

MOLDOVA ECONOMY REPORT

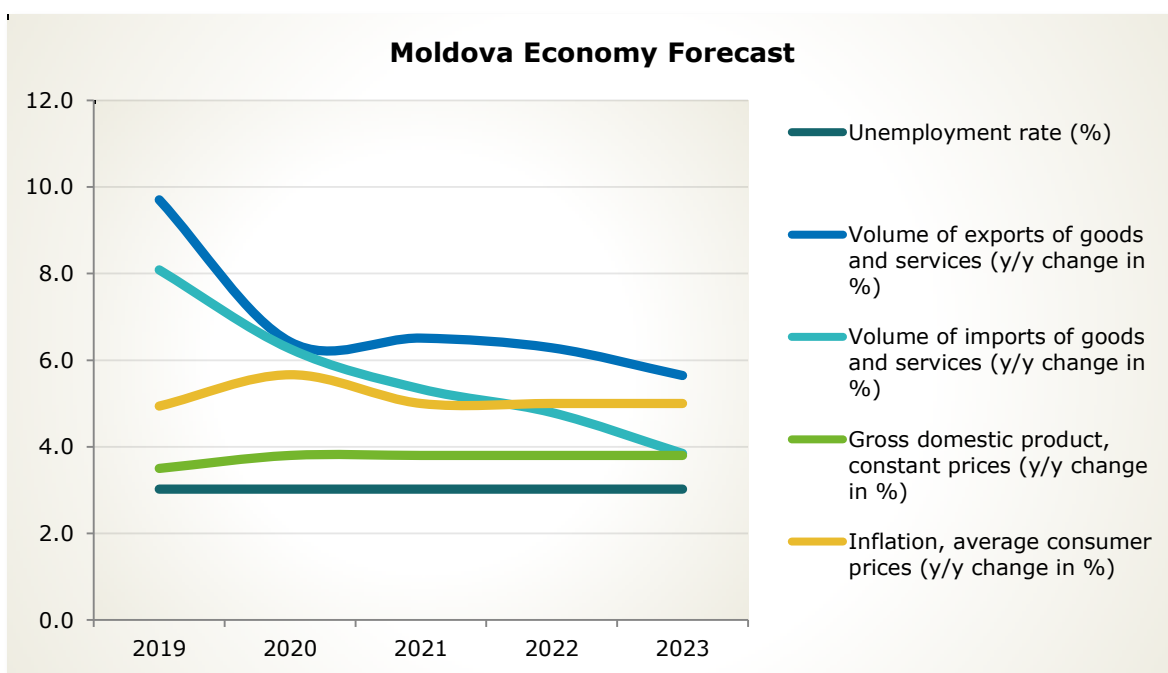
Q2 2019

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1. MACROECONOMIC SNAPSHOT AND FORECAST

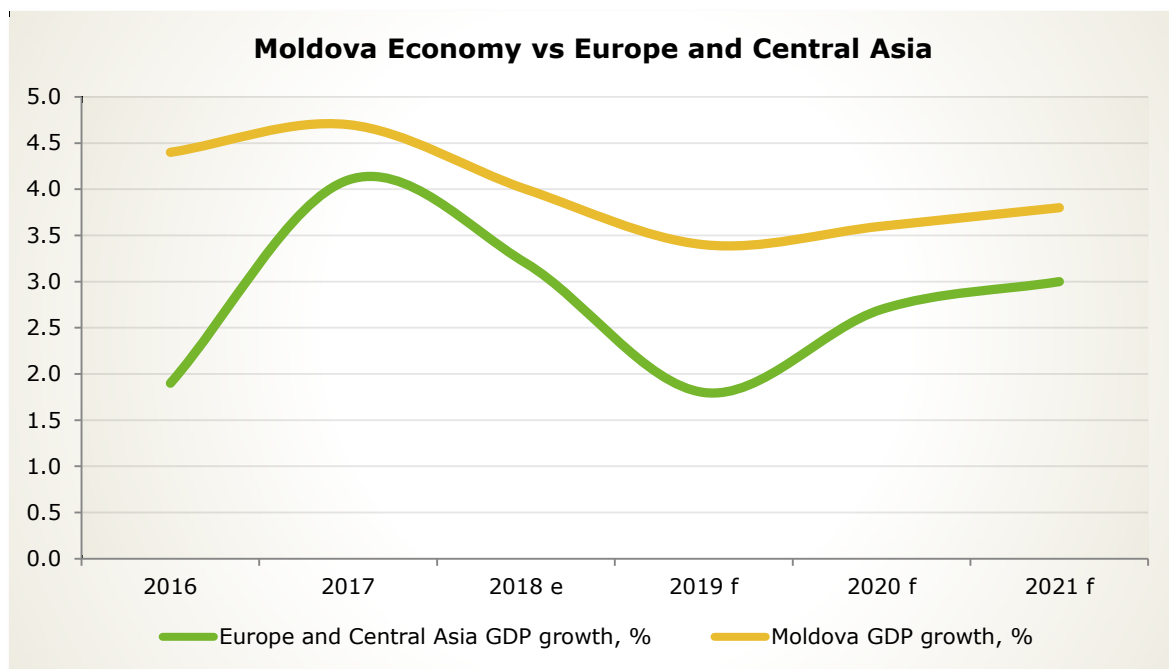
| MOLDOVA – MACROECONOMIC SNAPSHOT AS OF Q2 2019 | |
|--|-------------------------|
| GDP Growth | 5.8% y/y |
| Industrial output | 1.3% y/y |
| Retail sales | 17.0% y/y |
| Wholesales | 17.1% y/y |
| Average annual inflation | 3.2% |
| Unemployment rate | 4.5% |
| Construction works value | 41.6% y/y |
| Money supply | 12.1% y/y |
| Household loans | 39.0% y/y |
| Gross external debt | USD 7.352 bln |
| Current account deficit | USD 311.7 bln |
| Net FDI inflow | USD 120.2 mln (Q1 2019) |
| Foreign trade deficit | USD 814.0 mln |
| Number of foreign tourist overnights | 14.4% |



Source: International Monetary Fund (IMF) World Economic Outlook Database – October 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. Over the medium term up to 2024, growth is projected to be close to 3.8%.

Inflation is expected to come in at 4.9% in 2019 and 5.7% in 2020. The inflation will experience downward pressure from regulated energy prices, including gas and electricity and the appreciation of the exchange rate.



Source: World Bank, Europe and Central Asia Economic Update, October 2019

According to the World Bank estimates from October 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 1.8% in 2019.

| Moldova – GDP, Inflation, Current Account Balance and FDI Dynamics (y/y change in %) | | | | | | |
|--|------|------|-------|--------|--------|--------|
| | 2016 | 2017 | 2018 | 2019 e | 2020 f | 2021 f |
| Real GDP growth, at constant market prices, y/y change in % | 4.4 | 4.7 | 4.0 | 3.4 | 3.6 | 3.8 |
| Private Consumption | 2.9 | 5.3 | 3.8 | 2.1 | 2.8 | 3.5 |
| Government Consumption | 0.8 | 1.6 | -0.1 | 0.9 | 0.1 | 0.2 |
| Gross Fixed Capital Investment | 1.0 | 11.3 | 14.0 | 8.7 | 7.6 | 8.3 |
| Exports, Goods and Services | 9.8 | 10.9 | 4.8 | 3.3 | 6.3 | 7.5 |
| Imports, Goods and Services | 2.8 | 11.0 | 8.9 | 3.1 | 5.1 | 6.7 |
| Real GDP growth, at constant factor prices (by sectors) | 5.0 | 4.2 | 4.1 | 3.4 | 3.6 | 3.8 |
| Agriculture | 18.4 | 8.6 | 1.9 | 1.2 | 2.1 | 2.4 |
| Industry | 0.7 | 3.8 | 8.1 | 5.2 | 5.3 | 5.4 |
| Services | 4.0 | 3.4 | 3.1 | 3.2 | 3.3 | 3.4 |
| Inflation (Consumer Price Index) | 6.4 | 6.6 | 3.8 | 4.7 | 4.5 | 5.0 |
| Current Account Balance (% of GDP) | -3.5 | -5.8 | -10.4 | -6.1 | -6.3 | -6.5 |
| Net Foreign Direct Investment (% of GDP) | 1.0 | 1.5 | 1.7 | 1.7 | 1.7 | 1.5 |

