

MOLDOVA ECONOMY REPORT

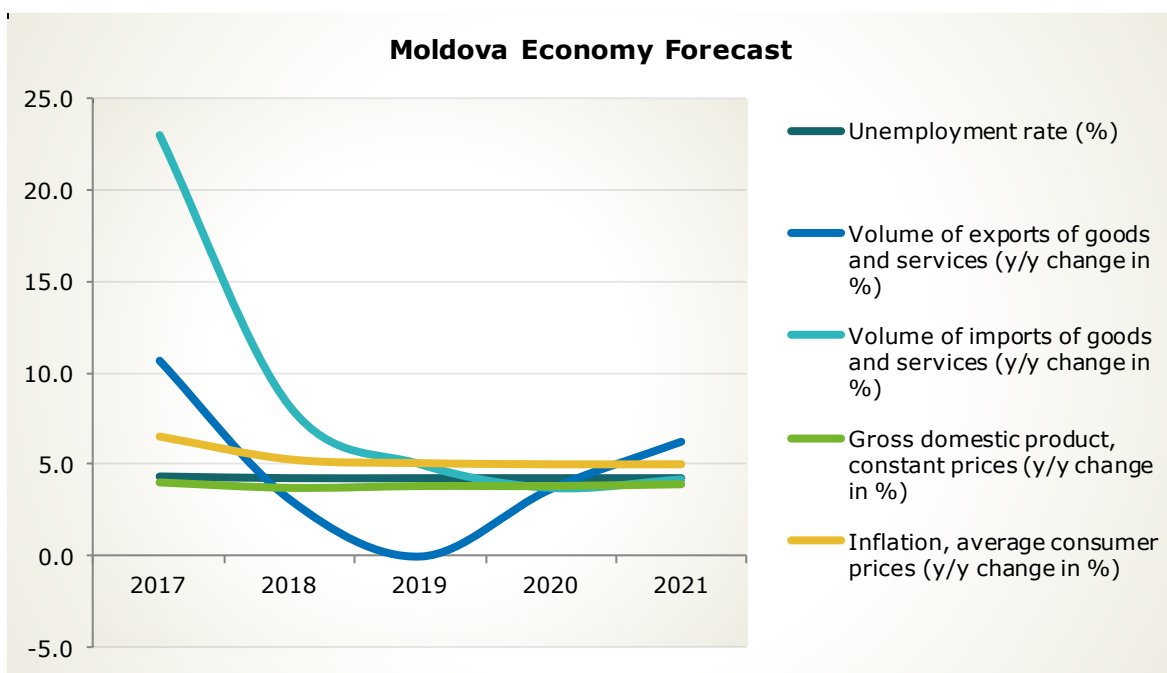
Q3 2017

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1. MACROECONOMIC SNAPSHOT AND FORECAST

MOLDOVA – MACROECONOMIC SNAPSHOT AS OF Q3 2017	
GDP Growth	5.4% y/y
Industrial output	4.1% y/y
Retail sales	-3.7% y/y
Wholesales	20.1% y/y
Average annual inflation	6.3%
Unemployment rate	3.4%
Construction works value	7.7% y/y
Money supply	7.4% y/y
Household loans	17.8% y/y
Gross external debt	USD 6.743 bln
Current account deficit	USD 195.1 mln
Net FDI inflow	USD 64.1 mln
Foreign trade deficit	USD 633.8 mln
Number of foreign tourist overnights	26.2%



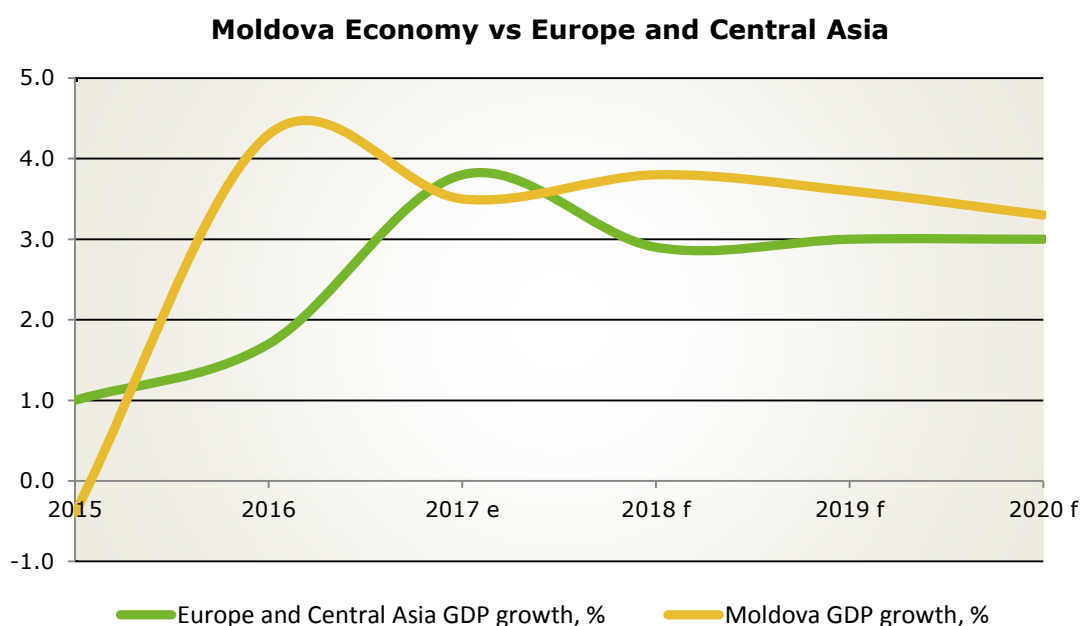
Source: International Monetary Fund (IMF) World Economic Outlook Database – October 2017

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 favourable external environment. 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 unstable political situation in Moldova.



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

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 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)

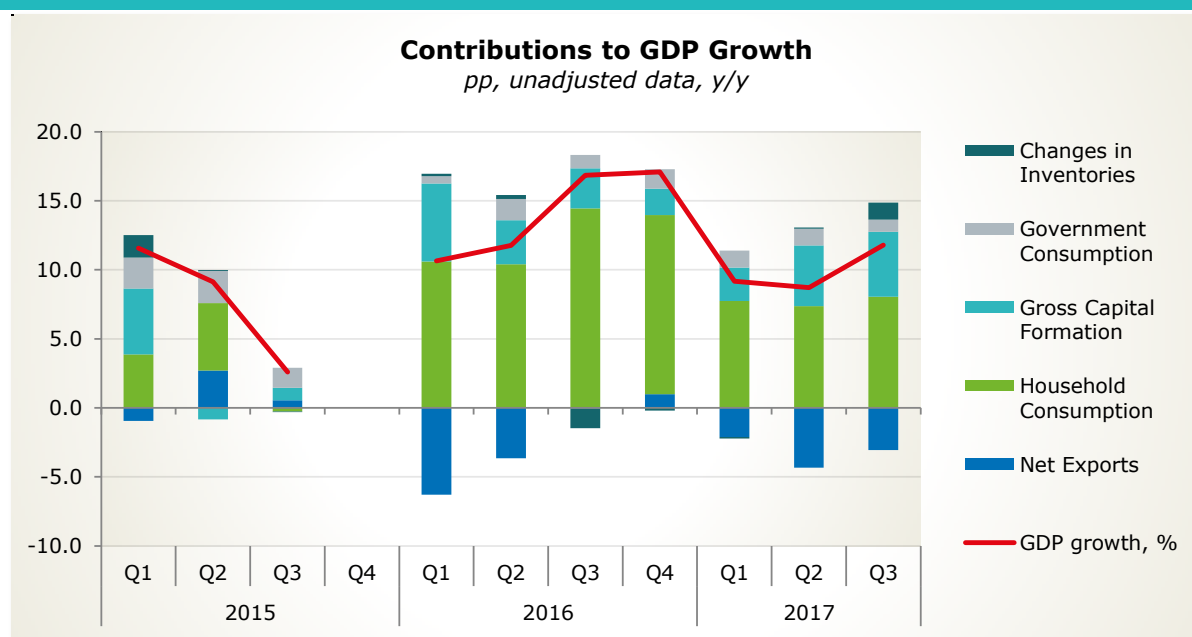
GDP growth accelerated q/q to 5.4% in Q3 2017

The country's GDP increased by real 5.4% y/y and totalled MDL 42.991 bln in Q3 2017, according to the data of the National Bureau of Statistics of the Republic of Moldova (NBS). However, this is a decrease compared to the same quarter of 2016, when the economy expanded by 6.5%.

