

MOLDOVA ECONOMY REPORT

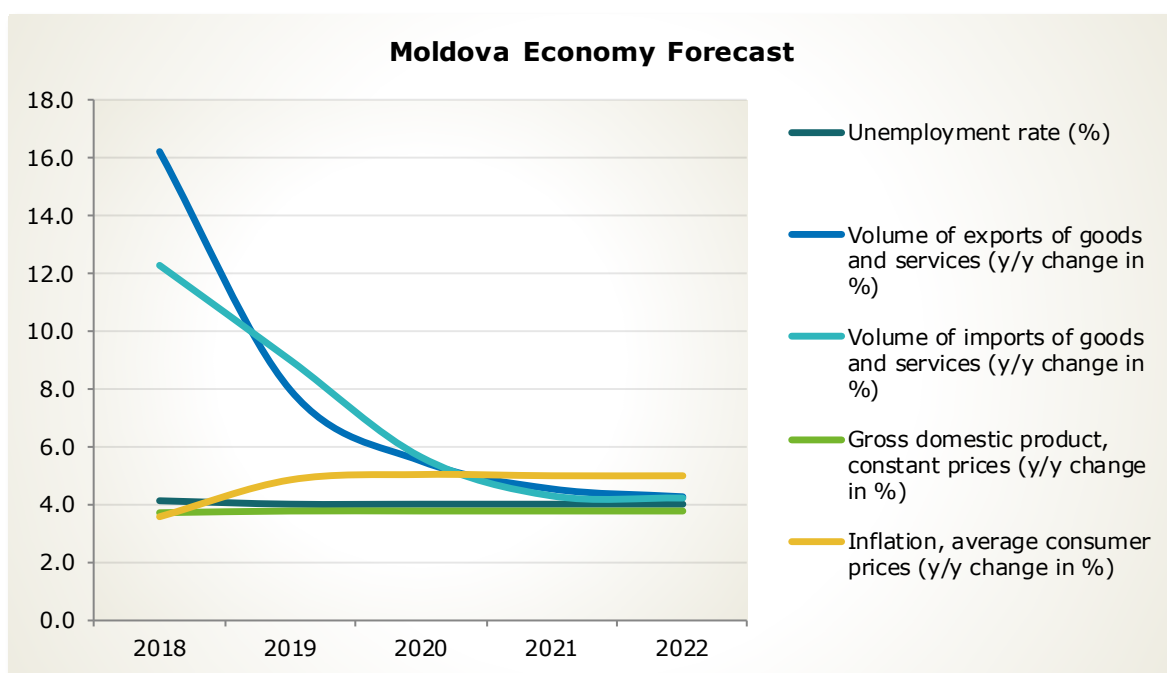
Q3 2018

CONTENTS

1. MACROECONOMIC SNAPSHOT AND FORECAST	3
2. REAL SECTOR	4
2.1. GROSS DOMESTIC PRODUCT (GDP)	4
2.2. INDUSTRIAL OUTPUT	6
2.3. WHOLESALE/RETAIL	7
2.4. INFLATION.....	8
3. LABOUR MARKET.....	9
4. CONSTRUCTION AND REAL ESTATE	10
5. MONEY SUPPLY AND BANKING SYSTEM.....	10
5.1. MDL EXCHANGE RATE	10
5.2 MONETARY POLICY	11
5.3. MONETARY AGGREGATES	11
5.4. BANKING AND INSURANCE.....	12
6. EXTERNAL SECTOR	13
6.1. FOREIGN DEBT	13
6.2. BALANCE OF PAYMENTS	14
6.3. FDI.....	15
6.4. FOREIGN TRADE	15
6.5. TOURSIM	16
7. MAJOR DEVELOPMENTS	17

1. MACROECONOMIC SNAPSHOT AND FORECAST

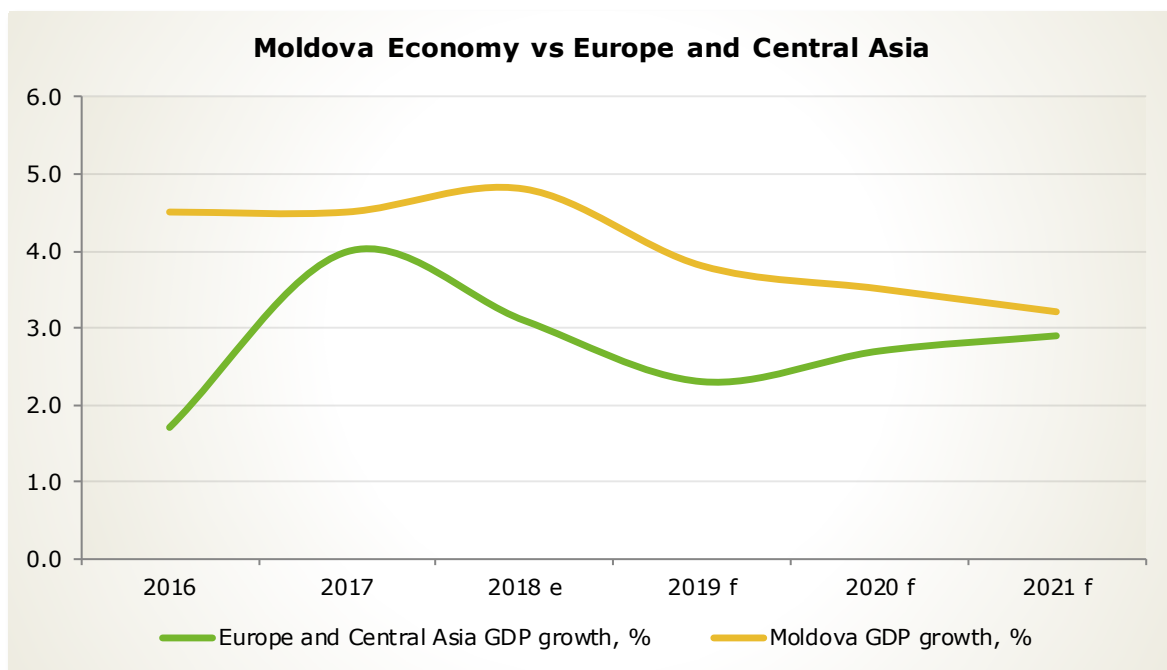
MOLDOVA – MACROECONOMIC SNAPSHOT AS OF Q3 2018	
GDP Growth	3.4% y/y
Industrial output	6.0% y/y
Retail sales	7.2% y/y
Wholesales	8.5% y/y
Average annual inflation	3.7%
Unemployment rate	2.2%
Construction works value	37.1% y/y
Money supply	7.3% y/y
Household loans	25.4% y/y
Gross external debt	USD 7.199 bln
Current account deficit	USD 338.1 mln
Net FDI inflow	USD 48.6 mln
Foreign trade deficit	USD 801.5 mln
Number of foreign tourist overnights	8.7%



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 3.8%, 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 3.5% in 2018 and 4.5% 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 4.8% of GDP, according to IMF.



