

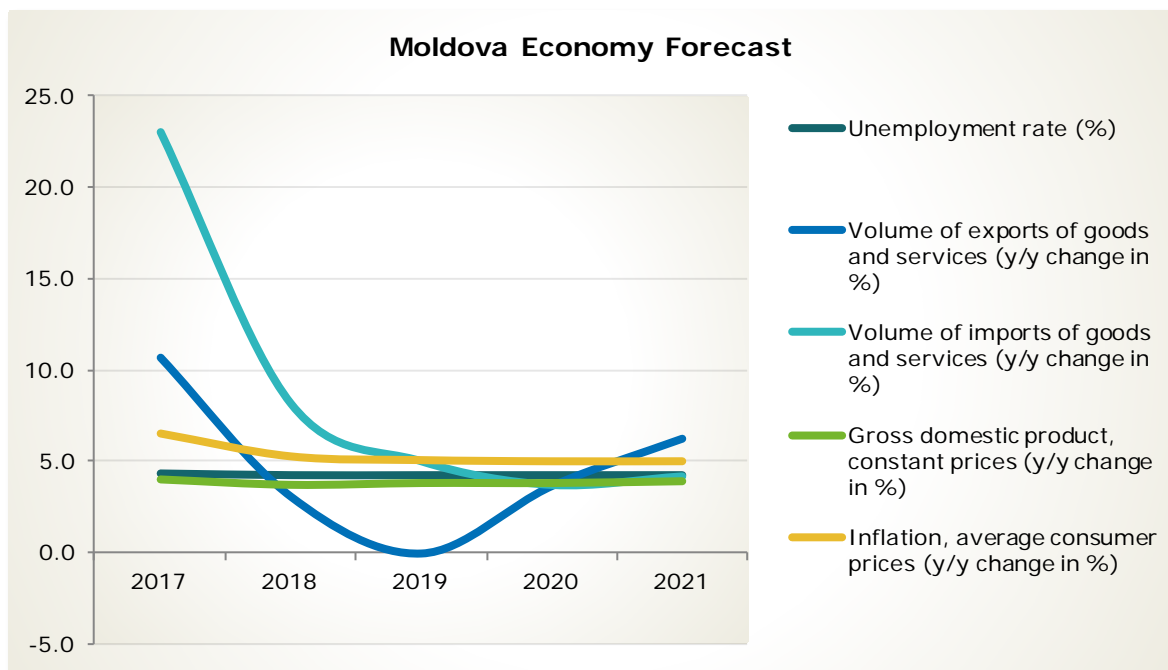
MOLDOVA ECONOMY REPORT Q2 2017

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1. MACROECONOMIC SNAPSHOT AND FORECAST

MOLDOVA - MACROECONOMIC SNAPSHOT AS OF Q2 2017	
GDP Growth	2.5% y/y
Industrial output	2.7% y/y
Retail sales	-4.0% y/y
Wholesales	18.6% y/y
Average annual inflation	5.7%
Unemployment rate	3.5%
Construction works value	10.8% y/y
Money supply	7.6% y/y
Household loans	9.6% y/y
Gross external debt	USD 6.549 bln
Current account deficit	USD 189.6 mln
Net FDI inflow	USD 31.0 mln
Foreign trade deficit	USD 650.7 mln
Number of foreign tourist overnights	29.2%



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

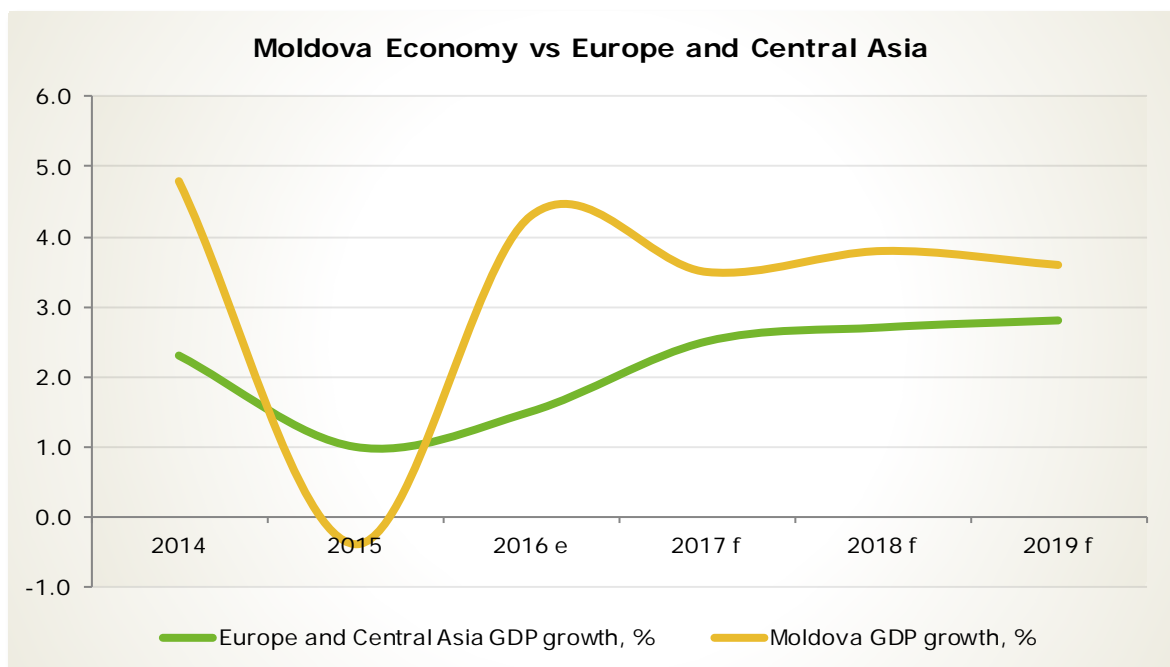
The International Monetary Fund (IMF) expects the economic growth in Moldova to slow down to 4.0% in 2017, down from the 4.3% in 2016. However, growth prospects for 2017 may improve on stronger carryover from 2016, and a more favorable external environment. In subsequent years, growth is expected to 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 annually by 3.7% to 3.9% on average.

IMF expects inflation to accelerate to 6.5% in 2017 from 6.4% in 2016. Planned adjustments of administered prices, rising 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 4.0% 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: World Bank, Europe and Central Asia Economic Update, October 2017

The World Bank also expects the growth momentum to weaken in Moldova in 2017. The bank expects GDP growth of 3.5% in 2017 versus 4.3% in 2016. The growth will be supported by consumption, fiscal incentives and a good agricultural year. In the medium-term growth will improve to 3.8% in 2018 and then will slow down again to 3.6% in 2019. Public investments and remittances are expected to further support the economic growth in 2018.

Inflationary pressures will keep inflation between 4.8% and 6.1% 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 also 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	-0.4	4.3	3.5	3.8	3.6
Private Consumption	3.2	-2.3	3.6	3.7	3.6	3.6
Government Consumption	0.8	0.7	-0.6	0.1	2.6	0.1
Gross Fixed Capital Investment	10.0	-2.3	-2.8	5.7	6.4	6.5
Exports, Goods and Services	1.0	2.3	9.3	5.5	5.1	5.3
Imports, Goods and Services	0.4	-4.7	5.9	6.7	5.4	5.5
Real GDP growth, at constant factor prices (by sectors)	5.4	-0.2	5.0	3.0	3.7	3.8
Agriculture	8.5	-13.4	18.0	1.5	2.4	3.8
Industry	7.5	3.5	2.6	2.4	3.8	4.6
Services	3.7	3.7	1.6	3.7	4.1	3.5
Inflation (Consumer Price Index)	5.1	9.7	6.4	6.1	4.8	5.0
Current Account Balance (% of GDP)	-7.1	-6.6	-4.1	-5.5	-5.8	-5.6
Net Foreign Direct Investment (% of GDP)	3.9	3.5	1.8	2.7	3.2	3.7

