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Doing Business in Moldova

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Victoria Jitnic
Country Director

Qbe Asito Building
M. Banulescu-Bodoni Str., 57/1
Chisinau
Moldova

Phone: (373) 22 21 4040
Fax: (373) 22 21 4044
Web: www.ey.md

Doing Business in Moldova

2005 edition

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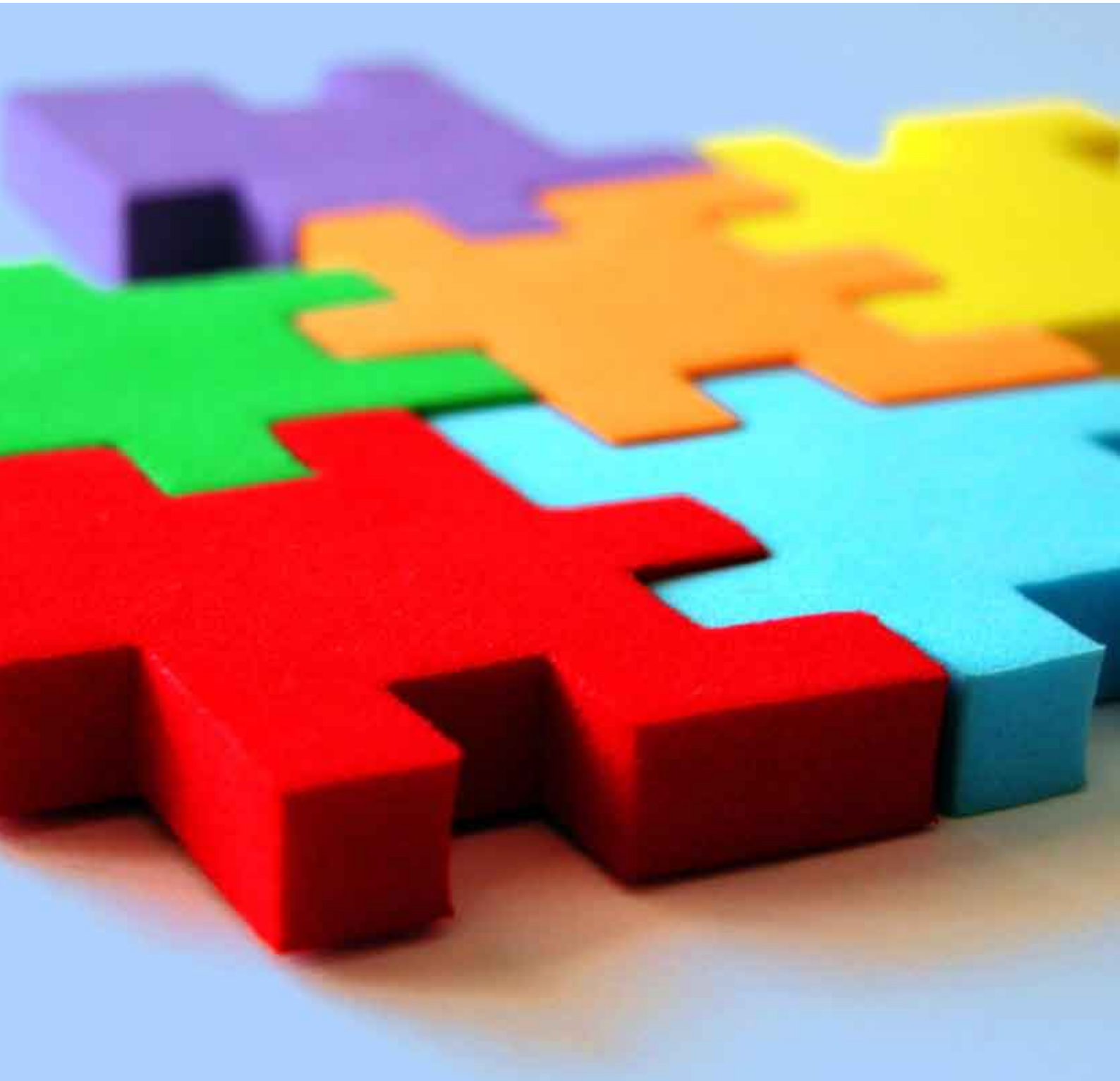
Introduction and Economic Overview



Geography

The Republic of Moldova is situated in the far eastern corner of Southeast Europe, bordering Ukraine in the North, South and East, and Romania in the West. The maximum distance between its extreme west-east points is 150 km, and between its extreme north-south points 350 km. The area of Moldavian territory is 33,800 square kilometres. Due to its geographical position, the Republic of Moldova is characterised by a temperate climate. Moldova's rivers drain into the Black Sea Basin. The main rivers are the Nistru and the Prut and with a small portion of the Danube River which reaches Moldova in the southern part. Lakes are small, being located mainly in the river meadows of the Prut and the Nistru.
The Republic of Moldova has certain natural resources which are widely exploited for the production of construction materials, including: lignite, phosphorite and gypsum. In addition, three-quarters of the country's area is covered in chernozem, a type of black soil rich in nutrients, with an excellent structure and a good water-holding capacity, making the land very fertile and thus, exceptionally suitable for agriculture.
The major cities of the Republic of Moldova include the capital city Chisinau with 711,000 people, Balti, Edinet, Tighina and Soroca.

Time

The Republic of Moldova is two hours ahead of Greenwich Mean Time (GMT). From the last Sunday of March until the last Sunday of October, clocks are advanced by one hour for daylight saving time.

City	Hours Ahead of or Behind Chisinau
Amsterdam	-1
Budapest	-1
Cairo	0
London	-2
Moscow	+1
Paris	-1
Singapore	+6
Stockholm	-1
Tokyo	+7

City	Hours Ahead of or Behind Chisinau
Berlin	-1
Buenos Aires	-5
Hong Kong	+6
Los Angeles	-10
New York	-7
Rome	-1
Sofia	0
Sydney	+8
Vienna	-1

Population and Language

According to recent statistics, the population of the country was estimated to be 4,264,000 of which 64.5% are Moldovan, 13.8% Ukrainian, 13.0% Russian and the remaining 8.7% other ethnic groups. The average population density is 129 inhabitants per square kilometre, 45% of which is urban population.

The official language of the country is Moldovan (virtually the same as the Romanian language), although Russian is also commonly spoken.

Several national minorities use other national languages. The most widely understood foreign languages are English and French.

The dominant religion in the Republic of Moldova is Christian Orthodoxy to which some 98% of the total population adhere.

Public Holidays

The following table lists public holidays for the Republic of Moldova in 2004:

New Year	1 January
Christmas	7-8 January
International Women's Day	8 March
Easter Monday	12 April
Memorial Easter Monday	19 April
International Labour Day	1 May
Victory Day	9 May
Independence Day	27 August
"Limba noastra" Holiday	31 August

Government Structure

Moldova became an independent republic on 27 August 1991 after the disintegration of the USSR. On 29 July 1994 the Parliament of the Republic of Moldova adopted a new Constitution stating that the country has been constituted as a sovereign and independent State and that responsibility for public administration should be vested in legislative, executive and judicial arms. Supreme legislative power is exercised by a single-chamber Parliament, which consists of 101 Members. Executive power is vested in the President and the Government. The powers of the President are exercised mainly in the areas of national security and foreign relations. Since 2000 the president has had reduced powers, not being allowed to take part in government meetings or hold consultations at cabinet level, for example. The President designates the Prime Minister and the Prime Minister then selects the cabinet. According to recent Constitutional changes, the President is elected by the Parliament rather than a popular vote for a four-year term. Parliamentary approval is needed for both the Prime Minister and the cabinet in the form of a vote of confidence within 15 days of the Prime Minister's designation. The last parliamentary elections took place in February 2001 and presidential elections took place in April 2001. Elections take place every four years, using proportional representation. Judicial power is vested in the courts, which are independent and autonomous bodies. The highest judicial authority is the Supreme Court of Justice.

Economy

Type of Economy

Since obtaining independence on 27 August 1991, the Republic of Moldova has made efforts to eliminate its former communist command economy and move to new market structures.

Historically, the Republic of Moldova was always renowned for its agricultural products. Agriculture constitutes the most important sector in the Moldovan economy. In 2002, agriculture made up close to one-third of GDP. The tobacco industry, like the wine industry, is a key source of export revenue. Moldova is also a leading producer of grapes. Other important crops include wheat, maize, vegetables (tomatoes, potatoes), sugar beets, and fruit. In addition, pig raising and milk production are significant livelihoods. Most agricultural products are widely exported, particularly to Russia.

The industrial sector accounted for approximately one-quarter of Moldovan GDP in 2002. But, by the end of 2004, its share grew to about 30% (GDP – USD 2.6 billion, Industrial output – USD 850.4 million) The largest industrial branch is food processing, with the most important products being frozen and canned vegetables. Wine is a major source of export income for Moldova and has also attracted comparatively large amounts of foreign investment. Although Moldova exports wine to many Asian and Western markets, Russia is by far the largest consumer of Moldovan wine. In addition, Moldova produces brandy, vegetable oil, and raw sugar. Currently, Moldova continues to produce carpets, refrigerators and freezers, washing machines, and televisions. The metal refining industry is almost totally dependent on imported raw materials and fuels from Russia.

After the collapse of the Soviet Union and the resultant loss of diverse markets and sources of cheap energy resources, there was a massive economic contraction. As a result, high inflation led to the increase of prices for energy resources and imported products.
This factor caused an increase of the international debt and the decrease of the GDP (See Appendix 2).

Despite recent economic difficulties, Moldova has made substantial progress in economic reform. The Government has liberalised most prices and has phased out subsidies on most consumer goods. A privatisation process was started in March 1993.

General Economic Trends

The policy of the Moldavian government since 1992 has been to encourage foreign investment, with the final objective of enhancing economic development.
According to 2003 totals the GDP volume constituted USD 1.96 billion, which is, in compared prices, exceeds the 2002 volume by 6.3% (in 2002 the growth accounted USD 1.66 billion and 7.8% growth: in 2001 – USD 1.52 billion, growth by 6.1%); industry and agriculture growth, made correspondingly 10.6% and 3.0%. The share of services within the GDP structure is much larger than share of the manufacturing industry; while 70% of budget incomes were provided by customs duties. GDP constituted 6.5% in the first half of 2004, and further it is estimated at a 6.0%, or even higher GDP rate.

The National Bank played its traditional role as the key structure that stabilizes the macroeconomic situation through providing for stability of the Moldovan leu (MDL 13.9 for one USD in 2003, MDL 13.6 for one USD in 2002 as compared to MDL 12.9 in 2001) and inflation of only 4.4%.

The Department of Statistics registered in January 2003 that industrial production grew by 13% and the inflation index by 1.9%. It is important to note that an international agency – Fitch Ratings – raised Moldova's long-term external obligations rating from "DD" (risk of default) up to "B-" (Moldova had such rating in 1999 after the Russian/regional financial crisis). But, in 2004, the volume of industrial production grew comparing to 2003 by 109% and constituted USD 850.42 million.

The Government of Moldova is particularly keen to promote economic and social reforms by increasing investment activity and by stimulating potential participation in the investment process. To this end, in December 1997 the National Agency for Attracting Investment was set up as a permanent non-commercial public body. The scope of its activity lies in investment management and in making expert appraisals. The Agency works closely with international financial organisations such as the World Bank, European Bank for Reconstruction and Development, Chambers of Commerce of various states, as well as the embassies of other states.

Moldova has not attracted a large amount of foreign investment - less than USD 500 million since independence. The volume of net annual Foreign Direct Investment (FDI) flow to Moldova has increased 5.8 times since 1992, increasing from USD 17 million in 1992 to USD 100 million in 1997. But, in 2003 the net amount of FDI reduced to USD 789 million comparing to data of 2002 – USD 116.2 million, and 2001 – USD 146.1 million.
By 1 July 2004 the volume of Foreign Direct Investments in Moldova, according to UNCTAD Report, reached the amount of USD 829 million.

Although volumes have not been high, there has been some welcomed diversity, with significant investments in food processing, packaging, textiles, electrical equipment and other light industry, as well as in the utilities and financial sector. In monetary terms Russia is the largest single foreign investor, providing 36% of the total Foreign Direct Investment (FDI) over the past 11 years, according to Moldova's Statistics Department. However, nearly all of this is accounted for by Gazprom's investments in Moldovan gas utilities and the LUKoil-Moldova joint venture, although Russian investments in other areas are increasing. The US is the next-largest investor, with 10% of the total, and investments directed towards the food-processing, agriculture and retail sectors in particular. From Western Europe the main investors are Spain (just under 10%, including Union Fenosa's investment in power distribution), the Netherlands (7.7%), Germany (4.8%), France (4.1%) and Switzerland (3.8%). Neighbouring Romania accounts for just 1.3%, while Ukraine is not included in the official statistics.

