



**Moldova**  
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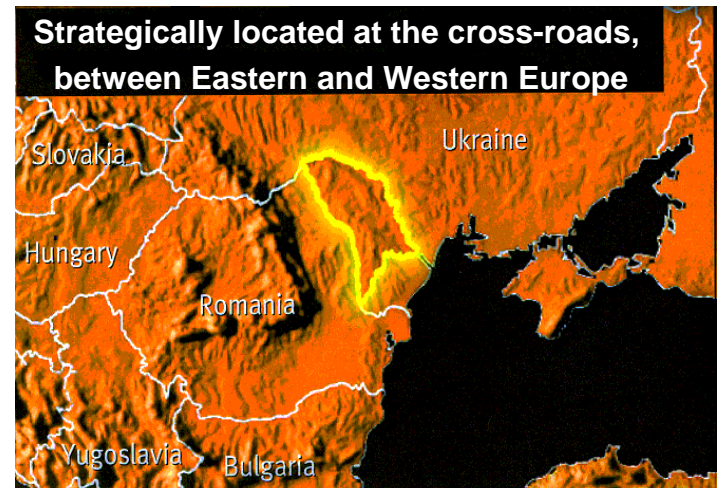
# THE ECONOMIC SITUATION AND INVESTMENT CLIMATE OF THE REPUBLIC OF MOLDOVA

# General country overview



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Area:	33,800 km <sup>2</sup>
Population:	3.4 million
Capital:	Chisinau - 717,000 citizens
Climate:	moderate winter (Jan. -4 -7° C ), warm summer (Jul. +25 +28° C)
Official language:	Moldovan (Romanian), also Russian spoken
National Legislature:	Unicameral assembly, the Parliament has 101 members
Head of state:	Vladimir Voronin
Administrative units:	32
National currency:	Moldovan Leu (MDL)

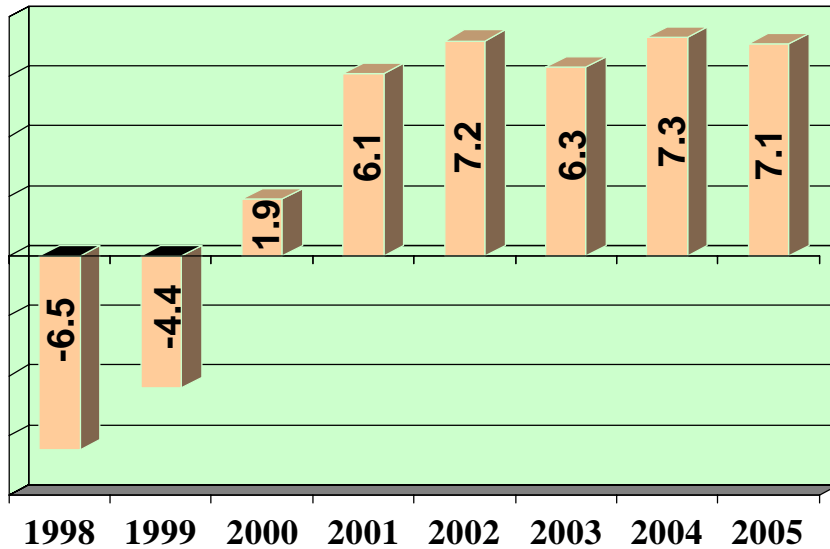


# Macroeconomic Development

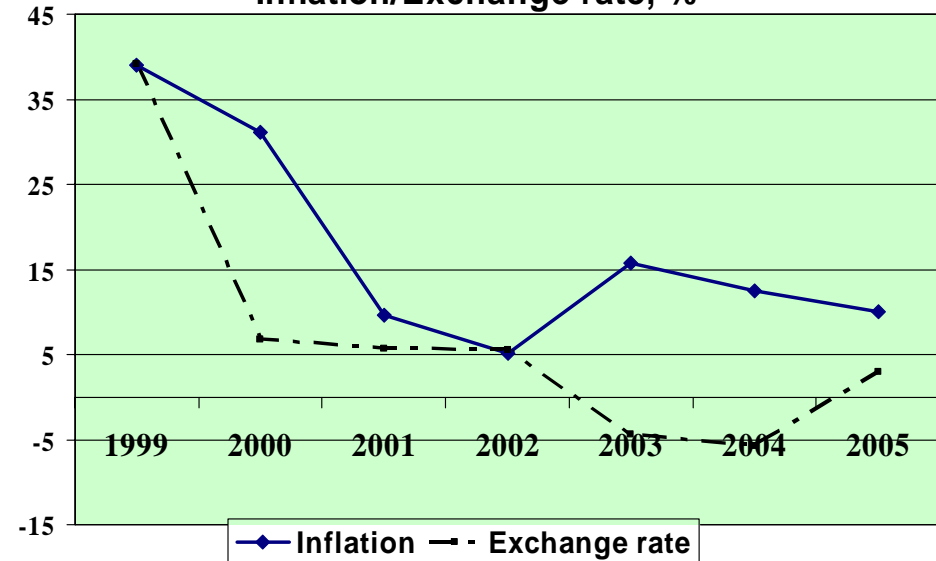


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GDP growth, %



Inflation/Exchange rate, %



***In 6 months 2006 Moldovan economy was influenced by some external shocks (interdiction of wine exports into Russia and increase of tariffs for energetic resources) that caused:***

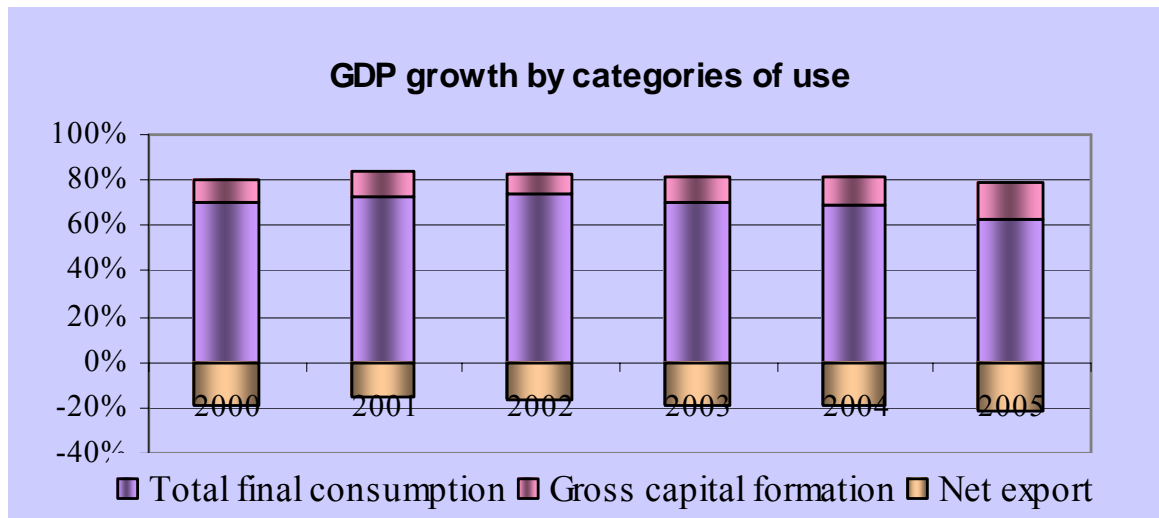
- *Growth of inflation rate – 2.7 p.p.*
- *Depreciation of national currency*
- *Decrease of industrial production- 6,4%*
- *Decrease of exports -10.6% and increase of imports – 14,4%*

