

MOLDOVA ECONOMY REPORT

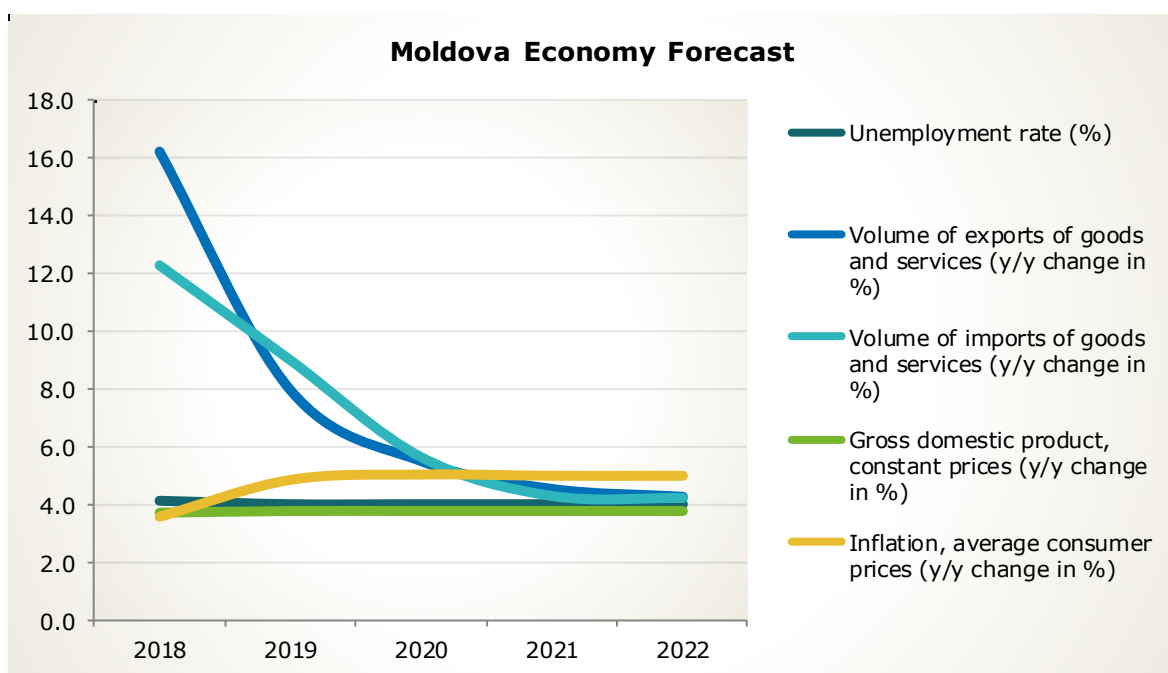
Q2 2018

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1. MACROECONOMIC SNAPSHOT AND FORECAST

MOLDOVA – MACROECONOMIC SNAPSHOT AS OF Q2 2018	
GDP Growth	5.25% y/y
Industrial output	8.5% y/y
Retail sales	-0.9% y/y
Wholesales	9.3% y/y
Average annual inflation	4.2%
Unemployment rate	3.0%
Construction works value	14.1% y/y
Money supply	9.1% y/y
Household loans	22.1% y/y
Gross external debt	USD 7.079 bln
Current account deficit	USD 282.1 mln
Net FDI inflow	USD 20.7 mln
Foreign trade deficit	USD 772.0 mln
Number of foreign tourist overnights	10.7%



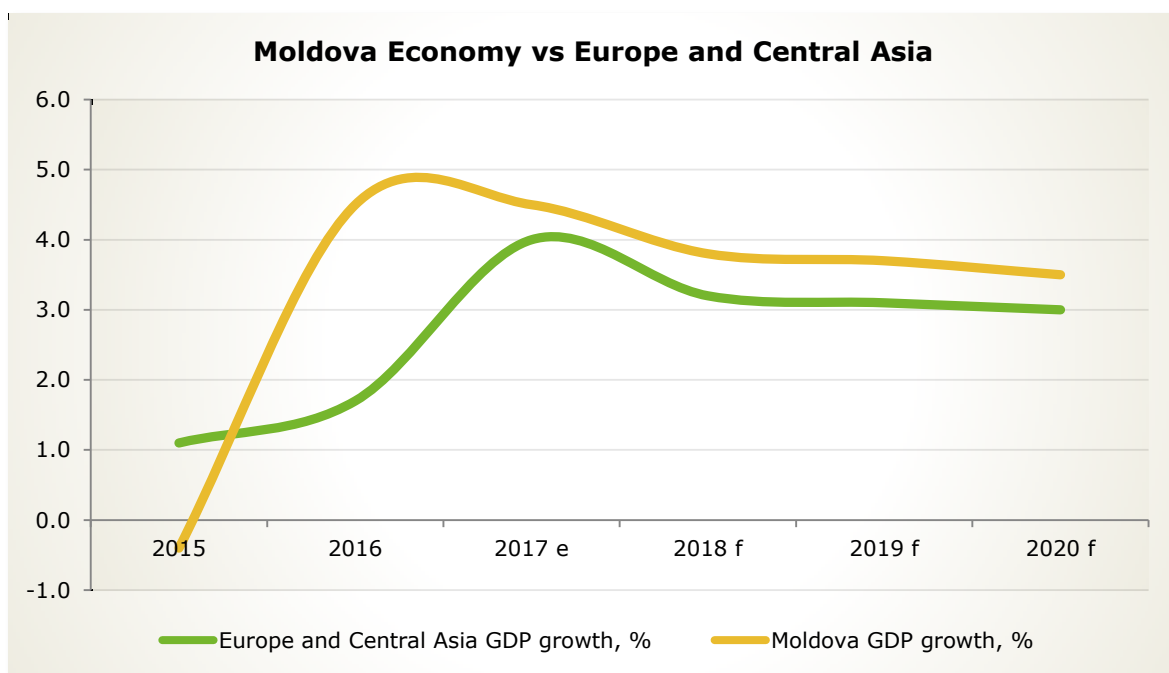
Source: International Monetary Fund (IMF) World Economic Outlook Database – October 2018

The International Monetary Fund (IMF) expects the economic growth of Moldova to remain solid in 2018 at 3.75%, 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 4.2%.

CPI inflation is expected to come in at 3.6% in 2018 and 4.9% 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.

