

MOLDOVA ECONOMY REPORT

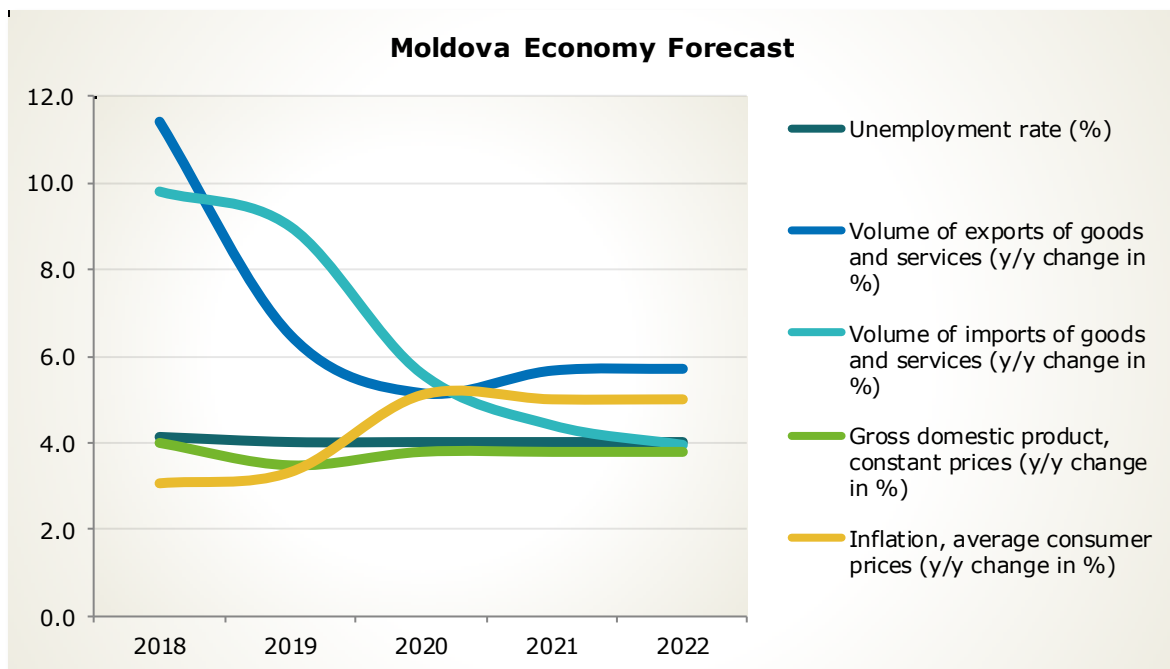
Q1 2019

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1. MACROECONOMIC SNAPSHOT AND FORECAST

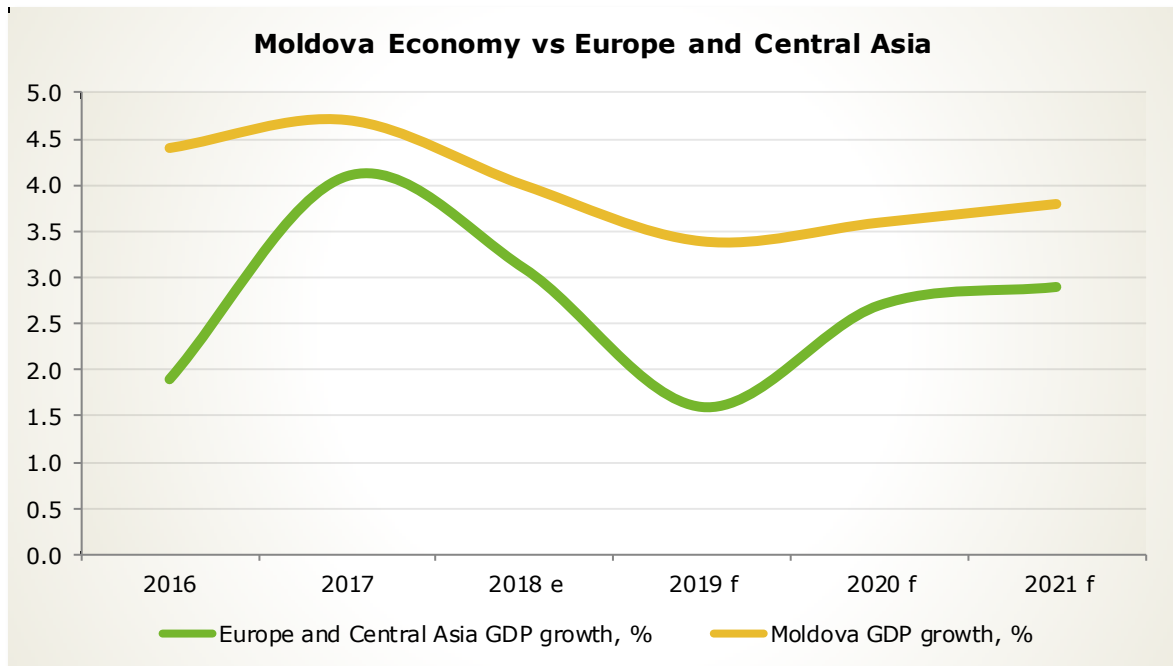
MOLDOVA – MACROECONOMIC SNAPSHOT AS OF Q1 2019	
GDP Growth	4.4% y/y
Industrial output	1.5% y/y
Retail sales	17.3% y/y
Wholesales	21.7% y/y
Average annual inflation	2.5%
Unemployment rate	2.9% (as of Q4 2018)
Construction works value	25.2% y/y
Money supply	6.5% y/y
Household loans	36.5% y/y
Gross external debt	USD 7.234 bln
Current account deficit	USD 242.0 bln
Net FDI inflow	USD 120.2 mln
Foreign trade deficit	USD 632.0 mln
Number of foreign tourist overnights	24.5%



Source: International Monetary Fund (IMF) World Economic Outlook Database – April 2019

The International Monetary Fund (IMF) expects the economic growth of Moldova to remain solid in 2019 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 3.8%.

CPI inflation is expected to come in at 4.7% in 2019 and 4.5% in 2020. 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 6.9% of GDP, according to IMF.



Source: World Bank's Global Economic Prospects, June 2019

According to the World Bank estimates from June 2019, GDP growth is likely to come in at 3.4% in 2019, down from 4.0% in 2018. This will be higher than the projected growth for Europe and Central Asia, of 1.6% in 2019.

In the medium-term growth will slow up to 3.6% in 2020 and once again to 3.8% in 2021. Public investments and remittances are expected to further support the economic growth in 2019.

