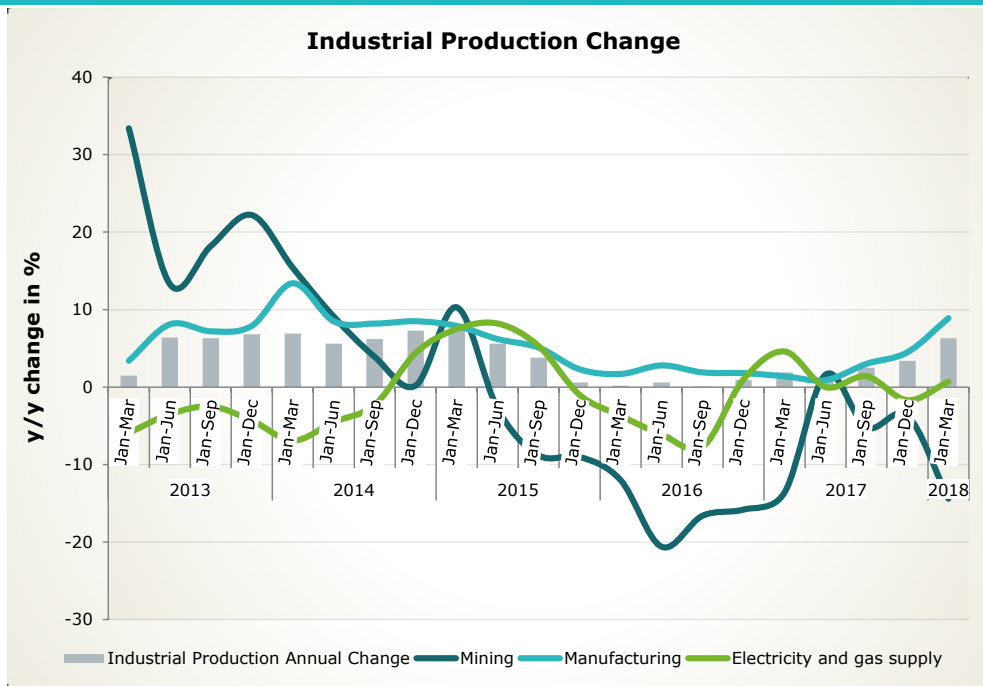
Source: NBS

2.2. INDUSTRIAL OUTPUT

Industrial output annual growth at 6.3% y/y in Q1 2018

Industrial output growth came in at 6.3% in Q1 2018, compared to a 3.4% y/y growth in Q4 2017 and a 1.9% rise in Q1 2017, according to NBS.

Manufacturing registered an annual rise of 8.9%, while the output of the electricity and gas supply industry inched up by 0.7%. The production of the mining industry plunged by 14.4% y/y after contracting by 3.7% in Q4 2017.

