I. Economic overview

1.1. General economic indicators

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</tr>
</thead>
<tbody>
<tr>
<td>1. GDP, USD bln</td>
<td>1.69</td>
<td>1.93</td>
<td>1.69</td>
<td>1.17</td>
<td>1.29</td>
<td>1.48</td>
<td>1.62</td>
</tr>
<tr>
<td>2. GDP per capita, USD</td>
<td>471</td>
<td>528</td>
<td>465</td>
<td>319</td>
<td>354</td>
<td>407</td>
<td>448</td>
</tr>
<tr>
<td>3. Real GDP growth rate, %</td>
<td>-5.9</td>
<td>1.6</td>
<td>-6.5</td>
<td>-3.4</td>
<td>2.1</td>
<td>6.1</td>
<td>7.2</td>
</tr>
<tr>
<td>4. Industrial production growth rate, %</td>
<td>-6.5</td>
<td>0.0</td>
<td>-15.0</td>
<td>-11.6</td>
<td>7.7</td>
<td>13.7</td>
<td>10.6</td>
</tr>
<tr>
<td>5. Annual inflation rate, %</td>
<td>15.1</td>
<td>11.2</td>
<td>18.3</td>
<td>43.7</td>
<td>18.4</td>
<td>6.3</td>
<td>5.2</td>
</tr>
<tr>
<td>6. Annual unemployment rate, %</td>
<td>1.5</td>
<td>1.5</td>
<td>1.9</td>
<td>2.1</td>
<td>2.1</td>
<td>2.0</td>
<td>2.0</td>
</tr>
<tr>
<td>7. Average monthly gross salary, USD</td>
<td>40.8</td>
<td>47.5</td>
<td>46.4</td>
<td>28.9</td>
<td>32.9</td>
<td>40.3</td>
<td>50.1</td>
</tr>
<tr>
<td>8. Current account balance, USD mln</td>
<td>-198.1</td>
<td>-274.8</td>
<td>-334.7</td>
<td>-54.8</td>
<td>-160.1</td>
<td>-108.0</td>
<td>-77.0</td>
</tr>
<tr>
<td>9. Gross external debt stock, end of year, USD mln</td>
<td>1,067.6</td>
<td>1,057.9</td>
<td>1,109.7</td>
<td>1,067.5</td>
<td>1,218.3</td>
<td>1,233.2</td>
<td>1,337.9</td>
</tr>
<tr>
<td>10. Foreign exchange reserves, USD mln</td>
<td>313.5</td>
<td>362.2</td>
<td>136.9</td>
<td>180.4</td>
<td>222.0</td>
<td>228.0</td>
<td>269.0</td>
</tr>
<tr>
<td>11. Exchange rate of MDL for 1 USD, end of year</td>
<td>4.65</td>
<td>4.66</td>
<td>8.32</td>
<td>11.59</td>
<td>12.38</td>
<td>13.09</td>
<td>13.82</td>
</tr>
</tbody>
</table>

Source: Department of Statistical and Sociological Analysis

1.2. Foreign trade

1.2.1. Foreign trade regime and major regulations

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

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

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

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

Starting from 1 July 1999 the Republic of Moldova benefits from the Generalised System of Preferences granted by the European Union, according to which Moldovan exports to the EU markets enjoy partial or total exemption of customs tariffs. Additionally the Republic of Moldova benefits from the social incentives on export in the application of GSP, offered by the European Union to the countries that respect the social norms and the ILO international agreements.

Also, according to the GSP, the exports of the Republic of Moldova enjoy tariff preferences on the markets of Switzerland, Japan, Slovakia and USA.

1.2.3. Exports and imports

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Exports</td>
<td>795</td>
<td>874</td>
<td>632</td>
<td>463</td>
<td>472</td>
<td>570</td>
<td>666</td>
</tr>
<tr>
<td>Imports</td>
<td>1,072</td>
<td>1,171</td>
<td>1,024</td>
<td>586</td>
<td>776</td>
<td>897</td>
<td>1,052</td>
</tr>
</tbody>
</table>

Source: Department of Statistical and Sociological Analysis

1.2.4. Major trade partners

Major export partners in 2002: Russia (37.1%), Ukraine (9.3%), Italy (9.1%), Romania (8.6%), Germany (7.8%), Belarus (5.9%), USA (5.4%), France (1.7%), Hungary (1.4%).