Leading Industries

Viticulture, fruit and vegetable growing, and other specialized farming activities are particularly important, constituting about one-fourth of the commodity output of arable farming. Grapes are Moldova's most important industrial crop, with the largest vineyards found in the southern and central regions. Most orchards are situated in northern and south-eastern Moldova. Sunflower seeds, another significant crop, are grown throughout the republic, though the south-eastern regions have the largest plantations. Sugar beets, a relatively new crop in Moldova, are cultivated in the north. Moldova also is a major tobacco grower. Vegetables are grown mainly in the southeast.

The chief grain crops are winter wheat and corn (maize). Wheat is used for the republic's own needs, and corn is exported as a seed crop. Most of the grain is grown in the north.

Dairying and cattle breeding also are important, as is pig farming. The sturdy Karakul and tsigay breeds constitute a large proportion of the sheep, the raising of which is particularly important in southern Moldova.

The industrial sector of Moldova's economy is concentrated mainly on food processing, with the machine-building, power-engineering, consumer-goods, and building-materials industries also undergoing development.

The food industry has numerous branches; wine making, canning, sugar refining, and oil pressing, as well as the production of essential oils, are especially significant. In particular, Moldova is an important exporter of wine, including champagne and brandy. Moldova's sugar-refining industry is located in the north. For local needs the republic has flour and other mills and well-developed meat, dairy, and confectionery industries.

Machine building, established in the mid-1950s and centered on Chisinau, Balti, Tiraspol, and Tighina, has acquired importance. Tractors made in Moldova are specially equipped for use in orchards and vineyards. Light industry includes the production of furs at Balti, garments and knitwear at Chisinau and Tiraspol, footwear at Chisinau, and silk fabrics at Tighina.

Building materials produced in Moldova include bricks, limestone, tiles, cement, slate, and concrete blocks. Rabnitsa is the leading centre of this industry.

Thermoelectric power plants are located in Chisinau, Balti, and Tiraspol, and there are hydroelectric stations in Dubasari and Camenca on the Dniester.

Financial System

The Moldovan banking sector is a fast growing area in comparison with other sectors of the national economy.

The Moldovan banking sector has two levels, the National Bank of Moldova (NBM) which is the central regulatory institution, and 16 commercial banks.

In 1996 the Moldovan banks were linked to the international system of interbank telecommunications – S.W.I.F.T. Starting from 1 January 1998 the banks changed their accounting system to comply with International Financial Reporting Standards (IFRS) and today work according to them.

To strengthen the banking sector and management accountability, several additions to the legislation were made in 1998 aimed at making top management accountable for loans granted.

As part of the first project for the development of the private sector, the World Bank opened a credit line for short and medium-term credits. Six local banks were selected as intermediaries: Moldova-Agroindbank, Victoriabank, Fincombank, Universalbank, Mobiasbanca and Banca Sociala.

During the last 2-4 years the banking system of the Republic of Moldova dynamically widened the range of offered services. First of all, each bank has oriented its services to corporate clients by opening special micro-credit lines and by applying flexible interest rates to solicitors. The structure of credits portfolio did not significantly changed in 2003 as compared to previous periods. Over 80% of all credits are offered to enterprises (of different property forms), which activate in industry, commerce, agriculture and constructions.

Second, many banks developed new proposals and now offer different accessible credits to natural persons (retail credit) and other products.

The activity of commercial banks is highly regulated mostly through regulations passed by the National Bank, including the Law on preventing and fighting the money laundering, passed in 2001. Commercial banks of Moldova shall follow the principle ”know your client”, analyse the cash flows of the clients and inform the respective state bodies about suspicious operations.

Central Bank and Bank Regulators

Central Bank

The National Bank of Moldova is an independent institution that reports to the Moldovan Parliament. The NBM regulates and supervises the Moldovan banking sector and determines the national monetary, credit and foreign exchange policies. The NBM also acts as a banker and as a fiscal agent of the State and its bodies.

In terms of internal organisation, the NBM is structured in departments, directions, services and other subdivisions. The President of the NBM and a Board of Directors, which consists of five members, heads the NBM. The President of the NBM is the Chairman of the Board of Directors and is appointed by the Parliament following the proposal of the Speaker.

Banking Regulations

The Moldovan banking system is governed by Law 548/1995 on the NBM, Law 550/1995 on Financial Institutions and subsequent Regulations of the NBM.

The NBM is vested with the exclusive right to determine and to modify general requirements for the minimum capital for banks and the maximum amount of shares, which can be owned by each shareholder.

Financial institutions are obliged to provide the NBM with any information and data required by the NBM, which are essential for the fulfilment of its duties. In order to start its activity, a commercial bank is required to receive a licence from the NBM. There are three categories of licenses for banking activity:

- The A-licence authorising the banks to render all banking services, except foreign exchange services and performance of securities operations. The equity requirement for this licence is MDL 50 million.
- The B-licence, which provides the possibility to render all banking services available under the A-licence together with foreign exchange services. The equity requirement for this licence is MDL 100 million.
- The C-licence, which entitles its holders to deliver the entire range of banking services (including underwriting). The equity requirement for this licence is MDL 150 million.

During the period from 30 June 2004 to 31 December 2005 capital requirements for the three categories of licenses for banking activity are going to be increased in several steps.

Stock Exchange and Securities Regulating Authority

The Moldovan securities market is regulated by the Law on Securities Market (Law 199/1998), the Law on National Securities Commission (Law 192/1998) and the Law on Joint Stock Companies (Law 1134/1997).

The Stock Exchange is established and operates as a closed joint stock company with a share capital of at least MDL 500,000. Brokers and dealers have the exclusive right to become founders or members of the Stock Exchange.

The Stock Exchange is a non-commercial organisation and has no right to distribute, in any form, income earned from its operations to its members.

The Moldovan Stock Exchange was registered on 7 December 1994. However, the volume of operations has not experienced the steady growth, which was envisaged and the level of trade has deteriorated lately.

There were carried out 3,600 transactions with 74.8 million securities (MDL 437.5 million/ USD 52.5 million) of various issuers in 1998 (it was the most successful year – the Stock Exchange was developing very dynamicly). In 2002 there were 638 transactions with 59.4 million securities (MDL 252.6 million/ USD 18.2 million). In 2004 there were 572 transactions with 1.1 million securities (MDL 58.9 million/USD 4.7 million).

At the beginning of 2002, the National Commission introduced the CNVM-32 index into operation, the official publication of which was launched since the summer of 2000. The index is calculated every week following the Stock Exchange's trade session Friday (or Monday). The "Dow Jones" index serves as a basis for the CNVM-32 calculation.

The structure of the CNVM-32 portfolio almost reflects the structure of the GDP of Moldova: 57.55% of enterprises, included in the index, belong to the food and drink production; 19.42% - to the light industry; 15.85% - to the heavy industry; 7.18% - to the service industries.

The National Securities Commission is charged with the regulation, supervision and control of the securities market and the activity of its operators. The main functions of this Commission are as follows:

- regulation of the securities market;
- licensing of professional securities operations;
- supervision and control of the observance of laws and other regulations on securities;
- regulation of registration procedure as well as the registration of public offers and tender proposals in the field of securities;
- registration of the results of public offers;
- keeping the State Register of Securities, the Register of professional operators on the securities market, the Register of licenses issued for professional activity on securities market and the Register of certificates giving entitlement to performance of securities operations;
- registration of securities issues carried out by Moldovan operators; and
- authorisation of securities circulation outside the country.

Insurance

As per 1 January 2004, 50 insurance organizations held the license to perform insurance activities in the Republic of Moldova, ten of which – with participation of foreign capital. The volume of insurance payments the last year amounted to MDL 289.9 million, including mandatory insurance – MDL 47.8 million which is higher by 26% in comparison to the last year figures.

The Law 1508/1993 on insurance is the basic act in the field of insurance. Under the provisions of this Law, an insurer can be any company, including one with foreign capital, which holds a licence for carrying out insurance activity within the territory of the Republic of Moldova.

Pursuant to Law 845/1992 on entrepreneurship and enterprises, enterprises that conduct insurance activities can be incorporated as joint stock companies, limited liability companies, State enterprises or municipal enterprises.

The minimum social capital of the insurer, expressed in monetary units, should be MDL 2 million.

The main objectives of the State Inspectorate for Supervision of Insurance and Non-Governmental Pension Funds of the Ministry of Finance are to supervise insurance activity, to guarantee the protection of rights and legitimate interests of both insurers and the insured, as well as to supervise the observance of legislation on insurance.

Currency

The official currency of the Republic of Moldova is the Moldovan Leu (MDL), which is convertible only within the territory of the Republic of Moldova. (1 Leu = 100 bani). The exchange rate of the MDL is determined at an open auction held by financial institutions authorised by the National Bank of Moldova.

In 2004 MDL's about 10% growth in relation to USD has been registered, mainly caused by depreciation of the USD in the external currency markets (mainly in April-May 2004) and growth of remittances from citizens of Republic Moldova working abroad.

The MDL has been subject to constant devaluation over recent years because of the high level of inflation (For further details see Appendix 2: Economic Performance Statistics). The official exchange rates as per January 1, 2005 are as follows:
USD 1 = MDL 12.46
EUR 1 = MDL 16.95.

Special Investment Considerations

Regulated Activities

Moldovan banking, securities, insurance and investment fund activities are regulated by special laws, which establish minimum share capital requirements for carrying out these types of activities. Under these laws, to conduct business operations in these areas, companies should meet specific criteria to qualify for authorisation on the market. Operators in these areas are also required to conform to particular standards for conducting business operations.

Government-Owned Industries and Privatization

The Moldovan government has stated its aim to conduct essential market reforms and to create an open market economy. Several market-oriented reforms have been implemented in order to encourage corporate investments and the privatisation of most state owned enterprises.

The year 1993 is considered as the starting point for privatisation initiative in the Republic of Moldova. At that time, the Moldovan government took a strategic decision to launch a mass privatisation program. Its concept relied upon the free distribution of public property to its citizens through Patrimonial Bonds (PBs). This system of privatisation through PBs was the main component of the state Privatisation Program for the years 1993-1996 under the direction of the Department of Privatisation and State Property Administration of the Republic of Moldova. As a result, more than 3 million Moldovan citizens became shareholders and more than 2,000 state enterprises were reorganised into Joint Stock Companies by the end of 1996.

While mass privatisation created a large number of private owners, the advent of cash privatisation marked a new era for the privatisation process. Cash privatisation was promulgated through the Law on the Privatisation Program for 1997-1998, which placed a great importance on the attraction that strategic investors had for domestic enterprises with the view to contributing to their economic growth, minimising state subsidies, developing capital markets and creating an efficient corporate management. From 1997 to 1998, several Moldovan companies were sold through investment tenders to foreign and local strategic investors, generating investments of MDL 87 million and USD 57.5 million. In several privatisation processes, prominent western companies were involved e.g., Lafarge (France), one of the world's largest producers of construction materials, purchased the cement factory Ciment, Steilmann Group (Germany) acquired the garment factory Balteanca. Eurofarm Inc. (USA) acquired controlling interests in several companies, as did Esastampa S.R.L. (Italy). In 1999 there were privatized the South, Central and Chisinau electricity supply networks by Union Fenosa (Spain). Moreover, Israel investors bought 83.29% of shares of company Moldova-Tur, a major company in the hotel and tourism business. The Privatization Department has announced the international investment tender for privatization of the electricity distributing networks RED Nord and RED Nord-Vest.

The main privatization projects onwards are in the telecommunication, energy, tobacco and wine and light industries.
The Privatisation Program for years 1997-1998 was extended until 31 December 2005.

Foreign Exchange Control

The MDL is the only instrument of payment on the territory of the Republic of Moldova.

The National Bank of Moldova establishes the official exchange rate for the MDL against other foreign currencies.

Both resident and non-resident companies have the right to open accounts in MDL and any foreign currency in authorised banks of the Republic of Moldova.

Resident companies can convert proceeds received in foreign currency into MDL but are not authorised to transfer foreign currency from their accounts to the accounts of other residents of the Republic of Moldova (except for authorised banks).

Non-residents may transfer funds outside the Republic of Moldova only in the following cases:

- funds were registered in their account;
- funds were previously placed in a deposit account in MDL with a Moldovan authorised bank.

Resident companies can make payments in foreign currency to non-residents only from their foreign currency accounts held with authorised Moldovan banks (or accounts held with foreign banks authorised by the NBM). These payments can be made only by bank transfer.