# Macroeconomic Development



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GDP by categories of resources	%
Agriculture	14.3
Industry	17.0
of which processing industry	14.5
Services	54.4
of which construction	3.5
Net Taxes on Products and Imports	16.4



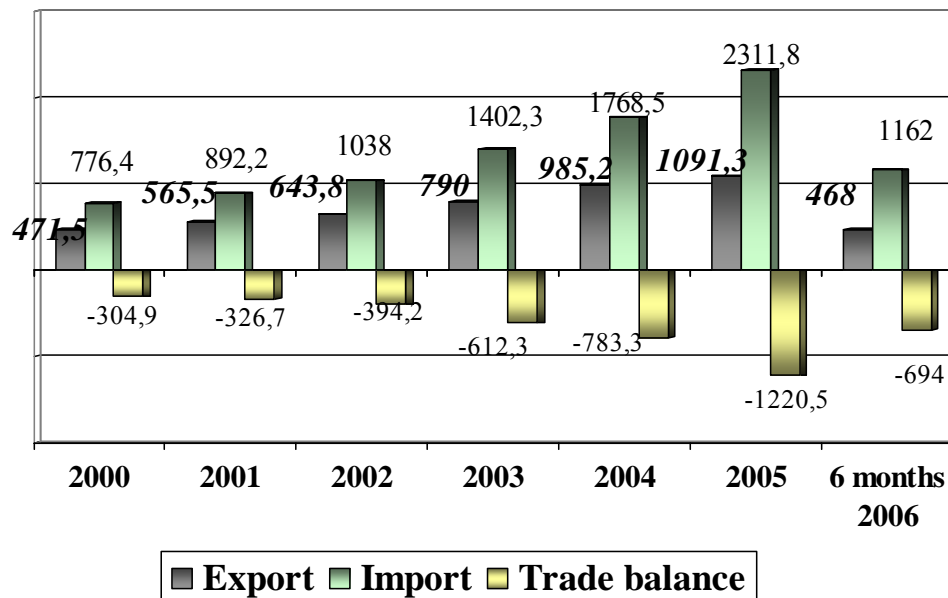
# Trade policy

- June 2001 – Moldova becomes member of WTO;
- June 2001 – Moldova becomes member of Stability Pact for South East Europe (SPSEE)
- Free Trade Agreements concluded with all SPSEE member-countries;
- Free Trade Agreements signed with 10 CIS countries (except Tadjikistan) and with Romania
- The Republic of Moldova benefits from the General System of Preferences Plus (GSP+) granted by the EU (about 9.7 th. groups of products out of 10.2 th. have free access on EU market without customs duties).

# Foreign trade (mln. US\$)



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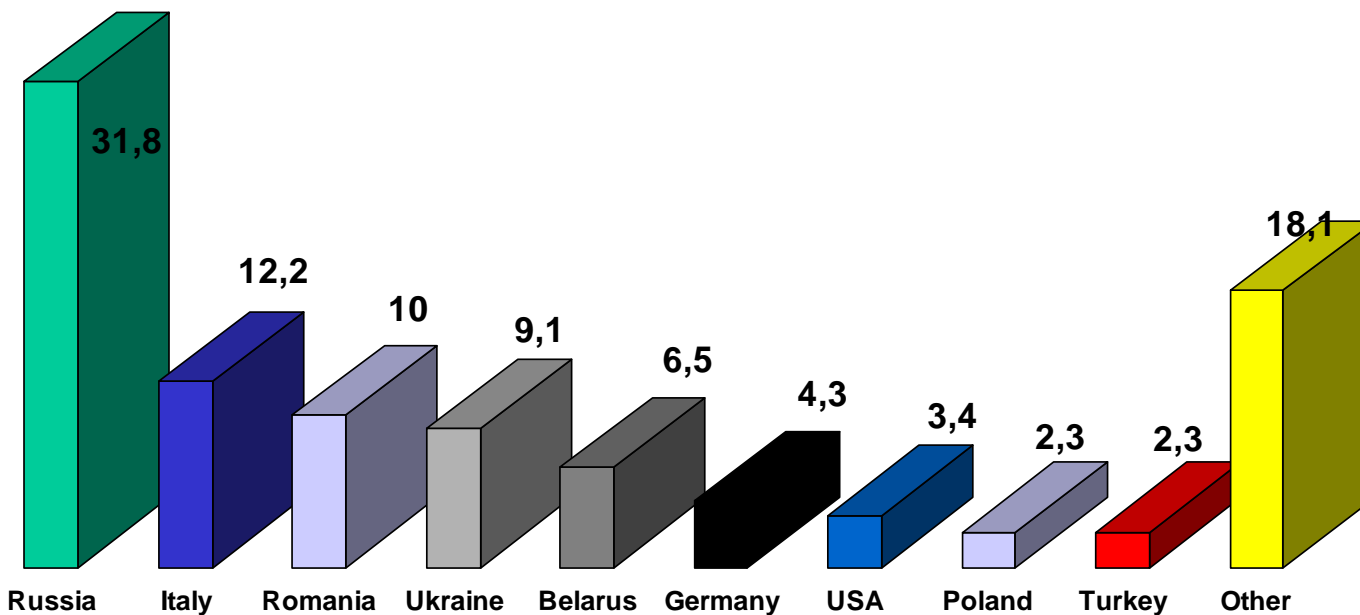
## Structure by regions (2003-2005)

	<i>Export, %</i>				<i>Import, %</i>			
	<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>6 months 2006</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>6 months 2006</i>
CIS Countries	53,61	51	50,51	44,96	42,3	43,24	39,62	39,39
European Union Countries	23,36	30,07	29,72	31,53	28,37	32,86	32,54	30,54
CEE Countries	15,66	10,73	11,13	15,54	17,18	11,26	12,65	13,21
Other countries	7,37	8,19	8,70	7,97	12,15	12,61	15,2	16,86

