

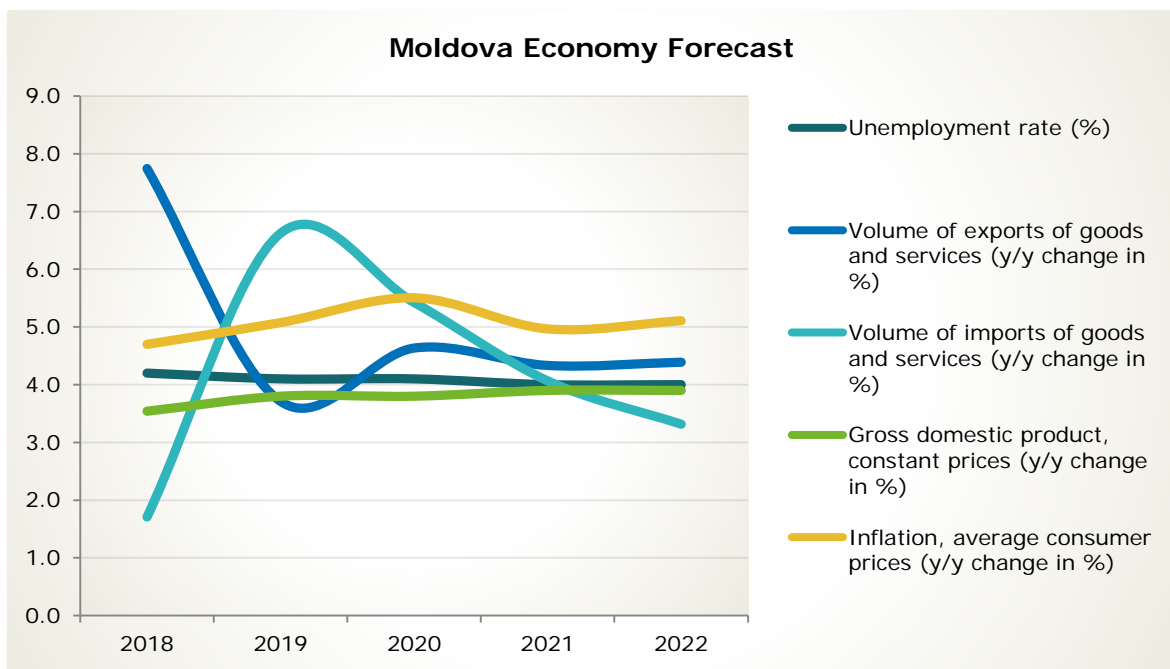
## **MOLDOVA ECONOMY REPORT** 2017

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## 1. MACROECONOMIC SNAPSHOT AND FORECAST

MOLDOVA – MACROECONOMIC SNAPSHOT AS OF 2017	
<b>GDP Growth</b>	4.5% y/y
<b>Industrial output</b>	3.4% y/y
<b>Retail sales</b>	-4.6% y/y
<b>Wholesales</b>	19.9% y/y
<b>Average annual inflation</b>	6.6%
<b>Unemployment rate</b>	4.1%
<b>Construction works value</b>	9.9% y/y
<b>Money supply</b>	9.3% y/y
<b>Household loans</b>	18.8% y/y
<b>Gross external debt</b>	USD 6.974 bln
<b>Current account deficit</b>	USD 601.7 mln
<b>Net FDI inflow</b>	USD 208.5 mln
<b>Foreign trade deficit</b>	USD 2.406 bln
<b>Number of foreign tourist overnights</b>	20.6%



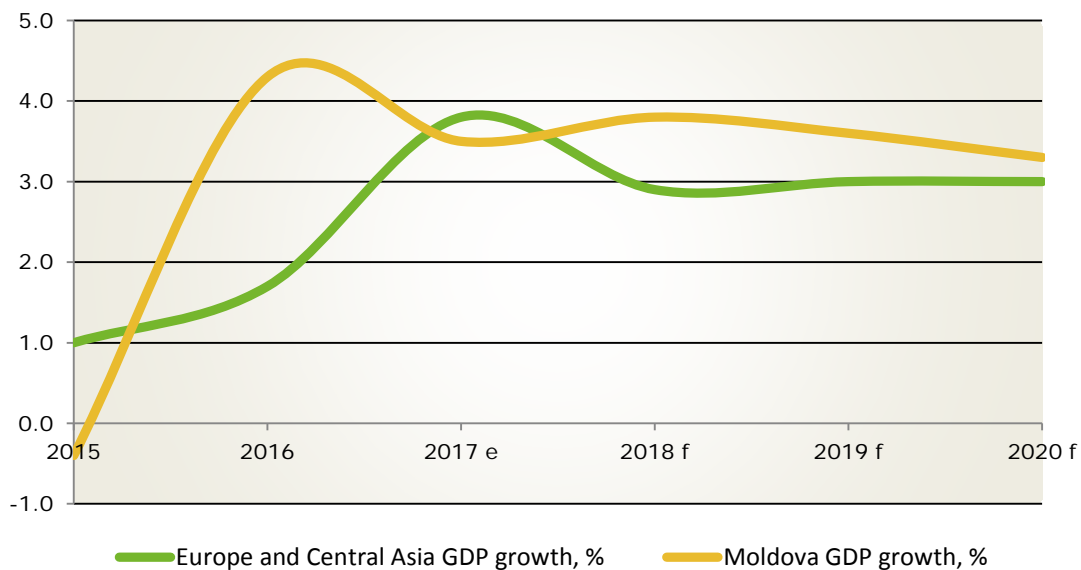
Source: International Monetary Fund (IMF) World Economic Outlook Database – April 2018

The International Monetary Fund (IMF) expects the economic growth in Moldova to slow down to 3.5% in 2018, down from the 4.0% in 2017 and 4.3% in 2016. The expected slowdown is largely driven by easing consumption into 2018 and less favorable agricultural output following two good harvest years, while the investment recovery and the external environment continue to support growth.

CPI inflation is forecast average around 4.7% in 2018, driven by the unwinding of the impact from price level shocks to food, energy and regulated prices, along with a softer near-term growth outlook.

Beyond external shocks, the outlook is subject to substantial downside risks, according to IMF. Moldova is vulnerable to external shocks, including structurally weak growth, or a significant slowdown in key trading partners, which would reduce export demand and lower remittances, thereby weakening both growth and the fiscal position.