Final consumption in the economy accelerated its pace of growth to 10.2% y/y in Q3 2017 from 8.0% y/y in Q2 2017. Gross capital formation went up by 19.6%, while in the previous quarter it grew faster, by 19.9%.

The positive evolution of GDP in the third 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 11.4% y/y to MDL 16.994 bln in Q3 2017.

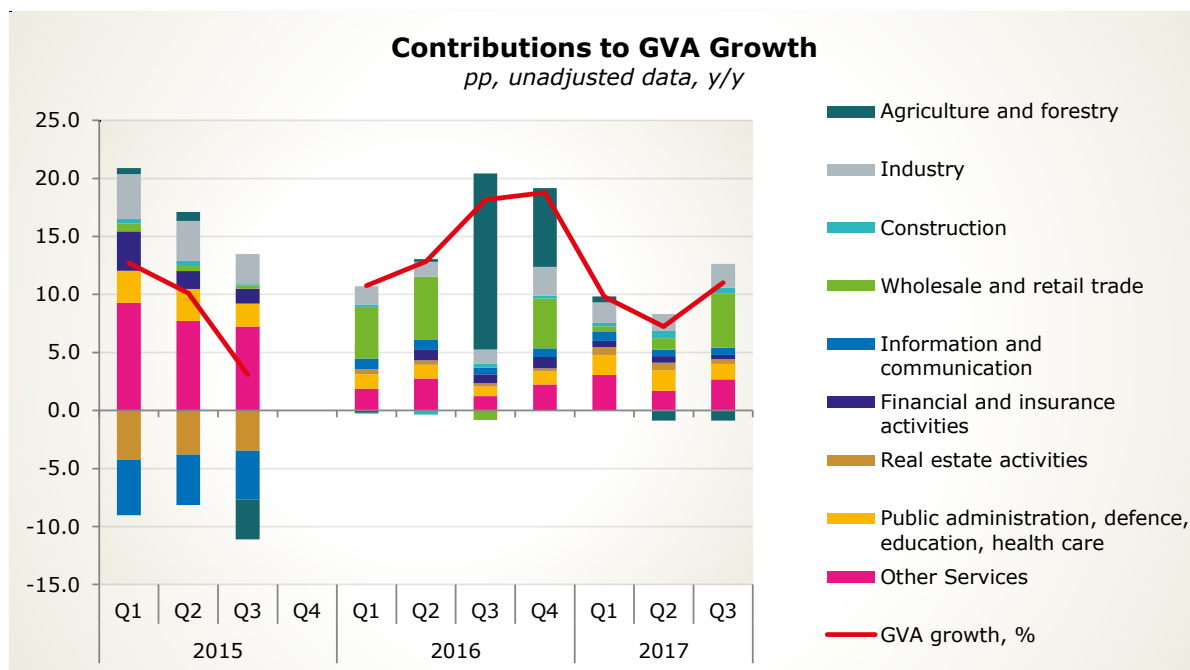
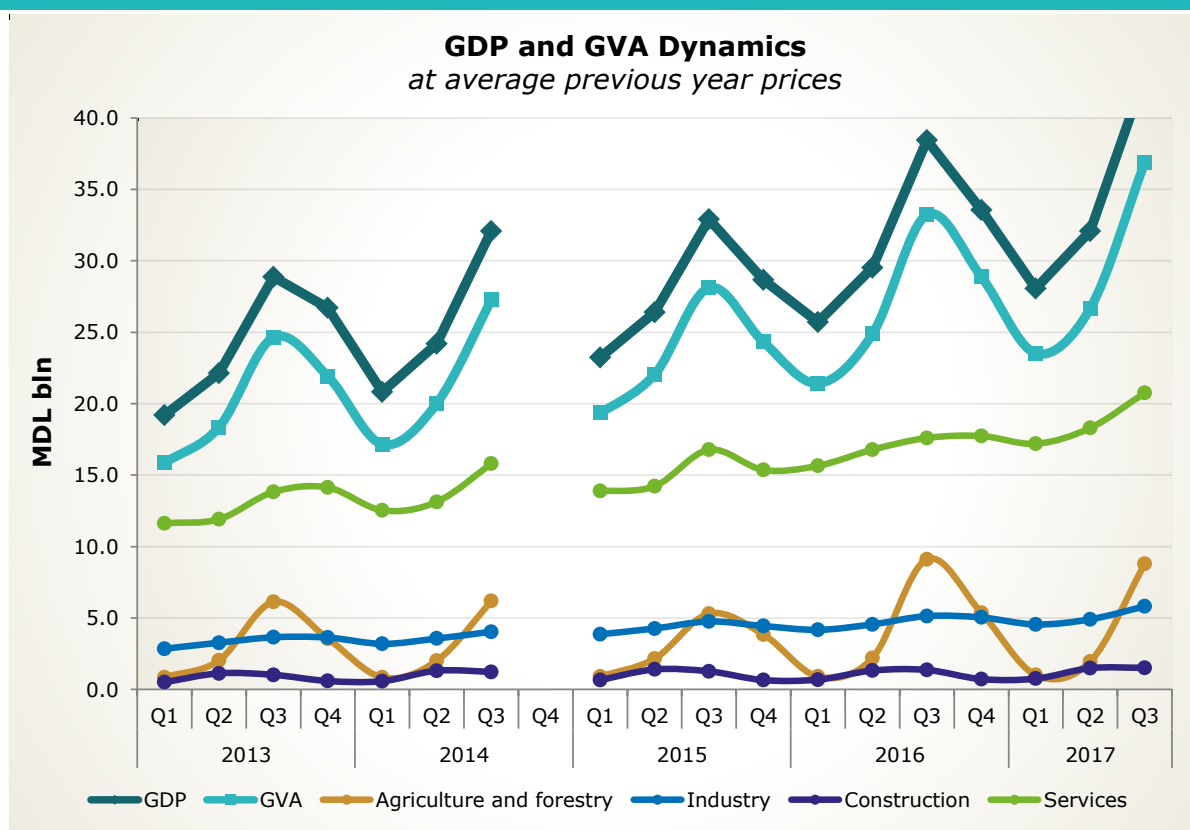
The largest contributor to the y/y growth during the third quarter was once again household consumption with 8.1 pp, followed by gross capital formation which added 4.7 pp to the overall GDP growth. The country's net export had a negative contribution of 3.1 pp y/y.



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 11.0% y/y in Q3 2017 and totalled MDL 36.886 bln. The industrial sector grew in value by 13.2% y/y, accounting for 15.8% of the total GVA. The services sector recorded a 17.9% annual increase, slicing a 56.3% share in the GVA. The agricultural sector registered an annual drop of 3.6%, and equalled 23.8% of the GVA. The construction industry marked an increase of 11.1% y/y, and its share in the GVA remained flat y/y at 4.1%.

