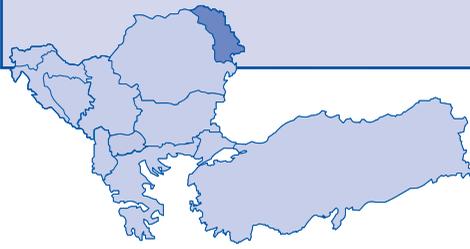


# MOLDOVA



## I. Economic overview

### 1.1. General economic indicators

Indicators	1996	1997	1998	1999	2000	2001
GDP, USD bln	1.69	1.93	1.69	1.17	1.29	1.48
GDP per capita, USD	471	528	465	319	354	407
Real GDP growth rate, %	-5.9	1.6	-6.5	-3.4	2.1	6.1
Industrial production growth rate, %	-6.5	0	-15.0	-11.6	7.7	13.7
Annual inflation rate, %	15.1	11.2	18.3	43.7	18.4	6.3
Annual unemployment rate, %	1.5	1.5	1.9	2.1	2.1	2.0
Average monthly gross salary, USD	40.8	47.5	46.4	28.9	32.9	40.3
Current account balance, USD mln	-198.1	-274.8	-334.7	-54.8	-160.1	-108.0
Gross external debt stock, end of year, USD mln	1,067.6	1,057.9	1,109.7	1,067.5	1,218.3	1,233.2
Foreign exchange reserves, USD mln	313.5	362.2	136.9	180.4	222.0	228.0
Exchange rate of MDL for 1 USD, end of year	4.65	4.66	8.32	11.59	12.38	13.09

Source: Department of Statistical and Sociological Analysis

## 1.2. Foreign trade

### 1.2.1. Foreign trade regime and major regulations

Since 1994 foreign trade has been liberalised and since 1995 there are no quotas or other restrictions on exports. At present, businesses market freely a wide range of goods with the exception of some specific groups (weapons, precious metals, explosives, poisons, as well as medicines, medical items and equipment). Moldova is a member of the World Trade Organisation since February 2001.

### 1.2.2. Customs regime, export and import quota and license system, tariffs

In trading with other countries, except CIS countries, the principle of the country of destination is applied, i.e. duties are imposed on imports at the border.

Most Favoured Nation agreements have been signed with 14 countries. There are no duties on raw materials, spare parts, half-finished goods and chemicals.

Moldova's exports to the EU fall under the European Union's Generalised System of Preferences (GSP). Under this scheme, goods are classified as: 1) "non-sensitive" - granted duty free access to the EU market; 2) "semi-sensitive" - benefit by a 35% reduction of the Common Customs Tariff duty (CCT); 3) "sensitive" - receive up to 30% reduction of the CCT (for concentrated juices the reduction varies between 11-17%), while 4) "very sensitive" benefit by a 15% reduction of the CCT. Moldova's exports of wine to the EU do not benefit from this agreement. No concession has yet been given to Moldovan exports of fresh fruits and vegetables. However, a range of processed agricultural products benefits by up to a 30% reduction in import tariffs. Exports of textiles to the EU are further regulated by a textile agreement. At

present, Moldova is the only CIS country, for which there are no quotas on its exports of textiles to the EU market.

### 1.2.3. Exports and imports

Trade volume, USD mln	1996	1997	1998	1999	2000	2001
Exports	795	874	632	463	472	570
Imports	1,072	1,171	1,024	586	776	897

Source: Department of Statistical and Sociological Analysis

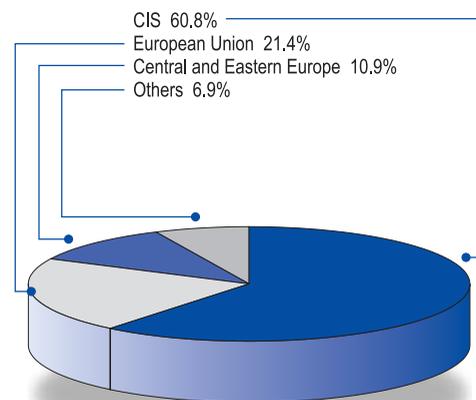
### 1.2.4. Major trade partners

The top 10 export partners in 2001 have accounted for 89% of all exports, namely Russia with 43.6%, Ukraine (10.0%), Italy (8.0%), Germany (7.1%), Romania (6.7%), Belarus (5.3%), USA (4.5%), France (1.5%), Austria (1.5%), and Hungary (1.3%).

The top 10 import partners in 2001 have accounted for 66.8% of all imports, namely Romania with 10.4%, Russia (16.0%), Ukraine (17.0%), Germany (9.5%), USA (3.1%), Italy (7.3%), Belarus (4.3%), France (2.9%), Bulgaria (2.3%), and Turkey (2.2%).

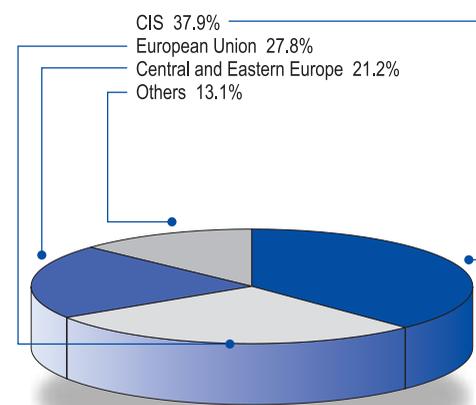
### 1.2.5. Structure of foreign trade by regions