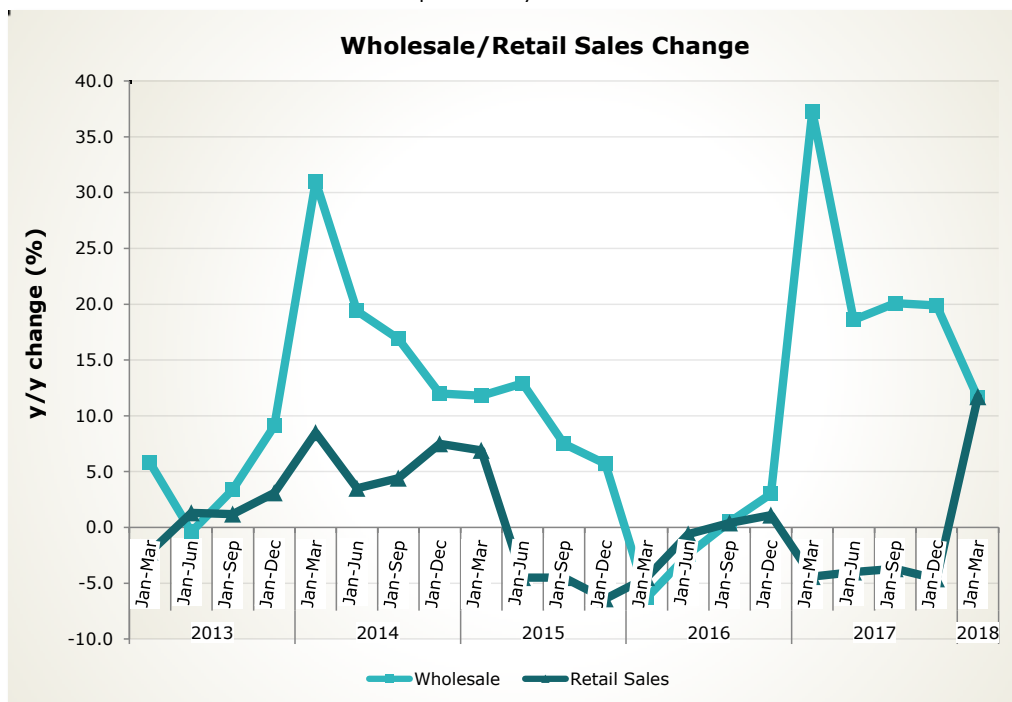


Source: NBS

2.3. WHOLESALE/RETAIL

Wholesale sector surged by 11.6% y/y, retail sector up by 11.7% y/y in Q1 2018

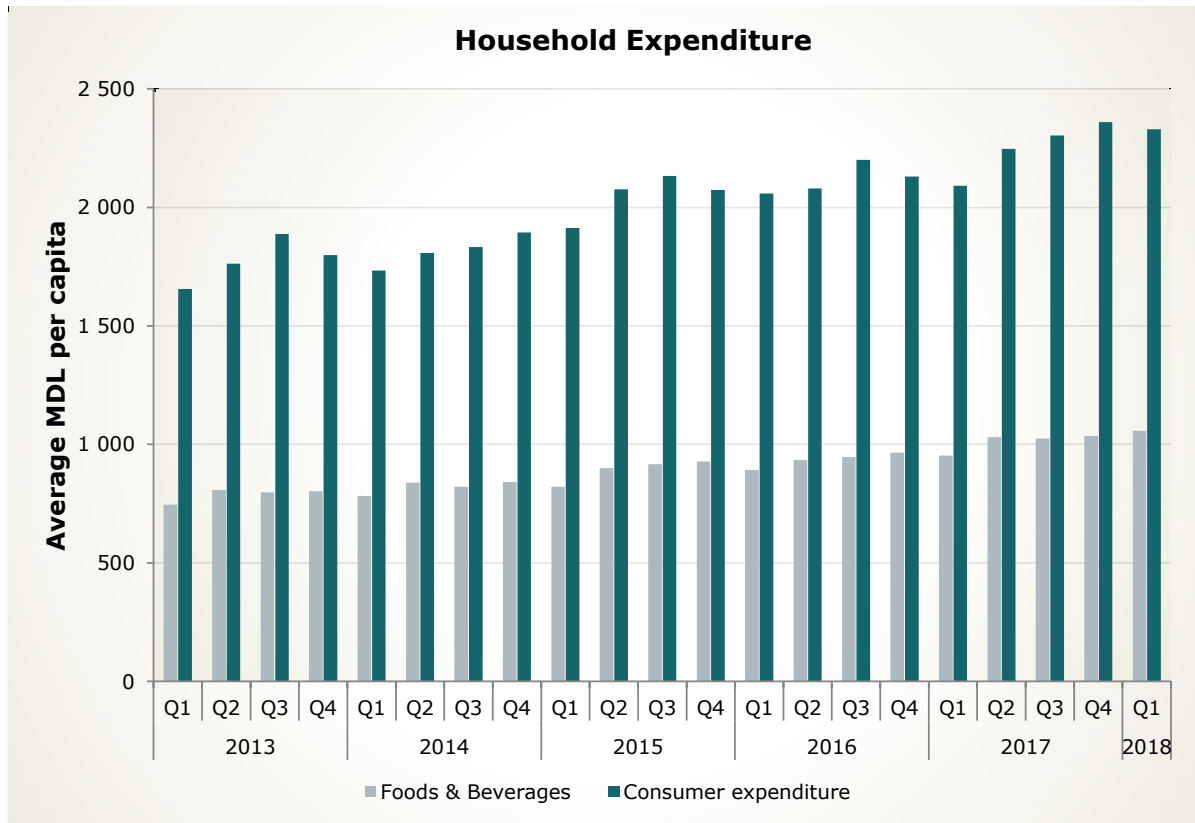
The wholesale sector grew by 11.6% y/y in Q1 2018, according to NBS data. The turnover of the retail sector marked an annual increase, of 11.7%. Improving consumer confidence lifted expenditures which in turn contributed positively to retail and wholesale turnover.



Source: NBS

Note: Data for Jan-Mar 2014 is for the last month in the period as data for the whole period is not available

In Q1 2018 the average consumer expenditure per capita in Moldova increased by 11.4% to MDL 2,330 from MDL 2,091 in Q1 2017. The food and beverages product group marked a year-on-year growth of 11.0%, to MDL 1,057, accounting for 45.4% of the total consumer expenditure.