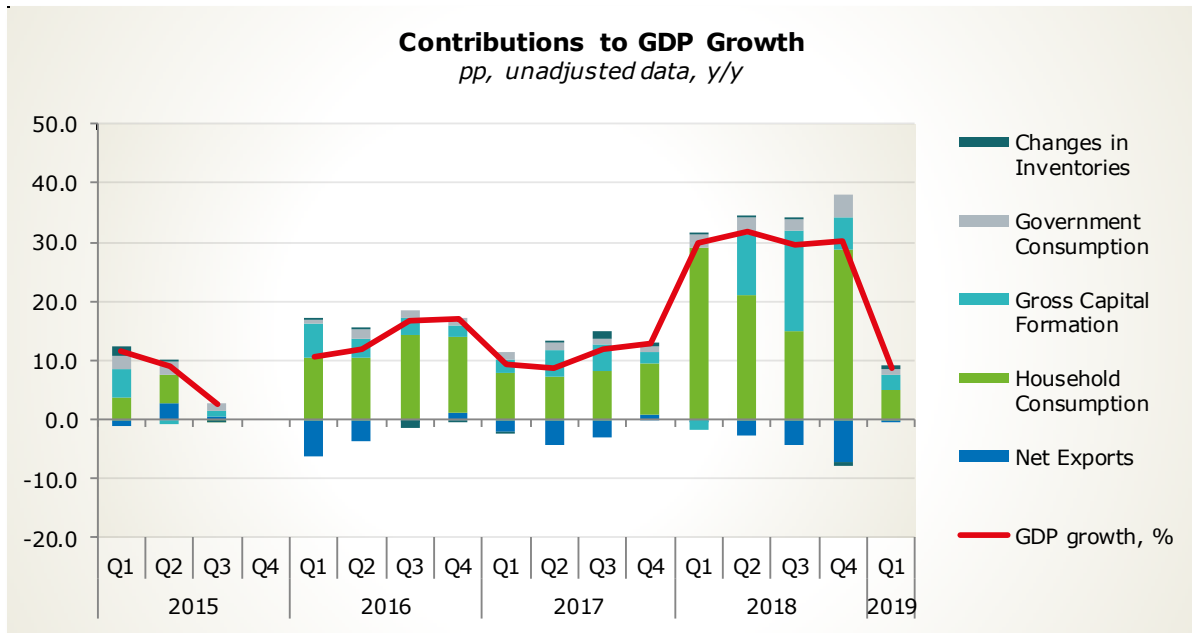
2. REAL SECTOR

2.1. GROSS DOMESTIC PRODUCT (GDP)

GDP growth at 4.4% y/y in the first quarter of 2019

Moldova's economy expanded by 4.4% in real terms in Q1 2019, 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 3.9% in Q4 2018 and by 3.7% y/y in the same quarter of the previous year.

In Q1 2019 the household consumption was the main contributor with 4.9 pp to the overall y/y GDP expansion, while the contribution of the gross capital formation decreased to 2.6 pp from 5.3 pp. The import of goods and services and the net exports were the only negative contributors to GDP growth with 1.7% and 0.3% respectively.

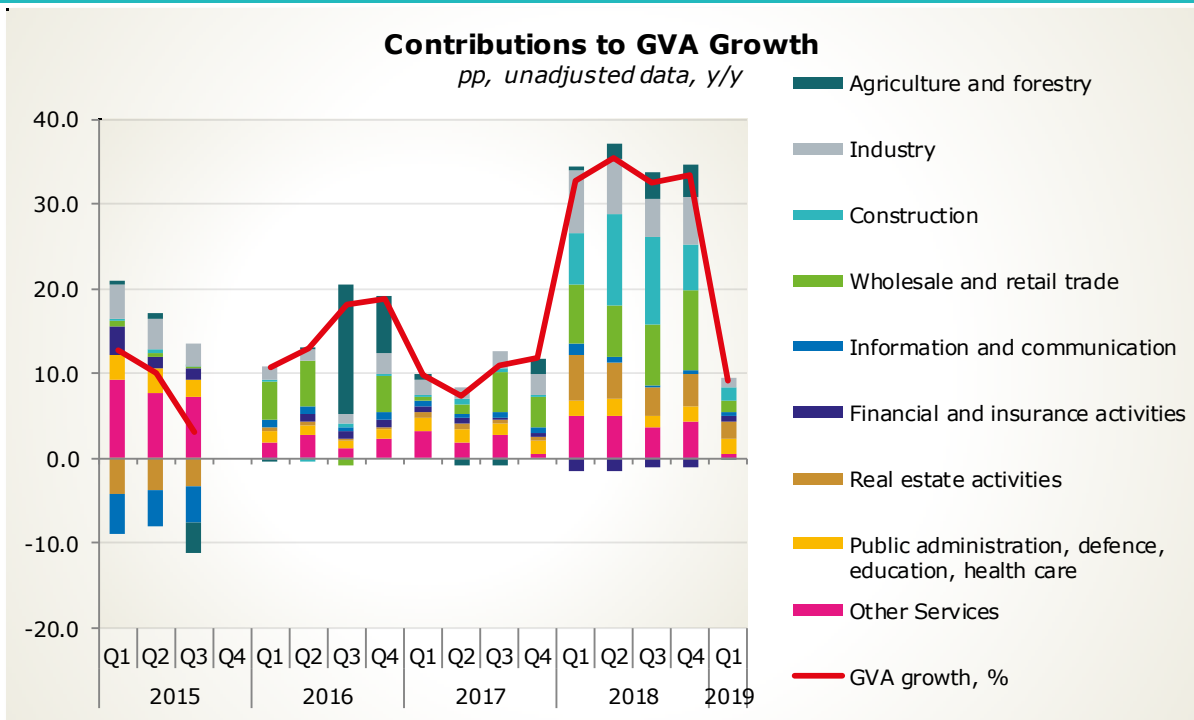


Source: NBS

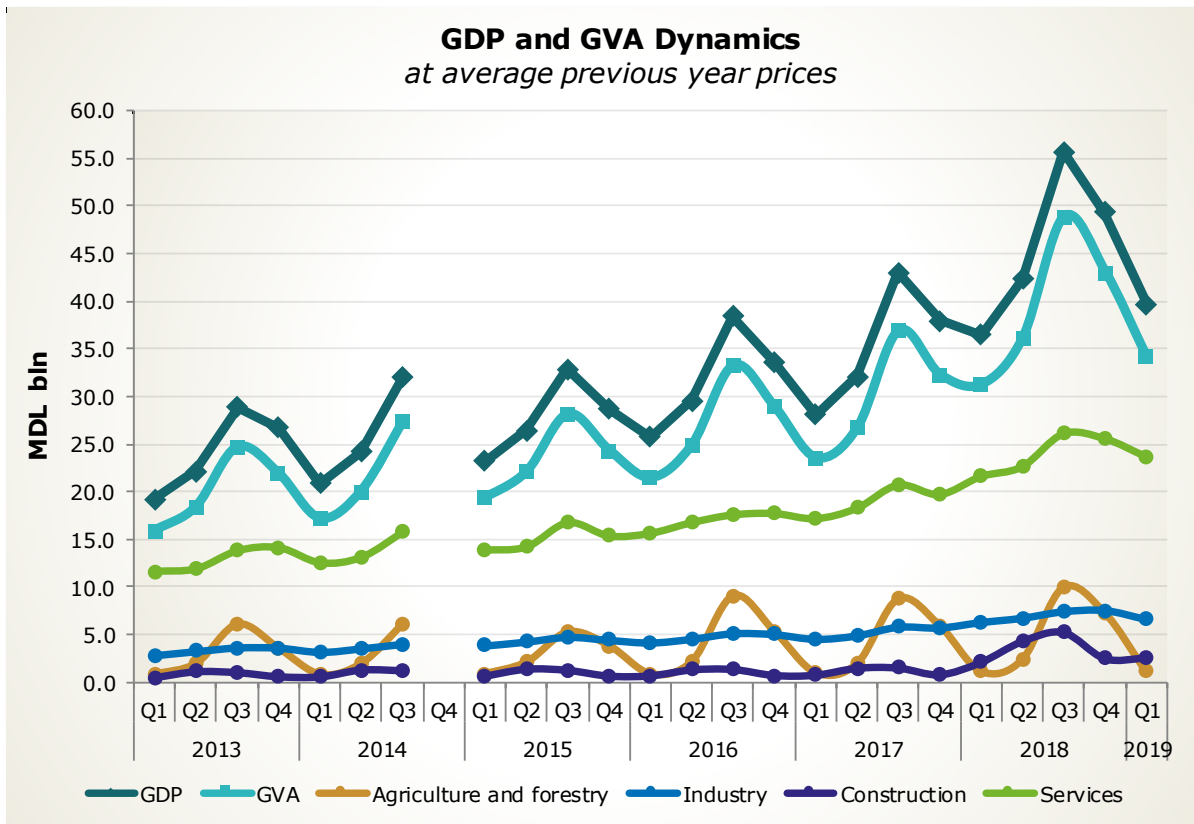
Editor's Note: Data for Q4 2014 is not available

The gross value added in the economy increased by 9.2% y/y, totalling MDL 34.1 mln in Q1 2019. The growth was boosted by the construction sector, which registered a 22.6% increase, reaching MDL 2.582 bln. The industrial and services sectors also marked an annual increase by 5.2% and 9.7% y/y, respectively.