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

According to the World Bank estimates from January 2019, GDP growth is likely to come in at 3.8% in 2019, down from 4.8% in 2018. This will be higher than the projected growth for Europe and Central Asia, of 2.3% in 2019.

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.

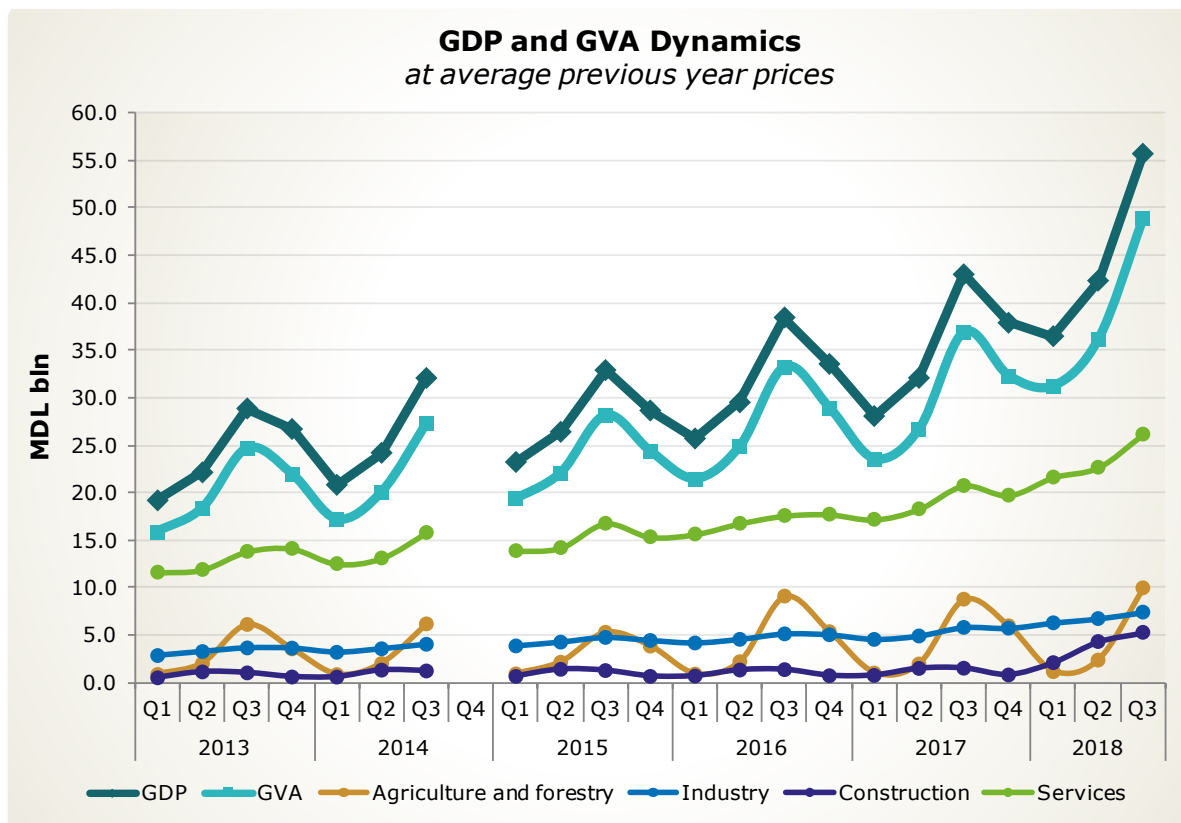
2. REAL SECTOR

2.1. GROSS DOMESTIC PRODUCT (GDP)

GDP growth at 3.4% y/y in the third quarter

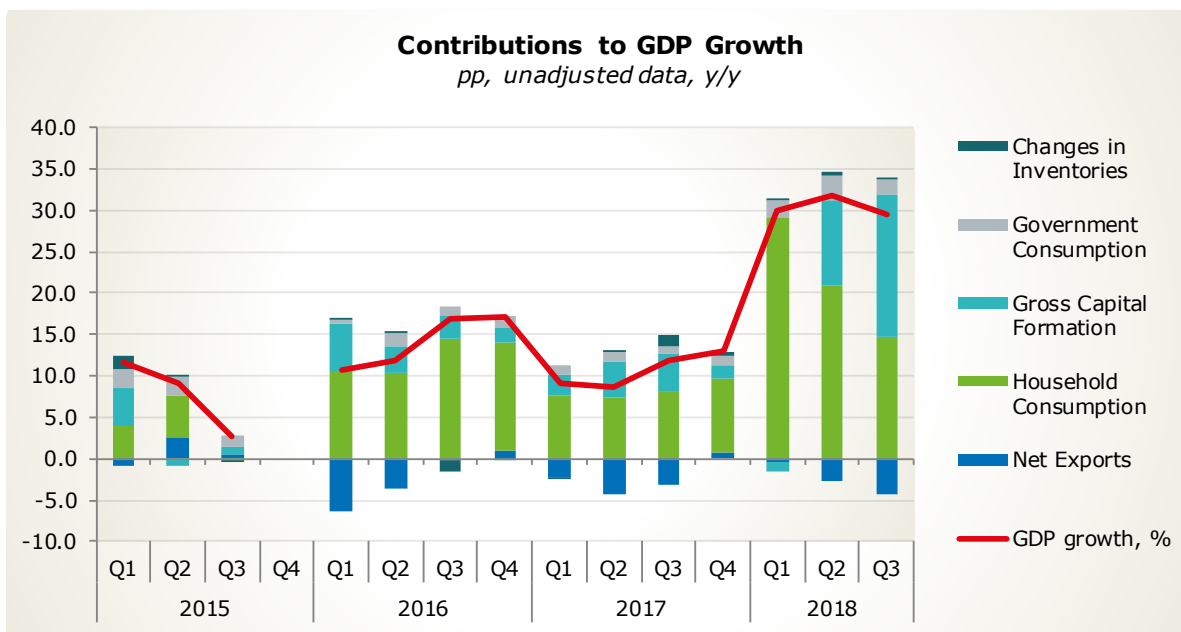
Moldova's economy expanded by 3.4% in real terms in Q3 2018, mainly on the surging gross capital formation, according to the data of the National Bureau of Statistics of the Republic of Moldova (NBS). For comparison, Moldova's GDP grew by 5.3% in Q2 2018 and by 5.3% y/y in the same quarter of the previous year.