Moldova – GDP, Inflation, Current Account Balance and FDI Dynamics (y/y change in %)							
	2015	2016	2017 e	2018 f	2019 f	2020 f	
Real GDP growth, at constant market prices, y/y change in %	-0.4	4.5	4.5	3.8	3.7	3.5	
Private Consumption	-2.3	4.0	4.9	3.8	3.6	3.5	
Government Consumption	0.2	-0.1	0.2	0.7	-0.1	0.2	
Gross Fixed Capital Investment	-3.3	-2.1	5.2	6.1	5.3	5.8	
Exports, Goods and Services	2.9	8.7	12.7	2.2	3.9	5.1	
Imports, Goods and Services	-4.7	5.2	11.4	2.9	4.1	5.3	
Real GDP growth, at constant factor prices (by sectors)	-0.3	5.3	4.0	2.4	3.1	3.1	
Agriculture	-13.4	18.0	7.9	1.1	2.3	3.5	
Industry	3.5	2.6	3.0	3.8	4.6	5.4	
Services	3.8	1.8	2.7	2.5	2.9	2.2	
Inflation (Consumer Price Index)	9.7	6.4	6.6	3.5	4.5	5.0	
Current Account Balance (% of GDP)	-7.2	-4.2	-8.0	-4.8	-5.2	-5.6	
Net Foreign Direct Investment (% of GDP)	3.5	1.3	2.6	2.7	3.3	3.4	

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



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

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

In the medium-term growth will slow down to 3.7% in 2019 and once again to 3.5% in 2020. Public investments and remittances are expected to further support the economic growth in 2018.

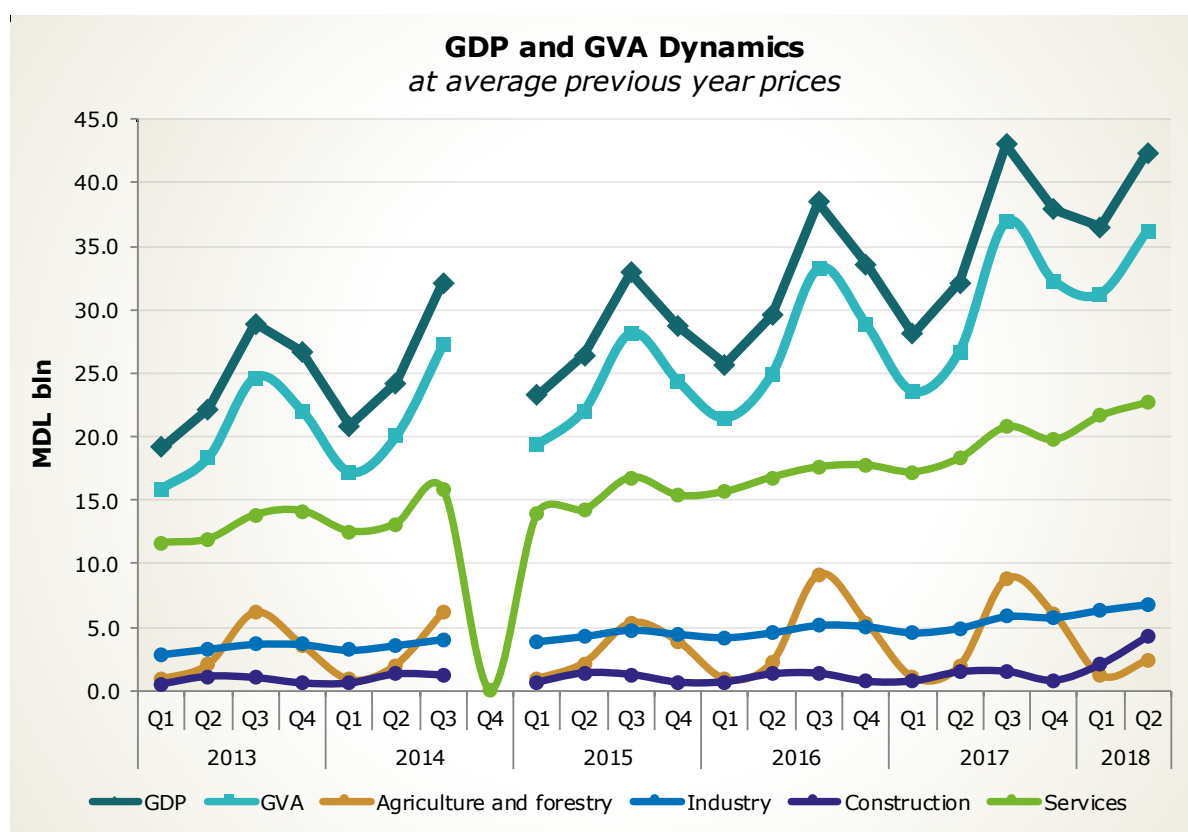
Inflationary pressures will keep inflation between 3.5% and 5.0% in 2018-2020.

2. REAL SECTOR

2.1. GROSS DOMESTIC PRODUCT (GDP)

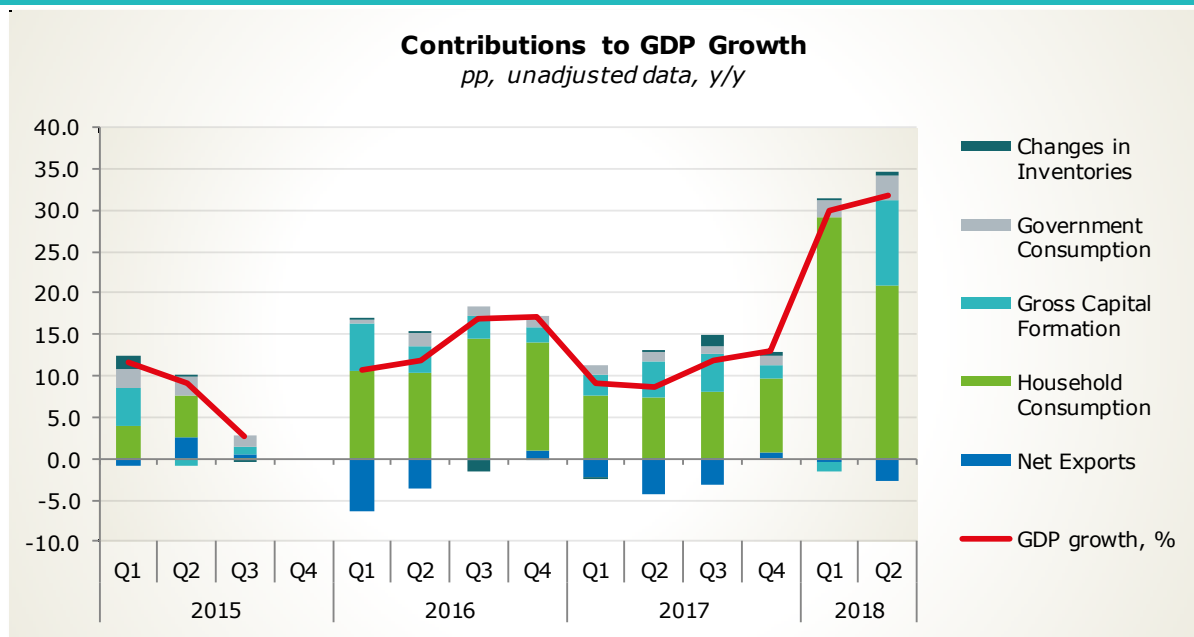
GDP growth at 5.25% y/y in the second quarter

Moldova's economy expanded by 5.25% in real terms in Q2 2018, mainly on the surging gross capital formation, according to the data of the National Bureau of Statistics of the Republic of Moldova (NBS). Moldova's GDP grew by 3.7% in Q1 2018 and by 2.6% y/y in the same quarter of the previous year.