#### Exports by country groups (2001)



Source: Department of Statistical and Sociological Analysis

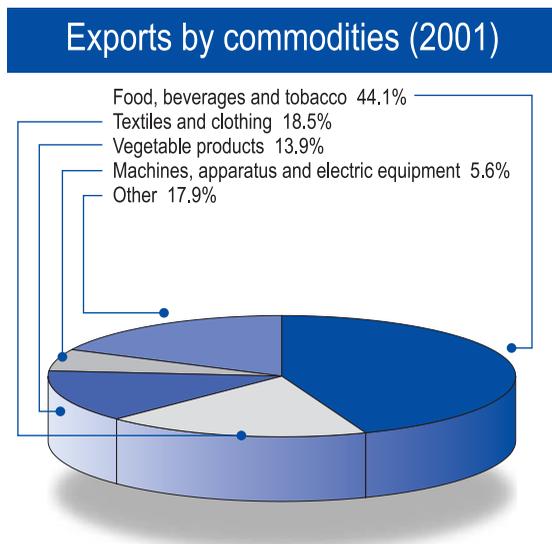
#### Imports by country groups (2001)



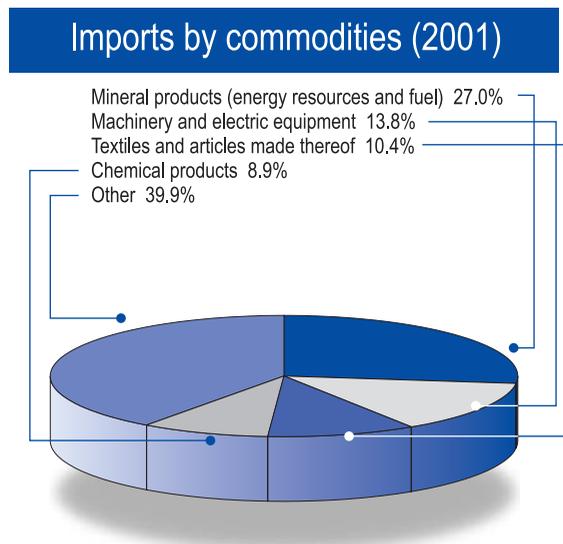
Source: Department of Statistical and Sociological Analysis

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## 1.2.6. Structure of foreign trade by commodities



which Moldova is a party.



Source: Department of Statistical and Sociological Analysis

## 1.2.7. Major bilateral and multilateral trade agreements

Moldova has Free Trade Agreements with Romania, the Russian Federation, Ukraine, Belarus, Armenia, Kazakhstan, Uzbekistan, Turkmenistan, Kirgizstan, Azerbaidjan and Georgia.

Moldova has signed bilateral agreements on trade and economic co-operation with the Netherlands, Ukraine, USA, Austria, Turkey, China, Hungary, India, Lithuania, Estonia, Iran, Bulgaria, the Russian Federation, Latvia, Poland, Italy, Israel, Greece, Uzbekistan, Belarus, Tatarstan, Czech and Ukraine.

With regard to Memorandum of Understanding for Trade Liberalisation and Facilitation signed in June 2001 Moldova is currently negotiating FTAs with Albania, Croatia and Yugoslavia.

## 1.2.8. Free zones

Free economic zones (zones of free entrepreneurship) are parts of the customs territory of Moldova, separated economically, strictly bounded on the entire area, where certain types of entrepreneurial activities are allowed on preferential conditions to local and foreign investors:

1. Industrial production of goods for export;
2. Assorting, packing, marking and other similar operations with goods conveyed through the customs territory of Moldova;
3. Other auxiliary types of activities, such as utility services, warehousing, construction, public alimentation and others needed to fulfil activities specified above (in 1 and 2).

The Free Zones are governed by:

- a) the legislation of the Republic of Moldova with exemptions stipulated by the current laws and laws adopted for each concrete Free Zone;
- b) interstate and international agreements (conventions), to

At present there are 5 FEZ in Moldova: "Expo-Business-Chisinau" established in 1995 in Chisinau, "Tvarditsa", "Otaci-Business" Production Park, "Valkanesh" Production Park and "Taraclia" production park.

The legislation provides incentives, guarantees and privileges for businesses established in the FEZ. FEZ is opened to the following licensed types of activities: FEZ residents enjoy exclusive customs and tax regime. In particular, they are exempt from customs tax for: goods and items imported in the FEZ for ultimate consumption; FEZ-origin goods exported to the customs territory of Moldova; goods produced in FEZ exported outside the customs territory of Moldova; the goods exported via the FEZ outside the customs territory of Moldova, irrespective of their country of origin.

FEZ resident enterprises with foreign ownership pay 12.6% profit tax (compared to the general 25% tax). Goods and services manufactured and rendered in the FEZ are exempt from VAT (which is otherwise 20%), and FEZ residents who invest at least USD 250,000 gain a profit tax holiday for a period of 5 years. Investors in the FEZ are protected from legal changes that would negatively effect the customs and tax regime by retaining the same conditions for 10 years from the enactment of the new law.

## 1.3. Privatisation

### 1.3.1. Privatisation policy

The privatisation process in Moldova has undergone several stages. The 1993-1994 State Privatisation Programme has regulated the first stage. It has been approved by the Moldovan Parliament in March 1993, its implementation starting in mid-1994, immediately after setting up the Ministry of Privatisation and the creation of adequate legislative framework. The second stage (March 1995-August

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1997) has been developed pursuant to the 1995-1996 Privatisation Programme.

The partial implementation of the goals of the 1995-1996 Privatisation Programme concerning the sale of small enterprises and blocks of shares of some large and medium-sized enterprises for cash is characterised by the auctions' initial prices defined by the market as too high, as well as the insufficient resources to inform potential investors with the aim of attracting foreign capital.