Source: World Bank, Europe and Central Asia Economic Update, October 2019

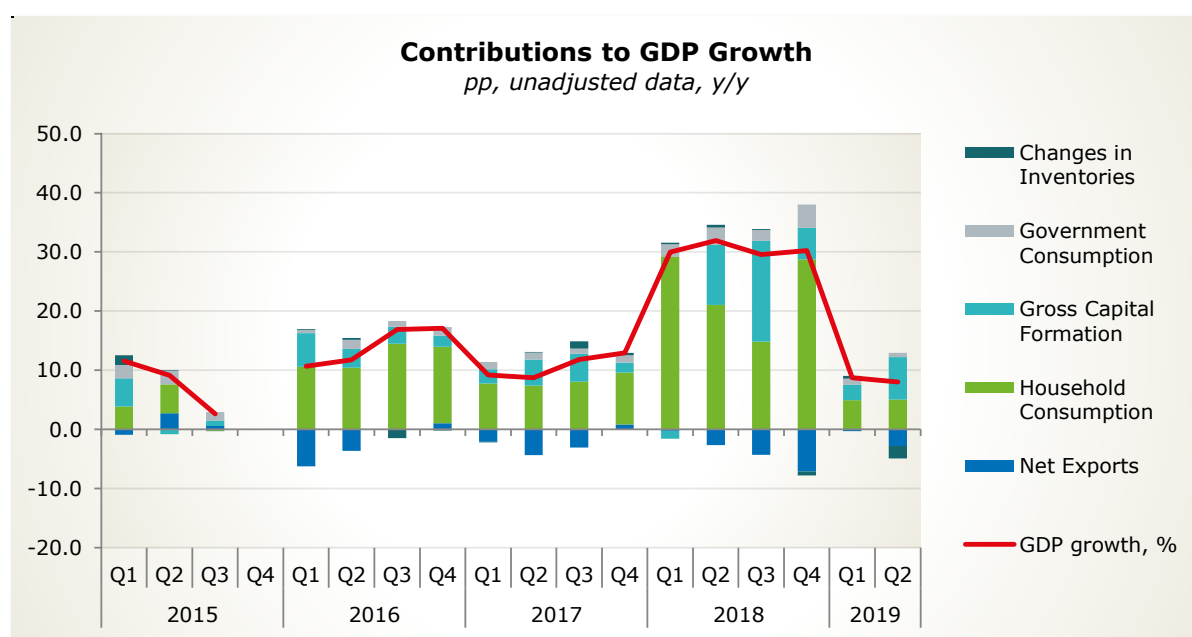
2. REAL SECTOR

2.1. GROSS DOMESTIC PRODUCT (GDP)

GDP growth at 5.8% y/y in the second quarter of 2019

Moldova's economy expanded by 5.8% in real terms in Q2 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 had grown by 4.4% in Q1 2019 and by 5.2% y/y in the same quarter of the previous year.

In Q2 2019 gross capital formation was the main contributor with 7.2 pp to the overall y/y GDP expansion, while the contribution of household consumption came in at 5.0 pp. Net exports took out 2.9 pp from the GDP growth in the period under consideration.