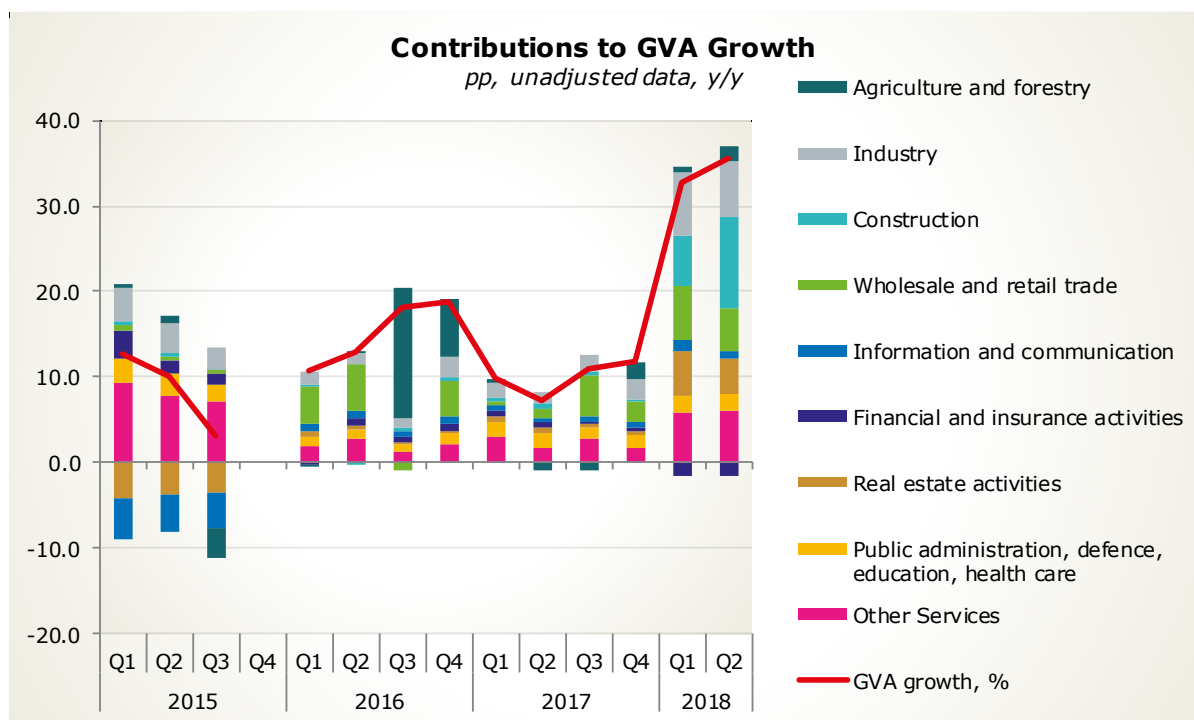


Source: NBS

A negative contribution to GDP growth was recorded by net exports, of -2.7%, which was the result of the negative contribution both from goods and services imports and exports.



Source: NBS



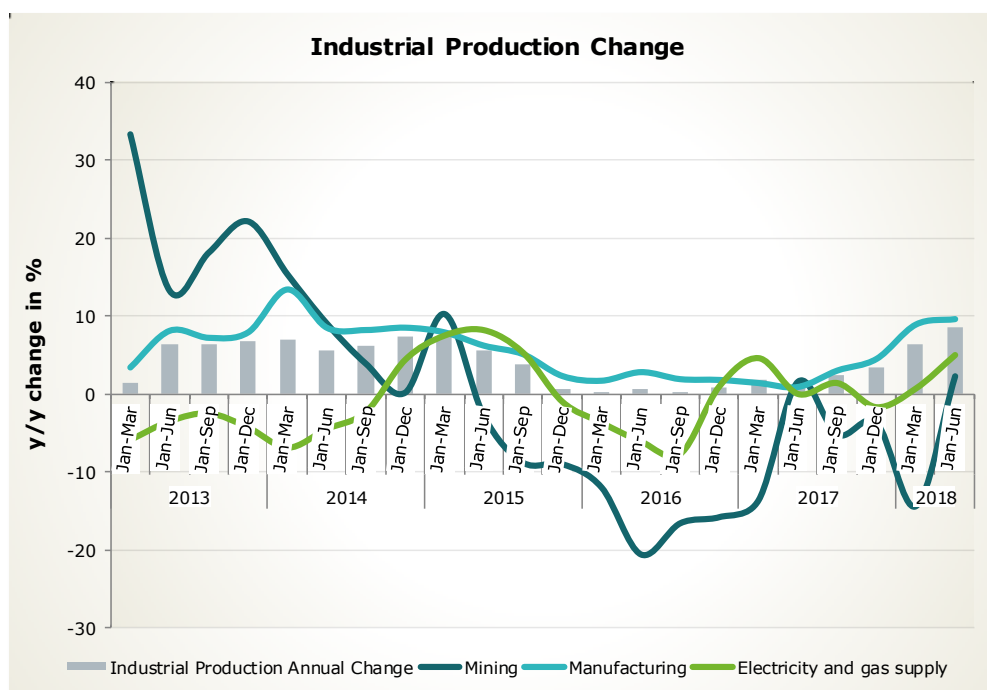
Source: NBS

2.2. INDUSTRIAL OUTPUT

Industrial output annual growth at 8.5% y/y in Q2 2018

Industrial output growth came in at 8.5% in Q2 2018, compared to a 6.3% y/y growth in Q1 2018 and a 0.8% rise in Q2 2017, according to NBS.

Manufacturing registered an annual rise of 9.6%, while the output of the electricity and gas supply industry increased by 5.0%. The production of the mining industry went up by 2.3% y/y after plunging by 14.4% in Q1 2018.