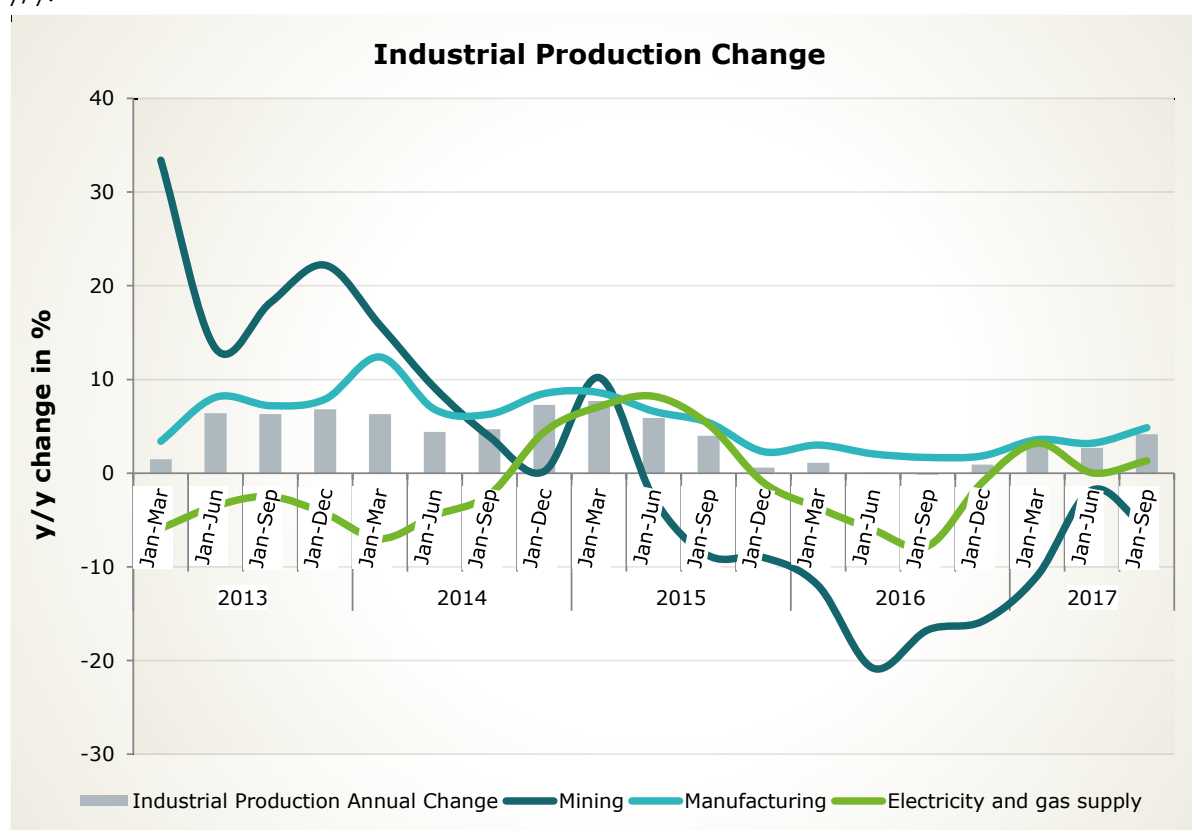


2.2. INDUSTRIAL OUTPUT

Industrial output annual growth went up by 4.1 % y/y in Q3 2017

Industrial output growth increased in Q3 2017 to 4.1% y/y compared to 2.7% y/y growth in Q2 2017, according to NBS.

Manufacturing registered an annual rise of 4.9%, while the output of the electricity and gas supply industry inched up by 1.3%. The production of the mining industry narrowed, by 6.0% y/y.

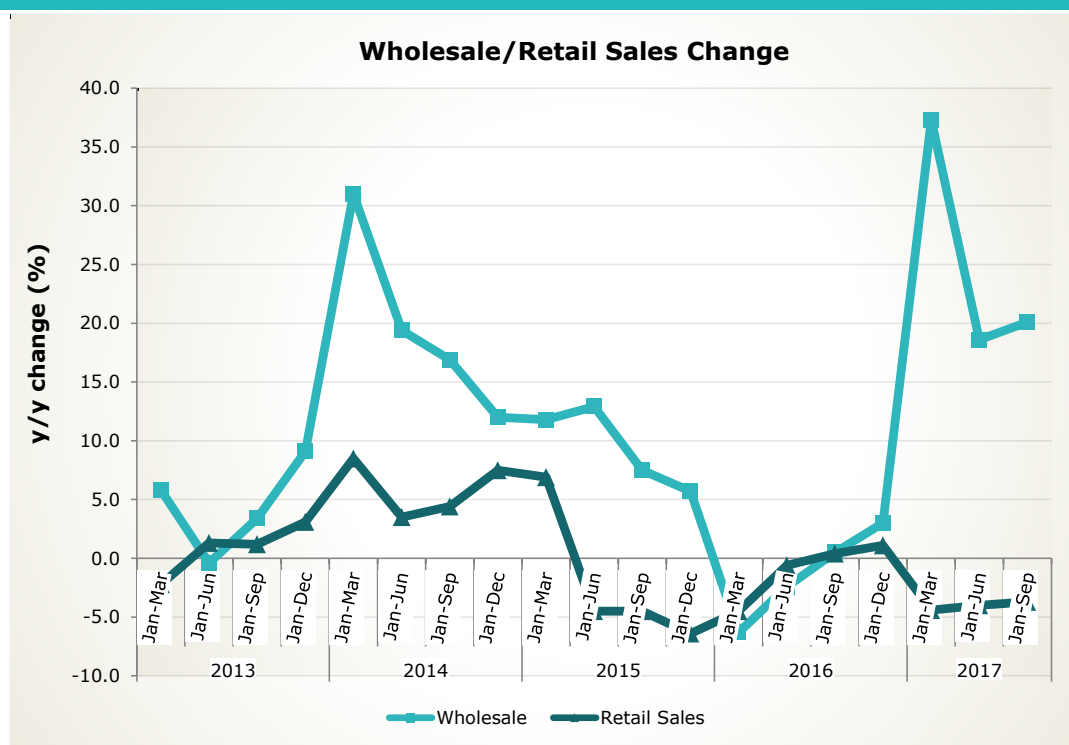


Source: NBS

2.3. WHOLESALE/RETAIL

Wholesale sector surged by 20.1% y/y while the retail sector went down by 3.7% y/y in Q3 2017