Environmental Law

The protection of the environment has been established as a national priority by the government. The legal framework for environmental issues is provided for by the provisions of Law 1515/1993 on environmental protection.

The Law provides for creation of a Central authority for natural resources and environmental protection. The basic function of this authority consists of ensuring environmental protection and the reasonable exploitation of natural resources.

State Ecological Inspectorate, Hydrometeorological Agency and National Institute of Ecology are subdivisions of the Central authority.

Under the provisions of the Law on environmental protection, companies are to comply with the following requirements:

- to consume energy and water supplies in a mostly economic manner;
- to take actions in order to prevent landslides;
- to fight soil erosion;
- to make use of chemical substances and pesticides strictly within the limits set by the legislation; and
- to provide appropriate conditions for preventing air and environment pollution.

When cultivating the land, entrepreneurs must apply reasonable methods and technologies in order to prevent eventual damage to the soil structure.

Intellectual Property

In the Republic of Moldova, every object of intellectual property is subject to special regulation in accordance with separate laws as follows:

- Law 293/1994 on Copyright and Related Rights;
- Law 461/1995 on Patents;
- Law 588/1995 on Trademarks and Appellations of Origin of Goods;
- Law 915/1996 on Plant Varieties Protection
- Law 991/1996 on Industrial Design Protection; and
- Law 655/1996 on Protection of Topographies of Integrated Circuits.

The Republic of Moldova is a member of the World Intellectual Property Organization and enacted the major documents in this field as:

- Paris Convention for the Protection of Industrial Property;
- Madrid Agreement on the International Registration of Marks and the 1989 Madrid Protocol;
- Patent Cooperation Treaty (1970);
- Hague Agreement on the International Deposit of Industrial Designs;
- Nice Agreement on the International Classification of Goods and Services;
- Locarno Agreement on the classification of industrial designs;
- Lisbon Agreement on the Protection of Appellations of Origin

The Intellectual Property State Agency reporting to the Government ensures legal protection of copyright and related rights as well as industrial property within the territory of the Republic of Moldova. The Agency was the result of the merger of the State Industrial Property Protection Agency and State Copyright Agency dated September 2004.

Regional and International Trade Agreements and Associations

The Moldovan Parliament adopted the Law 218/2001 on membership of the Republic of Moldova in the World Trade Organisation.

The Republic of Moldova is also a member of such international entities as:

- International Monetary Fund (IMF);
- International Bank for Reconstruction and Development (IBRD);
- European Bank for Reconstruction and Development (EBRD);
- United Nations Food and Agricultural Organisation (UNFAO).

Importing and Exporting

Imports

According to the information provided by the Ministry of Economy, imports during the period from 1 January 2003 to 31 December 2003 amounted to USD 1,402.7 million, having increased by 35.1% in comparison with 2002. The principal five categories of imported goods are mineral products (USD 297.7 million); machines, electronic devices and equipment (USD 214.0 million); chemical products (USD 132.7 million), textiles, footwear and similar articles (USD 125.5 million); and wood, wood articles and furniture (USD 98.5 million).

In 2004 the negative trade balance of the Republic of Moldova was off USD 592.4 million, which is bigger than in 2003 by USD 147.4 million or 33.1%.

During 2004 the Moldovan export volume increased with 26.2%, comparing to 2003, which represents USD 788.5 million. At the same time the import volume increased by 29.1% and constituted USD 1.38 billion.

Exports

The export of goods represents a reliable source of economic growth and accumulation of currency reserves. In 2003 export has reached USD 790.3 million, having increased by 22.7% in comparison to the last year. In 2004 the volume of exported goods and services from Moldova reached the amount of USD 986.3 million. Commonwealth of Independent States (CIS) countries represented in 2003 53.6% of total Moldovan exports (in 2004 – 51%), compared with just 23.4% for the European Union (in 2004 – 30.1%) and 11.4% (in 2004 – 10%) for neighboring Romania. However, in the last three years there is a tendency of export reorientation towards Western Europe.

The principal five categories of exported goods are foodstuffs, beverages, tobacco (USD 314.3 million); textiles and textiles articles, footwear and similar articles (USD 144.8 million); vegetables (USD 120.2 million); live animals and animal products (USD 73.4 million); machines, electronic devices and equipment (USD 30.3 million).

Developments towards EU Accession

European integration is one of the priorities of the Republic of Moldova and the European vector of foreign policy, trade and economic relations has been set in many state documents. Milestones of Moldova's way to Europe are as follows: 1995 – the Republic of Moldova was the first of the CIS countries to be admitted to the Council of Europe; July 1998 – commencement of the Partnership and Cooperation Agreement between EU and Moldova. This agreement provides that the EU supports Moldova's efforts in the sphere of the state consolidation and maintenance of political and socio-economic stability, while Moldova continues further steps on a "European way" of law harmonization, institutional, economic and social changes. The most considerable improvements in trade took place from 1995 to 1999 when Moldova's export to the EU countries doubled (from 12% to 21% of Moldovan exports). The country benefits from the EU's General Preference System, but many of Moldova's significant exports – fruit and wine, for example – fall into the "very sensitive" or "sensitive" categories.
There are two main obstacles to the realization of the Agreement and Moldova's advancement along the European way: complexity of the preparatory stage (harmonization legal framework, structural reforms in the economy, etc.) and Transdniester conflict, CIS membership, dependency on Russia – main economic partner (traditional market for Moldovan goods).

At the same time it is worth mentioning that the hesitation of Moldova's advancement along the way of European Integration was caused by uncertainty of the long-term political and socio-economic orientation course. However, in August 2003 the European Integration Department next to the Ministry of Foreign Affairs was established. In January 2004 the first round of consultations concerning the elaboration of the Individual Action Plan for European integration took place. The President of Moldova Vladimir Voronin, at the sitting of the National Commission for European Integration, stated that the bilateral negotiations over the individual plan of Moldova's joining the European Union "Moldova-EU" will be over by 15 March 2005.

EU Enlargement Commissioner Guenter Verheugen said that Moldova had better prospects for EU integration than Ukraine, Belarus, or Russia. Moldova is likely to become an EU neighbor in 2007, when Romania and Bulgaria are hoping to join the Union.

Companies

Forms of Enterprises

Limited Liability Companies

A Constitutive Act (Deed of Incorporation) is used to establish a Limited Liability Company. The Constitutive Act is signed by all shareholders and authenticated by a notary. Shareholders of this type of company are liable to creditors up to the limit of their contribution to the authorized capital of the company. Authorized capital is divided into shares, the total number of which is stipulated in the constitutive act and mentioned on the certificate of share participation.

The authorized capital consists of the value of investment contributed by shareholders for the formation of the company. The minimum authorized capital of a Limited Liability Company shall be not less than MDL 5,400 (USD 410). A Limited Liability Company is required to create a reserve capital in the amount of 10% of the value of the authorized capital. A Limited Liability Company may be incorporated by a single legal entity or an individual and is not allowed to have more than 50 shareholders.

A contribution into an authorized capital of a Limited Liability Company may be in cash and in-kind. The value of the in-kind contribution shall be approved by the General Assembly of the company. Contributions of labor or services may not be used for formation or increase of the authorized capital.

Prior to incorporation each of the shareholders is obliged to contribute in money at least 40% of its contribution. The outstanding part shall be contributed not later than within 6 months from the moment of registration of the company.

In case of sale of a share by a shareholder in a Limited Liability Company the other shareholders have the right of first refusal. This rule does not apply to sales of shares to spouses, certain categories of relatives and to the company.

The supreme management body of a Limited Liability Company is the General Assembly of shareholders, which adopts decisions on major issues. The Board of Directors (or Director) is the company's executive body and it is subordinated to the General Assembly of shareholders. Members of the Board of Directors (as well as Director) are appointed by majority voting at a General Assembly of shareholders. The Censor Committee is a controlling body of a Limited Liability Company. The Censor Committee is appointed by the General Assembly and is subordinated to it. It should be appointed for a period of at least 5 years.

Joint Stock Companies

A Joint Stock Company is a legal entity with share capital divided into shares. A Joint Stock Company may be either an open or a closed-type company.

A Joint Stock Company qualifies as an open company in such instances where its shareholders are entitled to alienate their shares without any restrictions. Open Joint Stock Companies are authorized to have public placement and public sale of shares as well as of other securities among an unlimited range of persons.

A Joint Stock Company qualifies as a closed company when its shareholders and the company itself have a right of first refusal with regard to the shares alienated by the company's shareholders.

Joint Stock Companies are established through execution of a Constitutive Act (Deed of Incorporation), payment of founders' subscription for placed shares, company registration and registration of the shares. Registration of a Joint Stock Company is possible only via distribution (subscription) of shares between a determined numbers of founders as provided for in the Constitutive Act. The initial subscription is made without calling for a public offering. Upon registration, an open Joint Stock Company has the right to hold a public offering based on an authorization issued by the National Securities Commission.

Founders of a Joint Stock Company may be individuals, legal entities, the State represented by bodies of public administration, foreign States and international organizations.

The nominal value of all placed shares at the moment of establishment of a Joint Stock Company represents its authorized capital, which may not be less than MDL 10,000 (USD 760) for a closed joint stock company and MDL 20,000 (USD 1,520) for an open Joint Stock Company. The provisions of the law in respect of the reserve fund of the Joint Stock Company are similar to those related to the Limited Liability Company.

The law limits the number of shareholders for a closed Joint Stock Company to a maximum of 50 shareholders. There are no restrictions regarding a maximum number of shareholders in case of an open Joint Stock Company. There are also no restrictions in respect of a minimum number of shareholders and, therefore, a single individual or legal entity may incorporate both types of Joint Stock Companies.

At the moment of establishment of a Joint Stock Company, founders should pay the value of subscribed shares in cash or in-kind (which can be tangible goods, property rights and securities). In case of cash contribution the subscribed shares shall be paid by the founders prior to company registration. In case of in-kind contributions the subscribed shares must be paid not later than within 30 days from the moment of registration of the company.

The General Assembly of shareholders appoints governing bodies of a Joint Stock Company. The permanent bodies of a Joint Stock Company are as follows:

- the General Assembly of a Joint Stock Company;
- the Board of Directors or Director;
- the Censor Committee.

A Joint Stock Company may issue securities in the form of stock or bonds. In each of the respective case it shall issue stock or bond certificates to their holders.

Partnerships

The legislation of the Republic of Moldova regulates the following types of partnerships:

- General Partnership;
- Limited Partnership.

Both types of Partnerships may be established by a minimum of 2 and a maximum of 20 individuals or legal entities based upon the terms and conditions stipulated in the Constitutive Act.

The debts of the General Partnership are guaranteed by the capital of the partnership and by the unlimited joint liability of all the partners.

With regard to the Limited Partnerships, there are two different types of partners:

- General partners – those in charge with the daily administration of the partnership and having an unlimited joint liability for guaranteeing the obligations of a limited partnership;
- Limited partners – those who contribute cash or property to the business but may not take part in its operation and thus are not subject to any personal liability beyond their investment made in the business.

Although regulated as one of the business forms by the Moldovan legislation, partnerships are currently not a common medium for doing business in the Republic of Moldova.

Joint Ventures

Companies having foreign investments may be established in Moldova as Joint Ventures or as enterprises entirely owned by a foreign investor.

A Joint Venture is considered to be an enterprise whose authorized capital comprises both foreign and national investment. National investment is an investment made by a Moldovan individual or a legal entity or stateless persons permanently residing in the Republic of Moldova. Joint Ventures shall be created in accordance with the laws of Moldova only.

Under the Moldovan laws foreign investors may use any of the organizational forms of doing business provided for by the Law of the Republic of Moldova on Entrepreneurship and Enterprises.

Joint Stock Companies and Limited Liability Companies are the most common types of enterprises used by foreign investors. These types are mainly attractive for three reasons:

- They are regulated by the legislation of most countries.
- Unlike partners, shareholders of these types of company have limited liability. Their liability for the debts of a company is limited to the amount they have invested in the company through the purchase of shares or share capital contribution.
- Moldovan legislation governing these types of entity is relatively well developed.

Trusts

Article 1053 of the Civil Code of the Republic of Moldova regulates fiduciary administration agreements. Pursuant to a fiduciary administration agreement holds or transfers into fiduciary administration of a trustee certain assets and the latter undertakes to administer the assets for the interest of the trustor.

The assets, which can be administered, include any future or present goods, as well as goods acquired by the trustee in course of execution of the agreement.

Sole Traders

Based on article 26 of the Civil Code, individuals have the right to practice entrepreneurial activity without establishing a legal entity. In such a case an individual is obliged to register as a Sole Trader in the national register.