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

2. REAL SECTOR

2.1. GROSS DOMESTIC PRODUCT (GDP)

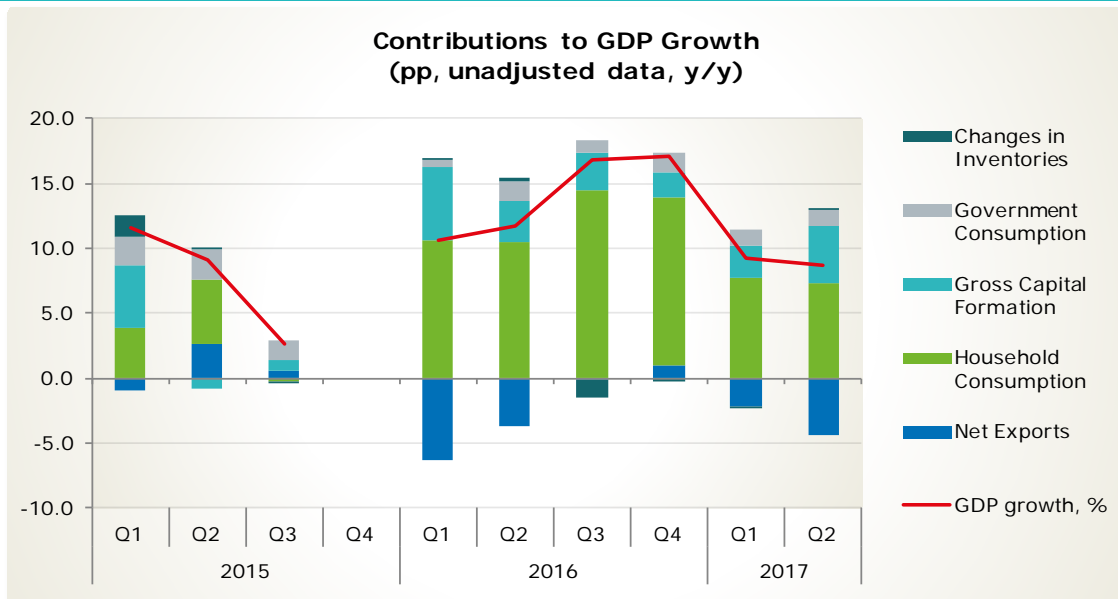
GDP growth slowed down q/q to 2.5% in Q2 2017

The country's GDP increased by real 2.5% y/y and totalled MDL 32.089 bln in Q2 2017, according to the data of the National Bureau of Statistics of the Republic of Moldova (NBS). This is a decrease compared to the fourth quarter of 2016 and the first quarter of 2017, when the economy expanded by 6.5% and 3.1%, respectively, mainly on low base effects.

Final consumption in the economy decelerated its pace of growth to 8.0% y/y in Q2 2017 from 8.2% y/y in Q1 2017. Gross capital formation went up by 19.9%, while in the previous quarter it grew slower, by 10.3%.

The positive evolution of GDP in the second 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 grew by 10.0% y/y to MDL 14.855 bln in Q2 2017.

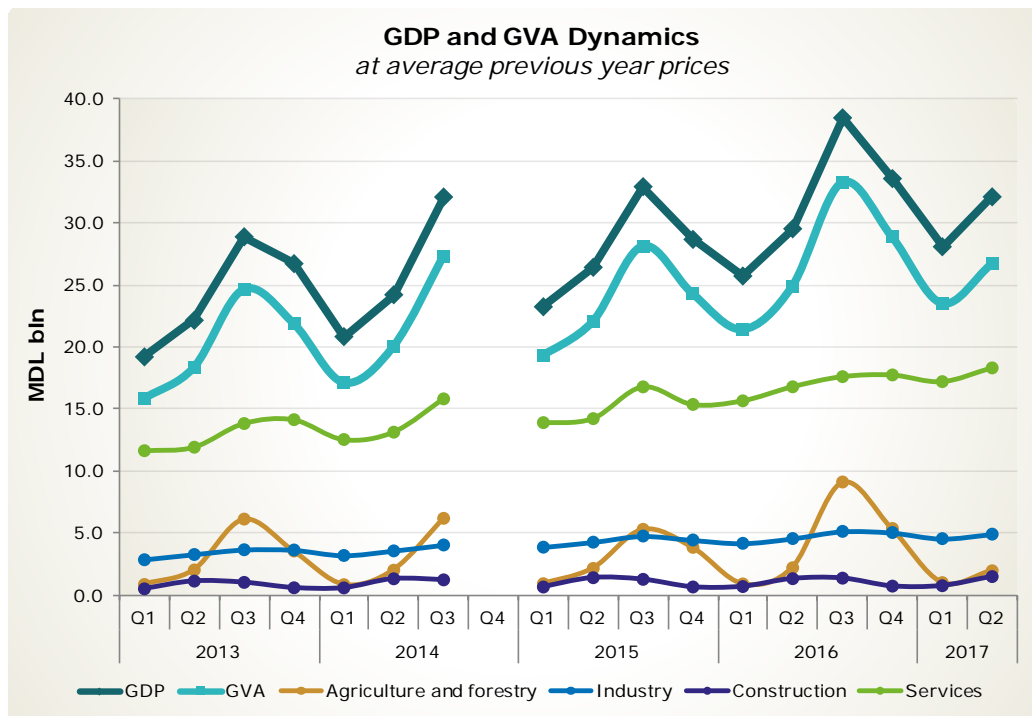
The largest contributor to the y/y growth during the second quarter was once again household consumption with 7.4 pp, followed by gross capital formation which added 4.4 pp to the overall GDP growth. The country's net export had a negative contribution of 4.3 pp y/y.



Source: SeeNews calculations; NBS

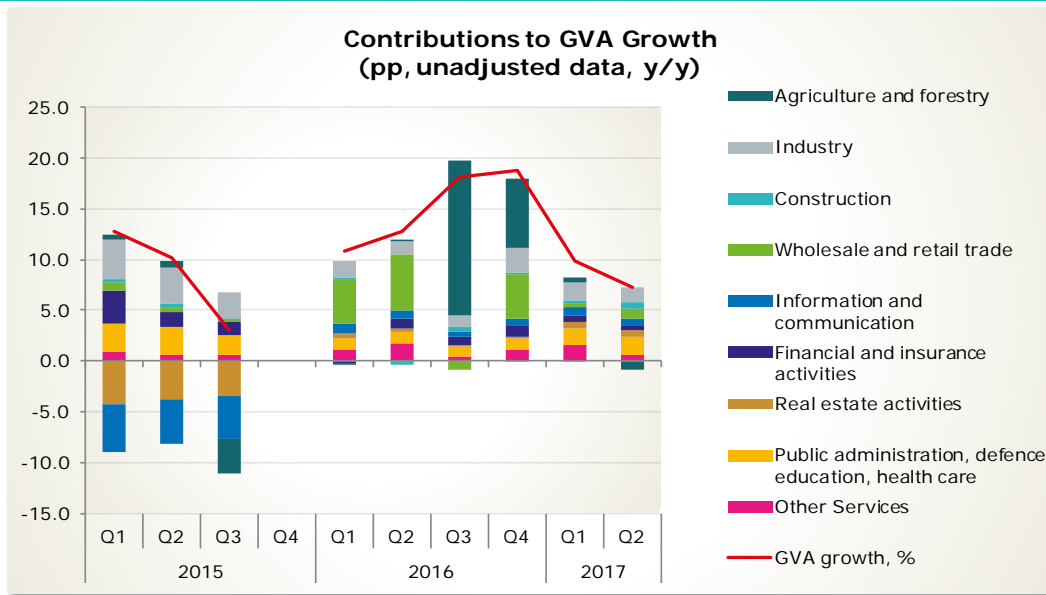
Note: Non-additive data due to direct chain-linking of GDP and its components. Contribution of changes in inventories has been derived as a residual; Data for Q4 2015 was not available due to unavailability of data for Q4 2014.

The gross value added (GVA) generated by the national economy rose by 7.2% y/y in Q2 2017 and totalled MDL 26.680 bln. The industrial sector grew in value by 7.8% y/y, accounting for 18.4% of the total GVA. The services sector recorded a 9.1% annual increase, slicing a 68.6% share in the GVA. The agricultural sector registered an annual drop of 11.0%, and equalled 7.4% of the GVA. The construction industry marked an increase of 12.6% y/y, and its share in the GVA grew to 5.6% from 5.3% in the same quarter of 2016.



Source: NBS

Note: Data for Q4 2014 is not available.