The real estate activities sector contributed 2.0 pp to the overall GVA increase, followed by the public administration, defence, education, health care sector with 1.8 pp, and construction sector with 1.6%. The agriculture and forestry sector was the only negative contributor, which took away 0.1 pp from the overall GVA in Q1 2019.



Source: NBS
Editor's Note: Data for Q4 2014 is not available



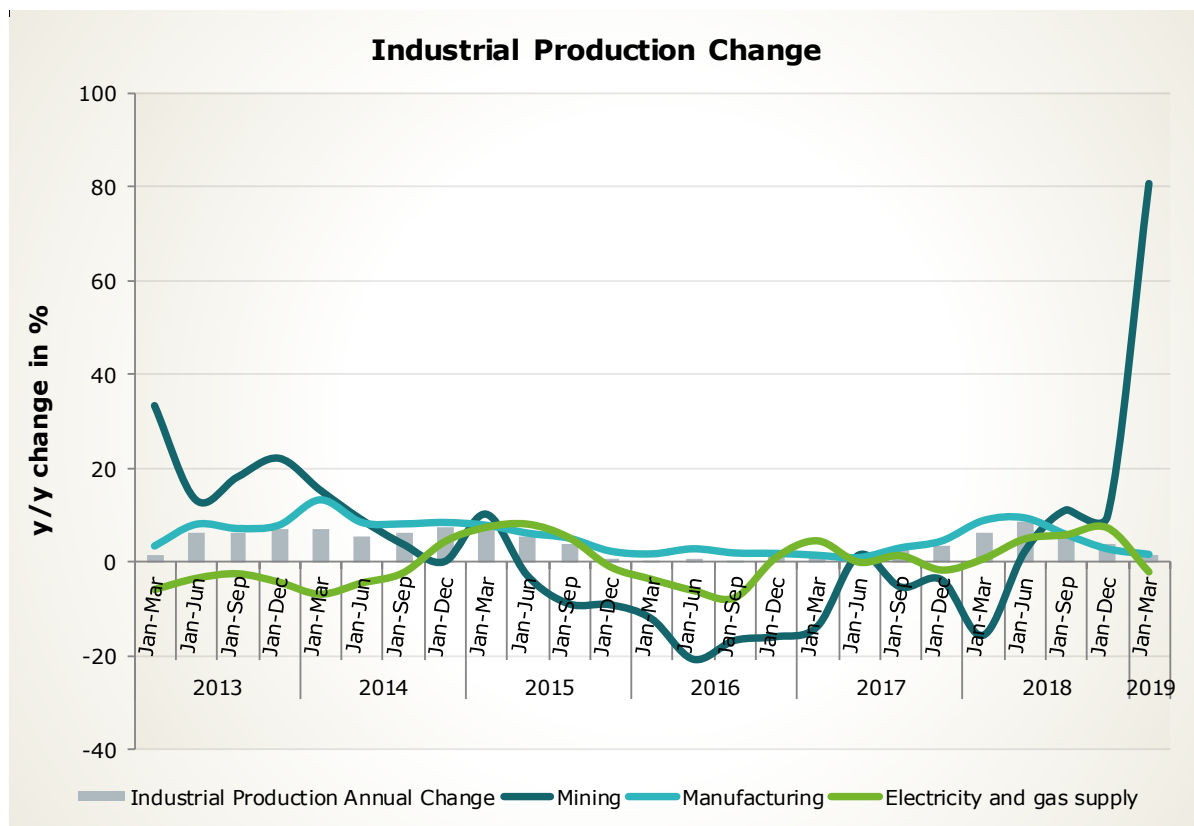
Source: NBS
Editor's Note: Data for Q4 2014 is not available

2.2. INDUSTRIAL OUTPUT

Industrial output annual growth at 1.5% y/y in Q1 2019

Industrial output growth came in at 1.5% in Q1 2019, compared to a 3.7% y/y growth in Q4 2018 and a 6.2% rise in Q1 2018, according to NBS.

Mining registered an annual rise of 80.7%, while the output of the manufacturing industry inched up by 1.6%. The production of the electricity and gas supply decreased by 2.1% y/y after registering 7.4% increase in Q4 2018.