In Q3 2018, export of goods and services was the only negative contributor to GDP growth with 5.3%.



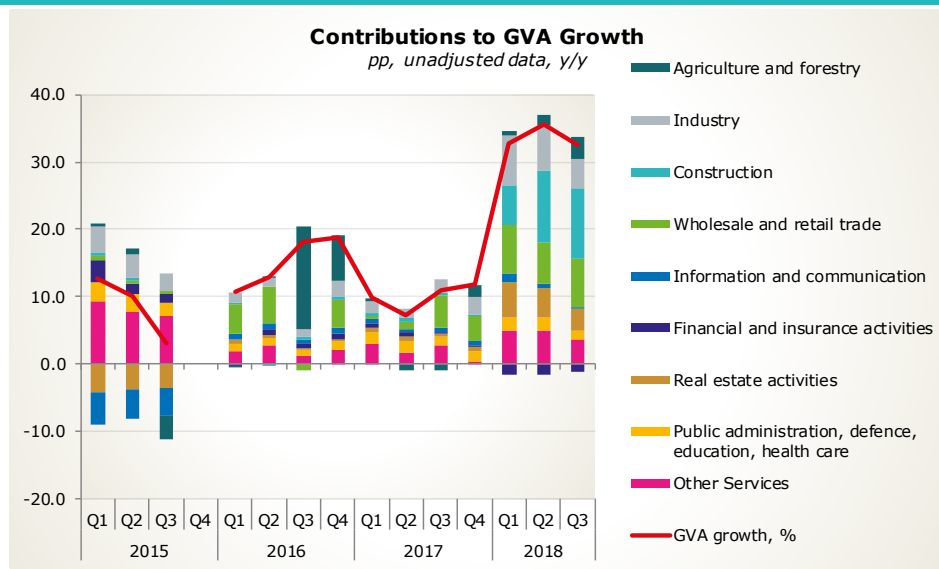
Source: NBS

Note: Data for Q4 2014 is not available



Source: NBS

Note: Data for Q4 2014 is not available



Source: NBS

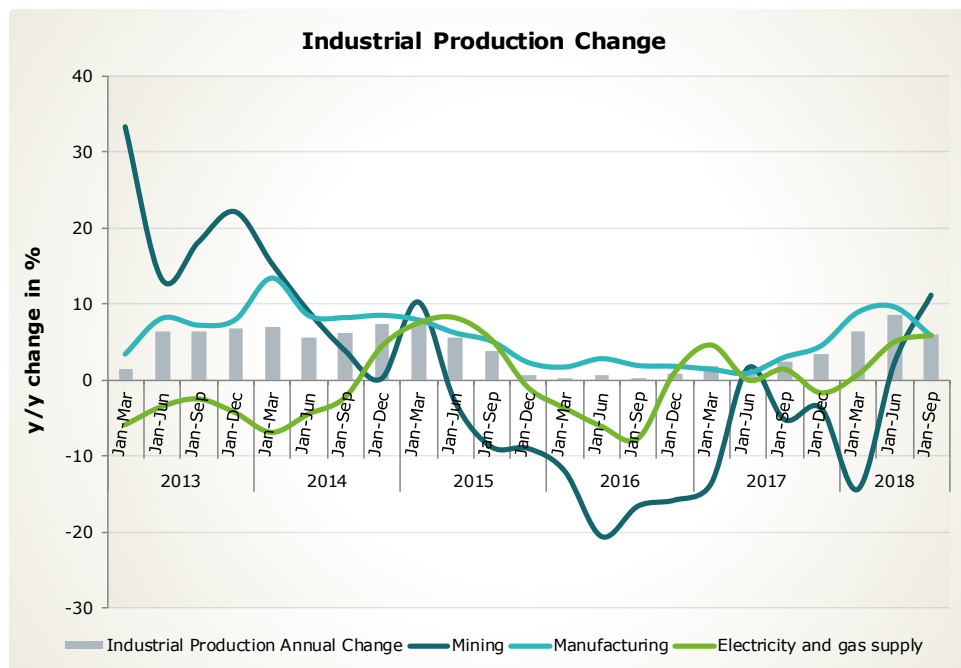
Note: Data for Q4 2014 is not available

2.2. INDUSTRIAL OUTPUT

Industrial output annual growth at 6.0% y/y in Jan-Sep 2018

Industrial output growth came in at 6.0% in the first nine months of 2018, compared to an 8.5% y/y growth in the first half of 2018 and a 2.5% rise in January-September 2017, according to NBS.

The production of the mining industry jumped by 11.2%, while the output of the electricity and gas supply industry increased by 5.9%. Manufacturing registered an annual rise of 5.8%, significantly lower than the 9.6% growth in H1 2018.

