

Overview

- Economic growth of 4.5% in 2017, slowdown to low 3.8% expected for 2018
- Growth driven by private consumption, also positive contribution from investment
- On the supply-side significant growth in retail trade and manufacturing
- Inflation expected to fall below 5% in 2018; price stability at large
- Continuation of appreciation against the US dollar, which began in 2017
- Double-digit growth of exports and imports in Jan-Apr 2018, strong exports to the EU
- Higher investment increases budget deficit to 3.2% of GDP, but does not threaten fiscal stability

Topics

- **Exports development.** EU market remains the key driver for Moldovan exports. EU direct investment boosts exports from the automotive sector (esp. wiring harness)
- **EU tariff rate quotas.** Recommendation to increase quotas for grapes and plums
- **Transparency of consumer loans.** Intransparent use of the annual percentage rate of charge for consumer loans. Legal framework and supervision should be strengthened

Basic indicators

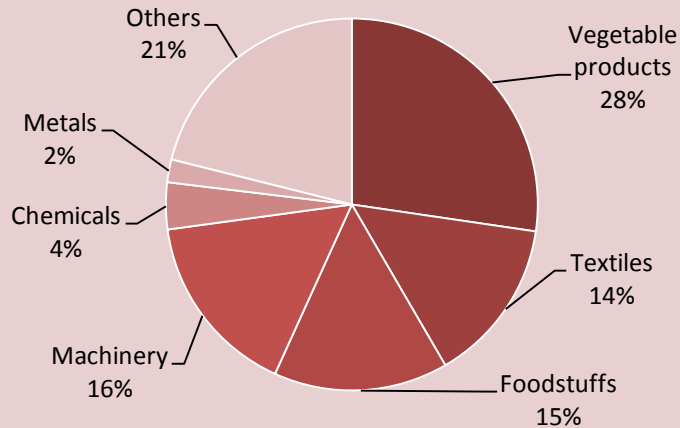
	Moldova	Georgia	Belarus	Ukraine	Russia
GDP, USD bn	9.2	16.1	59.2	119.1	1,719.9
GDP/capita, USD	2,596*	4,370	6,300	2,821	11,947
Population, m	3.5*	3.7	9.4	42.2	144.0

Source: IMF, estimation for 2018; *According to the census of 2014 only slightly less than 3 m inhabitants; based on this census GDP per capita amounts to ca. USD 3.066 USD