# Export: Main partners/products (%)



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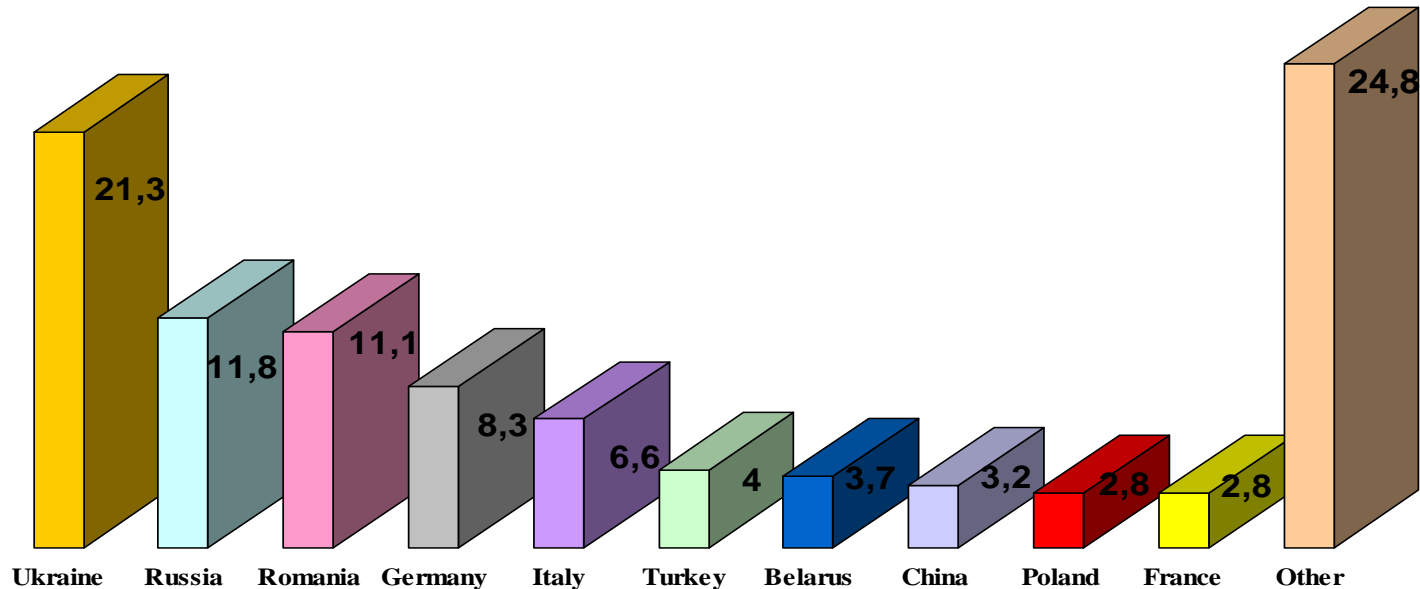


Goods	% share
Food, beverages and tobacco	36.3
Textiles and textile articles	17.8
Vegetable products	12.1
Hides and leather goods	6.6
Metal and metal articles	4.5
Machinery and equipment	4.2

# Import: Main partners/products (%)



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Goods	% share
Mineral products	21,8
Machinery and equipment	13,9
Chemicals	10,1
Textiles and textile articles	7,8
Metal and metal articles	7
Food, beverages and tobacco	6,5
Plastics, rubber, articles thereof	6,1
Vehicles and transport equipment	5,6



# Banking and financial system

## Levels:

### 1) National Bank of Moldova

- *Independent body*
- *Objective – to ensure price stability*
- *Supervises the activity of banks*
- *Controls the flows of foreign currency*

2) 15 Commercial banks, five largest banks accounting for over 70 per cent of total banking assets of almost 1.4 bn. US\$

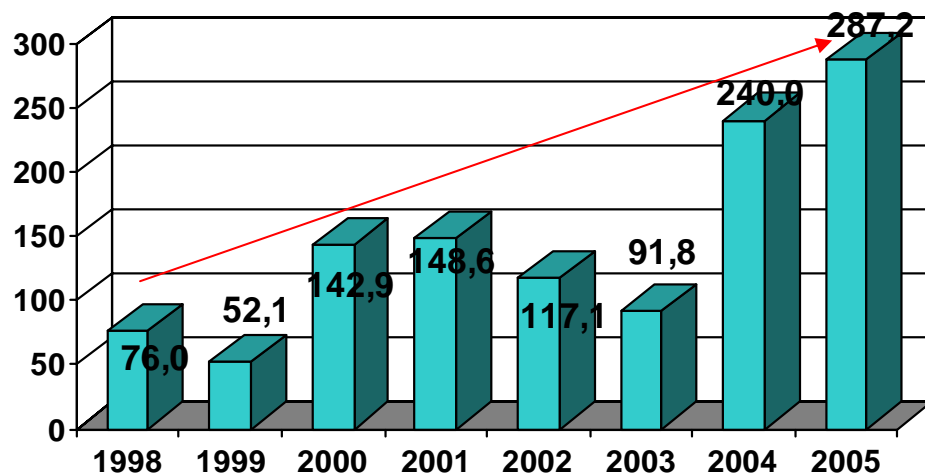
## Monetary policy for FDI:

- *Unlimited money exchange*
- *Possibility to keep foreign currency in company account*
- *Free repatriation of profits and capital*

# FDI Inflows



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Total cumulative  
since 1994:

**1.1 bn. US\$**

2002 – 117.12 mln. US \$

2003 – 91.75 mln. US \$

2004 – 240.0 mln. US \$ (+172%)

2005 – 287.2 mln. US \$ (+16.4%)

***4342 registered companies with foreign capital***

**By January 2006, the EU-member states had a share of 46% in total FDI stock, CIS countries – 22% and CEE countries – 3.4%**

# FDI Origin – top 10 (1994-2005)



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<b>Nr.</b>	<b>Country</b>	<b>mln. US\$</b>	<b>% of total</b>
1	Russia	147.75	20.6
2	Spain	81.24	11.3
3	USA	61.77	8.6
4	Netherlands	59.82	8.4
5	Germany	31.22	4.4
6	France	30.91	4.3
7	Romania	27.59	3.9
8	Switzerland	17.29	2.4
9	United Kingdom	15.91	2.2
10	Ireland	15.14	2.1

# Major foreign investors



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**METRO** Group



 **AZPETROL**



**TURKCELL**

**SUMMA**

 **france telecom**

 **LAFARGE**

 **UNION FENOSA**

  
**SÜDZUCKER**

**KNAUF**

**FOOD  
MASTER**

  
**Garling®**

**Brains  
GROUP**

*steilmann*  
GRUPPE

 **LUKOIL**  
OIL COMPANY

**ESASTAMPA**  
serigrafia

 **QBE**

**Trans Oil Ltd.**

**Coca-Cola**

# Legal framework

## ➤ ***Law on investments in entrepreneurial activity:***

- Based on "national treatment" principle;
- Allows 100% investment participation in all sectors of the economy, full repatriation of incomes;
- Ensures transparency between public authorities and foreign investors;
- Compensations and missed profits are repaired in case of disruptions for public benefit considerations;
- Guarantees against expropriation, forced interruption of activity;
- Clear framework for dispute settlement.

## ➤ ***ProInvest Program***

- Oriented to foreign and local investors
- Elimination of administrative barriers for business activities
- Priority sectors: Information technologies and software; Electronics and electronic equipment; Pharmaceuticals; Metal and plastics processing; Construction materials.

# Taxation

	2005	2006	2007
Corporate income tax (%)	18	15	15
Personal income Tax (%)	20	20	15
Social security payments (%)	27	26	25

## VAT rates:

### **Standard rate:**

20% - applied to imported goods and services and also delivered in Moldova

### **Reduced rate:**

8% - Bread, milk and their derivatives

5% - Natural gas and products of it

### **Zero rate:**

0% - goods and services with social purposes

## Excise duty applied on:

Alcohol products, tobacco, petroleum and its products, cars, gambling activities.