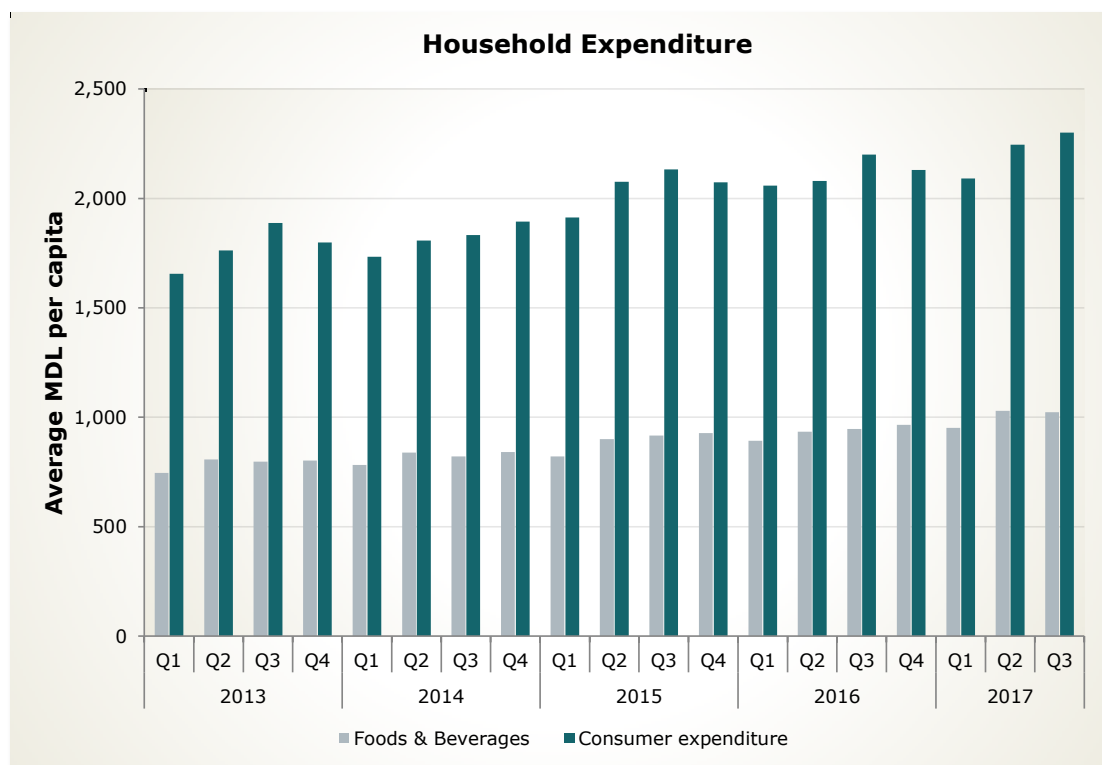
The wholesale sector grew by 20.1% y/y in Q3 2017, according to NBS data. The turnover of the retail sector marked an annual decrease, of 3.7%.



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 Q3 2017 the average consumer expenditure per capita in Moldova increased by 4.6% to MDL 2,301 from MDL 2,200 in the year-ago quarter. The food and beverages product group marked a faster y/y growth, of 8.1%, to MDL 1,023, accounting for 44.4% of the total consumer expenditure.



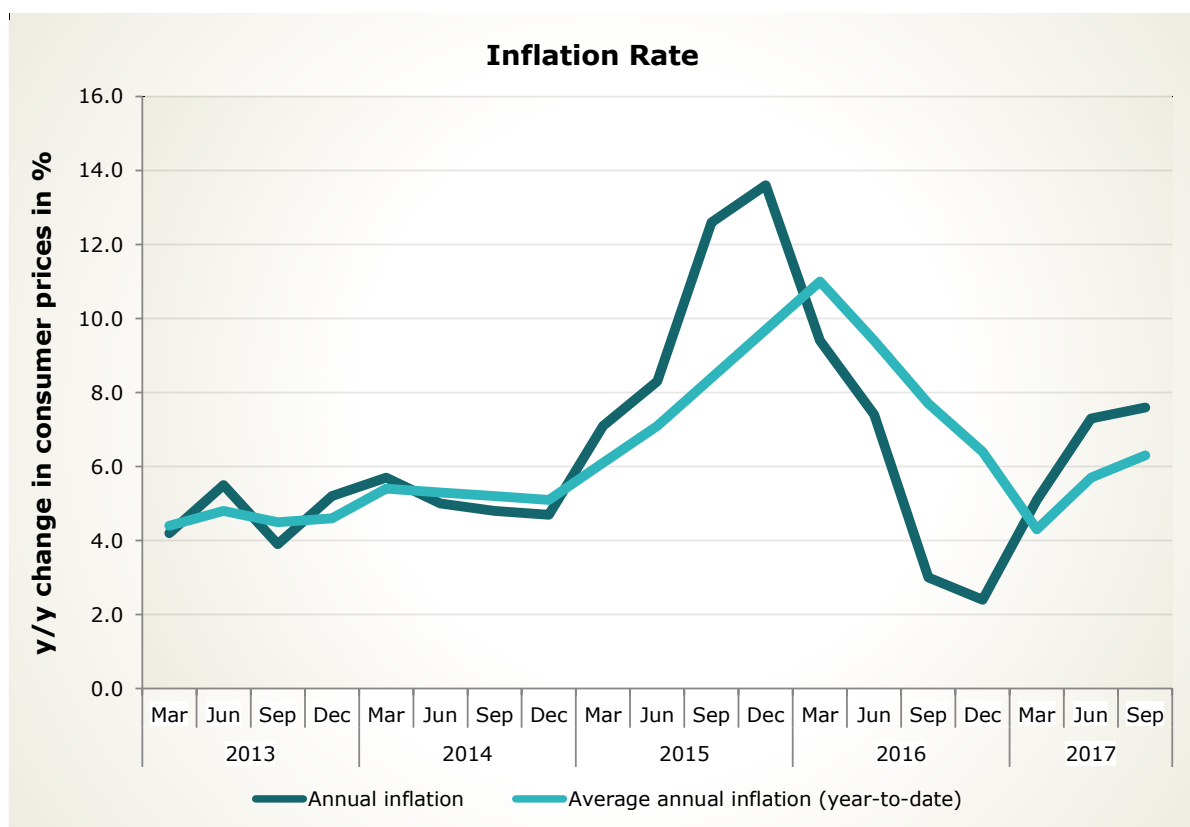
Source: NBS

2.4. INFLATION

Average annual inflation of 6.3% in Q3 2017

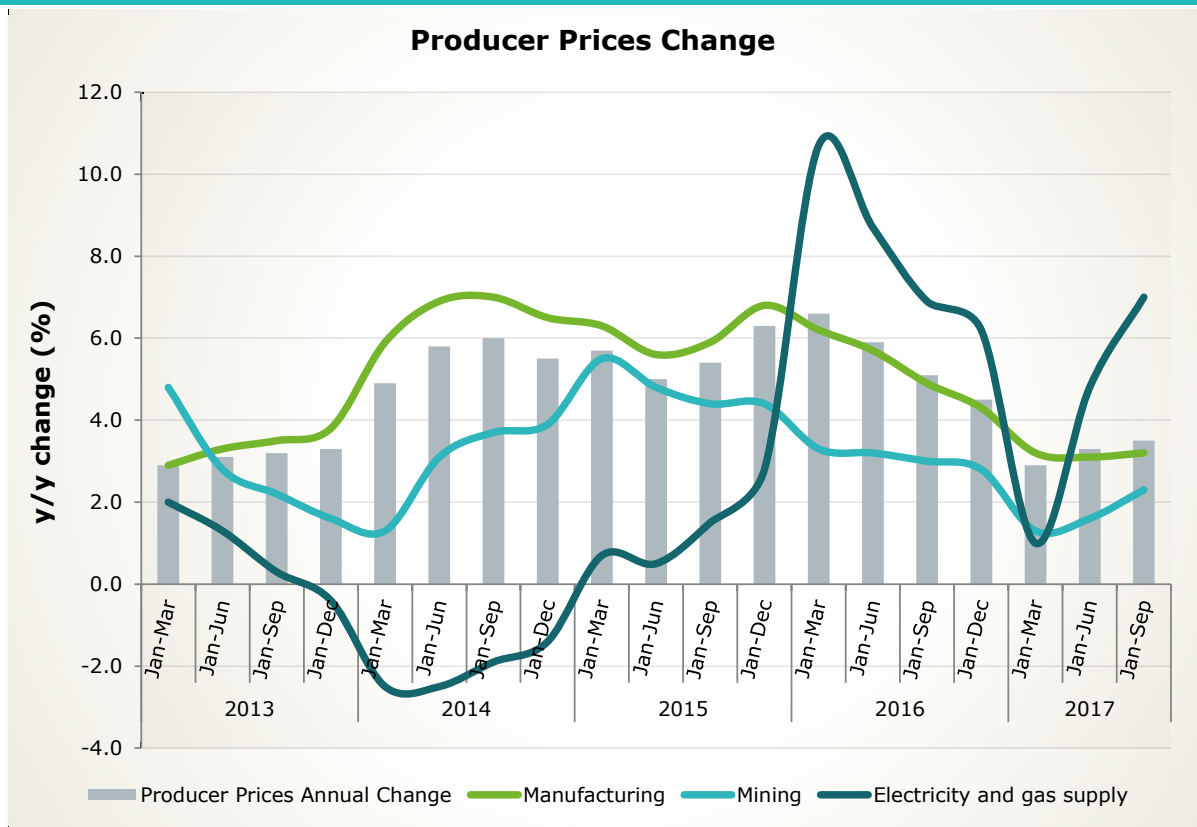
Moldova registered average annual inflation of 6.3% in the first nine months of 2017, which is 1.4 pp less compared to the first nine months of 2016, according to NBS. In September 2017 alone, the consumer prices registered an annual growth of 7.6%.