The 1997-1998 Privatisation Programme, under a Law adopted on 23 December 1998, has been prolonged until the enactment of the Law on the 1999-2000 Privatisation Programme. It has marked the beginning of a new stage in the privatisation process, characterized by the privatisation of public property for cash, widening the types of enterprises subject to privatisation, also including the ones in infrastructure; diversification of the privatisation methods, as well as moving the privatisation deals to the capital market and restructuring of the privatised enterprises; attracting foreign investments in the economy, etc.

### 1.3.2. Small- and large-scale privatisation

At present, the private sector dominates the economy of Moldova and accounts for 60% of industrial production, 70% of the services rendered in retail trade and public services, and respectively 44% of the volume of works in construction and transport. Concurrently, about 200 thousand dwellings have been also privatised, representing 85% of the state housing fund. In the sphere of industry 50.2% of all enterprises have been privatised, including 93% of the agricultural raw material processing enterprises and 82% of the light industry enterprises. In trade and the sector of public services, 95% of the state-owned enterprises have been privatised.

The Government of Moldova is planning to privatise through an international tender the three Moldovan thermal power stations (CET), and two energy distribution networks (RED). The international tender puts up for sale the entire 100% stakes in North and North-West REDs, in a single package, and 70% of the shares issued by CET-1, CET-2 and CET-North, in a separate package.

## 1.4. Foreign investment

### 1.4.1. Foreign investment by years and type of investment

For the period 1994-2001 FDI stocks have reached USD 608.46 million.

Type of investment, USD mln	1998	1999	2000	2001	1994-2001
Social capital	54.18	36.62	83.6	114.55	476.53
Reinvestments	5.83	5.7	11.72	8.26	32.45
Other capital	15.5	-1.91	47.45	25.78	99.48
<b>Total</b>	<b>75.51</b>	<b>40.41</b>	<b>142.77</b>	<b>148.59</b>	<b>608.46</b>

Source: National Bank of Moldova

### 1.4.2. Foreign investment by sectors (1994- 2001)

As of 1 January 2002, 2,402 enterprises with foreign participation have been set up in Moldova, which is 264 enterprises more than in January 2001.

From the total number of registered enterprises with foreign capital in Moldova, 1,418 companies are reporting on their activity. Their distribution by sectors is as follows:

Sector	Number of enterprises
Wholesale and retail trade, restoration of vehicles and others	710
Processing industry	251
Real estate transactions	155
Transports, storage, communications	111

Source: National Bank of Moldova

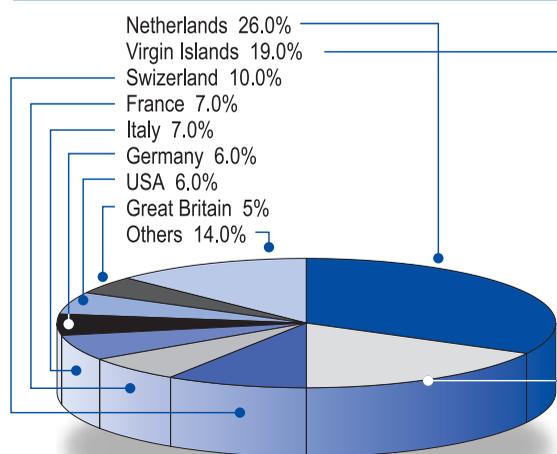
### Main indicators of the activity of enterprises with foreign capital

Indicator	1997	1998	1999	2000	2001
Share of employees if the total number of employed in the national economy, %	1.4	1.8	2.2	3.6	2.3
Share of total industrial production, %	5.3	12.5	11.1	18.4	23.9
Share of total exports, %	14.3	31.3	24.5	38.4	40.9
Share of total imports, %	27.4	31.6	36.7	43.5	45.8

Source: National Bank of Moldova

### 1.4.3. Foreign investment by countries and by regions

#### FDI by countries (2001)



Source: National Bank of Moldova

#### FDI stock by regions, USD mln (1994-2001)

CIS	EU	CEE	Other
151.4	130.6	10.6	86.9

Source: National Bank of Moldova

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## 1.4.4. Government institutions in the field of foreign investment

The newly created **Moldovan Investment Development Agency (MIDA)**, an Investment Promotion Department of the Moldovan Export Promotion Organization is the government institution responsible for foreign investment. MIDA has been set up by the Government, with a new structure and new powers, to replace the National Agency for Attraction of Investments.

Part of MIDA's mission is to improve the investment climate and to make Moldova an exceptional location for foreign direct investment. MIDA is entitled to carry out studies and submit proposals for amendments to legislation with the aim to improve the investment environment in Moldova. MIDA may also implement major investment projects in the country. MIDA's objectives are: a) improvement of the investment climate; b) defining comparative advantages; c) success stories; and d) selective promotion.

## 1.5. Small and medium-sized enterprises

The law on Entrepreneurship and Enterprises, and the law on Sustaining and Protecting the Small Business regulate the SME activity in Moldova. A State Program for sustaining SMEs during the period 2002-2005 has been adopted, oriented towards improvement and regulation of entrepreneurship activity.

According to the law, those with an average number of employees less than 9 and net sales up to MDL 3 million are small, while those with employees up to 50 and net sales up to MDL 10 million are medium-sized.

Those enterprises represent 94% of the number of companies in the country and employ 30.2% of the workforce. Small and medium-sized enterprises account for 48.3% of the total turnover in the national economy.

