The Republic of Moldova: New Path of Development

Investment Opportunities

Ministry of Economy of the Republic of Moldova
# Moldova – key facts

| Government | Parliamentary republic  
<table>
<thead>
<tr>
<th></th>
<th>– independence day: 27 aug. 1991</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population</td>
<td>3.6 million</td>
</tr>
<tr>
<td>Literacy</td>
<td>96%</td>
</tr>
<tr>
<td>Workforce</td>
<td>1.2 million</td>
</tr>
<tr>
<td>Unemployment rate – 2009</td>
<td>6.4%</td>
</tr>
<tr>
<td>Inflation rate – 2009</td>
<td>0.4%</td>
</tr>
<tr>
<td>GDP - 2009</td>
<td>$5.4 billion</td>
</tr>
<tr>
<td>GDP per capita - 2009</td>
<td>$1,516</td>
</tr>
</tbody>
</table>
Moldova – the structure of the economy

Sectors of the Economy by weight considering the volume of production in 2009, NBS

- Manufacturing Industry: 21.9%
- Transport and Communications: 13.9%
- Wholesale and retail trade: 11.5%
- Agriculture: 10.5%
- Construction: 8.3%
- Financial Services: 5.8%
- Real-estate transactions: 5.0%
- Education: 4.6%
- Healthcare and Social Services: 3.5%
- Electricity, Water, and Gas: 3.2%
- Others: 11.8%
Moldova - trade relations by region

Foreign Trade data for 2009, NBS, Customs Service

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Foreign Trade by country

**Exports**

- Russia: 22.3%
- Romania: 18.6%
- Italy: 11.5%
- Ukraine: 6.3%
- Belarus: 6.3%
- Germany: 5.9%
- Great Britain: 4.7%
- Others: 24.4%

*Foreign Trade data for 2009, NBS, Customs Service*

**Imports**

- Ukraine: 14.0%
- Russia: 11.4%
- Romania: 9.5%
- Germany: 7.7%
- China: 7.5%
- Italy: 7.1%
- Turkey: 5.3%
- Kazakhstan: 5.1%
- Belarus: 4.2%
- Poland: 2.7%
- Others: 25.5%

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Foreign trade data for 2009, NBS, Customs Service

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Moldovan trade with Germany

Autonomous Trade Preferences for Moldova
Regulation (EC) No 55/2008 on ATPs for Moldova

Moldova - Germany trade (million USD)

Ministry of Economy of Moldova

7
Foreign Direct Investment in Moldova

Yearly FDI inflow (mln. $)

<table>
<thead>
<tr>
<th>Year</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>103.4</td>
<td>84.1</td>
<td>73.1</td>
<td>146.2</td>
<td>190.7</td>
<td>233.2</td>
<td>539.3</td>
<td>707.6</td>
<td>86.4</td>
</tr>
</tbody>
</table>

Cumulative FDI stock (mil. $)

<table>
<thead>
<tr>
<th>Year</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>549</td>
<td>639</td>
<td>717</td>
<td>847</td>
<td>1023</td>
<td>1256</td>
<td>1848</td>
<td>2566</td>
<td>2604</td>
</tr>
</tbody>
</table>

FDI – preliminary data, NBM

Ministry of Economy of Moldova
Foreign Direct Investment structure

FDI by sector in cumulative FDI stock at 01.10.2009, NBS

- Financial Services: 22.7%
- Manufacturing Industry: 18.8%
- Wholesale and retail trade: 20.5%
- Real-estate transactions: 13.5%
- Transport and Communications: 13.0%
- Electricity, Water and Gas: 6.4%
- Hotels and restaurants: 1.5%
- Agriculture: 0.7%
- Construction: 2.1%
- Others: 0.8%
Origin of Foreign Direct Investment in Moldova

FDI by country of origin in cumulative FDI stock at 01.10.2009, NBS

- Netherlands 17,1%
- France 10,9%
- Cyprus 9,6%
- Italy 9,3%
- Great Britain 8,3%
- Romania 7,4%
- Germany 7,1%
- Russia 4,7%
- Spain 3,7%
- USA 3,2%
- Ukraine 1,3%
- others 17,4%
FDI Germany - Moldova

