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

Chisinau, 10 July, 2008



**Moldova**

# What can Moldova Offer

- **Favorable geographic position in the South Eastern Europe;**
- **Highly qualified labor force and relatively low labor cost;**
- **Market access and regional market potential**
- **One of the lowest corporate taxes in the region –15% and extended fiscal incentives on investments;**
- **Well-developed banking system and international accounting standards.**
- **Fertile soils and favorable conditions for agriculture;**
- **Progressive visions on stimulating entrepreneurial activity.**





# Moldova – general overview

## Moldova

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





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# Macroeconomic Development

GDP Growth



Inflation/Exchange rate,  
%



*During 2000-2007 years Government policy was oriented to assurance of macroeconomic stability, development of real sector of economy, promotion of structural reforms, intensification of external commerce.*



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# Foreign trade (mln. US\$)



## Structure by regions

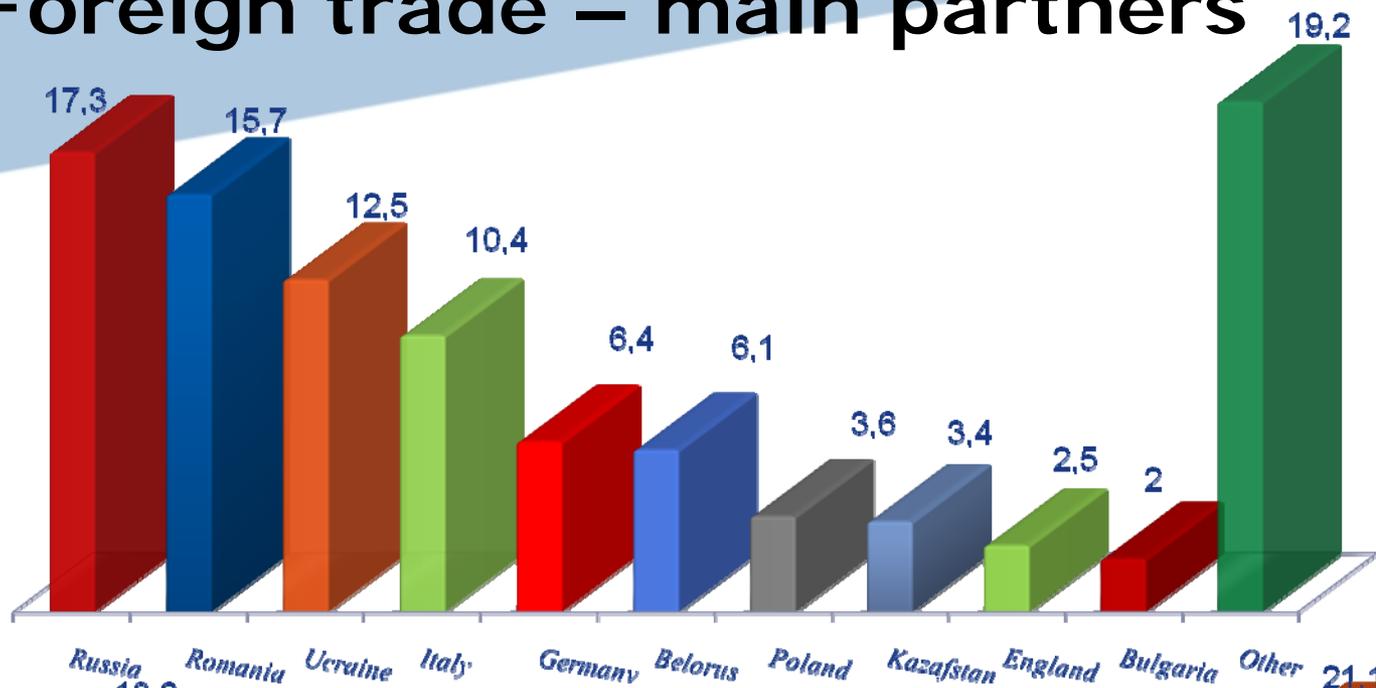
| regions         | Export, % |      |      |      |               | Import, % |      |      |      |               |
|-----------------|-----------|------|------|------|---------------|-----------|------|------|------|---------------|
|                 | 2003      | 2004 | 2005 | 2006 | 2007          | 2003      | 2004 | 2005 | 2006 | 2007          |
| EU countries    | 26.7      | 30,1 | 40,7 | 51.1 | EU-27<br>50.6 | 36.0      | 32,9 | 45.3 | 45.2 | EU-27<br>45.6 |
| CIS countries   | 53,6      | 51,0 | 50,5 | 40,3 | 41            | 42,3      | 43,2 | 39,5 | 37,9 | 36.1          |
| Other countries | 19.7      | 18,9 | 8.8  | 8.6  | 8.4           | 21.7      | 23.9 | 15.2 | 16.9 | 18.3          |



