



Moldova

THE ECONOMIC SITUATION AND INVESTMENT CLIMATE OF THE REPUBLIC OF MOLDOVA



Moldova

General country overview

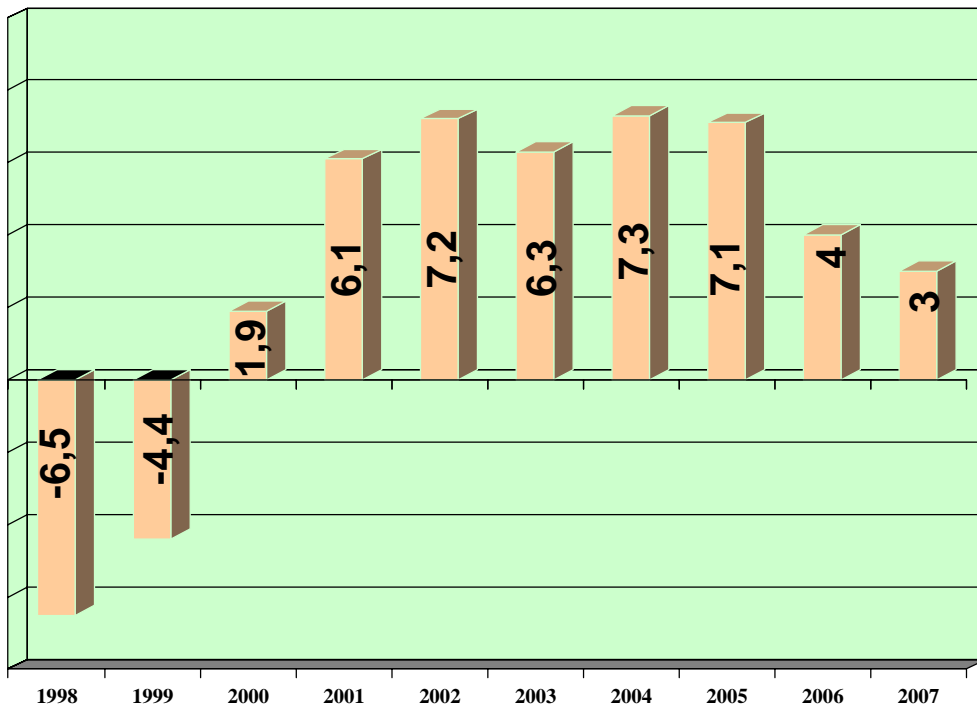
| | |
|-----------------------|---|
| Area: | 33,800 km ² |
| Population: | 3.58 million |
| Capital: | Chisinau - 717,000 citizens |
| Climate: | moderate winter (Jan. -4 -7°C), warm summer (Jul. +25 +28°C) |
| Official language: | Moldovan, also Russian spoken |
| National Legislature: | Unicameral assembly, the Parliament has 101 members |
| Head of state: | Vladimir Voronin |
| Administrative units: | 32 |
| National currency: | Moldovan Leu (MDL) |
| Exchange rate: | <i>1 € = MDL 16.20</i> <i>1 \$ = MDL 11.20</i> |

