

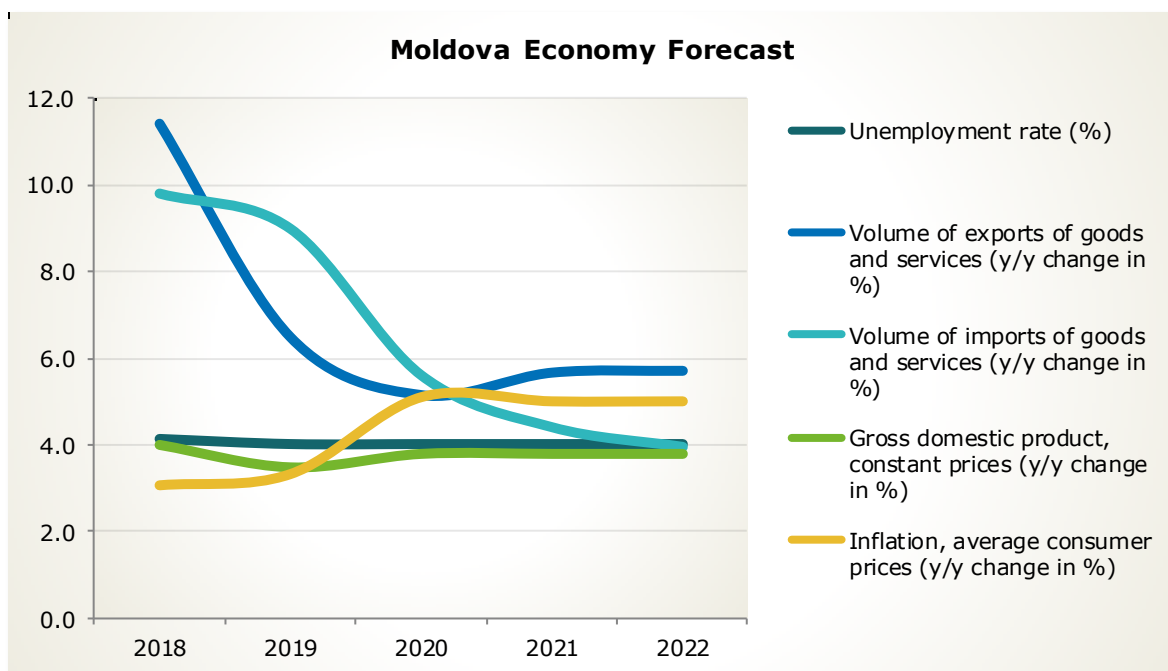
## **MOLDOVA ECONOMY REPORT** 2018

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## 1. MACROECONOMIC SNAPSHOT AND FORECAST

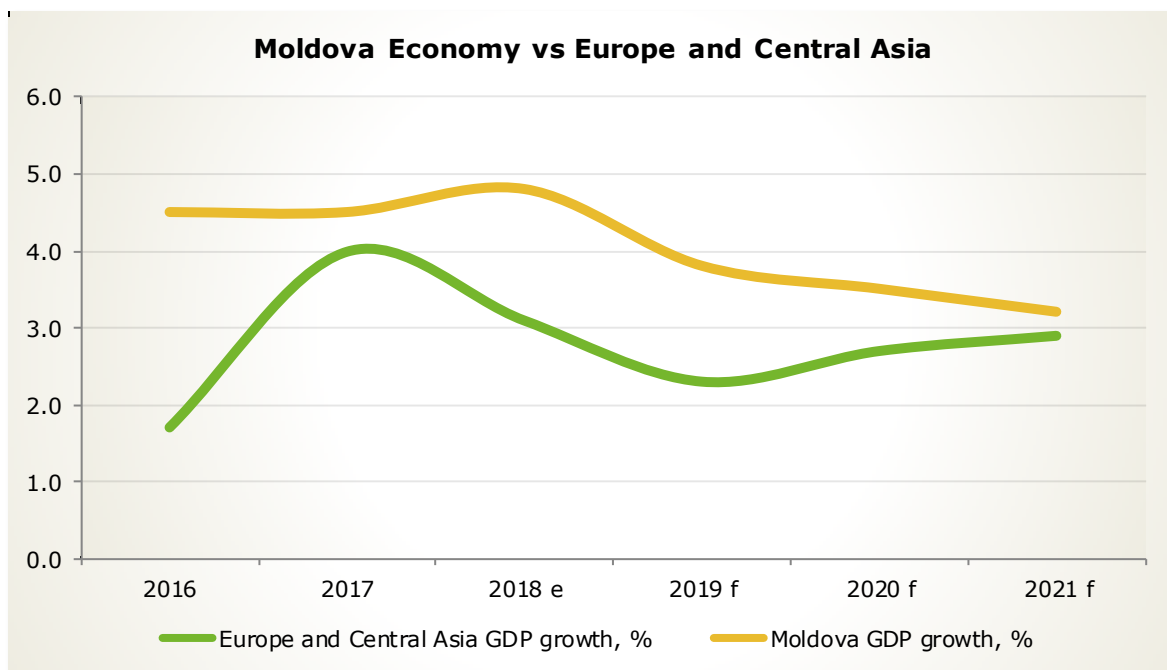
MOLDOVA – MACROECONOMIC SNAPSHOT AS OF 2018	
<b>GDP Growth</b>	4.0% y/y
<b>Industrial output</b>	3.7% y/y
<b>Retail sales</b>	7.6% y/y
<b>Wholesales</b>	7.4% y/y
<b>Average annual inflation</b>	3.0%
<b>Unemployment rate</b>	3.0%
<b>Construction works value</b>	23.1% y/y
<b>Money supply</b>	7.8% y/y
<b>Household loans</b>	31.0% y/y
<b>Gross external debt</b>	USD 7.302 bln
<b>Current account deficit</b>	USD 1.187 bln
<b>Net FDI inflow</b>	USD 232.0 mln
<b>Foreign trade deficit</b>	USD 3.057 bln
<b>Number of foreign tourist overnights</b>	14.5%



Source: International Monetary Fund (IMF) World Economic Outlook Database – April 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. 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 3.8%.

CPI inflation is expected to come in at 4.7% in 2019 and 4.5% in 2020. 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 6.9% 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.

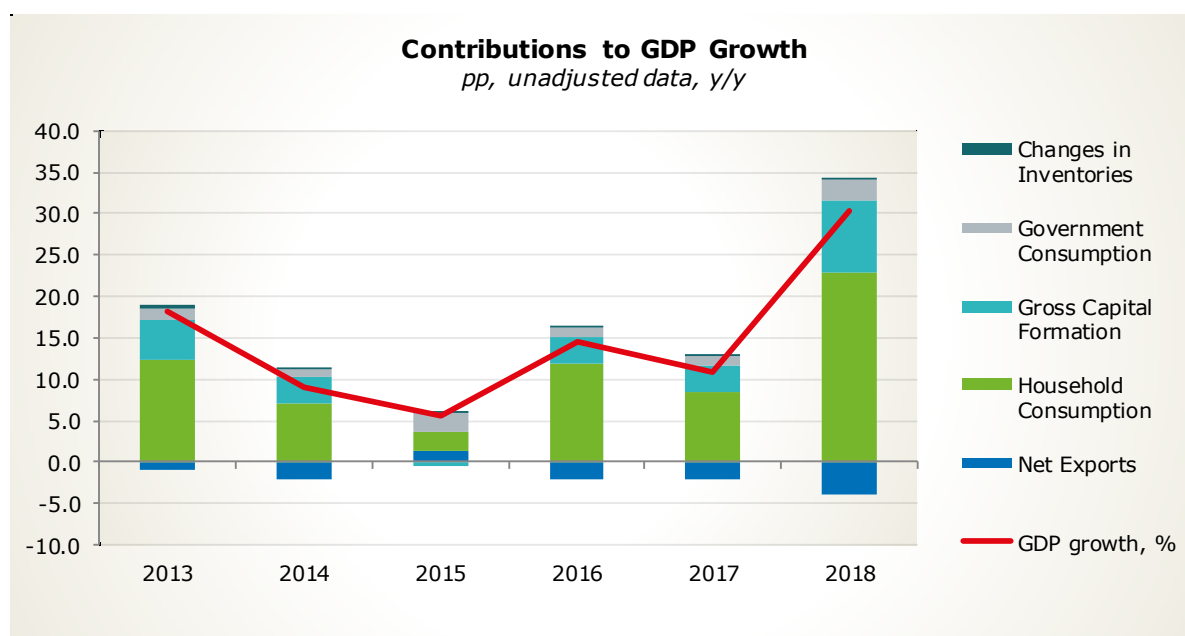
## 2. REAL SECTOR

### 2.1. GROSS DOMESTIC PRODUCT (GDP)

#### GDP growth at 4.0% y/y in 2018

Moldova's economy expanded by 4.0% in real terms in 2018, mainly on the surging gross capital formation by 37.1% on the year, according to the data of the National Bureau of Statistics of the Republic of Moldova (NBS). For comparison, Moldova's GDP grew by 4.5% in 2017 and by 4.2% y/y in 2016.