Major import partners in 2002: Ukraine (16.9%), Russia (13.2%), Italy (7.6%), Romania (7.6%), Germany (7.5%), USA (4.0%), Belarus (3.4%), Turkey (2.7%), Poland (2.1%), Bulgaria (1.7%).
1.2.5. Structure of foreign trade by regions

**Exports by country groups (2002)**
- CIS 54.8%
- European Union 23.1%
- Central and Eastern Europe 13.5%
- Others 8.6%

**Imports by country groups (2002)**
- CIS 39.0%
- European Union 26.8%
- Central and Eastern Europe 19.0%
- Others 15.2%

1.2.6. Structure of foreign trade by commodities

**Export by commodities (2002)**
- Foodstuffs, beverages, tobacco 40.2%
- Textile and textile articles 17.8%
- Vegetable products 16%
- Machinery and mechanical appliances, electrical equipment 4.1%
- Leather raw material, leather articles 3.5%
- Other 18.4%

**Import by commodities (2002)**
- Mineral products 22.5%
- Foodstuffs, beverages, tobacco 6.9%
- Textile and textile articles 10.2%
- Products of the chemical industry 11.0%
- Machinery and mechanical appliances, electrical equipment 14.0%
- Transportation means 4.8%
- Other 30.8%

Source: Department of Statistical and Sociological Analysis
1.2.7. Major bilateral and multilateral trade agreements
Moldova has Free Trade Agreements with Romania, the Russian Federation, Ukraine, Belarus, Armenia, Kazakhstan, Uzbekistan, Turkmenistan, Kirgizstan, Azerbaijan and Georgia.

Moldova has 24 bilateral agreements on trade and economic co-operation with the Netherlands, Ukraine, USA, Austria, Turkey, China, Hungary, India, Lithuania, Estonia, Iran, Bulgaria, the Russian Federation, Latvia, Poland, Italy, Israel, Greece, Uzbekistan, Belarus, Tatarstan, Czech Republic and Ukraine.

1.2.8. Free zones
Free economic zones (zones of free entrepreneurship) are parts of the customs territory of Moldova, separated economically, strictly bounded on the entire area, where certain types of entrepreneurial activities are allowed on preferential conditions to local and foreign investors:
1. Industrial production of goods for export;
2. Assorting, packing, marking and other similar operations with goods conveyed through the customs territory of Moldova;
3. Other auxiliary types of activities, such as utility services, warehousing, construction, public alimentation and others needed to fulfil activities specified above (in 1 and 2).

Industrial production is the priority type of activity. The Free Zones are governed by:
- The legislation of the Republic of Moldova with exemptions stipulated by the current laws and laws adopted for each concrete Free Zone;
- Interstate and international agreements (conventions), to which Moldova is a party.

At present there are 6 FEZ in Moldova: "Expo-Business-Chisinau" established in 1995 in Chisinau, "Ungen" - free economic zone, "Tvrditsa", "Otaci-Business" production park, "Valkanesh" production park and "Taraclia" production park.

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

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

1.3. Privatisation

1.3.1. Privatisation policy
The privatisation process in Moldova has undergone several stages. The 1993-1994 State Privatisation Programme has regulated the first stage. It has been approved by the Moldovan Parliament in March 1993, its implementation starting in mid-1994, immediately after setting up the Ministry of Privatisation and the creation of adequate legislative framework. The second stage (March 1995-August 1997) has been developed pursuant to the 1995-1996 Privatisation Programme.

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

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

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

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

1.4.1. Foreign investment by years and type of investment

For the period 1994-2002 FDI stocks have reached USD 720 million.