Foreign Investment Promotion and Protection Agreement (FIPA)
Chisinau, 28.02.1994

Double Taxation Avoidance Agreement (DTAA)
Bonn, 24.11.1981

FDI inflow from Germany (million USD)

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount (USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>17,3</td>
</tr>
<tr>
<td>2008</td>
<td>21,4</td>
</tr>
<tr>
<td>2009</td>
<td>2,1</td>
</tr>
</tbody>
</table>

1 USD = 12.7654 MDL at 27.05.2010

Cumulative German investment in Moldovan FDI stock (million USD)

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount (USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>73,6</td>
</tr>
<tr>
<td>2008</td>
<td>101,2</td>
</tr>
<tr>
<td>2009</td>
<td>154,5</td>
</tr>
</tbody>
</table>

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Stagnation of the economical key sectors

- Decline in GDP performance of 6.5%
- Foreign direct investment fell by about 9 times
- Remittances fell by about 36% and is 1182 bln. $
- The general government deficit increased by 7 times and achieved 6.8% of GDP
- The number of unemployed persons increased by 2 times
- Exports of goods and services decreased by 19%
- Imports of goods and services decreased by 33%
Economic Compression 2009

GDP ... the crisis is over?

Q growth/decrease rate compared to the similar period of the last year, %

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GDP by types of resources Trends, %

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### Loan portfolio quality trends

<table>
<thead>
<tr>
<th>Year</th>
<th>Loans for economic activities ($ million)</th>
<th>Bad loans (% of total)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>308.9</td>
<td>7.65</td>
</tr>
<tr>
<td>2003</td>
<td>434.4</td>
<td>6.39</td>
</tr>
<tr>
<td>2004</td>
<td>555.1</td>
<td>6.89</td>
</tr>
<tr>
<td>2005</td>
<td>729.9</td>
<td>5.31</td>
</tr>
<tr>
<td>2006</td>
<td>1048.6</td>
<td>4.39</td>
</tr>
<tr>
<td>2007</td>
<td>1720.3</td>
<td>3.7</td>
</tr>
<tr>
<td>2008</td>
<td>2418</td>
<td>5.86</td>
</tr>
<tr>
<td>2009</td>
<td>2149.8</td>
<td>16.3</td>
</tr>
</tbody>
</table>

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Tendency of economic recovery

Macro-economic indicators of the 1st Q 2010

- The industry sector increased by 4.9%
- The agriculture sector increased by 10.6%
- The volume of payment services provided to the population increased by 6.4%
- The exports increased by 12%, and the imports by 1.3%
- The volume of retail sales of goods increased by 6.2%
- The incomes and the expenses of the national public budget registered growth by 12.2%

...but,

- The volume of investment into fixed capital decreased by 23.4%
Moldova's actions for crisis overrun

Improved business environment and incentives for Private Sector Growth:

– De-monopolization of Exports and Imports
– Simplification of licensing procedures and reducing by almost 1/3 the types of business activities under the licensing procedures
– Elimination of almost 100 products under compulsory certification of conformity

Investment in the Infrastructure:

– Transport rehabilitation: *change of railways tracks, modernization of Chisinau “Airport”*
– Road investment: *93km out of 3,600 km of road rehabilitation*
– Energy infrastructure: *modernization and extension of capacity of national CHP’s, connections to international gas pipelines, interconnection power lines with neighborhood countries*
– Water sector: *public investment in the infrastructure of water and sewage supply*
<table>
<thead>
<tr>
<th>Indicators</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP compared to the previous year in comparable prices,%</td>
<td>102,5</td>
<td>103,6</td>
<td>105</td>
<td>105</td>
</tr>
<tr>
<td>Consumer price index at the end of the year,%</td>
<td>110,8</td>
<td>106,0</td>
<td>105,0</td>
<td>104,0</td>
</tr>
<tr>
<td>Export compared to the previous year,%</td>
<td>113</td>
<td>107</td>
<td>112,5</td>
<td>114</td>
</tr>
<tr>
<td>Industrial production compared to the previous year in comparable prices,%</td>
<td>107</td>
<td>107,5</td>
<td>108</td>
<td>107,5</td>
</tr>
<tr>
<td>Fixed capital investments compared to the previous year in comparable prices,%</td>
<td>113,0</td>
<td>110,0</td>
<td>110,0</td>
<td>109,0</td>
</tr>
</tbody>
</table>
Looking into the Future