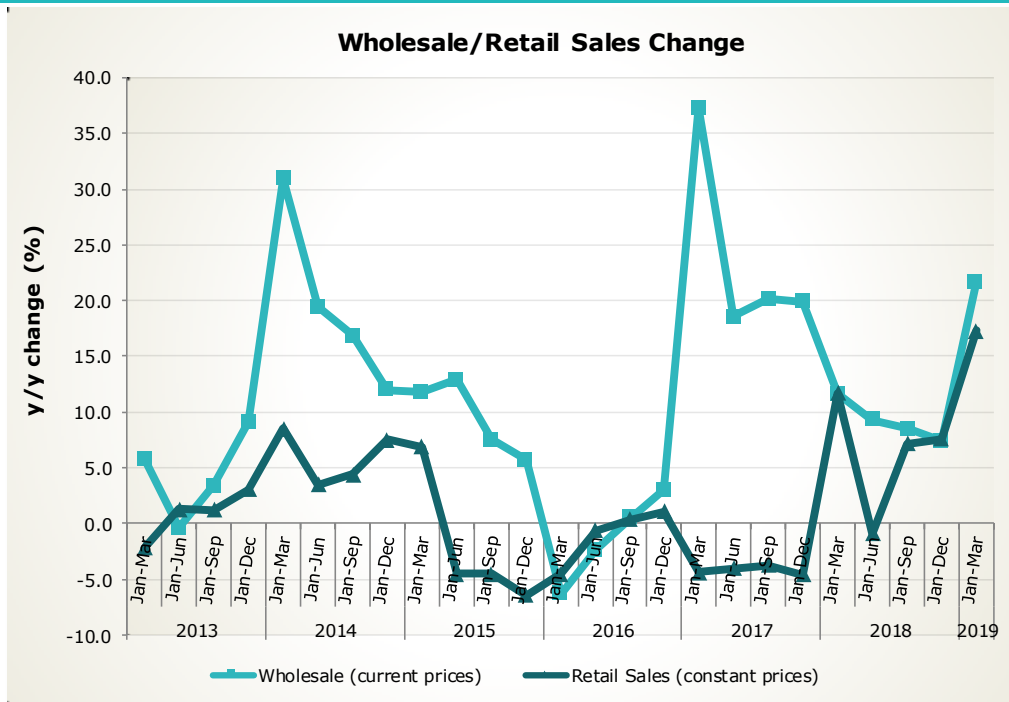


Source: NBS

2.3. WHOLESALE/RETAIL

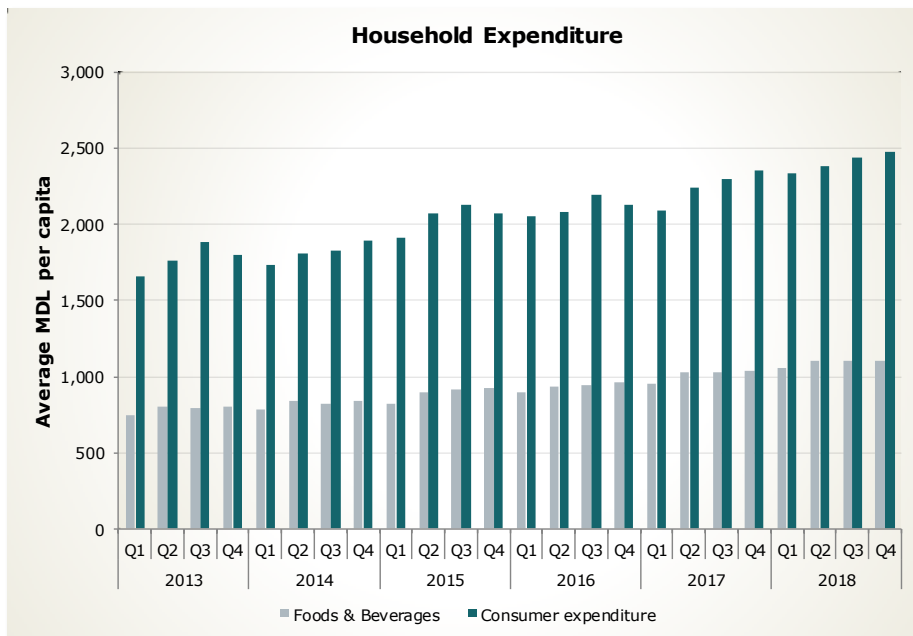
Wholesale sector surged by 21.7% y/y, retail sector up by 17.3% y/y in Q1 2019

The wholesale sector grew by 21.7% y/y in Q1 2019, according to NBS data. The turnover of the retail sector marked an annual increase, of 17.3%. Improving consumer confidence lifted expenditures which in turn contributed positively to retail and wholesale turnover.



Source: NBS

In Q4 2018¹ the average consumer expenditure per capita in Moldova increased by 4.8% to MDL 2,474 from MDL 2,360 in Q4 2017. The food and beverages product group marked a year-on-year growth of 7.0%, to MDL 1,107, accounting for 44.8% of the total consumer expenditure.



Source: NBS

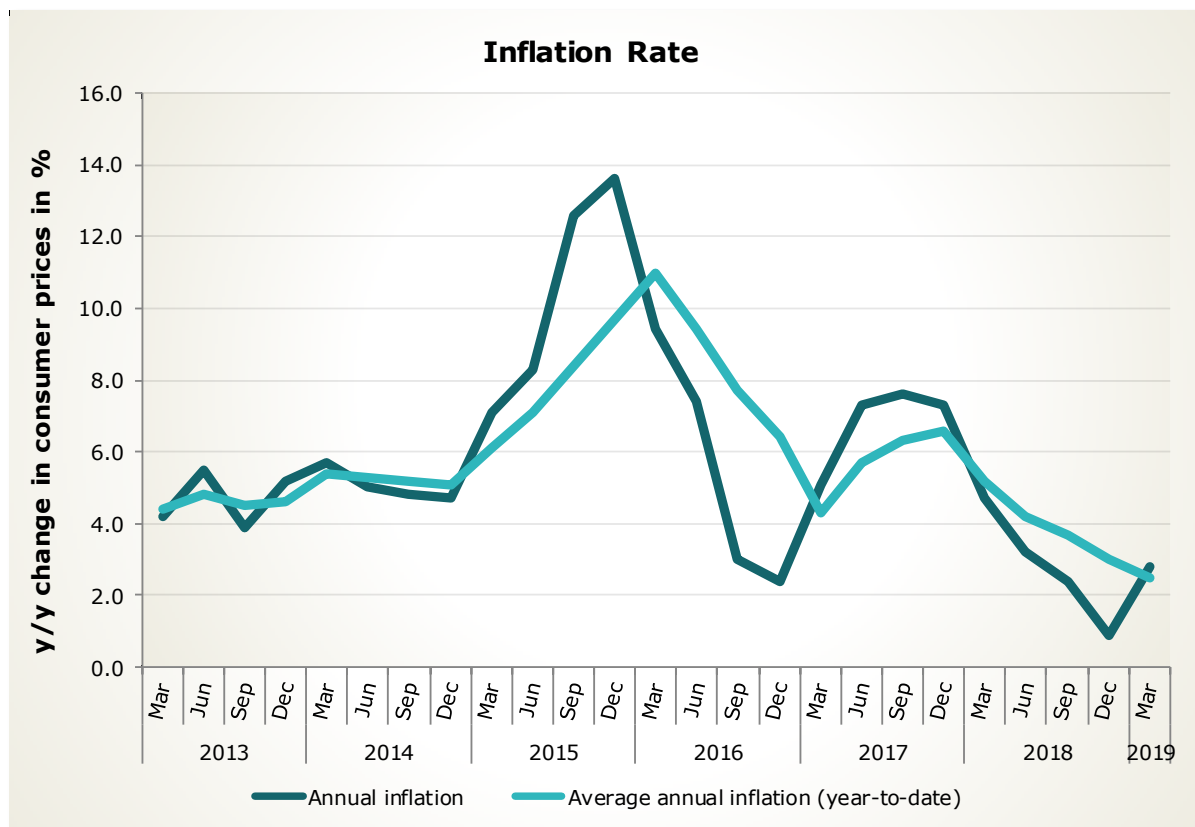
¹ Editor's Note: Data for Household expenditures for Q1 2019 was not available at the time of preparation of this report.

2.4. INFLATION

Average annual inflation of 2.5% in Q1 2019

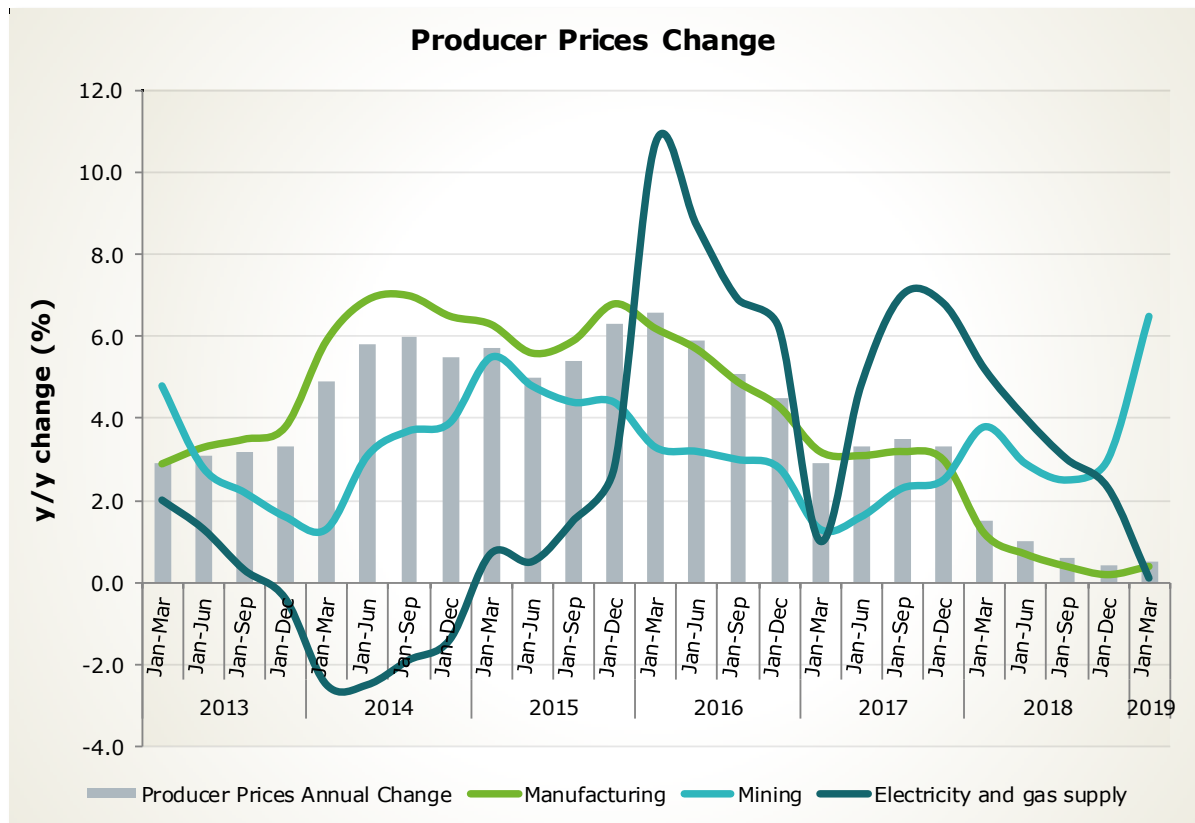
Moldova registered average annual inflation of 2.5% in Q1 2019, down compared to 3.0% in Q4 2018, and lower than in the same quarter of the previous year, when it stood at 5.2%, according to NBS.