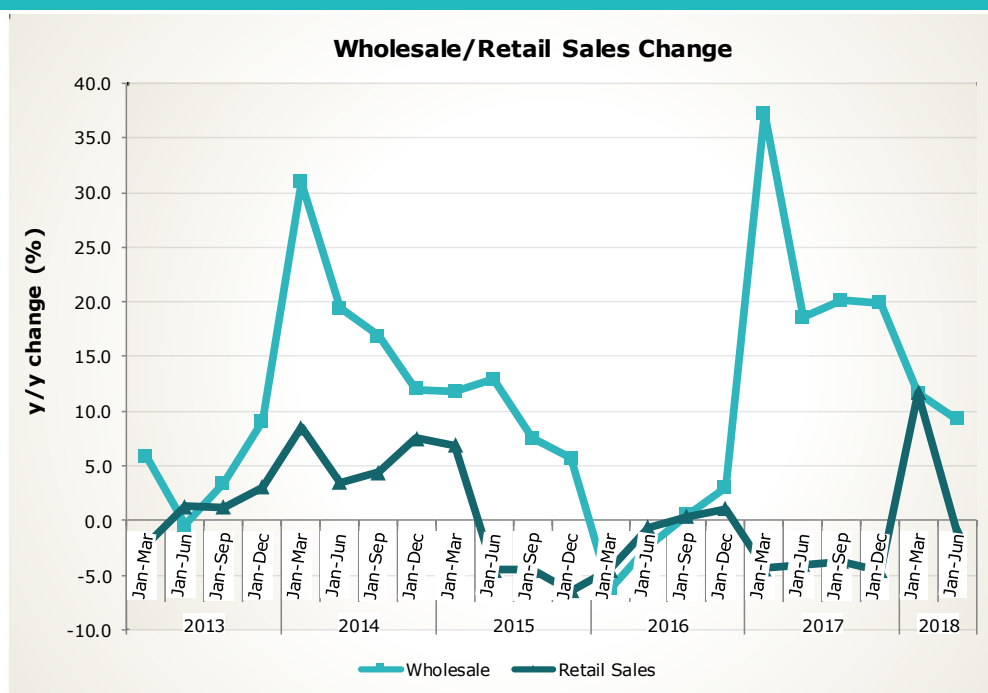


Source: NBS

2.3. WHOLESALE/RETAIL

Wholesale sector surged by 9.3% y/y, retail sector down by 0.9% y/y in Q2 2018

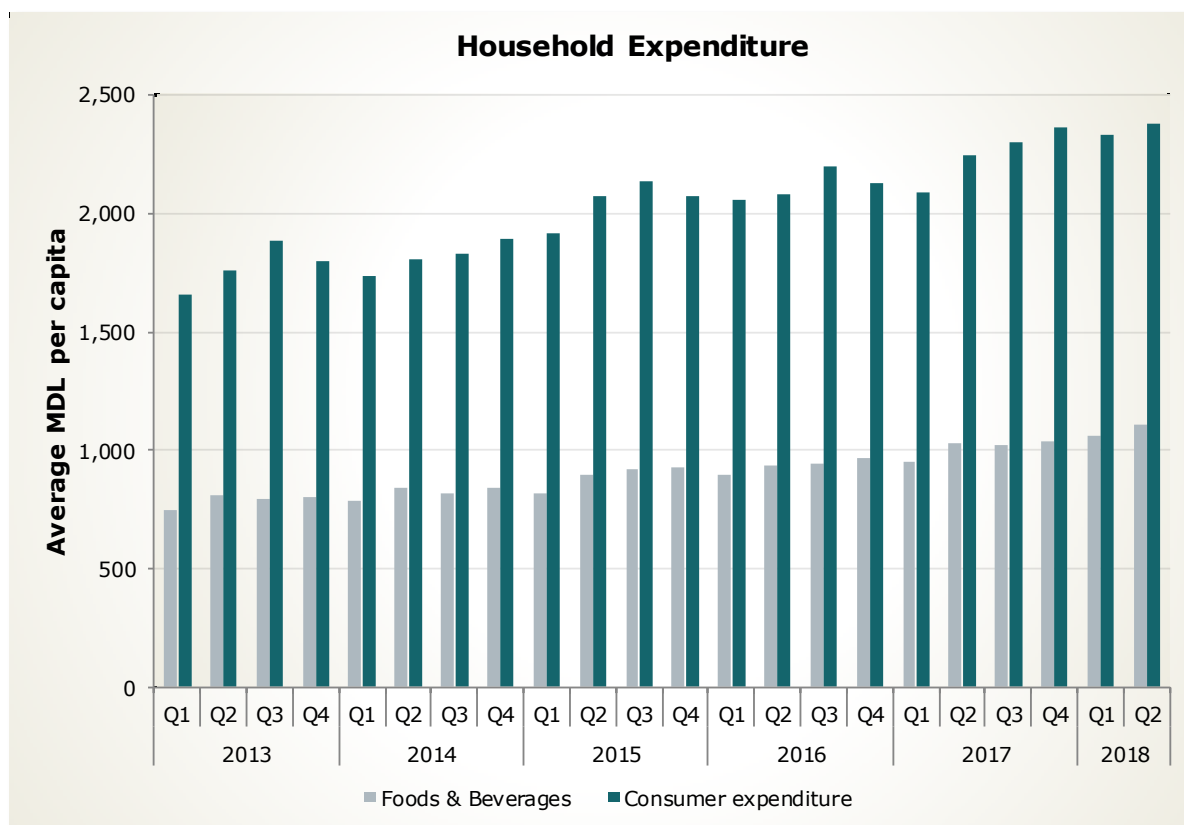
The wholesale sector grew by 9.3% y/y in Q2 2018, according to NBS data. The turnover of the retail sector marked an annual decrease, of 0.9%.



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 2018 the average consumer expenditure per capita in Moldova increased by 5.9% to MDL 2,379 from MDL 2,247 in Q2 2017. The food product group marked a year-on-year growth of 7.5%, to MDL 1,070, accounting for 45.0% of the total consumer expenditure.