In January – September 2017, food products price grew annually by 7.2%, the prices in the services sector went up by 6.7%, and prices of non-food products increased by 4.7%.



Source: NBS

Producer prices grew by 3.5% y/y in Q3 2017 with all industries registering a growth – from 2.3% for mining, through 3.2% for manufacturing, to 7.0% for electricity and gas supply.



Source: NBS

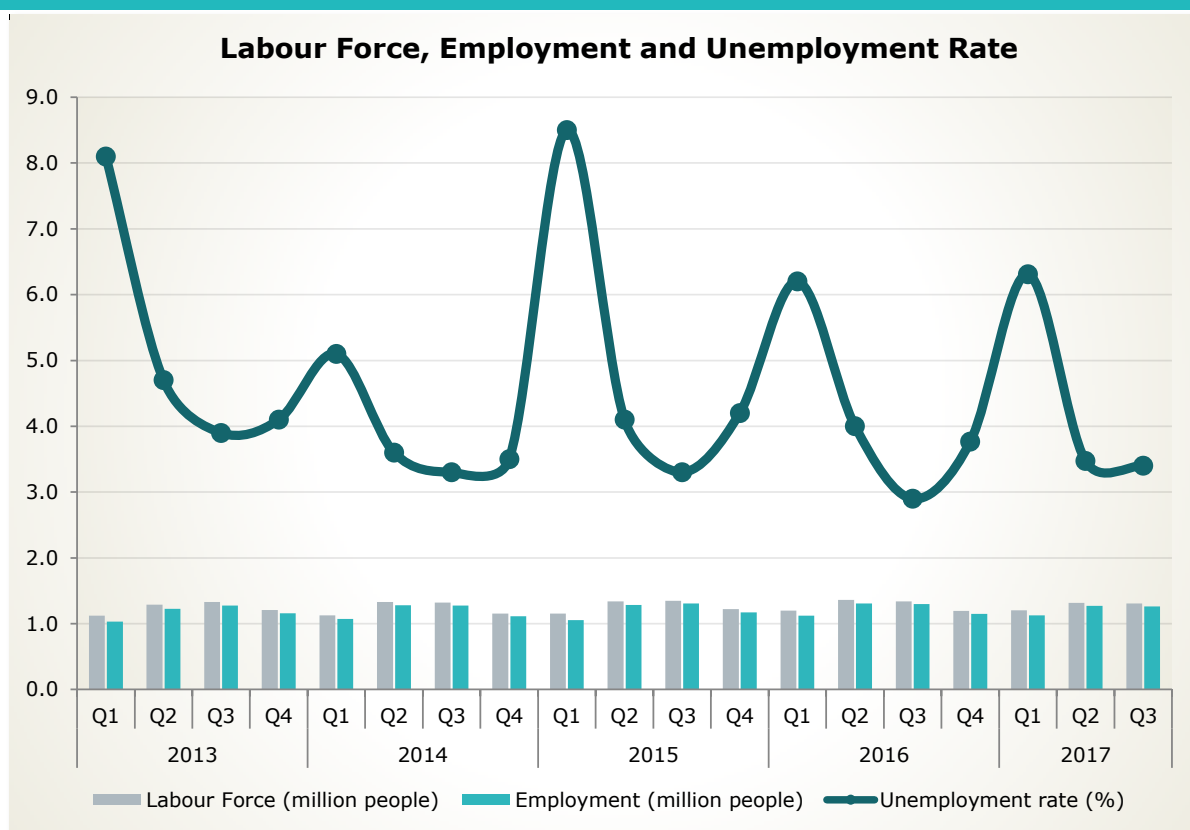
3. LABOUR MARKET

Unemployment rate at 3.4%, wages up 11.1% y/y in Q3 2017

Unemployment in Moldova went up to 3.4% in Q3 2017 from 2.9% a year ago, according to data of NBS. Youth unemployment rate (aged 15-24) rose to 12.6% in Q3 2017 from 8.9% in Q3 2016.

The employed population aged 15 years and older was 1.264 million in Q3 2017, down 2.6% 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 Q3 2017 rose by 11.1% y/y to MDL 5,809. In the public sector, it was MDL 4,991 and in the private – MDL 6,132.



Source: NBS

4. CONSTRUCTION AND REAL ESTATE

The value of construction works went up by 7.7% y/y in Q3 2017

The value of construction works carried out in Moldova in Q3 2017 went up by 7.7% y/y and totalled MDL 2.278 bln, according to NBS data.

New construction works accounted for almost half of the construction mix - 49.8%, while repairing, maintenance and other construction works accounted for the remaining 50.2%.

Civil engineering works amounted to MDL 1.071 bln, construction of residential buildings – MDL 592.5 mln, non-residential buildings – MDL 602.7 mln, and other buildings – MDL 12.2 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 21.023 in Q3 2017 from MDL 22.107 in Q3 2016, according to the National Bank of Moldova's (BNM) data.

MDL Average Exchange Rate			
Foreign Currency	Q3 2017	Q2 2017	Q3 2016
USD	17.921	18.753	19.790
GBP	23.424	23.962	26.053
CHF	18.611	19.019	20.306
EUR	21.023	20.592	22.107

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.