In January – March 2019, food products price grew annually by 3.4%, while the prices of non-food products increased by 3.2%. Annual deflation in the services sector amounted to 0.2%.



Source: NBS

Producer prices grew by 0.5% y/y in the first quarter with all industries registering a growth – from 6.5% for mining, through 0.4% for manufacturing, to 0.1% for electricity and gas supply.



Source: NBS

3. LABOUR MARKET

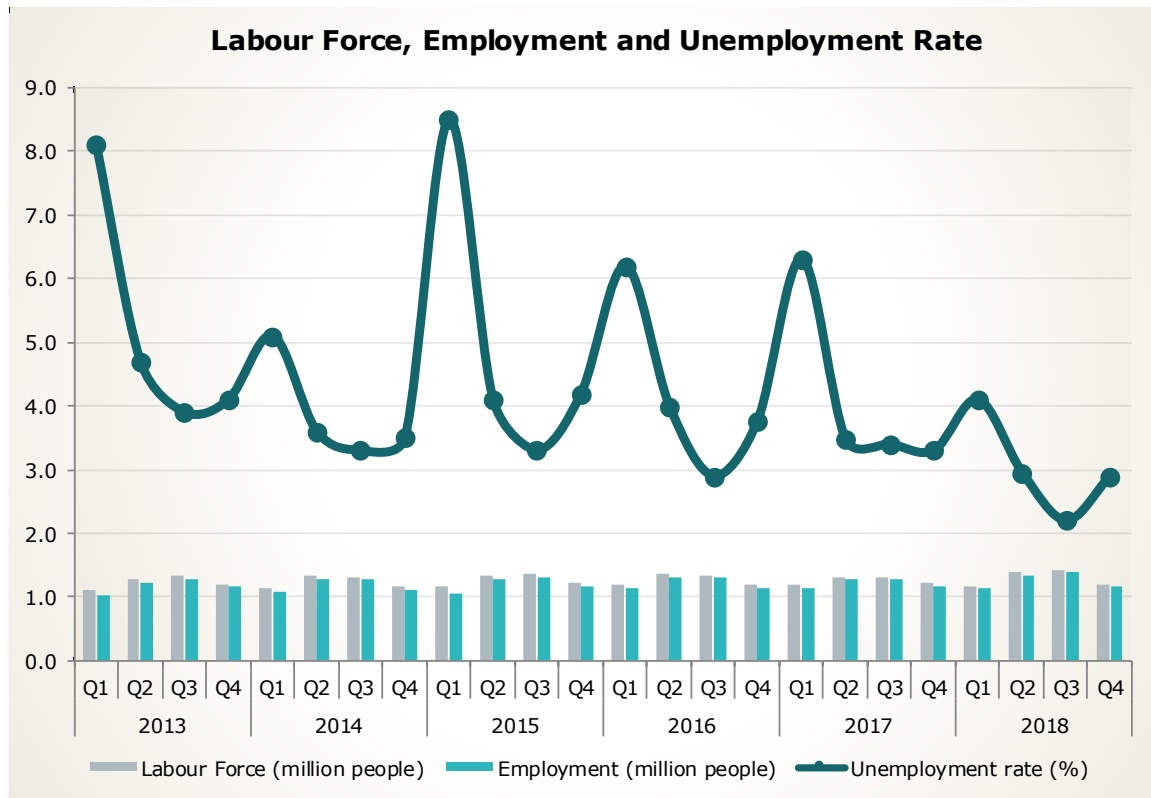
Unemployment rate at 2.9% in Q4 2018², wages up 17.2% y/y in Q1 2019

Unemployment in Moldova stood at 2.9% in Q4 2018, up from 2.2% in Q3 2018, but substantially lower than the 3.3% in the same quarter of the previous year, according to data of NBS. Youth unemployment rate (aged 15-24) went down to 5.5% in Q4 2018 from 6.0% in Q3 2018 and 11.8% in Q4 2017.

The employed population aged 15 years and older was 1.164 million in December 2018, down 0.5% on the year.

According to data of NBS, the average gross monthly salary in Q1 2019 rose by 17.2% y/y to MDL 6,923. In the public sector, it was MDL 6,842 and in the private – MDL 6,954.

² Data for the labour market for Q1 2019 was not available at the time of the preparation of this report.



Source: NBS

Editor's Note: Data for the labour market for Q1 2019 was not available at the time of the preparation of this report

4. CONSTRUCTION AND REAL ESTATE

The value of construction works went up by 25.2% y/y in the first quarter

The value of construction works carried out in Moldova in Q1 2019 went up by 25.2% y/y and totalled MDL 1.364 bln, according to NBS data. In comparison, in Q4 2017, construction works decreased by 23.4% y/y.

5. MONEY SUPPLY AND BANKING SYSTEM

5.1. MDL EXCHANGE RATE

The average exchange rate of the MDL against the EUR went down to MDL 19.4858 in Q1 2019 from MDL 19.5404 in Q4 2018, according to the National Bank of Moldova's (BNM) data.

MDL Average Exchange Rate			
Foreign Currency	Q1 2019	Q4 2018	Q1 2018
USD	17.1506	17.1136	16.7472
EUR	19.4858	19.5404	20.5689
GBP	22.2994	22.0321	23.2855
CHF	17.2089	17.1935	17.6577

5.2 MONETARY POLICY

Moldova's National Bank lowers base interest rate to 7.0%, the same as in December 2017

At its meeting in June 2019, the Executive Board of the National Bank of Moldova (NBM) increased the annual base rate applied on short-term monetary policy operations by 0.5% to 7.0%.

Interest rates on overnight loans were also increased by 0.5% to 10.0% annually. The same increase applied to overnight deposits – from 3.5% to 4.0% per year.

The increases represent the first step in mitigating the expectations and inflationary pressures, stimulating savings, aiming to create monetary conditions able to maintain the inflation within the range of $\pm 1.5\%$ from the target of 5.0% on medium term.