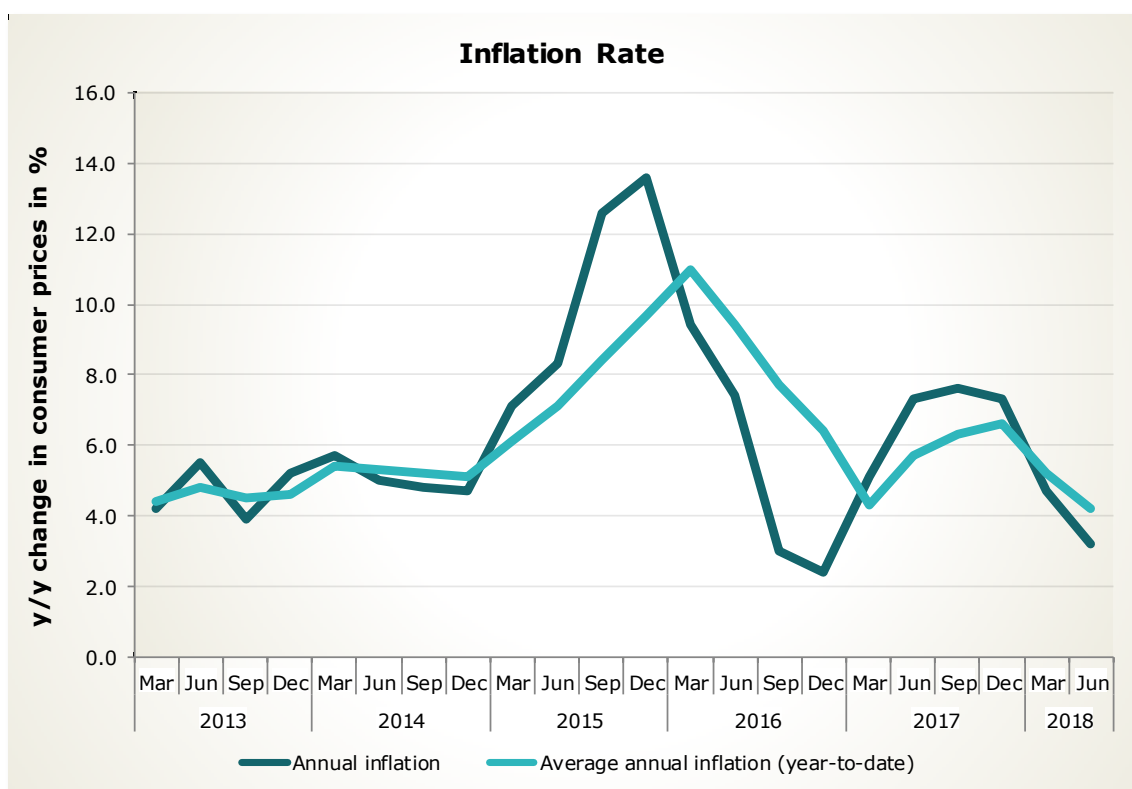
Source: NBS

2.4. INFLATION

Average annual inflation of 4.2% in Q2 2018

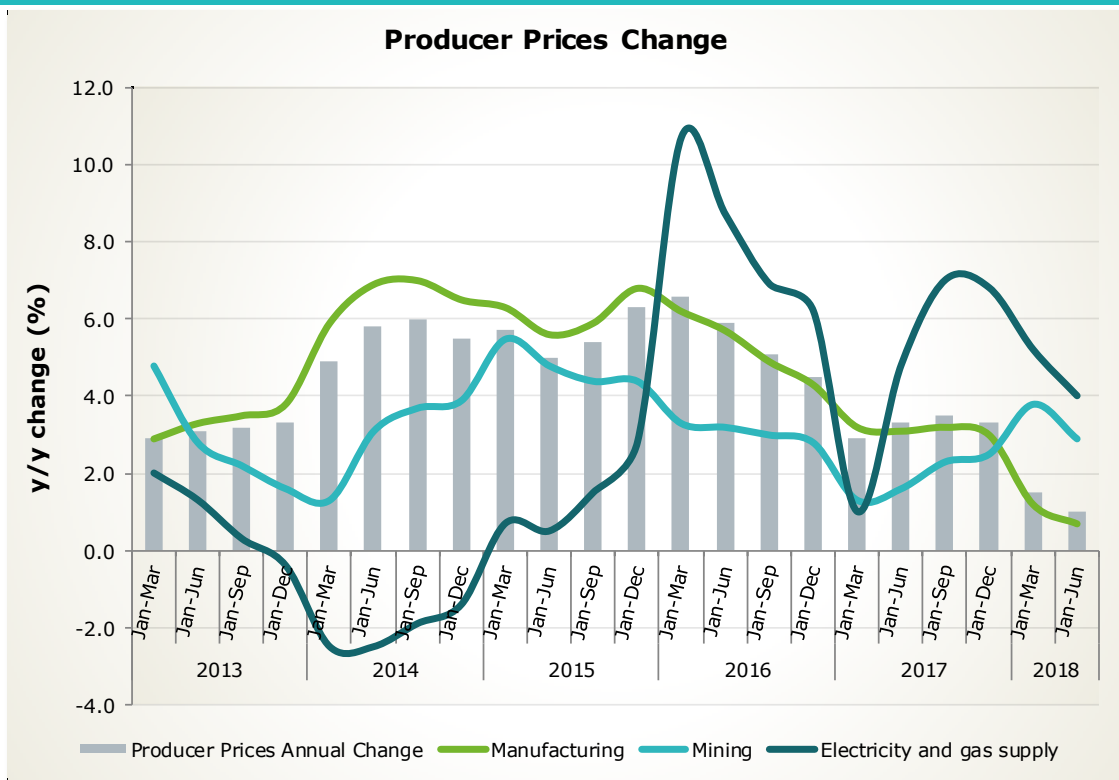
Moldova registered average annual inflation of 4.2% in Q2 2018, down compared to 5.2% in Q1 2018, and in the same quarter of the previous year, when it stood at 5.7%, according to NBS.

In January – June 2018, food products price grew annually by 6.9%, while the prices of non-food products increased by 2.8%. Annual inflation in the services sector amounted to 1.8%.



Source: NBS

Producer prices grew by 1.0% y/y in the second quarter with all industries registering a growth – from 4.0% for electricity and gas supply, through 2.9% for mining, to 0.7% for manufacturing.



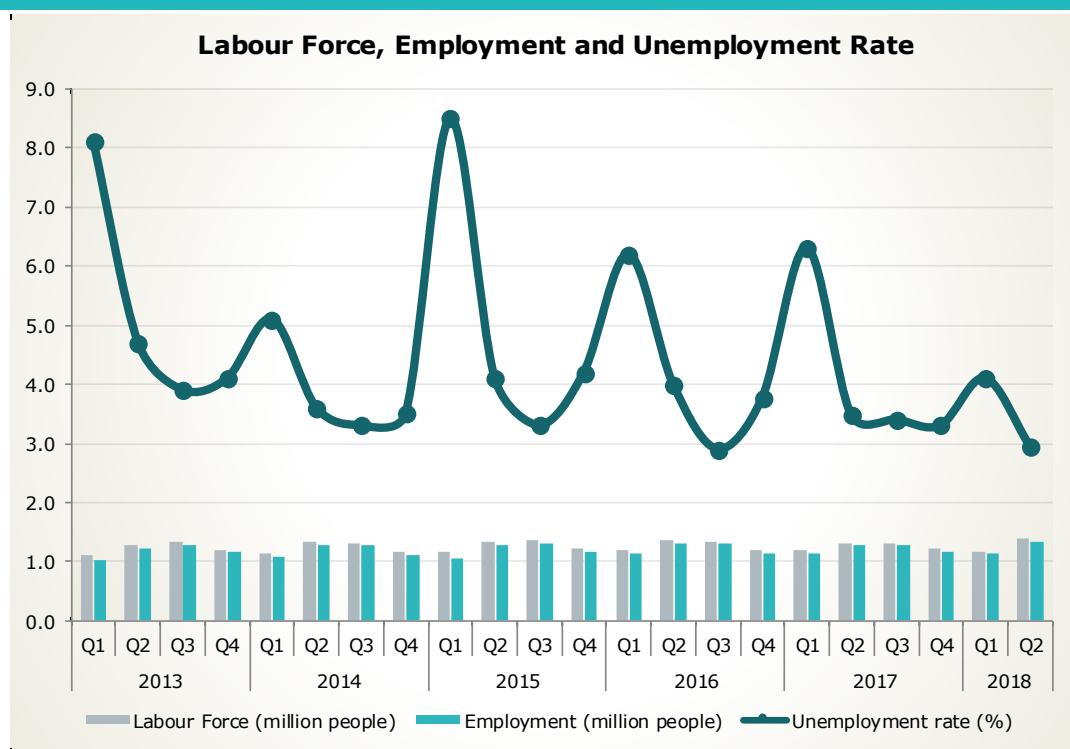
3. LABOUR MARKET

Unemployment rate at 3.0%, wages up 13.0% y/y in Q2 2018

Unemployment in Moldova stood at 3.0% in Q2 2018, down from 4.1% in Q1 2018, and slightly lower than the 3.5% in the same quarter of the previous year, according to data of NBS. Youth unemployment rate (aged 15-24) dropped down to 7.8% in Q2 2018 from 10.4% in Q1 2018 and 10.1% in Q2 2017.