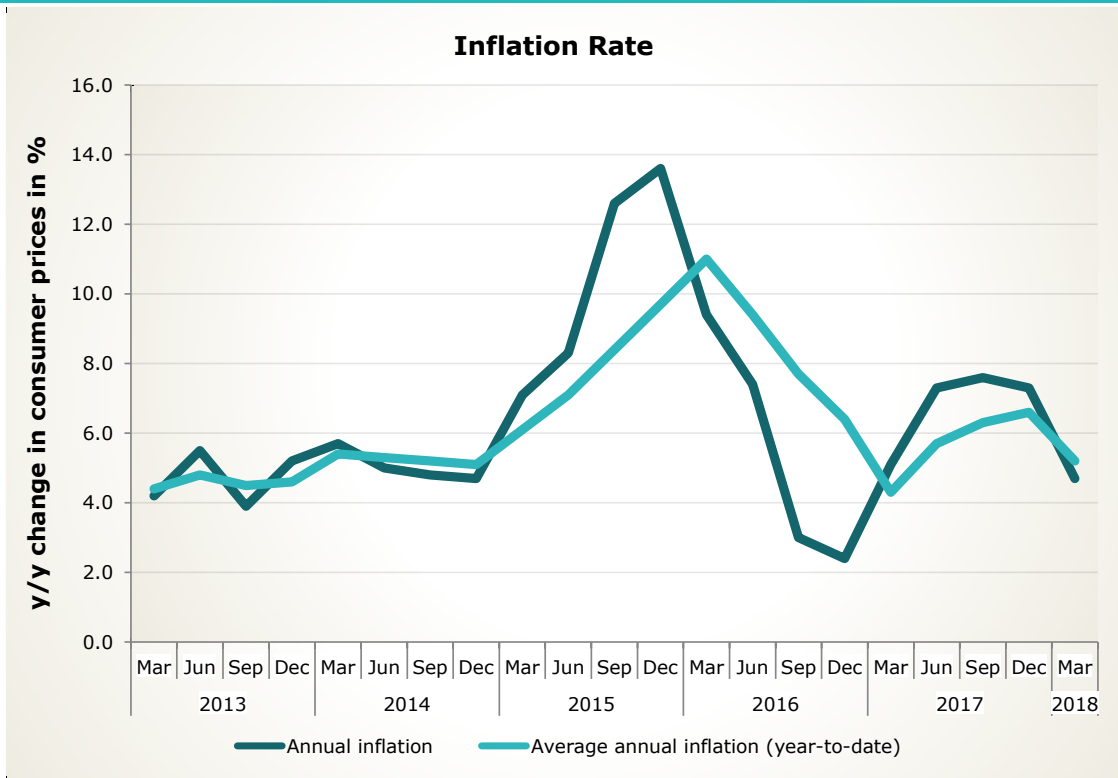
Source: NBS

2.4. INFLATION

Average annual inflation of 5.2% in Q1 2018

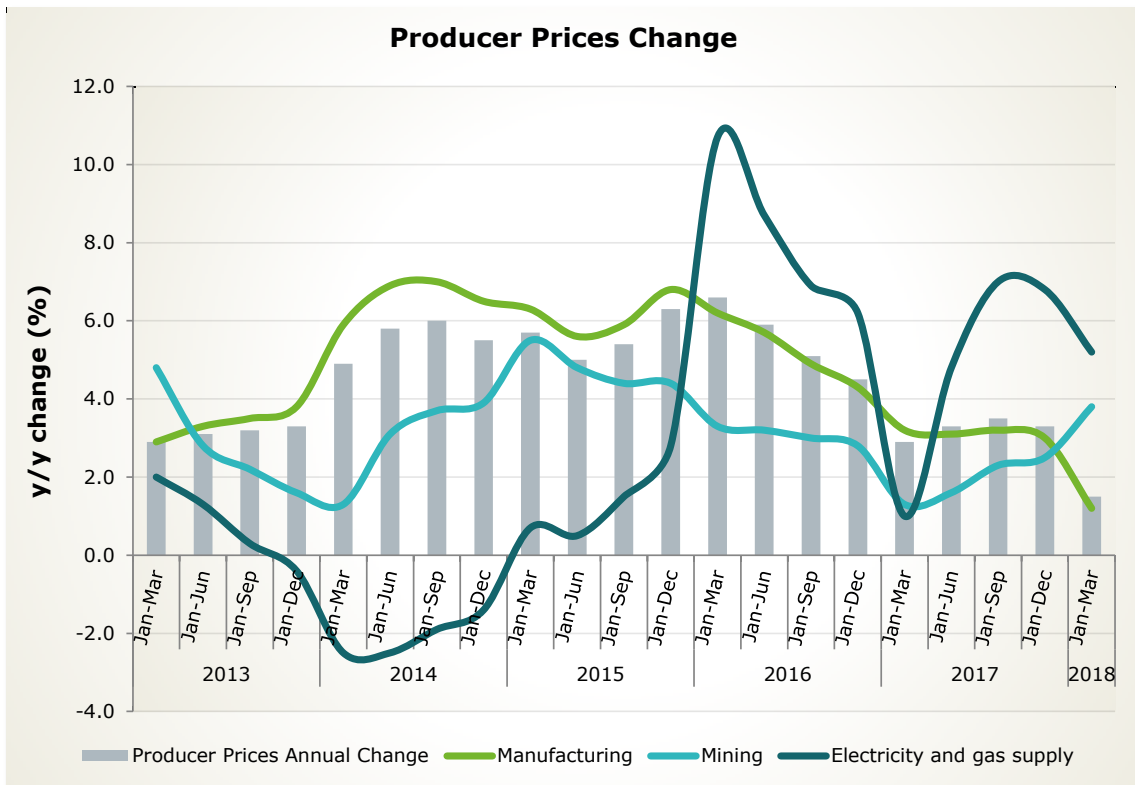
Moldova registered average annual inflation of 5.2% in Q1 2018, down compared to 6.6% in Q4 2017, but higher than in the same quarter of the previous year, when it stood at 4.3%, according to NBS.

In January – March 2018, food products price grew annually by 8.4%, while the prices of non-food products increased by 2.9%. Annual inflation in the services sector amounted to 3.3%.



Source: NBS

Producer prices grew by 1.5% y/y in the first quarter with all industries registering a growth – from 5.2% for electricity and gas supply, through 3.8% for mining, to 1.2% for manufacturing.