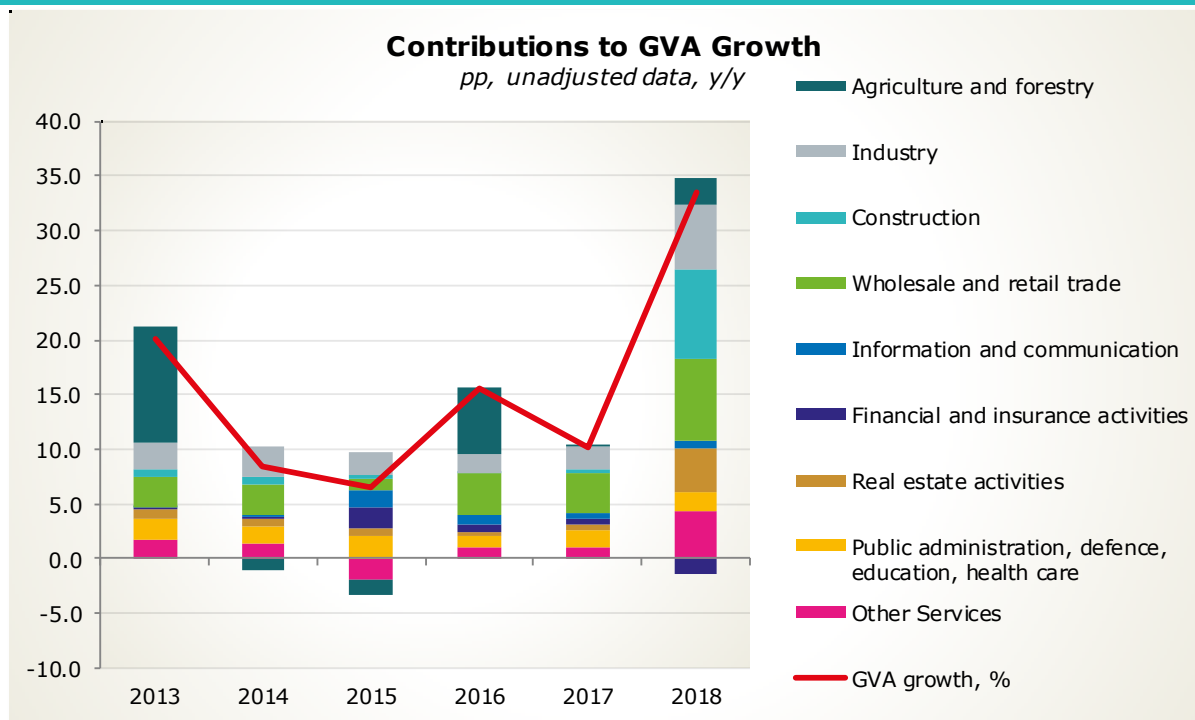
In 2018 the household consumption was the main contributor with 22.9 pp to the overall y/y GDP expansion, while the contribution of the gross capital formation increased to 8.6 pp from 3.3 pp. The export of goods and services was the only negative contributor to GDP growth with 4.1%.



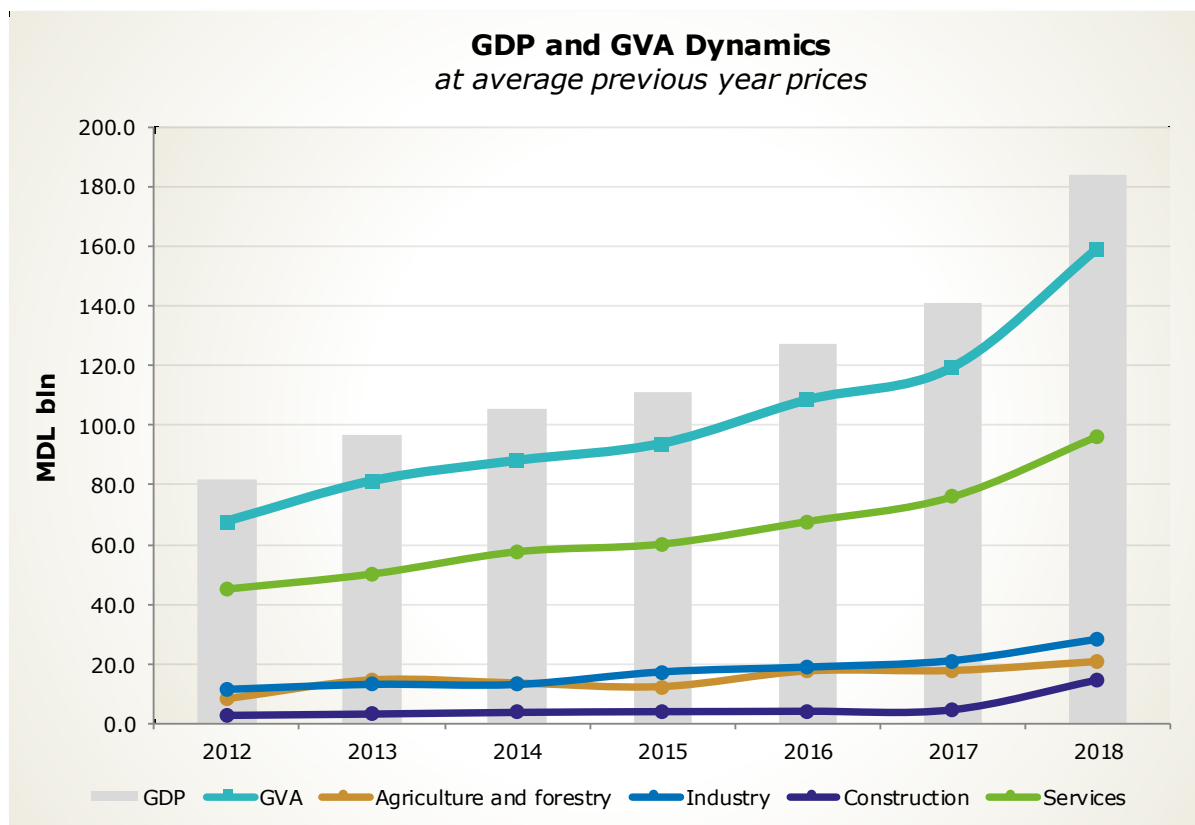
Source: NBS

The gross value added in the economy increased by 33.4% y/y, totalling MDL 159.286 bln in 2018. The growth was boosted by the construction sector, which registered more than three times increase, reaching MDL 14.259 bln. The agriculture and industrial sectors also marked an annual increase by 17.3% and 33.4% y/y, respectively.

The rise in the construction sector determined its leading position in terms of GVA growth contribution. The sector contributed 8.2 pp to the overall GVA increase, followed by the industrial sector with 5.8 pp, while the financial and insurance activities was the only negative contributor, which took away 1.3 pp from the overall GVA in 2018.