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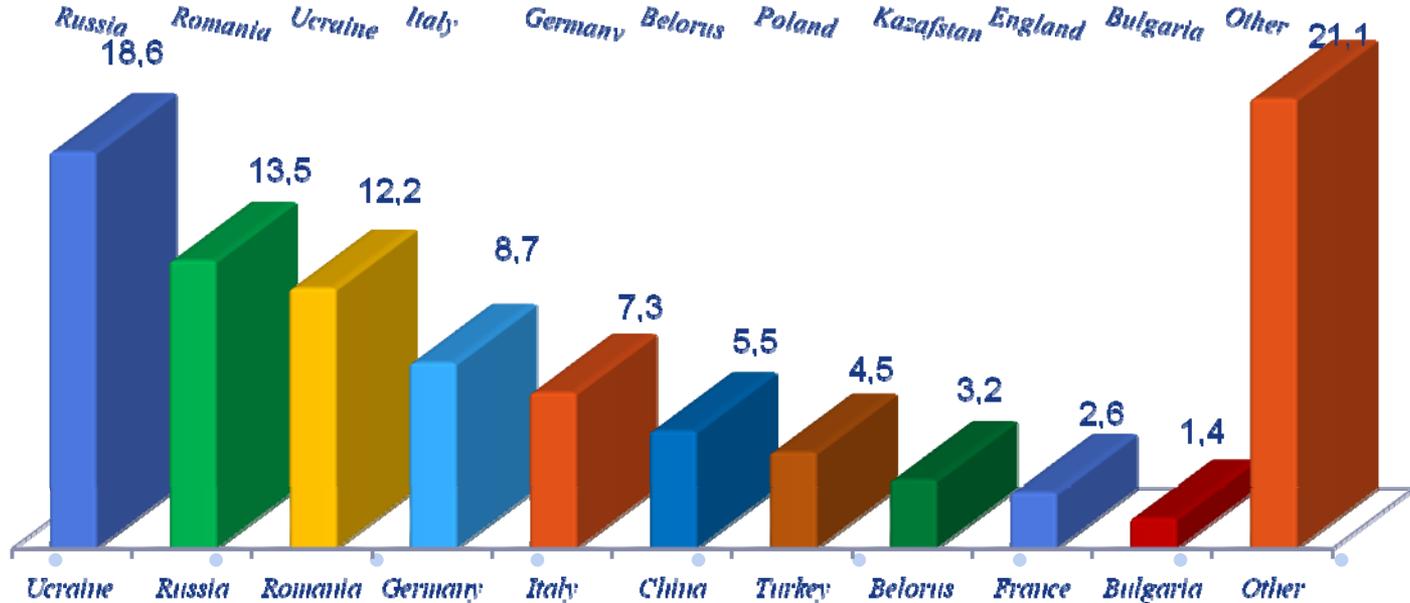
# Foreign trade – main partners

Export



2007

Import





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# Trade policy

- June 2001 – Moldova becomes member of WTO;
- June 2001 – Moldova becomes member of Stability Pact for South East Europe (SPSEE)
- December 2006 – Moldova signs Central European Free Trade Agreement and becomes member of this agreement.
- Free Trade Agreements concluded with all SPSEE member-countries;
- Free Trade Agreements signed with 10 CIS countries (except Tadjikistan)
- 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).
- 1<sup>st</sup> March 2008 – Moldova will benefit from Autonomous Trade Preferences (ATP) offered by European Union.



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# Free Economic Zones

"Expo-Business-Chisinau"

"Ungheni" – 107 km

"Tvardita" – 115 km

"Otaci-Business" – 220 km

"Vulkanesti" – 200 km

"Taraclia" – 153 km

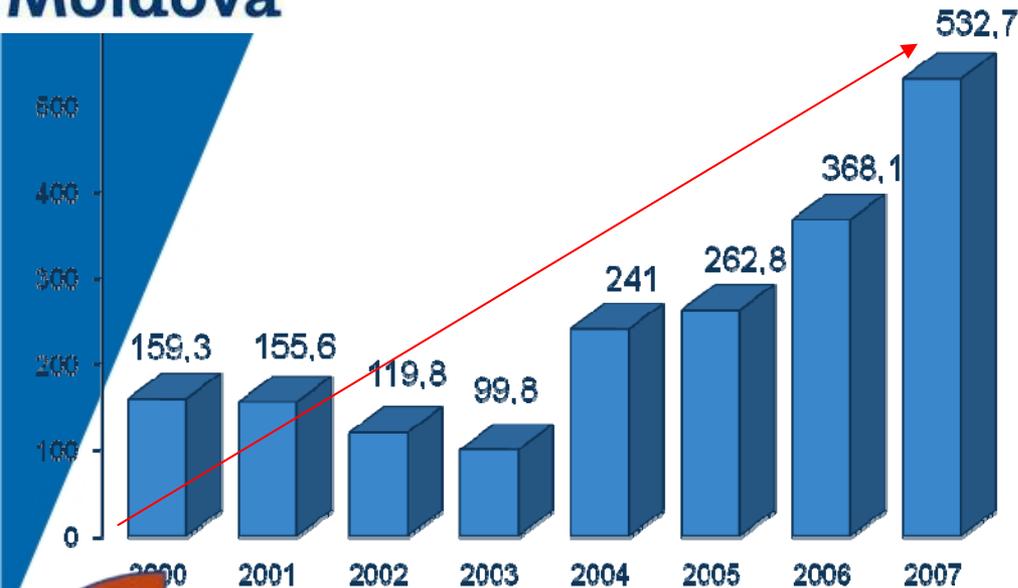
- Import of raw material exempted from all taxes, excise and VAT, if exports > 70 % of total sales
- Corporate tax reduced with 50%
- Corporate tax exemption for 3 years – investments > 1 mln USD
- Corporate tax exemption for 5 years - investments > 5 mln USD