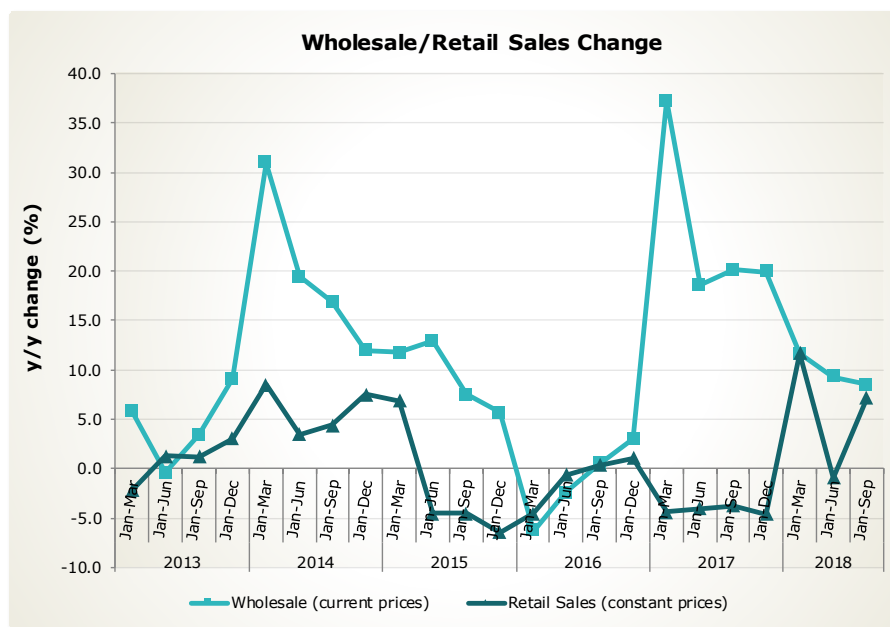


Source: NBS

2.3. WHOLESALE/RETAIL

Wholesale and retail sectors positive in Jan-Sep 2018

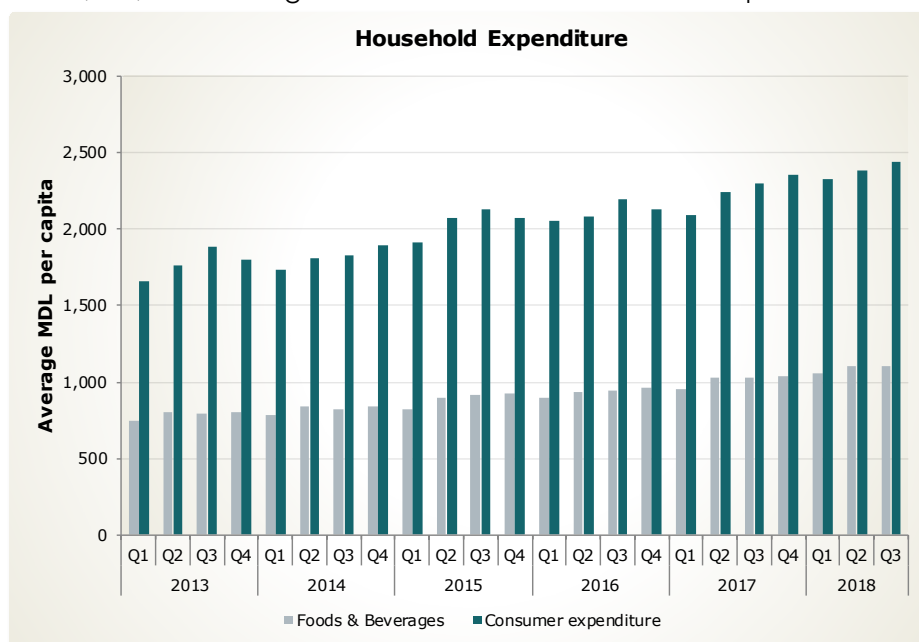
The wholesale sector remained strong, as it grew by 8.5% y/y in January to September 2018, according to NBS data. The turnover of the retail sector marked an annual increase of 7.2%.



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 2018, the average consumer expenditure per capita in Moldova increased by 5.8% to MDL 2,438 from MDL 2,303 in Q3 2017. The food product group marked a year-on-year growth of 7.2%, to MDL 1,099, accounting for 45.1% of the total consumer expenditure.