# Incentives

## ***Investment incentives:***

- Investments more than US\$2,000,000 – 100% reduction of income tax - 3 years;
- Investments more than USD 250 000 – 50% reduction of income tax - 5 years;

## ***Other incentives:***

- IT companies and employees of IT companies are exempted from income tax payment for a period of 5 consecutive years;
- Imported material goods to be included in equity capital are exempted of VAT and customs tax payment;
- Incentives for activity within a Free Economic Zone.

# Free Economic Zones



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"Expo-Business-Chisinau"

"Ungheni" – 107 km

"Tvardita" – 115 km

"Otaci-Business" – 220 km

"Vulkanesti" – 200 km

"Taraclia" – 153 km

- Import of raw material exempted from all taxes, excise and VAT, if exports > 70 % of total sales
- Corporate tax reduced with 50%
- Corporate tax exemption for 3 years – investments > 1 mln USD
- Corporate tax exemption for 5 years - investments > 5 mln USD



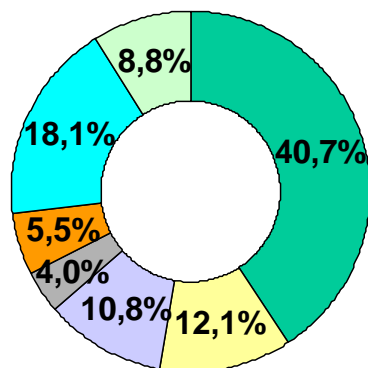
# Labor market overview



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	2000	2001	2002	2003	2004	2005
<b>Total population</b>	<b>3639</b>	<b>3630</b>	<b>3622</b>	<b>3612</b>	<b>3603</b>	<b>3391,7</b>
Economically active population, th.	1655	1617	1615	1474	1433	1422,3
Population employed in economy, total	1515	1499	1505	1356	1316	1318,7
Unemployed pers., th.	140	118	110	117	116,5	103,7
Unemployment rate	8,5	7,3	6,8	7,9	8,1	7,3

## Structure by sectors, %

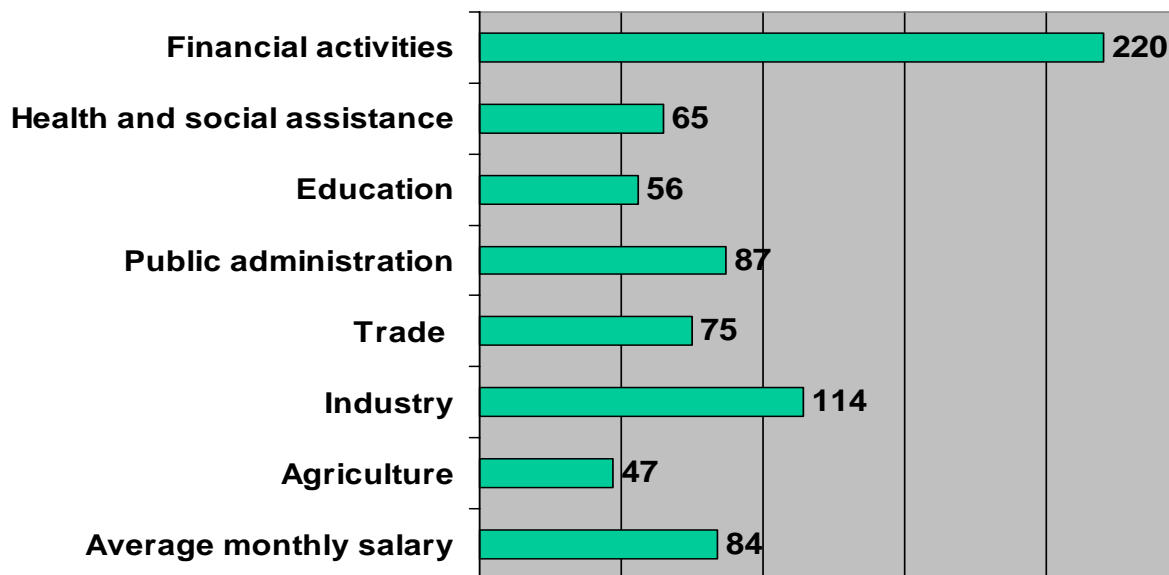


- Agriculture
- Industry
- Trade, hotels & restaurants
- Construction
- Transport & Communications
- Public sector, education, health care
- Other sectors

# Income policy (EUR) / Social Insurance



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	2002	2003	2004	2005	2006
<b>State social insurance tariff (%):</b>					
- Employers	29	29	28	27	26
- Employees	1	1	2	2	3
<b>Compulsory medical insurance contribution fee (%):</b>					
- Employers	-	-	2	2	2
- Employees	-	-	2	2	2

# Why Moldova?



- Favorable geographic position in the South Eastern Europe;
- Highly qualified labor force and relatively low labor cost;
- Access to a market of over 322 million people through its chain of FTAs; GSP granted by EU, Switzerland, Japan;
- One of the lowest corporate taxes in the region –15% and fiscal incentives on investments;
- Member of WTO (2001); Stability Pact for SEE (2001); PCA Agreement (1998);
- Well-developed banking system and international accounting standards.
- Fast developing High Tech sector;
- Fertile soils and favorable conditions for agriculture;
- Progressive visions on stimulating entrepreneurial activity.

# Sectors overview



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- Agribusiness development
- Textile & Garment
- IT development
- Tourism Development

# Agribusiness - Characteristics



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- 75% of total arable land is “black soil”
- Middle country climate (average temp January – 3.5° C)
- Food industry is a major player in the domestic industries and accounts for about 50 % of the total country’s export
- 40 % of the total population is working in agriculture
- Strong wine and wine growing industry
- Stable and promising fruit and vegetable processing industry
- Relatively small dairy and meat production

# Overview of wine sector

- 2.3 % of world vineyards (147 th. ha)
- 25% of employed workforce
- 9% of country GDP
- 30% of country's exports



*Production of bottled wine in 2005  
has increased with 14%  
to up to 24,053 million dal.*

## Companies

- 130 wineries
- 20 producers of divine and brandy
- 10 producers of sparkling wine
- 3 large wine cellars