The employed population aged 15 years and older was 1.343 million in June 2018, jumped to 5.8% on the year.

Compensations went up during the quarter. According to data of NBS, the average gross monthly salary in Q2 2018 rose by 13.0% y/y to MDL 6,370. In the public sector, it was MDL 5,569 and in the private – MDL 6,680.



4. CONSTRUCTION AND REAL ESTATE

The value of construction works expanded by 14.1% y/y in the second quarter

The value of construction works carried out in Moldova in Q2 2018 went up by 14.1% y/y and totalled MDL 1.951 bln, according to NBS data. The growth rate advanced compared to Q1 2018 when construction works stood at 5.4% 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 19.8839 in Q2 2018 from MDL 20.5689 in Q1 2018, according to the National Bank of Moldova's (BNM) data.

MDL Average Exchange Rate			
Foreign Currency	Q2 2018	Q1 2018	Q2 2017
USD	16.6560	16.7472	18.7525
EUR	19.8839	20.5689	20.5916
GBP	22.7014	23.2855	23.9616
CHF	16.9205	17.6577	19.0189

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.

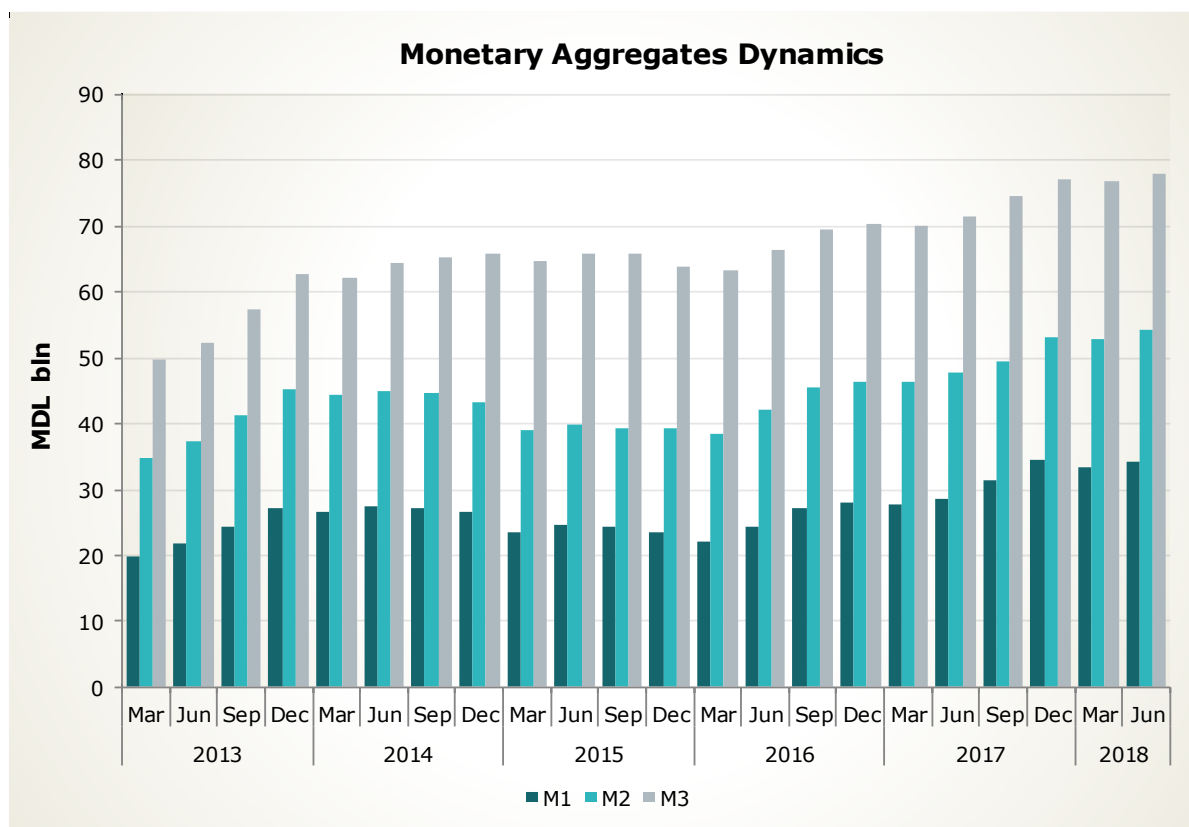
5.3. MONETARY AGGREGATES

Money supply up by 9.1% y/y as of June 2018

Broad money, or monetary aggregate M3, increased by 9.1% y/y to MDL 77.895 bln at the end of June 2018, according to data provided by BNM.

The M2 money supply went up by 13.1% y/y to MDL 54.149 bln.

Money aggregate M1, or narrow money, jumped by 19.7% to MDL 34.237 bln.