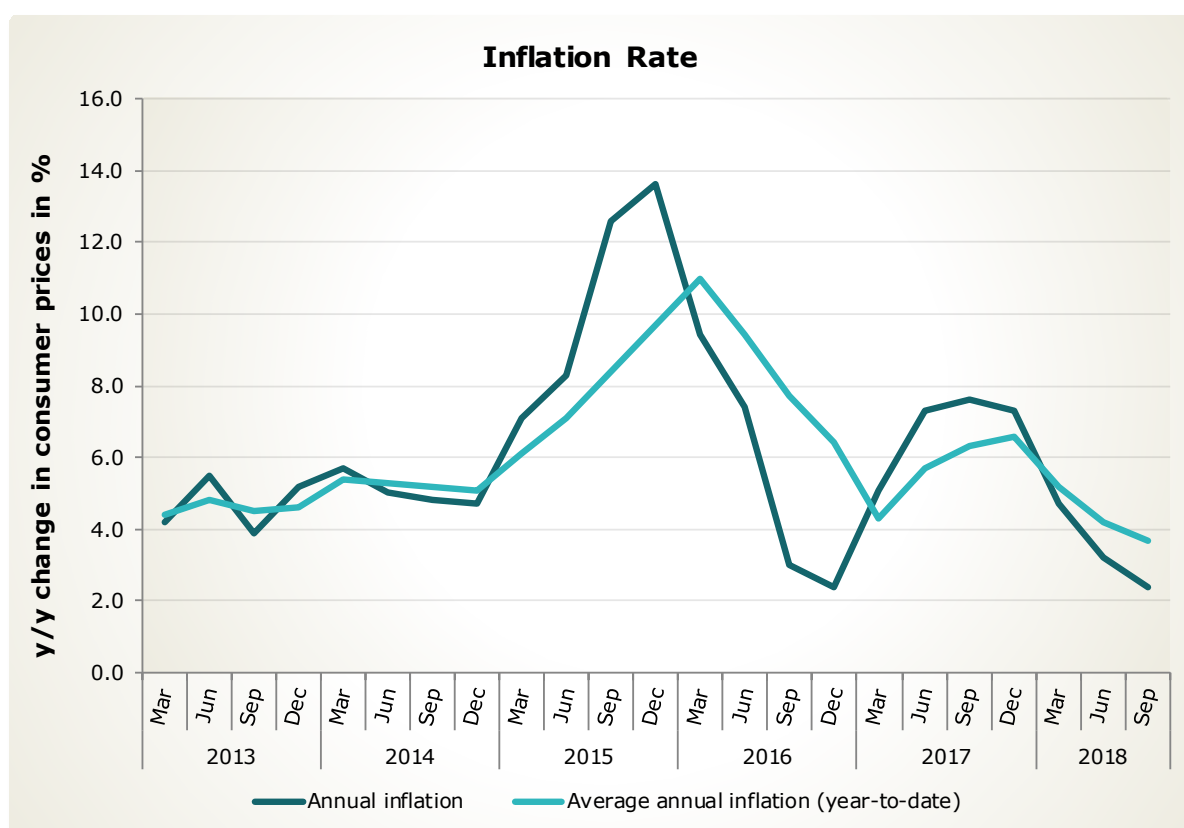
Source: NBS

2.4. INFLATION

Annual inflation continued to trend downwards in Jan-Sep 2018

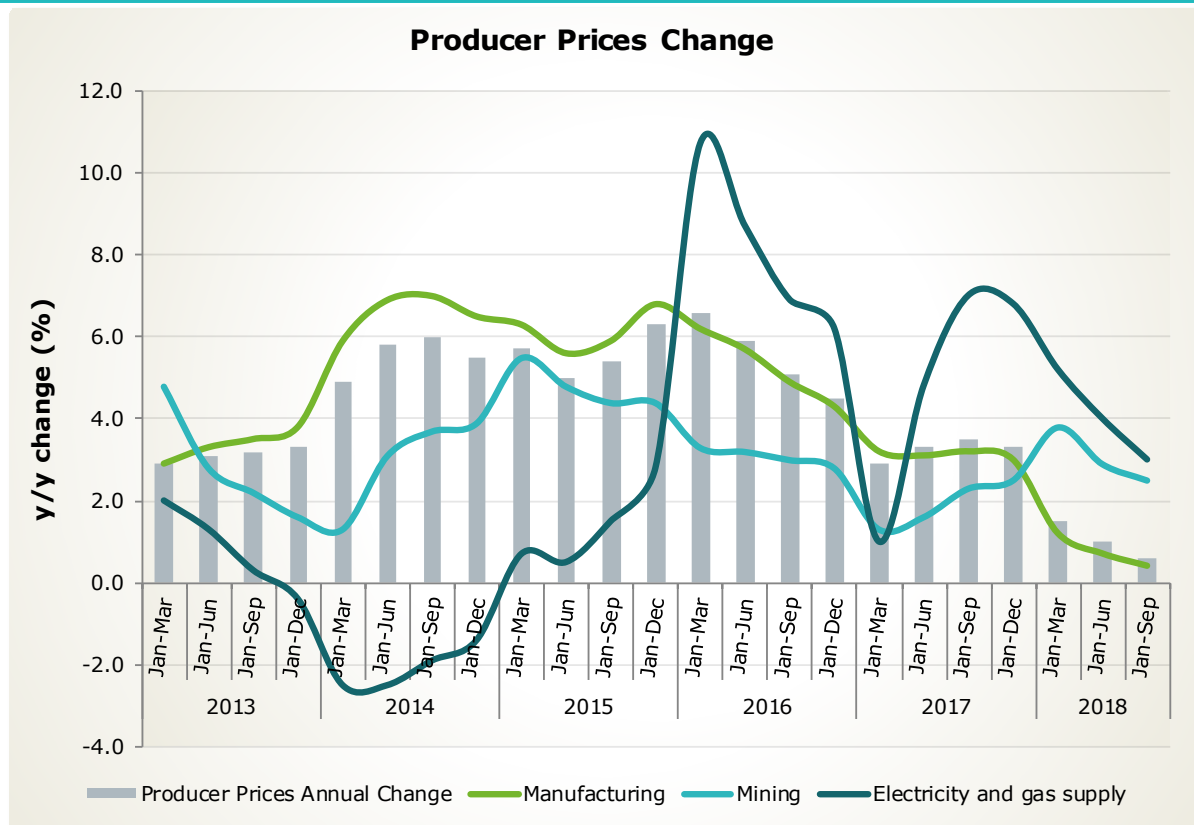
Moldova registered average annual inflation of 3.7% in the first nine months of 2018, down from 4.2% in the first half of 2018, and 6.3% in the corresponding period of 2017, according to NBS.

In January–September 2018, food products prices grew annually by 6.5%, while the prices of non-food products increased by 2.9%. Annual inflation in the services sector amounted to 0.5%.



Source: NBS

Producer prices increased by 0.6% y/y in the January-September 2018 period with all industries registering a growth – from 3.0% in electricity and gas supply, through 2.5% in mining, to 0.4% in manufacturing.



Source: NBS

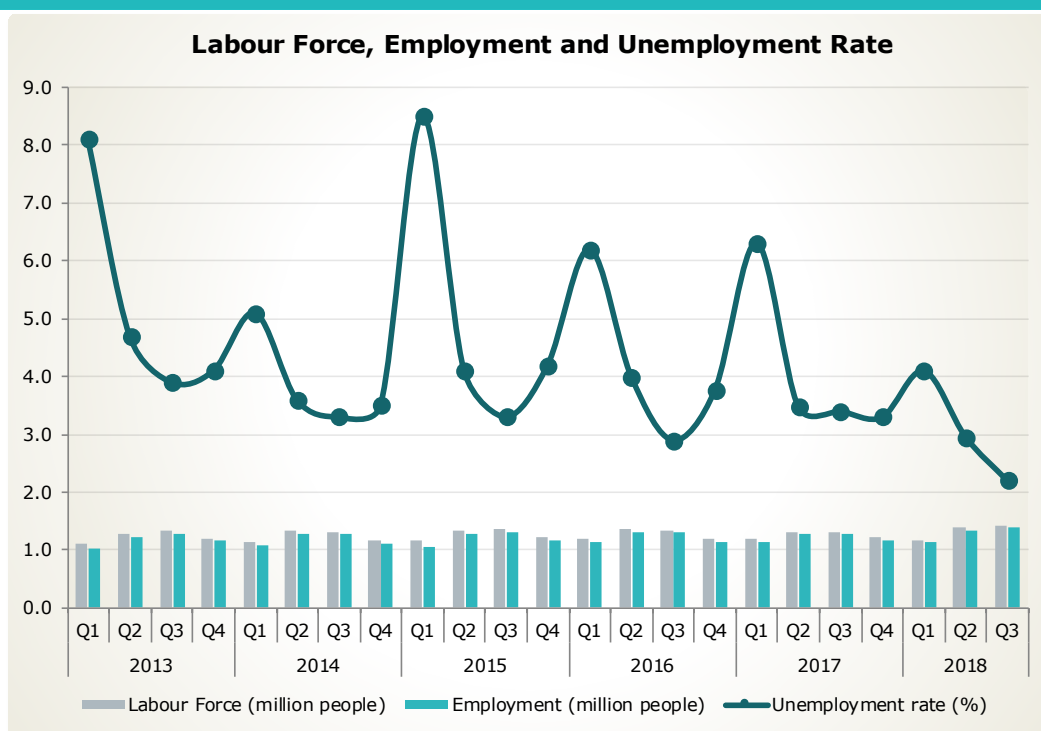
3. LABOUR MARKET

Unemployment rate continued to ease in Q3 2018

Unemployment in Moldova stood at 2.2% in Q3 2018, down from 3.0% in Q2 2018, and 3.4% in the same quarter of the previous year, according to data of NBS. Youth unemployment rate (aged 15-24) also improved, reaching 6.0% in Q3 2018, compared to 7.8% in Q2 2018 and 12.6% in Q3 2017.

The employed population aged 15 years and older was 1.377 million in Q3 2018, up 9.0% on the year.

Salaries maintained their uptrend in Q3 2018. According to data of NBS, the average gross monthly salary in the period under review rose by 12.0% y/y to MDL 6,507. In the public sector, it was MDL 5,625 and in the private – MDL 6,845.