### Breakdown of SMEs by sectors

Sectors	% of the total number of enterprises in the sector	% of the total number of employees in the sector	% of the total turnover of the sector
Trade	99.1	79.3	83.2
Real-estate transactions	97.2	55.8	59.9
Transport and communications	92.7	19.3	33.0
Processing industry	89.5	22.9	27.3

Source: Agency for Restructuring and Enterprises Assistance

## II. Establishing business in Moldova

### 2.1. Forms of business and corporate governance

Company Regime	<b>Legal Framework</b> Law on Enterprises and Entrepreneurship (No. 845-XII/3 January 1992); Law on Joint Stock Companies (12 July 1997)
Types of Companies	General partnership; Limited partnership; Limited liability company; Joint-Stock Company; Limited partnership by shares
• Partnerships	<b>Partners</b> 2 or more partners. <b>Characteristics</b> A general partnership is created by two or more legal or natural persons that have consolidated their property with the aim of conducting joint entrepreneurial activity with a common company name under the foundation agreement entered into among them. All members bear unlimited joint and several liability for the partnership's obligations. A limited partnership must have one general and one limited partner. Both the general partnership and the limited partnership are not legal entities.

• Joint-Stock Company	<b>Shareholders</b> From 1 to 50 for a closed-end company and 1 to unlimited number for an open-end company. <b>Minimum Capital</b> MDL 10,000 for closed-end companies and MDL 20,000 for open-end companies. <b>Share and Contribution Requirements</b> The nominal value of each share must be divisible by MDL 1. <b>Company Management</b> The General Meeting of shareholders is the decision making body. A Company Board of at least 3 members performs the company management. In companies with less than 50 shareholders, the General Meeting may exercise the powers of the Company Board. The General Meeting elects a Chairman of the Company Board unless provided otherwise by the articles of association. The functions of the Company Board can be delegated to a management organization by decision of the General Meeting. An Audit Panel of the company exercises control over the financial and economic activities of the company and is accountable to the General Meeting only. It is elected for a period of 2 to 5 years. <b>Specific Features</b> The Board of companies with more 300 shareholders must consist of at least 5 members.
Registration	<b>Companies</b> with foreign participation are registered at the Registration Chamber of the Ministry of Justice. The National Bank of Moldova carries out the registration of banks with foreign participation and their branches.
Branches	<b>Legal Framework</b> Commercial Code (No. 7632 of 4 November 1992); Law on Commercial Register (No. 7667 of 28 January 1993). <b>Registration</b> A foreign company may open a branch; branches are entered into the Commercial Register.
Bankruptcy	<b>Legal Framework</b> Bankruptcy Law (No. 786-XII of 26 March 1996)
Anti-Trust Rules	<b>Legal Framework</b> Law on Restrictions on Monopolistic Activity and Development of Competition (29 February 1992)

## 2.2. Foreign investment regime

### 2.2.1. Legal framework

#### Guarantees for foreign investment

According to the Law on Foreign Investment, the most important guarantees for the foreign investors in Moldova include the following:

- Foreign investment cannot be expropriated, nationalised or influenced in similar ways other than through a law or based on a law and only with the purpose of securing the national interest, the corresponding compensation being provided;
- The affected investor has the right to require verification of the expropriation legislation, as well as the accuracy of the compensation amount;
- Foreign investors may repatriate profits in hard currency once taxes have been paid;
- Investors also have the right to take outside of the country products acquired on the internal market, without payment of taxes or fees and any special authorisation, as long as this does not contravene the legislation in force;
- Enterprises with foreign investment established before the adoption of new legislative acts, which change the business conditions for such enterprises, have the right to continue their operations according to the legislation that has been in force at the moment of their establishment, for a period of ten years after the new legislative acts have come into force.

#### Investment incentives

The Moldovan legislation offers also a number of investment facilities to the foreign investors. Under the current regulations, foreign investors are eligible for a 50% exemption of their profit tax for a five-year period, if: i) the enter-

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prise has foreign capital; ii) the foreign corporate capital has been fully formed; iii) the first profit has been declared; iv) the foreign investor's equity capital exceeds USD 250,000; and v) more than 50% of the enterprise's income is derived from the sale of its own goods and services.

The enterprises with foreign capital that have an expired term of action of their facilities are exempted from income tax by reduction of imposed income with 50% of the investments made for the purchase of fixed assets or in constructions (except for the personal motor vehicles and the office furniture), including the purchase of fixed assets in leasing regime, but not more than imposed income, and respecting the following restrictions: i) must not offer dividends to shareholders, revenues to members of society, and must not commercialise purchased assets for three years following the year when the tax exemption has been offered; ii) must have not leased the fixed assets, purchased according to the present article.

With regard to capital contributions, the following is envisaged under the Fiscal Code of Moldova:

1. Contributions allocated in change of a quota of participation in economic agent's capital made by one or more persons, who obtain the control<sup>1</sup> over economic agent's activity, are not submitted to tax. For the entity, which has contributed with capital, the accounted base of the capital value of the respective economic agent is equal to its adjusted accounted base.
2. The fixed assets deposited in the economic agent's social capital are exempted from VAT.

Also, according to the Law on Free Economic Zones (No. 440-XV/27 July 2001) some other guarantees and facilities are provisioned (see 1.2.8.).

Granting foreign investors concessions on exploration, extraction and development of natural resources in the Republic of Moldova is in the exceptional competences of the Government and is realised in accordance with its resolutions. The Government authorises the results of international contests (auctions and tenders) and the concession agreements signed between the foreign investor and the organ of state control. The term of natural resources concession may not exceed 50 years. Granting foreign investors the right to use existing objects or objects under construction being a state (municipal) property but not transmitted under economic jurisdiction to enterprises, institutions or organisations, is also carried out on the basis of concession agreements signed by authorised organs of state control.

### **Ownership rights over real estate**

Foreign investors in Moldova may acquire property rights on buildings (and the right to use land on which their premises are built). Land plots may be rented to enterprises with foreign investment for a term of up to 99 years with or without the right to prolong this term. If national enterprises are given the right of ownership over certain land, this right will be also given to enterprises with foreign investment.