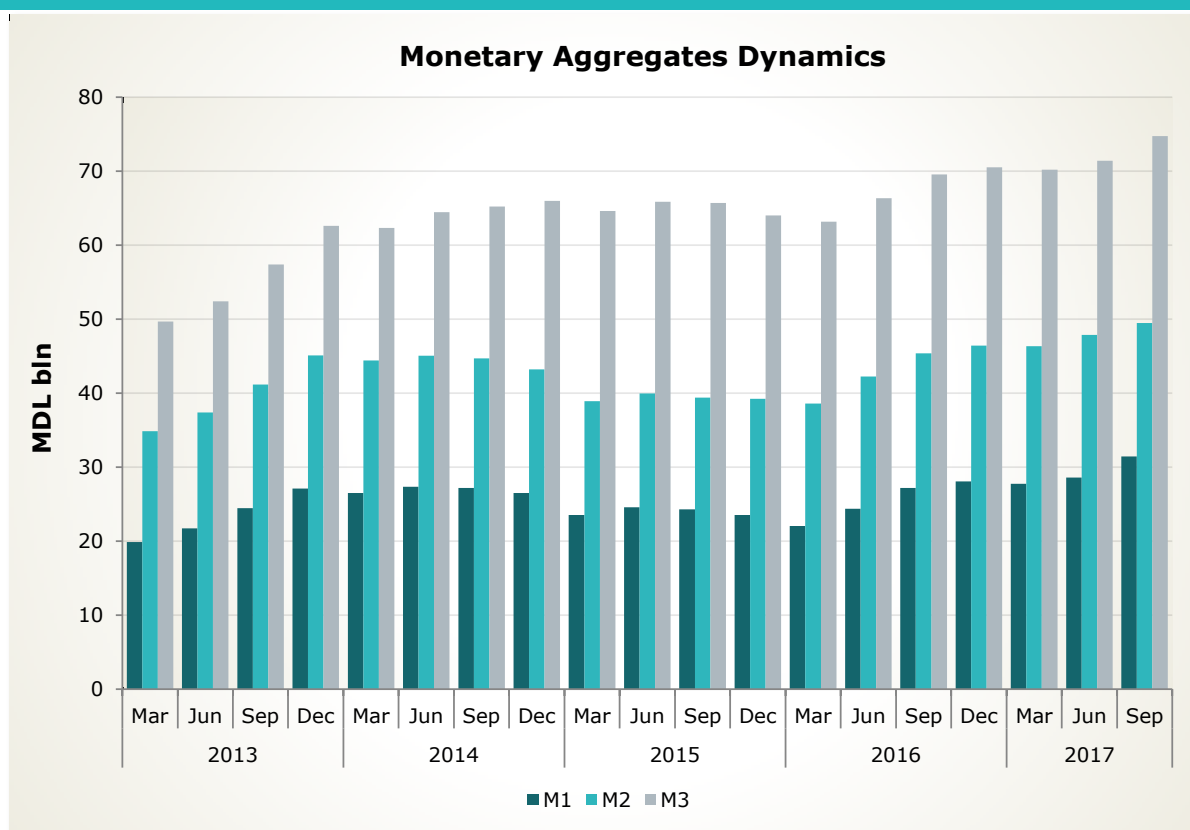
5.3. MONETARY AGGREGATES

Money supply up by 7.4% y/y at end-September 2017

Broad money (money aggregate M3) increased by 7.4% y/y to MDL 74.735 bln at the end of September 2017, according to data provided by BNM.

The M2 money supply went up by 9.0% y/y to MDL 49.469 bln.

Money aggregate M1, or narrow money, jumped by 15.7% to MDL 31.469 bln.



Source: BNM

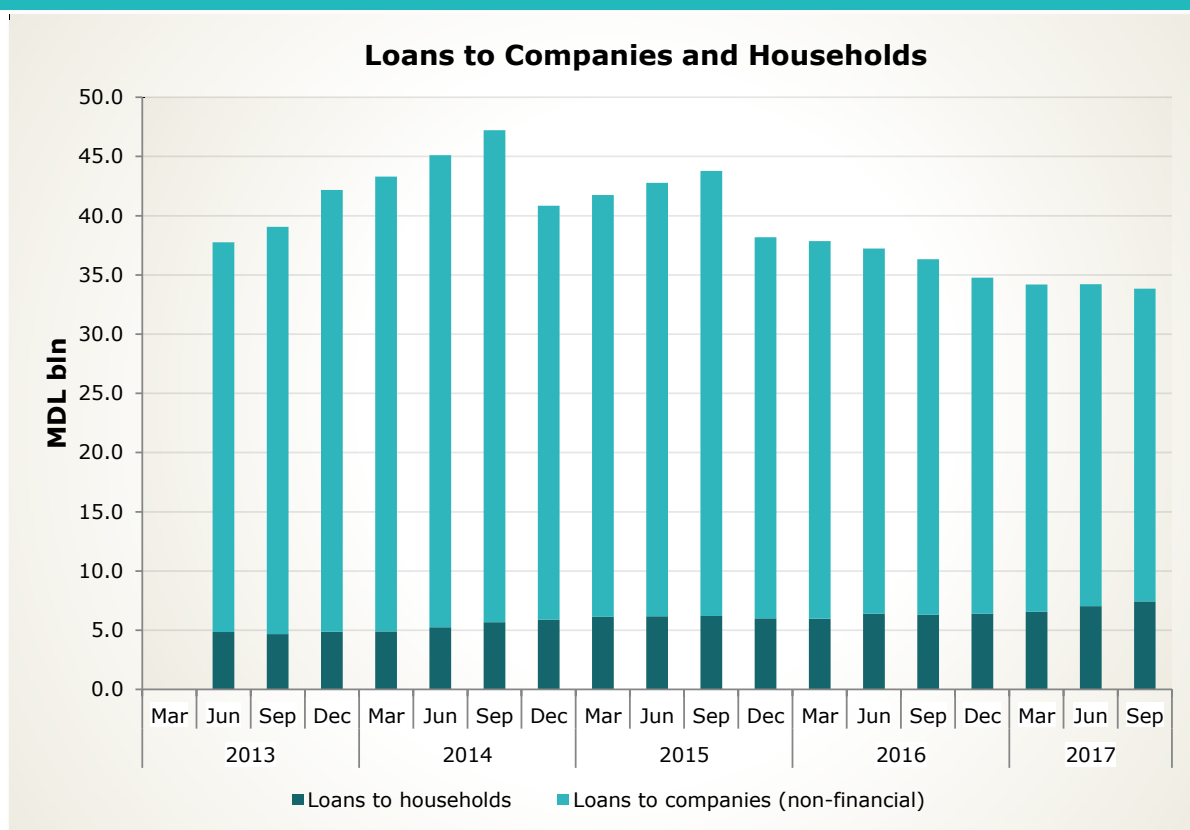
5.4. BANKING AND INSURANCE

Household loans increased by 17.8% y/y as of September 2017

Loans to the non-government sector totalled MDL 33.842 bln as of end-September 2017, down by 6.9% compared to a year ago, according to BNM.

Loans to non-financial corporations sank by 12.1% y/y to MDL 26.399 bln, while household loans went up by 17.8% to MDL 7.443 bln.

Sector wise, loans to wholesale and retail enterprises had the biggest share, of 28.2%, in the total loans to the non-government sector as of September 2017. The second place was occupied by consumer credits with a 12.0% share, and companies in the food industry came third with a share of 10.0%.



Source: BNM

Note: Data for March 2013 was not available

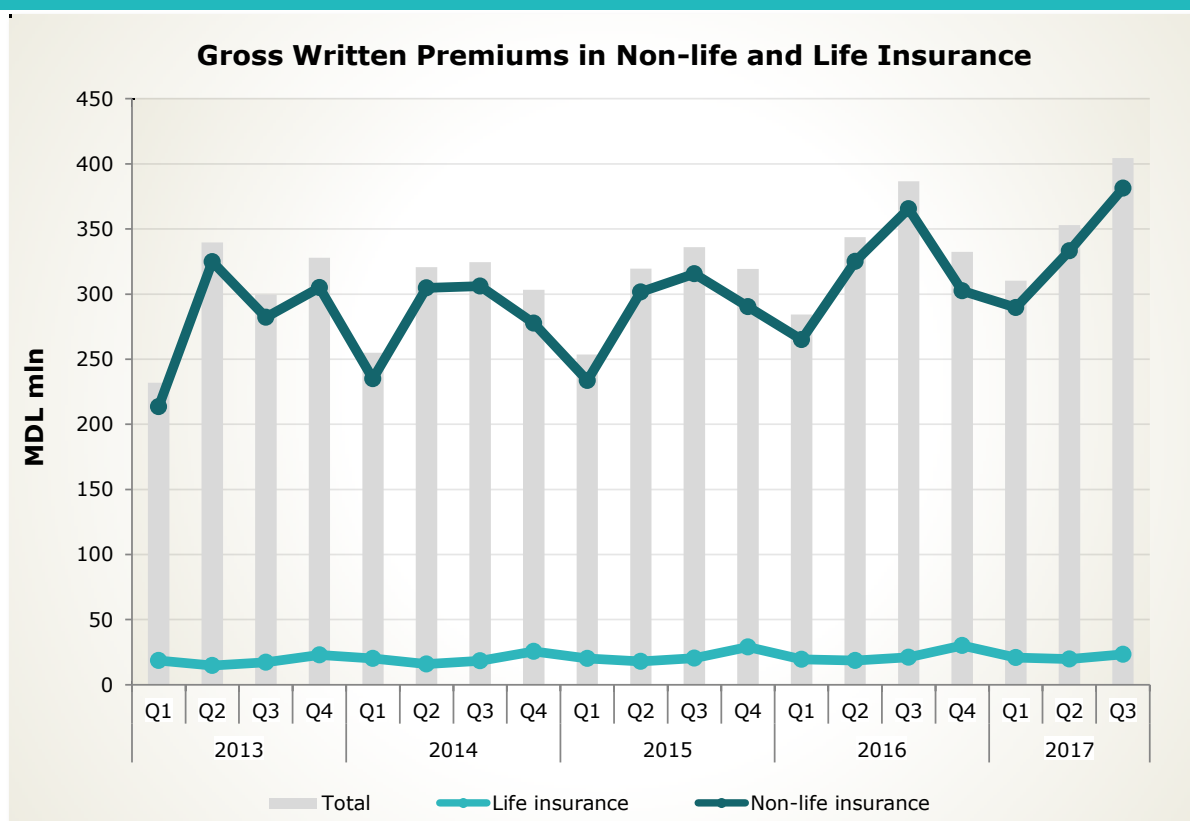
At end-September 2017, the total assets of the banking system totalled MDL 77.547 bln, increasing by 6.6% compared to a year earlier.