Source: NBS

4. CONSTRUCTION AND REAL ESTATE

The value of construction works expanded by 37.1% y/y in Q3 2018

The value of construction works carried out in Moldova in the third quarter went up by 37.1% y/y and totalled MDL 3.124 bln, according to NBS data. The growth rate advanced compared to Q2 2018 when construction works went up by 14.1% 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 19.3999 in Q3 2018 from MDL 19.8839 in Q2 2018, according to the National Bank of Moldova's (BNM) data.

MDL Average Exchange Rate			
Foreign Currency	Q3 2018	Q2 2018	Q3 2017
USD	16.6927	16.6560	17.9208
EUR	19.3999	19.8839	21.0226
GBP	21.7544	22.7014	23.4239
CHF	16.9444	16.9205	18.6113

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.

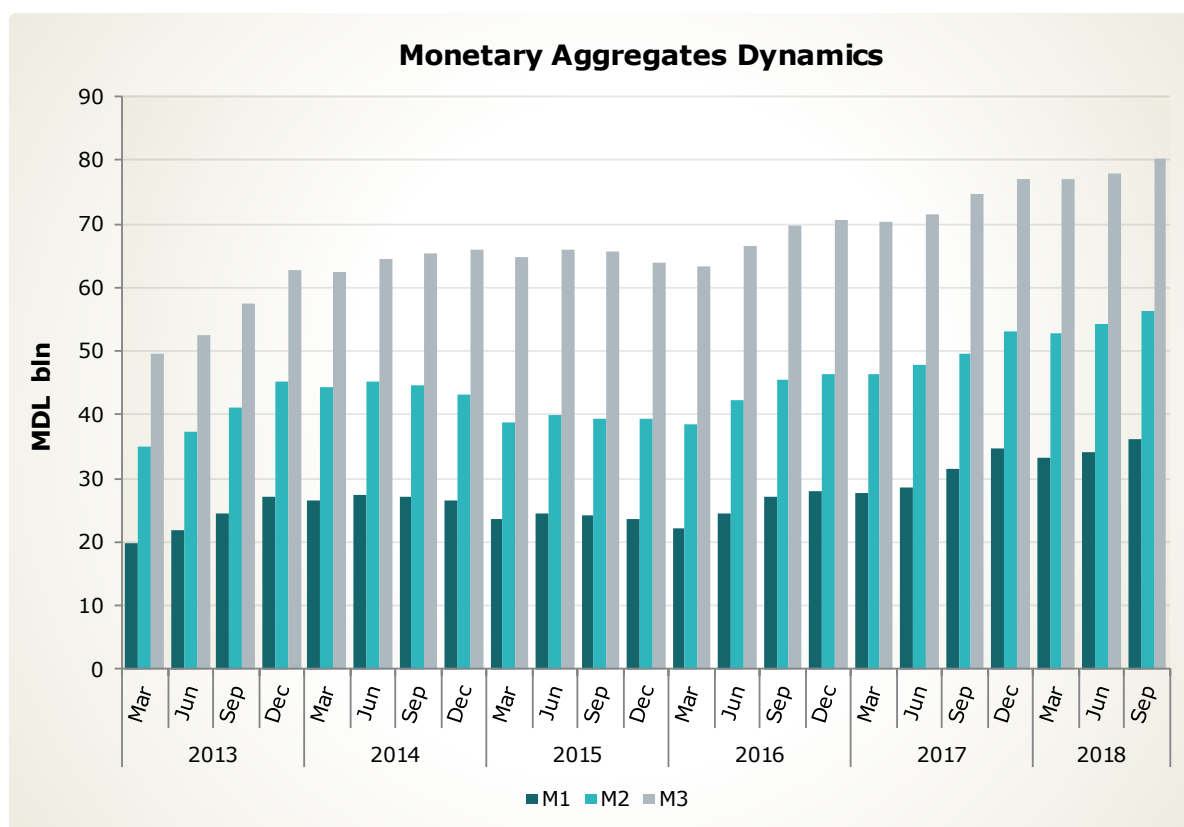
5.3. MONETARY AGGREGATES

Money supply up by 7.3% y/y as of September 2018

Broad money, or monetary aggregate M3, increased by 7.3% y/y to MDL 80.157 bln at the end of September 2018, according to data provided by BNM.

The M2 money supply went up by 13.5% y/y to MDL 56.153 bln.

Money aggregate M1, or narrow money, jumped by 14.5% to MDL 36.038 bln.



Source: BNM

5.4. BANKING AND INSURANCE

Household loans increased by 25.4% y/y as of September 2018

Loans to the non-government sector totalled MDL 34.581 bln as of end-September 2018, up by 2.2% compared to a year ago, according to BNM.

Loans to non-financial corporations shrank by 4.4% y/y to MDL 25.250 bln, while household loans went up by 25.4% to MDL 9.331 bln.