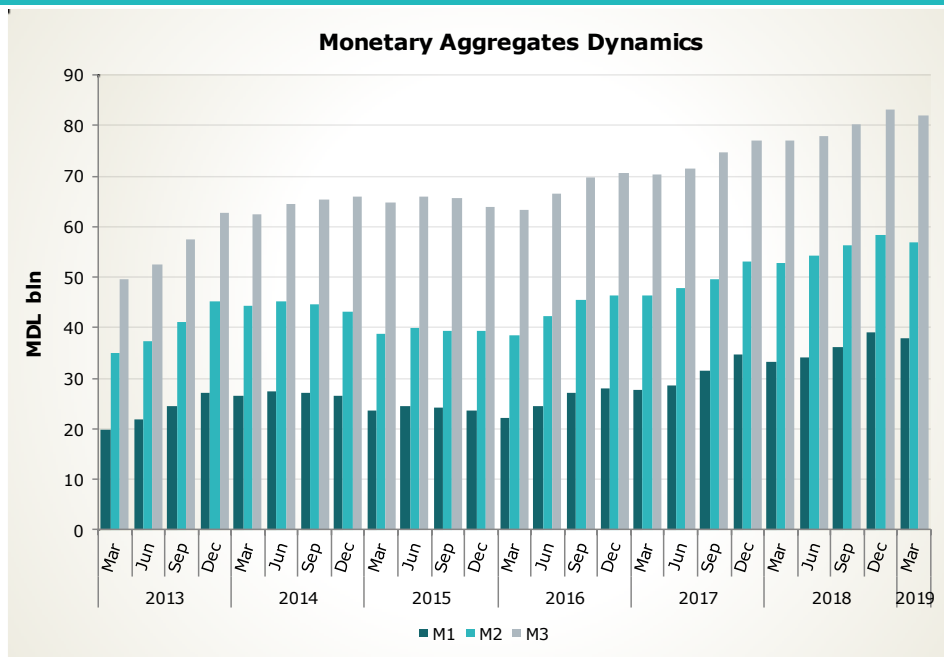
5.3. MONETARY AGGREGATES

Money supply up by 6.5% y/y as of March 2019

Broad money, or monetary aggregate M3, increased by 6.5% y/y to MDL 81.953 bln at the end of March 2019, according to data provided by BNM.

The M2 money supply went up by 7.6% y/y to MDL 56.936 bln.

Money aggregate M1, or narrow money, jumped by 13.9% to MDL 37.884 bln.



Source: BNM

5.4. BANKING AND INSURANCE

Household loans increased by 36.5% y/y as of March 2019

Loans to the non-government sector totalled MDL 36.463 bln as of end-March 2019, up by 12.7% compared to a year ago, according to BNM.

Loans to non-financial corporations increased by 5.0% y/y to MDL 25.733 bln, while household loans went up by 36.5% to MDL 10.730 bln.



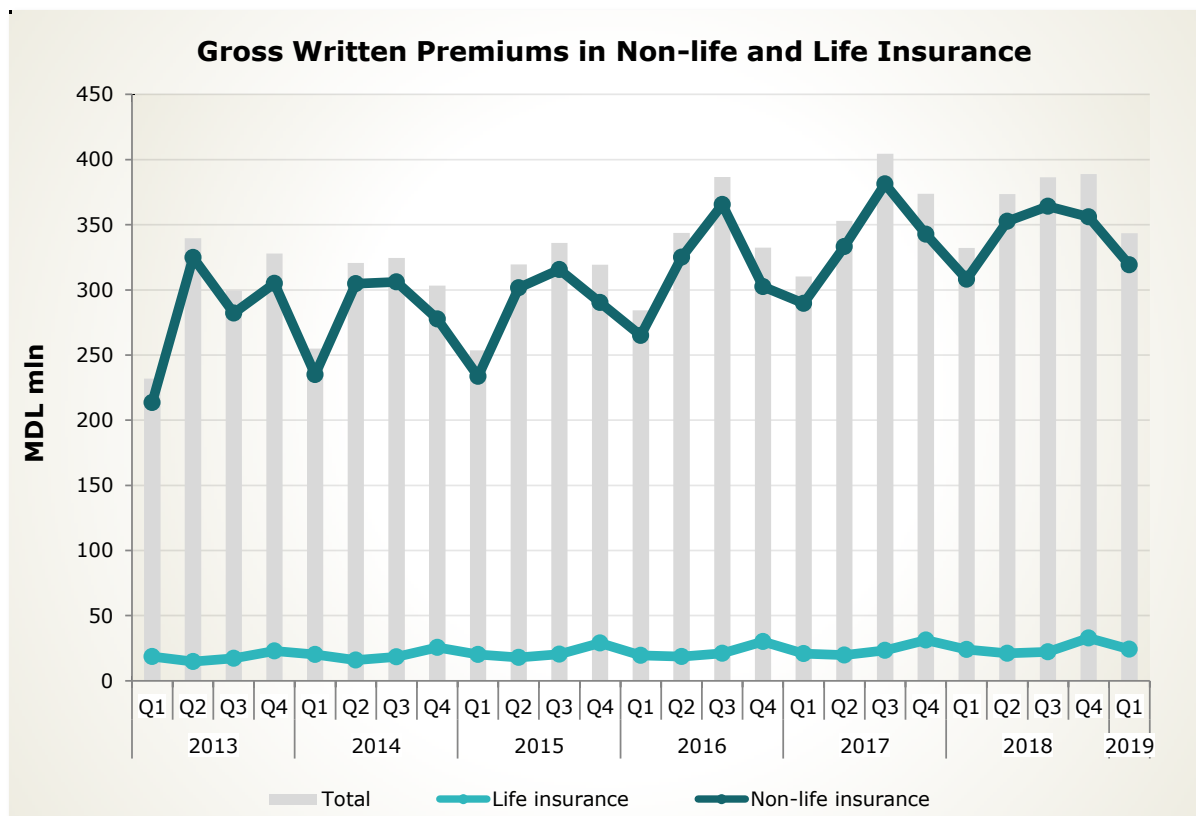
Source: BNM

Editor's Note: Data for March 2013 was not available

Insurance premium income up y/y in Q1 2019

The total gross written premiums (GWP) of the non-life and life insurance companies in Moldova stood at MDL 343.4 mln in Q1 2019, up by 3.4% y/y, according to the National Commission for Financial Markets.

The increase was driven by the 3.6% annual growth in the GWP of the non-life insurance segment and the 1.2% rise of the life insurance segment.