<table>
<thead>
<tr>
<th>Type of investment</th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social capital</td>
<td>54.2</td>
<td>36.6</td>
<td>83.6</td>
<td>114.6</td>
<td>56.8</td>
</tr>
<tr>
<td>Reinvestments</td>
<td>5.8</td>
<td>5.7</td>
<td>11.7</td>
<td>8.3</td>
<td>10.7</td>
</tr>
<tr>
<td>Other capital</td>
<td>15.5</td>
<td>-1.9</td>
<td>47.5</td>
<td>25.8</td>
<td>31.2</td>
</tr>
<tr>
<td>Total</td>
<td>75.5</td>
<td>40.4</td>
<td>142.8</td>
<td>148.7</td>
<td>98.7</td>
</tr>
</tbody>
</table>

Source: National Bank of Moldova

Main indicators of the activity of enterprises with foreign capital

<table>
<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Share of employees of the total number of employed in the national economy, %</td>
<td>1.4</td>
<td>1.8</td>
<td>2.2</td>
<td>3.6</td>
<td>2.3</td>
<td>2.4</td>
</tr>
<tr>
<td>Share of total industrial production, %</td>
<td>5.3</td>
<td>12.5</td>
<td>11.1</td>
<td>18.4</td>
<td>23.9</td>
<td>27.4</td>
</tr>
<tr>
<td>Share of total exports, %</td>
<td>14.3</td>
<td>31.3</td>
<td>24.5</td>
<td>38.4</td>
<td>40.9</td>
<td>36.6</td>
</tr>
<tr>
<td>Share of total imports, %</td>
<td>27.4</td>
<td>31.6</td>
<td>36.7</td>
<td>43.5</td>
<td>45.8</td>
<td>37.4</td>
</tr>
</tbody>
</table>

Source: National Bank of Moldova

1.4.2. Foreign investment by countries and by regions

Structure of investment inflow by country (2002)

- Netherlands 49.2%
- Germany 8.0%
- USA 7.8%
- Italy 3.2%
- Cyprus 2.8%
- Switzerland 1.8%
- Romania 1.2%
- Other countries 26.0%

Source: Department of Statistical and Sociological Analysis

Structures of FDI inflows by countries from the moment of registration, USD mln

<table>
<thead>
<tr>
<th>Country</th>
<th>Value (USD mln)</th>
</tr>
</thead>
<tbody>
<tr>
<td>IRELAND</td>
<td>8.1</td>
</tr>
<tr>
<td>GREECE</td>
<td>8.3</td>
</tr>
<tr>
<td>GREAT BRITAIN</td>
<td>13.3</td>
</tr>
<tr>
<td>SWITZERLAND</td>
<td>15.6</td>
</tr>
<tr>
<td>FRANCE</td>
<td>17.1</td>
</tr>
<tr>
<td>GERMANY</td>
<td>19.8</td>
</tr>
<tr>
<td>NETHERLANDS</td>
<td>31.9</td>
</tr>
<tr>
<td>SPAIN</td>
<td>39.5</td>
</tr>
<tr>
<td>USA</td>
<td>42.4</td>
</tr>
<tr>
<td>RUSSIA</td>
<td>150.9</td>
</tr>
</tbody>
</table>

Source: Department of Statistical and Sociological Analysis

Deposits in equity capital from the moment of registration

- EU 39%
- CIS 39%
- CEE countries 3%
- Other regions 19%

Source: Department of Statistical and Sociological Analysis
1.4.3. Foreign investment by sectors (1994-2002)
As of 1 January 2002, 2,670 enterprises with foreign participation have been set up in Moldova, which is with 268 enterprises more than in January 2002.

1,476 companies, reporting on their activity are distributed by sectors as follows:

<table>
<thead>
<tr>
<th>Sector</th>
<th>Number of enterprises</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wholesale and retail trade, restoration of vehicles and others</td>
<td>717</td>
</tr>
<tr>
<td>Processing industry</td>
<td>259</td>
</tr>
<tr>
<td>Real estate transactions</td>
<td>172</td>
</tr>
<tr>
<td>Transports, storage, communications</td>
<td>134</td>
</tr>
</tbody>
</table>

Source: National Bank of Moldova

1.4.4. Government institutions in the field of foreign investment
Following the experience of many European countries, the Government of Moldova has decided to reorganise the institutional framework related to investment activity. Thus, in October 2001, an Investment Promotion Department (MIDA) was created within the Moldovan Export Promotion Organization (MEPO), a state agency aimed to promote export and investment in the Republic of Moldova. MIDA has been set up by the Government, with a new structure and new powers, to replace the National Agency for Attraction of Investments.