**Moldova Economy vs Europe and Central Asia**



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

The World Bank expects GDP growth of 3.8% in 2018. 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 y/y to 4.5% in 2017*

Moldova's economy expanded by 4.5% in real terms in 2017, mainly on the back of successful performance of the agriculture, wholesale and retail sectors, according to the data of the National Bureau of Statistics of the Republic of Moldova (NBS). Moldova's GDP grew by 4.1% in 2016, supported by growth in agriculture output and in household consumption.

Calculated at current prices, Moldova's gross domestic product (GDP) totalled MDL 150.4 bln in 2017. Final household consumption in Moldova expanded by 4.2%, while gross fixed-capital formation rose 1.2% in 2017. In the fourth quarter alone, Moldova's GDP grew by 6.4% on the year and by 1.3% on the quarter, reaching MDL 40.9 bln.

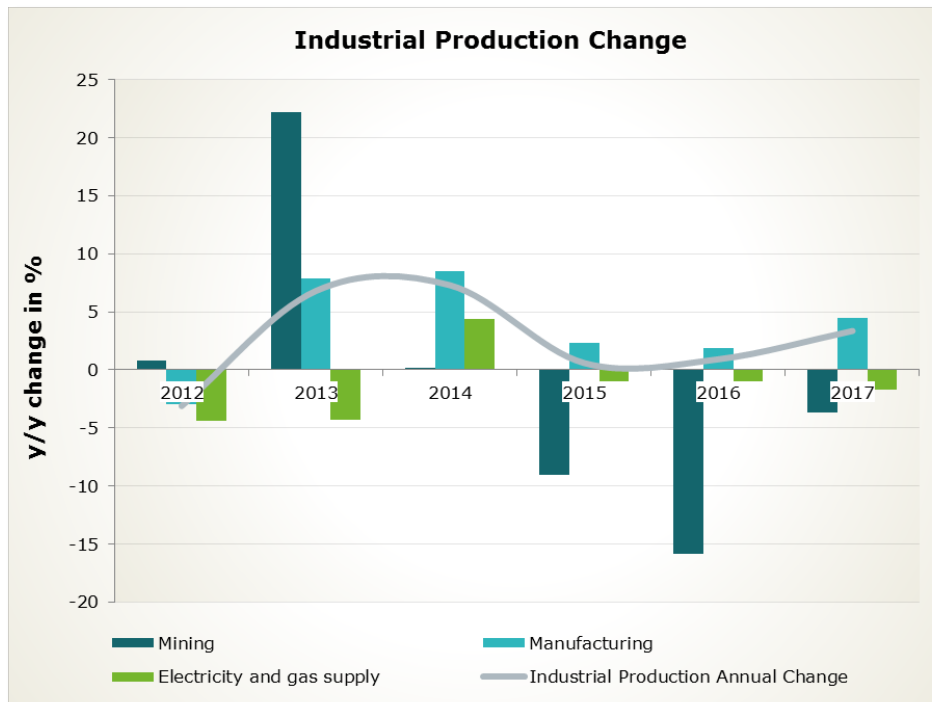
The gross value added in the economy increased by 3.8% in 2017, mainly boosted by the agriculture, forestry and fishing sector, which posted a 1.0% growth. The wholesale and retail sector plus the sector of maintenance and repair of motor vehicles expanded by 1.3%, while four other sectors – mining, manufacturing, transport and storage, information and communications grew by 0.4% each.

### 2.2. INDUSTRIAL OUTPUT

#### *Industrial output annual growth at 3.4% y/y in 2017*

Industrial output growth came in at 3.4% in 2017, compared to 0.9% y/y growth in 2016, according to NBS.

Manufacturing registered an annual rise of 4.5%, while the output of the electricity and gas supply industry inched down by 1.7%. The production of the mining industry narrowed, by 3.7% y/y after contracting by 15.8% in 2016.

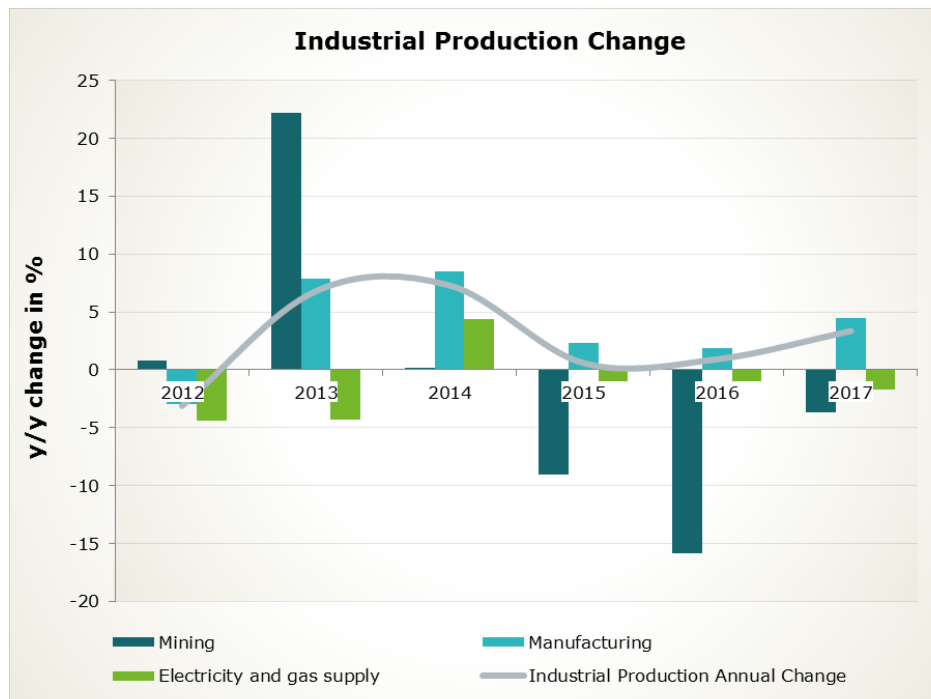


Source: NBS

## 2.3. WHOLESALE/RETAIL

*Wholesale sector surged by 20% y/y while the retail sector went down by 4.6% y/y in 2017*