Trade structure

Export

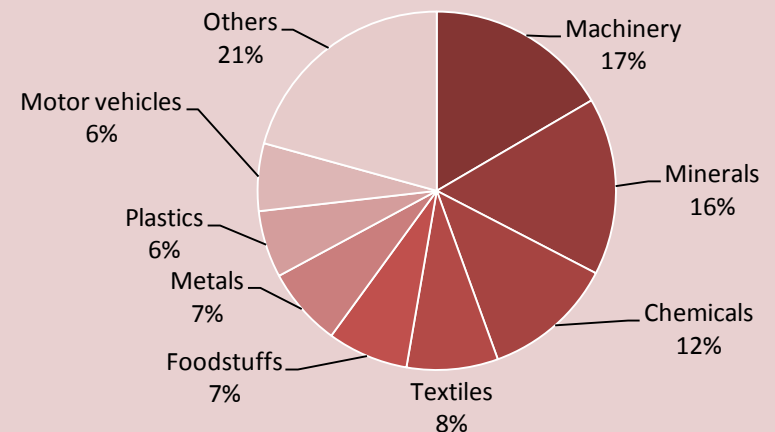
EU 66% | Russia 10% | Others 24%



Source: National Bureau for Statistics; ; 2017, Note: Trade in goods

Import

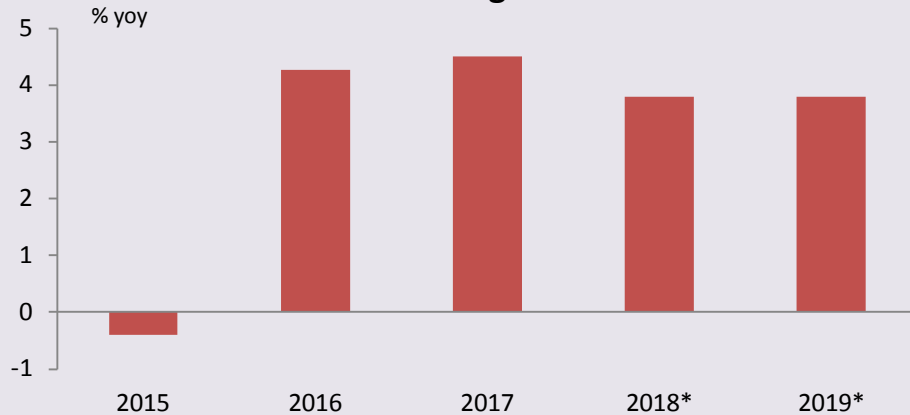
EU 49% | Russia 12% | Others 39%



Source: National Bureau for Statistics; 2017, Note: Trade in goods

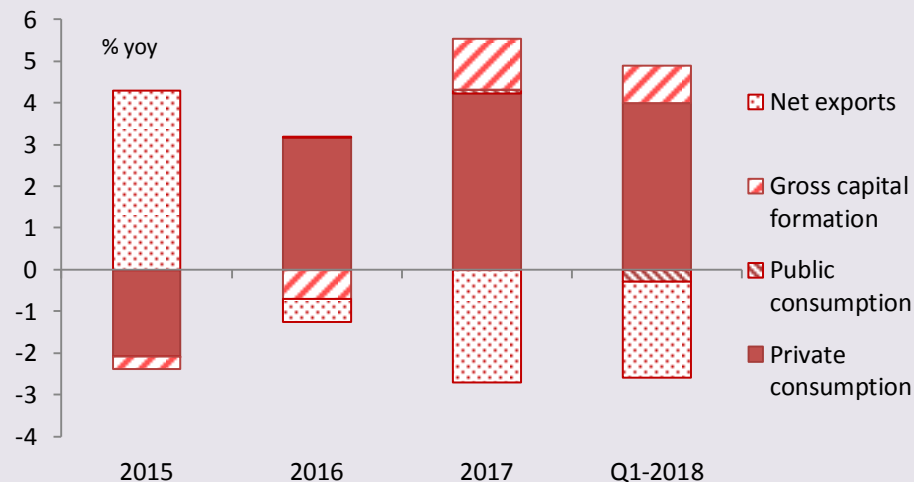
Economic growth

Real GDP growth



Source: IMF, Ministry of Economy, *Forecast

Contribution to economic growth (real terms)



Source: National Bureau for Statistics

GDP 2017

- Economic growth of 4.5%
- Reasons:
 - Robust private consumption due to rising remittances and real wages
 - Increase of investment

GDP 2018

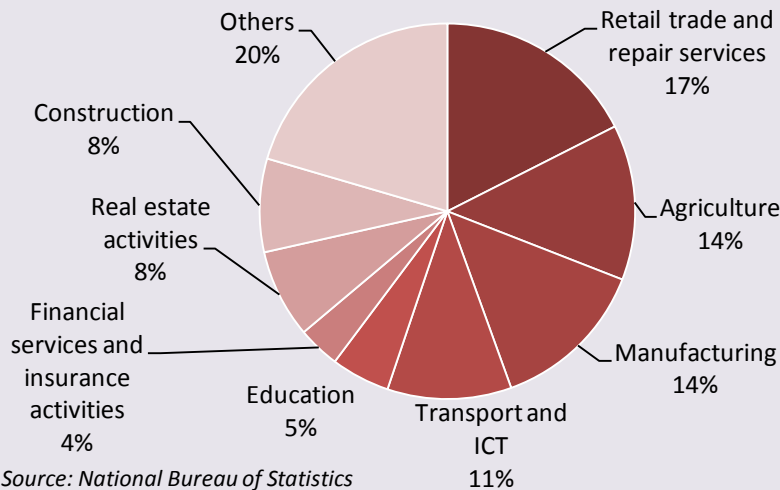
- Growth of only 3.8% expected
- Q1-2018: +3.7% vs. Q1-2017
 - Growth driven primarily by private consumption
 - Positive contribution of investment
 - Negative contribution of net expots