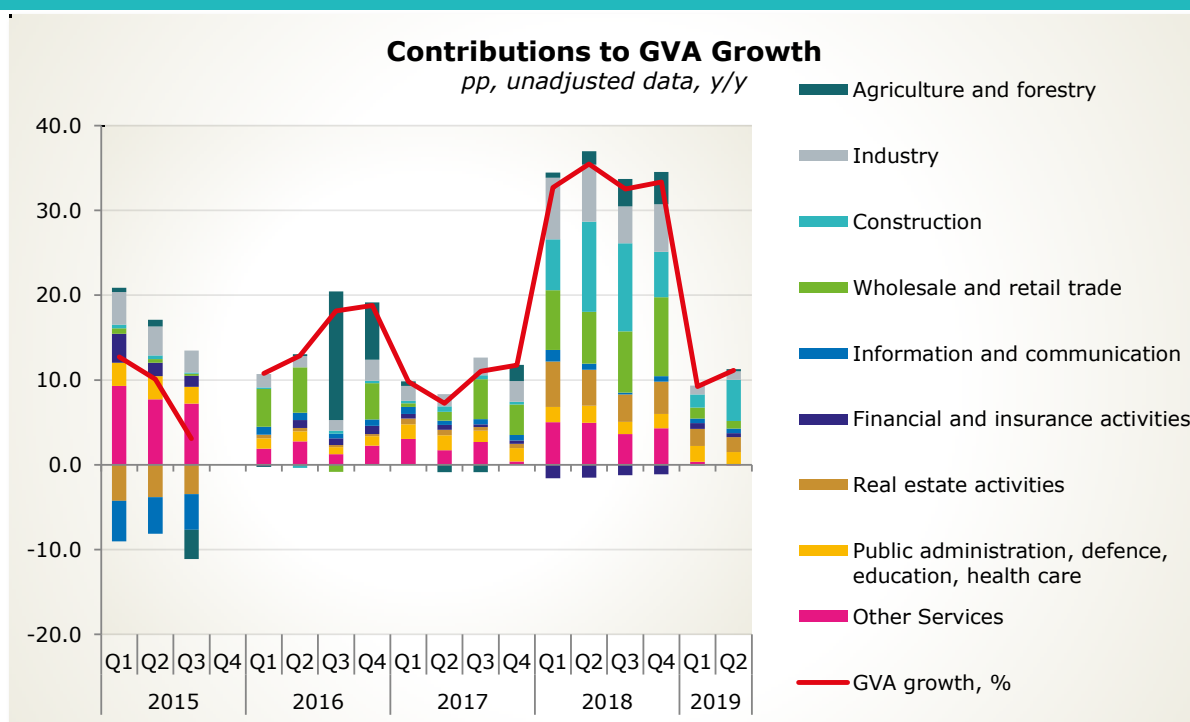


Source: NBS

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

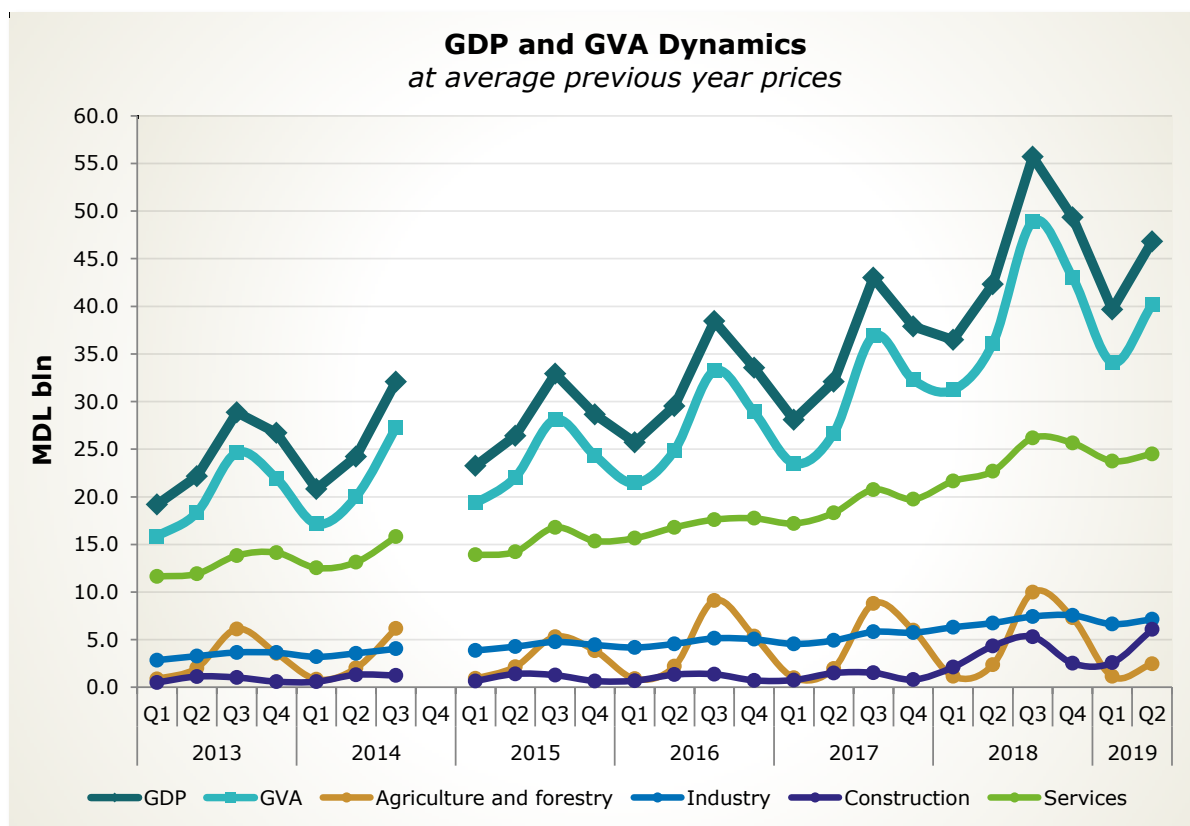
The gross value added in the economy increased by 11.1% y/y, totalling MDL 40.169 bln in Q2 2019. The growth was boosted by the construction sector, which registered a 40.1% increase, reaching MDL 6.067 bln. The industrial and services sectors also marked annual increases, by 5.6% and 8.0% y/y, respectively.

The construction sector contributed the most, by 4.9 pp, to the overall GVA increase, followed by the real estate activities with 1.8 pp, and public administration, defence, education and healthcare with 1.5%.



Source: NBS

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



Source: NBS

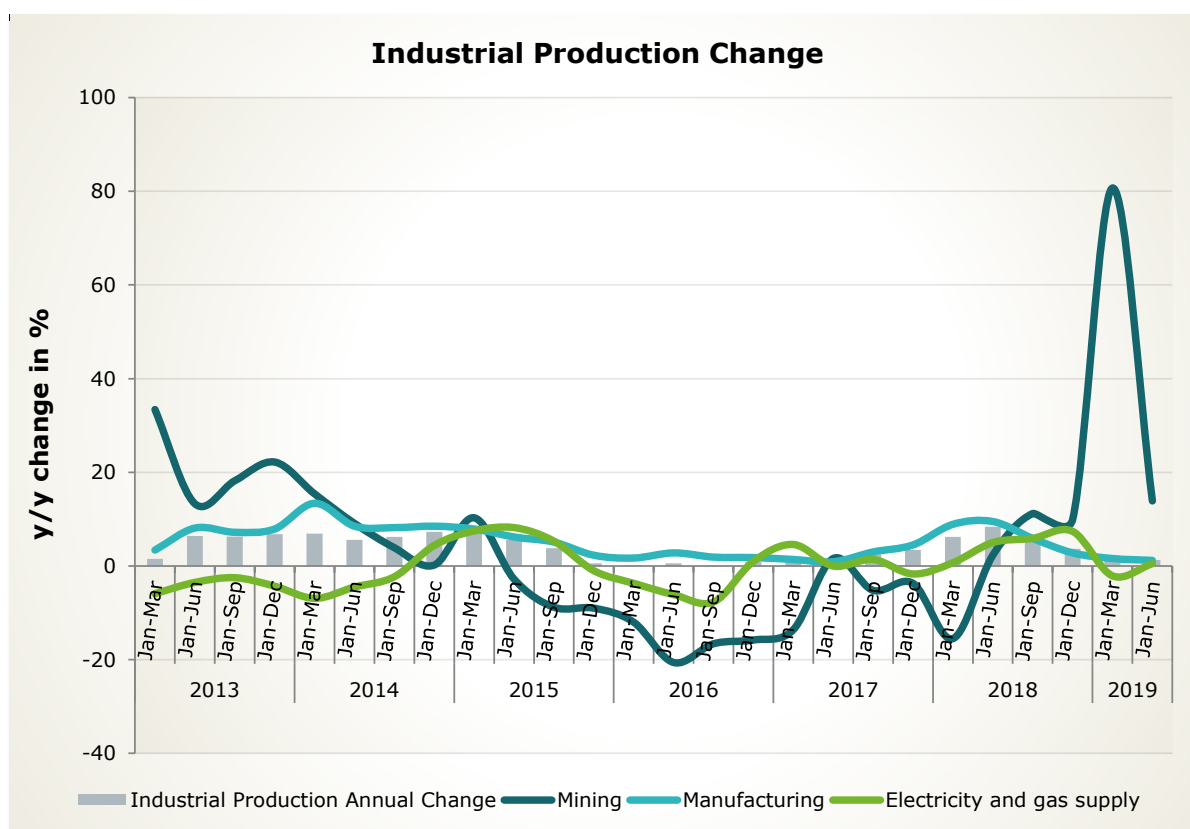
Editor's Note: Data for Q4 2014 is not available

2.2. INDUSTRIAL OUTPUT

Industrial output annual growth at 1.3% y/y in Jan-June 2019

Industrial output growth came in at 1.3% in January-June 2019, compared with an 8.4% rise in the first half of 2018, according to NBS.

Mining registered an annual rise of 13.9%, while the output of the manufacturing industry inched up by 1.2%. The production of the electricity and gas supply increased by 0.5% y/y after registering 2.1% decrease in the first three months of 2019.