Source: SeeNews calculations; NBS

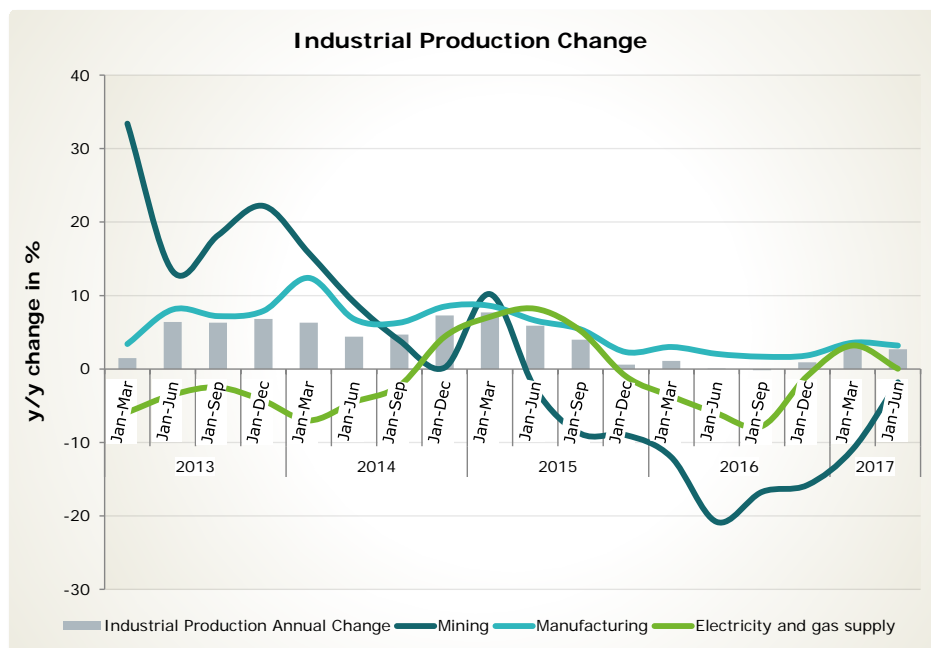
Note: Non-additive data due to direct chain linking of GDP and its components; Data for Q4 2015 was not available due to unavailability of data for Q4 2014.

2.2. INDUSTRIAL OUTPUT

Industrial output annual growth slowed down to 2.7 % y/y in Q2 2017

Industrial output growth decelerated in Q2 2017 to 2.7% y/y compared to 3.0% y/y growth in Q1 2017, according to NBS.

Manufacturing registered an annual rise of 3.2%, while the output of the electricity and gas supply inched up by 0.04%. The production of the mining industry narrowed, by 1.8% y/y.

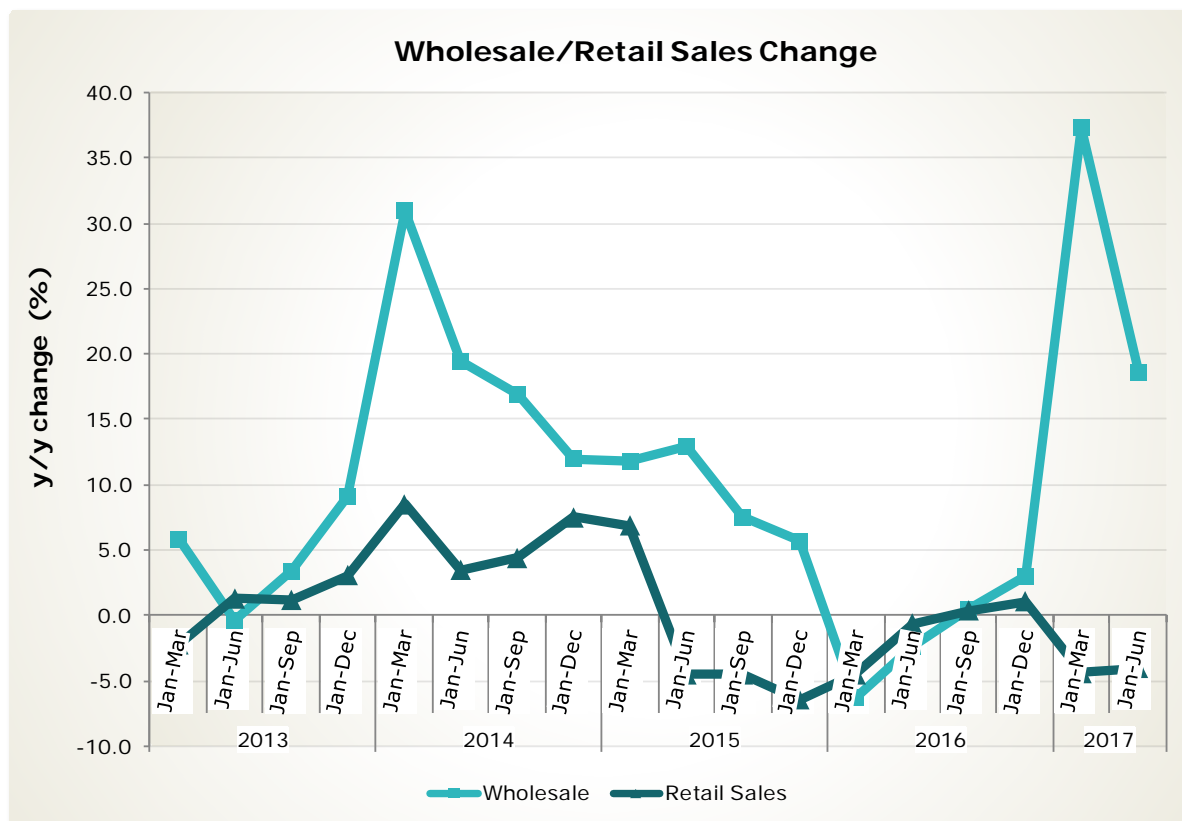


Source: NBS

2.3. WHOLESALE/RETAIL

Wholesale sector surged by 18.6% y/y while the retail sector went down by 4.0% y/y in Q2 2017

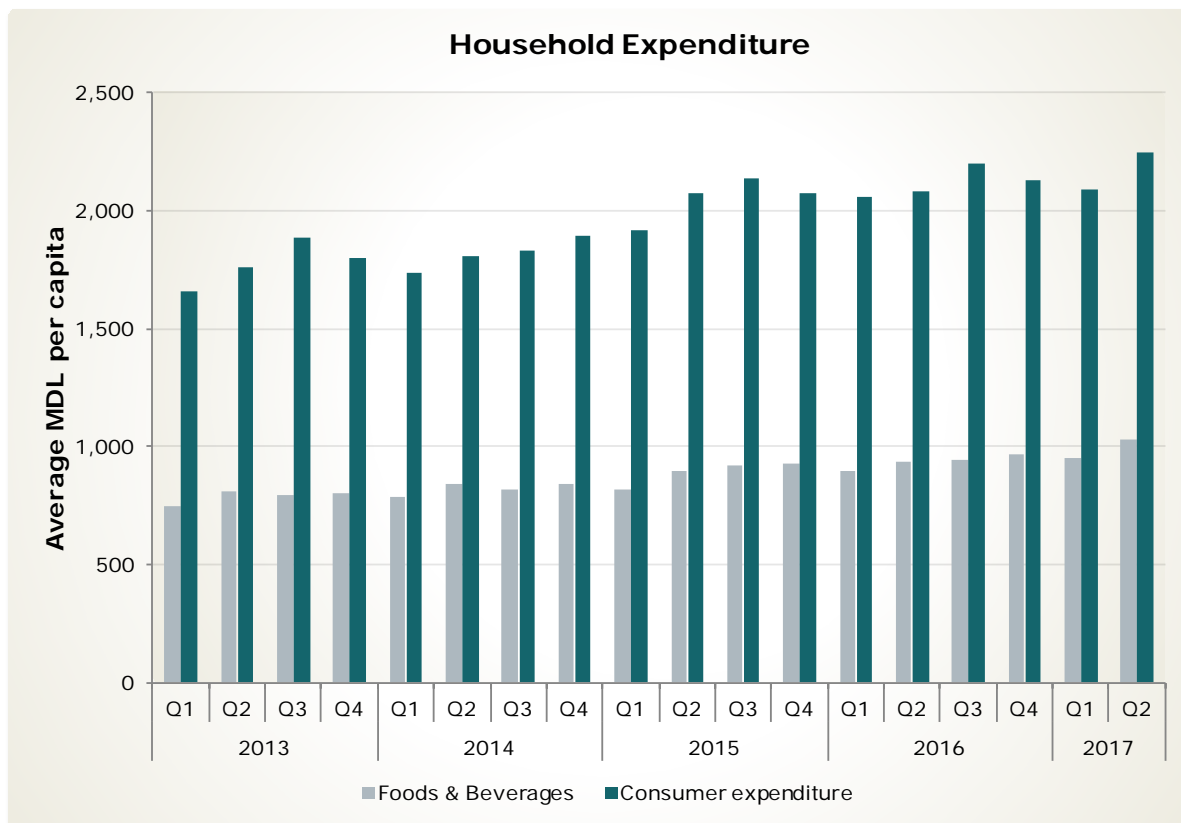
The wholesale sector grew by 18.6% y/y in Q2 2017, according to NBS data. The turnover of the retail sector marked an annual decrease, of 4.0%.