### **2.2.2. Foreign exchange regulations**

The liberalisation of foreign exchange operations in Moldova is based on the adopted stipulations of Article VIII, Sections 2,3 and 4 of the IMF Agreement (30 June 1995). This has granted the convertibility of the national currency (MDL), so as economic agents can freely buy and sell foreign currency for all international currency operations and for some capital operations.

The foreign exchange regime is based on the Foreign Exchange Regulations of the Republic of Moldova (in accordance with the Law "On State National Bank of Moldova"), Decision of the Parliament No. 600-XII/11 June 1991 and Decree of the President No. 6/13 January 1994 ("On Some Measures to Provide for Currency Control on the Territory of the Republic of Moldova"). There are no restrictions over the exchange of foreign currency in cash; the exporters are allowed to collect and keep income from export at their foreign currency accounts and there is no obligatory selling of foreign currency to the state; foreign investors have the right to repatriate profits from their investments. Credit granting and guarantees to non-residents and other capital transfers to non-residents require the authorisation of the National Bank of Moldova. NBM carries out the foreign currency sales and purchase transactions with authorised dealers, foreign banks and the Government of Moldova.

Residents leaving Moldova can freely take out hard currency in cash and cheques up to USD 5,000 (or their equivalent). Amounts up to USD 50,000 (or their equivalent) can be transferred after presenting a foreign currency export permit, issued by an authorised local bank or the National Bank of Moldova, or a customs declaration, confirming import of currency into Moldova. Amounts exceeding USD 50,000 (or their equivalent) are transferred from Moldova on a clearing basis. Resident individuals have the right to make transfers and payments on current international transactions in hard currency, upon submission of documents, confirming the necessity to make such payments. Hard currency transfers exceeding USD 1,000 (or their equivalent) need authorisation by the National Bank of Moldova.

Advance payments by resident legal entities for the import of goods, services, and labour, are to be made for an amount not exceeding 30% of the cost of these goods, services and labour, in case when these 30% represent more than USD 20,000. Resident legal entities (except for authorised banks) which export goods, rendered services and work done, are obligated to deposit their export proceeds in their accounts with authorised Moldovan banks within 60 days from the day, stipulated in the Contract for receiving the payment, but not later than 180 days from the issuance of the customs declaration, confirming that the export of goods is done, or the day the invoice (statement, or protocol) confirming services rendered or labour have been done.

<sup>1</sup> Control means a tenure of a quota of participation in the economic agent's capital that includes: at least 80% of casting votes of all kinds of participation with a casting vote; at least 80% from the total number of shares in other forms of participation.

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Residents do not need to mandatory sell foreign currency in cases when these residents are: authorised dealers; enterprises with foreign investment registered in Moldova, if the share of foreign investors in the capital stock of these enterprises exceeds a pecuniary evaluation of USD 250,000, or 30% of the capital stock. Residents not mentioned above who receive foreign currency in payment for goods, services and labour, exported to non-residents, are obliged to transfer 100% of the received foreign currency to the account with an authorised bank within 15 days from the day of receipt of the foreign currency.

### 2.3. Legislative framework of concessions and public procurement

Granting foreign investors concessions to explore, extract and develop natural resources in the Republic of Moldova is in the exceptional competence of the Moldovan Government. It is carried out in accordance with the governmental resolutions, the results of international contests (auctions and tenders) and the concession agreements signed between the foreign investor and the state control body authorised by the Government of Moldova. The term of concessions on natural resources may not exceed 50 years. Granting foreign investors the right to use existing objects or objects under construction, a state (municipal) property but not transmitted under economic jurisdiction, to enterprises, institutions or organisations, is also carried out on the basis of concession agreements signed by authorised state control bodies.

The Law on Procurement of Goods, Works and Services for Public Needs sets out the legal framework for procurement of goods, works and services by public entities, and the rights and responsibilities of the National Agency for Government Procurement. The Law aims at ensuring the profitability and efficiency of the procurement process, large-scale participation of suppliers (contractors) in the procurement procedures, development of competition among them, objectivity and impartiality of procurement procedures and public confidence in them.

Suppliers of goods, works and services are admitted to participation in the procurement procedures regardless of their citizenship except for the cases where the Procurement Agency, in the interest of the state and in accordance with the effective legislation, takes a decision to restrict tenderers to domestic suppliers.

Open tendering procedure is the most preferable method in the procurement of goods and works. Other procurement methods include two-staged tendering procedure, restricted procedure, request for price proposals and procurement from a single source. The two-stage tender involves additional negotiations with the tenderers due to the Procurement Agency's impossibility to provide detailed characteristics of goods and works or to define the characteristics of the services. The Procurement Agency may carry out a restricted participation tender in the case where

goods, works and services, due to their complexity or special nature, are only available by a limited number of suppliers, or the estimated cost of the procurement contract is under 12,500 minimal wages. In the cases when goods and services are procured in smaller quantities and where the sales market has already been established, a procurement by request for price proposals may be organized.

Specific rules apply to the procurement of services. If a service contract is awarded by other than the negotiating procedure, the Procurement Agency must establish a certain level of requirements based on non-price criteria (in relation to quality and technical characteristics) and must evaluate each tender on the basis of these criteria. The best tenderer is the one offering the lowest price or the one with the most advantageous aggregate estimated value taking into account non-price criteria and prices.

### 2.4. Dispute resolution mechanisms

Litigations between foreign investors and state entities in terms of application of the provisions of the laws of the Republic of Moldova are settled by the Supreme Court of Justice or by the Arbitration of the Republic of Moldova. Parties involved in the litigation may agree to apply for the settlement of such a litigation to the Arbitration of another country or to an international arbitration. Such an agreement can be concluded before or after the litigation occurs.

All other litigations between enterprises with foreign investment on the one side and other individuals, legal entities, state institutions or public organisations, on the other side, are to be settled by the Arbitration or courts of the Republic of Moldova. Parties can submit their dispute to an arbitration court situated in Moldova or any other country.