Conclusion

- Growth in 2017 and 2018 driven by private consumption and investment
- Growth in 2018 not impressive

Sektoral perspective

Composition of GDP in 2017



Agriculture

- Growth of 7.9% due to good harvest in 2017
- Development in 2018 unclear

Manufacturing

- 2017: +3.8% on average
- Q1-2018: growth of 6.9% shows positive impact of FDI in 2017

Retail trade

- Growth of 9% in 2017 (Q1-2018: +7.4%)
- Benefits from good development of private consumption

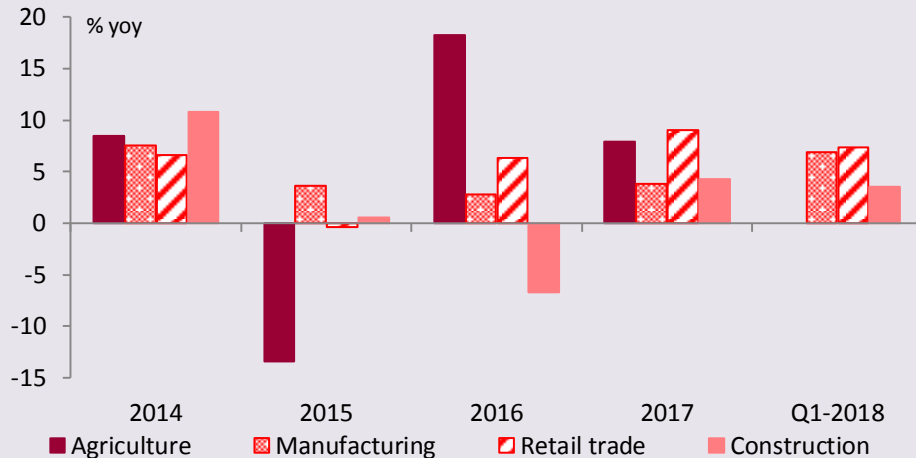
Construction

- Growth of 4.3% in 2017 (Q1-2018: +3.5%) on the back of higher investment

Conclusion

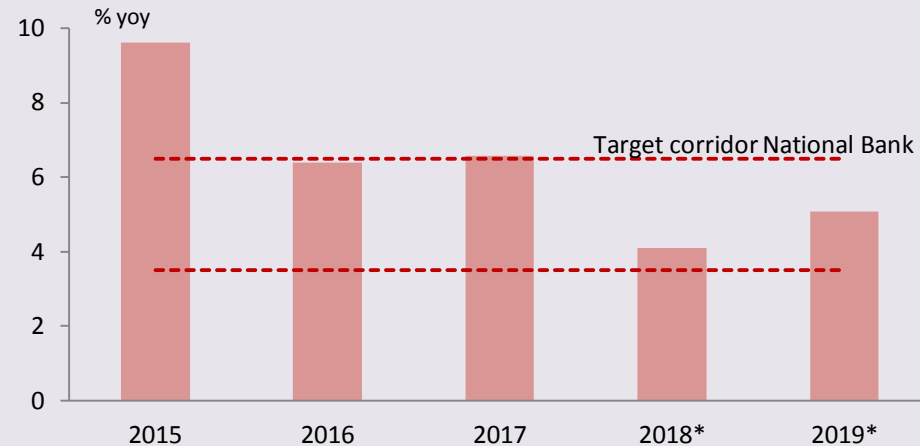
- Retail and manufacturing as growth drivers in 2017 and 2018
- Retail trade benefits from robust consumption, manufacturing from FDI inflows