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# Moldova - FDI Inflows



## Share of Net FDI in GDP

|                   | 2003       | 2004       | 2005       | 2006       | 2007        |
|-------------------|------------|------------|------------|------------|-------------|
| FDI, mill. US\$   | 73,8       | 151,0      | 197,4      | 241,9      | 448         |
| GDP, mill. US\$   | 1981,2     | 2598,1     | 2988       | 3409       | 4395        |
| <b>FDI/GDP, %</b> | <b>3,7</b> | <b>5,8</b> | <b>6,6</b> | <b>7,1</b> | <b>10,2</b> |

**Total cumulative**

**1.7 billion US\$**

*Actually, businessmen from more than 80 countries are investing in Moldova, the major investments being from European Union countries, CIS countries, USA and Canada.*

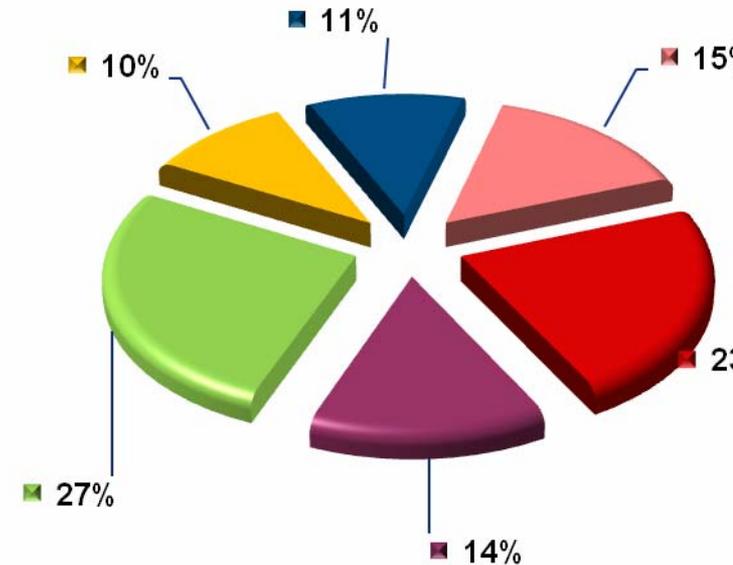


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# FDI in Moldova by countries of origin and breakdown by sectors

In 2007

| Nr. | Country            | % from total |
|-----|--------------------|--------------|
| 1   | Netherlands        | 21           |
| 2   | Russian Federation | 10.6         |
| 3   | Italy              | 10,2         |
| 4   | Cyprus             | 10,0         |
| 5   | Spain              | 7,8          |
| 6   | United Kingdom     | 5,0          |
| 7   | Germany            | 4,9          |
| 8   | USA                | 4,2          |
| 9   | Romania            | 3,8          |
| 10  | France             | 3,8          |
| 11  | Ukraine            | 1,1          |
|     | <b>Total</b>       | <b>100</b>   |



*There are 6357 registered companies with foreign capital. During 2007, there were 851 registered companies with foreign capital.*



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# 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.





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# Investment Incentives

## ***Investment facilities:***

- Foreign investments to be included in equity capital more than US\$250 000 – 50% reduction of corporate tax - 5 years;
- Foreign investments to be included in equity capital more than US\$2,000,000 – 100% reduction of corporate tax - 3 years;
- *Capital investment is made or statutory capital is formed or increased by contributions that exceed the equivalent of USD 2 (5, 10, 20, 50) million and reinvest in the development of their own production, or in state or other national economy development programs, at least 80 (50, 25, 10, 0) % of the calculated but unpaid amount of the income tax – 100% corporate income tax exemption during 3 (3, 3, 4, 4) 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.



# Republic of Moldova and cooperation within regional structures



- *Co-operation activities;*
- *Know-how exchange Programme;*
- *Technical Cooperation Projects*



- *EU's regional initiative - "Black Sea Synergy"*
- *Project Development Fund*
- *Black Sea Trade and Investment Promotion Program*



- *Investment Compact for South-East Europe*
- *Investment Reform Index*





# THANK YOU FOR ATTENTION!

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