Source: NBS



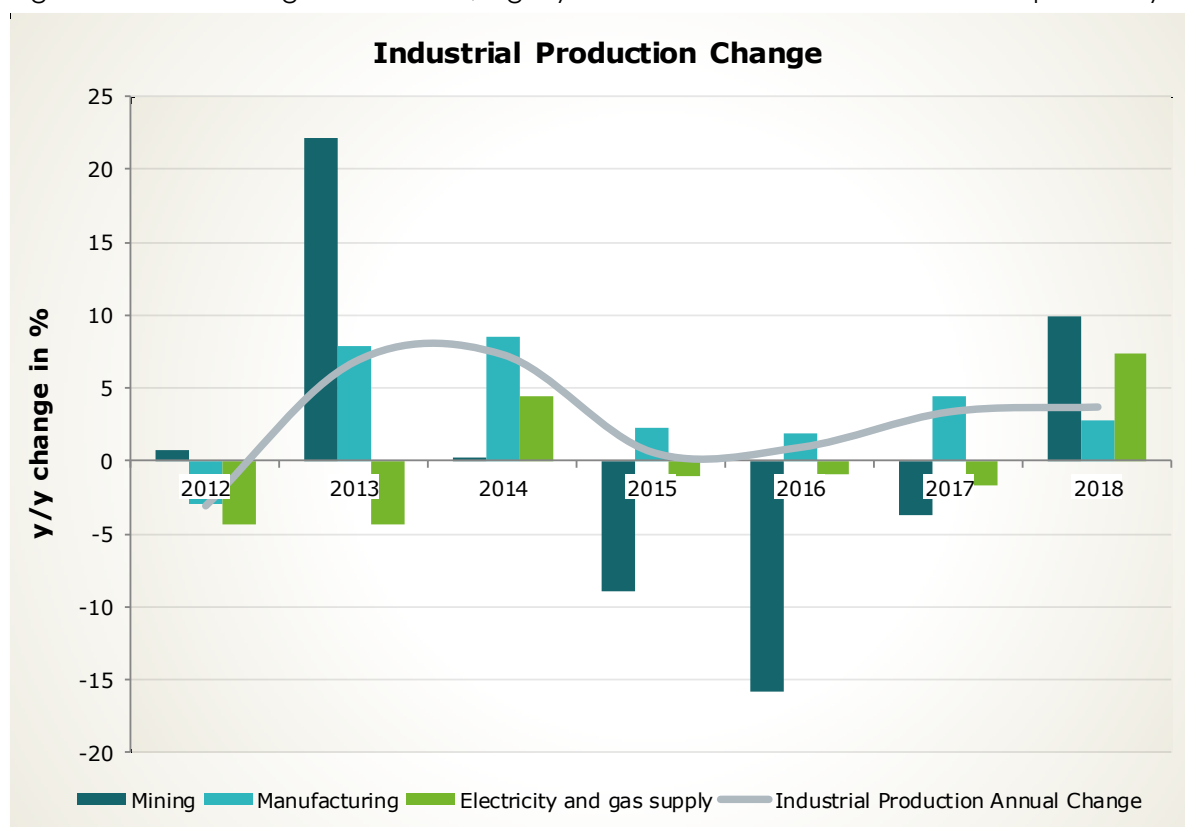
Source: NBS

## 2.2. INDUSTRIAL OUTPUT

### Industrial output annual growth uptrend continued in 2018

Industrial output growth came in at 3.7% in 2018, compared to an 3.4% y/y growth in 2017 and a 0.9% increase in 2016, according to NBS.

The production of the mining industry jumped by 9.9%, while the output of the electricity and gas supply industry rose by 7.4%, a shift from 1.7% y/y decline in 2017. Manufacturing registered an annual growth of 2.8%, slightly lower than the 4.5% increase in the previous year.