Source: National Commission for Financial Markets

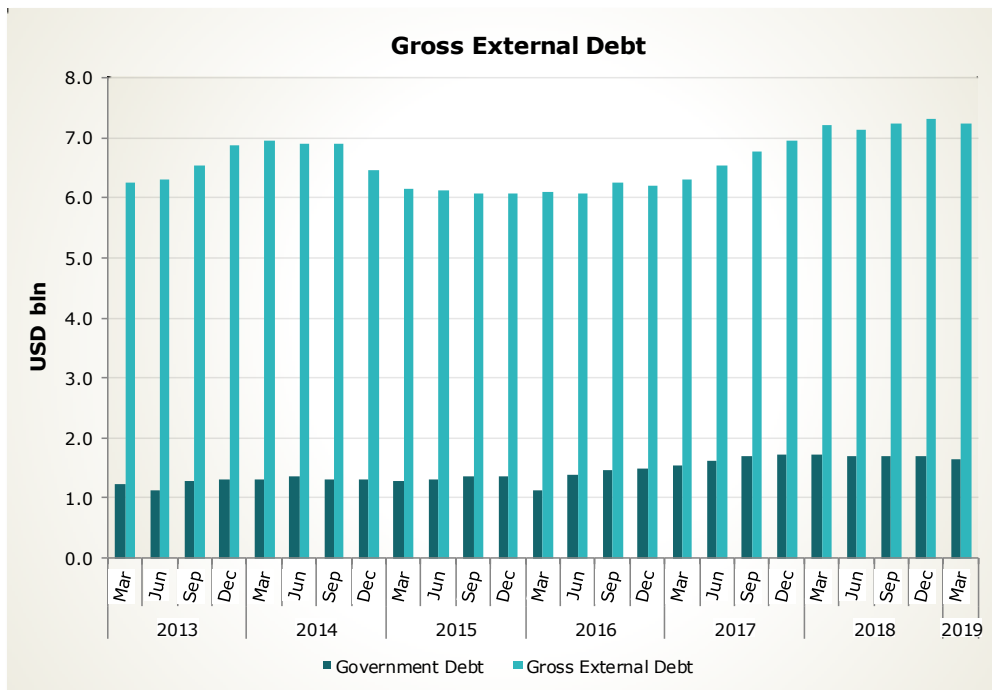
6. EXTERNAL SECTOR

6.1. FOREIGN DEBT

The gross external debt amounted to USD 7.234 bln as of March 2019

The gross external debt totalled USD 7.234 bln as of March 2019, up by 0.2% on the year, according to central bank data.

At end-March 2019, long-term liabilities grew by 0.8% y/y and amounted to USD 6.658 bln, or 92.0% of the total debt. Short-term liabilities came in at USD 3.717 bln, by 8.5% more than a year earlier.



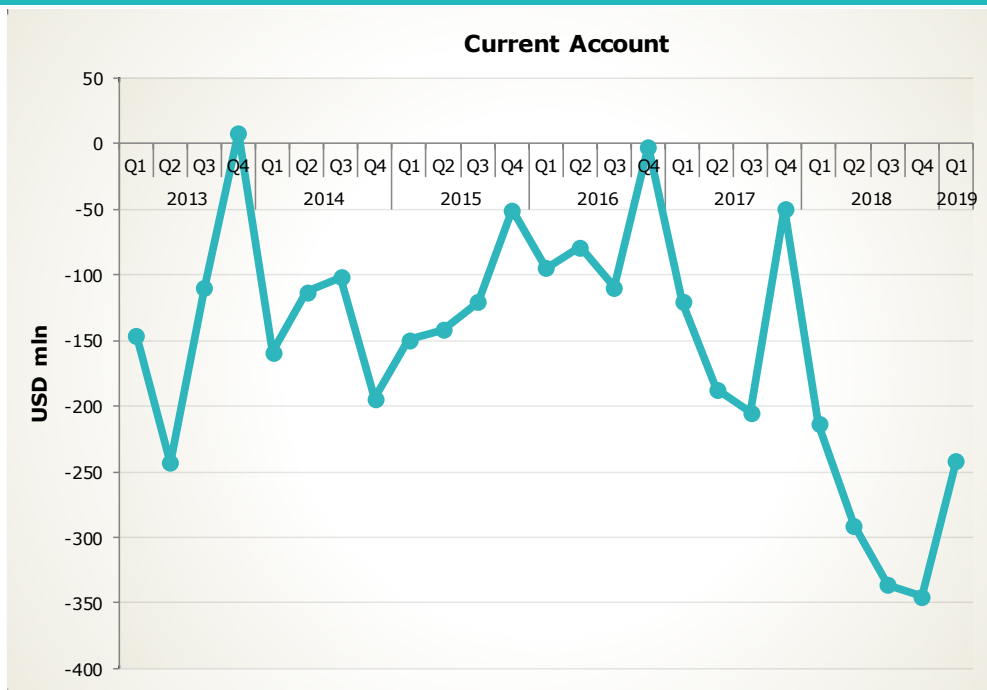
Source: BNM

6.2. BALANCE OF PAYMENTS

Current account deficit widened in the first quarter of 2018

The current account deficit swelled to USD 242.0 mln in Q1 2019 from USD 213.8 mln in Q1 2018, according to central bank statistics data.

The secondary income narrowed by 6.1% on the year to USD 266.9 mln.

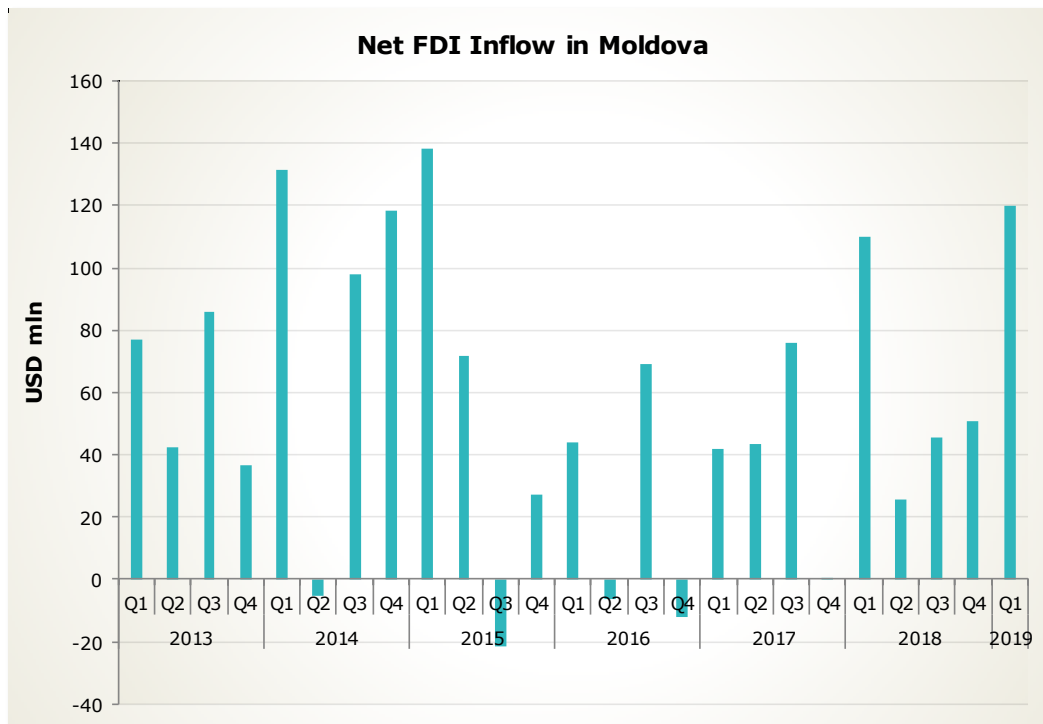


Source: BNM

6.3. FDI

Net FDI inflows up by 9.4% in Q1 2019

Net foreign direct investments (FDI) in Moldova totalled USD 120.2 mln in Q1 2019, rising by 9.4% compared to USD 109.9 mln in Q1 2018, according to BNM data.