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 Q2 2017 the average consumer expenditure per capita in Moldova increased by 8.0% to MDL 2,245 from MDL 2,080 in the year-ago quarter. The food and beverages product group marked a faster y/y growth, of 10.3%, to MDL 1,030, accounting for 45.9% of the total consumer expenditure.



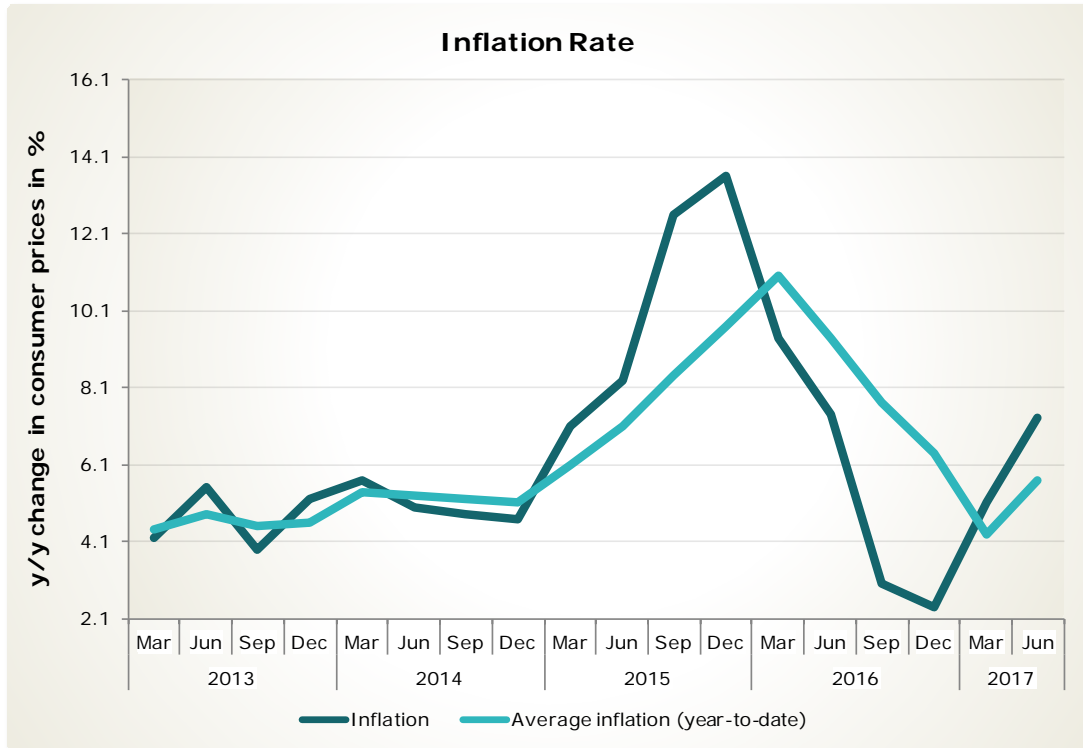
Source: NBS

2.4. INFLATION

Average annual inflation of 5.7% in Q2 2017

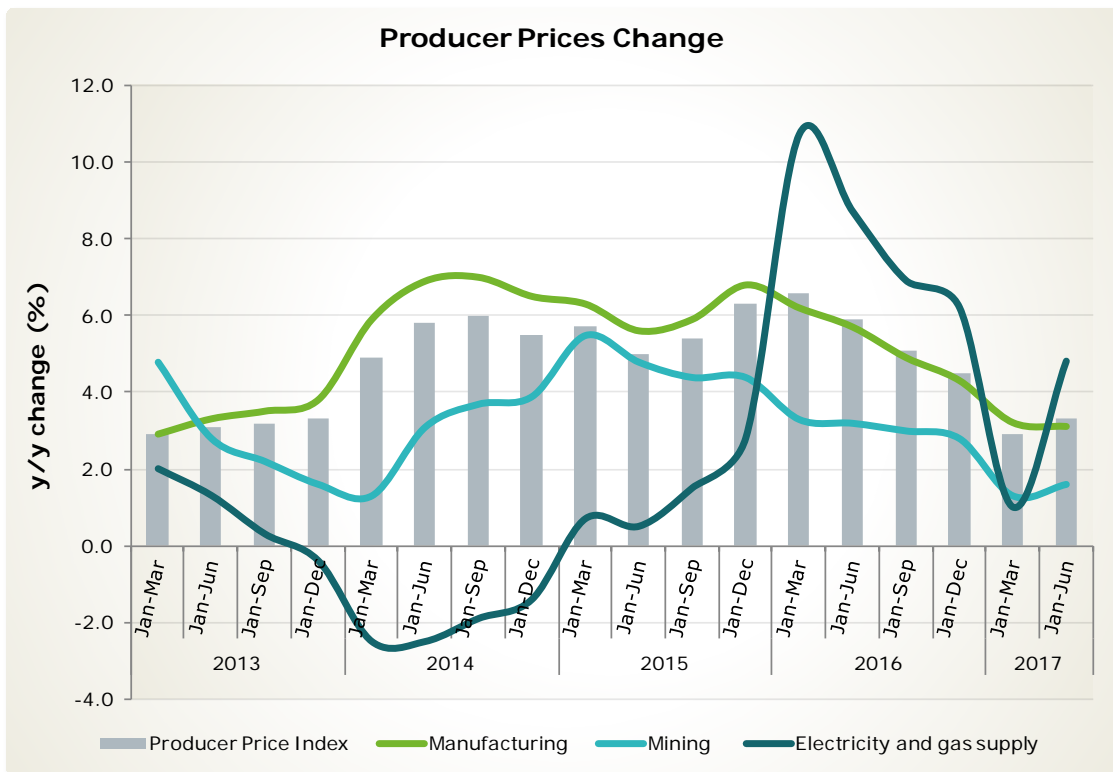
Moldova registered average annual inflation of 5.7% in the first half of 2017, which is 3.7 pp less compared to the first half of 2016, according to NBS. In June 2017 alone, the consumer prices registered an annual growth of 7.3%.

In January – June 2017, food products price grew annually by 6.4%, the prices in the services sector went up by 5.6%, and prices of non-food products increased by 4.8%.



Source: NBS

Producer prices grew by 3.3% y/y in Q2 2017 with all industries registering a growth – from 1.6% for mining, through 3.1% for manufacturing, to 4.8% for electricity and gas supply.