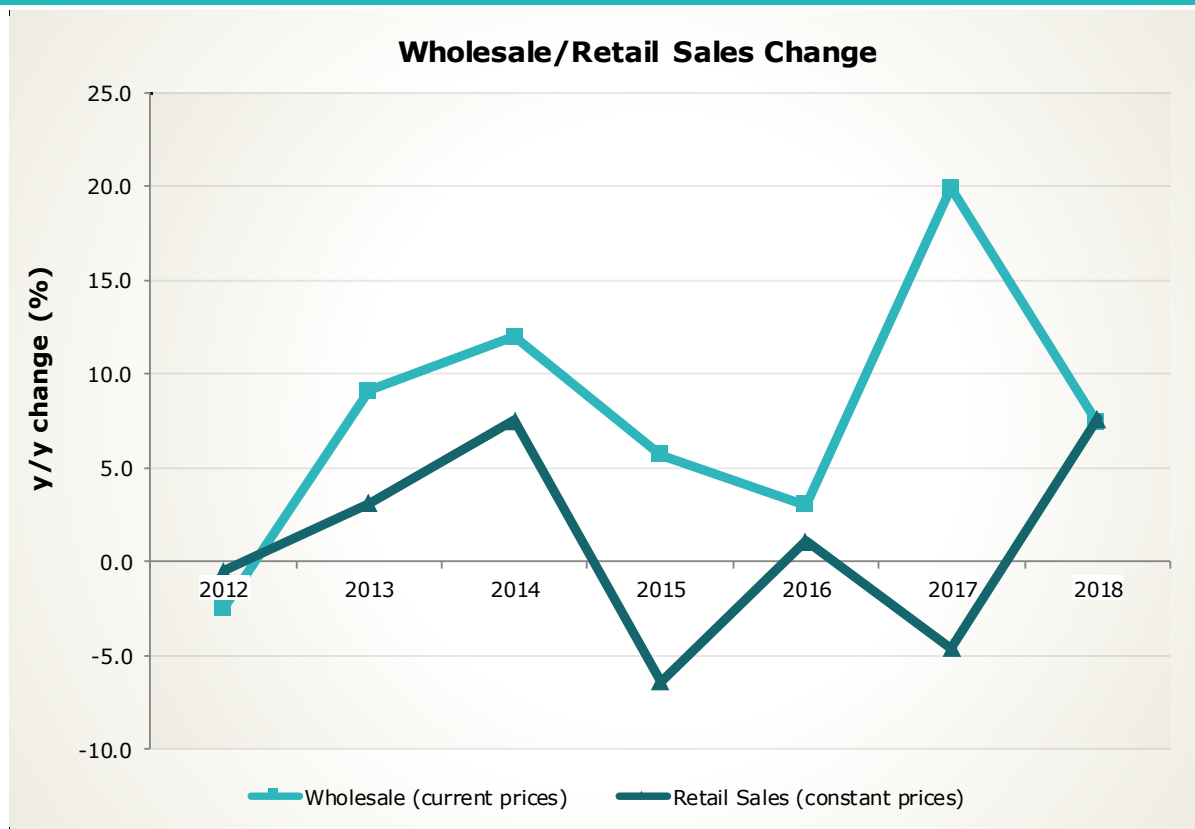


Source: NBS

## 2.3. WHOLESALE/RETAIL

### Wholesale and retail sectors positive in 2018

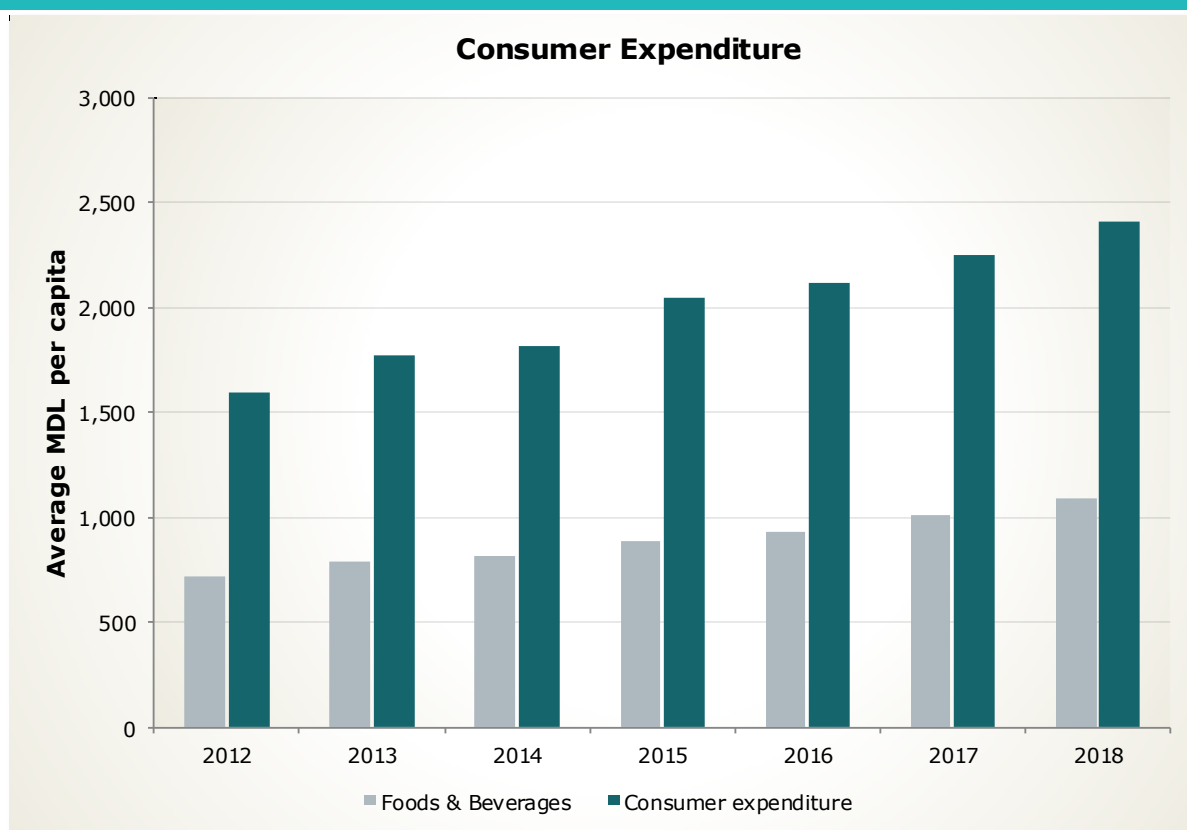
The wholesale sector grew by 7.4% y/y in 2018, but marked a decrease from the 19.9% rise in 2017, according to NBS data. The turnover of the retail sector recorded a slightly faster annual increase of 7.6%.



Source: NBS

In 2018, the average consumer expenditure per capita in Moldova increased by 7.0% to MDL 2,408 from MDL 2,250 in 2017. The food product group marked a year-on-year growth of 8.1%, to MDL 1,093, accounting for 45.4% of the total consumer expenditure.





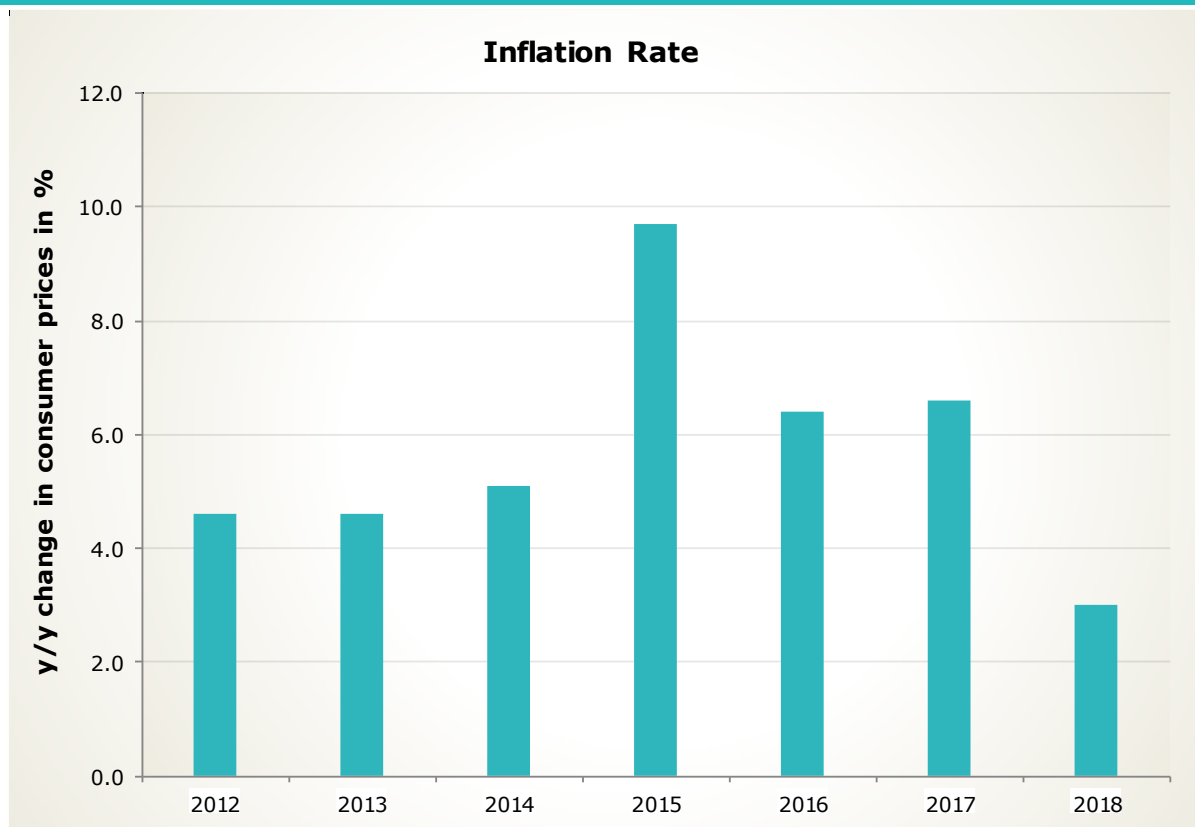
Source: NBS

## 2.4. INFLATION

### Annual inflation at 3.0% in 2018

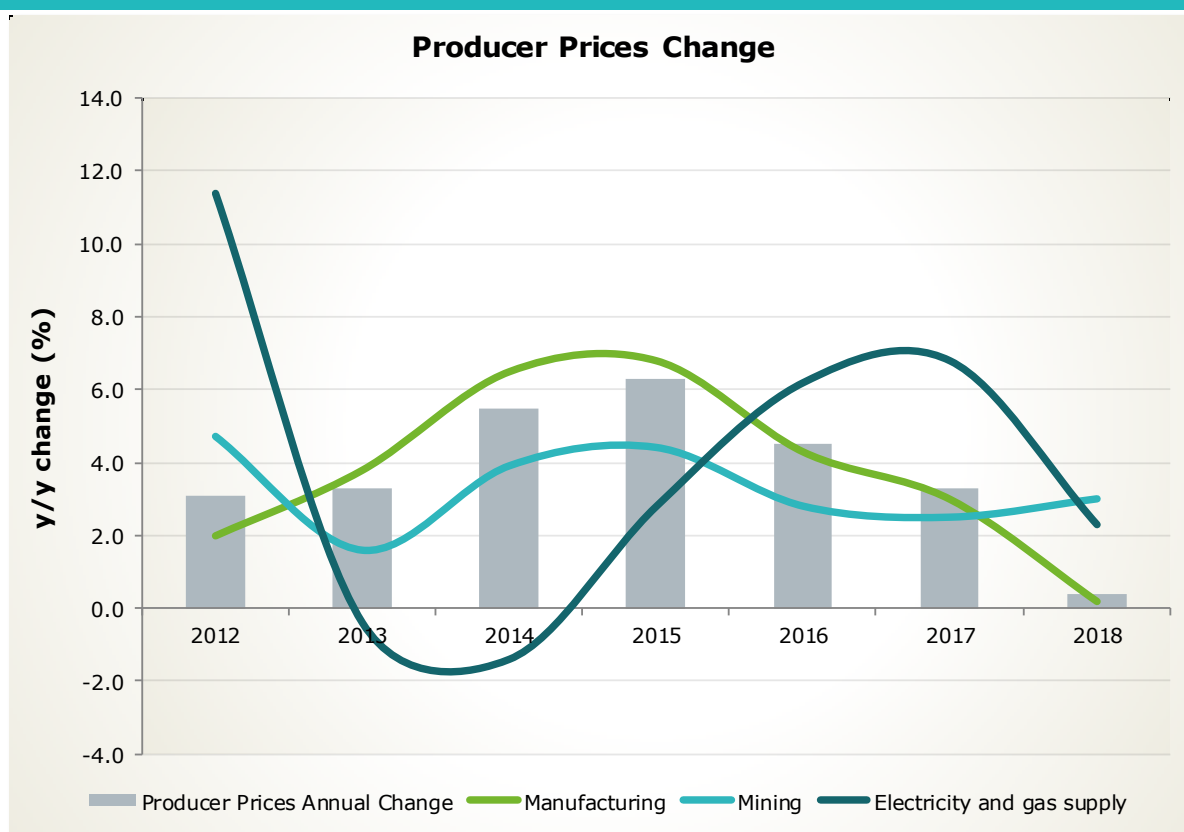
Moldova registered average annual inflation of 3.0% in 2018, down from 6.6% in 2017, according to NBS.