- Internal growth based on Exports & Investments, ICT, Knowledge and Innovation
- Infrastructure Development
- Efficient and Effective public administration and high quality public services
- Effective management of public finances and support of the most vulnerable groups
- Business – Science – Government – Civil Society
- New vision of the economic development of the country based on market reforms directed towards EU convergence
Challenges:
• to manage the current crisis
• to develop a new strategy for sustainable and balanced economic growth

“Rethink Moldova” programme is focused on:
– European integration,
– economic recovery,
– public governance reform,
– restoration of investor confidence,
– investments in human capital,
– reunification of the country.
Investment priorities

- Energy infrastructure
- Alternative energy resources and energy efficiency
- Transport and road infrastructure
- Logistics development
- Organic agribusiness and food process
- Industrial parks creation
- Quality infrastructure
- Outsourcing services
**Partners aid to Moldova**

**Donors' Consultative Group Meeting, Brussels, March 2010:**

<table>
<thead>
<tr>
<th>Organization</th>
<th>Amount (€ millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>European Community</td>
<td>550,10</td>
</tr>
<tr>
<td>IMF</td>
<td>424,68</td>
</tr>
<tr>
<td>World Bank</td>
<td>221,81</td>
</tr>
<tr>
<td>EU Member States</td>
<td>184,57</td>
</tr>
<tr>
<td>EBRD</td>
<td>95,00</td>
</tr>
<tr>
<td>EIB</td>
<td>95,00</td>
</tr>
<tr>
<td>UN</td>
<td>95,00</td>
</tr>
<tr>
<td>USA “Compact”</td>
<td>233,84</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,9 € billions</strong></td>
</tr>
</tbody>
</table>
Reasons to invest in Moldova

Proximity to key markets

• Openness to Foreign Investments
• Trade Agreements
• Competitive Labor and Operational Costs
• Free Economic Zones
• Fiscal incentives
• Well-developed banking system and international accounting standards, including BASEL system
Moldova – a strategic location

Proximity to key markets

European Union Market
- Population 501 mln.
- GDP $14.793 tril.

Commonwealth of Independent States Market
- Population 276 mln.
- GDP $2.906 tril.
Reason 1:
Openness to foreign investments

- Government has a sustained commitment to provide an open, direct pro-business climate for all investors
- 89 countries have invested in Moldova, including all EU member states
- EU investments represent roughly 80% of total cumulative FDI
Reason 2: Trade Agreements

International trade agreements

- Membership in World Trade Organization
- Autonomous Trade Preferences agreement with European Union

17 Free Trade agreements

- Members of CEFTA (7 countries in SE Europe)
- Members of CIS (9 countries) + Georgia
Reason 3:
Competitive Labor and Operational Costs

Workforce costs in the region

- **Romania**: 4.0 €/hour
- **Bulgaria**: 4.0 €/hour
- **Ukraine**: 2.0 €/hour
- **Moldova**: 1.1 €/hour

Ministry of Economy of Moldova
Reason 4: Opportunities in the Free Economic Zones

- O% Income Tax
- VAT Exemption
- Excise Duty & Customs Duty Exemption
- Transport infrastructure in place
- Water, Gas, Electricity in place
Reason 5: Fiscal incentives