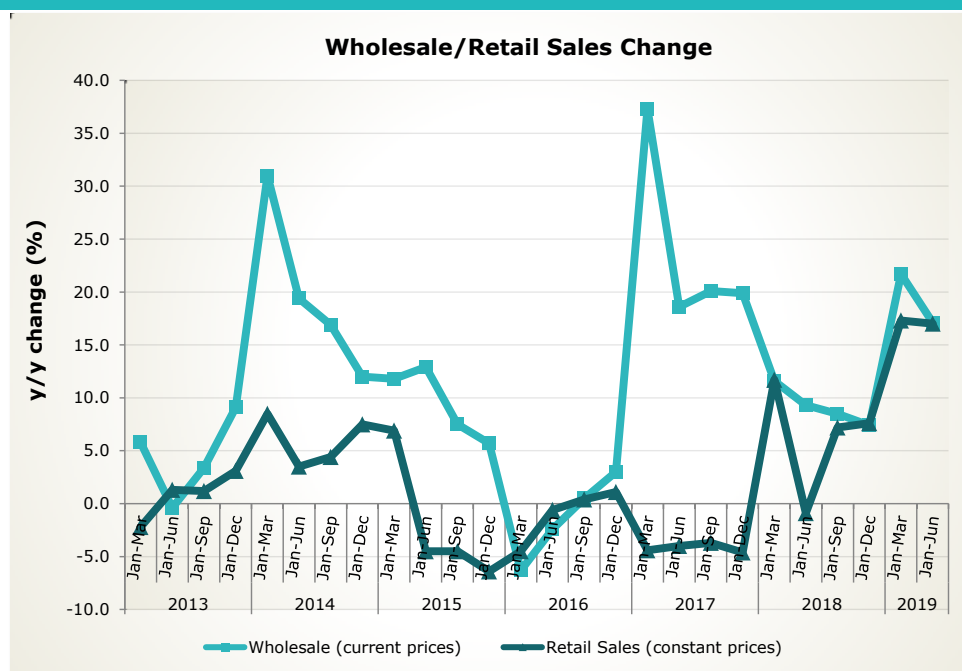


Source: NBS

2.3. WHOLESALE/RETAIL

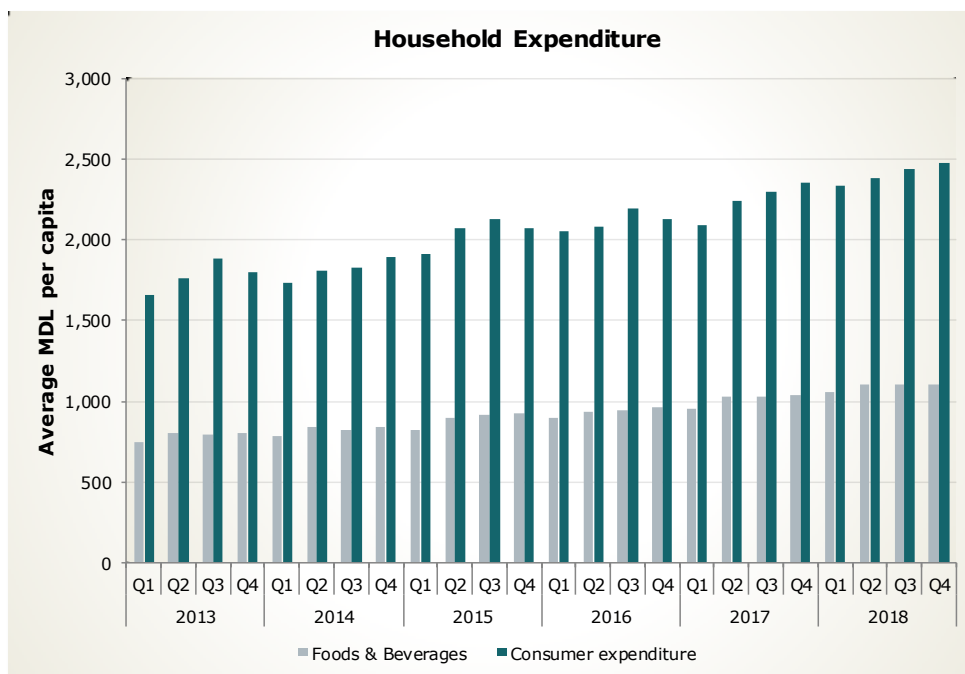
Wholesale sector surged by 17.1% y/y, retail sector up by 17.0% y/y in Jan-June 2019

The wholesale sector grew by 17.1% y/y in the first half of 2019, according to NBS data. The turnover of the retail sector marked a similar annual increase, of 17.0%. Improving consumer confidence lifted expenditures which in turn contributed positively to retail and wholesale turnover.



Source: NBS

In 2018¹ the average consumer expenditure per capita in Moldova increased to MDL 2,474 from MDL 2,360 in the previous year. 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

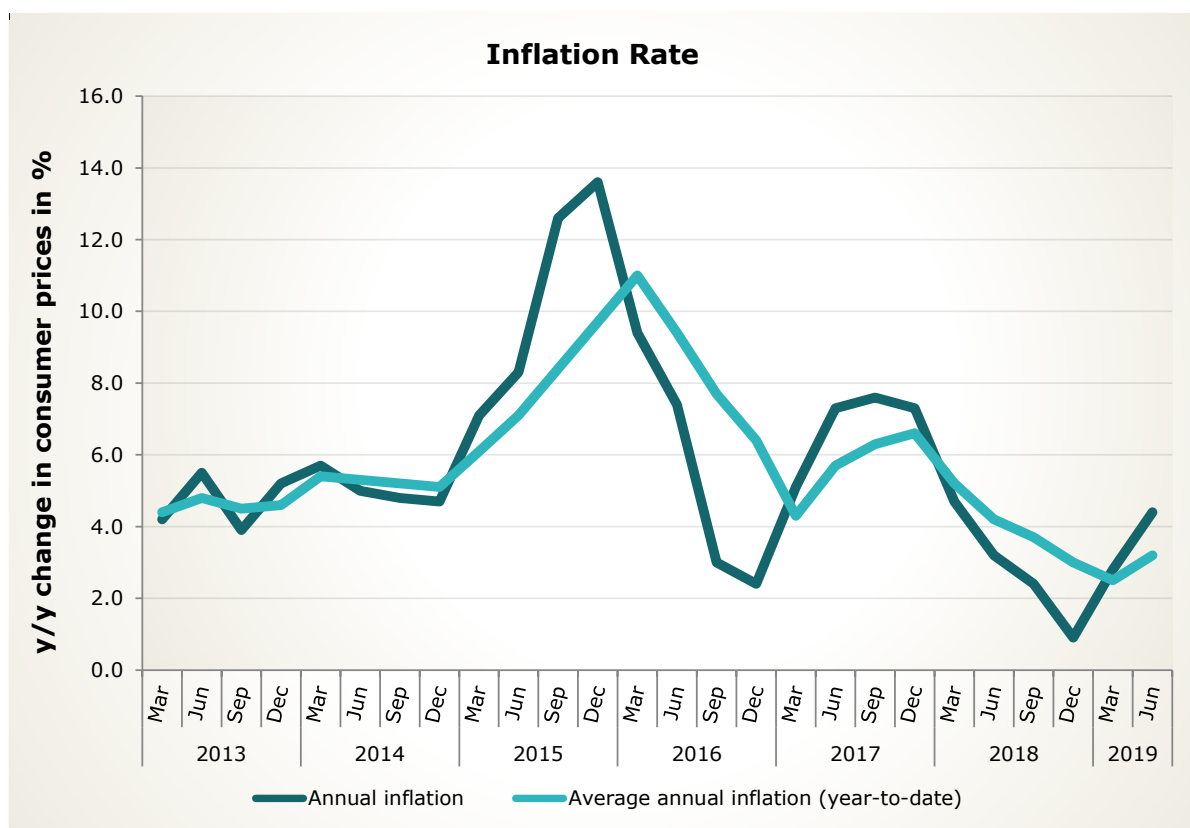
¹ Editor's Note: Data for Household expenditures for Jan-June 2019 was not available at the time of preparation of this report.