Source: NBS

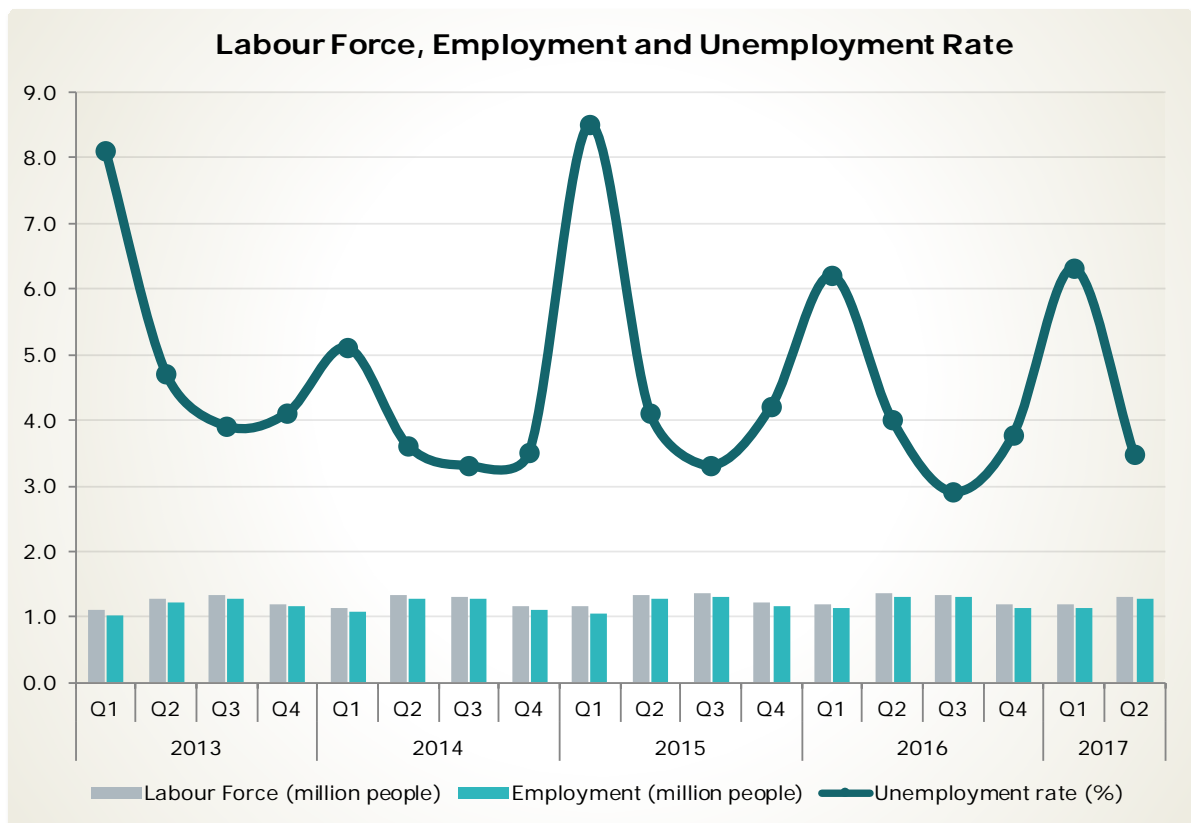
3. LABOUR MARKET

Unemployment rate at 3.5%, wages up 13.2% y/y in Q2 2017

Unemployment in Moldova narrowed to 3.5% in Q2 2017 from 4.0% a year ago, according to data of NBS. Youth unemployment rate (aged 15-24) inched up to 10.1% in Q2 2017 from 10.0% in Q2 2016.

The employed population aged 15 years and older was 1.270 million in Q2 2017, down 2.9% 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 Q2 2017 rose by 13.2% y/y to MDL 5,637. In the public sector, it was MDL 4,924 and in the private – MDL 5,925.



Source: NBS

4. CONSTRUCTION AND REAL ESTATE

The value of construction works went up by 10.8% y/y in Q2 2017

The value of construction works carried out in Moldova in Q2 2017 went up by 10.8% y/y and totalled MDL 1.710 bln, according to NBS data.

New construction works accounted for the larger share in the construction mix - 52.0%, while repairing, maintenance and other construction works accounted for the remaining 48.0%.

Civil engineering works amounted to MDL 741.2 mln, construction of residential buildings – MDL 515.7 mln, non-residential buildings – MDL 433.9 mln, and other buildings – MDL 19.0 mln.

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 20.592 in Q2 2017 from MDL 22.351 in Q2 2016, according to the National Bank of Moldova's (BNM) data.

MDL Average Exchange Rate			
Foreign Currency	Q2 2017	Q1 2017	Q2 2016
USD	18.753	19.956	19.796
GBP	23.962	24.712	28.433
CHF	19.019	19.865	20.391
EUR	20.592	21.245	22.351

5.2 MONETARY POLICY

Moldova's National Bank lowers base interest rate at 7.0%

The Executive Board of the National Bank of Moldova (NBM) lowered the basic interest rate applied on main monetary policy operations to 8.0% in end-June 2017 from 9.0% in end-October 2016. In end-October 2017, NBM lowered the basic rate further to 7.0%.

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.

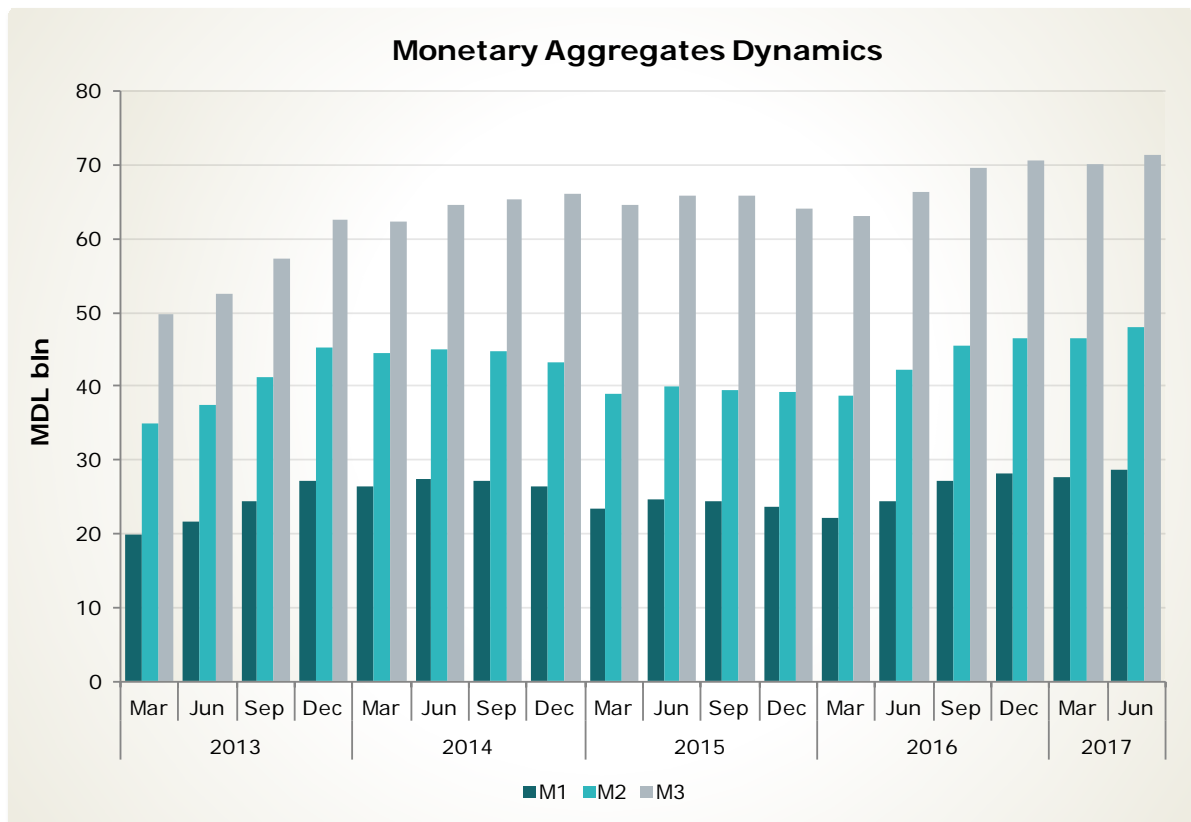
5.3. MONETARY AGGREGATES

Money supply up by 7.6% y/y at end-June 2017

Broad money (money aggregate M3) increased by 7.6% y/y to MDL 71.399 bln at the end of June 2017, according to data provided by BNM.

The M2 money supply went up by 13.4% y/y to MDL 47.894 bln.

Money aggregate M1, or narrow money, jumped by 17.2% to MDL 28.599 bln.