Entrepreneurial activity of a Sole Trader is subject to the same general rules as are applied to legal entities having the objective to obtain profit.

Branches

Branches of foreign legal entities can be registered to conduct commercial operations in the Republic of Moldova.
A Branch is subject to corporate profits tax in the same manner as other Moldovan companies. However, this form of entity for conducting business operations is currently not popular with foreign investors, because legislation governing the operation of branches is not as clear as for Limited Liability Companies and Joint Stock Companies.

A foreign company may establish a Representative Office in Moldova. A Representative Office cannot practice business activity. It only represents and protects the interests of the mother company.

Enterprises with foreign capital will be charged the same legal fees as the local enterprises.

Foreign Investment Legislation

The Law 998-XII on foreign investments passed on 1 April 1992 became invalid since the effectiveness of the Law 81-XV on investments in entrepreneurial activity passed on 18 March 2004. The investment legal framework stipulates that in the Republic of Moldova, the companies with foreign investments can be established as joint ventures and enterprises with foreign capital.

The investment can be executed under the following forms:

a) ownership of movables and immovables;
b) any right derived from a law or a contract, from any license or authorization issued in accordance with the current legislation, including research, cultivation, extraction or processing of natural resources concessions;
c) any rights resulting from shares, share fractions or other forms of participation in the commercial associations.
d) monetary funds;
e) rights, resulting from debt liabilities and other obligations before the investor, of economic and financial value;
f) intellectual property rights: rights on industrial property (patents, utility models, trademarks, appellations of origin of products, industrial designs and drawings, plant varieties patents, topographies of integrated circuits), copyrights and other related rights, trade secrets (know-how), goodwill.

The enterprises with foreign investments are entitled to set up both subsidiaries and representatives in the Republic of Moldova and abroad, if this is provided for in the constitutive acts of the enterprise.
Foreign investors and enterprises with foreign investments doing business in the Republic of Moldova are subject to the laws of Moldova and as well to the international treaties, which Moldova is a party to.

Foreign investments can be made in any industry of the Moldovan economy, provided that the state security interests, anti-monopolistic and environmental legislation, public health, safety, order and morality are not violated or infringed.

Other important laws regulating business activities include the Civil Code, Insolvency Law, new Pledge Law, Law on Enterprises and Entrepreneurship and Law on Support and Protection of Small Business.

Mergers and Acquisitions

Definitions

The Civil Code of the Republic of Moldova provides that mergers and acquisitions (along with separation, division and transformation) are forms of reorganization of companies.
In a merger, two or more existing companies are combined into a new company, the existing companies disappear and a new company is formed. Rights and duties of each of the merging companies shall pass based on a Deed of Transfer upon a newly formed entity.
In an acquisition, one or more companies are absorbed by the acquiring company and thus cease to exist. All the rights and duties of the acquired entity shall pass to the acquiring entity.

Regulatory Procedures

A merger process includes several stages:

- drafting the Reorganization Plan and Deed of Transfer;
- approval of the Reorganization Plan by the decision-making authorities;
- notification of creditors and publication of the information about the reorganization in the Official Gazette of the Republic of Moldova;
- registration of the reorganization;
- registration of a new issue of shares and cancellation of securities of the reorganized enterprises and enterprises going into liquidation, in the case of Joint Stock Companies.

Competition Rules

The main legislation that presently regulates potential monopoly situations in the Republic of Moldova are Law 906/1992 on limitation of monopolistic activities and development of competition, and Law 1103/2000 on protection of competition.

The Law on protection of competition stipulates that the National Agency on competition protection is in charge with determining State policy in terms of development of competition.

The provisions of the Law on protection of competition set out the types of anti-competition actions, together with the objectives and the competencies of the authority charged with the protection of competition. This Law also regulates the types of State control over the structure and the functioning of markets as well as the liabilities in case of breach of the legislation on protection of competition.

Tax System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12 DIGIT, 2 COLOR RIBBON PRINTE
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Personal Income Tax

Personal Income Tax is regulated by Title II "Income Tax" of the Tax Code, effective from 1 January 1998, and other provisions on income tax application.

Who is Liable

Under the provisions of the Tax Code of the Republic of Moldova, the following individuals are subject to Moldovan individual income tax:

- Moldovan and foreign nationals for income obtained in Moldova as well as resident individuals for the income earned from overseas financial and investments operations; and
- any enterprise having the legal status of an individual, such as sole ownerships, limited partnerships, general partnerships and farms.

To qualify as a taxable Moldovan resident, individuals should meet one of the following criteria:

- individuals having a permanent domicile in the Republic of Moldova, including the cases where individuals have departed for studies or travel abroad, and Moldovan officials appointed for missions abroad;
- individuals staying 183 days or more in the Republic of Moldova during one fiscal year.

Taxable Income

Individuals are subject to individual income tax on their worldwide gross income, with a deduction for the personal exemption and other allowances, which an individual is entitled to.

The gross income consists of:

- income earned by individuals;
- salaries, fees for services rendered by an individual;
- cash or in kind revenues, other premiums paid by the employer;
- interest;
- compensations for temporary disability;
- rental income; and
- revenues earned by lawyers and other professionals.

The gross income does not include:

- amounts received as compensation for illness;
- compensations received under insurance agreements;
- damages paid by a third party in case of accidents and/or permanent injury;
- dismissal compensations;
- donations and inheritances;
- dividends (except those paid by non-residents);
- lottery prizes; and
- compensations for moral damages.

Employment Income

Taxable compensation includes salaries, cash or compensation in kind, bonuses, rewards, compensations for temporary disability, paid holidays, inflation allowances and royalties from patents and innovations. Taxable compensation also includes salaries received by daily or temporary workers, fees and compensation paid to directors and managers of private entities and fees received by lawyers, doctors or experts.

Self-Employment and Business Income

All persons authorized to carry out independent activities (including traders and craftsmen) and family associations are subject to income tax. As a general rule, all income earned from self-employment and business activities are subject to income tax.

Investment Income

Non-residents (independent individuals with nonpermanent domicile in the Republic of Moldova and staying in Moldova for less than 183 days in the fiscal year) are subject to a 10% withholding tax for consulting and technical assistance fees. They are also subject to a 15% final withholding tax on earnings from royalties. These rates may

be reduced according to the provisions of specific double tax treaties.

Capital Gains and Losses

Capital assets are comprised from:

- shares and other titles of ownership right in the entrepreneurial activity;
- bonds;
- private property which was not used for business purposes;
- land; and
- options of capital assets.

The taxable amount of capital gain is 50% of any amount of capital gains received during the fiscal year reduced by the amount of any capital loss.
Capital losses are deductible only against capital gains.

Exemptions

A personal exemption of MDL 3,960 per year is given to each taxpayer against their taxable income. The Tax Code also provides the individuals who are entitled to a personal exemption amounting to MDL 10,000 per year. A deduction is given, for instance, for the following persons:

- persons who suffered from actinic radiation as a result of the accident at the nuclear power plant of Chernobyl;
- disabled persons in connection with the accident at the nuclear power plant of Chernobyl;
- the parents and the spouses of persons who died or have been reported missing due to defending the territorial integrity and the independence of the Republic of Moldova or during the Afghanistan war; and
- disabled veterans, persons disabled in childhood, invalids of categories I and II and retired persons who were victims of political repression and were subsequently rehabilitated.

An individual may also benefit from an additional exemption of MDL 3,960 per year provided that his/her spouse does not benefit from his/her personal exemption. The Tax Code also provides for an allowance of MDL 600 per year for each dependant, and a deduction of MDL 3,960 per year for the support of people with a permanent disability.

The income of the individuals that are employed by a company the main activity of which is software designing is not subject to income tax for a five-year period if the qualifications of the respective employees correspond to certain IT professions established by Appendix 2 of the Law on enforcement of the Titles I and II of the Tax Code.

Rates

According to the Tax Code the income tax rate is established on an annual basis. Currently, the following income tax rates are applicable:

- 9% of taxable income for revenues in excess of MDL 16,200;
- 14% of taxable income for revenues ranging between MDL 16,200 and MDL 21,000;
- 20% of taxable income for revenues in excess of MDL 21,000.

Inheritance and Gift Taxes

No taxes are levied on gifts or inheritances under the Moldovan legislation, except for gifts of cash.

Tax Filing and Payment Procedures

The tax year in Moldova coincides with the calendar year. According to the Tax Code individuals shall file Annual Income Tax Return if they:

- have the obligation to pay tax;
- earned taxable income, other than salary, exceeding an annual personal exemption (MDL 3,960);
- received salaries exceeding MDL 21,000 from two or more places of employment;
- earned taxable income as salary and from other sources exceeding MDL 21,000.

An employee's tax liability is settled through tax withholding by the employer. Employers withhold income tax monthly based on the employee's monthly salary or wages.

Double Tax Relief and Tax Treaties

The Republic of Moldova has concluded a series of double tax treaties, which generally provide for a residency test of 183 days in a fiscal year. (See Appendix 7: Treaty Withholding Tax Rates).

Corporate Income Tax

The Corporate Income Tax is regulated by the Title II "Income Tax" of Tax Code, effective 1 January 1998, and the related norms.

Corporate Taxes at a Glance

Corporate Income Tax Rate (%)	18	(a)
Capital Gains Tax Rate (%)	18	(b)
Branch Tax Rate (%)	18	(a)
Withholding Tax (%)		
Dividends	10	(c)
Interest	15/10	(d)
Royalties from Patents, Know-how, etc.	15	
Trade Commissions	10	
Services		
Commissions		
Branch Remittance Tax		
Net Operating Losses (Years)		
Carryback		
Carryforward		

a) See the paragraph: Taxes on corporate income and gains below;
b) The rate is applied to 50% of the capital increase value;
c) The 10% rate applies to dividends paid to nonresidents;
d) The 15% rate applies to resident companies; the 10% rate applies to non-resident companies.

Taxes on Corporate Income and Gains

Corporate Income Tax

Enterprises carrying out entrepreneurial businesses in the territory of the Republic of Moldova are subject to corporate profits tax on their worldwide income. Non-resident companies having a substantial economic presence (i.e. carrying out commercial activities in Moldova with revenues in excess of MDL 13,000 per month) are subject to income tax.

A resident company is a company which is effectively established on the territory of the Republic of Moldova in accordance with Moldovan Law. A non-resident company is a company, which is established abroad and carries out business within the country, either with or without a permanent establishment in the country. Resident and non-resident companies, branches of foreign companies, partnerships and income having activities which do not give rise to the creation of a legal entity are all subject to tax on income at the same corporate tax rate.

Rates of Corporate Income Tax

The standard rate of corporate profits tax is 18% of taxable income. Special reduced rates may apply in respect to certain incentives e.g. for Free Trade Zones (see Section F6 below).

Capital Gains

Capital gains are included in taxable income and taxed at the regular income tax rate. The amount of capital gains subject to income tax in a fiscal year is equal to 50% of the excess amount of any gain reduced with any capital losses. Capital losses can be carried forward for up to three years in order to offset future capital gains.

Dividends

Dividends received by resident companies are included in their global income and taxed at the regular corporate income tax rate. A final withholding tax at a rate of 10% is imposed on dividends paid to non-resident companies.

Foreign Tax Relief

Foreign taxes paid on investment and financial income may be credited against Moldovan taxes.

Determination of Taxable Income

Starting Point for Determining Taxable Income

The tax base is the net profit amount earned from all sources by legal entities after appropriate deductions and exemptions. Deduction is given for ordinary and necessary expenses incurred by the taxpayer during the fiscal year solely for entrepreneurial purposes. Traveling, business entertainment, insurance, charity donations, sponsorship and expenses without supporting documents of legal entities are deductible within the limits set by the Moldovan government. Deduction is not given for income tax expenses, penalties and fines related to taxes, duties and other mandatory disbursements to the budget.

Bad Debt Provisions

Provisions for trade or other receivables may be deducted only in case the legal decision has been issued stating the bankruptcy of the debtor.

Tax Depreciation

Depreciation is applicable for fixed assets that are utilized in the entrepreneurial activity and are subject to depreciation. For fiscal depreciation purposes, all fixed assets are classified into five categories as shown below. In Moldova, depreciation for fiscal purposes is calculated on a declining balance basis.

Fixed assets categories and related depreciation rates include:

Category	Depreciation rate for tax deduction (%)
1	5
2	8
3	10
4	20
5	30

The qualification of fixed assets by the categories is made in accordance with the Catalog of fixed assets approved by the Moldovan Government.
The depreciable amount of cars with an acquisition value exceeding MDL 100,000 (USD 8,100) is MDL 100,000.