Macroeconomic Development

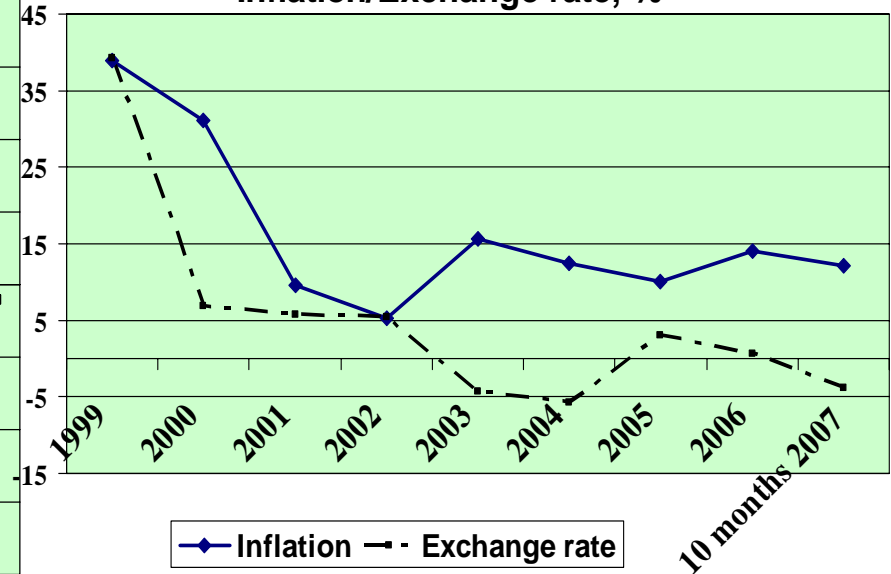


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GDP growth, %



Inflation/Exchange rate, %



During 2000-2006 years Government policy was oriented to assurance of macroeconomic stability, development of real sector of economy, promotion of structural reforms, intensification of external commerce.

In 2007, macroeconomic policies have been oriented to assure a GDP growth of at least 6%, but due to the drought that hit Moldova, only a 3% GDP growth was recorded

Trade policy



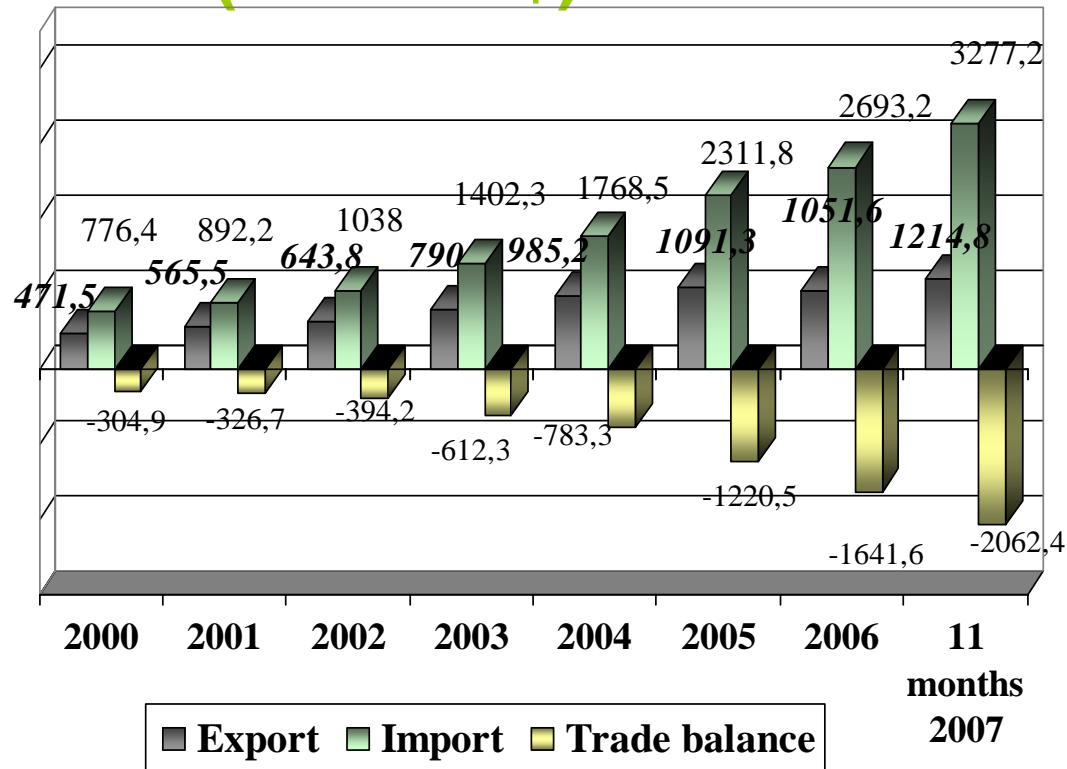
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- June 2001 – Moldova becomes member of WTO;
- June 2001 – Moldova becomes member of Stability Pact for South East Europe (SPSEE)
- December 2006 – Moldova signs Central European Free Trade Agreement and becomes member of this agreement.
- Free Trade Agreements 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 9.2 th. groups of products out of 10.2 th. have free access on EU market without customs duties).
- 2008 - Moldova is benefiting from the Autonomous Trade Preferences (ATP). ATP basically allows virtually all products originating in the beneficiary countries to enter the EU without quantitative restrictions and customs duties