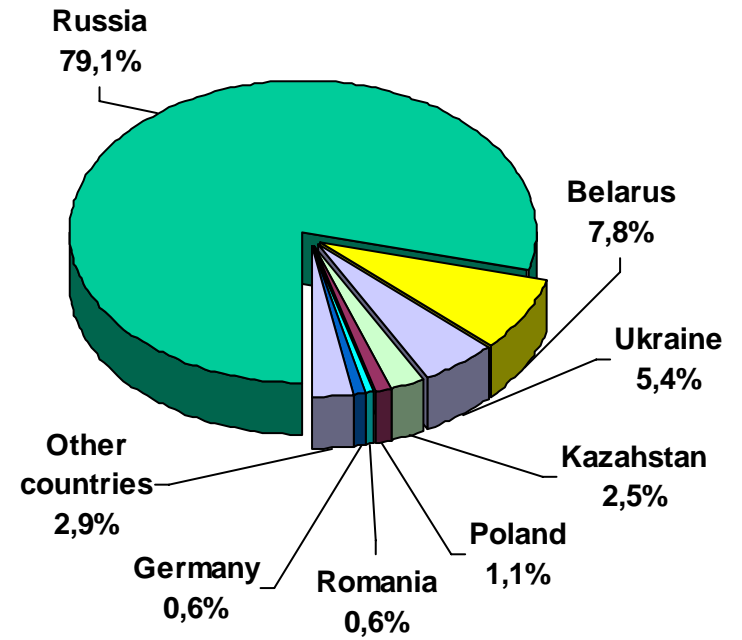
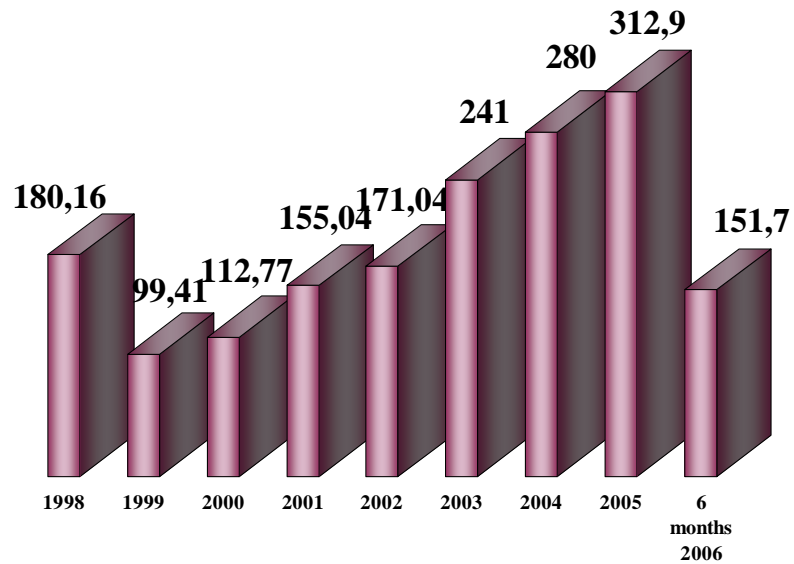


# Export of wines



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Exports (mln. \$)



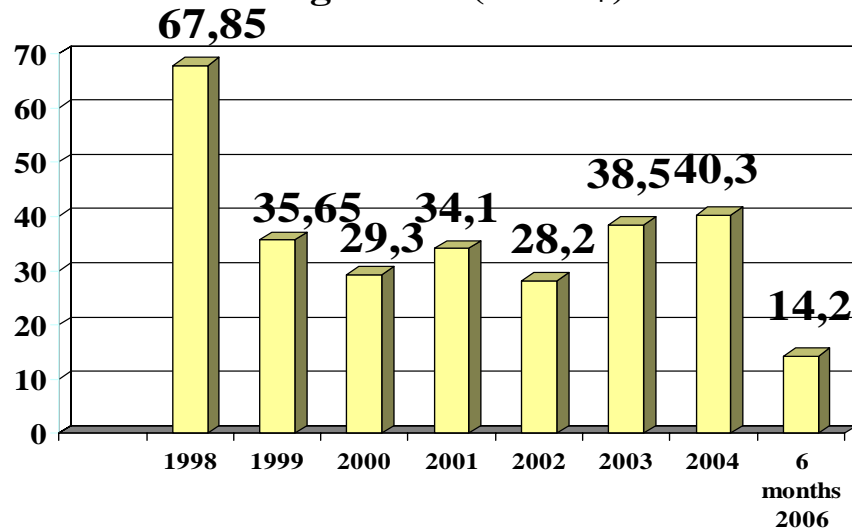
# Fruits & Vegetables Processing



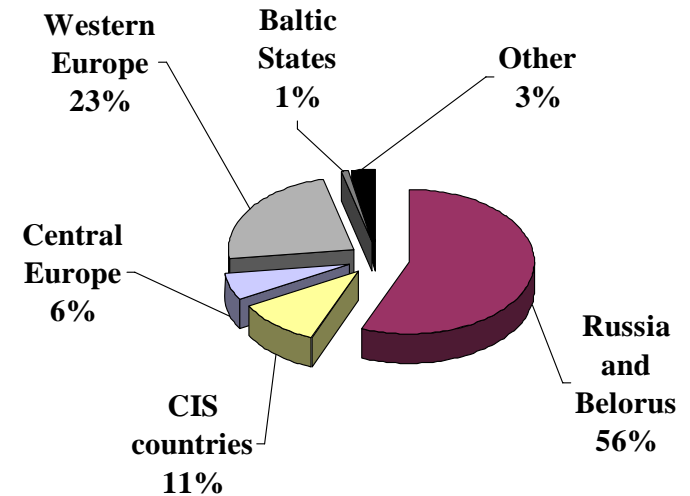
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- 6 main producers
- Production capacity of:
  - 300,000 tons of canned F&V
  - 60,000 tons of apple juice
  - 6,000 tons of dried fruits
  - 4,000 tons of frozen fruits

Export of processed and canned fruits and vegetables (mln. \$)



Export markets





# Investment Opportunities



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<b>Criterion</b>	<b>Frozen F&amp;V</b>	<b>Fresh F&amp;V</b>	<b>Dried F&amp;V</b>
Size of Capex Investment	\$ 587,202	\$ 569,871	\$ 563,667
Total full capacity production of finished product	975 mt	1,554 mt	180 mt
Projected sales	\$ 669,480	\$ 523,512	\$ 505,024
Projected after-tax profit	\$ 129,652	\$77,899	\$ 71,899
Internal Rate of Return	22%	17%	11%
Payback period	4 years	4,5 years	6 years