Source: NBS

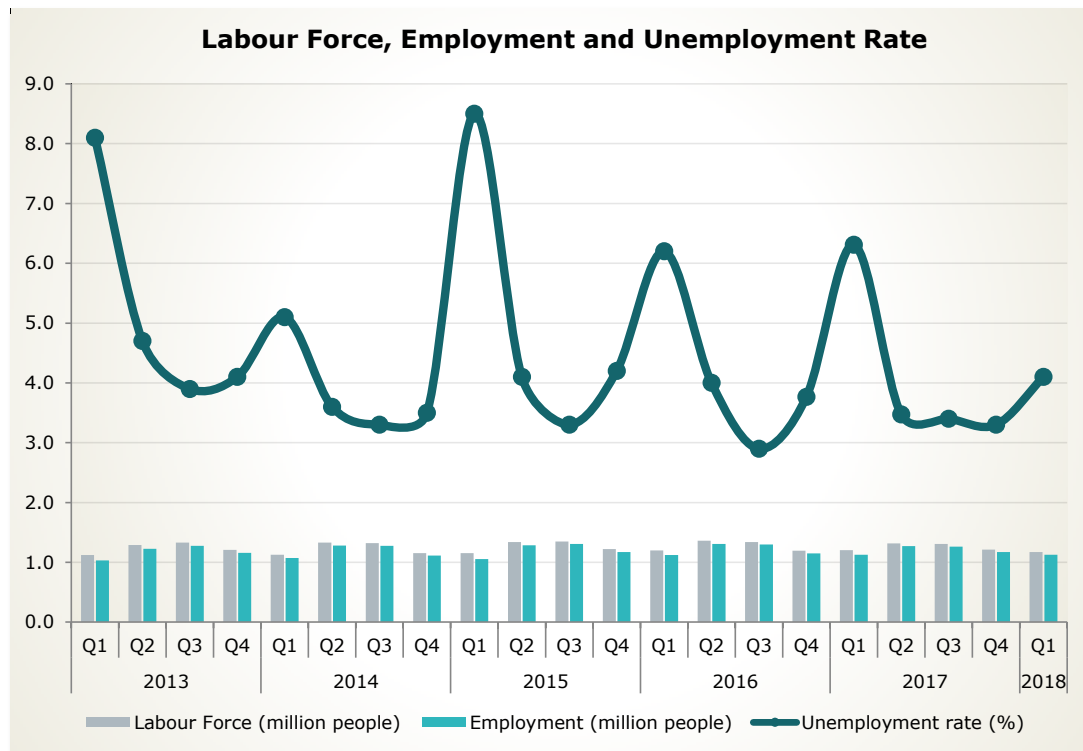
3. LABOUR MARKET

Unemployment rate at 4.1%, wages up 13.2% y/y in Q1 2018

Unemployment in Moldova stood at 4.1% in Q1 2018, up from 3.3% in Q4 2017, but substantially lower than the 6.3% in the same quarter of the previous year, according to data of NBS. Youth unemployment rate (aged 15-24) went down to 10.4% in Q1 2018 from 11.8% in Q4 2017 and 12.7% in Q1 2017.

The employed population aged 15 years and older was 1.125 million in March 2018, down 0.1% on the year.

Compensations went up during the quarter. According to data of NBS, the average gross monthly salary in Q1 2018 rose by 13.2% y/y to MDL 5,907. In the public sector, it was MDL 5,408 and in the private – MDL 6,108.



Source: NBS

4. CONSTRUCTION AND REAL ESTATE

The value of construction works went up by 5.4% y/y in the first quarter

The value of construction works carried out in Moldova in Q1 2018 went up by 5.4% y/y and totalled MDL 1.090 bln, according to NBS data. The growth rate slowed compared to Q4 2017 when construction works expanded by 10.4% y/y.

5. MONEY SUPPLY AND BANKING SYSTEM

5.1. MDL EXCHANGE RATE

The average exchange rate of the MDL against the EUR went up to MDL 20.5689 in Q1 2018 from MDL 20.4598 in Q4 2017, according to the National Bank of Moldova's (BNM) data.

MDL Average Exchange Rate			
Foreign Currency	Q1 2018	Q4 2017	Q1 2017
USD	16.7472	17.3664	19.9556
EUR	20.5689	20.4598	21.2454
GBP	23.2855	23.0538	24.7123
CHF	17.6577	17.6037	19.8648

5.2 MONETARY POLICY

Moldova's National Bank lowers base interest rate to 6.5%, down from 7.0% in December 2017

At its meeting in July 2018, the Executive Board of the National Bank of Moldova (NBM) kept the annual base rate applied on short-term monetary policy operations at 6.5%. Interest rates on overnight loans continued at 9.5% annually, while interest rates on overnight deposits stood at 3.5% annually. As of July 2018, inflation is projected to decrease steadily.

In order to maintain price stability over the medium term, the National Bank aims at inflation of 5.0% annually with a possible deviation of ± 1.5 pp.

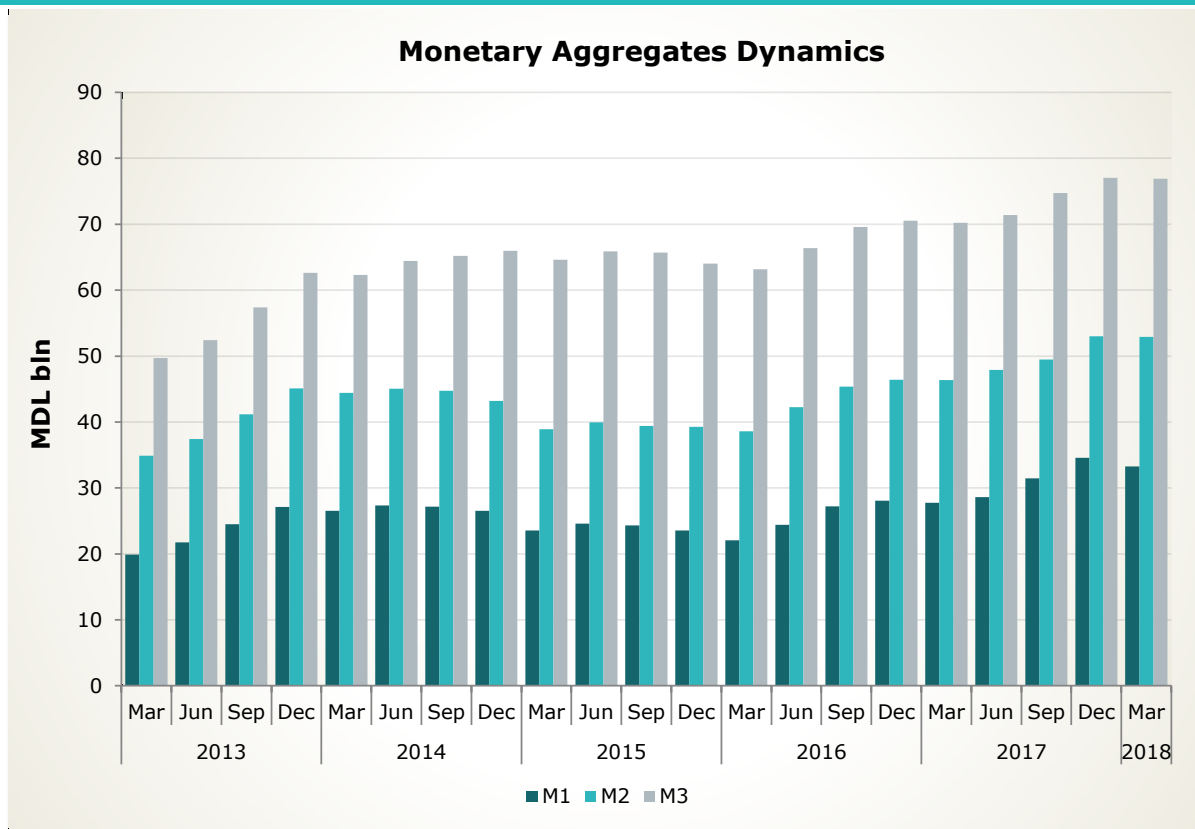
5.3. MONETARY AGGREGATES

Money supply up by 9.6% y/y as of March 2018

Broad money, or monetary aggregate M3, increased by 9.6% y/y to MDL 76.918 bln at the end of March 2018, according to data provided by BNM.