Part of MIDA's mission is to improve the investment climate and to make Moldova a preferred location for foreign direct investment. MIDA is entitled to carry out studies and submit proposals for amendments to legislation with the aim to improve the investment environment in Moldova. It may also implement major investment projects in the country.

MIDA's objectives are: a) improvement of the investment climate b) defining comparative advantages c) success stories and d) selective promotion.

1.5. Foreign investment regime

1.5.1. Legal framework
Guarantees for foreign investment
According to the Law on Foreign Investment, the most important guarantees for the foreign investors in Moldova include the following:

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

Investment incentives
The Moldovan legislation offers also a number of investment facilities to the foreign investors. Under the current regulations, foreign investors are eligible to a 50% exemption of their profit tax for a five-year period, if: i) the enterprise has foreign capital; ii) the foreign corporate capital has been fully formed; iii) the first profit has been declared; iv) the foreign investor's equity capital exceeds USD 250,000; and v) more than 50% of the enterprise's income is derived from sale of its own goods end services.

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

1. Contributions allocated in change of a quota of participation in economic agent's capital made by one or more persons, who obtain the control over economic agent's activity, are not submitted to tax. For the entity, which has contributed with capital, the accounted base of the capital value of the respective economic agent is equal to its adjusted accounted base.

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

2. The fixed assets deposed in the economic agent's social capital are exempted from VAT.

Also, according to the Law on Free Economic Zones (No. 440-XVII/27.07.2001) some other guaranties and facilities are provisioned (see 1.2.8.).

Granting foreign investors concessions for exploration, extraction and development of natural resources in the Republic of Moldova is in the exceptional competences of the Government and is realised in accordance with its resolutions. The Government authorises the results of international contests (auctions and tenders) and the concession agreements signed between the foreign investor and the organ of state control.

The term of natural resources concession may not exceed 50 years. Granting foreign investors the right to use existing objects or objects under construction being a state (municipal) property but not transmitted under economic jurisdiction to enterprises, institutions or organisations, is also carried out on the basis of concession agreements signed by authorised organs of state control.

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

II. Establishing business in Moldova

2.1. Forms of business and corporate governance

<table>
<thead>
<tr>
<th>Company Regime</th>
<th>Legal Framework</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Law on Enterprises and Entrepreneurship (No. 845-XIII 3 January 1992); Law on Joint Stock Companies (12 July 1997)</td>
</tr>
</tbody>
</table>

| Types of Companies | General partnership; Limited partnership; Limited liability company; Joint-Stock Company; Limited partnership by shares |

| Partnerships | Partners 2 or more partners. Characteristics A general partnership is created by two or more legal or natural persons that have consolidated their property with the aim of conducting joint entrepreneurial activity with a common company name under the foundation agreement entered into among them. All members bear unlimited joint and several liability for the partnership's obligations. A limited partnership must have one general and one limited partner. Both the general partnership and the limited partnership are not legal entities. |

| Joint-Stock Company | Shareholders From 1 to 50 for a closed-end company and 1 to unlimited number for an open-end company. Minimum Capital MDL 10,000 for closed-end companies and MDL 20,000 for open-end companies. Share and Contribution Requirements The nominal value of each share must be divisible by MDL 1. Company Management The General Meeting of shareholders is the decision making body. A Company Board of at last 3 members performs the company management. In companies with less than 50 shareholders, the General Meeting may exercise the powers of the Company Board. The General Meeting elects a Chairman of the Company Board unless provided otherwise by the articles of association. The functions of the Company Board can be delegated to a management organization by decision of the General Meeting. An Audit Panel of the company exercises control over the financial and economic activities of the company and is accountable to the General Meeting only. It is elected for a period of 2 to 5 years. Specific Features The Board of companies with more 300 shareholders must consist of at least 5 members. |

| Registration | Companies with foreign participation are registered at the Registration Chamber of the Ministry of Justice. The National Bank of Moldova carries out the registration of banks with foreign participation and their branches. |

| Branches | Legal Framework Commercial Code (No. 7632 of 4 November 1992); Law on Commercial Register (No. 7687 of 28 January 1993). Registration A foreign company may open a branch; branches are entered into the Commercial Register. |

| Bankruptcy | Legal Framework Bankruptcy Law (No. 786-XII of 26 March 1996) |


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

Foreign exchange operations in Moldova were liberalized by Article VIII, Sections 2, 3 and 4 of the IMF Agreement (30 June 1995), which provides for the convertibility of the national currency (MDL). Economic agents can freely purchase and sell foreign currency for all international currency operations and for some capital operations.