In 2018, food products prices grew annually by 5.4%, while the prices of non-food products increased by 2.7%. The services sector posted an annual deflation of 0.2%.



Source: NBS

Producer prices increased by 0.4% y/y in 2018 with all industries registering a growth – from 3.0% in mining, through 2.3% in electricity and gas supply, to 0.2% in manufacturing.



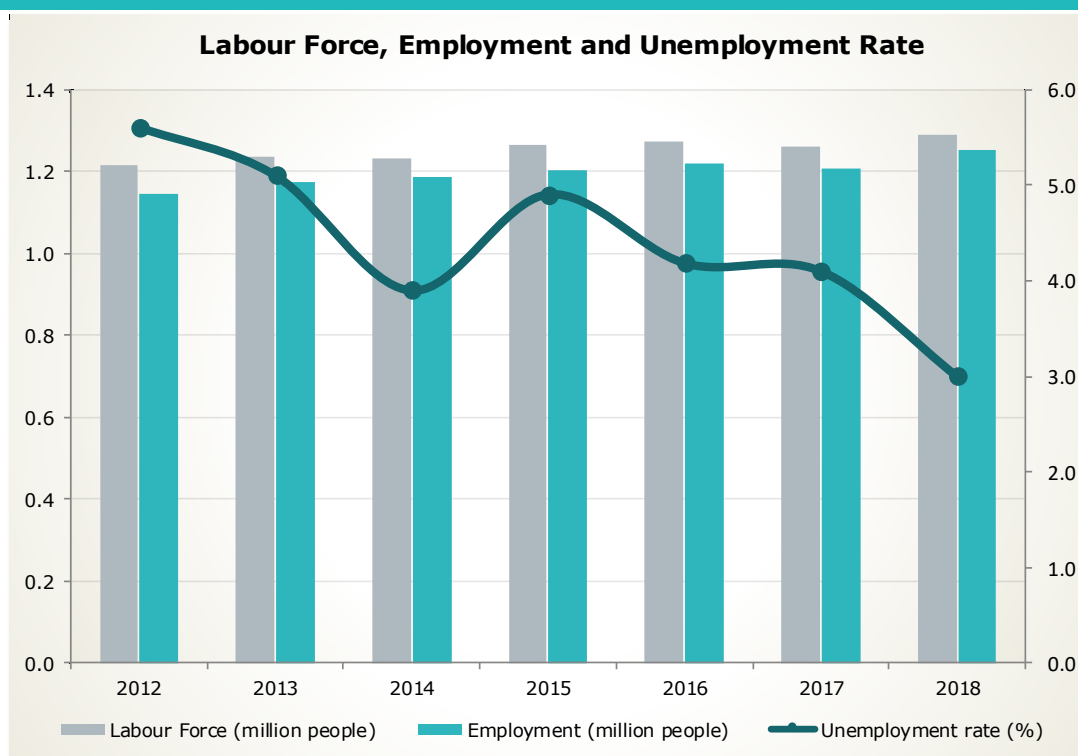
### 3. LABOUR MARKET

#### *Unemployment rate continued to ease in 2018*

Unemployment in Moldova stood at 3.0% in 2018, down from 4.1% in 2017, and 4.2% in 2016, according to data of NBS. Youth unemployment rate (aged 15-24) also improved, reaching 7.4% in 2018, a significant decrease compared to 11.8% in 2017.

The employed population aged 15 years and older was 1.252 million in 2018, up 3.6% on the year.

Salaries maintained their uptrend in 2018. According to data of NBS, the average gross monthly salary in the year under review rose by 13.1% y/y to MDL 6,446. In the public sector, it was MDL 5,675 and in the private – MDL 6,748.



Source: NBS

## 4. CONSTRUCTION AND REAL ESTATE

### *The value of construction works expanded by 23.1% y/y in 2018*

The value of construction works carried out in Moldova in 2018 went up by 23.1% y/y and totalled MDL 11.055 bln, according to NBS data. The growth rate advanced compared to 2017 when construction works went up by 9.9% 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 19.8442 in 2018 from MDL 20.8282 in 2017, according to the National Bank of Moldova's (BNM) data.

MDL Average Exchange Rate			
Foreign Currency	2018	2017	2016
USD	16.8031	18.4902	19.9238
EUR	19.8442	20.8282	22.0548
GBP	22.4380	23.7824	27.0353
CHF	17.1771	18.7681	20.2323

## 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 February 2019, 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 February 2019, inflation is projected to increase 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  $\pm 1.5$  pp.

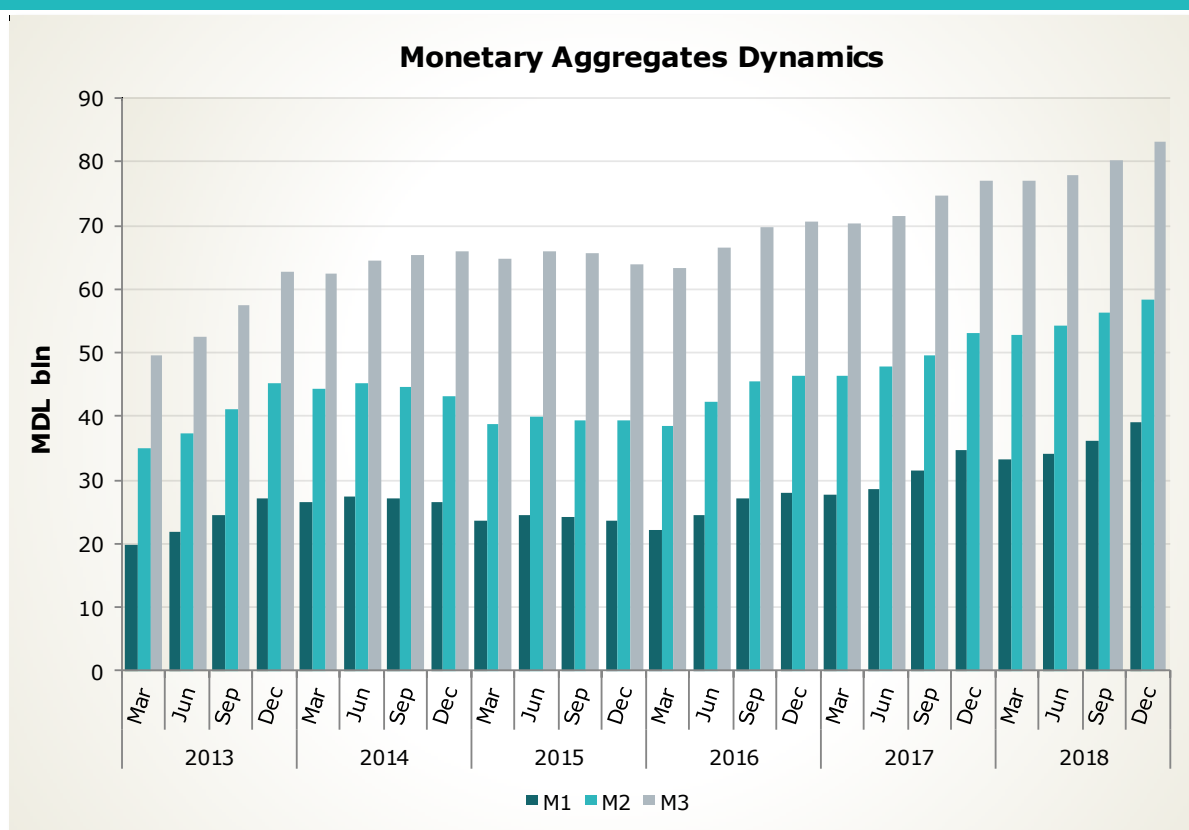
## 5.3. MONETARY AGGREGATES

### *Money supply up by 7.8% y/y as of December 2018*

Broad money, or monetary aggregate M3, increased by 7.8% y/y to MDL 83.159 bln at the end of December 2018, according to data provided by BNM.