2.4. INFLATION

Average annual inflation of 3.2% in Jan-June 2019

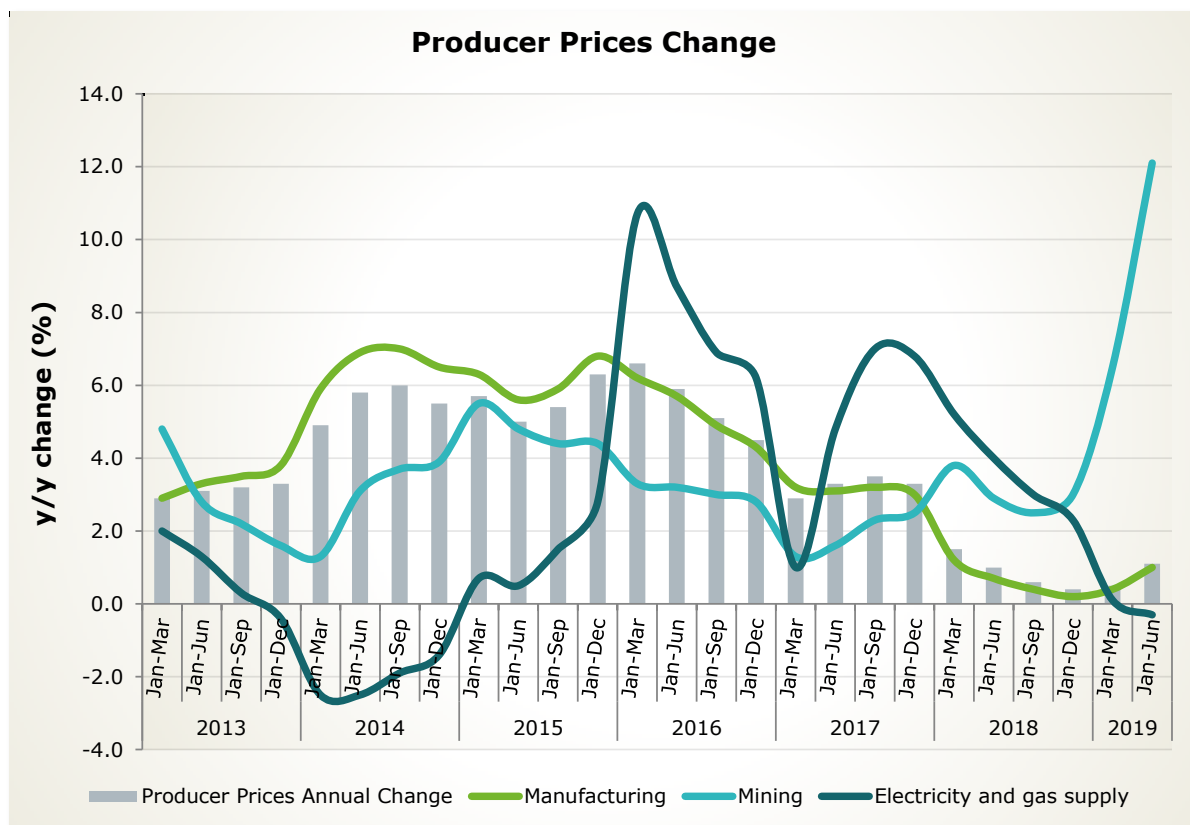
Moldova registered average annual inflation of 3.2% in the first six months of 2019, down compared to the same period of the previous year, when it stood at 4.2%, according to NBS.

In January-June 2019, food products price grew annually by 5.0%, while the prices of non-food products increased by 3.6%. Consumer prices in the services sector remained unchanged.



Source: NBS

Producer prices grew by 1.1% y/y in January-June 2019 with mining registering a growth of 12.1% and manufacturing of 1.0%, while electricity and gas supply recorded a deflation of 0.3%.



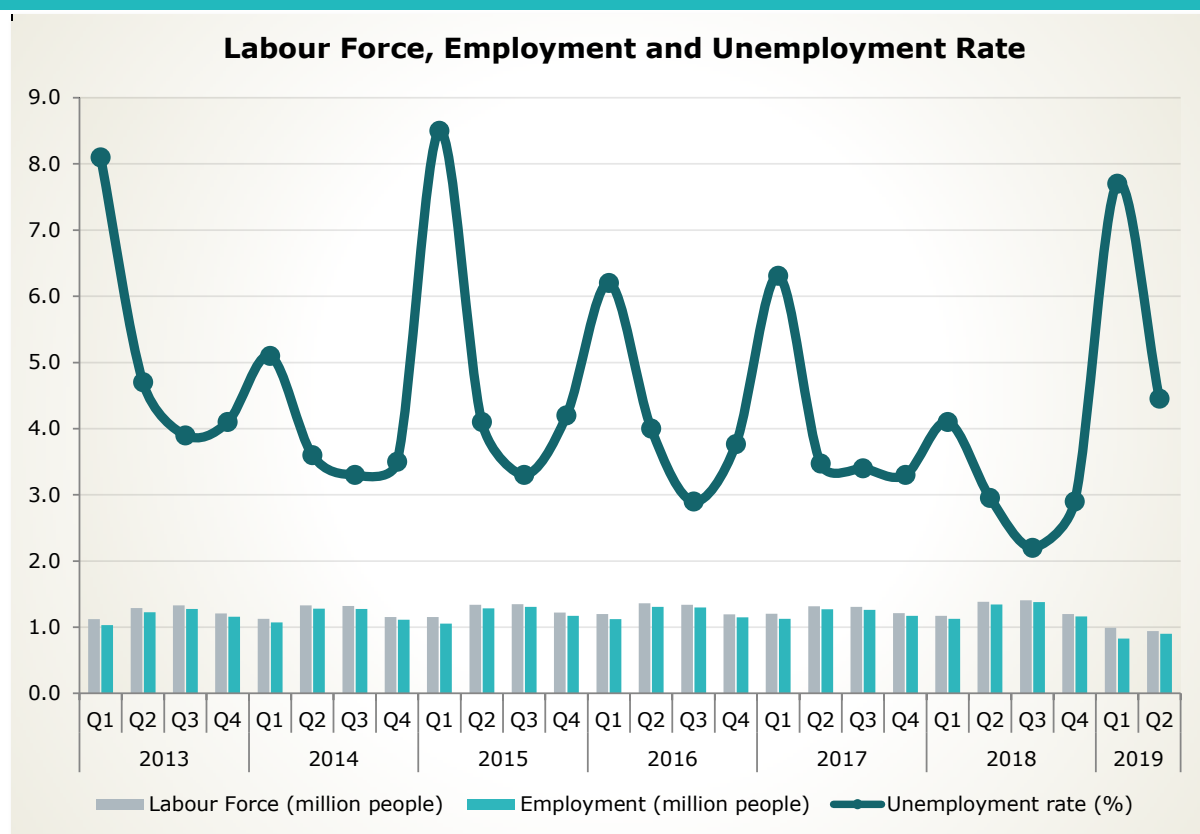
3. LABOUR MARKET

Unemployment rate at 4.5% in Q2 2019, wages up 14.7% y/y in Q2 2019

Unemployment in Moldova stood at 4.5% in Q2 2019, down from 7.7% in Q1 2019, according to data of NBS. Youth unemployment rate (aged 15-24) went down to 8.9% in Q2 2019 from 13.7% in Q1 2019.

The employed population aged 15 years and older was 901,000 in June 2019, up 8.7% q/q.

According to data of NBS, the average gross monthly salary in Q2 2019 rose by 14.7% y/y to MDL 7,303. In the public sector it grew by 19.9% and in the private – by 12.8%.



Editor's Note: A new methodology counting unemployment rates and labour force is applicable from Q1 2019 onwards.