Source: BNM

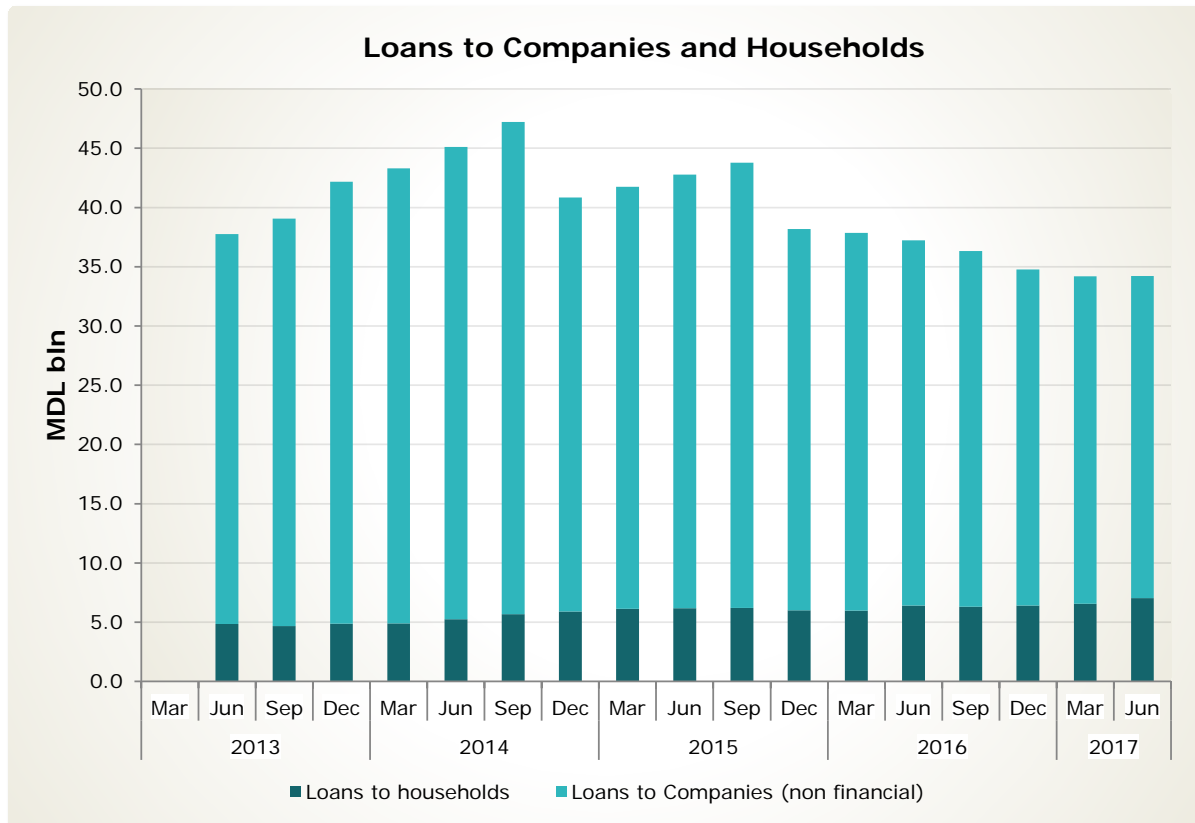
5.4. BANKING AND INSURANCE

Household loans increased by 9.6% y/y as of June 2017

Loans to the non-government sector totalled MDL 34.217 bln as of end-June 2017, down by 8.1% compared to a year ago, according to BNM.

Loans to non-financial corporations sank by 11.8% y/y to MDL 27.177 bln, while household loans went up by 9.6% to MDL 7.040 bln.

Sector wise, loans to wholesale and retail enterprises had the biggest share, of 35.7%, in the total loans to non-financial corporations as of June 2017. The second place was occupied by the companies in the food industry with a 12.0% share, and agricultural enterprises came third with a share of 10.3%.



Source: BNM

Note: Data for March 2013 was not available

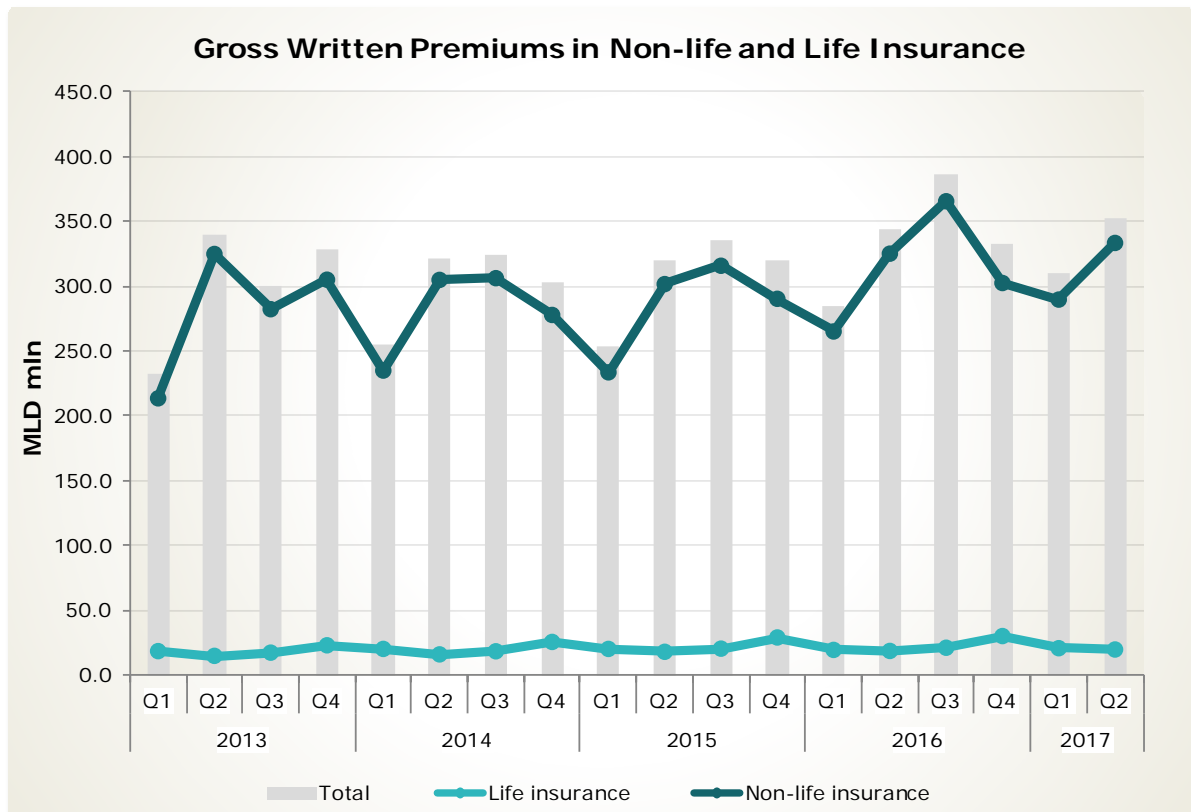
At end-June 2017, the total assets of the banking system totalled MDL 75.026 bln, increasing by 6.3% compared to a year earlier.

As of June 2017, the net profit of the banking sector totalled MDL 956.7 mln, increasing by 12.0% compared to the same month of the previous year due mainly to the decrease in interest expenses by 39.9%, according to BNM.

Insurance premium income up 2.7% y/y in Q2 2017

The total gross written premiums (GWP) of the non-life and life insurance companies in Moldova stood at MDL 353.0 mln in Q2 2017, up by 2.7% y/y, according to the National Commission for Financial Markets.

The growth was fuelled by the 2.5% annual growth, to MDL 333.3 mln, of the non-life insurance market's GWP, while the premiums of the life insurance segment grew faster - by 6.0% y/y to MDL 19.7 mln.



Source: National Commission for Financial Markets

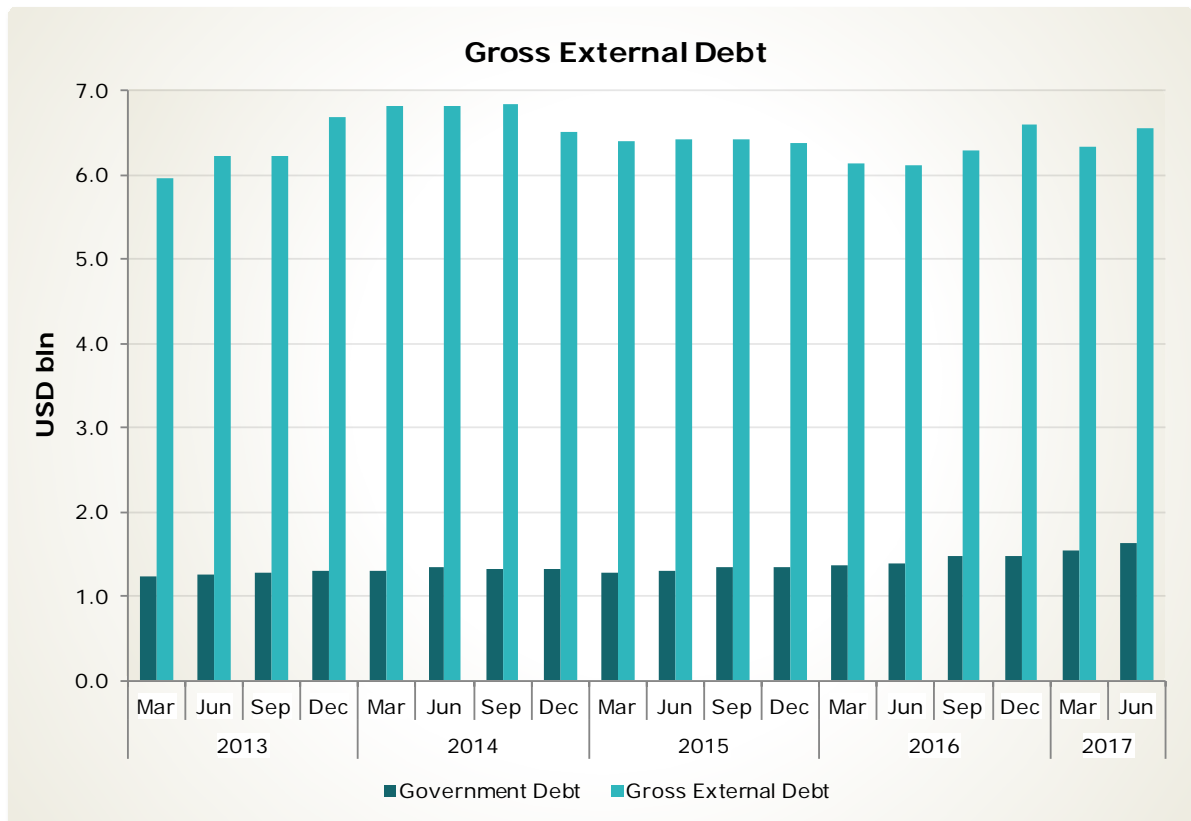
6. EXTERNAL SECTOR

6.1. FOREIGN DEBT

The gross external debt amounted to USD 6.549 bln as of June 2017

The gross external debt totalled USD 6.549 bln as of June 2017, according to central bank data. It went up by 7.1%, or USD 436.9 mln, compared to June 2016.