The M2 money supply went up by 10.0% y/y to MDL 58.334 bln.

Money aggregate M1, or narrow money, jumped by 13.0% to MDL 39.165 bln.



Source: BNM

## 5.4. BANKING AND INSURANCE

### *Household loans increased by 31.0% y/y as of December 2018*

Loans to the non-government sector totalled MDL 35.453 bln as of end-2018, up by 5.9% compared to a year ago, according to BNM.

Loans to non-financial corporations shrank by 1.5% y/y to MDL 25.467 bln, while household loans went up by 31.0% to MDL 9.986 bln.



Source: BNM

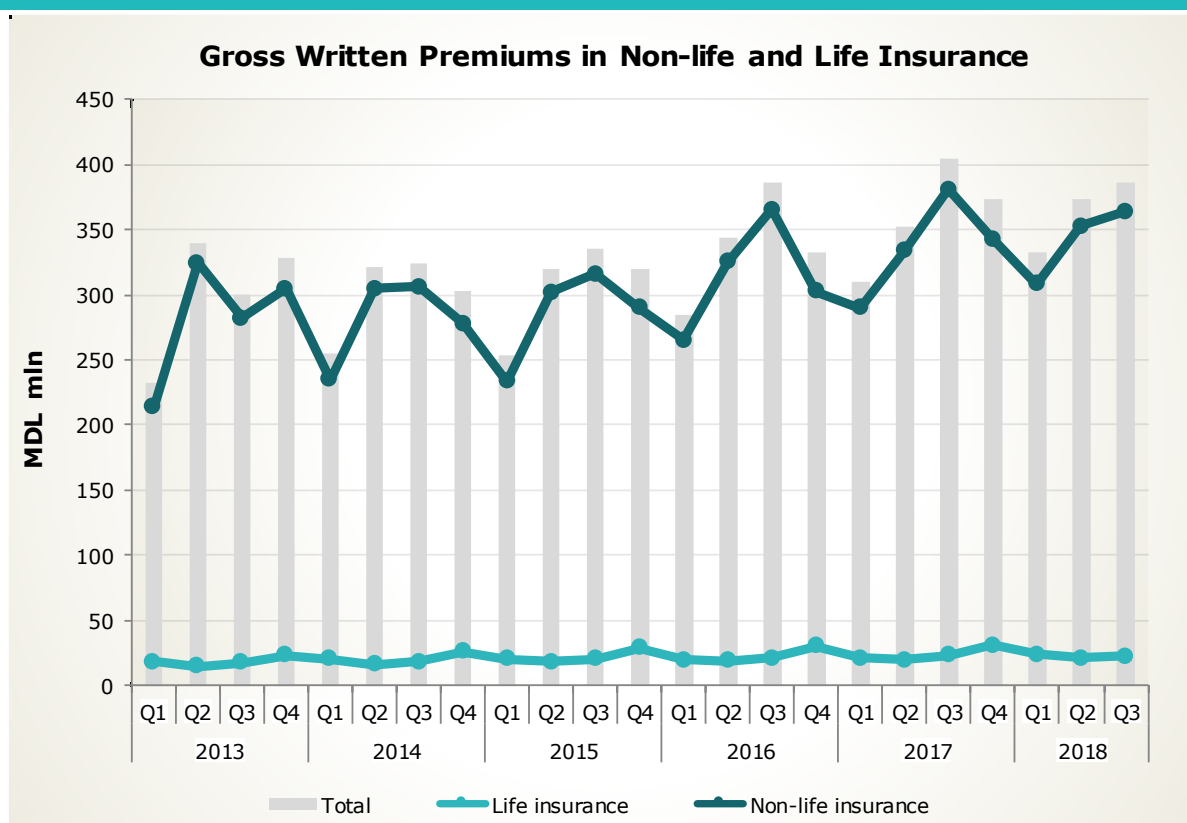
Note: Data for March 2013 was not available

## Insurance premium income down y/y in Q3 2018<sup>1</sup>

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.

<sup>1</sup> Annual data for 2018 was not available as of the time of preparation of this report.



Source: National Commission for Financial Markets

## 6. EXTERNAL SECTOR

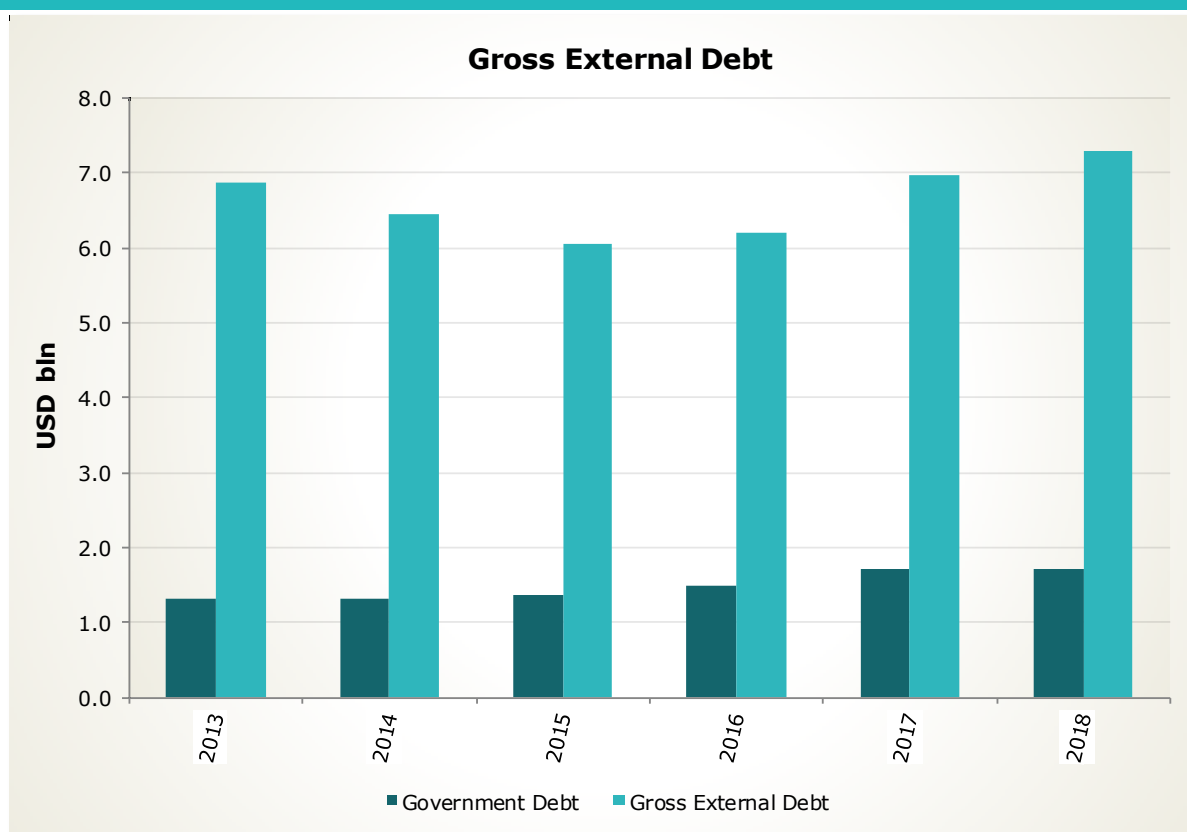
### 6.1. FOREIGN DEBT

*The gross external debt amounted to USD 7.302 bln in 2018*

The gross external debt totalled USD 7.302 bln in 2018, up by 4.8% on the year, according to central bank data.