Sectoral dynamics



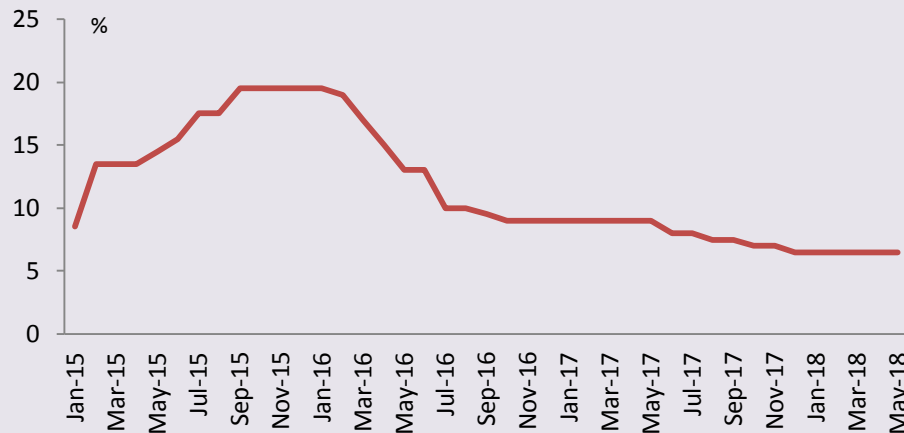
Inflation und monetary policy

Inflation



Source: IMF, Ministry of Economy, *Forecast; Note: Annual average (consumer prices)

Policy rate



Source: National Bank

Inflation

- 2017: average inflation at 6.6%
- Just outside the target corridor of $5 \pm 1.5\%$ of the National Bank
- Reason: external factors such as the increase of food and fuel prices, and health care costs
- 2018: inflation at 4.1% expected, i.e. within the target corridor

Monetary policy

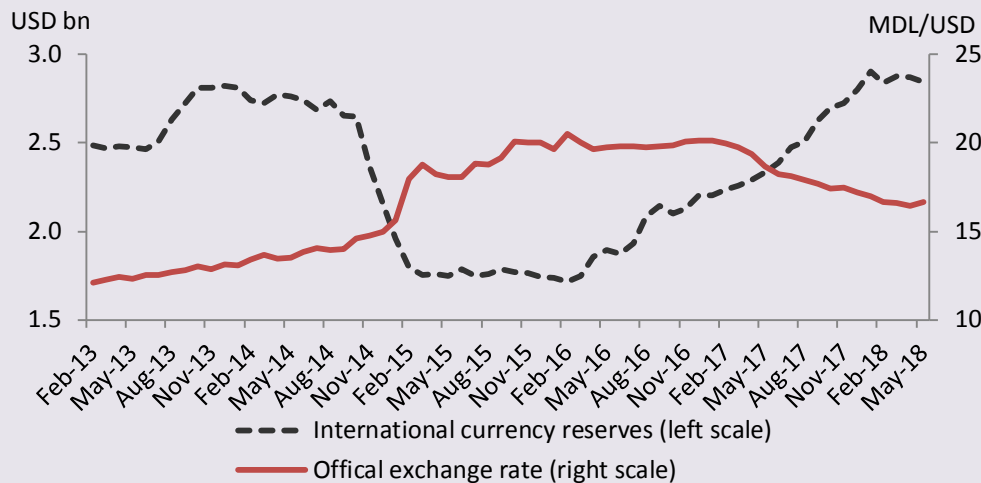
- Gradual lowering of the base rate in 2017 from 9.0% to 6.5% despite relatively high inflation
- Nevertheless decrease of inflation in 2018

Conclusion

- Inflation will fall to an appropriate level of just under 5% in 2018; price stability at large
- Medium-term inflation targeting as an anchor of stability in Moldova

Exchange rate and remittances

Exchange rate and currency reserves



Source: National Bank of Moldova

Remittances (in US dollar)



Source: National Bank of Moldova

Exchange rate and foreign reserves

- Since the beginning of 2017: appreciation of ca. 20% against the US dollar
- Appreciation supports imports, as they become cheaper
- Appreciation pressure positive for foreign reserves, significant increase