The M2 money supply went up by 14.1% y/y to MDL 52.914 bln.

Money aggregate M1, or narrow money, jumped by 19.8% to MDL 33.255 bln.



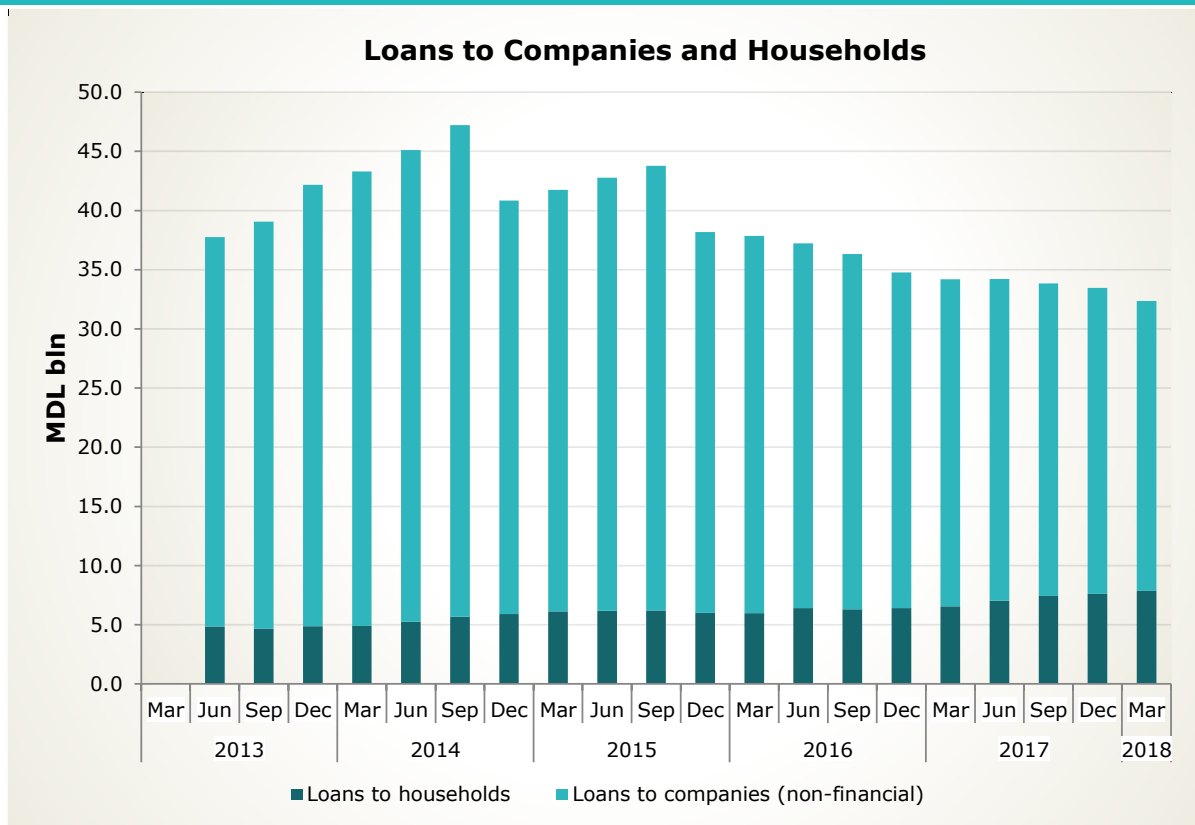
Source: BNM

5.4. BANKING AND INSURANCE

Household loans increased by 19.6% y/y as of March 2018

Loans to the non-government sector totalled MDL 32.355 bln as of end-March 2018, down by 5.4% compared to a year ago, according to BNM.

Loans to non-financial corporations sank by 11.3% y/y to MDL 24.496 bln, while household loans went up by 19.6% to MDL 7.858 bln. Consumer credits increased by 24% y/y to MDL 4.200 bln, while the total credits for purchase of houses and properties advanced by 17.6% y/y to MDL 2.760 bln.