Transfer Pricing

The fiscal authorities have the right to examine operations between related parties to identify any that are conducted with the purpose of decreasing the taxable base of the taxpayer. Under Moldovan legislation, transactions between related parties must be carried on according to the arm's-length principle.

Fiscal regulations further stipulate that in case of transactions between related parties, the value accepted by the fiscal administration will be the market value of the transaction.

Upon conclusion of a transaction, information about market prices can be collected from State statistic authorities and the pricing authority, Mass-media or Commodity Exchanges.

Relief for Losses

Companies may carry forward corporate tax losses, without adjustment for inflation, for three years following the year in which the losses were incurred. Losses carry-backs are not allowed.
Groups of Companies
The Moldovan legislation

does not contain optional provisions regulating the account consolidation in the financial statements of groups of companies.

National Accounting Standard 27 does set out the rules of preparation and presentation of consolidated financial statements. However, its provisions are not yet applied in practice.

Tax Withholding from Interest and Royalties

All payers of royalties to both residents and non-residents and of interest to individual residents have the obligation to withhold 15% from such payments as tax. Payments of interest to non-residents are subject to withholding tax of 10% and subject to any double tax treaty relief that may be available.

Tax Withholding from Payments Made to Residents

Payments to individuals and business entities which perform any of the services listed below, are subject to withholding tax of 5%:

- rental services;
- advertising services;
- audit services;
- management, marketing, consulting services;
- bodyguard and security services;
- services related to hardware and software installation, operation and maintenance;
- payments made to individual residents for the acquisition of goods and other services (this does not include salaries).

Tax Withholding from Non-Residents' Income

A tax of 10% is withheld from payments made to non-residents for services provided in the Republic of Moldova including insurance premiums under insurance agreements.
These provisions are not applicable to non-residents' income from the activity of their permanent establishments in the Republic of Moldova (i.e. branches, which have already paid profits tax) or to salaries.

Tax Filing and Payment Procedures

The tax year in Moldova is the calendar year.
Resident legal entities and branches including representation offices of foreign companies are obliged to file their corporate tax return by 31 March after the year-end. If the legal entity has ceased activities during the fiscal year, the return shall be submitted within 60 days after the day of liquidation.

The corporate income tax is payable no later than the 31st of March following the reporting year. If the company was in a fiscal profit position in the previous year, the income tax has to be paid quarterly amounting to one quarter of the tax paid for previous year or a forecasted amount for the current year. Additionally, the corporate income tax has to be paid on the amount of dividends paid in advance.

Value Added Tax

VAT is regulated by the Title III "Value Added Tax" of the Tax Code, effective 1 July 1998, and the related norms of application of VAT.

VAT payers are subjects who have made supplies of goods and services, other than those, which are exempt from VAT, the total value of which exceeded MDL 200,000 within the period of any 12 consecutive months.

Title III of the Tax Code sets the following VAT rates:

Standard rate

- Goods and services imported into and deliveries made within the territory of the Republic of Moldova – 20%.

Reduced rates

- Bread and bread products, milk and dairy products delivered within the territory of the Republic of Moldova – 8%;
- Natural and liquefied gases, both imported gases and those delivered within the territory of the Republic of Moldova – 5%.

Zero rate

- Goods and services for export and all categories of international cargo and passenger transport.
- Electrical power delivered to the population via distribution networks, thermal energy and hot water delivered to the population by local thermo-energy enterprises, boiler houses, thermal stations and group-stations.
- Goods and services intended for official use of diplomatic missions and other similar missions in the Republic of Moldova as well as for the use or private consumption by the members of diplomatic, administrative and technical staff of these missions and for the use and private consumption by the members of their families living with them on a reciprocal basis, on the basis of the procedure set out by the Government.
- Goods and services for international organizations, within the limits of the Agreements to which the Republic of Moldova is party.
- Housing construction work performed under mortgage.
- Goods or services introduced into Free Trade Zone from abroad, removed out of the Free Trade zone overseas, delivered within the territory of a Free Trade Zone, as well as those delivered between residents of different Free Trade Zones.
- Processing services carried out by Moldovan companies.
- Services related to science or innovation imported or delivered within the territory of the Republic of Moldova.

As a general rule, effecting taxable supplies allows the recoverability of input VAT. Exempt supplies do not allow the right for recovery of input VAT, the input VAT regarding to this supplies shall be reported to the costs of enterprise.

As a rule, supply of services is taxable in Moldova if the place of supply is deemed to be in Moldova under the rules stated in the VAT legislation. The general rule is that the place of supply is the place where the supplier has its business. However, there are several exceptions, similar to those listed in the EU 6th Directive (e.g. services related to immovable property – place where immovable property is located; renting and leasing of movable goods and professional services - place where the recipient of the services is located).

The VAT taxpayers must submit VAT returns to the tax authorities on a monthly basis, specifying the taxable amount and the tax due. The tax return must be submitted and the VAT paid by the last day of the month following the reporting month.

Tax Procedural Law

Tax procedural issues are currently regulated by the provisions of the Title V "Tax Administration" of the Tax Code, effective 1 July 2002.

The Moldavian tax administration authorities are: fiscal authorities, customs authorities, Centre for combating Economic Crimes and Corruption and local authorities for local taxes collection.

Taxpayers are required to submit certain tax returns and pay the related taxes periodically, as follows:

- Income tax is required to be paid in advance on a quarterly basis, not later than 31 March, 30 June, 30 September and 31 December for the current year. The annual income tax return should be submitted no later than the 31st of March of the year following the reporting year. The annual income tax return can be filed to rectify errors recorded in the original tax return. In cases where errors lead to an increase of taxable income, the company must specify appropriate penalties and/or fines in the new tax return. In cases where errors lead to a decrease of the tax, the company must indicate the amount of the extra tax.
- VAT, Personal income tax, Social security contributions and local taxes – on a monthly basis.

All taxes in Moldova must be paid in Moldovan Leu (MDL). For income realized in foreign currency, tax payments are made in MDL, using the official exchange rate effective on the payment date.

Fiscal Sanctions

Failure to submit tax returns, as well as failure to pay taxes in due time, or improper calculation of taxes entails the follow fiscal sanctions:

- Fine for non-filing of tax returns by the respective deadline – calculated at 5% rate of the tax amount indicated in the tax return to be paid when the period of non-filing of tax returns does not exceed more that one month and increasing with 5% for every next month for non-submission of tax returns but not more than 25% in total.
- Penalty for delay of payment – is charged according to Article 228 of the Tax Code for the period starting with the due date until the day of effective payment. The rate of penalty is the prime rate for refinancing of short and medium-term loans established by the National Bank of Moldova for the month of November of the previous financial year (approximates to whole percent) plus 5 points.
- Fine for delay of payment – is levied at a rate of 2% for each month of delay of payment, but not exceeding 24% in total.
- Fine for underestimation of tax liability – is levied at a rate of 20% of underestimated tax for submission of an incomplete or misstated tax return, according to Article 261 (4) of the Tax Code.

Customs Tax

Moldovan customs regulation is governed by the Custom Code 1149-XIV of 20 July 2000, Customs Tariff Law 1380-XIII of 20 November 1997, other normative acts, and international customs treaties where the Republic of Moldova is a party to.

Foreign Trade in Moldova has been liberalized and generally follows the guidelines set by the European Union and WTO. As a result of this liberalization and of the on-going process of harmonization of the Moldovan customs rules, import and export of commodities are not generally subject to special authorization requirements, except for the impact in export of some goods and means of transportation which are prohibited in the interests of national security, protection of public order, environmental protection, protection of items of artistic, historical, and archaeological value, protection of intellectual property rights, as well as in view of other interests of the Republic of Moldova.

Customs Duties

The Moldovan Customs Code states that import and export levies include:

- customs duties;
- customs procedure duties;
- VAT;
- excise duties; and
- any other amounts, which have to be paid for the import or export of goods to the customs authority in accordance with Moldovan legislation.

The taxable base for the customs duties, excise duties, VAT and customs procedures duty is the quantity of the goods or their declared value at the customs.

Moldova has adopted the European Harmonized System for the nomenclature of goods and follows the valuation rules of the WTO for the assessment and declaration of the value in customs.

Temporary Duties Relief

The Moldovan Customs Code stipulates several customs regimes, which may defer, suspend or allow the refund of customs duties and other applicable import taxes, under specific conditions outlined by the domestic customs rules. Such temporary duty relief that may be applied by the Moldovan customs authorities includes:

- transshipment;
- customs warehouse;
- duty free shop;
- processing in the customs territory;
- processing under customs control;
- temporary import;
- free zone (free trade zone);
- processing outside of customs territory;
- export; and
- re-export.

Individuals Customs Regime

The Law 1569-XV of 20 December 2002 stipulates specific duty rules for individuals traveling to Moldova. According to this rules both Moldovan and foreign individuals are allowed to bring into Moldova limited quantities of goods such as wine, tobacco products, clothing and electronic equipment free of VAT excise duties, customs duties and customs procedure duties upon their first import.
Individuals are also allowed to bring into Moldova other goods without paying VAT, excise duties, customs duties and customs procedure duties in amount not exceeding EUR 200 and which are not to be used for business purpose.
Duties are applied for goods which exceed the allowed limits.

Stamp Duty

The provisions of the Law 1216 of 3 December 1992 “The State Stamp Duty” establish legal requirements in respect of subjects and amounts of Stamp Duty liability.

Stamp duty is payable on most judicial claims, issuance of certificates and licenses, and documentary transactions, which require notary registration.

There are three types of stamp duty:

- notary stamp duty;
- judicial stamp duty; and
- extra-judicial stamp duty.

Notary stamp duty is charged for authentication and other services rendered by public notaries. The duty is applied either as a fixed percentage tax, or as a fixed amount of tax, depending on the type of service rendered.

Judicial stamp duty is levied on claims and requests filed with Courts and the Ministry of Justice and is calculated depending on the value of the claim. Quantifiable claims are taxed based on established rates. Unquantifiable claims are taxed at fixed amounts.
Extra-judicial stamp duty is charged for issuance of various certifications such as identity cards and driving licenses.

Special Consumption Tax

Excise Taxes

The list of goods, which are subject to excise duties, is provided in the Annex to Title IV of the Tax Code.

Excise tax as a general State tax is set for:

- certain consumption goods such as coffee, caviar, beer, wine, alcohol, cigarettes, petrol, diesel fuel, perfumes, cars, video and audio equipment;
- activity related to gambling.

According to the Annex to Title IV of the Tax Code, specific excise quotas are set for each category of products. Such quotas are valid for the entire Moldavian territory.

The excise rates are set as follows:

- fixed amount according to the measurement unit of the good;
- *ad valorem* in % applied to the market value of the good; and
- *ad valorem* in % applied to the cost of the license for gambling activity.

Special Fund for Public Roads

Contributions to this fund come from:

- deductions from excise duties on gasoline and diesel oil;
- tax on usage of Moldovan roads by vehicles which are not registered in the Republic of Moldova;
- tax on owners of vehicles registered in the Republic of Moldova;
- tax on issuance of authorizations for vehicles with parameters exceeding the statutory limits;
- taxes on licenses issued for auto transportation, construction works, repair and maintenance of roads levied on individuals and legal entities;
- fines applied to deterioration of roads, constructions and road equipment; and
- tax on sales of natural gas used as fuel for vehicles.

The rates for road taxes are approved by the Parliament upon examination of the State Budget every year.

Other Taxes

Other smaller local taxes are often applicable in localities throughout Moldova.

Financial Report and Auditing

Method of Accounting

Moldovan accounting and auditing requirements have undergone significant modifications in recent years. The National Chart of Accounts and the Moldovan Accounting Standards (MAS) has been enacted with effect from 1 January 1998. The MAS follow International Accounting Standards in many respects. The main goal of the MAS implementation was to create an informational basis, which will provide fair and impartial financial information about the financial position of enterprises for shareholders, management, investors and other interested stakeholders.

The Ministry of Finance has conducted the Moldovan accounting reform with the assistance of the USA Agency for International Development (USAID), which created the Moldovan Accounting Reform Project.

The Moldovan Accounting Law was adopted in 1995 and has also been recently amended.

The provisions of Moldovan Accounting Law provide for double entry accounting for all entities except the legal entities carrying on their activity based on individual work of one family's members provided that the annual net revenue does not exceed amount of MDL 1 million or the carrying amount of fixed assets does not exceed MDL 350,000.

Source of Accounting Principles

Accounting is regulated by the provisions of the following normative acts:

1) Moldovan Accounting Law (Accounting Law), amended by Law 757,
2) National Chart of Accounts,
3) Moldovan Accounting Standards; and
4) Sets of accompanying rules and regulations.