Foreign trade (mln. US\$)



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Structure by regions

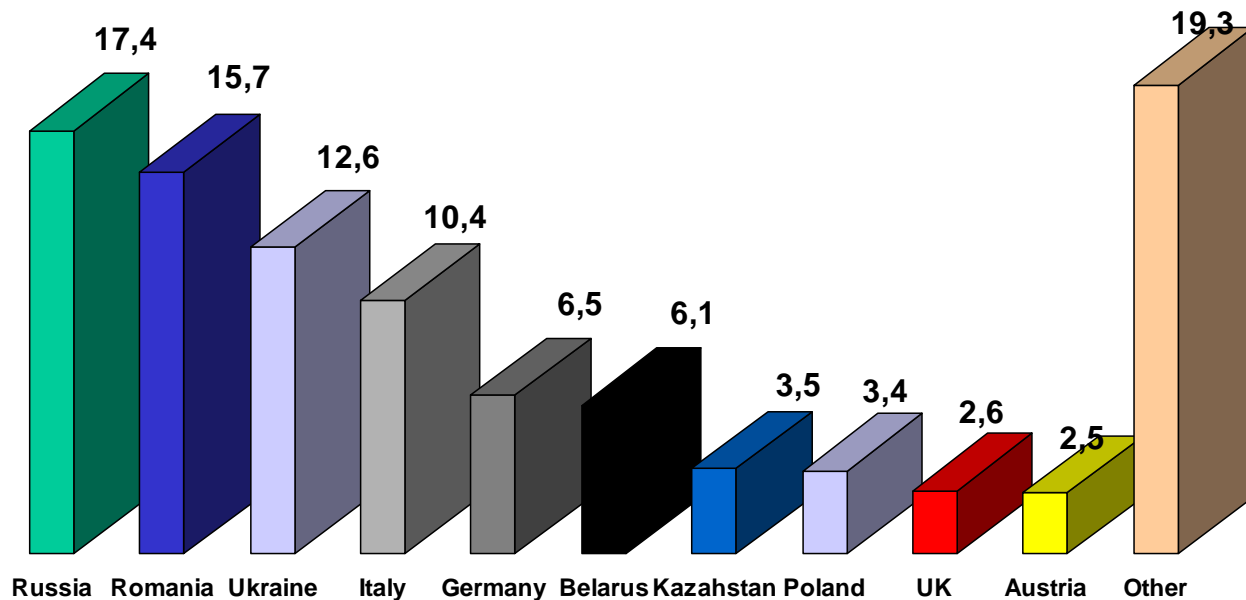
| | <i>Export, %</i> | | | | | <i>Import, %</i> | | | | |
|--------------------------|------------------|-------------|-------------|-------------|-----------------------|------------------|-------------|-------------|-------------|-----------------------|
| | <i>2003</i> | <i>2004</i> | <i>2005</i> | <i>2006</i> | <i>11 months 2007</i> | <i>2003</i> | <i>2004</i> | <i>2005</i> | <i>2006</i> | <i>11 months 2007</i> |
| European Union Countries | 23,4 | 30,1 | 29,7 | 35 | <i>EU-27</i> 50.5 | 28,4 | 32,9 | 32,5 | 31,1 | <i>EU-27</i> 45.6 |
| CIS Countries | 53,6 | 51,0 | 50,5 | 40,3 | 41,1 | 42,3 | 43,2 | 39,6 | 37,9 | 36.2 |
| Other countries | 23 | 18,9 | 19.8 | 24.7 | 8.4 | 29.3 | 23.9 | 27.9 | 31 | 18.2 |