\* Source: "MOLDOVAN HIGH VALUE AGRICULTURE COMPETITIVENESS STUDY", CNFA-USAID, 2004

## **Investment Opportunities/Needs**

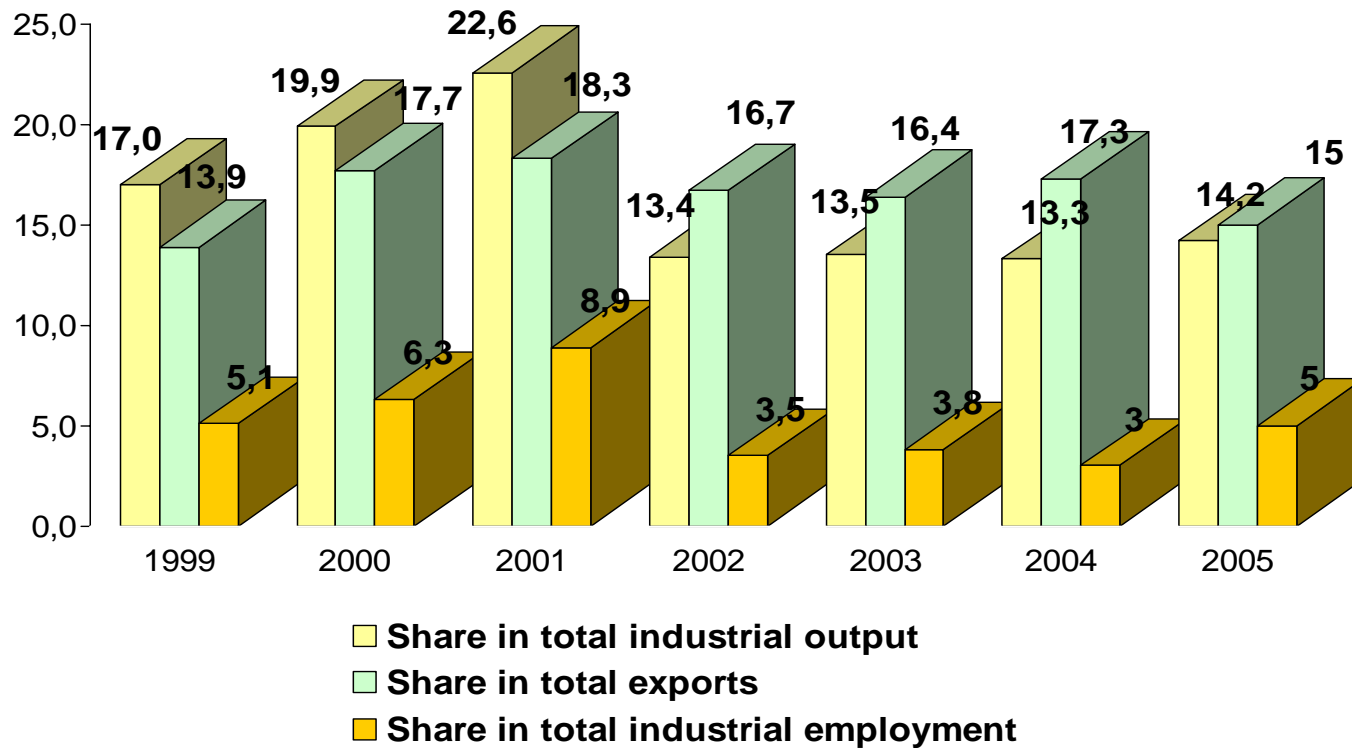
- **Plantation of orchards**
- **Packaging, quality improvement**
- **Storage facilities for fresh, frozen, dried fruits and vegetables**

# Textile & Apparel - Performance overview



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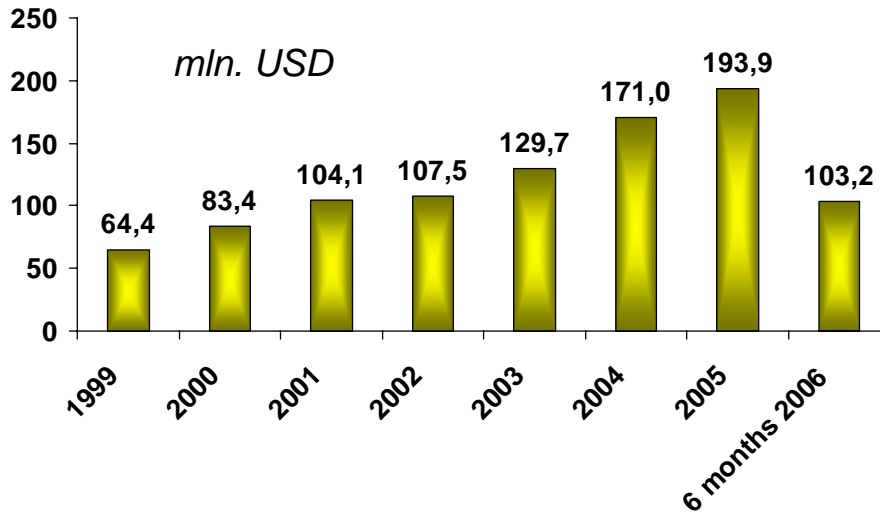
Share of textile and apparel industry in Moldovan economy, %



# Export of textiles and apparel



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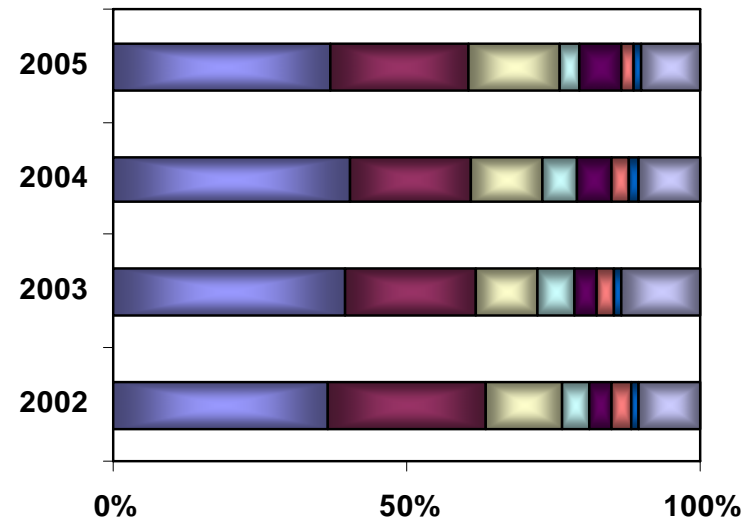


Total exports of textiles and related products

## Textiles and apparel export structure by countries

% to total

- Italy
- Germany
- USA
- Russia
- Romania
- The Netherlands
- United Kingdom
- Other



# Textiles and Apparel production

- one of the most dynamic sectors of Moldovan economy
- there are operating 70 companies, of which 33 are medium and large
- total number of employees within the sector – 12 th.
- annual production volume – over US\$64 mil.
- most of companies operate on inward processing basis (CM/CMT)
- almost 100% export oriented garments are mainly exported towards EU (Germany, Italy, Belgium, U.K.), USA etc.