Source: NBS

4. CONSTRUCTION AND REAL ESTATE

The value of construction works went up by 41.6% y/y in the second quarter

The value of construction works carried out in Moldova in Q2 2019 went up by 41.6% y/y and totalled MDL 2.763 bln, according to NBS data.

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 20.1419 in Q2 2019 from MDL 19.8839 in Q2 2018, according to the National Bank of Moldova's (BNM) data.

| MDL Average Exchange Rate | | | |
|---------------------------|---------|---------|---------|
| Foreign Currency | Q2 2019 | Q1 2019 | Q2 2018 |
| USD | 17.9349 | 17.1506 | 16.6560 |
| EUR | 20.1419 | 19.4858 | 19.8839 |
| GBP | 23.0635 | 22.2994 | 22.7014 |

| | | | |
|-----|---------|---------|---------|
| CHF | 17.8704 | 17.2089 | 16.9205 |
|-----|---------|---------|---------|

5.2 MONETARY POLICY

Moldova's National Bank maintained the base interest rate at 7.5%

At its meeting in September 2019, the Executive Board of the National Bank of Moldova (NBM) decided to keep the base rate applied to the main short-term monetary policy operations at the current level of 7.5% annually.

Interest rates on overnight loans remained at 10.5% annually, and the overnight deposits – at 4.5% annually.

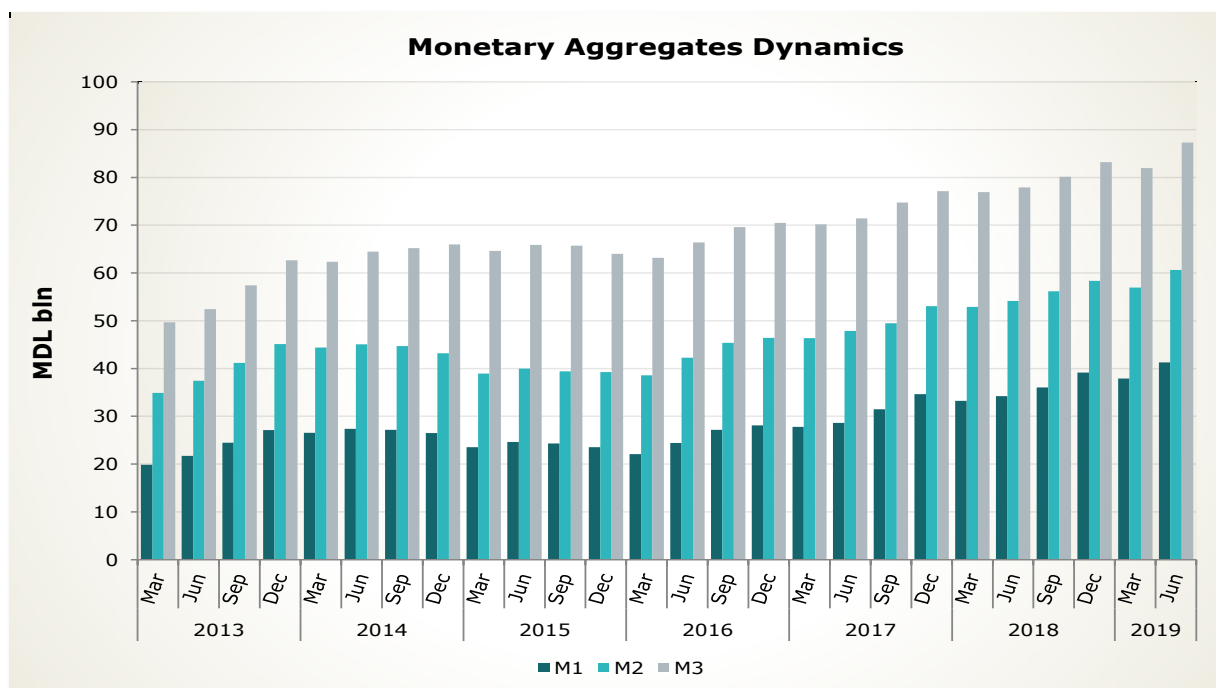
5.3. MONETARY AGGREGATES

Money supply up by 12.1% y/y as of June 2019

Broad money, or monetary aggregate M3, increased by 12.1% y/y to MDL 87.293 bln at the end of June 2019, according to data provided by BNM.

The M2 money supply went up by 12.0% y/y to MDL 60.641 bln.

Money aggregate M1, or narrow money, jumped by 20.5% to MDL 41.270 bln.



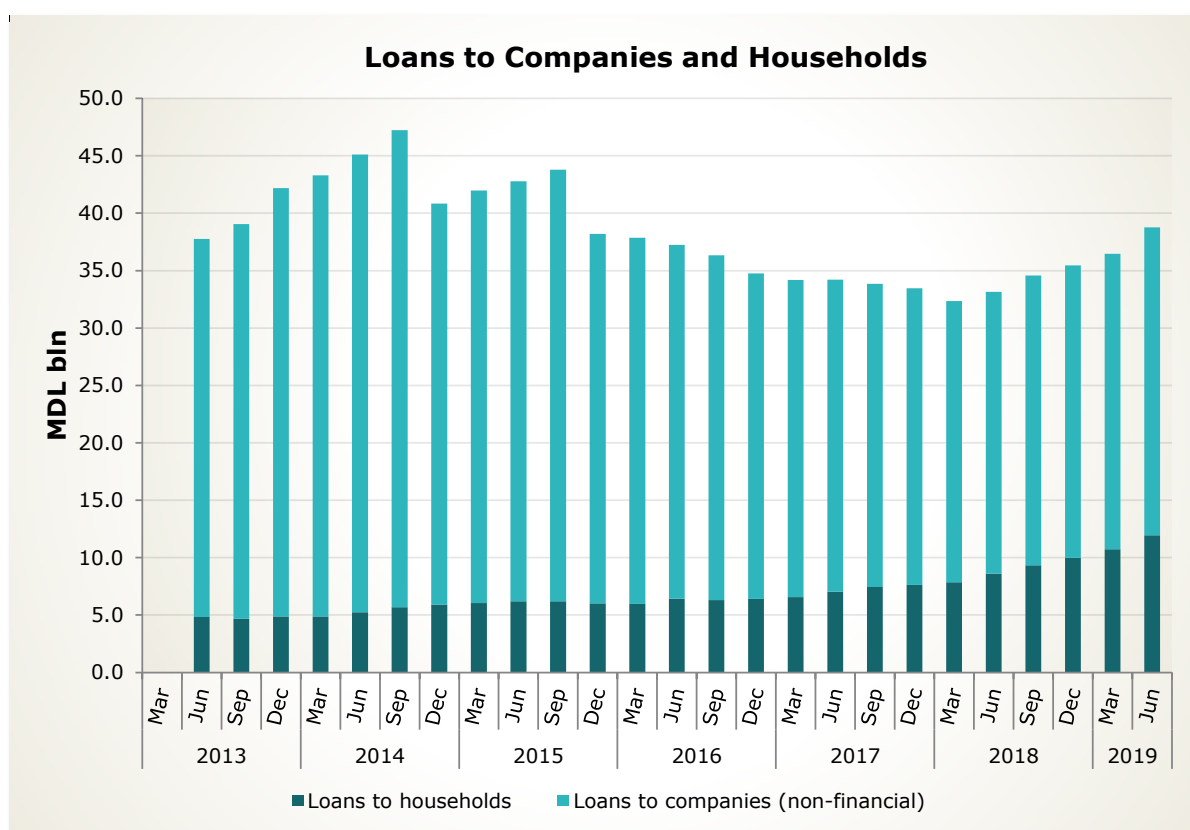
Source: BNM

5.4. BANKING AND INSURANCE

Household loans increased by 39.0% y/y as of June 2019

Loans to the non-government sector totalled MDL 38.771 bln as of end-June 2019, up by 17.0% compared to a year ago, according to BNM.