International Commercial Arbitration Court functions with the Chamber of Commerce and Industry of Moldova.

### 2.5. Labour force and employment regulations

Skilled labour is readily available in Moldova, which has a ninety-percent literacy rate. The labour force includes numerous workers with specialised and technical skills. The Moldovan Constitution guarantees all employees, except governmental employees, the right to found or join a trade union.

#### Age structure (2001 est.)

Years	Percentage from total population	Male	Female
0-14 years	22.44%	506,303	488,311
15-64 years	67.62%	1,437,492	1,559,090
65 years and over	9.94%	163,473	276,901

Source: Agency for Restructuring and Enterprises Assistance

Although, according to unofficial estimates some 600,000 Moldovans work in Western Europe or Russia, Chisinau can still provide a variety of skilled personnel. Traditionally choosing French as a second language, Moldovans are now switching to English. This is mostly the case with the younger generation.

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As of April 2001, the Government of Moldova has raised the minimum monthly wages for budget financed employees to MDL 100 (about USD 8). Higher labour skill categories receive greater monthly wages depending on their skill category (up to MDL 648, or about USD 50). Minimum monthly wages for private sector employees have been also increased. The minimum wage paid to unskilled labour is MDL 150 (about USD 11.6) a month. This basic wage is multiplied by coefficients for different production sectors and for seven higher skill labour categories.

## 2.6. Operational costs

Nominal salary growth	27.6% (2001) as compared to the previous year
Average monthly salary	MDL 519.2 (USD 37.4)
Office buy/rent prices	Rent - 12-40 USD/m <sup>2</sup> ; Buy - 150 USD/m <sup>2</sup> . Apartment rents can range from USD 200 to USD 3,000 per month, depending on location, size and furniture.
Water charges - for industrial use/for household use	Household use - MDL 2.62 (USD 0.19)/m <sup>3</sup> Industrial use - MDL 11.3 (USD 0.814)/m <sup>3</sup> + MDL 3.60 (USD 0.26)/1 m of sewerage pipes.
Telephone installation charge	MDL 980 (USD 70.64)
Telephone transfer charges	Internal - MDL 50 (USD 3.6) External - MDL 100 (USD 7.2)
International phone call charges	Romania - MDL 3.20 (USD 0.23)/min; Europe - MDL 8.5 (USD 0.61)/min; USA - MDL 17 (USD 1.22)/min; Australia, Africa - MDL 25 (USD 1.8)/min
Electricity prices	for industrial use: USD 0.68 (USD 0.049)/kW + VAT for households: USD 0.65 (USD 0.047)/kW + VAT

Source: Moldovan Investment Development Agency

## III. Taxation

### 3.1. Background

The Tax Code of the Republic of Moldova and the Law on Budget for the relevant financial year are the main legislative acts on which basis both legal and physical entities are taxed. The Tax Code establishes the general norms of taxation and the tax rates.

The system of taxation in Moldova includes two categories of taxes: state and local.

The system of state taxes and fees includes:

1. Income Tax;
2. Value Added Tax (VAT);
3. Excise Tax;
4. Private Tax (paid during the privatisation of state property);
5. Customs Duties;
6. Road Fund Fees.

### 3.2. Income tax

The Tax Code of Moldova regulates taxation of persons. An individual is considered a tax resident in Moldova if he/she is permanently domiciled or present in Moldova for a period in excess of 183 days in any 12-month period.

The income tax rates for physical entities are differentiated and depend on the size of their annual income. The Tax Code establishes the following income tax rates for

residents:

- 10% - for annual income that amounts up to MDL 12,180;
- 15% - for annual income that exceeds MDL 12,180 and up to MDL 16,200;
- 28% - for annual income that exceeds MDL 16,200.

Each resident, who is a physical entity and who is subject to taxation, is entitled to a personal tax exemption. The amount of exemption is MDL 2,520 per year. A deduction of personal and family expenses is prohibited.

The salaries of non-residents working in Moldova are subject to income tax at the same rate as that of the residents of Moldova. Individuals, who are non-residents, are not entitled to personal exemptions, spouse exemption or dependants' exemption.

### 3.3. Taxation of corporations

All legal entities carrying out a business activity in Moldova are liable to pay income tax on their taxable profits. From 2002 the standard income tax rate is 25%. This rate is also applied to foreign legal persons operating through a "permanent establishment" in Moldova.

Interest, royalties and service fees are included in the company's gross income for accounting purposes and are subject to income tax at the normal rates.

Dividends received by a Moldovan legal entity from another Moldovan legal entity are not subject to income tax. Dividends received from a foreign corporation are included in the taxable income.

When calculating the total amount of the taxable income, legal entities are allowed to make certain deductions, such as:

- usual and necessary expenses incurred during the financial year exclusively in order to carry out an entrepreneurial activity;
- representation expenses and expenses related to the employees' business trips, insurance expenses; these deductions are allowed within the limits established by the Government;
- the assets amortisation charges, calculated depending on the category of property, in accordance with the established norms;
- the amortisation of intangible assets, taking into account the period of its validity carried out by a straight line method;
- deductions of bad debts;
- deduction of donations made for charity purposes (up to 7% of the taxable income).

### 3.4. Tax exemptions

Enterprises that carry out production activities or render services to the populace, with up to 19 employees, and which gain up to MDL 3 million per year, are exempted from payments of income tax. This entails signing a Loan

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Agreement with the State Fiscal Authorities. A tax loan is granted to small businesses provided that they invest at least 80% of their tax loan into the development of their own production and services rendered.