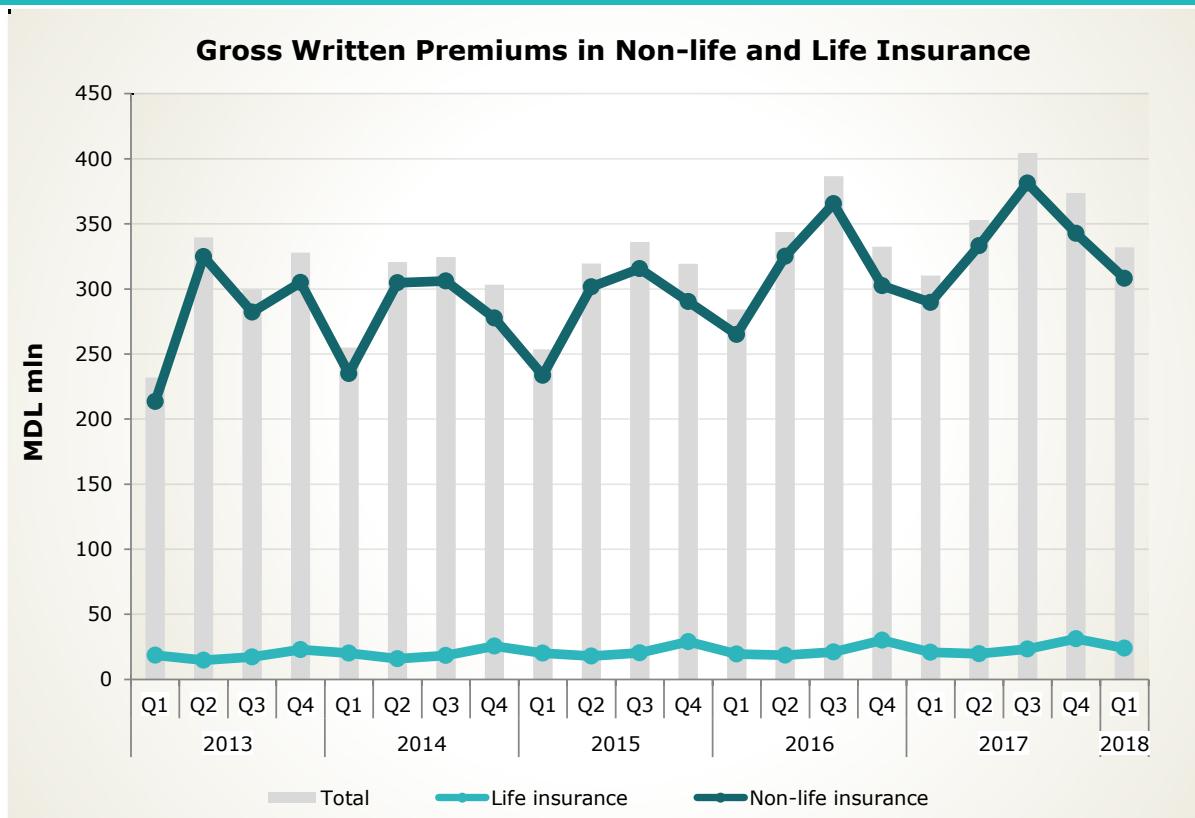
Source: BNM

Note: Data for March 2013 was not available

Insurance premium income up 7.0% y/y in Q1 2018

The total gross written premiums (GWP) of the non-life and life insurance companies in Moldova stood at MDL 332.0 mln in Q1 2018, up by 7.0% y/y, according to the National Commission for Financial Markets.

The growth was primarily driven by the 6.4% annual growth, to MDL 308.1 mln, of the non-life insurance GWP, while the premiums of the life insurance segment grew by 15.4% y/y to MDL 23.9 mln.



Source: National Commission for Financial Markets

6. EXTERNAL SECTOR

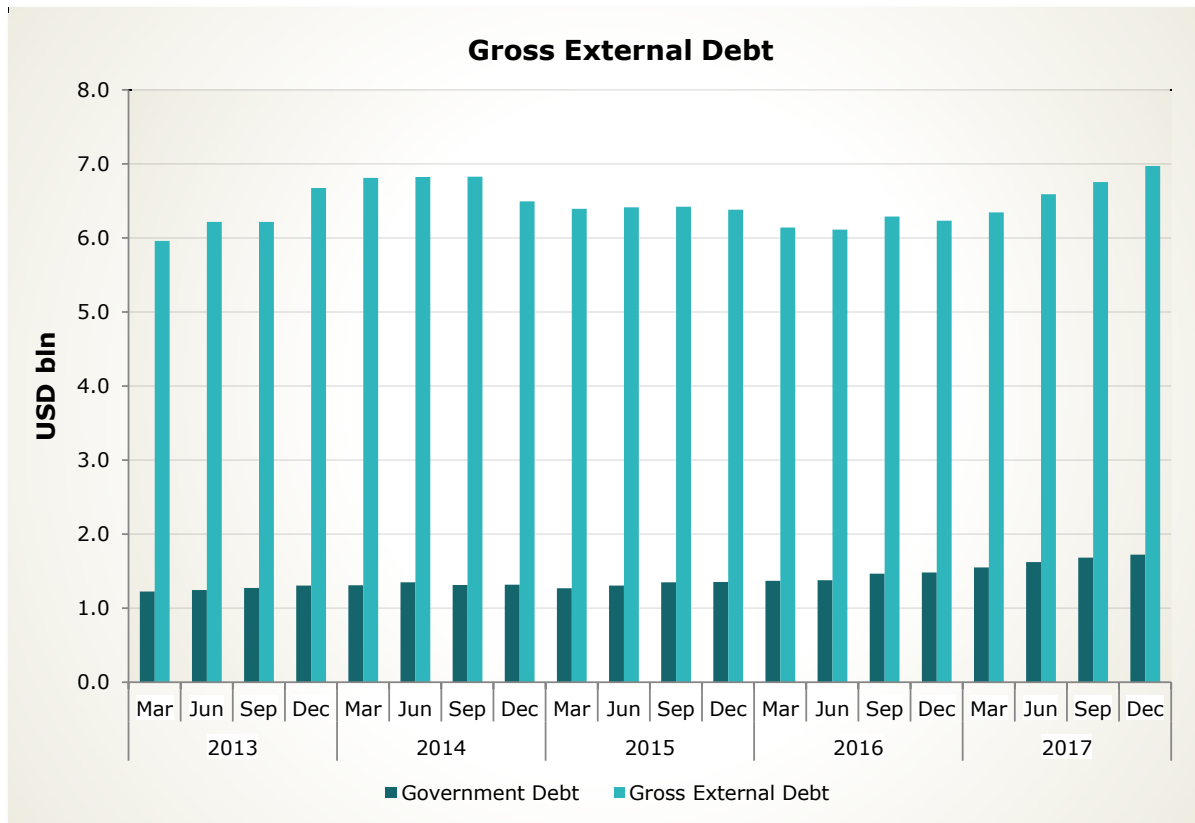
6.1. FOREIGN DEBT

The gross external debt amounted to USD 6.974 bln as of December 2017¹

The gross external debt totalled USD 6.974 bln as of December 2017, up by 11.8% on the year, according to central bank data.

At end-December 2017, long-term liabilities grew by 9.2% y/y and amounted to USD 3.294 bln, or 47.2% of the total debt. Short-term liabilities came in at USD 2.507 bln, by 16.4% more than a year earlier and equal to 36.0% of the total debt.