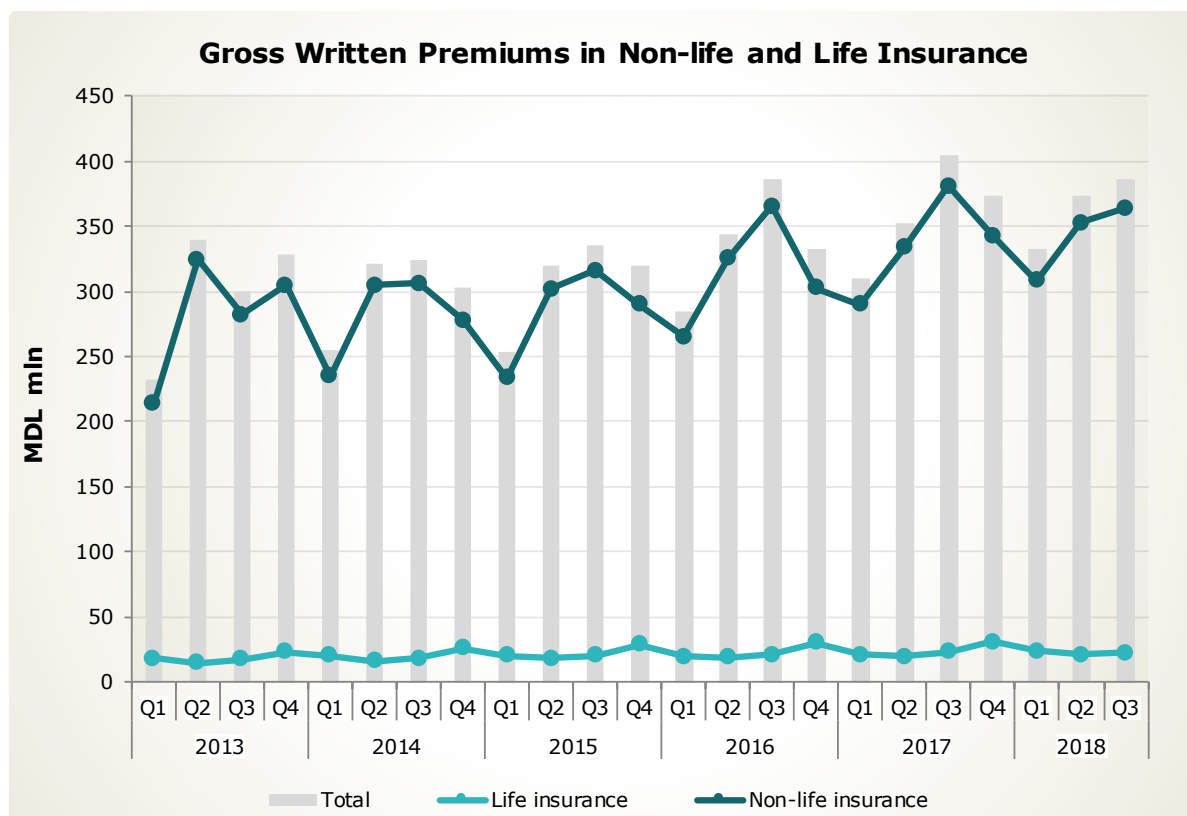
Source: BNM

Note: Data for March 2013 was not available

Insurance premium income down y/y in Q3 2018

The total gross written premiums (GWP) of the non-life and life insurance companies in Moldova stood at MDL 386.4 mln in Q3 2018, down by 4.5% y/y, according to the National Commission for Financial Markets.

The decline was driven by the 4.5% annual drop in the GWP of both insurance segments. The non-life insurance segment registered premiums of MDL 364.2 mln and the life insurance – 22.3 mln.



Source: National Commission for Financial Markets

6. EXTERNAL SECTOR

6.1. FOREIGN DEBT

The gross external debt amounted to USD 7.199 bln in Q3 2018

The gross external debt totalled USD 7.199 bln in Q3 2018, up by 6.2% on the year, according to central bank data.

Long-term liabilities increased by 2.0% y/y and amounted to USD 5.201 bln, or 72.2% of the total debt in Q3 2018. Short-term liabilities came in at USD 1.998 bln, by 19.1% more than a year earlier and equal to 27.8% of the total debt.



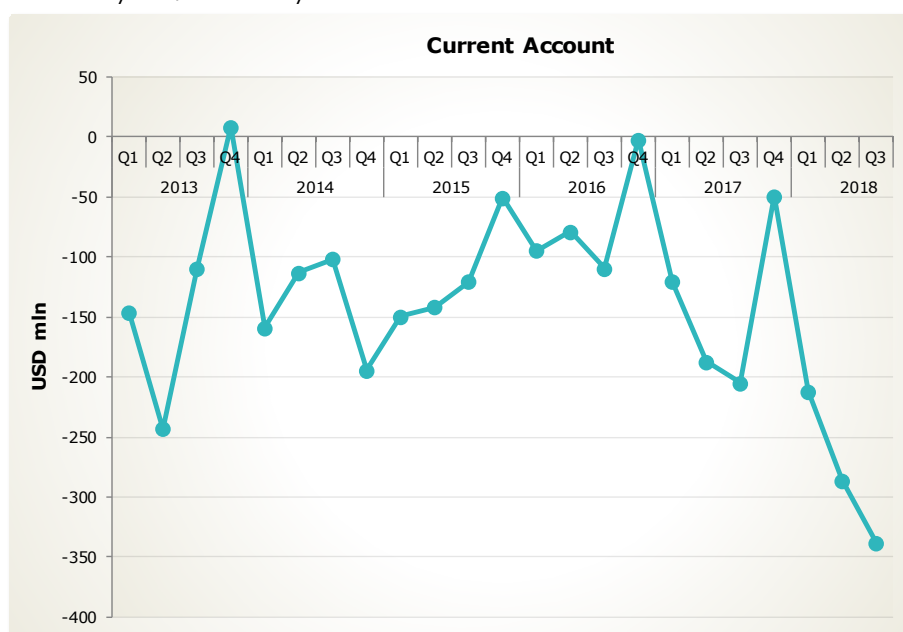
Source: BNM

6.2. BALANCE OF PAYMENTS

Current account deficit widened in the third quarter of 2018

The current account deficit swelled to USD 338.1 mln in Q3 2018 from USD 204.8 mln in Q3 2017, according to central bank statistics data.

The increase in the current account deficit was due mainly to the 24.8% annual rise in the negative balance on the net exports of goods and services to USD 759.9 mln. The secondary income narrowed by 4.2% on the year to USD 270.4 mln.