Enterprises are exempted from income tax by way of decreasing the tax liable income by 50% of the investments made for the purchase or construction of fixed assets (except for personal automobiles and office furniture), but which do not exceed the amount of the taxed income. The same tax exemption is applicable to the enterprises that have got their fixed assets on a leasing basis.

Small enterprises deriving income from the realisation of their own goods and/or from providing services are entitled to 35% tax rate reduction for a two-year period.

Commercial banks providing long-term capital investments loans in order to finance project planning, elaborating, mastering and implementing new methods and technologies; reorganising and modernising equipment for production processes; planting and trimming of perennial green plantations; purchasing and maturation of spirits for the production of cognacs; wine materials for the production of classic wines, saturated with carbon dioxide, and high quality wines, are exempted from tax on income received on loans provided for a 2 up to 3 years term at a rate of 50%, and at a rate of 100%, provided that the loan has been given for a period exceeding 3 years.

Income received as an interest on banks deposits and state securities is exempted from income tax until 1 January 2005.

### 3.5. Incentives for foreign investment

After establishing their authorised capital and declaring their first income, foreign investment enterprises are entitled to a 50% decrease of the income tax for the following 5 years. The mentioned privilege is applied to enterprises, in whose authorised capital the foreign investment share exceeds USD 250,000 and 50% of whose gross income is constituted of the sale of own production (works, services). Foreign investments made to the authorised capital of an enterprise established as a joint venture in Moldova are free of customs duties.

Foreign investment enterprises are exempted of paying customs duties for goods (raw materials, semi-fabricates, etc.) imported for the production of goods due for export.

### 3.6. Withholding taxes

Legal entities using leasing, advertising, audit, management, marketing and consulting services, security services, and services with respect to installation and exploitation of computers, as well as other services related to information technologies, have to withhold in advance and pay to the budget 5% of the amount of payments made for such services. These amounts are considered to be part of the income tax payable by legal entities - providers of services.

Further on, the withheld amount is accounted for at the payment of the entire tax amount of those legal entities.

Non-resident individuals and legal entities are also subject to the following withholding tax (without deductions) at the following rates:

- 2% of income received from insurance and reinsurance agreements concluded on the territory of Moldova;
- 5% of dividends, interest on loan liabilities of a resident, payment for service rendering, income received from the sale of real estate located on the territory of Moldova;
- 15% on royalties.

### 3.7. Indirect taxation - Value Added Tax (VAT)

Subjects to VAT are import deliveries and deliveries made within the territory of Moldova as well as services rendered on the internal market of Moldova.

There are four rates of VAT: 20%, 8%, 5% and 0%. The general rate of VAT is 20%. Bread and bread products as well as milk and milk products are liable to VAT at a rate of 8%. Fresh plant-growing products and live-weight as well as dead-weight stock farming products delivered by their producers; natural and liquefied gas are VAT liable at a rate of 5%.

The following supplies are zero-rated:

- Exported goods and services;
- All kinds of international passenger and freight transportation;
- Electric and thermal power, and water supplied to the general populace;
- Goods and services meant for the official use of diplomatic and other similar missions in the Republic of Moldova, as well as for personal use of the members of diplomatic administrative and technical personnel of these missions and of their families;
- Goods and services for international organisations within the provisions of concluded international agreements.

### VAT Exemption

A number of goods and services are not VAT liable, the most important of which are:

- Food and non-food products for children, in compliance with the list provided in the Law on Budget;
- State property purchased as part of the privatisation process;
- Payable medical services, medicine, medicine raw material and materials with the exception of cosmetic products; goods for medical use;
- Financial services;
- Commercial and intermediary transactions on the securities market;
- Insurance and reinsurance operations, except for insurance mediators' services;
- Imported transit goods, temporarily delivered to free customs storage spaces provided that they are going to be exported within a 12 months period;
- Foreign aid goods imported, as provided by the Government, etc.

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Apart from that, a number of goods and services are exempted from VAT in the year 2002. A list of such goods is provided in the Law on Budget. Some of the VAT exempted goods and services are:

- Agricultural machinery;
- Food and beverage production equipment;
- Metallurgical and casting equipment;
- Metal working mills;
- Equipment for rubber and plastic processing and loading trucks and buses.

From 1 January 2002, VAT payable on imported services has become non-reimbursable. VAT should be paid monthly, by the last day of the month following the month it relates to. VAT on imported services can be paid in advance or on the day of payment for imported services.

### 3.8. Other indirect taxation - Excise and Customs duties

Excise tax is a state tax applied to specified consumer goods (e.g. wines and spirits (incl. sparkling wine and brandy), beer, raw tobacco and tobacco products, jewellery made of precious metals) and for gambling activities. The goods (products) produced in Moldova or the imported ones are liable to excise duties. The excise payment is made when the consignee (owner) receives the goods. Customs tariffs for imported goods, excise duties, their list and size are established in the Law on Budget.

Excise and customs duties have a significant gradation. The maximum rate of customs duties on imported goods is 15% of the customs cost of the goods. Customs duties are not levied on goods and items produced and imported from Romania and countries, with which Moldova has signed agreements on setting up free trade zones.

### 3.9. Road tax

The tax for using roads by vehicles registered in Moldova is payable annually in the amount of 1 to 45 official minimum salaries. For vehicles exceeding a maximum weight limit, there are additional taxes.

Vehicles non-registered in Moldova are due to pay taxes for entering the country (Euro 2 to Euro 45), and using the roads (Euro 0.05 up to Euro 0.3 Euro per km).

### 3.10. Tax treaties

The Republic of Moldova has signed double taxation treaties with Uzbekistan, Poland, Belarus, Romania, Ukraine, Hungary, the Russian Federation, Lithuania, Azerbaijan, Bulgaria, Germany, Japan, Latvia, Czech Republic, Turkey, Switzerland, Netherlands and China.