As of September 2017, the net profit of the banking sector totalled MDL 1.416 mln, increasing by 3.8% compared to the same month of the previous year, according to BNM.

Insurance premium income up 4.7% y/y in Q3 2017

The total gross written premiums (GWP) of the non-life and life insurance companies in Moldova stood at MDL 404.5 mln in Q3 2017, up by 4.7% y/y, according to the National Commission for Financial Markets.

The growth was fuelled by the 4.3% annual growth, to MDL 381.2 mln, of the non-life insurance market's GWP, while the premiums of the life insurance segment grew faster - by 10.6% y/y to MDL 23.3 mln.



Source: National Commission for Financial Markets

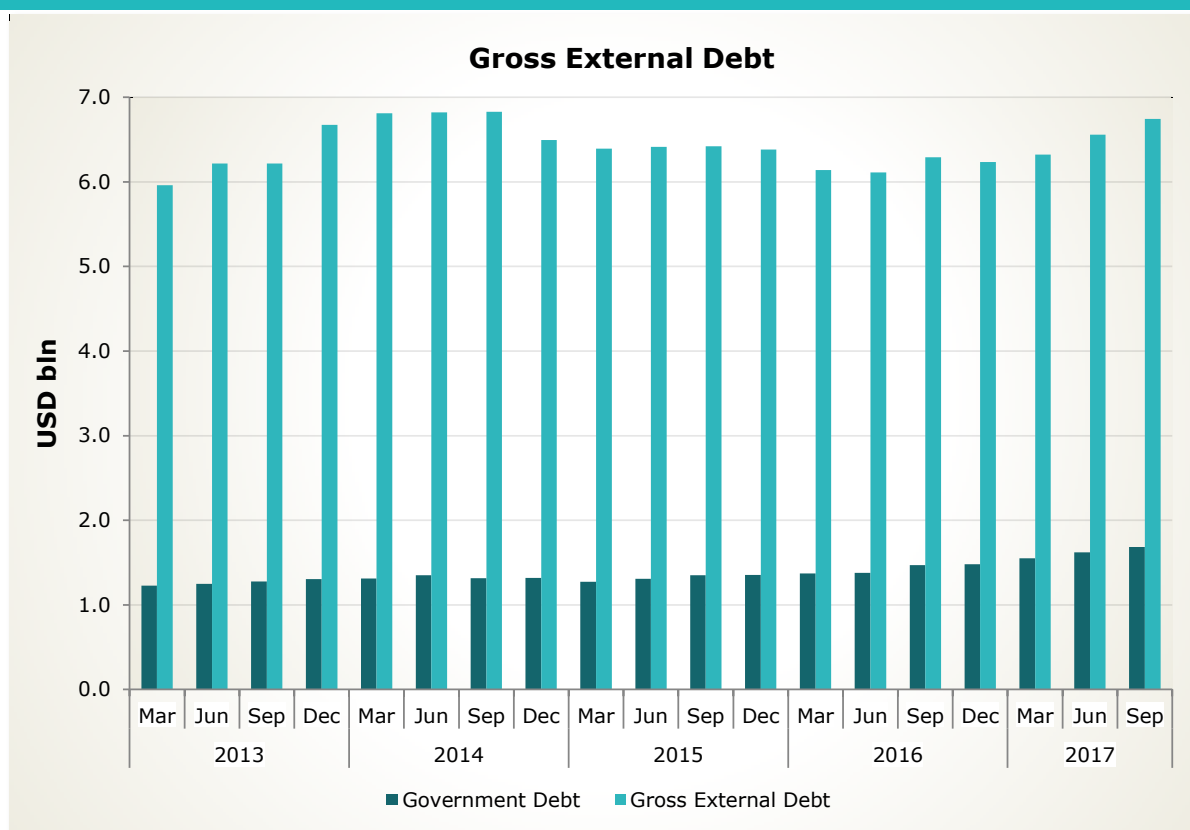
6. EXTERNAL SECTOR

6.1. FOREIGN DEBT

The gross external debt amounted to USD 6.743 bln as of September 2017

The gross external debt totalled USD 6.743 bln as of September 2017, according to central bank data. It went up by 7.2%, or USD 453.9 mln, compared to September 2016.

At end-September 2017, long-term liabilities grew by 2.1% y/y and amounted to USD 3.088 bln, or 45.8% of the total debt. Short-term liabilities came in at USD 2.373 bln, by 9.5% more than a year earlier and equal to 35.2% of the total debt.