¹ Latest data available is December 2017



Source: BNM

6.2. BALANCE OF PAYMENTS

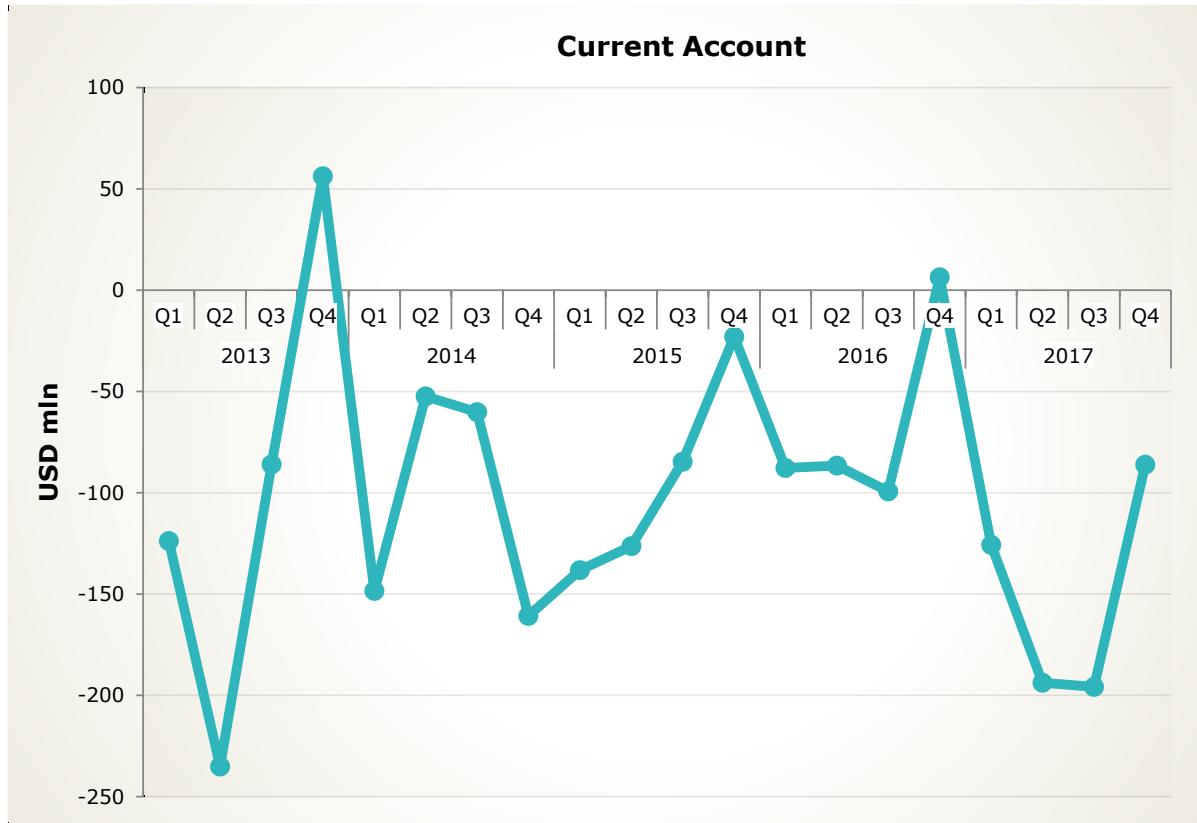
Current account deficit swelled to USD 601.7 mln in 2017, up from USD 267.6 mln in 2016²

The current account deficit widened to USD 601.7 mln in 2017 from USD 267.6 mln a year ago, according to central bank statistics data.

The increase in the current account deficit was due mainly to the 22.0% annual rise in the negative balance on the net exports of goods and services to USD 2.250 bln. Net balance of services was positive at USD 140.0 mln, up by 80.0% y/y, while the positive balance on the income account amounted to USD 513.0 mln, up 11.0% y/y.

The net current transfers in 2017 went up by 0.1% on the year to USD 1.138 bln.

² Latest data available is December 2017

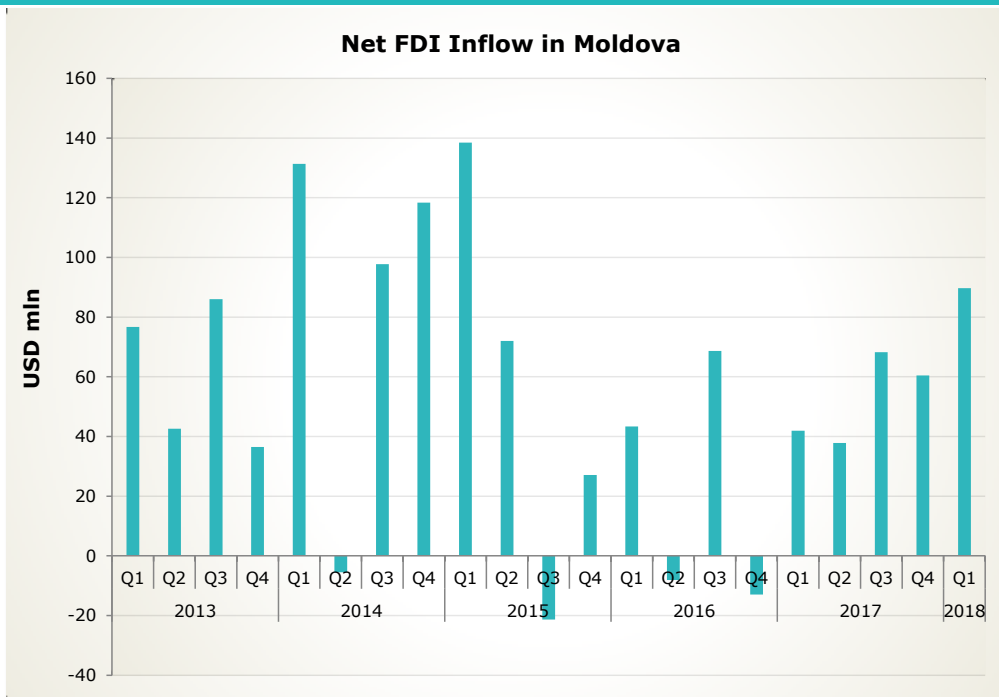


Source: BNM

6.3. FDI

Net FDI inflows more than doubled in Q1 2018

Net foreign direct investments (FDI) in Moldova totalled USD 89.7 mln in Q1 2018, expanding twofold compared to Q1 2017, according to BNM data.