Pursuant to the Accounting Law, all legal entities and individuals who perform business activities and are registered in Moldova must keep accounting records in accordance with MAS and the accounting policy chosen. This provision applies also to sub-units like branches or subsidiaries registered in Moldova. These entities or individuals must keep written evidence of all transactions and record these transactions in their accounting books. The records required by the Accounting Law are: Journal Registers, a Stock-take Register (based on an annual stock-take of assets and liabilities) and a General Ledger (based on an analysis of the accounting information posted from source documents or Journal Registers). These documents must be kept in the official language (Romanian) and the amounts must be recorded in MDL. The books and all the accounting records can be used as evidence in Court and are subject to review by Moldovan fiscal and judicial authorities. The books and the records may be in a written or in an electronic format.

The Accounting Law requires a specific chart of accounts to be used for all entities and prescribes a structured form for statutory reporting linked to the specific chart of accounts.

Under the provisions of the Accounting Law, all enterprises, except very small firms meeting certain criteria, have to keep their accounting records on a double entry basis. Individuals and family associations who conduct trading activities are not obliged to observe the accounting requirements concerning double entry. In this instance the Cash Register is the only required record.

Fundamental Concepts

The Accounting Law, the Moldovan Accounting Standards and the subsequent accounting regulations have been based largely on International Financial Reporting Standards in relation to fundamental concepts (as outlined in IFRS 1).
Accordingly, each enterprise has to develop its own accounting policy based on three main conventions going concern, permanence of methods and consistency of presentation and accrual basis.
If the companies maintain records in accordance with foreign parent company accounting policy, some adjustments have to be made in order to meet the local requirements.
However, the use of accruals, provisions and estimates prescribed by MAS, is sometimes limited in practice. This is due to the fact that many Moldovan accounts are focused rather on the tax deductibility basis than the preparation of financial statements that are useful for reporting to owners/investors/ lenders/management or for other purposes.

Significant Accounting Concepts for Investors

Moldovan accounting records have been heavily influenced by compliance with taxation requirements. The primary function of financial/accounting details collection and recording process has been seen by many Moldovan entities and the management/staff within the entities (both State and private) as being for taxation compliance and taxation reporting purposes. As a result of this, the reported information tends to reflect “form over substance”. In this way, greater importance is placed on having particular documents or special recording, rather than on “accurate” disclosure of the financial standing of the enterprise at a point in time or specification whether the results for the period are an appropriate representation of what has occurred.

The MAS and related regulations are not as such at fault, as they both seem to provide for and encourage treatments that are consistent in many ways with international accounting principles.

In applying IFRS requirements, the MAS introduces, among other items, the following issues for Moldovan financial accounting and reporting:

- application of indexation measures to reflect the impact of inflation (both in establishing opening values and on an ongoing basis);
- deferred taxation, to include the impact of differences between accounting profit taxation and fiscal authority taxation;
- emphasis on “substance” rather than “form”;
- disclosure of related party balances and transactions;
- differences between accounting depreciation and taxation depreciation;
- group consolidated financial statements incorporating these of subsidiaries of holding companies;
- additional disclosures, such as cash flow statements and statements of change in shareholders’ equity;
- assessment of impairment of assets;
- more detailed disclosure notes;
- more specific inventory cost valuation calculation.

Elaboration of some other particular issues is in process. Historically in considering Moldovan financial statements investors should keep in mind:

- A tendency to “form over substance” in transaction recording.
- Provisions for collection of trade or other) are limited.
- Few if any provisions are included for items of inventory that may be sold for less than the carrying value indicated or which may never be sold.
- No account is taken of the diminution in the purchasing power of the MDL. This means that non-monetary items (such as property, plant and equipment; investments, inventory, share capital, individual income and expense items) do not reflect a “real” value.
- Depreciation of fixed assets is based on historic MDL acquisition values (in some cases Government specified revaluations of the MDL values having occurred) at State specified depreciation rates.
- Property, plant and equipment is recorded in MDL at the historic MDL value or based on State approved revaluation indices, neither of which results in an equivalent current MDL value for the acquisition cost.
- Investments are included at historic MDL at the investment value and not at the “equivalent current MDL value” at the acquisition/investment date.
- Varying from entity to entity, limited use is made of accrual accounting to include all liabilities and expenses that relate to the activities undertaken in a specific period.
- No details of mortgages or security over assets given by the entity are indicated.
- Inventory valuation for manufactured goods tends to include an excessive amount of overhead compared to the recommendations of the applicable International Financial Reporting Standard/ US Generally Accepted Accounting Principles. Issues also arise in many entities as to the basis used to arrive at standard costs and the means for allocating variances from standard.
- Due to diminution in the purchasing power of MDL, income and expense items from the prior year may not be useful for comparative purposes.
- No details on business relationships or remuneration of senior management is provided and/or no details of transactions with relations or related companies.

In view of the changes occurring in Moldovan accounting, it is important that potential investors obtain explanations on what an accounting policy/treatment and/ or a balance is, then, if it is an important issue for the investment consideration ensure that the explanation is consistent with some form of factual evidence, whether that is to a balance in the financial statements/records, the general ledger and/or other relevant documents or schedules.

Disclosure

Annual financial statements should include a balance sheet, profit and loss account, cash flow statement, a statement of changes in equity and notes, all in the prescribed format.
Financial statements are prepared under the historical cost convention on an accruals basis. Fixed assets are recorded at the historical cost, but the alternative method allows the possibility of fixed assets revaluation at the market value. Inventories are carried at the lower of cost and net selling value. In accordance with MAS the companies can choose whether to expense materials and supplies on a weighted average, first in-first out (FIFO) or last in-last out (LIFO) methods. For doubtful and bad debts companies can create provisions in accordance with the management's decision, but these provision are not deductible for fiscal purposes. Monetary items originally denominated in foreign currency, should be revaluated at the end of each month using the official rate exchange of National Bank of Moldova for the respective currency.

Special regulations exist for banks in respect of provisions for loans, bad and doubtful debts, revaluation of foreign currency items and other issues.
The financial year is the calendar year. Businesses are required to prepare financial statements quarterly and annually.
Open Joint-Stock Companies should publish their annual financial statements in a newspaper.
All companies should submit their annual financial statements to the territorial financial body by the 25th of the next month for quarterly reporting and by 15 March for annual reports.

Audit Requirements

The activity of auditing companies is governed by:

- Law on Audit and National Standards on Auditing (NSA). The NSA were prepared on the basis of the International Standards on Auditing and are effective starting from 1 January 2001.
- Code of Professional Conduct of Accountants and Auditors, adopted in 2001.

The Law on Audit is currently being reviewed and is expected to be adopted during 2005.

Audit activity may be practised by legal entities holding licenses for audit activity issued by the Ministry of Finance. This legal entity should have at least one auditor certified by the Ministry of Finance of Moldova. For the audit of banks, insurance companies and professional operators on the stock exchange market a company must hold special licences.

An independent audit of financial statements is mandatory for banks and insurance companies.

Joint Stock Companies are required to have one censor or a Censors Board as defined under the Law 1134/1997 and the Resolution No. 500/1991 on joint stock companies. The censors must be professional accountants or auditors.

The Censor or the Censors Board issues the following types of reports:

- reports on the custody of assets and compliance of company's financial operations with Moldovan legislation;
- collective or individual reports on the annual statutory financial statements for the annual general meeting of the shareholders.

Managers, accountants of the above-mentioned companies and unqualified persons cannot apply for the position of censors in the company where they are employed. Joint Stock Companies may appoint an auditing company as their censors.

Labor Law and Social Security

Labour Law

Moldova has recently adopted a new Labor Code, which establishes a detailed legal framework for a wide range of employment issues.

As a general rule the labor law shall be applied equally both to citizens of the Republic of Moldova and foreign and stateless persons employed based on the individual labor agreement concluded with the employer acting on the territory of Moldova.

As of the end of year 2003 Moldova has ratified 34 conventions of the International Labor Organization. If the rules of internal regulations provide the rules that are different from the rules of an international treaty, convention or agreement which Moldova is party to, then the latter shall prevail.

Relations between the employer and the employee are based on the employment agreement, which shall be concluded in writing. As a general rule, employment agreements are entered into for an undetermined period of time; fixed term agreements are being used in specific cases defined by law. The employer is entitled to set a trial period for an employee in accordance with the legislation in force.

The Labor Code stipulates that the normal working time shall not exceed 40 hours per week and 8 hours per day. The business week shall have two days off or, in exceptional cases, one day off. Working in shifts is allowed. The law also regulates overtime, holiday, day-off and night work. A paid annual leave shall not be less than 28 calendar days.

Generally, the minimum working age is 16 years. However, there are exceptions allowing youths to start working at 15 years.

According to the law the remuneration of labor depends on the existing demand and supply of the labor force on the market, quantity, quality, degree of complexity and conditions of labor, professional skills of the employees, labor outcome or financial results of the enterprise.

Labor may be remunerated according to the time rate, piece rate or other remuneration systems.

The Moldovan legislation on the minimum monthly salary distinguishes between public sector (i.e. institutions and organizations financed from the public budget) and private sector. Starting from February 1, 2004 the minimum salary for the employees of the private companies is MDL 440.

Employment of foreign citizens shall be permitted pursuant to individual work permits, which are issued by the State Migration Agency based on the residence permits.

Under Moldovan legislation, foreign citizens intending to stay in Moldova for a period exceeding 90 days must obtain an immigration certificate at State Migration Agency. An immigration certificate serves as a base for obtaining a residence permit.

There are two types of immigration certificate:

- Temporary immigration certificate is issued for a period of up to one year with the possibility of extension for further consecutive one-year periods. Notwithstanding the above, a temporary emigration certificate may be issued for a longer period (not exceeding 5 years) if the applicant is holding a managerial position within a company or if the applicant is the founder of a Moldavian company employing foreign investments of at least USD 100,000.
- Permanent immigration certificate is issued to foreign citizens qualified in specific fields, which are essential for the country, and to professionals invited by the Government of Moldova. In both cases certificates may be extended at the request of the holder.

Social Security Law

The existing Social security system in Moldova is aimed at provision of monetary and welfare support, as well as subventions, tax exemptions for certain categories of individuals and maintaining of social institutions for juveniles, mentally or physically handicapped and aged individuals.

The important normative acts governing social security system in Moldova are as follows:

- Law on State Social Allowances to Certain Categories of Population;
- Law on Special Social Protection of Certain Categories of Population;
- Governmental Decision on Nominative Indemnities for Certain Categories of Population; and
- Law on Social Protection of Disabled.

The scope of the social security system is protection of those categories of population that are not entitled to benefits of the state pension system. There are the following types of state social allowance:

- disability grant;
- old-age assistance;
- attendance allowance;
- survivor's benefit.

Another means of protection provided for by the law is payment of indemnities to most disadvantaged categories of population.

Additional measures of protection are introduced for disabled veterans, victims of Chernobyl, military men, families and children.

The Social security system is currently undergoing reform related to establishing a new legal and institutional framework.

Unemployment Law

The legal framework for regulation of the issues related to unemployment is comprised of the following main normative acts:

- Employment Strategy of the Republic of Moldova;
- National Program on Employment for years 2003-2005;
- Law on Employment of Population and Social Protection of Individuals in Search of Employment;
- Law on Employment of Population Fund; and
- Procedure on the involvement unemployed people to public works (Government Decision 1121 dated October 14, 2004).

Moldova has ratified the following relevant ILO conventions:

- Private Employment Agencies Convention (No. 181);
- Employment Policy Convention (No. 122); and
- Employment Service Convention (No. 88).

The employment market of Moldova is liberalized. Any individual is guaranteed to enjoy the right of unimpeded choice of profession and place of employment, as well as the right to be insured against unemployment.

The main governmental body vested with the powers to implement policies, strategies and programs on the employment market is the National Employment Agency of the Ministry of Labor and Social Protection of the Republic of Moldova.

The law provides for a number of incentives and stimulation measures to be performed by the National Employment Agency and other competent bodies in order to increase employment of the jobless. The Agency shall provide the following services to the individuals searching for employment free of charge:

- informing about vacancies by means of announcement, publications and employment fairs;
- electronic intermediation between potential employers and employees; and
- preliminary selection of the candidates.

Employers may be granted preferential loans for the purpose of creation of new working places. Starting from 1 January 2005 employers will be granted special facilities for employment of graduated students.

A specific measure of protection of unemployed individuals is the payment of unemployment aid. Starting from 1 January 2005 this measure shall be complemented also with payment of employment allowance.