Foreign trade – main partners



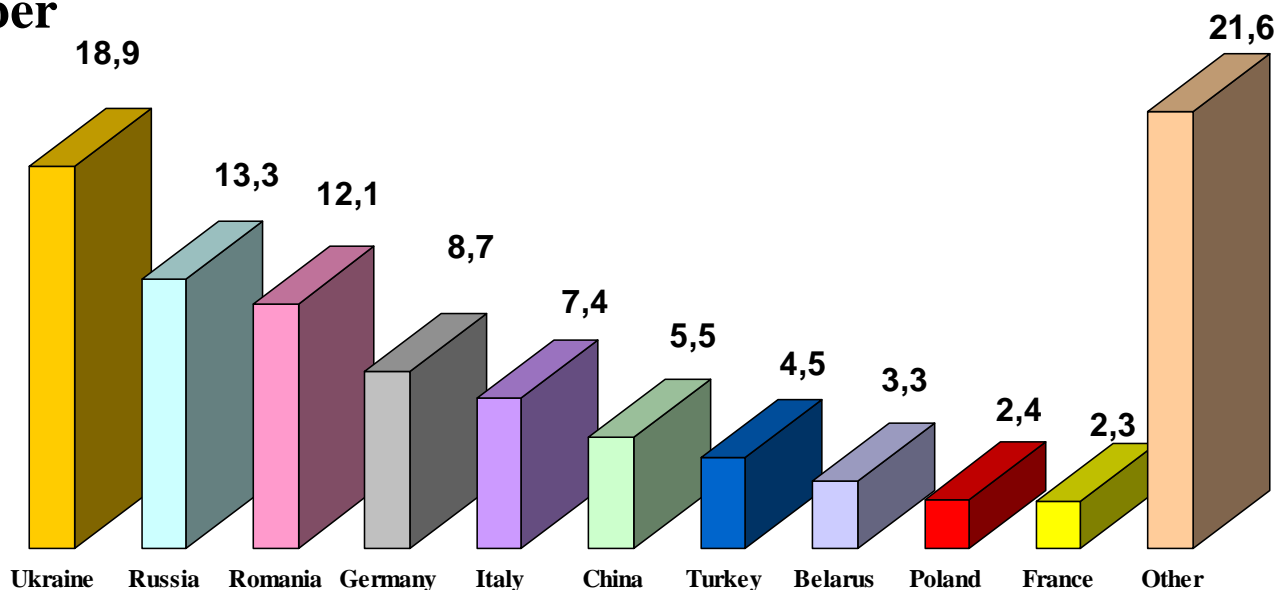
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Export



January – November
2007

Import



Banking and financial system



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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 1.5 bn. US\$

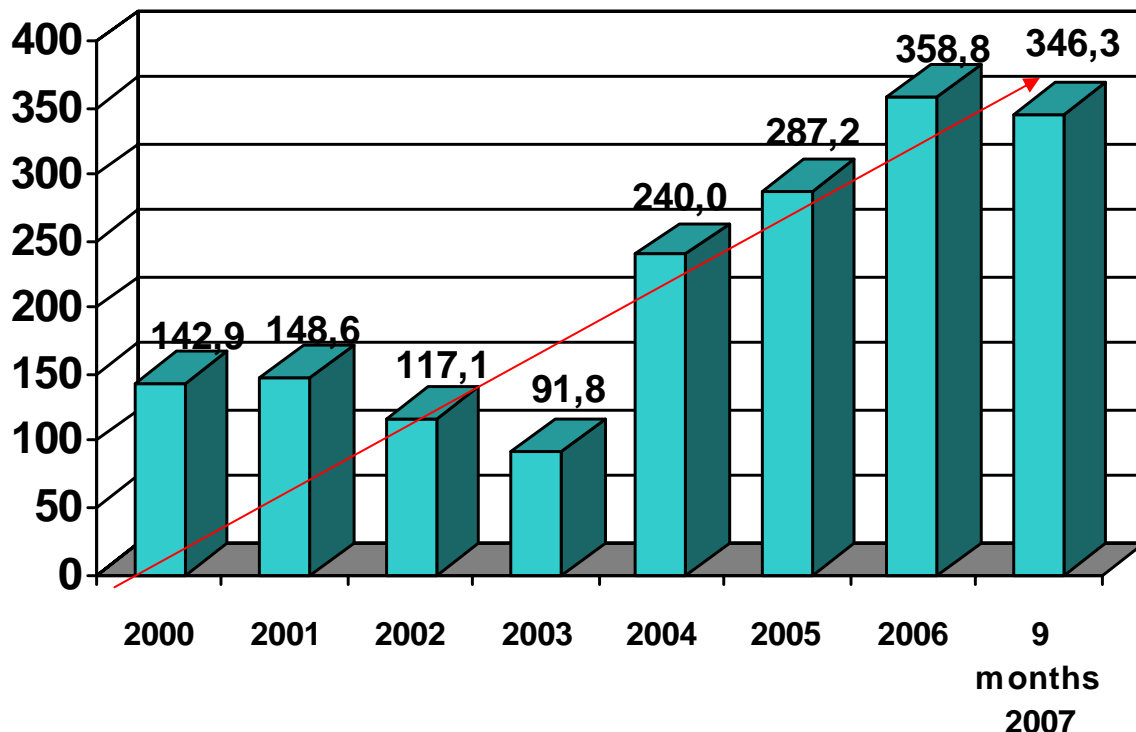
Monetary policy for FDI:

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

Foreign direct investments (FDI) Inflows



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Total cumulative
since 1994:

1.7 bn. US\$

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

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

FDI in Moldova by countries of origin

As of 1st September 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 |
| | Total | 100 |

Major foreign investors



Moldova



Investment facilities

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;

For 2007 it is provided:

- *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.

Taxation

Starting with 2008, taxation system applied to legal entities will be restructured - the income tax will be equal to 0 for all enterprises. The 15% share will be applied only to dividends.

| | 2005 | 2006 | 2007 | 2008 |
|------------------------------|---------|---------|---------|------|
| Corporate income tax (%) | 18 | 15 | 15 | 0 |
| Personal income Tax (%) | 9,14,20 | 8,13,20 | 7,10,20 | 7,18 |
| Social security payments (%) | 27 | 26 | 25 | 24 |

VAT rates:

Standard rate:

20% - applied to manufactured and imported goods and services in Moldova

Reduced rate:

8% - Bread, milk and their derivatives

5% - Natural gas and its products

Excise duty applied on:

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

Free Economic Zones



Moldova



"Expo-Business-Chisinau"

"Ungheni" – 107 km

"Tvardita" – 115 km

"Otaci-Business" – 220 km

"Vulkanesti" – 200 km

"Taracalia" – 153 km

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

Labor market overview / Social Insurance



| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 3 rd quarter 2007 |
|---------------------------------------|-------------|-------------|-------------|-------------|-------------|---------------|---------------|------------------------------|
| Total population | 3639 | 3630 | 3622 | 3612 | 3603 | 3391,7 | 3581,1 | 3580 |
| Economically active population, th. | 1655 | 1617 | 1615 | 1474 | 1433 | 1422,3 | 1357,2 | 1364 |
| Population employed in economy, total | 1515 | 1499 | 1505 | 1356 | 1316 | 1318,7 | 1257,3 | 1294 |
| Unemployed pers., th. | 140 | 118 | 110 | 117 | 116,5 | 103,7 | 100.0 | 70 |
| Unemployment rate, % | 8,5 | 7,3 | 6,8 | 7,9 | 8,1 | 7,3 | 8,9 | 5.1 |

| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|------|------|------|------|------|------|------|
| State social insurance tariff (%): | | | | | | | |
| - Employers | 29 | 29 | 28 | 27 | 26 | 25 | 24 |
| - Employees | 1 | 1 | 2 | 2 | 3 | 4 | 5 |
| Compulsory medical insurance contribution fee (%): | | | | | | | |
| - Employers | - | - | 2 | 2 | 2 | 2.5 | 3 |
| - Employees | - | - | 2 | 2 | 2 | 2.5 | 3 |

Why Moldova?