Long-term liabilities increased by 1.3% y/y and amounted to USD 5.269 bln, or 72.2% of the total debt in 2018. Short-term liabilities came in at USD 2.033 bln, by 15.2% more than the previous year and equal to 27.8% of the total debt.





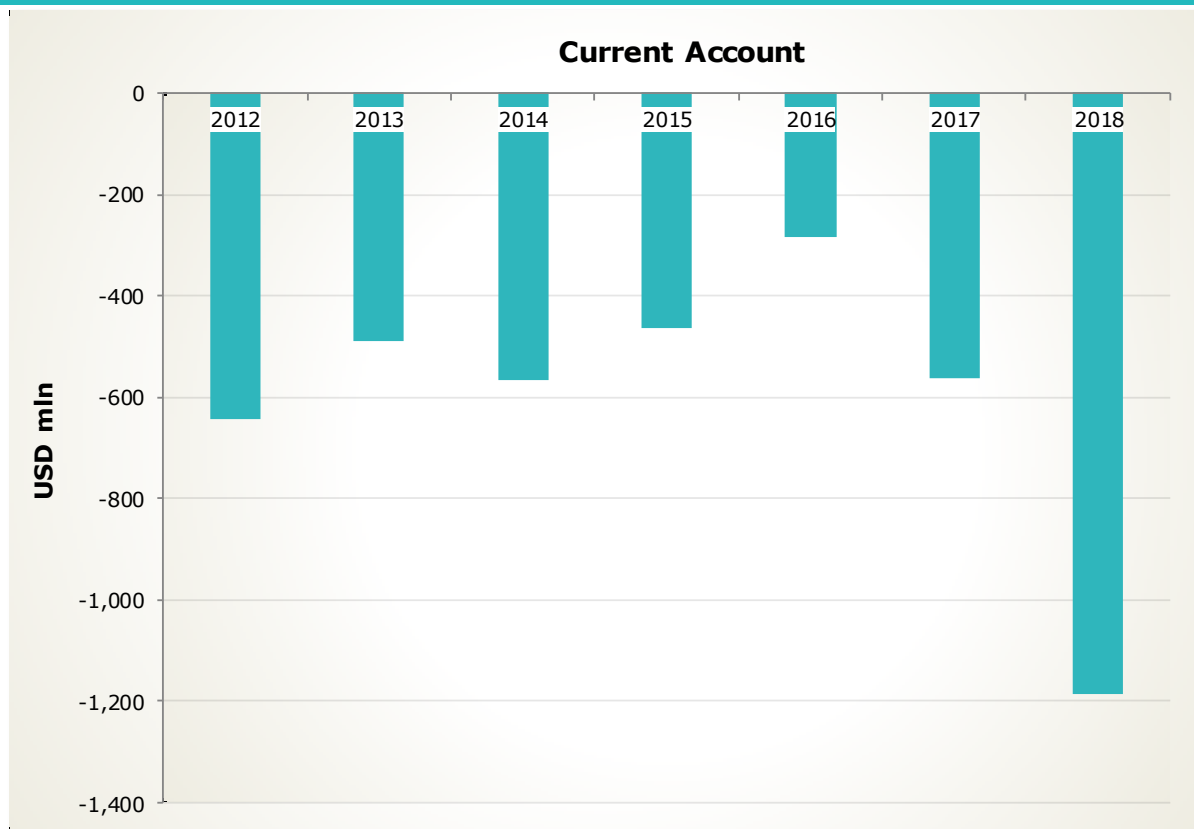
Source: BNM

## 6.2. BALANCE OF PAYMENTS

### *Current account deficit widened more than two times in 2018*

The current account deficit swelled to USD 1.187 bln in 2018 from USD 562.1 mln in 2017, according to central bank statistics data.

The increase in the current account deficit was due mainly to the 30.3% annual rise in the negative balance on the net exports of goods and services to USD 2.395 bln. The secondary income increased by 2.2% on the year to USD 1.159 bln.

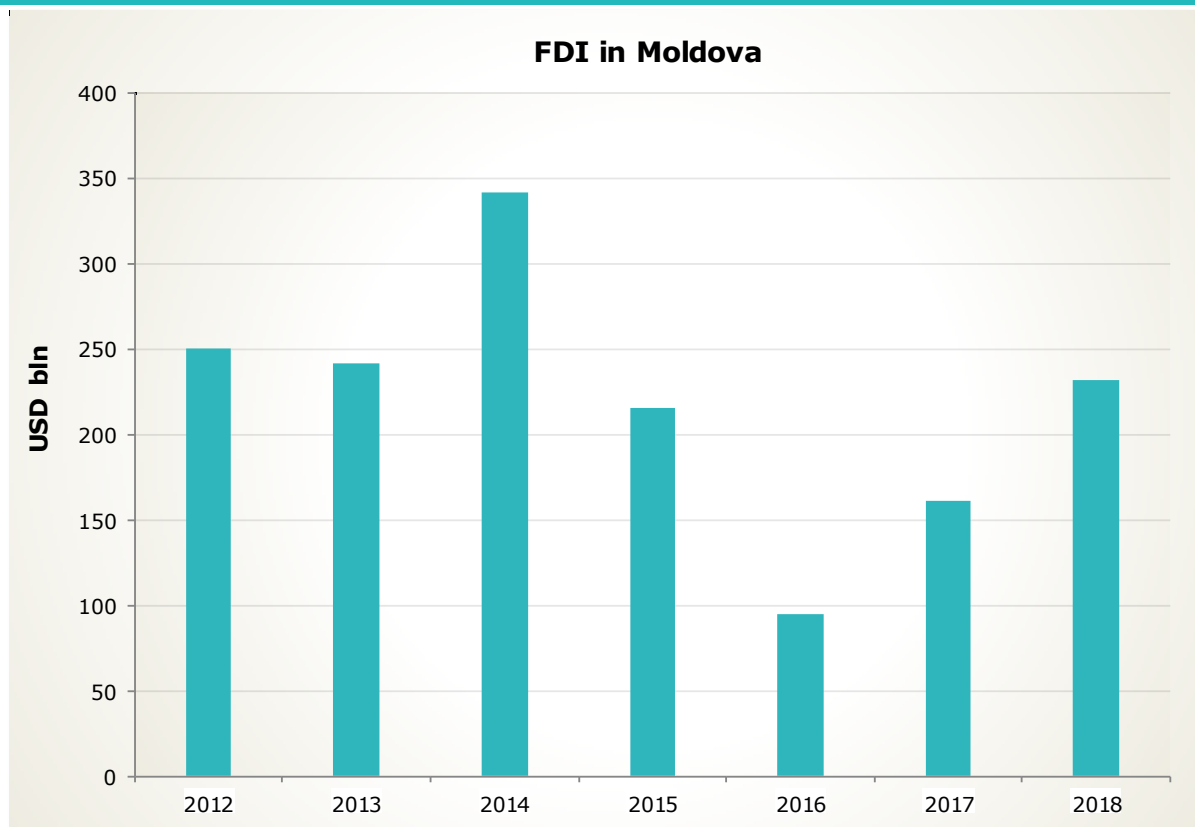


Source: BNM

### 6.3. FDI

#### Net FDI inflows up by 44.2% in 2018

Net foreign direct investments (FDI) in Moldova totalled USD 232.0 mln in 2018, rising by 44.2% compared to USD 160.8 mln in 2017, according to BNM data.