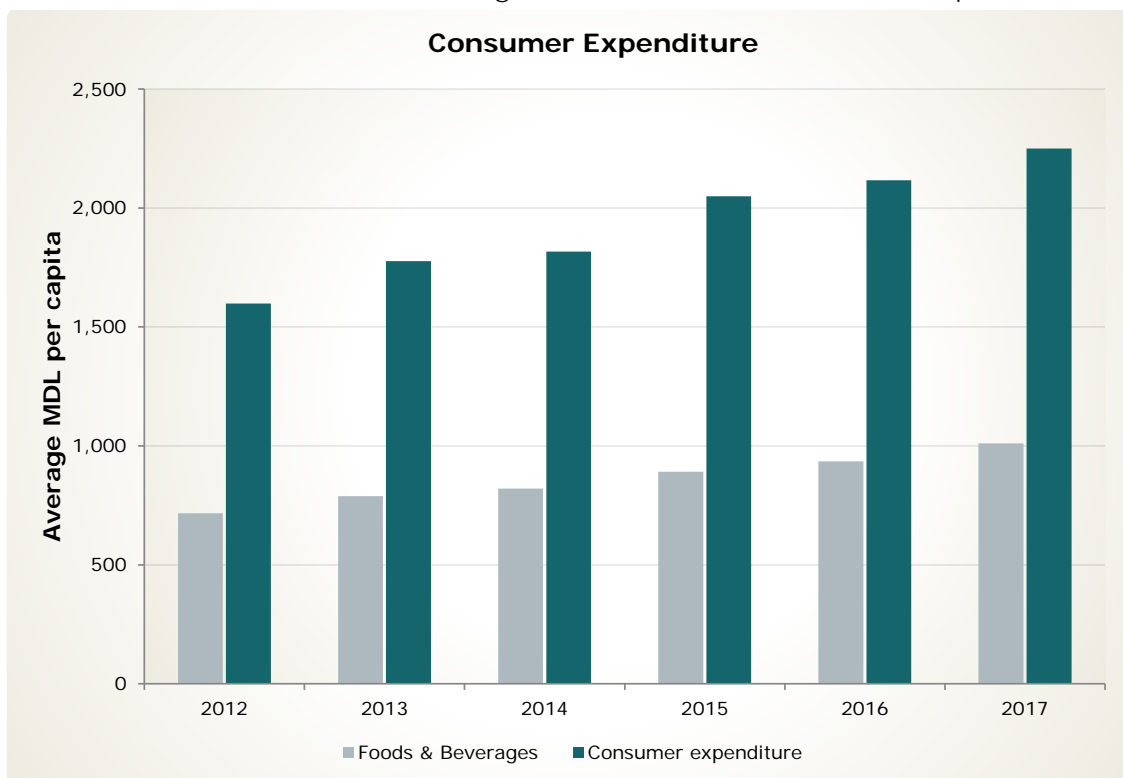
The wholesale sector grew by 20% y/y in 2017, according to NBS data. The turnover of the retail sector marked an annual decrease, of 4.6%.



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 2017 the average consumer expenditure per capita in Moldova increased by 6.3% to MDL 2,250 from MDL 2,117 in 2016. The food and beverages product group marked a faster y/y growth, of 8.2%, to MDL 1,011, accounting for 44.9% of the total consumer expenditure.



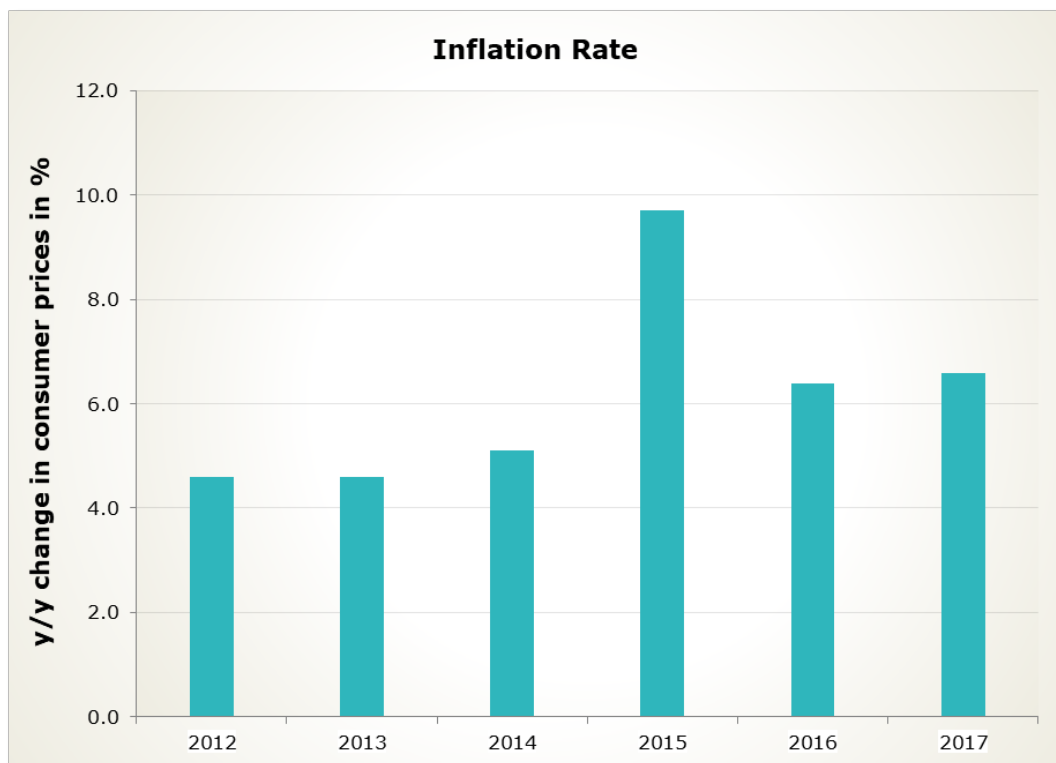
Source: NBS

## 2.4. INFLATION

### *Average annual inflation of 6.6% in 2017*

Moldova registered average annual inflation of 6.6% in 2017, which is 0.2 pp more compared to 2016, according to NBS. In December 2017 alone, the consumer prices registered an annual growth of 7.3%.