Remittances

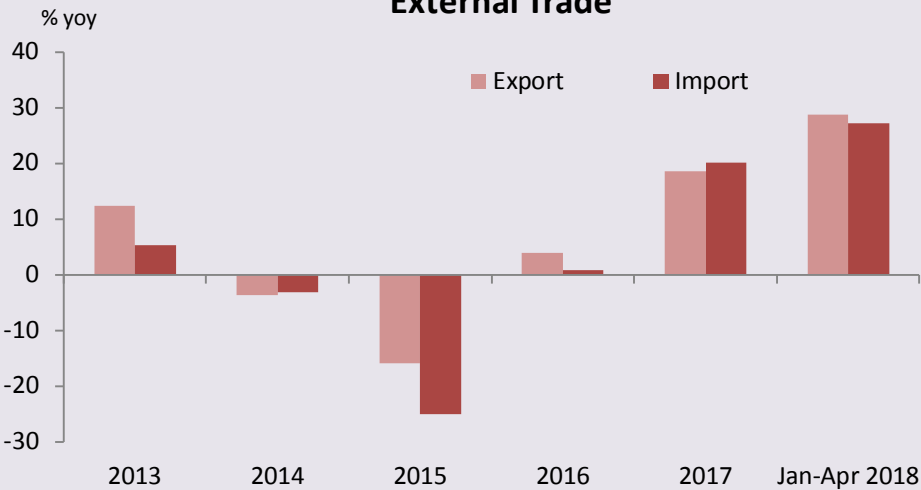
- Significant growth since 2017
- Reasons are the relatively good economic development in the EU and recovery in the CIS
- Increasing remittances support private consumption

Conclusion

- Appreciation is an expression of stability
- Growth in the EU and the CIS leads to increasing remittances and strengthens consumption

External trade

External Trade



Source: National Bureau of Statistics; Note: Trade in goods

Export Jan-Apr 2018

Region	Jan-Apr 2018, USD m	Yoy change, USD m	Yoy change, %
EU-28	595	+165	+38%
CIS	143	0	0%
<i>Russia</i>	74	-7	-9%
<i>Ukraine</i>	25	+9	+58%
Others	140	+31	+28%
Total	878	+196	+29%

Source: National Bureau of Statistics; Note: Trade in goods

Import

- Growth that started in 2017 continues in 2018 (Jan-Apr 2018: +27%)
- The reason is growing demand because of
 - Appreciation of the Leu
 - Increasing remittances
 - Higher investments

Export

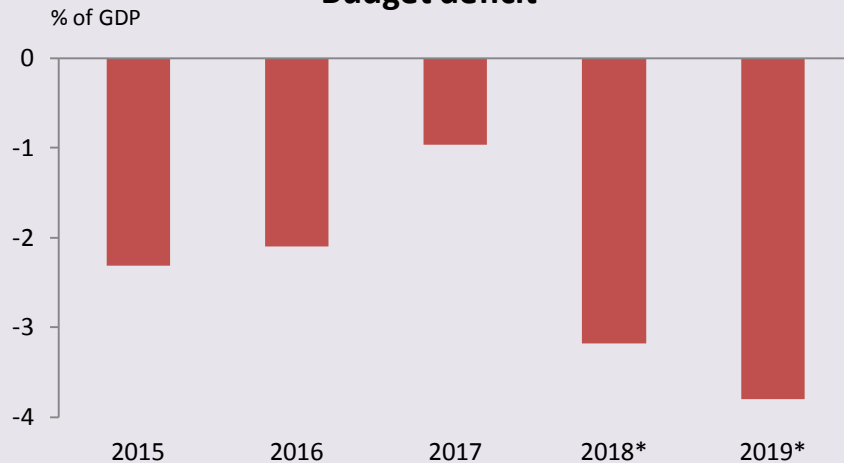
- Export also continues double-digit growth (Jan-Apr 2018: +29%)

Regions

- Strong export growth to the EU in Jan-Apr 2018 (+38%)
- CIS as a whole no change, but
 - Higher exports to Ukraine (+58%)
 - Decline of exports to Russia despite economic recovery
- Shift of exports not only from the CIS to EU, but also within CIS