## IV. Investment opportunities by sectors

### 4.1. Sector overview

#### 4.1.1. Wood processing

The furniture-making and wood-processing industry

comprise 27 enterprises, most of them export oriented. The sector remains heavily dependent on imports for its finished products.

#### 4.1.2. Textiles

Textile and knitwear companies have the potential to attract significant foreign investment as some plants have already formed joint ventures with foreign companies. More investment is needed to widen the raw materials base and to find new foreign markets. The main products are cotton cloth, industrial carpets, natural and artificial silk, and leather goods.

#### 4.1.3. Food and beverages

##### *Wine industry*

Wine represents a major product of Moldova's economy, with exports in a good year accounting for up to half of the country's total export earnings. There are 150 wineries with an annual production of 3-4 million hectolitres from 170,000 hectares of vineyards. The wine industry has been a major area of foreign interest; however, it still needs substantial financing to recover from the anti-alcohol campaigns run between 1985 and 1991, and from the general underinvestment characterising the industry since then. Investment in the industry is likely to increase once the ban on the free sale of land is lifted, as vintners insist on controlling vineyards as well as wineries.

##### *Fruit and vegetable processing*

This sector includes 7 large enterprises, about 15 medium-sized companies, and around 100 small facilities. Almost all fruit and vegetable crops are hand-harvested, resulting in products with better flavour, texture and appearance than the mechanically harvested products.

Sugar beet is another important crop with high production capacity with good prospects for exports to the CIS markets.

##### *Tobacco industry*

Tobacco industry remains among the key ones in Moldova. It comprises eight fermentation plants and the Chisinau tobacco factory, which have the potential of producing 9.1 billion cigarettes a year.

#### 4.1.4. Construction materials

The main products are cement, complex assembly concrete blocks and articles, asbestos-cement sheets, piping and coupling pieces, gypsum, construction bricks, wall construction blocks of natural stone, and linoleum.

### 4.2. Infrastructure

#### 4.2.1. Transport

The total length of improved roads is 9,391 km (excluding the Transnistria region). Priority is given to the rehabilitation and construction of some key internal road sections and road connections with the main cities in Romania and Ukraine.

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The length of the rail network is 1,318 km. Investments are needed for the construction of an express link (Intercity train) and supporting line sections to connect the main urban centres in Moldova (Chisinau, Balti, Tiraspol), Romania (Iasi, Bacau, Galati, Constanta) and Ukraine (Odessa, Cernauti, Vinnita).

A section of the European transport corridor A-9 connecting Scandinavia and the Balkans crosses the territory of Moldova. Under this project the renovation of Poltava - Balcani highway and the railway section Tiraspol - Ungheni or building new road sections on the Kiev-Chisinau-Bucharest route is envisaged.

Possibilities also exist for the upgrade of river transportation.

### 4.2.2. Telecommunications

Reform in this sector has started in 1993 with the creation of two state enterprises "Moldtelecom" and "Posta Moldovei". Only 5% of the telephone exchanges have digital equipment (from about 640,000 installed telephone lines).

The project for telecommunications development in Moldova in 1994-2003 provides for the following:

- Increase in the density of lines from 12.5 to 21.8 per 100 people by the year 2003;
- Technological modernisation and extension of existing lines;
- Introduction of "duration rates" for local calls;
- Introduction of a mobile telephone system (GSM), paging (ERMES), data transfer service.

This will be achieved by introducing a fibre-optic network linking Cahul-Chisinau-Balti-Briceni with connection to international knots CAFDS (Galati, Romania) and TEL (Cernauti, Ukraine), and equipping telephone exchanges with digital equipment allowing for the introduction of telephone cards.

The Government's intention is to privatise the telephone monopoly Moldtelecom at an open international tender by the end of 2002 by selling a 51% controlling stake in it to a strategic investor. The Austrian Raiffeisen Investment has already been selected as the financial consultant for the privatisation of the company. The government also plans to give Moldtelecom a third mobile operator licence in the country.

There are two GSM operators in Moldova: Voxtel (with French investment) and Moldcell (with Turkish participation).

### 4.2.3. Energy

The government plans to complete the privatisation of the remaining two electricity distribution companies - RED Nord and RED Nord-Vest - as well as of the three power generating companies - CET-1, CET-2 and CET-Nord. Significant opportunities also exist in the privatisation of regional electricity distribution networks and generator plants.

The hydropower potential of Moldova is underused, as the rehabilitation of 17 small HPPs is needed. The country has potential for developing alternative energy sources (sun, wind, organic waste utilisation, etc.) that would require significant foreign capitals and technical support.

### Useful Internet links

Parliament	<a href="http://www.parlament.md">www.parlament.md</a>
Ministry of Transport and Communication	<a href="http://mci.gov.md">mci.gov.md</a>
Moldovan Investment Development Agency	<a href="http://www.mepo.net">www.mepo.net</a>
Department of Privatization and State Property Administration	<a href="http://www.privatization.md">www.privatization.md</a>
Agency for Restructuring and Enterprise Assistance	<a href="http://aria.mldnet.com">aria.mldnet.com</a>
National Bank of Moldova	<a href="http://www.bnm.org">www.bnm.org</a>
National News Agency Moldpres	<a href="http://www.moldpres.md">www.moldpres.md</a>
Interlic (Independent News Agency)	<a href="http://www.interlic.md">www.interlic.md</a>
BASA-Press (Private News Agency)	<a href="http://www.basa.md">www.basa.md</a>
General Information	<a href="http://www.moldova.md">www.moldova.md</a>
MoldData (Moldova Web Directory)	<a href="http://www.md">www.md</a>
Moldova Internet Directory (Links and News)	<a href="http://www.ournet.md">www.ournet.md</a>