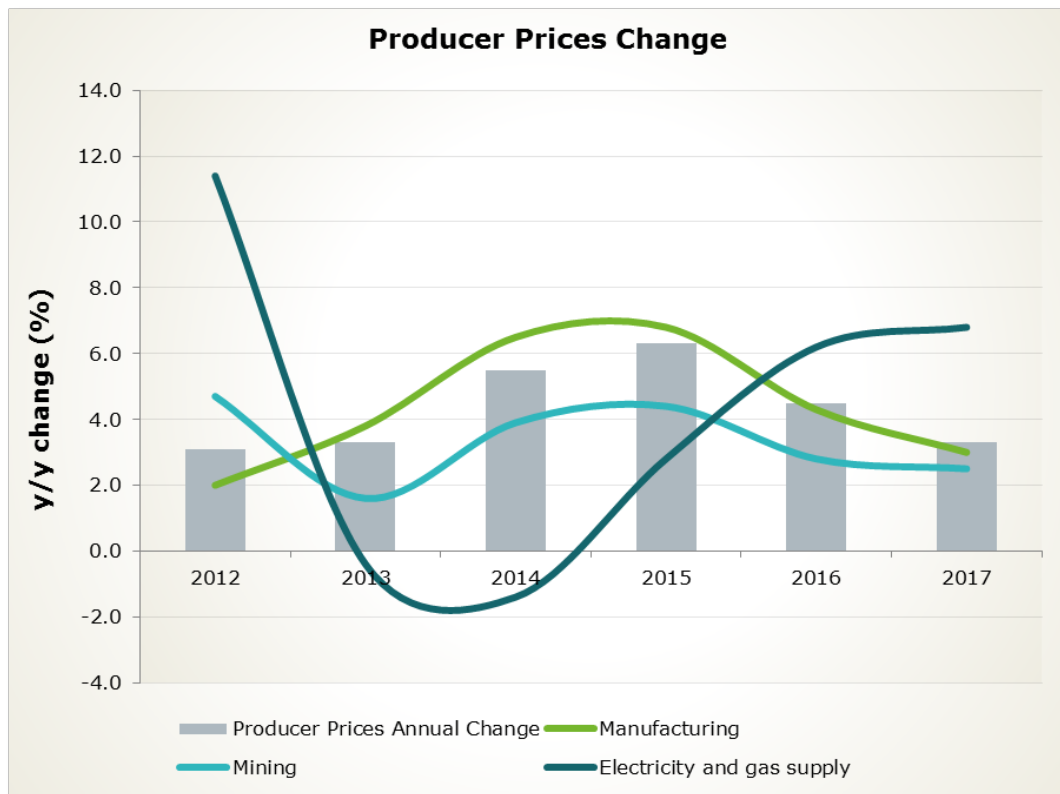
In January – December 2017, food products price grew annually by 7.9%, the prices in the services sector went up by 7.1%, and prices of non-food products increased by 4.5%.



Source: NBS

Producer prices grew by 3.3% y/y in 2017 with all industries registering a growth – from 2.5% for mining, through 3.0% for manufacturing, to 6.8% for electricity and gas supply.





Source: NBS

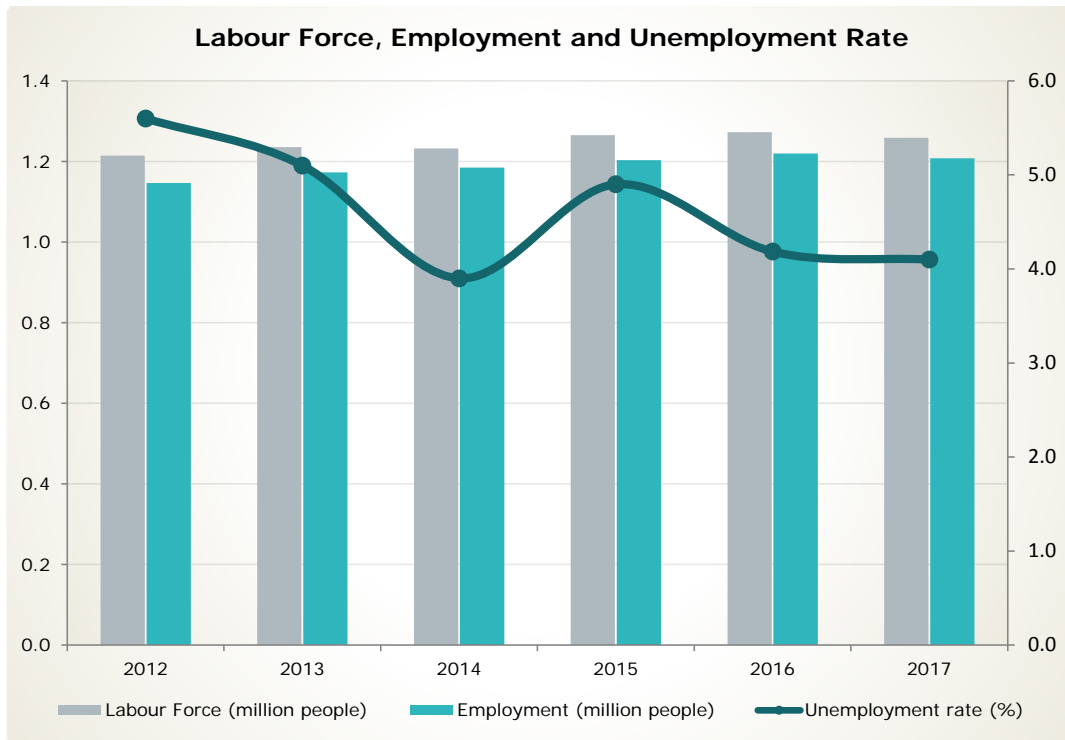
### 3. LABOUR MARKET

#### *Unemployment rate at 4.1%, wages up 12.1% y/y in 2017*

Unemployment in Moldova went down to 4.1% in 2017 from 4.2% a year ago, according to data of NBS. Youth unemployment rate (aged 15-24) rose to 11.8% in 2017 from 11.2% in 2016.

The employed population aged 15 years and older was 1.208 million in 2017, down 0.9% y/y.

As the labour market tightened, employees' compensations went up during the year. According to data of NBS, the average gross monthly salary in 2017 rose by 12.1% y/y to MDL 5,697. In the public sector, it was MDL 4,950 and in the private – MDL 6,000.



Source: NBS

## 4. CONSTRUCTION AND REAL ESTATE

### *The value of construction works went up by 9.9% y/y in 2017*

The value of construction works carried out in Moldova in 2017 went up by 9.9% y/y and totalled MDL 8.984 bln, according to NBS data.