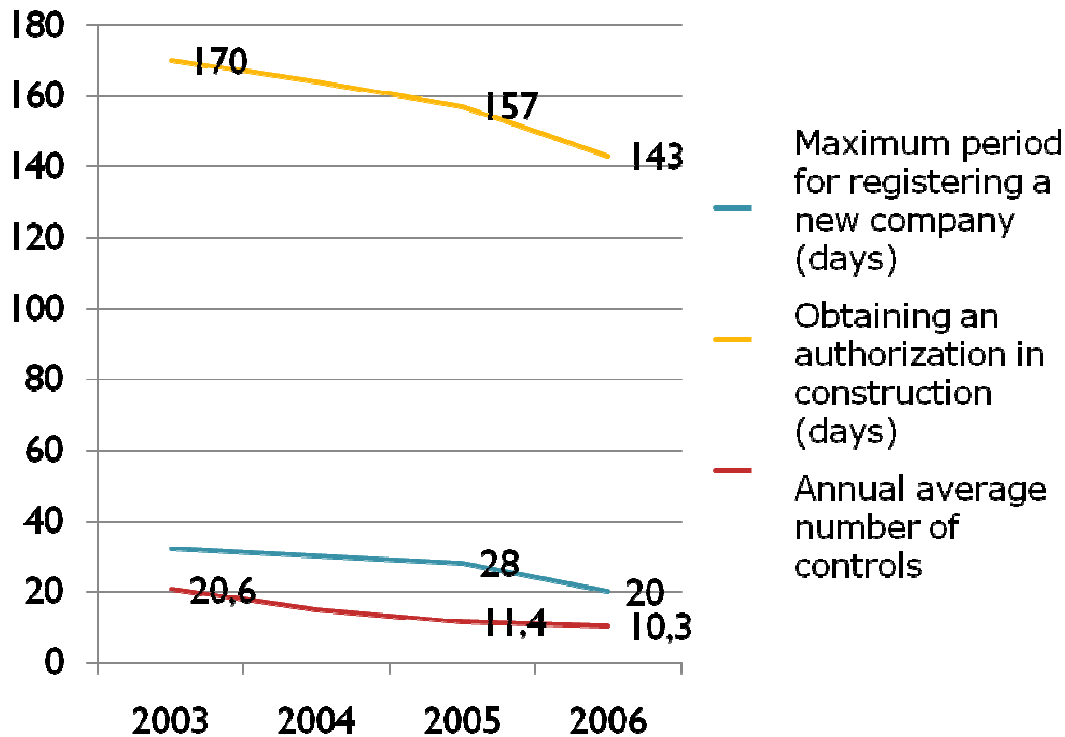
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- Favorable geographic position in the South Eastern Europe;
- Highly qualified labor force and relatively low labor cost;
- Access to a market of over 320 million people through its chain of FTAs (CIS, Stability Pact in South-East Europe); GSP granted by EU;
- The lowest corporate tax in the region –0% and 15 % on dividends;
- 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.

Starting a business in Moldova

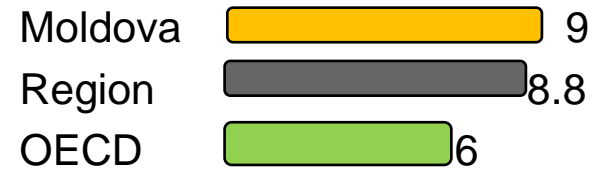


Practical results



World Bank Group "Doing Business" 2008

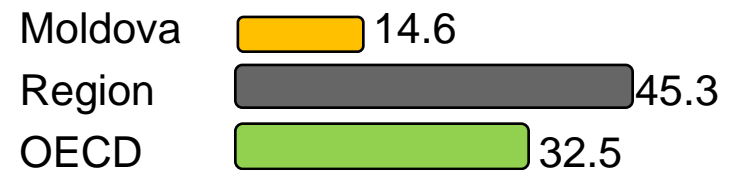
Procedures (number)



Cost (% of income per capita)



Min. Capital (% of income per capita)



International Ratings



Moldova

Credit Ratings

| | |
|-------------------|----------------------|
| 2007 | Moldova |
| <i>Moody's</i> | Caa1 (stable) |
| <i>FITCH-IBCA</i> | B- (stable) |

Investment Reform Index 2006

| |
|---|
| Anti-corruption and business integrity |
| Tax policy and legislation |
| Regulatory Reform |
| Trade liberalization |
| Pro-active trade policy |
| Transparency |
| Promotion of good governance and reliable public administration |

Doing business

The World Bank Group

| 2008 | Ukraine | Moldova |
|-------------------------------|------------|------------|
| Doing Business | 139 | 92 |
| Starting a business | 109 | 81 |
| Registering property | 138 | 46 |
| Protecting investors | 141 | 98 |
| Paying taxes | 177 | 111 |
| Trading across borders | 120 | 122 |
| Closing a business | 140 | 82 |



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