The exchange of foreign currency in cash is not restricted; the exporters are allowed to collect and keep proceeds from exports at their foreign currency accounts. It is not mandatory to sell foreign currency to the state. Foreign investors have the right to repatriate profits from their investments.

Providing credits and guarantees to non-residents and other capital transfers to non-residents require a prior authorisation by the National Bank of Moldova (NBM). NBM carries out the currency operations and for some capital operations.

Residents travelling abroad can freely export convertible currency in cash and cheques of up to USD 5,000 (or their equivalent). Amounts exceeding USD 50,000 (or their equivalent) can be transferred by producing a foreign currency export permit, issued by an authorised local bank or the National Bank of Moldova, or a customs declaration, confirming that the currency has been imported to Moldova. Amounts exceeding USD 50,000 (or their equivalent) can also be transferred from Moldova on a clearing basis. Resident individuals have the right to make transfers and payments on current international transactions in convertible currency, upon producing evidence that the payment is due. Convertible currency transfers exceeding USD 1,000 (or their equivalent) require an authorisation by the National Bank of Moldova.

Advance payments by resident legal entities for imported goods, services, and labour, should not exceed 30% of the cost of the goods, services and labour; if 30% make more than USD 20,000. Resident legal entities (except authorised banks) exporting goods, rendering services and works, should deposit the export profits in their accounts with authorised Moldovan banks within 60 days of the date of payment, stipulated in the Contract, but not later than 180 days from the date of the customs declaration, confirming the export of goods, or the date of the invoice (statement, or protocol) confirming the provision of services or labour.

Residents are not obliged to sell foreign currency in cases when these residents are: authorised dealers; foreign investment enterprises registered in Moldova, if the share of foreign investors in the capital exceeds a pecuniary evaluation of USD 250,000 or 30% of the capital. Other residents, receiving foreign currency as a payment of goods, services and labour, exported to non-residents, shall transfer 100% of the foreign currency received to accounts with authorised banks within 15 days from the date of receipt of the foreign currency.

2.4. Legislative framework of concessions and public procurement

The Government of Moldova has the exclusive competence to award concessions for exploration, extraction and development of natural resources in the Republic of Moldova. Concessions are executed in accordance with the governmental resolutions, following international procedures (auctions and tenders).

Foreign investors acquire the right to use existing objects or objects under construction, which are property of the state or a municipality, but not transferred to enterprises, institutions or organisations, by virtue of a concession agreement with the awarding authority. The period of concessions on natural resources shall not exceed 50 years.

The Law on Procurement of Goods, Works and Services for Public Needs sets out the legal framework for procurement of goods, works and services by public entities, and the rights and responsibilities of the National Agency for Public Procurement. The Law aims to ensure the profitability and efficiency of the procurement process, broad participation of suppliers (contractors), competition, transparency and impartiality of procurement procedures and public confidence in them.
Suppliers of goods, works and services are admitted to participation in the procurement procedures regardless of their citizenship except for cases where the Procurement Agency, in the interest of the state and in accordance with the effective legislation, decides to restrict tenderers to domestic suppliers.

The preferred procedure for procurement of goods and works is the open tender. Other procurement methods include two-stage tendering procedure, restricted procedure, request for price offers and purchase from a single source. The two-stage tender involves additional negotiations with the tenderers as the Procurement Agency is not always able to provide detailed description of goods, works or services to be procured. The Procurement Agency may organize a restricted tender deliverable by a limited number of suppliers, if the estimated cost of the procurement contract does not exceed 12,500 minimal wages. In cases when goods and services are procured in smaller quantities and where the sales market has already been established, the procurement can be done on the basis of price offers.

Procurement of services is regulated by special rules. If a service contract is awarded following a procedure different from negotiations, the Procurement Agency shall introduce certain requirements based on non-price criteria (in relation to quality and technical characteristics) and shall evaluate each tender on the basis of these criteria. The successful tenderer is the one that offers the lowest price or the most advantageous aggregate estimated value taking into account non-price criteria and prices.