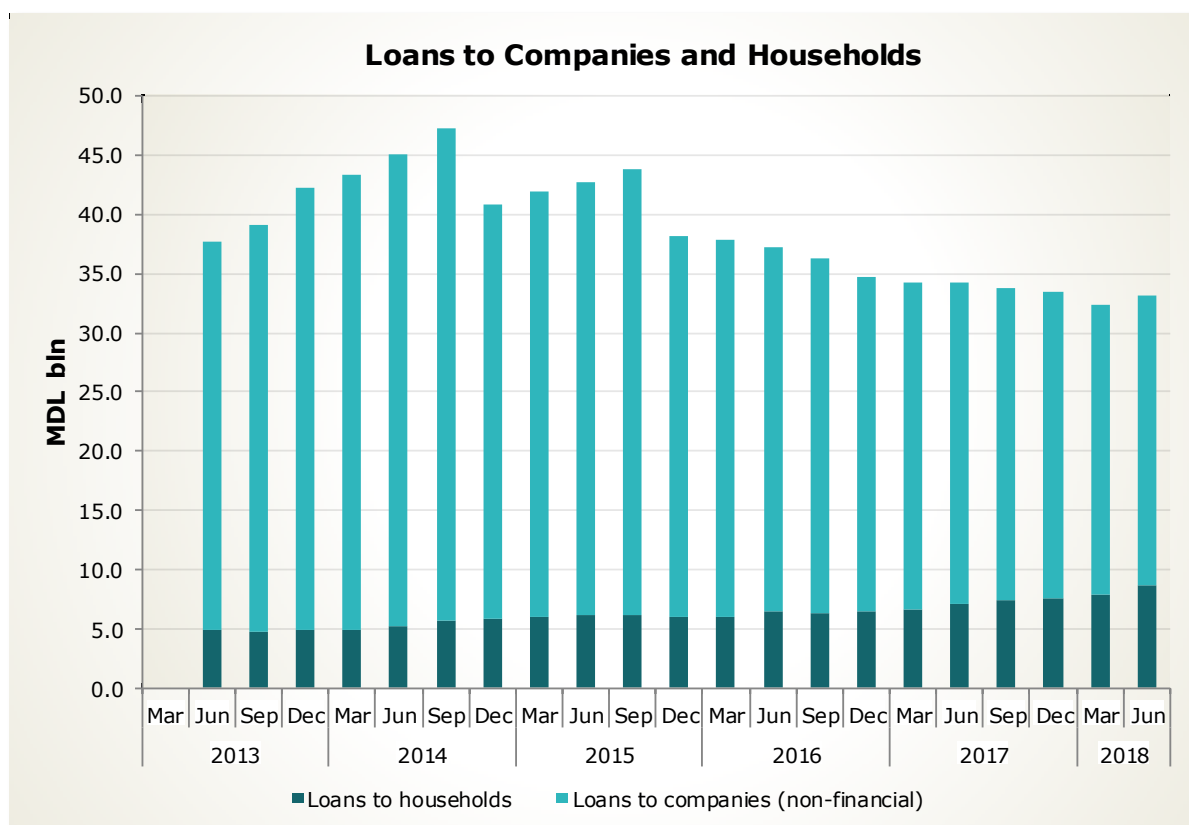
Source: BNM

5.4. BANKING AND INSURANCE

Household loans increased by 22.1% y/y as of June 2018

Loans to the non-government sector totalled MDL 33.146 bln as of end-June 2018, down by 3.1% compared to a year ago, according to BNM.

Loans to non-financial corporations sank by 9.7% y/y to MDL 24.549 bln, while household loans went up by 22.1% to MDL 8.598 bln.



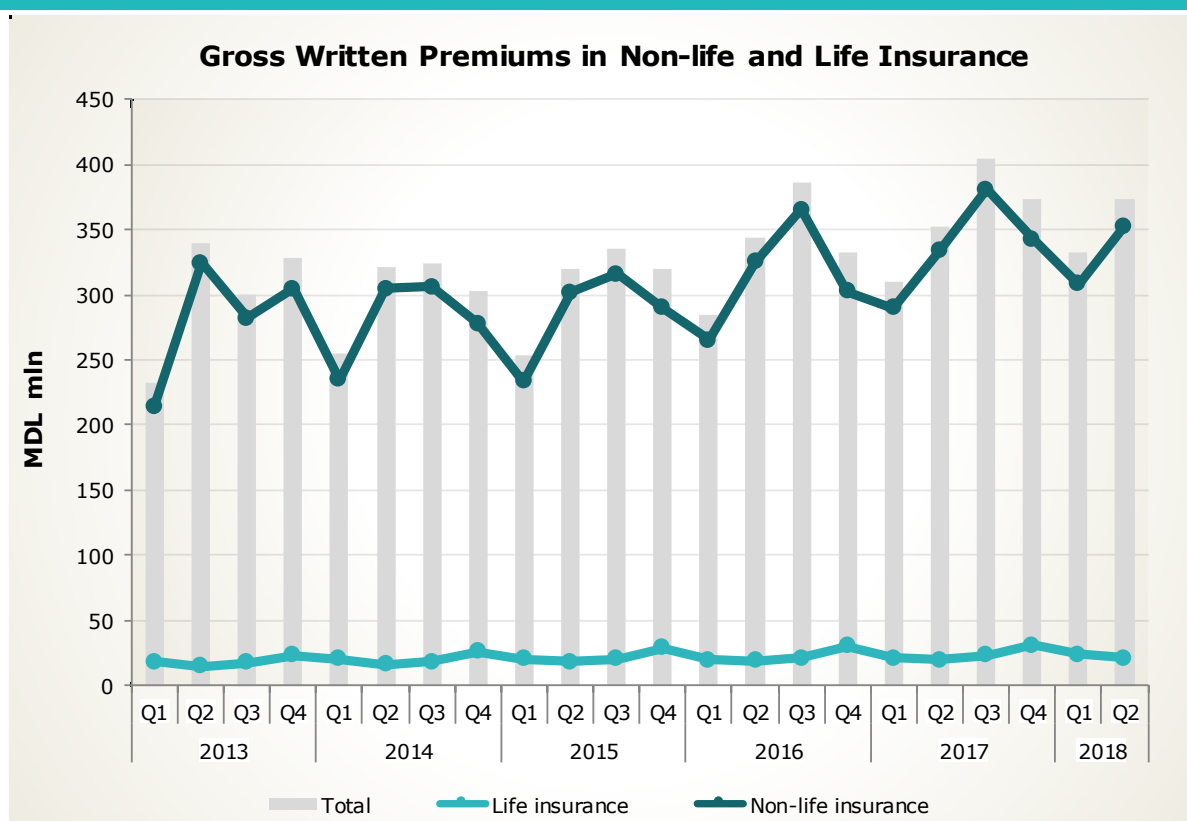
Source: BNM

Note: Data for March 2013 was not available

Insurance premium income up 5.8% y/y in Q2 2018

The total gross written premiums (GWP) of the non-life and life insurance companies in Moldova stood at MDL 373.6 mln in Q2 2018, up by 5.8% y/y, according to the National Commission for Financial Markets.

The growth was primarily driven by the 5.8% annual growth, to MDL 352.6 mln, of the non-life insurance GWP, while the premiums of the life insurance segment grew by 6.7% y/y to MDL 21.0 mln.