Loans to non-financial corporations increased by 9.3% y/y to MDL 26.821 bln, while household loans soared by 39.0% to MDL 11.950 bln.



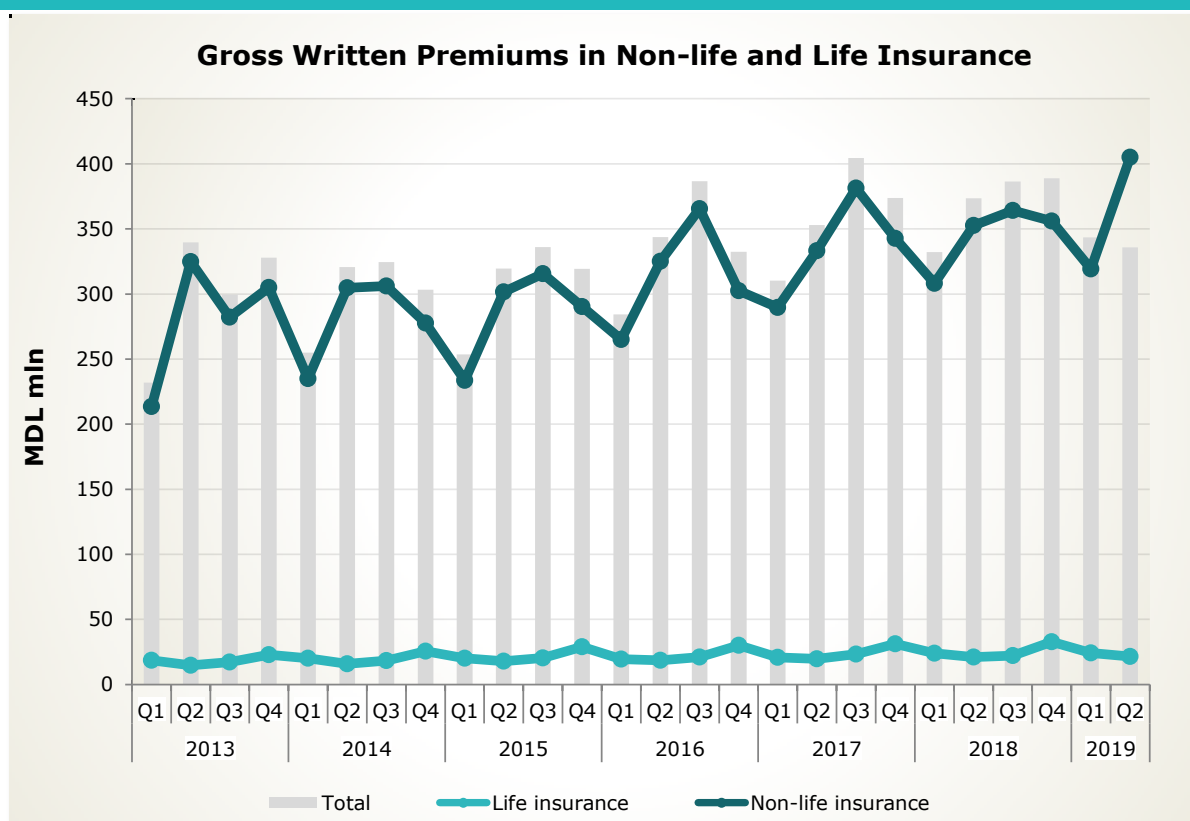
Source: BNM

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

Insurance premium income up y/y in Q2 2019

The total gross written premiums (GWP) of the non-life and life insurance companies in Moldova stood at MDL 426.5 mln in Q2 2019, up by 14.2% y/y, according to the National Commission for Financial Markets.

The decrease was driven by the 14.9% annual growth in the GWP of the non-life insurance segment and the 2.2% 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 7.352 bln as of June 2019

The gross external debt totalled USD 7.352 bln as of June 2019, up by 2.9% on the year, according to central bank data.

At end-June 2019, long-term liabilities grew by 1.3% y/y and amounted to USD 5.282 bln, or 71.9% of the total debt. Short-term liabilities came in at USD 2.069 bln, by 7.0% more than a year earlier.



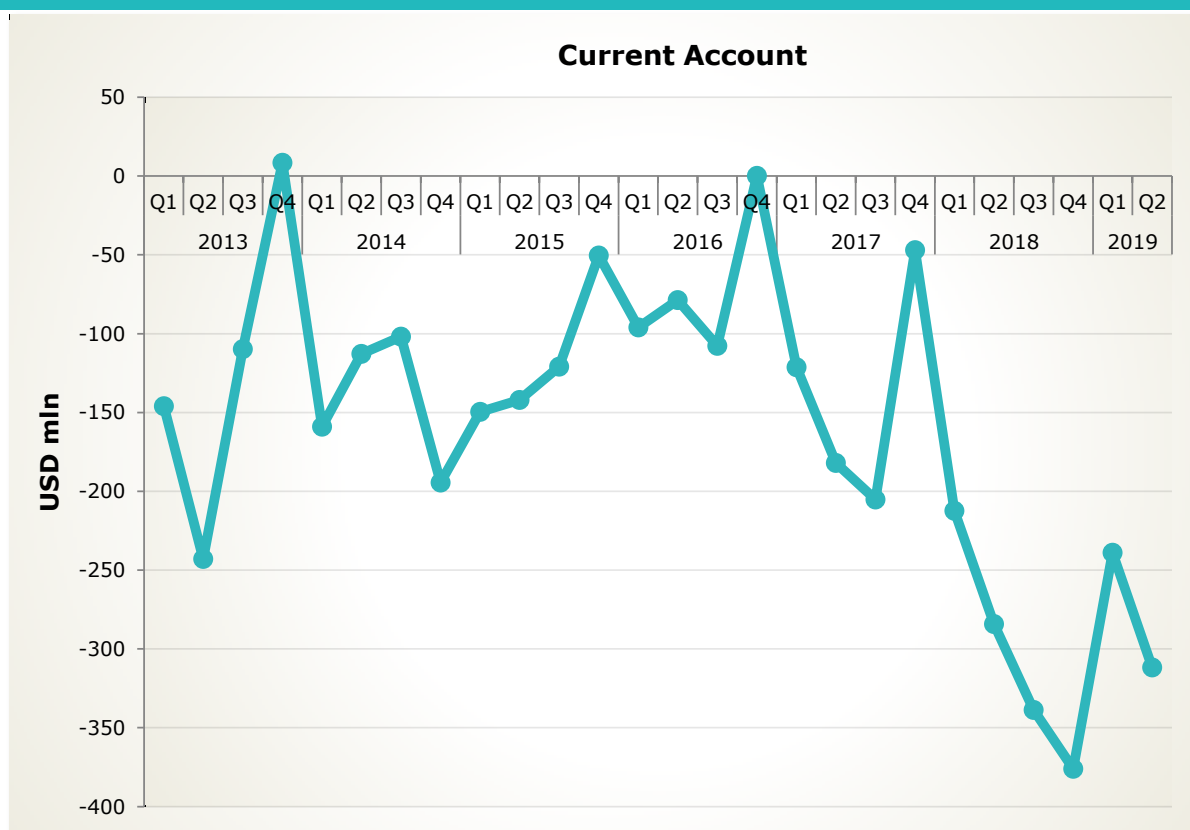
Source: BNM

6.2. BALANCE OF PAYMENTS

Current account deficit widened in the second quarter of 2019

The current account deficit expanded to USD 311.7 mln in Q2 2019 from USD 284.2 mln in Q2 2018, according to central bank statistics data.