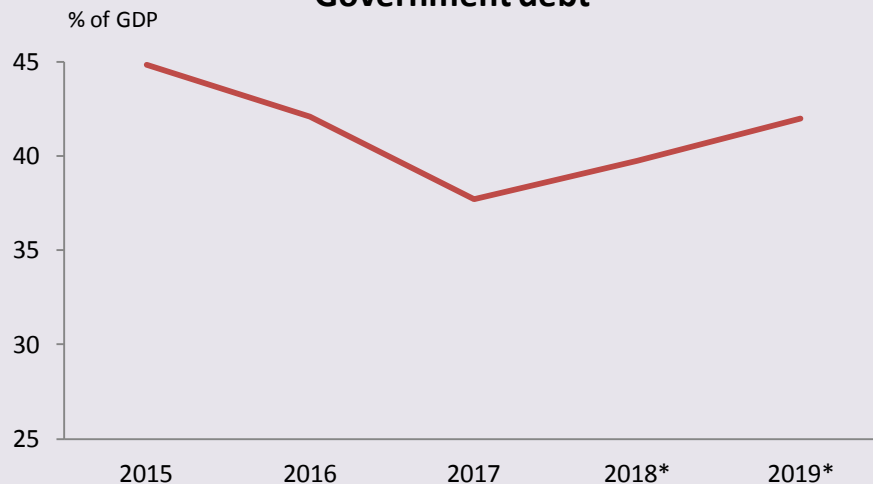
Public finances and government debt

Budget deficit



Source: IMF, *Forecast

Government debt



Source: IMF, *Forecast

2017

- Budget deficit just under 1% of GDP, smaller than expected
- Reason: tax and customs reforms and economic growth lead to significant revenue increase
- Also lower expenditures due to delays in road construction projects and reorganisation of government
- Significant decline of public debt as % of GDP, also due to appreciation

2018

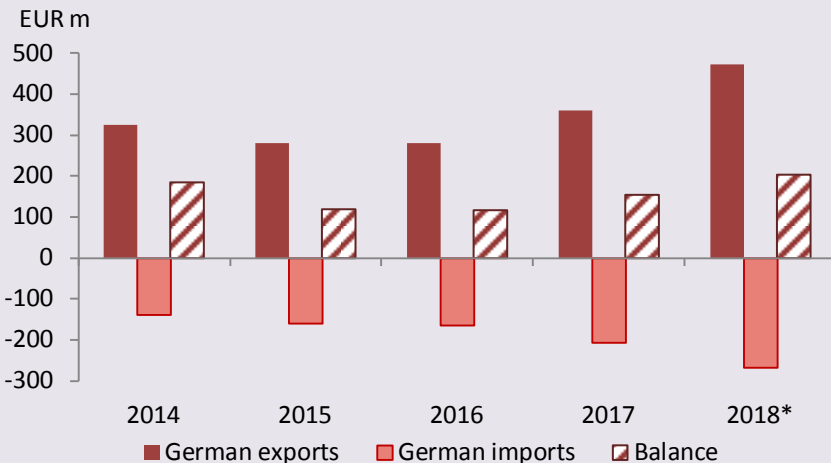
- Revenues developed positively in Jan-May 2018 (+12.1%)
- However, also increase in spending, including road construction and higher social spending planned

Conclusion

- Planned increase of deficit and debt remain controllable and are in line with the IMF programme
- Planned investment reasonable

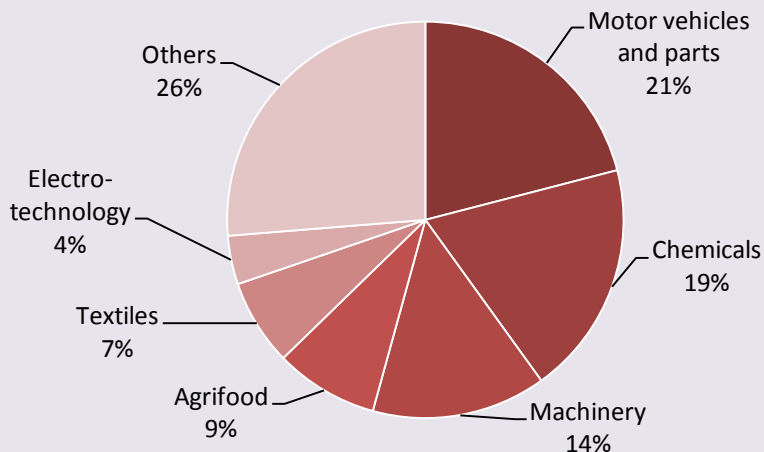
Bilateral trade between Germany and Moldova