At end-June 2017, long-term liabilities grew by 7.4% y/y and amounted to USD 3.187 bln, or 48.7% of the total debt. Short-term liabilities came in at USD 2.258 bln, by 10.2% more than a year earlier and equal to 34.5% of the total debt.



Source: BNM

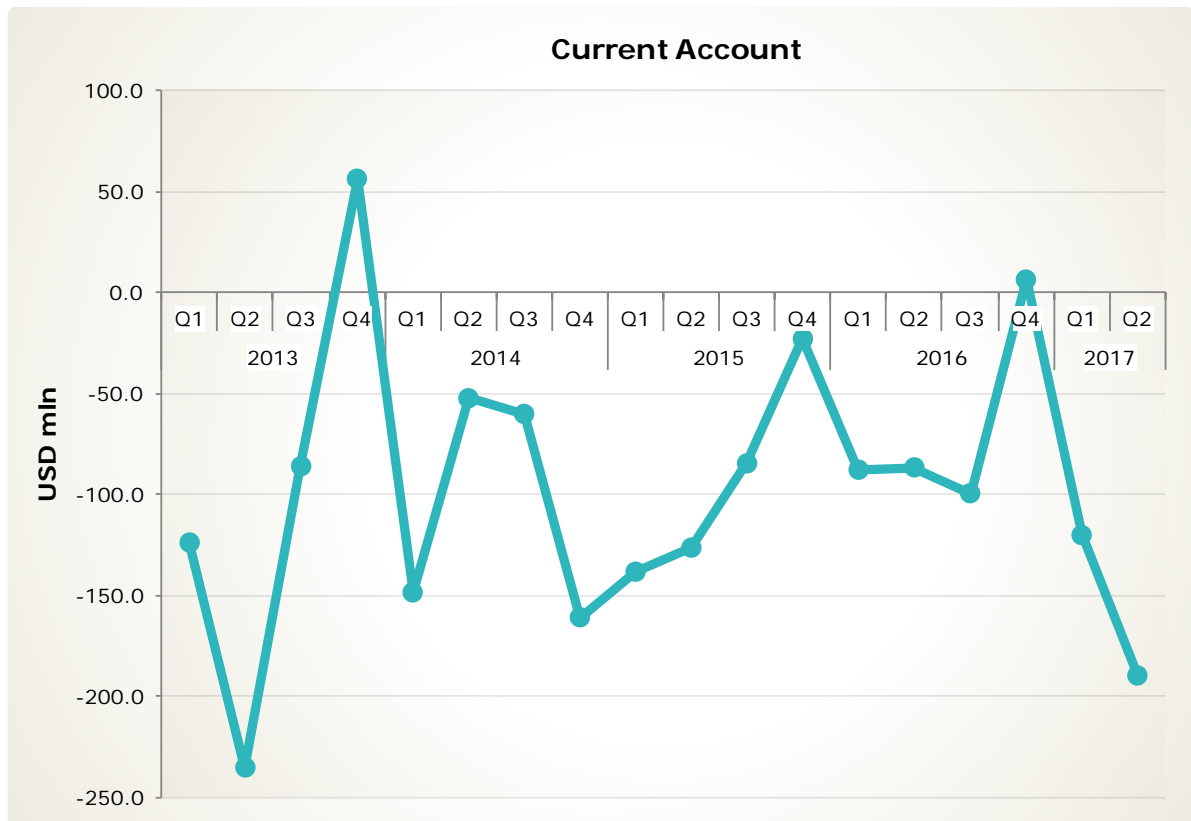
6.2. BALANCE OF PAYMENTS

Current account deficit more than doubled y/y to USD 189.6 mln in Q2 2017

The current account deficit widened to USD 189.6 mln in Q2 2017 from USD 86.6 mln a year ago, according to central bank statistics data.

The increase in the current account deficit was due mainly to the 25.7% annual rise in the negative balance on the net exports of goods to USD 642.1 mln. Net balance of services was positive at USD 21.2 mln, up 25.7% y/y, while the positive balance on the income account amounted to USD 140.7 mln, up 8.1% y/y.

The net current transfers in Q2 2017 went up by 4.9% on the year to USD 290.6 mln.



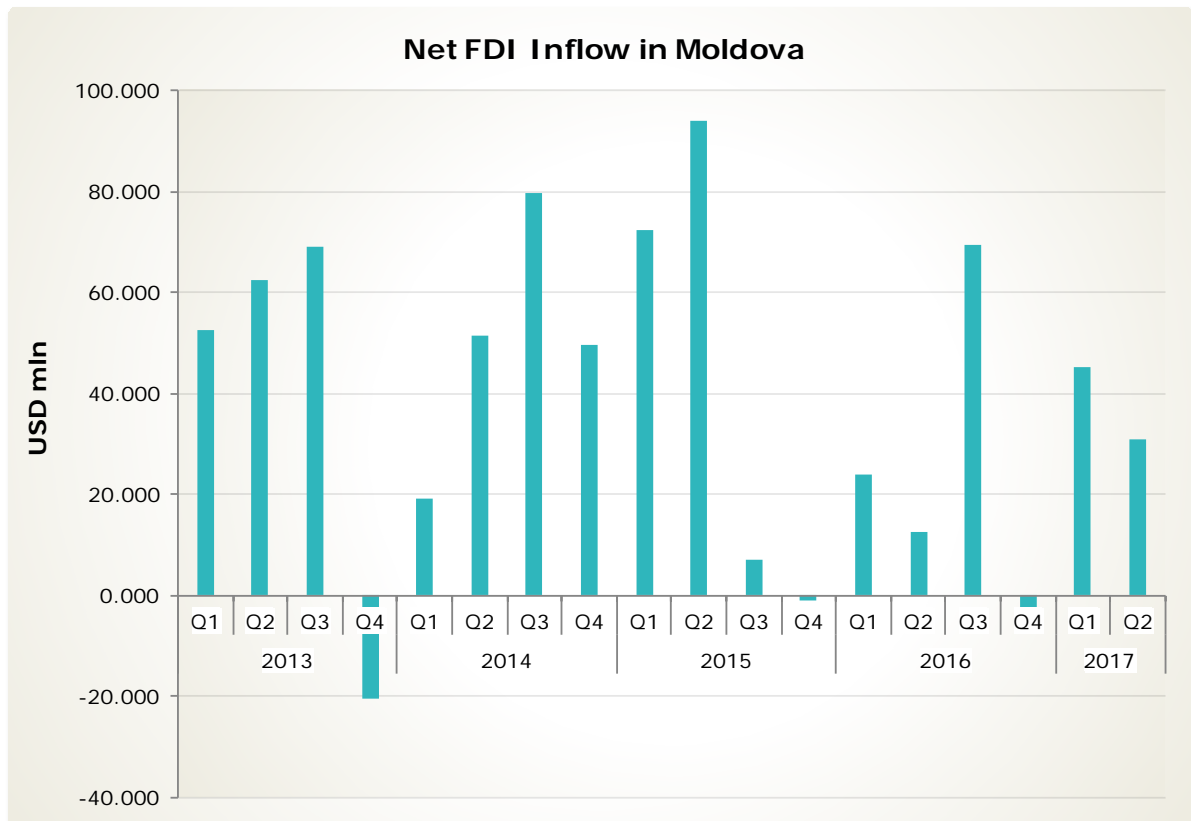
Source: BNM

6.3. FDI

Net FDI inflow at USD 31.0 mln in Q2 2017

Net foreign direct investments (FDI) in Moldova totalled USD 31.0 mln in the second quarter of 2017, more than doubling compared to the corresponding period of the previous year, according to BNM data.

Of the total, equity capital investments amounted to USD 3.4 mln, reinvested earnings came in at USD 16.4 mln and other capital investments accounted for the remaining USD 11.2 mln.