2.5. Dispute resolution mechanisms

Disputes between foreign investors and state entities related to the implementation of Moldovan legislation are settled by the Supreme Court of Justice or by the Arbitration of the Republic of Moldova. Parties may agree to submit the dispute for settlement by a foreign arbitration institution or by an international arbitration.

All other disputes between enterprises with foreign participation and other individuals, legal entities, state institutions or public organisations, can be settled by the courts or the Arbitration of the Republic of Moldova. Parties can submit their dispute to an arbitration court located in Moldova or abroad.

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

2.6. Operational costs

| Nominal salary growth | 27.1% (2001) as compared to the previous year |
| Average monthly salary | MDL 691.5 (USD 50.1) |
| Office buy/rent prices | Rent - 12-40 USD/m², Buy - 150 USD/m²; Apartment rents can range from USD 200 to USD 3,000 per month, depending on location, size and furniture. |

Water charges
- Household use: MDL 2.82 (USD 0.19)/m³
- Industrial use: MDL 11.3 (USD 0.814)/m³ + MDL 3.60 (USD 0.26)/1 m of sewerage pipes.

Telephone installation charge
- MDL 980 (USD 70.64)

Telephone transfer charges
- Internal: MDL 50 (USD 3.6)
- External: MDL 100 (USD 7.2)

International phone call charges
- Romania: MDL 3.20 (USD 0.23)/min
- Europe: MDL 8.5 (USD 0.61)/min
- USA: MDL 17 (USD 1.22)/min
- Australia, Africa: MDL 25 (USD 1.8)/min

Electricity prices
- For industrial use: USD 0.68 (USD 0.049)/kW + VAT
- For households: USD 0.65 (USD 0.047)/kW + VAT

III. Taxation

The Tax Code of the Republic of Moldova and the Law on Budget for the relevant financial year are the main legislative acts regulating taxation of legal and physical entities. The Tax Code establishes the general norms of taxation and the tax rates. The system of taxation in Moldova includes state and local taxes. The system of state taxes and fees includes:
1. Income Tax
2. Value Added Tax (VAT)
3. Excise Tax
4. Private Tax (paid during the privatisation of state property)
5. Customs Duties
6. Road Fund Fees

3.1. Direct Taxation

3.1.1. Taxation of corporations

| Taxpayers | All legal entities carrying out business activity in Moldova, including foreign legal persons operating through a "permanent establishment" in Moldova, are liable to pay income tax on their taxable profits. |
| Tax rate | 22% |
| Special rules | Interests, royalties and service fees are included in the company's gross income for accounting purposes and are subject to income tax at the normal rates. Dividends received by a Moldovan legal entity from another Moldovan legal entity are not subject to income tax. Dividends received from a foreign corporation are included in the taxable income. Losses are carried over in equal series to the next three years. |
| Tax allowances | - usual and necessary expenses incurred during the financial year exclusively in order to carry out an entrepreneurial activity - representation expenses and expenses related to the employees' business trips, insurance expenses; these deductions are allowed within the limits established by the Government - assets amortisation charges, calculated |
3.1.2. Taxation of individuals

The Tax Code of Moldova regulates taxation of persons.

<table>
<thead>
<tr>
<th>Taxpayers</th>
<th>Subject to personal income tax are residents and non-residents. Residents are individuals with permanent domicile or presence in Moldova for a period in excess of 183 days in any 12-month period. The salaries of non-residents working in Moldova are subject to income tax at the same rate as that of the residents of Moldova.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax exempt income</td>
<td>Resident taxpayers are entitled to a personal and spouse allowance of MDL 240 per year. Non-residents are not entitled to personal exemptions, spousal exemption or dependants' exemption.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Annual taxation rates</th>
<th>Annual income</th>
<th>Tax rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>up to MDL 12,180</td>
<td>10%</td>
<td></td>
</tr>
<tr>
<td>from MDL 12,180      to MDL 16,200</td>
<td>15%</td>
<td></td>
</tr>
<tr>
<td>over MDL 16,200</td>
<td>28%</td>
<td></td>
</tr>
</tbody>
</table>