Pension Fund Law

The Law of the Republic of Moldova on State Social Insurance Pensions of 1998 provides for retirement pensions, disability pensions and survivor pensions. The retirement pension is granted provided the retirement age is reached and the required length of service is accumulated. The retiring age for 2005 is set at 63 years for men and 58 years for women. It is anticipated, subject to enactment of a special legislation, that starting with year 2008, the retiring age in Moldova will be 65 years for men and 60 for women. The required length of service is 31 years. The individuals that have not met the length of service requirement (but have at least 20 years of labor record) are entitled to a partial pension.

The rate of the social contribution due by employers is 27% on the gross payroll of individuals domiciled in Moldova. Employers are not obliged to contribute social tax on expatriate payroll. Additionally, any employee domiciled in Moldova contributes a social contribution of 2% from the gross payroll of individuals. Expatriate employees do not have the obligation to make such a contribution.

For the employers, whose main activity is software development and fulfill the requirements stated in the Tax Code (see Section F1 – paragraph Large Investments with Significant Impact on the Economy), the social tax will constitute 27% from the amount of two-month-average salaries forecasted in national economy for 2005 i.e. MDL 2770, per each employee.

Mandatory Medical Insurance

Starting from 1 January 2004 the system of mandatory medical insurance is applied within the entire territory of the Republic of Moldova. The system is aimed to guarantee protection of the interests of the population in the field of public health care. Protection of interests is ensured by means of the specialized funds created through insurance contributions. The funds shall cover expenses for medical treatment resulted from the insured events.

The extent of the medical assistance granted within the mandatory medical insurance is indicated by the Uniform Program of Medical Assistance Insurance for Year 2004, adopted by a Decision of the Government of the Republic of Moldova on 15 January 2003.

Both citizens of Moldova and foreign citizens or individuals without citizenship, who are staying in Moldova, can be insured persons.

As far as mandatory medical insurance is concerned, foreign citizens or individuals without citizenship staying in Moldova enjoy equal rights with the citizens of the Republic of Moldova, except cases when the international treaties, which Moldova is a party to, provide otherwise.

Medical assistance insurance of foreign citizens or individuals without citizenship is performed in accordance to the type of residence permit they have in the Republic of Moldova, therefore:

- individuals possessing a permanent residence permit along with the work permit are entitled to obtain medical insurance policy on the conditions similar to the national citizens;
- foreign citizens or individuals without citizenship with a temporary residence permit are insured upon crossing the state border of the Republic of Moldova or upon issuance of a visa.

The following categories of persons are payers of the medical insurance contributions:

- legal entities of any organizational form and type of ownership;
- employees of the above entities;
- the Government of the Republic of Moldova – for certain categories of unemployed persons (younger children, school children, students, disabled, retired, or unemployed persons, etc);
- individuals - entrepreneurs; and
- other individuals residing in the Republic of Moldova.

The amount to be paid as a medical insurance contribution amounts to 4% from the salary and other labor remuneration (being paid 2% – by employer, and 2% by employee – 2%).

Private Pensions

Non-governmental Pension Funds (NPF) are established on a voluntary basis to facilitate the financial situation of retired persons through payment of additional pensions. NPF is a non-commercial organization that collects and keeps records of financial contributions voluntarily paid by individuals or legal entities and uses the funds for payment of additional pensions.

The activity of NPF is practiced independently of the public system of mandatory social insurance.
There are either open or closed types of NPF. Members of the closed NPF may be only persons which are employees of the founder of the fund at the moment of joining the fund.

Members of the open type NPF may be any individual joining directly or through its employer, which concludes a collective pension agreement.

Activity of the NPF is subject to licensing. A precondition for obtaining a license is a guarantee fund of USD 250,000.

Investment Legislation

Investment Incentives

Enterprises that perform considerable investments in the Republic of Moldova are granted tax incentives as indicated below. In order to qualify for these tax incentives, the respective companies must enter into agreements with the Main State Tax Inspectorate of the Ministry of Finance.

Large Investments with Significant Impact on the Economy

On filing their first tax return, companies (including with foreign participation) qualify for:

1) A 50% reduction of the standard corporate income tax rate, for a five year period, if the following requirements are met:
   - the investment in the company's share capital exceeds USD 250,000; and
   - 80% of the reduction mentioned above is used for the development of its own production or services, or for the development of branches of Moldovan economy; and
   - such a company does not have any liabilities to the budget; and
   - the company has not benefited before from exemptions on corporate income tax.
2) A three-year exemption from corporate income tax if the following requirements are met:
   - the investment exceeds USD 2,000,000; and
   - 80% of the exempted income is used for the development of its own production or services, or for development of branches of Moldovan economy; and
   - the company does not have any liabilities to the budget; and
   - the company has not benefited before from exemptions on corporate income tax.

Entrepreneurs, that no longer benefit from the incentives described above, may qualify for reduction of their taxable income by 50% of the value of their investments in regards to the acquisition of fixed assets and buildings, with the exception of private cars and office furniture. Assets acquired under leasing arrangements also qualify for the incentives. However, the reduction may not exceed the amount of taxable income or produce a loss. The reduction is normally granted in the year the assets are acquired.

To qualify for the reduction, the following conditions must be satisfied:

- the company may neither pay dividends to shareholders nor distribute income to its founding members;
- the company must not dispose the acquired assets; and
- acquired fixed assets may not be rented (leased).

3) A five-year exemption from corporate income tax if the following requirements are met:
   - the main activity of the company is realization of software;
   - the company does not have any liabilities to the budget and during the period of corporate income tax exemptions the delay of payment of liabilities to the budget should not exceed 30 calendar days;
   - the company has not benefited before from exemptions on corporate income tax;
   - the income from realization of software should exceed 50% of the company income from sales.

Commercial Banks

Commercial banks benefit from the following incentives:

- exemption from corporate income tax on income earned from loans granted for more than three years;
- a 50% reduction of corporate income tax on income earned from loans granted for a period of two to three years.

The mentioned exemption from corporate income tax payment is granted to the commercial banks which provide finance for capital investments in the following fields:

- acquisition of fixed assets (for the purpose to use them in the business activity), contractor's works as well as engineering services;
- acquisition and processing of agricultural products;
- designing, development, mastering and implementation of new techniques and technologies;
- restructuring of production process technologies;
- planting and renewal of perennial plantations; and
- alcoholic aging of cognacs, raw material wine used to produce classic wines saturated with carbon dioxide and high-quality wines.

Small and Micro-Enterprises (SME)

Under Moldovan legislation, the activity practiced by small and micro enterprises can be eligible for certain incentives. As defined in the fiscal legislation, a small enterprise has between 1 and 19 employees and annual net sales of up to MDL 3,000,000.

SMEs are exempted from corporate tax payment for a period of three years, except for the following SMEs:

- SMEs with a dominant position in the market;
- 35% of SME share capital is held by non SME companies;
- SMEs importing or producing excisable goods;
- trust or insurance companies;
- banks and other financial companies;
- investment funds;
- pawn-shops and currency exchange companies;
- gambling companies

In order to obtain such exemption from corporate tax payment the SME should submit to the tax authority a request according to the procedures specified by the Main State Tax Inspectorate. Upon expiry of the three-year period, SMEs are entitled to apply a corporate tax rate reduced by 35% (i.e. effective tax rate at 14.3%) for a period of two years.

Customs Duty Incentives

According to the Article 28 of Law on customs tariff the following goods are exempted from custom duties:

- contributions of assets into the share capital of a company;
- goods imported for processing to Moldovan custom territory;
- goods imported to free-trade zones;
- imported books related to education, science, culture, appliances related to preschool, educational and medical institutions,
- goods imported as the humanitarian help, whose destination should be confirmed by a Moldovan authorized body;
- other goods.

The Appendix 1 to the Law on Customs Tariff provide also for a list of goods which are taxable at the zero rate of the customs duty.

VAT Support

According to provisions of art. 103 of the Title III of the Tax Code the following goods and services are exempted from VAT both in case of import and in case of delivery within the territory of Republic of Moldova:

- dwellings and the land on which these are placed, rent of dwelling, the rights of selling and rent dwelling;
- food and non-food products for children, in compliance with the list provided in Title III of the Tax Code;
- state property purchased as part of the privatization process;
- medical services, medicinal raw material and materials with the exception of cosmetic products, goods for medical use;
- goods and services delivered by educational institutions;
- financial services;
- commercial and intermediary transactions on security markets;
- insurance and reinsurance operations, except for insurance mediators' services;
- foreign aid goods imported as provided by the Government;
- gambling;
- books and periodical publications (with the exception of advertising materials and those that are erotic in nature);
- equipment, machinery and spare parts according to a list provided by the Article III of the Tax Code;
- burial and cremation services;
- postal office services;
- research and development works paid from the State budget;
- public utilities;
- urban passenger transportation services, as well as suburban transportation services provided by the river, railway and auto transport;
- pesticides and chemical fertilizers;
- electrical power imported and supplied to distribution power circuits;
- fixed assets contributed for statutory capital of enterprise;
- vehicles used for personal purposes;
- goods imported under the following customs regimes: transshipment, re-importation, customs warehouse, processing under customs control, temporary import/ export, processing outside the customs territory, destruction, and abandonment to the State.

Free Trade Zones

Law 440/2001 is the fundamental legislative act regulating Free Trade Zones. There are currently six Free Trade Zones in operation in the Republic of Moldova located in the following areas:

- Otaci – Industrial Park "Otaci-Business"
- Taraklia – Industrial Park "Taraklia"
- Vulcanesti – Industrial Park "Valkaneş"
- Tvardita (Taraklia district) – "Tvardița"
- Chisinau municipality – "Expo-Business-Chisinau"
- Ungheni – "Ungheni-Business".

To become a resident of a Free Trade Zone an individual or legal entity (company or branch) should be registered as a business in the Republic of Moldova according to the Moldovan legislation in force.

Residents of a Free Trade Zone benefit from the following incentives during a period of 5 years:

- 45% reduction of the applicable corporate income tax rate;
- exemption from Corporate Income Tax on profits from agricultural activities in the zone;
- exemption from Corporate Income Tax starting with the quarter following the quarter when an investment aimed at the development of the region reaches at least USD 250,000.

Residents are also exempted from:

- Tax on income earned from the export of goods produced and services rendered in the Free Trade Zone outside the customs territory of the Republic of Moldova. The exemption is for a period of 3 years starting from the quarter following the quarter when the Free Trade Zone attains a capital equivalent of at least USD 1,000,000, invested in fixed assets of its residents and/or in the development of its infrastructure;
- Tax on income earned from the export of goods produced or services rendered in the Free Trade Zone outside the customs territory of the Republic of Moldova. The exemption is for a period of 5 years starting from the quarter following the quarter when the Free Trade Zone attains a capital equivalent of at least USD 5,000,000, invested in the fixed assets of its residents and/or its infrastructure.

Corporate tax applied to residents for transactions taking place within the Free Trade Zones is determined at a rate of 75% of the standard applicable rate established in the Republic of Moldova. However, for income earned from the sale of goods/services exported from the Free Trade Zone outside the customs territory of the Republic of Moldova, a rate of 50% of the standard corporate tax rate is levied. Provision of goods or services by residents of a Free Trade Zone outside the Free Trade Zone within the territory of Moldova remains subject to corporate profits tax at the standard rate.

Appendixes

Appendix 1: Useful Addresses and Phone Numbers

When dialling from an international location, the international telephone country code for Moldova, 373, must be used as a prefix. When dialling long distance within Moldova, the number 0 must be added before the area code.