In 2017, a total of 3,916 building permits for residential and non-residential buildings were issued, down with 0.8% compared to 2016.

## 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 20.8282 in 2017 from MDL 22.0548 in 2016, according to the National Bank of Moldova's (BNM) data.

MDL Average Exchange Rate			
Foreign Currency	2017	2016	2015
USD	18.4902	19.9238	18.8161
EUR	20.8282	22.0548	20.8980
GBP	23.7824	27.0353	28.7964
CHF	18.7681	20.2323	20.1015

## 5.2 MONETARY POLICY

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

At its last meeting for 2017, the Executive Board of the National Bank of Moldova (NBM) maintained the base rate applied on main short-term monetary policy operations at the level of 6.5% annually. The Bank also maintained the interest rates on overnight loans at the level of 9.5% annually and also maintained the interest rates on overnight deposits at the level of 3.5% annually. The decision was made based on the outcomes of the latest macroeconomic analyses, as well as a result of the short and medium-term inflation forecast adjustment against the background of the latent transmission of monetary policy impulses to inflation.

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  $\pm 1.5$  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.

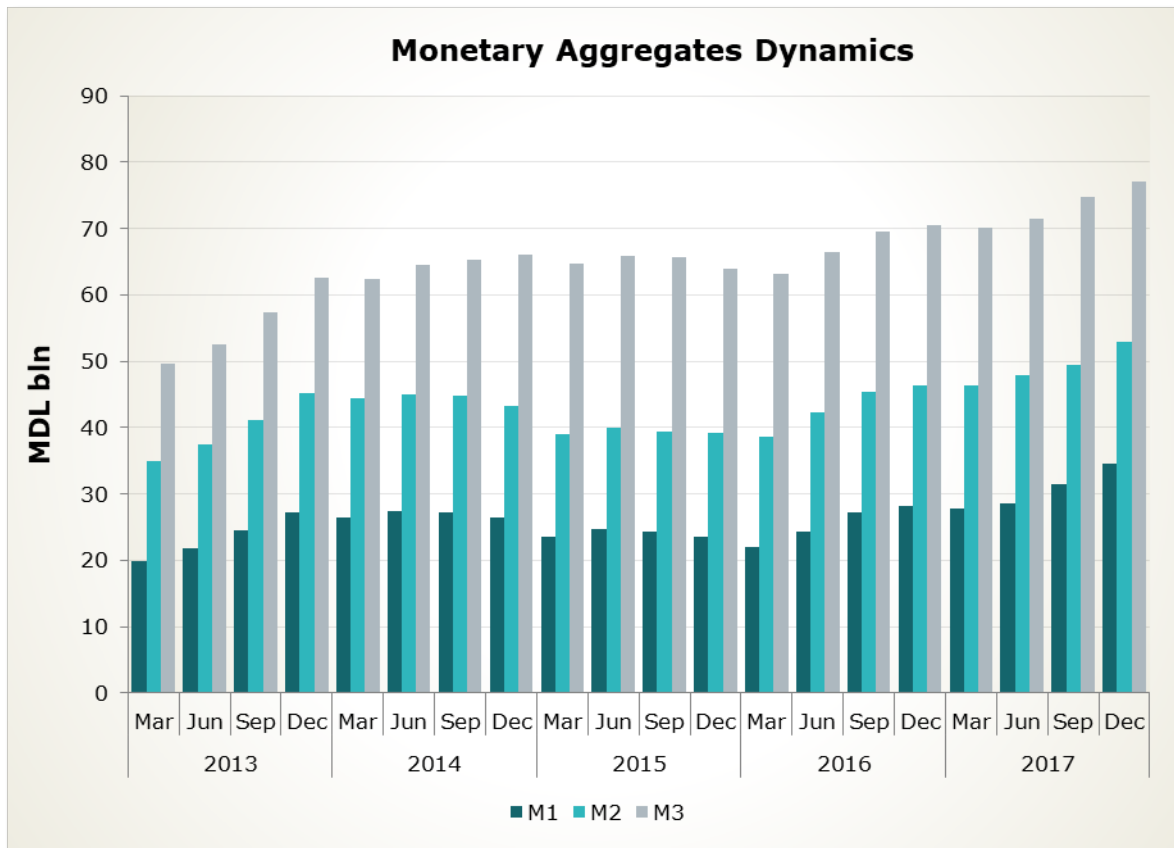
## 5.3. MONETARY AGGREGATES

### *Money supply up by 9.3% y/y at end-December 2017*

Broad money (money aggregate M3) increased by 9.3% y/y to MDL 77.056 bln at the end of December 2017, according to data provided by BNM.

The M2 money supply went up by 14.1% y/y to MDL 52.989 bln.

Money aggregate M1, or narrow money, jumped by 23.1% to MDL 34.593 bln.