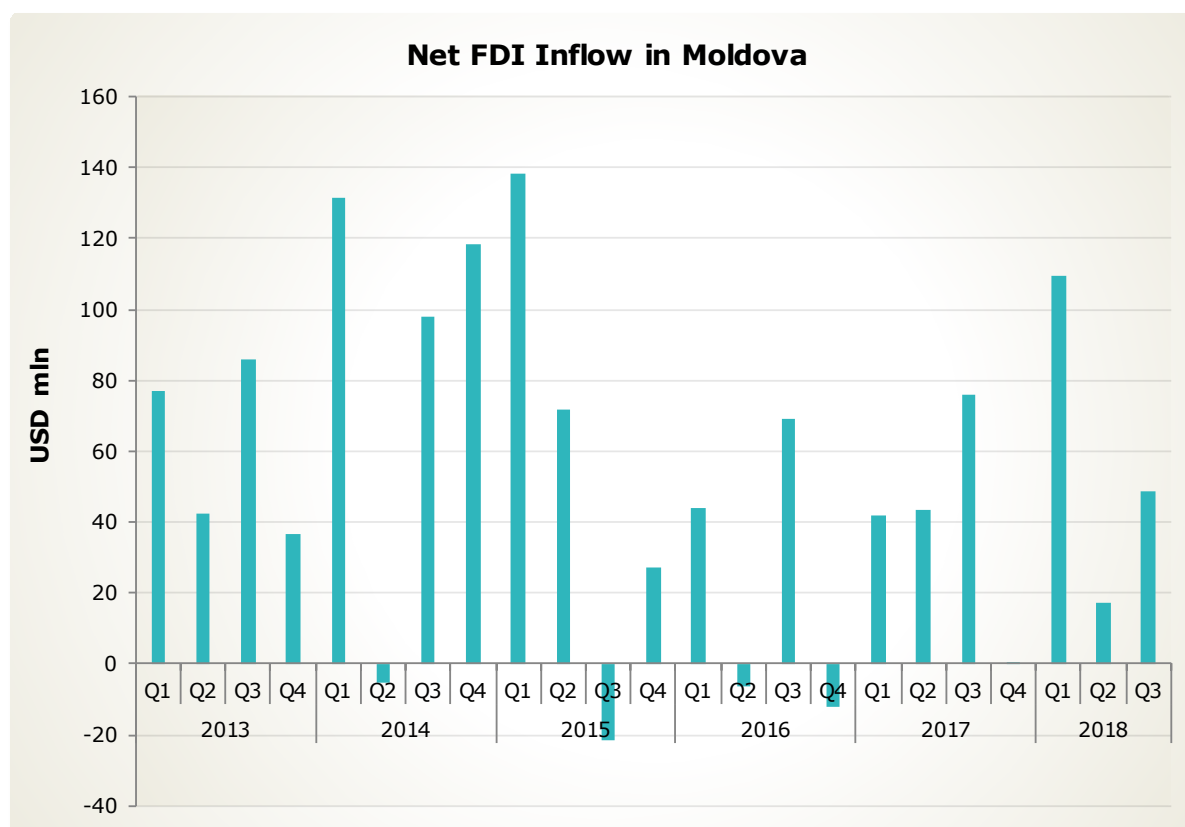


Source: BNM

6.3. FDI

Net FDI inflows tumbled in Q3 2018

Net foreign direct investments (FDI) in Moldova totalled USD 48.6 mln in Q3 2018, falling by 35.8% compared to 75.7 mln in Q3 2017, according to BNM data.

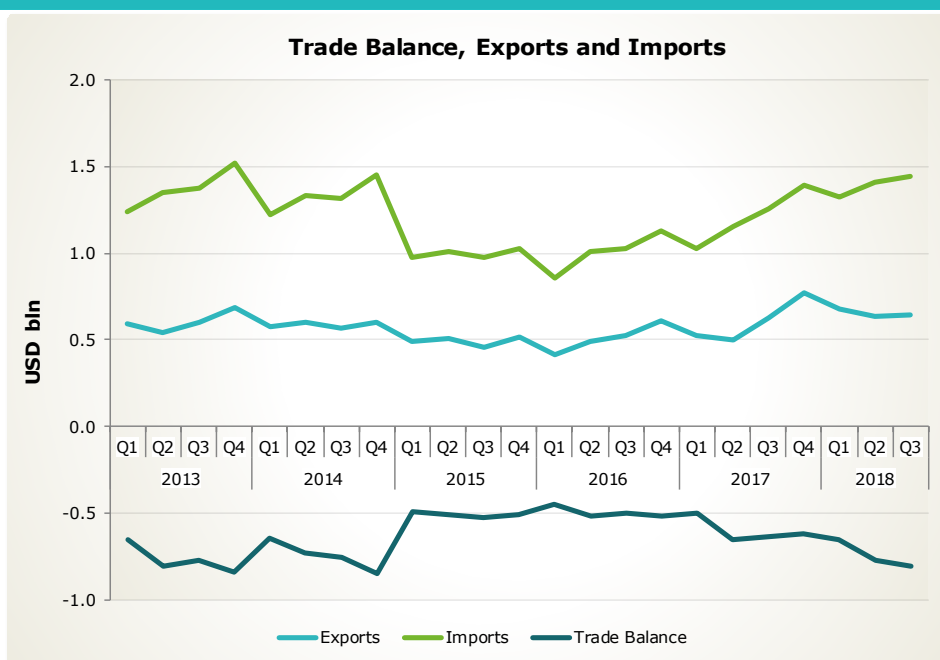


Source: BNM

6.4. FOREIGN TRADE

Foreign trade deficit rose by 26.4% y/y in Q3 2018

The trade deficit stood at USD 801.5 mln in the third quarter of 2018, compared to USD 634.0 mln a year earlier, according to BNM. Imports increased by 15.0% y/y to USD 1.446 bln, while exports advanced by 3.5% y/y to USD 644.9 mln in Q3 2018.



Source: NBS

6.5. TOURSIM

Number of tourist overnights increased by 8.7% y/y in Q3 2018

Tourist overnights of foreigners rose by an annual 8.7% to 97,087 in Q3 2018, according to NBS data.

The growth in the number of foreigners who visited the country was 10.8% y/y to 46,324.

In Q3 2018, the share of foreign tourists in the total overnights in Moldova inched down to 13.2% from 13.4% a year ago.



Source: NBS

7. MAJOR DEVELOPMENTS

World Bank lends Moldova USD 35 mln for land property rights project

Aug 31, 2018

The World Bank announced in August 2018 it is lending Moldova USD 35 mln (EUR 29.9 mln) for a project that aims to increase the security of land property rights for Moldovans. Moldovan citizens, local and foreign investors, government institutions and agencies will benefit from enhanced security of property rights and more developed real estate markets thanks to the Land Registration and Property Valuation Project (LRIP), according to the World Bank.

[Read the full story here](#)

EBRD, Swedish government grant EUR 2.5 mln to Moldovan women entrepreneurs

Jul 12, 2018

The European Bank for Reconstruction and Development (EBRD) announced in July 2018 that it is supporting women-led businesses in Moldova with EUR 2.5 mln in new grant financing from the government of Sweden. The funds will boost the bank's Women in Business programme which helps female entrepreneurs innovate through business advice, training, long-term coaching, mentoring and networking opportunities.

[Read the full story here](#)

EU freezes Moldova aid package over invalidation of Chisinau mayoral vote

July 6, 2018

The European Commission announced in July 2018 it has frozen the disbursement of the first tranche of a EUR 100 mln aid package to Moldova after the country's top court cancelled the election win of a pro-European candidate for the post of Chisinau mayor.

[Read the full story here](#)

World Bank grants Moldova USD 30 mln for economic governance policies

July 6, 2018

The World Bank announced in July 2018 it has approved a USD 30 mln (EUR 25.6 mln) financing to help Moldova reduce fiscal risks and level the playing field for private sector development.

[Read the full story here](#)

IMF lends EUR 33.8 mln to Moldova under three-year deal

July 2, 2018

The International Monetary Fund (IMF) said it has decided to lend Moldova a further USD 33.8 mln (EUR 29 mln) under the current three-year funding arrangement.

[Read the full story here](#)

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