# Key Success Factors



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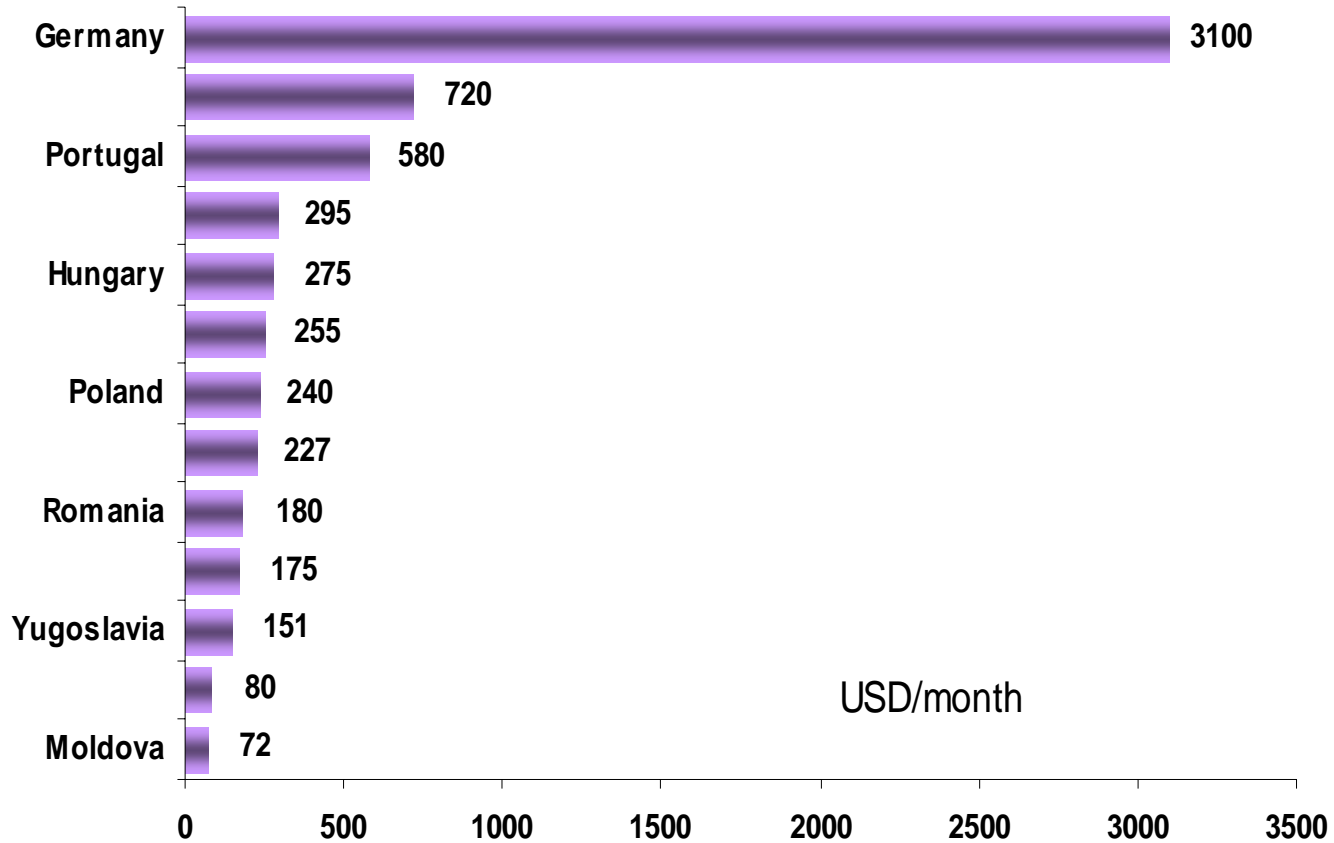
- Good qualification of labour force and good discipline, that cumulatively result in good quality of final product
- Relatively high productivity and good technical know-how
- The lowest level of labour force cost in the region
- Short distance (resulting in relatively short delivery times) and enhanced access to target markets (EU, Russia etc.)
- The absorption capacity of Russian and Ukrainian markets of textiles and related products is estimated at about 14 billion USD with an annual growth of about 5%

# Production costs



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Apparel industry monthly labour costs including social charges



Source: OETH, Werner International

# Production costs

Price of one standard minute from various sources *USD/min*

<b>Moldova</b>	<b>0.035</b>
<b>China</b>	<b>0.051</b>
<b>Russia</b>	<b>0.060</b>
<b>Romania</b>	<b>0.079</b>
<b>Baltic States</b>	<b>0.114</b>
<b>Yugoslavia</b>	<b>0.118</b>
<b>Portugal</b>	<b>0.158</b>

Source: OETH, Werner International

# Competitive advantages

The competitive advantage of Moldovan apparel industry compared to CIS and Chinese competitors

	Compared to CIS countries Moldova is			Compared to China Moldova is		
	More competitive	Same	Less competitive	More competitive	Same	Less competitive
Material prices		√				√
Direct labor costs	√			√		
Minute selling price	√			√		
Plant efficiency			√			√
Indirect personnel			√		√	
Quality		√			√	
Lead times		√		√		
Production facilities			√			√

Source: EA-Projects Ltd



# Cooperation opportunities

- Export of raw material to Moldovan enterprises
- Subcontracting under CM / CMT contracts
- Greenfield Investments or establishing Joint Ventures for the production of ready to sell garments
- Development and strengthening design, marketing, financing capacities of existing apparel producers in Moldova

# ICT sector overview



- About 50,000 PCs are annually installed;
- There are about 406,000 Internet users, 40% increase comparing to previous year;
- 4% of total population own a PC;
- More than 1.1 million people use mobile telephony;
- The Moldovan ICT market account increased by 50% to US\$ 286 mln.
- Total investments in the ICT sector increased by 46% to US\$ 93 mln.
- There are 7 high education institutions including 3 colleges, which enroll more than 3000 students at ICT faculties

# Background of the IT sector in Moldova

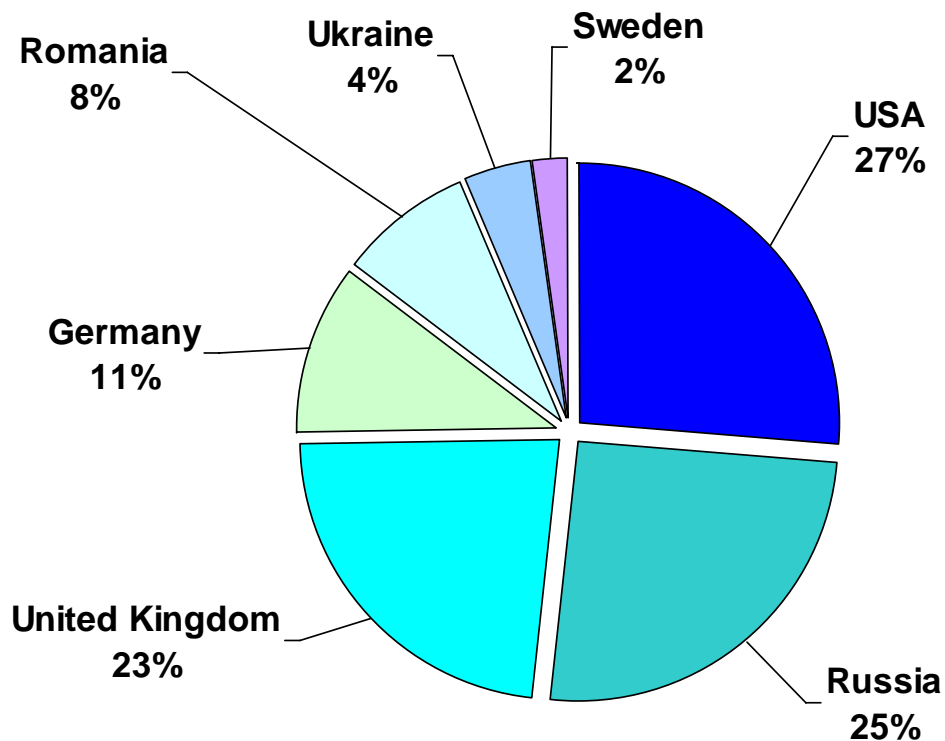


- Historical high-tech specialization;
- More than 110 companies currently develop software;
- Four Universities prepare specialists in the ICT domain (1000 graduates annually);
- Turnover of software development companies exceed US\$ 20 mln.
- Production of software products is estimated at about US\$3 mln.
- Exports are estimated at US\$2 million.