Source: BNM

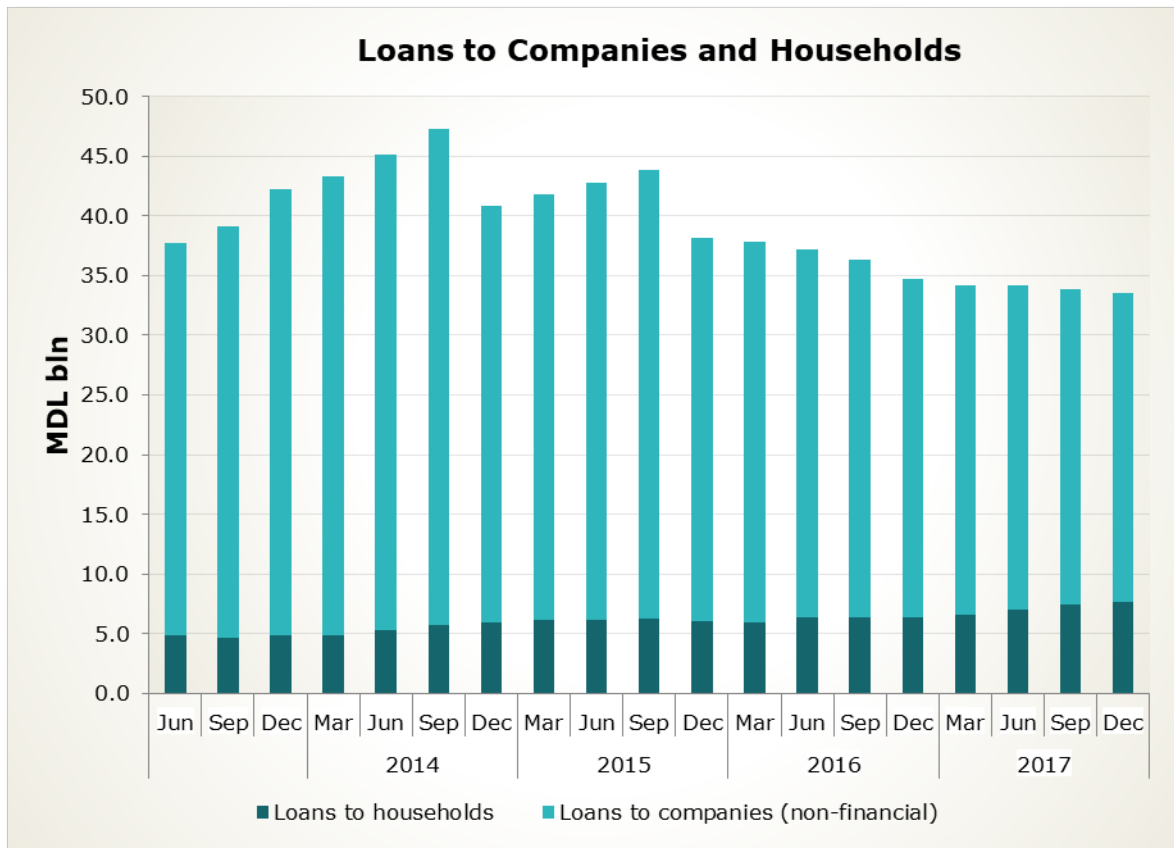
## 5.4. BANKING AND INSURANCE

### *Household loans increased by 18.8% y/y as of December 2017*

Loans to the non-government sector totalled MDL 33.473 bln as of end-December 2017, down by 3.7% compared to a year ago, according to BNM.

Loans to non-financial corporations sank by 8.8% y/y to MDL 25.851 bln, while household loans went up by 18.8% to MDL 7.622 bln.

Sector wise, loans to wholesale and retail enterprises had the biggest share, of 28%, in the total loans to the non-government sector as of December 2017. The second place was occupied by consumer credits with a 12% share, and companies in the food industry came third with a share of 10%.



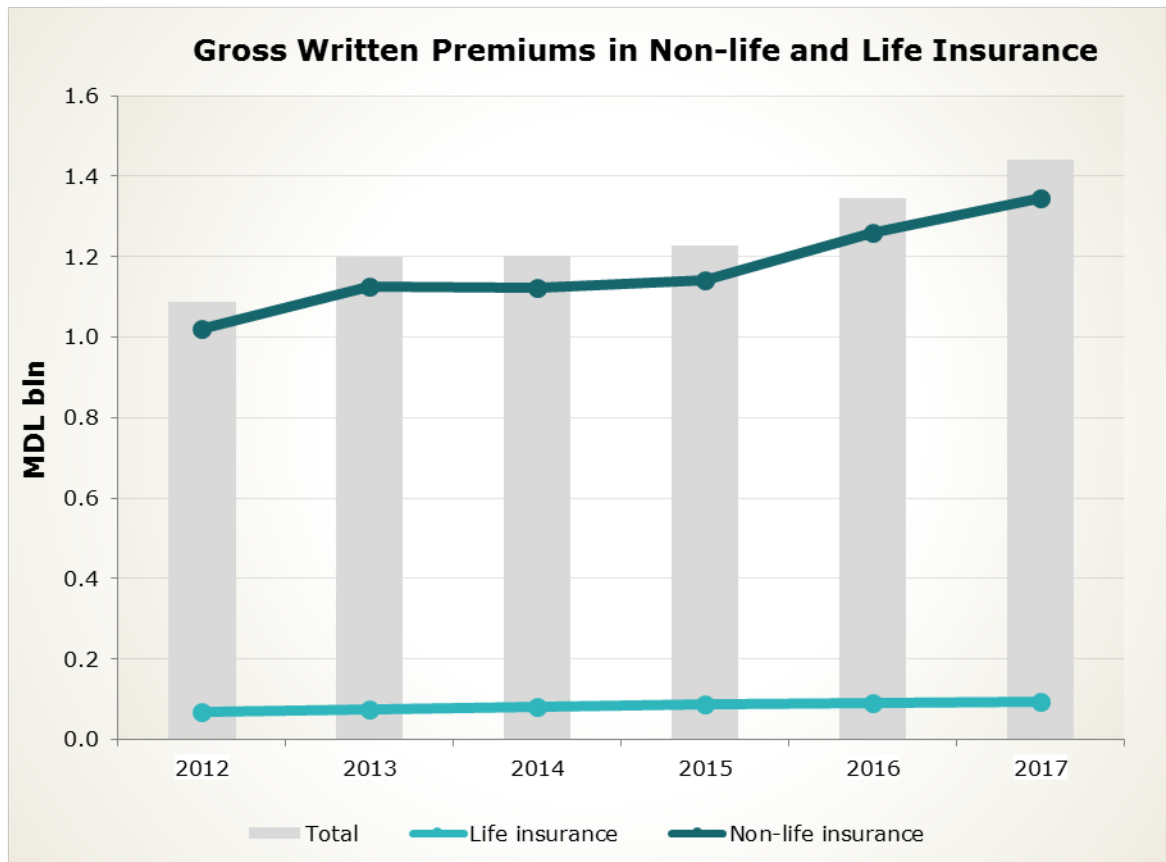
Source: BNM

Note: Data for March 2013 was not available

### Insurance premium income up 7.0% y/y in 2017

The total gross written premiums (GWP) of the non-life and life insurance companies in Moldova stood at MDL 1.442 bln in 2017, up by 7.0% y/y, according to the National Commission for Financial Markets.

The growth was fuelled by the 7.1% annual growth, to MDL 1.347 bln, of the non-life insurance market's GWP, while the premiums of the life insurance segment grew by 6.5% y/y to MDL 95 mln.