German trade with Moldova



Source: German Federal Statistics Office, *Forecast based on data for Jan-Mrz 2018

German exports to Moldova



Source: German Federal Statistics Office; 2017

Bilateral trade volume

- 2017: growth of 27% compared to 2016
- Q1-2018: even stronger growth of trade volume compared to Q1-2017 (+30%)
- 2018 trading volume could reach EUR 740 m

German exports to Moldova

- Exports likely to increase by more than 30% in 2018
- Investment goods manufacturers benefit from investment activity in Moldova

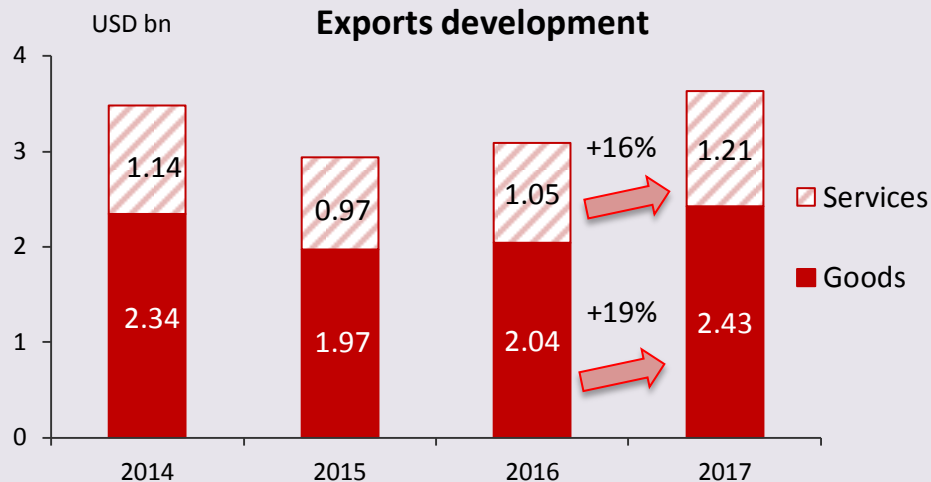
German imports from Moldova

- 2018: strong increase of about 30% expected

Conclusion

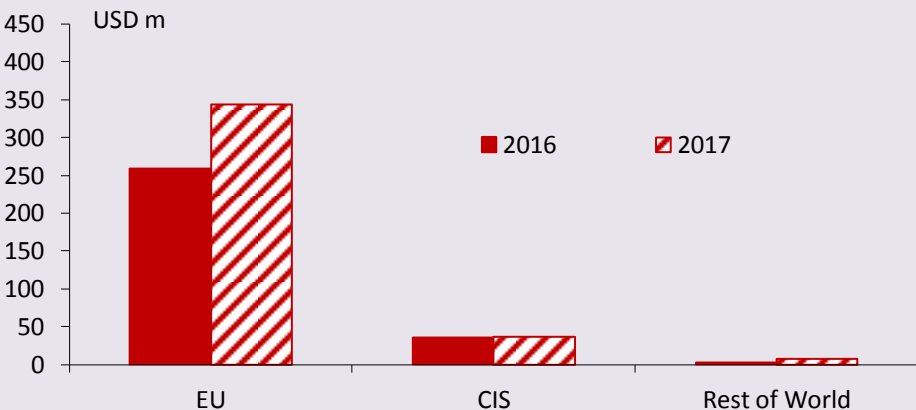
- Strong dynamic after weak years, German exporters profit from stronger investment activity in Moldova