Source: BNM

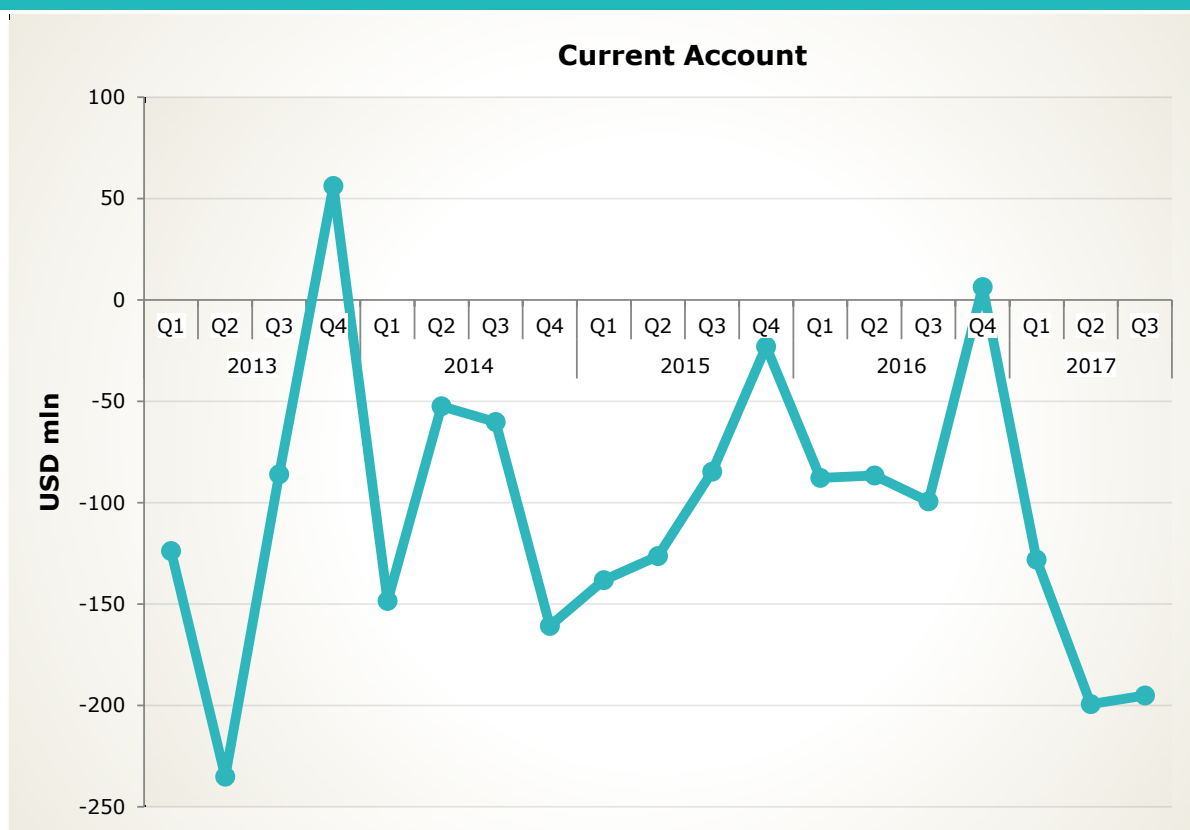
6.2. BALANCE OF PAYMENTS

Current account deficit nearly doubled y/y to USD 195.1 mln in Q3 2017

The current account deficit widened to USD 195.1 mln in Q3 2017 from USD 99.4 mln a year ago, according to central bank statistics data.

The increase in the current account deficit was due mainly to the 25.5% annual rise in the negative balance on the net exports of goods to USD 641.0 mln. Net balance of services was positive at USD 35.7 mln, up more than twofold y/y, while the positive balance on the income account amounted to USD 124.3 mln, down 4.5% y/y.

The net current transfers in Q3 2017 went up by 6.1% on the year to USD 286.0 mln.



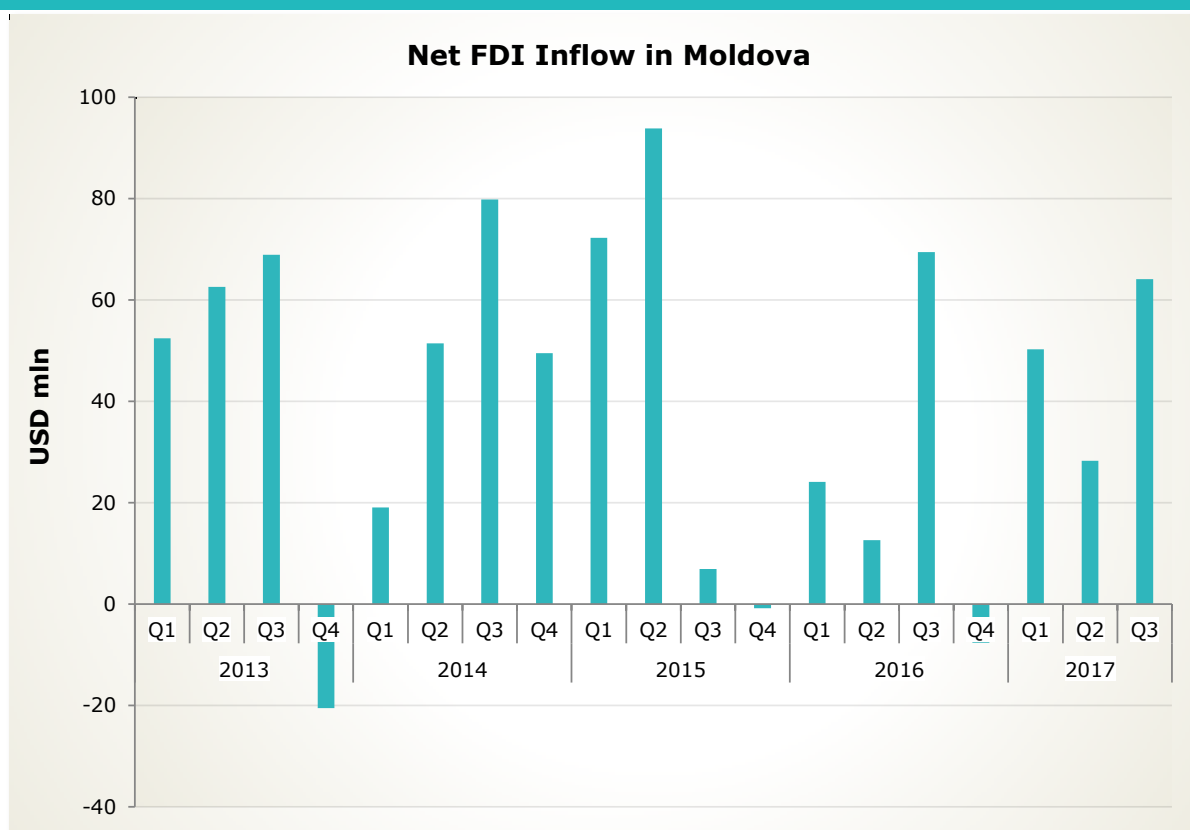
Source: BNM

6.3. FDI

Net FDI inflow at USD 64.1 mln in Q3 2017

Net foreign direct investments (FDI) in Moldova totalled USD 64.1 mln in the third quarter of 2017, down by 7.7% compared to the corresponding period of the previous year, according to BNM data.

Of the total, equity capital investments amounted to USD 13.0 mln, reinvested earnings came in at USD 43.6 mln and other capital investments accounted for the remaining USD 7.5 mln.



Source: BNM

6.4. FOREIGN TRADE

Foreign trade deficit up by 26.9% y/y in Q3 2017

The trade deficit stood at USD 633.8 mln in Q3 2017, compared to USD 499.6 mln a year earlier, according to BNM.

In Q3 2017, Moldova's main export markets were Romania, which accounted for 25.7% of the total exports, or USD 160.3 mln, followed by Italy, with a 10.7% share equal to USD 66.6 mln and Russia with a 10.6% share, or USD 66.4 mln.

Most of Moldova's imports came from Romania – USD 194.6 mln, or 15.5% of the total, Ukraine followed with USD 150.4 mln, or a 12.0% share, and China was the third major importer with USD 133.7 mln, representing a 10.6% share.



Source: NBS

6.5. TOURSIM

Number of tourist overnights decreased by 1.1% y/y in Q3 2017

Tourist overnights of foreigners expanded by an annual 26.2% to 89,284 in the third quarter of 2017, according to NBS data.

The growth in the number of foreigners who visited the country was smoother - 22.7% y/y, counting 41,796.

In Q3 2017, the share of foreign tourists in the total overnights in Moldova went up to 13.4% from 10.5% a year ago.



Source: NBS

7. MAJOR DEVELOPMENTS

Moldova's c-bank lowers key rate to 7.5%

Aug 29, 2017

Moldova's central bank, BNM, cut its key rate to 7.5% from 8.0%, striving to keep inflation close to the target level.

[Read the full story here](#)

World Bank lends Moldova USD 20 mln to modernise government services

Aug 24, 2017

The World Bank said it is lending Moldova USD 20 mln for higher quality government administrative services.

[Read the full story here](#)

Germany's Draexlmaier to start production at new Moldovan plant in autumn

Aug 4, 2017

German automotive components supplier Draexlmaier will start production at its third plant in the Balti free economic zone (FEZ Balti) in Moldova this autumn, FEZ Balti said in August 2017.

[Read the full story here](#)

EBRD mulls EUR 80 mln loan to Moldova for power link with Romania

July 28, 2017

The European Bank for Reconstruction and Development (EBRD) said in July 2017 it is considering lending up to EUR 80 mln to Moldova to help the country develop its electricity interconnection with neighbouring Romania.

Read the full story [here](#)

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