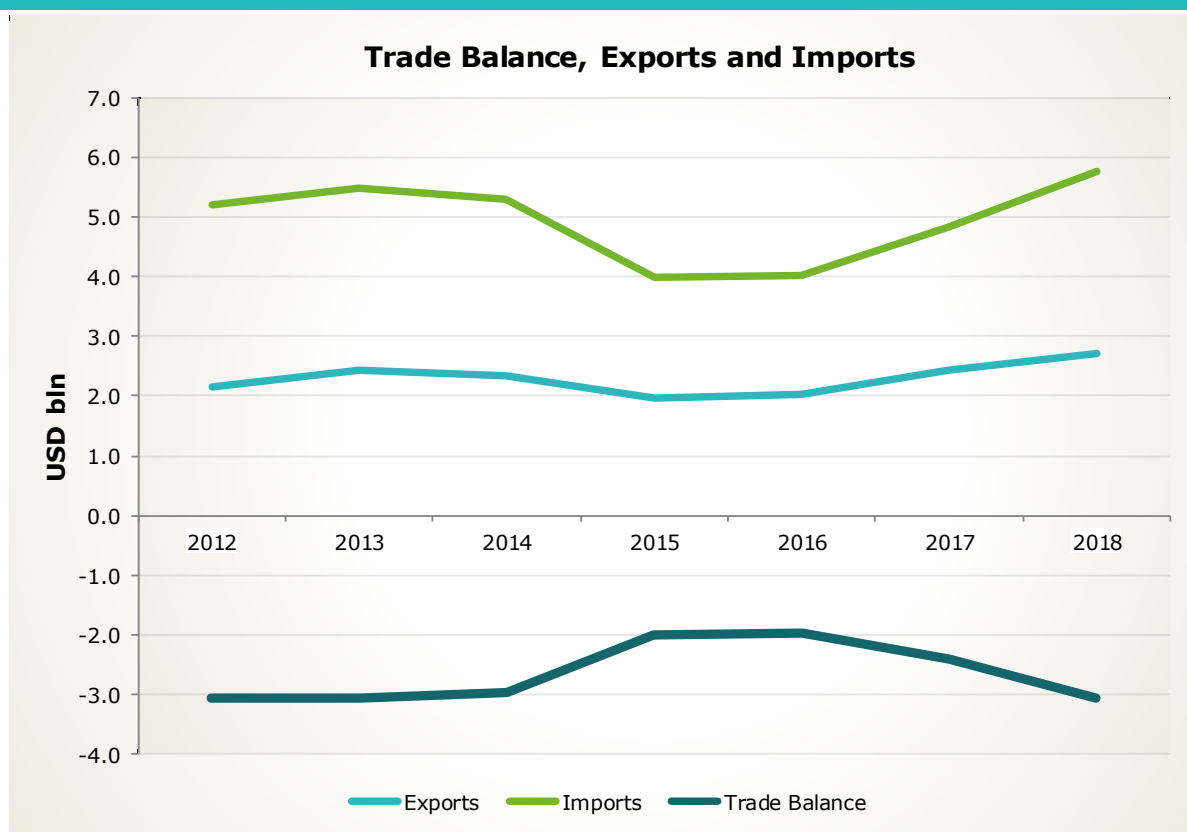


Source: BNM

#### 6.4. FOREIGN TRADE

##### *Foreign trade deficit rose by 27.0% y/y in 2018*

The trade deficit stood at USD 3.057 bln in 2018, compared to USD 2.406 bln a year earlier, according to BNM. Imports increased by 19.3% y/y to USD 5.764 bln, while exports rose by 11.6% y/y to USD 2.707 bln in 2018.



Source: NBS

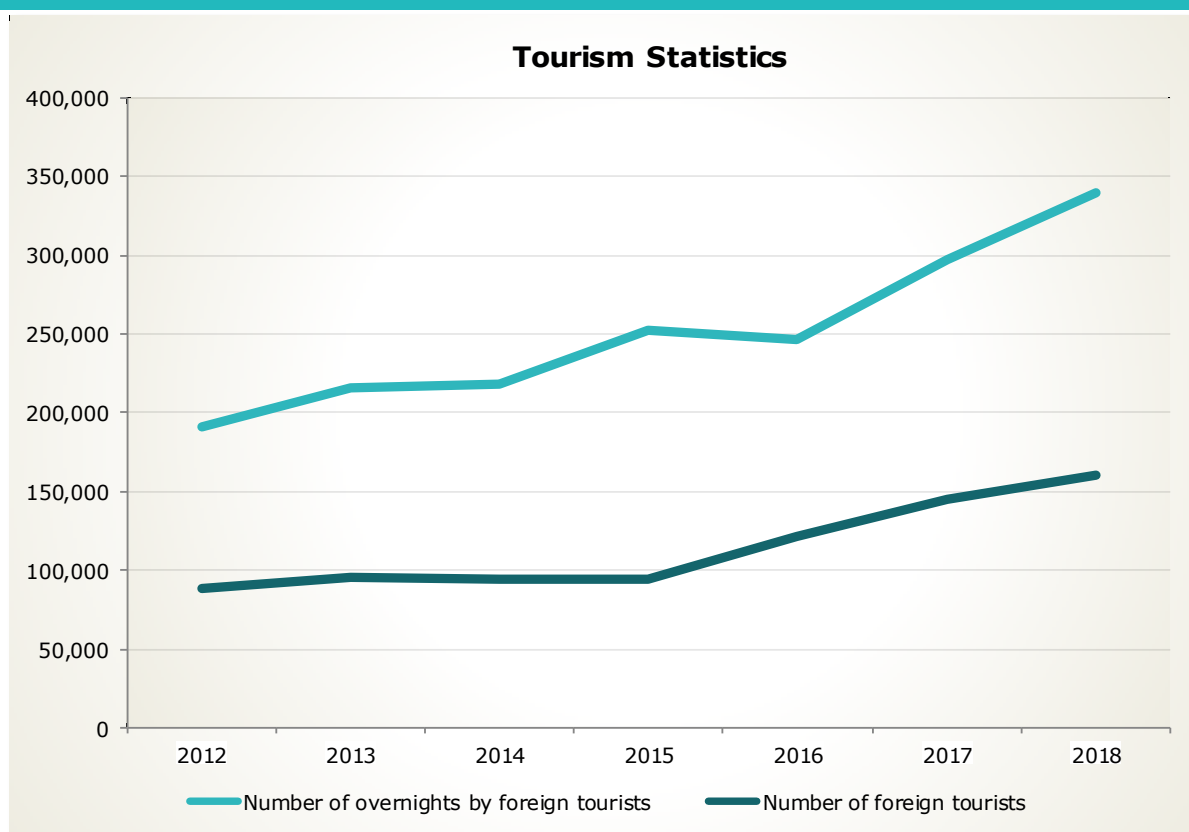
## 6.5. TOURSIM

### *Number of foreign tourist overnights increased by 14.5% y/y in 2018*

Tourist overnights of foreigners rose by an annual 14.5% to 340,345 in 2018, according to NBS data.

The growth in the number of foreigners who visited the country was 10.4% y/y to 160,233.

In 2018, the share of foreign tourists in the total overnights in Moldova inched up to 20.4% from 19.6% a year ago.



## 7. MAJOR DEVELOPMENTS

### **EBRD seeks consultants to support Moldova's Investment Council Secretariat**

Nov 14, 2018

The European Bank for Reconstruction and Development said it is inviting expressions of interest for consultancy services to support the Secretariat of the Investment Council of Moldova.

[Read the full story here](#)

### **Moldova should complete banking sector cleansing**

Nov 13, 2018

Moldova needs to reform its banking sector in 2019 and meet key commitments under the reform programme advised by the International Monetary Fund, the European Bank for Reconstruction and Development (EBRD) said.

[Read the full story here](#)

### **EBRD grants EUR 10 mln loan to support SMEs in Moldova**

Oct 26, 2018

Small businesses in Moldova will be able to upgrade their operations to European Union (EU) standards with a new EUR 10 mln loan provided by the European Bank for Reconstruction and Development (EBRD) to ProCreditBank Moldova, the country's fifth-largest lender by loan portfolio, the bank said.

[Read the full story here](#)

***Moldova introduces EBRD, WTO-backed electronic procurement system***

Oct 24, 2018

Moldova launched - with support from the European Bank for Reconstruction and Development and the World Trade Organization - an electronic procurement system which will radically transform the way public funds are spent.

[Read the full story here](#)

***EBRD seeks consultants in drafting documents for renewable energy tenders in Moldova***

Oct 17, 2018

The European Bank for Reconstruction and Development said it is inviting expressions of interest for consultancy services in developing documents for renewable energy auctions that will be conducted in 2019 and 2020 in Moldova.

[Read the full story here](#)

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