National Bank of Moldova	7, Renasterii Blvd. MD-2005 Chisinau Phone: (+373) 22 22 16 79 Fax: (+373) 22 22 05 91 Website: www.bnm.org
Moldovan Stock Exchange	73, Stefan cel Mare Blvd. MD 2001 Chisinau Phone: (+373) 22 27 75 94 Fax: (+373) 22 27 73 56 Website: www.moldse.md
Chamber of Commerce and Industry of Moldova	28, Mihai Eminescu Str. MD-2012 Chisinau Phone: (+373) 22 22 15 52 Fax: (+373) 22 24 14 53 Website: www.chamber.md
The Presidency of the Republic of Moldova	Stefan cel Mare Blvd. 2012 Chisinau Phone: (+373) 22 23 48 45 Website: www.presedinte.md
Government of Moldova	1, Piata Marii Adunari Generale MD-2012 Chisinau Phone: (+373) 22 23 70 96 Fax: (+373) 22 23 70 96 Website: www.moldova.md
Ministry of Foreign Affairs of Moldova	80, 31 August Str. MD-2012 Chisinau Phone: (+373) 22 23 39 40 Fax: (+373) 22 23 23 02 Website: www.mfa.md

Ministry of Finance of Moldova	7, Cosmonautilor Str. MD-2005 Chisinau Phone: (+373) 22 23 35 75 Fax: (+373) 22 24 00 55 Website: www.moldova.md
Ministry of Labour and Social Protection	1, Alecsandri Str. MD-2012 Chisinau Phone: (+373) 22 72 98 83 Fax: (+373) 22 73 87 13
Department of Privatisation and State Property Administration	26, Pushkin Str. Md-2012 Chisinau Phone: (+373) 22 22 13 77 Fax: (+373) 22 23 43 50 Website: www.privatization.md
The Supreme Court of Justice	70, Kogalniceanu Str. 2012 Chisinau Phone: (+373) 22 22 15 47 Fax: (+373) 22 22 15 47 Website: http://www.rol.md/curt_supr/sud1.htm
Moldovan Banking Association	57/1, Banulescu-Bodoni Str. 2005 Chisinau Phone: (+373) 22 24 54 16 Fax: (+373) 22 24 54 16 E-mail: www.moldova.md
Association of Professional Accountants and Auditors of the Republic of Moldova	67, Stefan cel Mare Blvd. 2001 Chisinau Phone: (+373) 22 27 27 13 Fax: (+373) 22 27 26 02 Website: www.acap.ngo.moldnet.md

Appendix 2: Economic Performance Statistics

	1996	1997	1998	1999	2000	2001	2002	2003
Change in real GDP (%)	-7.8	1.6	-6.5	-3.4	2.1	6.1	7.8	6.3
GDP (MDL-millions)	7,797.6	8,917.0	9,122.1	12,321.6	16,019.6	19,051.5	22,555.9	27,296.9
Inflation rate (annual average)	24.0	12.0	8.0	39.0	31.0	10.0	5.2	11.6
Internal Debt (MDL-million)	782.6	983.8	1,571.9	1,910.5	2,022.2	2,400.5	2,821.4	2,920.4
External Debt (US mill.)*	1,068.4	1,062.9	1,116.5	1,075.7	1,230.1	1,216.9	1,361.3	1,436.9

**Debt does not include debt for energy resources.*

The evolution of Foreign Trade

	2004			Structure, %			Notes	
	USD mln.	% to 2003	% to 1997	2004	2003	1997	2003, % to 2002	2002, % to 2001
Export, total including:	986.3	124.8	112.8	100	100	100	122.7	113.3
CIS countries	502.6	118.6	82.6	51	53.6	69.6	120.9	101.2
EU countries	297.1	140.8	2.5 times	30.1	26.7	13.3	123.2	121.6
Central and Eastern Europe	105.7	107.8	1.5 times	10.7	12.4	8	1.5 times	146
Other countries	80.9	141.1	102.3	8.2	7.3	9.1	95.5	1.6 times
Import, total including:	1774.2	126.5	1.5 times	100	100	100	135.1	116.3
CIS countries	767.8	129.4	127	43.3	42.3	51.6	145.1	120.2
EU countries	582.7	115.3	2 times	32.8	36	24.5	141.6	112.4
Central and Eastern Europe	199.5	149.4	120.9	11.3	9.5	14.4	115.9	97.6
Other countries	224.2	131.6	2 times	12.6	12.2	9.8	108.3	134.9
Deficit of Trade Balance, total	787.9	128.6	2.7 times	x	x	x	1.6 times	121.6

First 16 countries export - partners (92,5 % of the total export volume from RM)

	2004			Share %			Notes	
	USD mln.	% to 2003	% to 1997	2004	2003	1997	2003, % to 2002	2002, % to 2001
Total including:	986.3	124.8	112.8	100	100	100	122.7	113.3
Russia	353.4	114.6	69.5	35.8	39	58.2	129.1	96.2
Italy	136.7	1.7 times	5.7 times	13.9	10.4	2.7	145	125
Romania	98.9	109.6	1.7 times	10	11.4	6.7	1.6 times	149.5
Germany	71.9	127.9	2.2 times	7.63	7.1	3.7	121.8	115.3
Ukraine	64.8	115.3	131	6.6	7.1	5.7	91.5	107.3
Byelorussia	58.7	142.9	1.7 times	6	5.2	4	105.3	129.4
USA	42.7	126.9	7.3	4.3	4.3	6.7	96.3	136.1
Kazakhstan	15.4	1.7 times	8.1 times	1.6	1.2	0.2	141.2	145.8
Hungary	14.5	1.8 times	8.5 times	1.5	1	0.2	87.4	126.7
Turkey	12.3	1.7 times	2.2 times	1.2	0.9	0.6	1.8 times	1.8 times
Belgium	11.8	1.6 times	250.2 times	1.2	0.9	0	116.4	135.8
France	11.3	121	2 times	1.1	1.2	0.7	82.3	135.5
UK and Ireland	10	1.8 times	7.8 times	1	0.7	0.1	105.7	94.5
Austria	10	88.6	133.2	1	1.4	0.9	1.6 times	85

First 16 countries import - partners (86.9 % of the total import volume to RM)

	2004			Share %			Notes	
	USD mln.	% to 2003	% to 1997	2004	2003	1997	2003, % to 2002	2002, % to 2001
Total including:	1774.2	126.5	1.5 times	100	100	100	135.1	116.3
Ukraine	436.4	141.1	2.1 times	24.6	22	18	1.5 times	133.5
Russia	216.3	118.2	64.9	12.2	13.28	4	119.2	106.6
Romania	164.5	1.7 times	1.6 times	9.3	7	8.6	108.4	96.8
Germany	150.9	111.3	1.6 times	8.5	9.7	8.1	1.6 times	101.9
Italy	132.1	113.3	2.7 times	7.4	8.3	4.1	132.8	136.2
Turkey	69.4	143.9	5.1 times	3.9	3.4	1.2	147.4	1.7 times
Byelorussia	64.6	127.6	133.1	3.6	3.6	4.1	123.8	105.2
France	52.8	1.5 times	4 times	3	2.5	1.1	149.3	92
Kazakhstan	48.8	100.9	10 times	2.7	3.4	0.4	5 times	2.8 times
Poland	44.8	113.3	3.3 times	2.5	2.8	1.1	1.6 times	137
China	37.8	1.8 times	23.8 times	2.1	1.5	0.1	1.8 times	140.8
Bulgaria	29.6	98.2	48.1	1.7	2.1	5.3	145.6	101.1
USA	29.4	85.1	72	1.7	2.5	3.5	71.9	1.7 times
Hungary	22.9	117.2	145.5	1.3	1.4	1.3	116.2	93.1
Belgium	21.7	117.7	2.9 times	1.2	1.3	0.6	1.5 times	97.2
Czech Rep.	21.6	112.8	2.4 times	1.2	1.4	0.8	148.5	112.7

Appendix 3: Exchange Rates

The table below provides the exchange rates of the Moldovan Leu (MDL) against major currencies from 1999 to January 2005.

	2005	2004	2003	2002	2001	2000
U.S. Dollar	12.4600	13.2200	13.9426	13,1018	12,8347	12,4437
Euro	16.9542	16.5256	15.7403	11.5337	11.4979	11.6916
German Mark	-	-	-	5.8971	5.8788	5.9778
British Pound	23.9145	23.4801	22.7671	18.9294	18.4152	18.7448
French Franc	-	-	-	1.7583	1.7528	1.7824
Swiss Franc	10.9693	10.5925	10.3531	7.7769	7.5265	7.2771
Japanese Yen	12.0021	12.3609	12.0258	9.9551	10.8061	11.3335

Appendix 4: Corporate Tax Calculation

Description	No.	Amount
Accounting profit	010	
Revenues	0101	
Expenses	0102	
Adjustment of revenues for tax purposes	020	
Adjustment of expenses according to tax legislation	030	
Profit (loss) after adjustments (r.010+r.020-r.030)	040	
Donation expenses	050	
Non documented expenses	060	
Profit (loss) before taking the tax losses from previous years (r.040-r.050-r.060)	070	
Tax losses from previous periods, permitted for compensation in the current year	080	
Taxable income (r.070-r.080)	090	
Tax losses (negative amount r.070)	100	
Percentage of income tax, %	110	
Corporate income tax (r.090 x r.110)	120	
Corporate income tax	130	
Correction from annex 5	140	
Corporate income tax, excepting exemptions (r.120-r.130+r.140)	1501	
Total Corporate income tax (r.140+r.1501)	150	
Prepaid Corporate income tax, including :	160	
Corporate Income Tax paid abroad	1601	
Corporate Income tax paid on dividends paid in advance	1602	
Corporate income tax withheld	1603	
Corporate income tax paid in advance	170	
Total paid CIT (r.150-r.160-r.170)	180	
Corporate income tax to be recovered	190	

Income Tax Return

Appendix 5: Branch Tax Calculation

The tax calculation for a branch is the same as for a corporation-see Appendix 4 .

Appendix 6: Individual Income Tax Rate and Tax Calculation

Income tax rates on individual income vary as indicated below:

Taxable income (in MDL)*		Tax on lower amount, MDL	Tax rate on Excess, %
From	To		
0	16,200	0	9
16,200	21,000	1,458	14
21,000	Unlimited	2,130	20

** Exchange rate as of 1 January 2005: USD 1= MDL 12.4600*

Appendix 6: Individual Income Tax Rate and Tax Calculation

The following table shows the applicable withholding rates under Moldova's bilateral tax treaties:

	Dividends [1] %		Interest%	Royalties%
	Individuals	Qualified companies		
Ratified Conventions				
Albania	10	5	5	10
Azerbaijan [2]	15	8	10	10
Belarus	15	15	10	15
Bulgaria	15	5	10	10
Canada	15	5	10	10
China	10	5	10	10
Czech Republic	15	5	5	10
Estonia	10	10	10	10
Swiss Federation [3]	15	5	10	0
Germany	15	15	5	0
Japan	15	15	10	10
Russia	10	10	0	10
Latvia	10	10	10	10
Lithuania	10	10	10	10
Poland	15	5	10	10
Romania [4]	10	10	10	10/15
Netherlands [5]	15	5	5	2
Ukraine	15	5	10	10
Hungary	15	5	10	0
Uzbekistan	15	5	10	15
Kazakhstan	15	10	10	10
Turkey	15	10	10	10
Signed but not yet enforced				
Armenia	15	5	10	10
Austria	15	5	5	5
Georgia [6]	15	5	10	10
France [7]	15	5	5	2
Slovakia	15	5	10	10
Yugoslavia	15	5	10	10
Turkmenistan	10	10	10	10
Italy	15	5	5	5
Greece	15	5	10	8

Appendix 6: Individual Income Tax Rate and Tax Calculation (continued)

[1] Usually the tax rate on dividends does not exceed the lower mentioned percentage if the beneficiary is a company that holds directly at least 25% of share capital of the paying company.

[2] Tax rate for qualified companies will not exceed 8% of the gross amount of dividends if the effective beneficiary of the dividends is a company and the foreign capital invested by it, amounts to at least 250,000 USD.

[3] Tax will not be withheld if interest is paid in connection with:

a) Credit selling of industrial, commercial or scientific equipment;
b) Credit selling of any goods by an entreprise on behalf of another entreprise;
c) Any kind of loan granted by a bank.

[4] Royalty will not exceed the following amounts:

a) 10% of the gross amount of the royalty for the utilization or the concession of any patent, trade mark, drawing or pattern, plan, secret formula or manufacturing procedure or for information concerning experience in the industrial, commercial or scientific field;
b) 15% of the gross amount of the royalty in all other cases.

[5] No tax will be withheld if the effective beneficiary of dividends is a company, directly holding at least 50% of the capital of the company paying dividends provided that an investment of at least 300,000 USD or its equivalent in national currency of Member States has been made in the capital of the company paying dividends.

[6] Dividend tax rate for qualified companies will not exceed 5% of the gross amount of dividends if the effective dividend beneficiary is a company (other than a society) and this company has invested more than 300.000 USD in the capital of the company paying the dividend.

[7] The dividend tax rate for qualified companies will not exceed 5% in case the beneficial owner is a company holding direclty at least 20% of the company paying dividends.

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Transportation: Air Moldova, Chisinau International Airport

Ernst & Young in Moldova

Victoria Jitnic
Country Director — victoria.jitnic@md.ey.com

Assurance & Advisory Services
Inessa Colev — inessa.colev@md.ey.com

Tax Services
Ala Burunsus — ala.burunsus@md.ey.com

Address:
Qbe Asito Building
M. Banulescu-Bodoni Str., 57/1
Chisinau
Moldova

Phone: (373) 22 21 4040
Fax: (373) 22 21 4044
Web: www.ey.md

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