A. 0% Corporate Income Tax, 15% share paid upon the distribution of dividends

*Corporate Income Tax in the Region*

<table>
<thead>
<tr>
<th>Country</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Romania</td>
<td>16% flat rate</td>
</tr>
<tr>
<td>Ukraine</td>
<td>30% for non-residents</td>
</tr>
<tr>
<td>Serbia</td>
<td>10%/20%</td>
</tr>
<tr>
<td>Slovakia</td>
<td>19%</td>
</tr>
<tr>
<td>Slovenia</td>
<td>21%</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>10%</td>
</tr>
<tr>
<td>Hungary</td>
<td>19%</td>
</tr>
</tbody>
</table>

B. Double Taxation Agreements (DTA) with 41 countries
### Continuous improvement of investment climate

<table>
<thead>
<tr>
<th>Category</th>
<th>Doing Business in 2010 rank</th>
<th>Doing Business in 2009 rank</th>
<th>Change in rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Doing Business</td>
<td>94</td>
<td>108</td>
<td>+14</td>
</tr>
<tr>
<td>Starting a Business</td>
<td>77</td>
<td>90</td>
<td>+13</td>
</tr>
<tr>
<td>Dealing with Construction Permits</td>
<td>161</td>
<td>159</td>
<td>-2</td>
</tr>
<tr>
<td>Employing Workers</td>
<td>141</td>
<td>140</td>
<td>-1</td>
</tr>
<tr>
<td>Registering Property</td>
<td>17</td>
<td>51</td>
<td>+34</td>
</tr>
<tr>
<td>Getting Credit</td>
<td>87</td>
<td>84</td>
<td>-3</td>
</tr>
<tr>
<td>Protecting Investors</td>
<td>109</td>
<td>105</td>
<td>-4</td>
</tr>
<tr>
<td>Paying Taxes</td>
<td>101</td>
<td>125</td>
<td>+24</td>
</tr>
<tr>
<td>Trading Across Borders</td>
<td>140</td>
<td>140</td>
<td>0</td>
</tr>
<tr>
<td>Enforcing Contracts</td>
<td>22</td>
<td>15</td>
<td>-7</td>
</tr>
<tr>
<td>Closing a Business</td>
<td>90</td>
<td>91</td>
<td>+1</td>
</tr>
</tbody>
</table>
Business environment Snapshots for Moldova

Global Index Ranking Ratios
(0 = Ranked Last and 1 = Ranked First)
Control of Corruption Indicator

Quality of National Business Environment Ranking
Regulatory Quality
Doing Business Ranking
Country Credit Rating

Political Risk Rating (ICRG)
Index of Economic Freedom

Source: http://besnapshots.org

Moldova Rank Ratio   Avg Regional Rank Ratio   Avg Income Group Rank Ratio
EBRD Institutional Change Indicators for Moldova

Trade and Forex system – 1 (best) out of 29 (worst)
Small scale privatization – 9 out of 29
Banking reform and interest rate liberalization 11 out of 29
## Moldovan Position in Selected international Rankings

<table>
<thead>
<tr>
<th></th>
<th>Corruption Perception Index, Transparency International</th>
<th>Country Credit Rating, Institutional Investor</th>
<th>Political Risk Rating, (ICRG) PRS Group</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2008</strong></td>
<td>109 out of 180</td>
<td>126 out of 174</td>
<td>93 out of 140</td>
</tr>
<tr>
<td><strong>2009</strong></td>
<td>89 out of 180</td>
<td>132 out of 178</td>
<td>84 out of 140</td>
</tr>
</tbody>
</table>

**Change in rank**

- Corruption Perception Index, Transparency International: +20
- Country Credit Rating, Institutional Investor: -6
- Political Risk Rating, (ICRG) PRS Group: +9
The Government of the Republic of Moldova is open for effective partnership and investment proposals.

It will be our pleasure to have you as a partner in the process of investing in Moldova’s development.

www.mec.gov.md
www.miepo.md
www.moldovainvest.md
www.moldova.md

Ministry of Economy of the Republic of Moldova
Invitation to:

"Moldovan Business Week 2010",
in Chisinau, organized in partnership with
the Vienna Economic Forum.

June 22-25, 2010

www.miepo.md