Moldova's export developments in 2017



Source: National Bureau of Statistics, Note: Services estimated based on growth rates Q1-Q3 2017

Export of machinery



Source: National Bureau of Statistics, own calculations

- Very positive export development in 2017, goods and services grow by 18%

Regional view

- High exports growth to EU; 70% of total merchandise exports increase
- But also exports to Turkey and Ukraine increased considerably

Sectoral view

- Plant products and machinery main contributors; 59% of export increase

Link sectors to regions/destinations

- Higher exports of plant products mainly due to good harvest and increase in commodity prices
- No link to destinations
- Export increase in machinery sector (esp. wiring harnesses) mainly due to higher exports to EU
- Close link between FDI inflows from the EU and higher exports to the EU

EU tariff rate quotas

Usage of tariff rate quotas in 2017

Category	Quota, t / y	Ad valorem equivalent ¹	MD exports to EU, 2017, t ²	Exports to EU / quota
Tomatoes	2,000	15.3%-17.8%	83	0.0
Garlic	220	82.0%	0	0.0
Grapes	10,000	18.1%-22.3%	19,513	2.0
Apples	40,000	12.3%-15.6%	2,190	0.1
Plums	10,000	13.0%-19.2%	20,163	2.0
Grape Juice	500	24.2%-51.9%	3	0.0

Source: Eurostat, WITS/TRAINS own calculations

Background

- Despite the EU-Moldova Free Trade Agreement (DCFTA), trade restrictions exist for some agricultural products
- In particular: tariff rate quotas for 6 products
- How it works: duty-free import within the quota; when quota full, the EU levies a duty
- Request by the Moldovan government to the EU to increase tariff rate quotas

Recommendations by GET Moldova

- Tariff rate quotas for grapes and plums should be increased
- Reason: quotas for grapes and plums fully utilised in 2017
- Products of considerable importance for Moldovan exports

Consumer loan transparency

Loan advertising in Germany

Nettodarlehensbetrag	8.000 EUR
Effektiver Jahreszins	3,99 %
Fester Sollzinssatz p. a.	3,92 %
Monatliche Rate	180,34 EUR
Laufzeit in Monaten / Anzahl Raten	48
Zu zahlender Gesamtbetrag	8.656,42 EUR

Loan advertising in Moldova

18.03.2018 17.04.2018 Plăți lunare egale 9.00

Calculează

Informații generale despre credit

Suma creditului solicitat	10000.00
Comision unic	200.00
Taxa administrativă	100.00
Suma dobânzii	494.80
Comision de administrare	232.00
Total spre plată	11026.80
DAE	19.00

* Calculul estimativ realizat prin intermediul calculatorului de rate online este orientativ si nu are valoare contractuala

Background

- Broadly used tool to compare loan costs is the annual percentage rate of charge (APR)

Results of our analysis

- Transparent application in Germany
 - The APR is mostly stated before the nominal interest rate
- Mostly intransparent application in Moldova
 - APR often stated last
 - Only shown as abbreviation and percentage sign is often missing
 - Very high difference between nominal interest rate and APR
- For average consumers it is difficult to compare credit costs

- Additionally: weak supervision

Recommendations

- Strengthening of legal framework and obligation to focus on the APR
- Strengthening of supervision

German Economic Team Moldova



The German Economic Team Moldova (“GET Moldova”) supports the Moldovan Government in stabilising the economic development and designing the necessary reform processes since 2010.

In a continuous dialogue with high-ranking decision makers we identify current economic problems and present concrete recommendations for action based on our independent analysis.

Furthermore, GET Moldova supports the German government, German companies and other German organisations by providing know-how and detailed information on the economic situation in Moldova.

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Contact

German Economic Team Moldova
c/o Berlin Economics
Schillerstraße 59
10627 Berlin

Tel: +49 30/ 20 61 34 64 0
info@get-moldova.de
www.get-moldova.de
Twitter: @BerlinEconomics
Facebook: @BE.Berlin.Economics