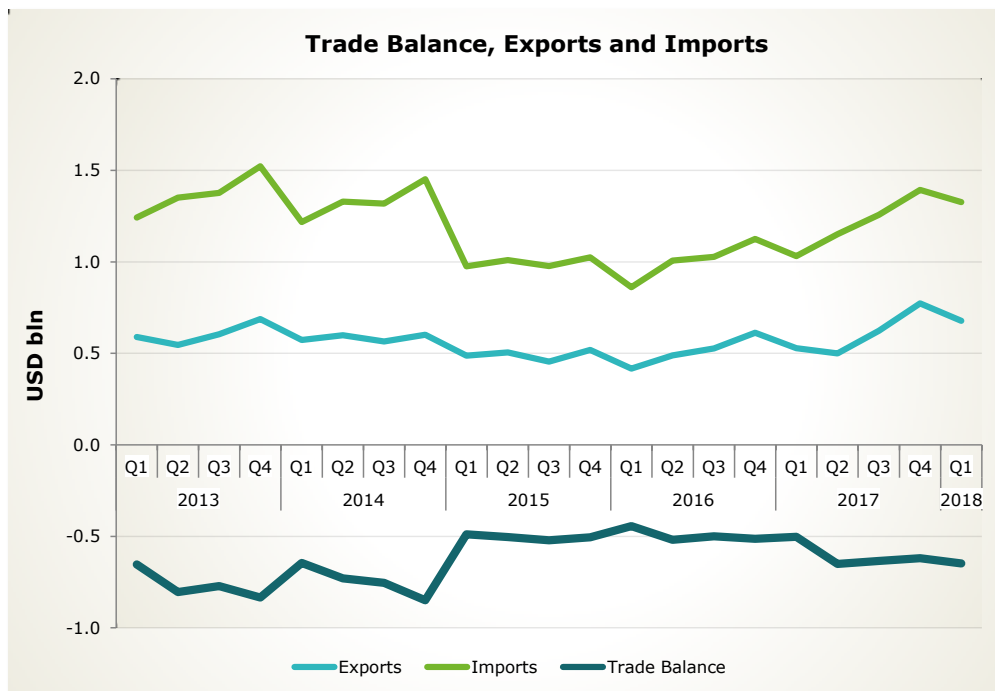


Source: BNM

6.4. FOREIGN TRADE

Foreign trade deficit up by 28.9% y/y in Q1 2018

The trade deficit stood at USD 0.648 bln in the first quarter of 2018, compared to USD 0.503 bln a year earlier, according to BNM. Exports increased by 28.4% y/y to USD 0.678 bln, while imports advanced by 28.7% y/y to USD 1.326 bln in Q1 2018.



Source: NBS

6.5. TOURSIM

Number of tourist overnights increased by 21.0% y/y in Q1 2018

Tourist overnights of foreigners expanded by an annual 21.0% to 54,528 in Q1 2018, according to NBS data.

The growth in the number of foreigners who visited the country was 14.8% y/y to 27,128.

In Q1 2018, the share of foreign tourists in the total overnights in Moldova went up to 27.9% from 24.9% a year ago.



Source: NBS

7. MAJOR DEVELOPMENTS

IMF agrees to make available USD 34.9 mln to Moldova

Mar 28, 2018

IMF reached a staff-level agreement with Moldova to make available USD 34.9 mln (EUR 28.2 mln) to the country under the current three-year funding arrangement. Moldova already received a total of USD 79.5 mln in three tranches under the current three-year credit facility of USD 183.1 mln approved in November 2016.

[Read the full story here](#)

EBRD, EU provide EUR 1.15 bln to back SMEs in Moldova, Georgia, Ukraine

Mar 22, 2018

The European Bank for Reconstruction and Development (EBRD) announced that together with the EU it is providing EUR 1.150 bln in loans to small and medium-sized enterprises (SMEs) in Moldova, Georgia and Ukraine.

[Read the full story here](#)

Moldova should build on reform momentum in banking sector - EBRD

Feb 15, 2018

EBRD announced that the Moldovan authorities have the opportunity to take decisive steps to reform the country's banking sector following a recent breakthrough. The National Bank of Moldova is successfully tackling vulnerabilities in the banking sector, according to EBRD. Moldova was confronted in 2014 with a major banking crisis, when about USD 1.0 bln (EUR 810 mln) went missing from three of the country's private banks. The banks - Banca de Economii SA, Banca Sociala SA and Unibank SA - collapsed and were liquidated.

[Read the full story here](#)

Remittances to Moldova rise 11% in 2017 - c-bank

Feb 8, 2018

Remittances to Moldova by migrant workers rose 11% on the year to USD 1.199 bln (EUR 971.4 mln) in 2017, according to central bank data. An estimated one-third of Moldova's economically active population is currently working abroad, making remittances the single most important net source of foreign exchange in Moldova.

[Read the full story here](#)

Moldova's economy hampered by endemic corruption - Heritage Foundation

Feb 2, 2018

Moldova's government has tried to address weaknesses in the financial sector but growth is hampered by endemic corruption and a Russian ban on imports of Moldova's agricultural products, according to The Heritage Foundation.

[Read the full story here](#)

Moldova's credit challenges: vulnerable economy, weak institutions - Moody's

Jan 22, 2018

Moldova's credit profile reflects the country's low economic strength, weak institutions and its vulnerability to external shocks, according to a report by Moody's Investors Service.

[Read the full story here](#)

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