Source: National Commission for Financial Markets

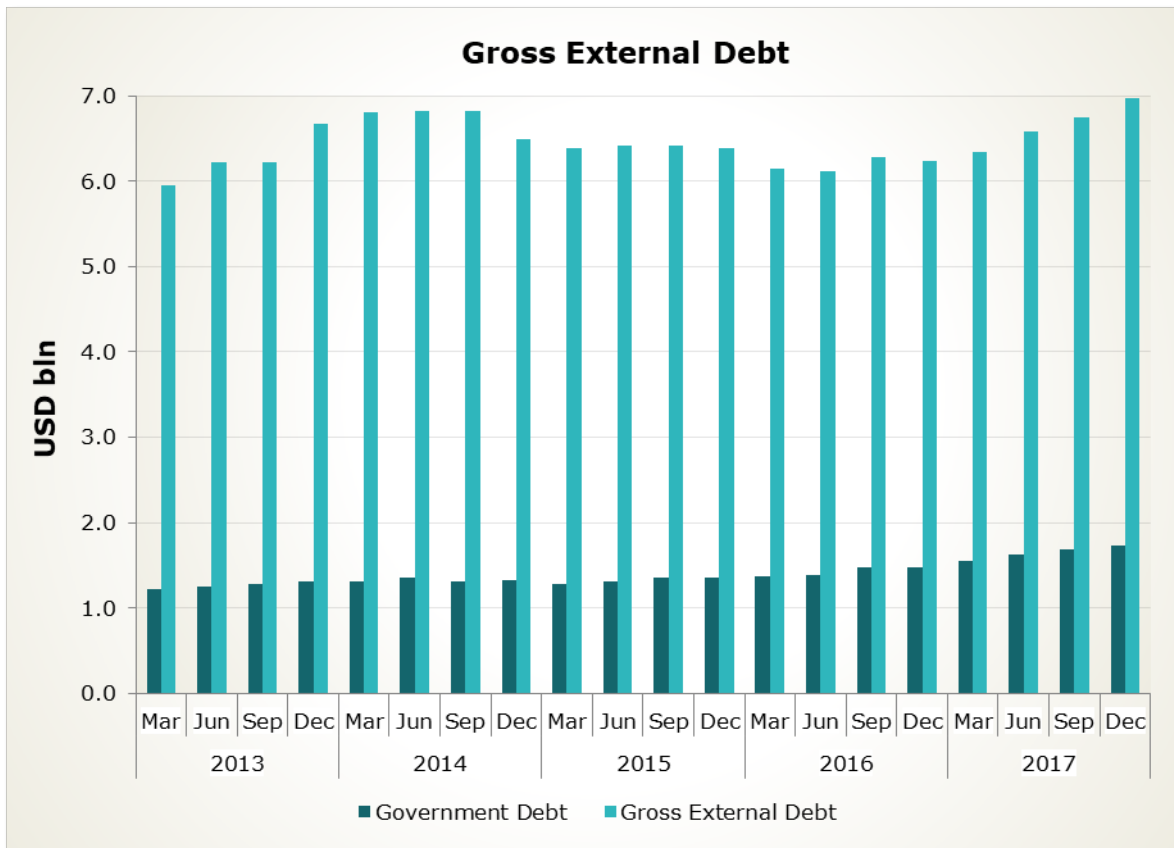
## 6. EXTERNAL SECTOR

### 6.1. FOREIGN DEBT

*The gross external debt amounted to USD 6.974 bln as of December 2017*

The gross external debt totalled USD 6.974 bln as of December 2017, up by 11.8% on the year, according to central bank data. It went up by 2.1% y/y in 2016.

At end-December 2017, long-term liabilities grew by 9.2% y/y and amounted to USD 3.294 bln, or 47.2% of the total debt. Short-term liabilities came in at USD 2.507 bln, by 16.4% more than a year earlier and equal to 36% of the total debt.



Source: BNM

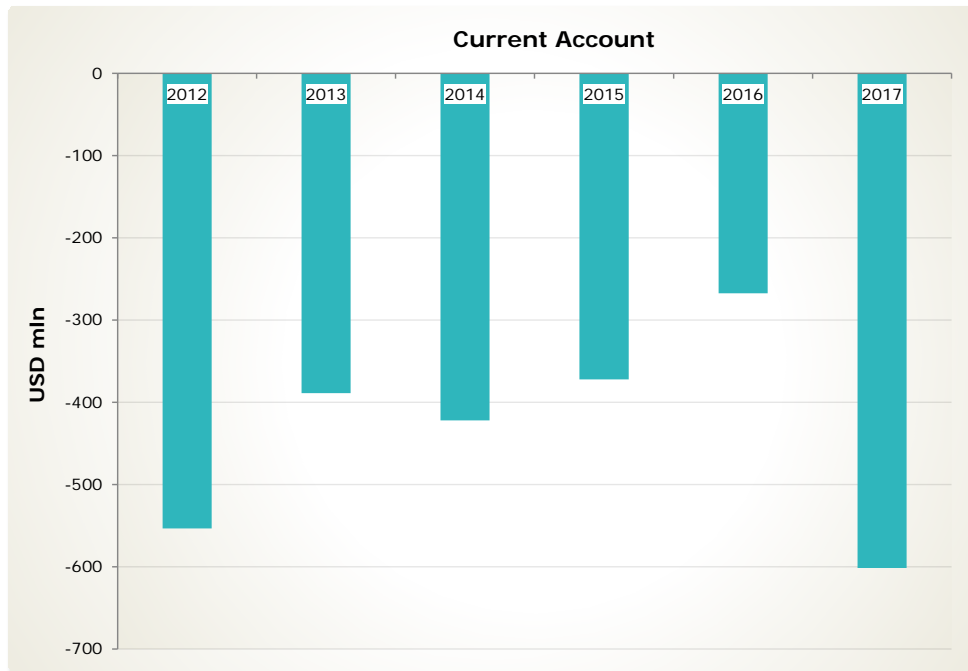
## 6.2. BALANCE OF PAYMENTS

*Current account deficit swelled to USD 601.7 mln in 2017, up from USD 267.6 mln in 2016*

The current account deficit widened to USD 601.7 mln in 2017 from USD 267.6 mln a year ago, according to central bank statistics data.

The increase in the current account deficit was due mainly to the 22.0% annual rise in the negative balance on the net exports of goods and services to USD 2.250 bln. Net balance of services was positive at USD 140.0 mln, up by 80.0% y/y, while the positive balance on the income account amounted to USD 513.0 mln, up 11.0% y/y.

The net current transfers in 2017 went up by 0.1% on the year to USD 1.138 bln.