# Software export by countries, %



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# Products and services



## Software products:

- Content management applications
- News syndication applications
- Billing, financial and accounting applications
- Banking systems
- Encryption utilities
- E-commerce applications
- E-mail clients
- Search engines

Custom programming costs 8-10 USD/hour

# Labour cost



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<b>Function</b>	<b>Average net monthly salary, US\$</b>
Programmer	350
Project manager	500
Tester	300
Content manager	300
Designer	350
Developer of technical documentation	450
Administrative staff	500
Technical staff	200

# Programming languages



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<b>Programming Language</b>	<b>% of IT companies able to program in this language</b>
<b>C/C++</b>	<b>89</b>
<b>HTML</b>	<b>70</b>
<b>Visual Basic</b>	<b>61</b>
<b>Java ( Java2)</b>	<b>45</b>
<b>Delphi</b>	<b>40</b>
<b>MySQL</b>	<b>34</b>
<b>JavaScript</b>	<b>28</b>
<b>Assembler, Perl, PHP, FlashScript</b>	<b>20-25</b>
<b>ASP, XML, Visual C</b>	<b>15-20</b>

# Tax incentives

- IT companies are exempted from income tax payment for a period of 5 consecutive years after establishment of the statutory capital and declaration of first taxable income;
- Employees of IT companies are exempted from income tax payment for a period of 5 consecutive years, this facility being applied for incomes obtained under the individual labor contract.



# Comparative advantages/Opportunities



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## **Advantages**

- Historical specialization in high-tech
- Inflow of young specialists in the industry
- Good qualification and relatively low labor cost

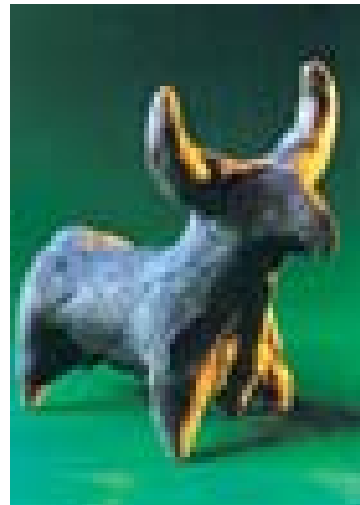
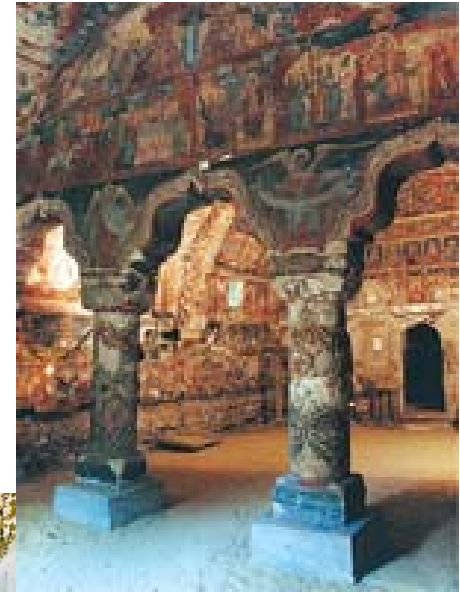
## **Opportunities**

- Tax incentives to IT companies
- Software localization for Russia and Romania
- Strong relationships with CIS countries/markets
- Closeness to the Western Europe (GMT +2)
- Trend of developed countries to subcontract IT services

# Tourism - Main Attractions



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# Natural Attractions



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"Codrii" Reserve (5,177 ha)

"Padurea Domneasca" Reserve (6,032 ha)

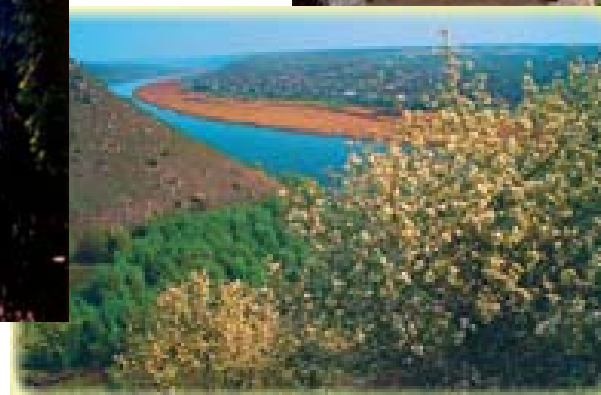
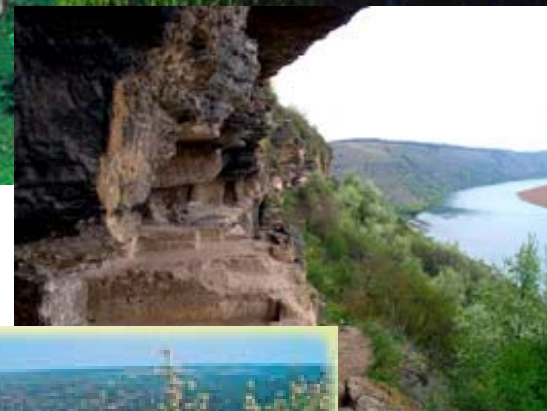
Tipova Reserve

Saharna Reserve

Taul Park

"Plaiul Fagului" Reserve (5,642 ha)

"Emil Racovita" Cave



# Historic Buildings & Museums



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Soroca Fortress (1545)



Tighina Fortress (1408)



Museum Complex “Medieval Town of Orhei“  
(IV-I BC)



“Manuc Bei” Mansion



The National History Museum

The National Ethnography & Natural History  
Museum

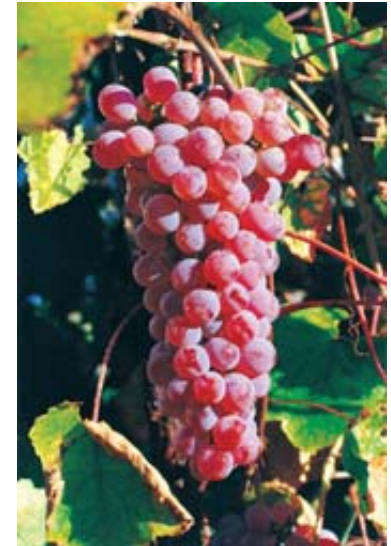


# Wine Tourism



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- The National Program “The Wine Road in Moldova”
- Wine Festival



- Cricova Winery
- Milestii Mici Winery
- Cojusna Winery

# Other tourist attractions



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## Health & Beauty Tourism



## Business Tourism

- Fairs & Exhibitions
- Conference Venues



## Special Interest Tourism

- Hunting
- Fishing
- Paragliding
- Speleology





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