Source: BNM

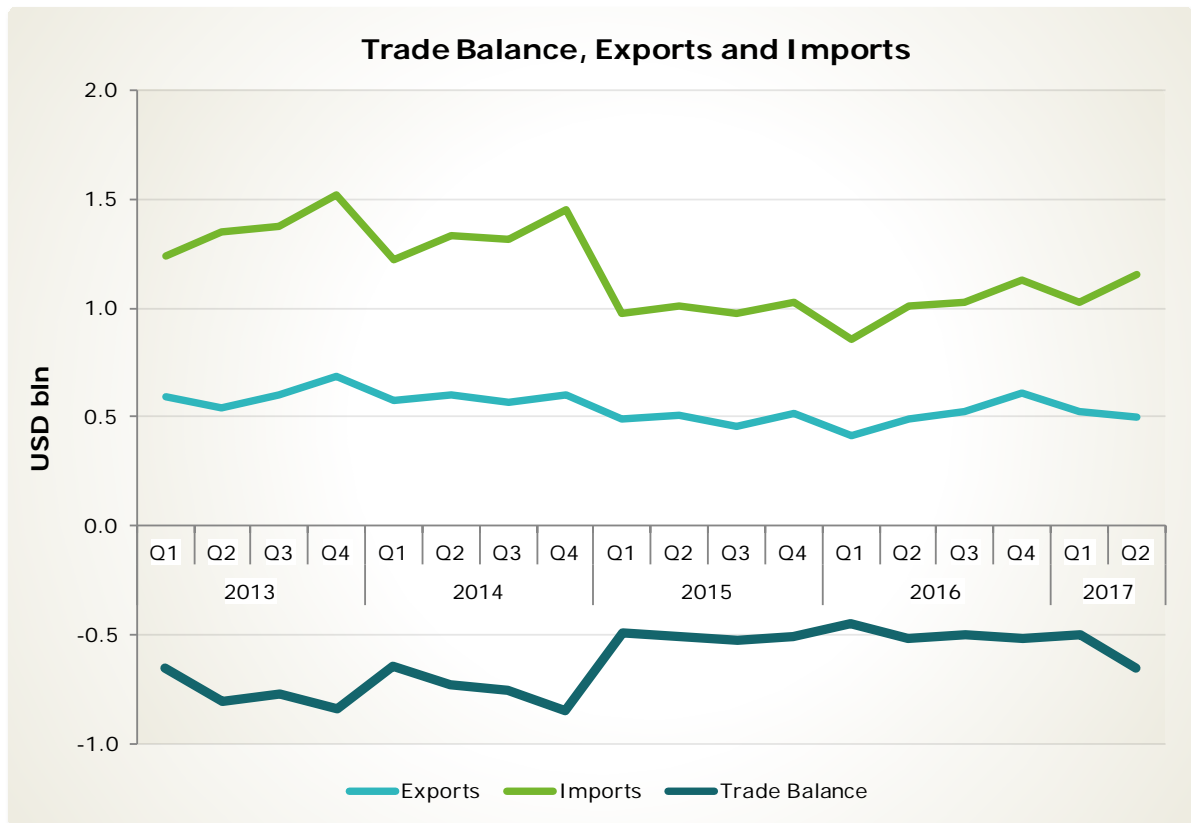
6.4. FOREIGN TRADE

Foreign trade deficit up by 25.5% y/y in Q2 2017

The trade deficit stood at USD 650.7 mln in Q2 2017, compared to USD 518.4 mln a year earlier, according to BNM.

In Q2 2017, Moldova's main export markets were Romania, which accounted for 24.5%, or USD 122.4 mln of the total exports, followed by Russia, with an 11.2% share equal to USD 55.8 mln and Italy with an 8.9% share, or USD 44.7 mln.

Most of Moldova's imports came from Romania – USD 161.2 mln, or 14.0% of the total, Ukraine followed with USD 142.9 mln, for a 12.4% share, and China was the third major importer with USD 114.3 mln, representing a 9.9% share.



Source: NBS

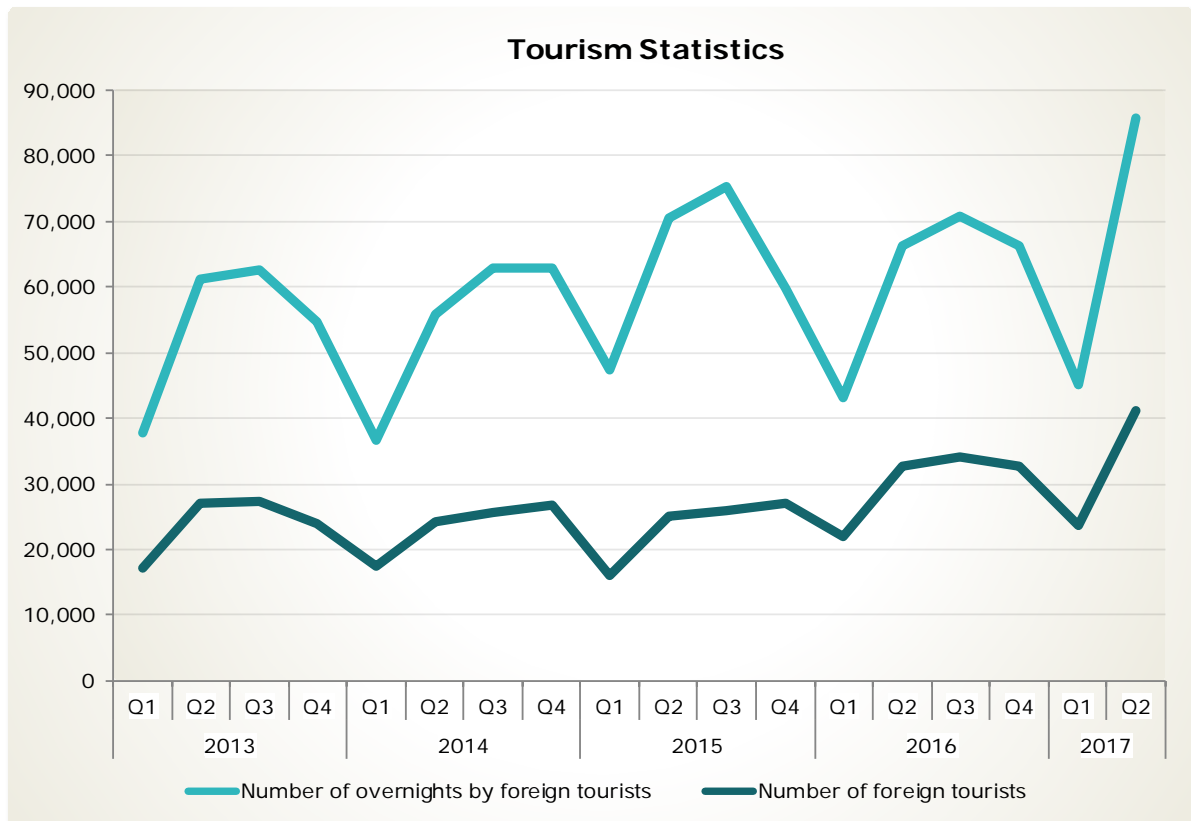
6.5. TOURSIM

Number of tourist overnights increased by 29.2% y/y in Q2 2017

Tourist overnights of foreigners expanded by an annual 29.2% to 85,698 in the second quarter of 2017, according to NBS data.

The growth in the number of foreigners who visited the country was smoother - 26.0% y/y, counting 41,125.

In Q2 2017, the share of foreign tourists in the total overnights in Moldova went up to 20.9% from 17.7% a year ago.



Source: NBS

7. MAJOR DEVELOPMENTS

EU Council, Parliament agree on EUR 100 mln financial assistance to Moldova

Jun 16, 2017

The Council of the European Union and the European Parliament (EP) announced in June 2017 they agreed on providing EUR 100 mln to help Moldova fund its structural reforms.

[Read the full story here](#)

Tourism contribution to Moldova's GDP to rise 3% in 2017 - WTTC

Jun 15, 2017

The direct contribution of the travel and tourism industry to Moldova's economy is expected to rise by 3% in 2017 to a total of MDL 1.4 bln (EUR 68.5 mln), the World Travel & Tourism Council (WTTC) announced in June 2017.

[Read the full story here](#)

Russia-led Eurasian Economic Union grants Moldova observer status

Apr 19, 2017

The Supreme Council of the Eurasian Economic Union (EAEU) of Russia, Belarus, Kazakhstan, Armenia and Kyrgyzstan has granted an observer status to Moldova, the Moldovan president Igor Dodon announced in April 2017. The observer status allows Moldova to participate in the organisation's activities but not in the voting or decision making process. In April 2017, Dodon signed a memorandum on cooperation with EAEU.

Read the full story [here](#)

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