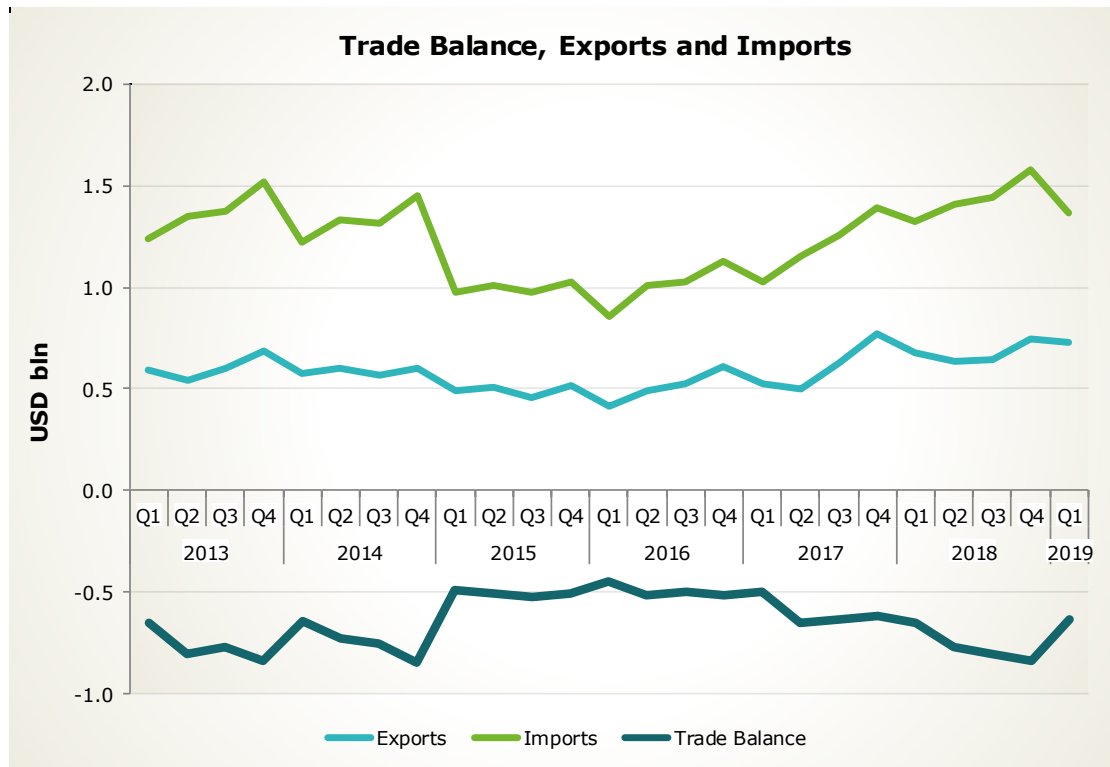


Source: BNM

6.4. FOREIGN TRADE

Foreign trade deficit down by 2.4% y/y in Q1 2019

The trade deficit stood at USD 632 mln in the first quarter of 2019, compared to USD 648 mln a year earlier, according to BNM. Exports increased by 8.1% y/y to USD 733 mln, while imports advanced by 2.9% y/y to USD 1.365 bln in Q1 2019.



Source: NBS

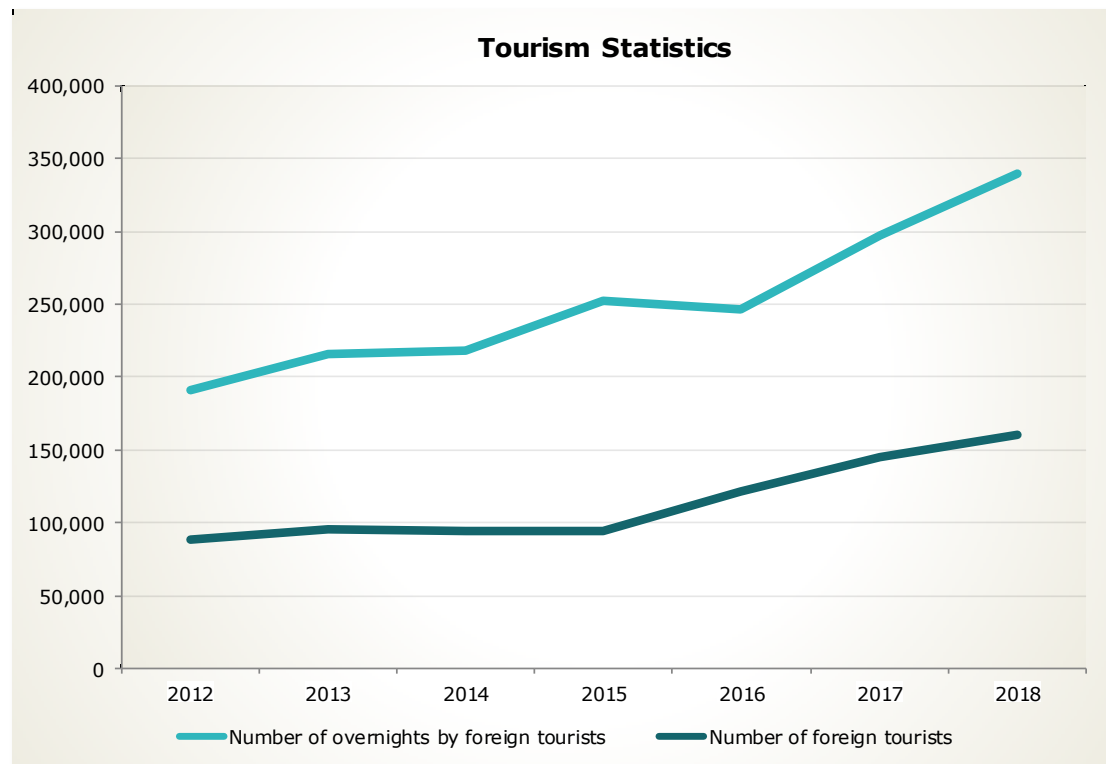
6.5. TOURSIM

Number of tourist overnights increased by 24.5% y/y in Q1 2019

Tourist overnights of foreigners expanded by an annual 24.5% to 67,907 in Q1 2019, according to NBS data.

The growth in the number of foreigners who visited the country was 14.3% y/y to 31,008.

In Q1 2019, the share of foreign tourists in the total overnights in Moldova went up to 33.3% from 27.9% a year ago.



Source: NBS

7. MAJOR DEVELOPMENTS

Moldova's president convenes new parliament

Mar 20, 2019

Moldova's president Igor Dodon said he has signed a decree convening the new parliament on March 21.

Dodon will deliver a speech before the first session of the new parliament elected on February 24, the president said in a social media post.

[Read the full story here](#)

Moldova enter EUR 10 mln partnership to upgrade customs offices

Mar 5, 2019

Moldova and Romania have signed a EUR 10 mln partnership agreement for rehabilitation and upgrade of the customs offices alongside their shared border, according to the Romania's National Agency for Fiscal Administration (ANAF).

[Read the full story here](#)

Moldova inaugurate second phase of gas link project

Feb 18, 2019

Moldovan and Romanian authorities inaugurated the second phase of the gas interconnection project Iasi-Ungheni-Chisinau, Romania's energy ministry said. The project is a concrete proof of the commitment by which Romania supports Moldova in strengthening

energy security and integration within the EU energy market, the economy ministry said in a press release.

[Read the full story here](#)

Moldova's c-bank joins coop memorandum between EBA, SEE banking supervisors

Feb 4, 2019

Moldova's central bank BNM said it has joined a memorandum of cooperation concluded between the European Banking Authority (EBA) and the banking supervisory authorities in several Southeast European (SEE) countries.

[Read the full story here](#)

Moldova remains SEE's poorest performer in Transparency Intl corruption ranking

Jan 29, 2019

Moldova gained five positions in the latest edition of Transparency International's Corruption Perception Index (CPI) global survey published in January, but remained the poorest performer in Southeast Europe (SEE).

[Read the full story here](#)

EEGF III raises EUR 176 mln with EBRD support to finance SMEs in Moldova, Ukraine

Jan 25, 2019

Private equity fund EEGF III has raised EUR 176 mln with the support of the European Bank for Reconstruction and Development to finance small and medium-sized enterprises in Moldova and Ukraine, the bank said.

[Read the full story here](#)

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