Source: National Commission for Financial Markets

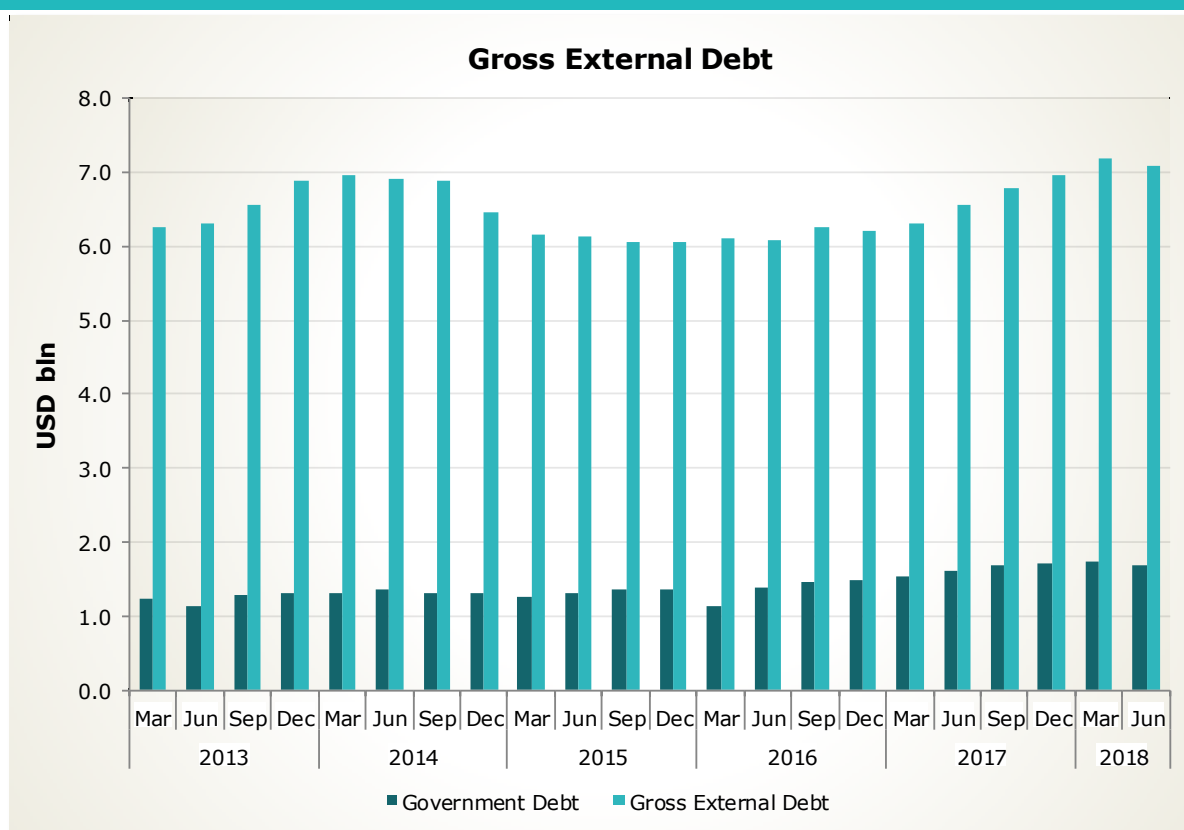
6. EXTERNAL SECTOR

6.1. FOREIGN DEBT

The gross external debt amounted to USD 7.079 bln as of June 2018

The gross external debt totalled USD 7.079 bln as of June 2018, up by 8.1% on the year, according to central bank data.

At end-June 2018, long-term liabilities increased by 3.2% y/y and amounted to USD 6.547 bln, or 92.5% of the total debt. Short-term liabilities came in at USD 3.417 bln, by 26.3% more than a year earlier and equal to 48.3% of the total debt.



Source: BNM

6.2. BALANCE OF PAYMENTS

Current account deficit swelled to USD 282.1 mln in the second quarter of 2018, up from USD 187.3 mln in Q2 2017.

The current account deficit widened to USD 282.1 mln in Q2 2018 from USD 187.3 mln a year ago, according to central bank statistics data.

The increase in the current account deficit was due mainly to the 21.9% annual rise in the negative balance on the net exports of goods and services to USD 741.8 mln. The secondary income jumped by 11.8% on the year to USD 311.7 mln.

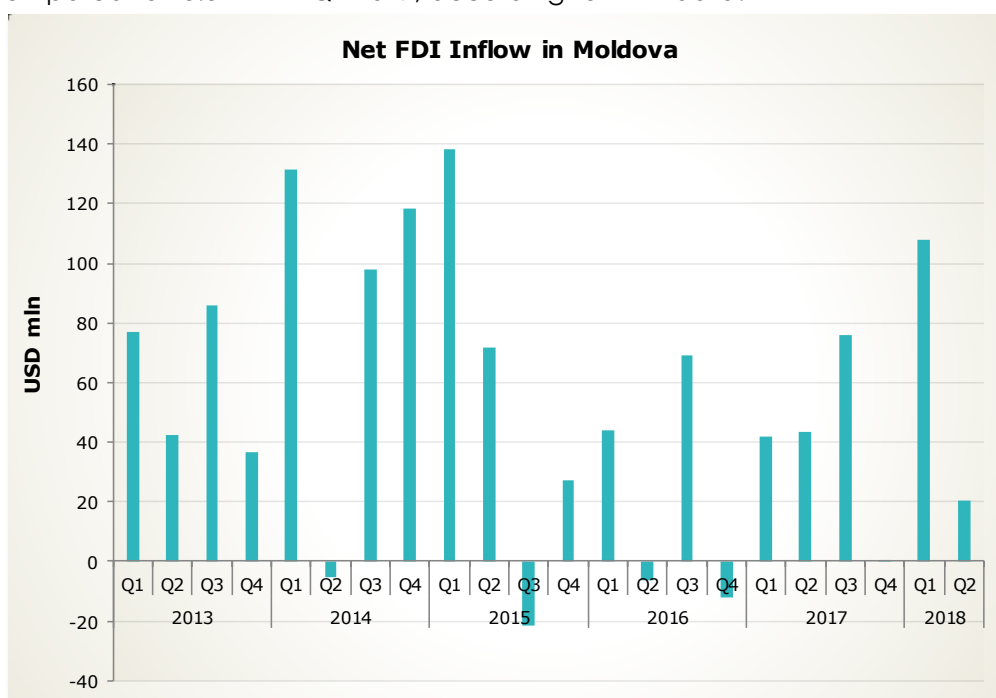


Source: BNM

6.3. FDI

Net FDI inflows collapsed in Q2 2018

Net foreign direct investments (FDI) in Moldova totalled USD 20.7 mln in Q2 2018, diving by 52.3% compared to 43.3 mln in Q2 2017, according to BNM data.



Source: BNM

6.4. FOREIGN TRADE

Foreign trade deficit up by 18.6% y/y in Q2 2018

The trade deficit stood at USD 0.772 bln in the second quarter of 2018, compared to USD 0.651 bln a year earlier, according to BNM. Exports increased by 27.4% y/y to USD 0.637 bln, while imports advanced by 22.4% y/y to USD 1.409 bln in Q2 2018.



Source: NBS

6.5. TOURSIM

Number of tourist overnights increased by 10.7% y/y in Q2 2018

Tourist overnights of foreigners rose by an annual 10.7% to 94,829 in Q2 2018, according to NBS data.

The growth in the number of foreigners who visited the country was 7.3% y/y to 44,145.

In Q2 2018, the share of foreign tourists in the total overnights in Moldova went up to 21.5% from 20.9% a year ago.



Source: NBS

7. MAJOR DEVELOPMENTS

Moldova to open tenders for road works on five road sections in Q3, Q4

June 30, 2018

Moldova will open tenders for upgrades on five road sections in the third and fourth quarter of this year, using the proceeds of a loan from the European Bank for Reconstruction and Development (EBRD), the bank said.

[Read the full story here](#)

USAID grants USD 20.5 mln to Moldova for infrastructure development

May 9, 2018

The US Agency for International Development (USAID) is granting USD 20.5 mln (17.1 million euro) to Moldovan municipalities to support projects for infrastructure development, Moldova's government said in May.

[Read the full story here](#)

Moldova needs further progress in reform implementation

Apr 6, 2018

Moldova has advanced with the implementation of some reforms but further action is still required for its citizens to reap the full benefits of the Association Agreement, the European Commission said in April.

[Read the full story here](#)

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