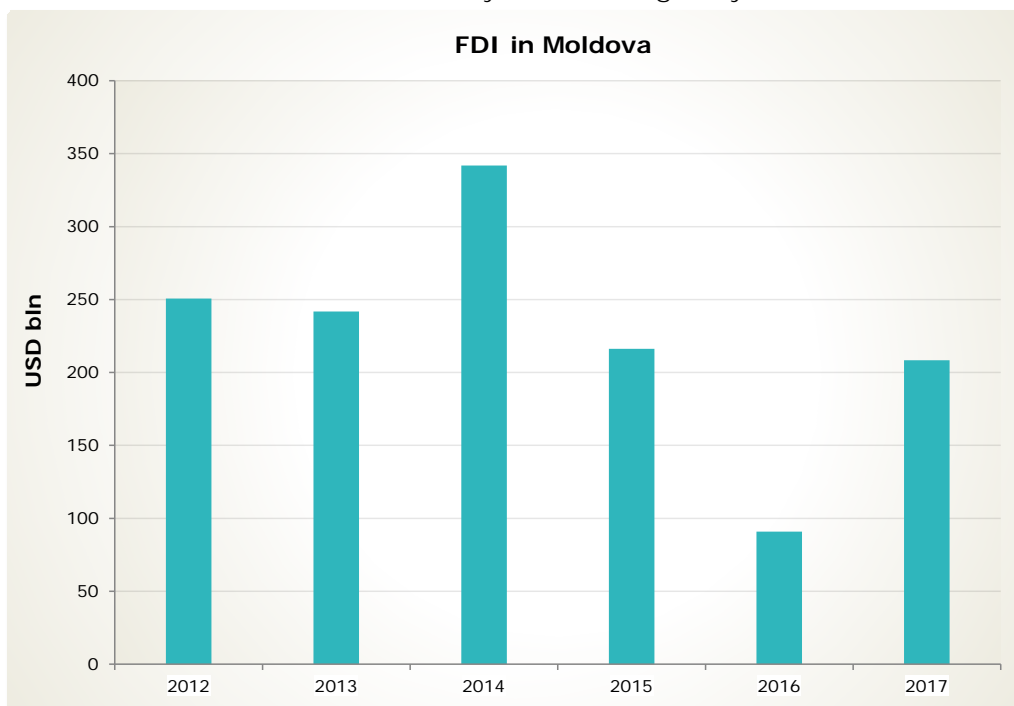


Source: BNM

### 6.3. FDI

#### Net FDI inflows more than doubled in 2017

Net foreign direct investments (FDI) in Moldova totalled USD 208.5 mln in 2017, up 2.3 times compared to 2016, according to BNM data. FDI's covered just a third of the current account deficit in 2017 and took 0.1% share of country's GDP during the year.



Source: BNM



## 6.4. FOREIGN TRADE

### *Foreign trade deficit up by 21.8% y/y in 2017*

The trade deficit stood at USD 2.406 bln in 2017, compared to USD 1.976 bln a year earlier, according to BNM. Exports increased by 18.6% y/y to USD 2.425 bln, while imports advanced by 20.2% y/y to USD 4.831 bln in 2017.

In 2017, Moldova's main export markets were Romania, which accounted for 25.0% of the total exports, or USD 600.0 mln, followed by Russia, with a 10.0% share equal to USD 255.0 mln and Italy with a 9.7% share, or USD 236.0 mln.

Most of Moldova's imports came from Romania – USD 695.0 mln, or 14.0% of the total, Russia followed with USD 572.0 mln, or a 12.0% share, and Ukraine was the third major importer with USD 511.0 mln, representing an 11.0% share.



Source: NBS

## 6.5. TOURSIM

### *Number of tourist overnights increased by 2.4% y/y in 2017*

Tourist overnights of foreigners expanded by an annual 20.6% to 297,183 in 2017, according to NBS data.

The growth in the number of foreigners who visited the country was 19.6% y/y to 145,165.

In 2017, the share of foreign tourists in the total overnights in Moldova went up to 19.6% from 16.7% a year ago.



Source: NBS

## 7. MAJOR DEVELOPMENTS

### **Moldova receives partial EU financial support to boost trade, speed up reforms**

*Dec 21, 2017*

The European Union (EU) released EUR 36.3 mln of a total of EUR 47 mln requested by Moldova to help the country boost exports to the EU and speed up reforms in the administration.

[Read the full story here](#)

### **IMF lends further EUR 18.5 mln to Moldova**

*Dec 21, 2017*

The International Monetary Fund (IMF) decided to make available to Moldova EUR 18.5 mln under the current three-year funding arrangement, according to the global lender.

[Read the full story here](#)

### ***Moldova to open virtual park for IT companies***

Dec 20, 2017

According to the Moldova's government, the country's first virtual IT park will be launched on January 1, hopefully attracting over 400 companies in its first ten years of operations.

[Read the full story here](#)

### ***EBRD, EIB, EU, World Bank finance Moldova-Romania power link with EUR 270 mln***

Dec 20, 2017

The European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), European Union (EU) and the World Bank are providing a EUR 270 mln package to finance a permanent interconnection between the electrical networks of Moldova and Romania.

[Read the full story here](#)

### ***EBRD approves five-year strategy for Moldova***

Nov 29, 2017

The European Bank for Reconstruction and Development (EBRD) said on Wednesday it has approved a new strategy for Moldova which will guide the bank's investments and policy work in the country in the next five years.

[Read the full story here](#)

### ***Moldova should meet reform targets under IMF programme, reform banks in 2018***

Nov 23, 2017

Moldova needs to meet key commitments under the reform programme advised by the International Monetary Fund (IMF) and to reform its banking sector in 2018, according to the European Bank for Reconstruction and Development (EBRD).

[Read the full story here](#)

### ***Moldova faces challenges in improving energy laws - Energy Community***

Nov 8, 2017

Moldova has made progress in complying with the Energy Community's acquis, but still faces the challenges of improving its national legal framework in electricity, gas, green energy and climate action, the Energy Community has said.

[Read the full story here](#)

### ***EIB Group, ProCredit Bank Moldova sign guarantee agreement for SMEs lending***

Oct 26, 2017

The European Investment Group (EIB Group) on Thursday signed a guarantee agreement with ProCredit Bank Moldova to grant loans to small and medium-sized enterprises (SMEs) under the EU4Business initiative.

[Read the full story here](#)

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