The secondary income narrowed by 11.0% on the year to USD 283.1 mln.



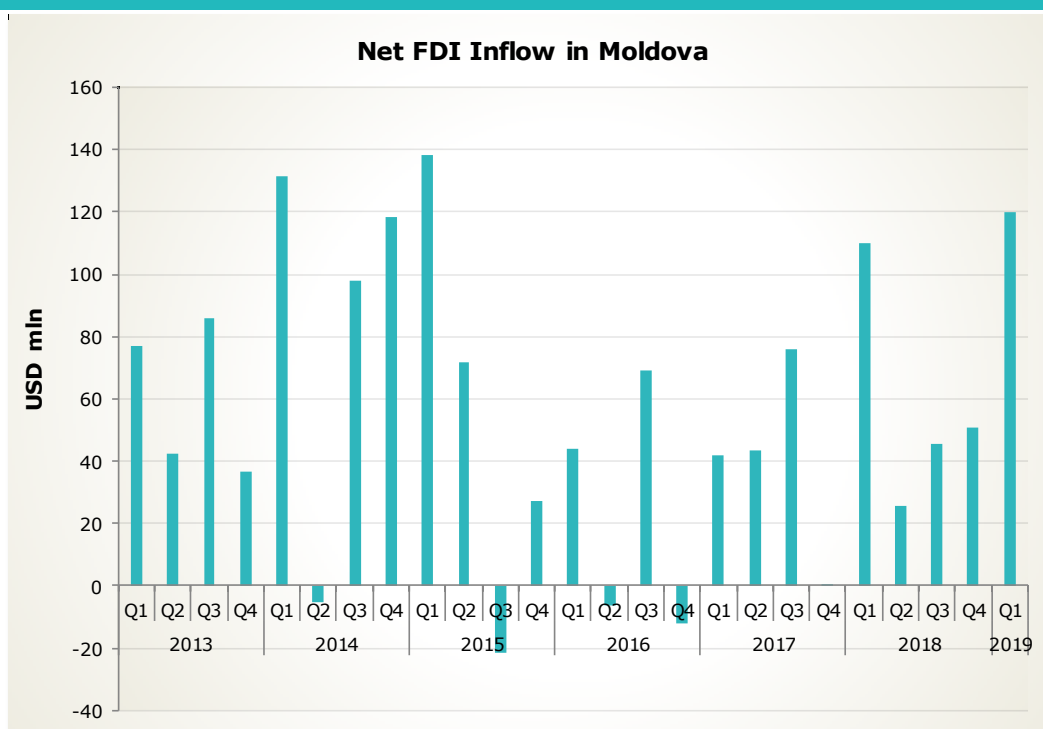
Source: BNM

6.3. FDI

Net FDI inflows up by 9.4% in Q1 2019²

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.

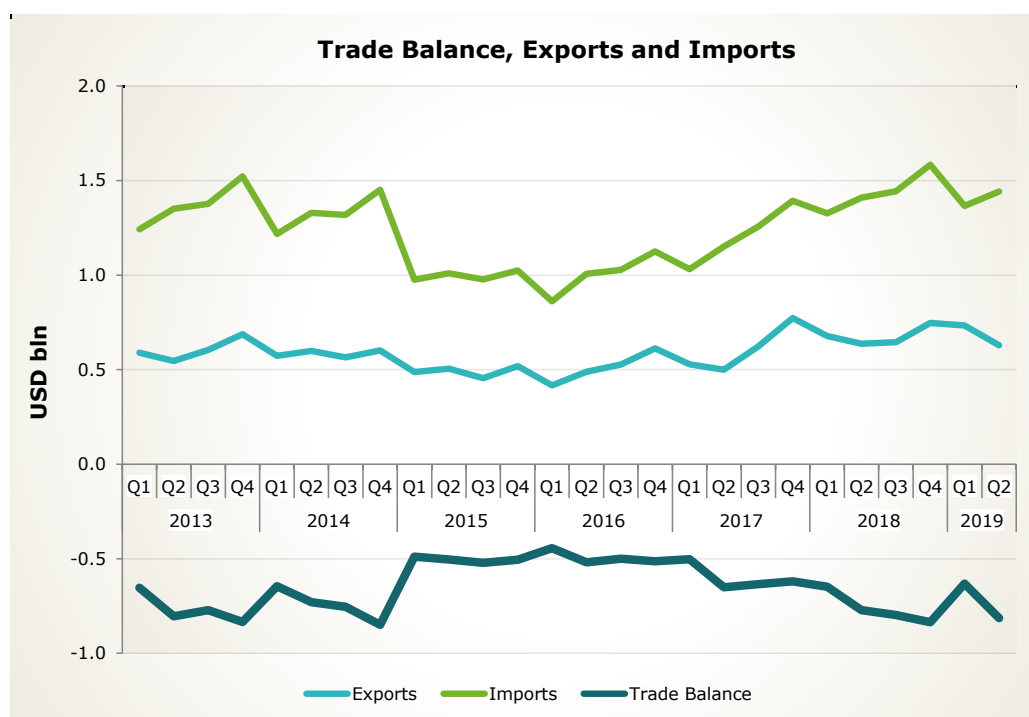
² Data for Q2 2019 was not available at the time of preparation of the report.



Source: BNM

Foreign trade deficit up by 5.4% y/y in Q2 2019

The trade deficit stood at USD 814 mln in the second quarter of 2019, compared to USD 772 mln a year earlier, according to BNM. Exports decreased by 1.4% y/y to USD 628 mln, while imports advanced by 2.4% y/y to USD 1.442 bln.



Source: NBS

6.5. TOURSIM

Number of tourist overnights increased by 14.4% y/y in Q2 2019

Tourist overnights of foreigners expanded by an annual 14.4% to 108,511 in Q2 2019, according to NBS data.

The growth in the number of foreigners who visited the country was 8.6% y/y to 47,932.

In Q2 2019, the share of foreign tourists in the total overnights in Moldova went up to 25.9% from 21.5% a year ago.



Source: NBS

7. MAJOR DEVELOPMENTS

IMF mission starts visit to Moldova

June 26, 2019

An International Monetary Fund (IMF) mission arrived in Moldova for an update on the country's macroeconomic situation, the IMF said.

[Read the full story here](#)

Moldova's top court suspends president Dodon, interim leader Filip calls snap election

June 10, 2019

Moldova's Constitutional Court said it suspended pro-Russian president Igor Dodon over his refusal to dissolve parliament and call early elections.

[Read the full story here](#)

World Bank lending USD 70 mln to Moldova to improve power transmission system

May 9, 2019

The World Bank said it has approved a USD 70 mln (EUR 62.5 mln) loan to Moldova, to be used to finance a project for increasing the capacity and improving the reliability of the country's power transmission system.

[Read the full story here](#)

EBRD, EU providing EUR 1.16 bln to SMEs in Moldova, Georgia, Ukraine

Apr 17, 2019

The European Bank for Reconstruction and Development (EBRD) said on Wednesday that together with the EU it is providing EUR 1.16 bln (USD 1.31 bln) to small businesses in Moldova, Ukraine and Georgia.

[Read the full story here](#)

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