3.1.3. Withholding taxes

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

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

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

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

A number of international treaties are signed by both parties, although only the Republic of Moldova has ratified them. Such treaties are signed with Azerbaijan, Latvia, Turkey, Switzerland, Bulgaria, Czech Republic, and Kazakhstan.
3.2. Indirect Taxation

3.2.1. Value Added Tax (VAT)

<table>
<thead>
<tr>
<th>Subject to VAT</th>
<th>Import deliveries and deliveries made within the territory of Moldova as well as services rendered on the internal market of Moldova</th>
</tr>
</thead>
<tbody>
<tr>
<td>VAT reimbursement</td>
<td>As of 1 January 2002, VAT payable on imported services has become non-reimbursable.</td>
</tr>
<tr>
<td>VAT rates</td>
<td>- 20% general rate; - 8% for bread and bread products, as well as milk and milk products; - 5% for fresh plant-growing products and live-weight as well as dead-weight stock farming products delivered by producers; natural and liquified gas; - 0% for: - exported goods and services; - all kinds of international passenger and freight transportation; - electric and thermal power, and water supplied to the general populace; - goods and services meant for the official use of diplomatic and other similar missions in the Republic of Moldova, as well as for personal use of the members of diplomatic administrative and technical personnel of these missions and of their families; - goods and services for international organisations within the provisions of concluded international agreements.</td>
</tr>
<tr>
<td>VAT exemption</td>
<td>A number of goods and services are not VAT liable, the most important of which are: - food and non-food products for children, in compliance with the list provided in the Law on Budget; - state property purchased as part of the privatisation process; - payable medical services, medicines, medicine raw material and materials with the exception of cosmetic products; goods for medical use; - financial services; - commercial and intermediary transactions on the securities market; - insurance and reinsurance operations, except for insurance mediators’ services; - imported transit goods, temporarily delivered to free customs storage spaces provided that they are going to be exported within a 12-month period; - foreign aid goods imported, as provided by the Government, etc.; - vehicles under tariff positions 8703 21-24, 31-33 - goods and services imported or purchased on the territory of Moldova on the account of credits and grants provided by international financial organizations assigned for appropriate project implementation as well as on the account of grants provided to state financed institutions according to a list approved by the Government. Apart from that, a number of goods and services are exempted from VAT in year 2002. A list of such goods is provided in the Law on Budget. Some of the VAT exempted goods and services are: - agricultural machinery; - food and beverage production equipment; - metallurgical and casting equipment; - metal working mills; - equipment for rubber and plastic processing and loading trucks and buses.</td>
</tr>
</tbody>
</table>

3.2.2. Excise and customs duties

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

The maximum rate of customs duties on imported goods is 15% of the customs value of the goods. Customs duties are not levied on goods and items produced and imported from Romania and countries, with which Moldova has signed free trade agreements.

3.2.3. Road tax

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

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

IV. Investment opportunities by sectors

4.1. Tourism

The geographical location of Moldova, its climatic conditions and natural recreational resources are preconditions for tourism becoming one of the most profitable branches of the national economy. Notwithstanding a decrease in the number of tourists that have visited Moldova in the past few years, resulting from the decrease in transit tourists, a structural change of this industry is noticeable, and namely the diversification of countries where tourists come from. Thus, while up until recently the main flow of tourists has been from CIS states with numbers from other countries being insignificant, now the number of tourists from CIS and other countries is levering out.

In 2002 about 51,500 Moldavians have travelled abroad, while close to 20,200 people have visited the country. The ten most preferred destinations have been Romania, Ukraine, Germany, Italy, Turkey, Bulgaria, Hungary, Poland, France, and Czech Republic, while the greatest number of tourists has come from Russia, Ukraine, Turkey, Romania, USA, Belarus, Germany, Italy, Poland, and Israel.

At present Moldova may propose foreign tourists the following main types of tourism products: rural tourism, national and “wine path” tourism, and business tourism. All of these services are available throughout the year and have a relatively low price.
Rural Tourism. This type of service allows tourists to "roam" the picturesque places of Moldova, to get an insight into the historic culture and current customs, traditions and rural way of life.

National Tours. Moldova is a small country with distances from its Northernmost and Southernmost points being 350 km, and from the East to the West - 150 km. Tourists coming to Moldova have the possibility to see the whole country within a relatively short period of time.

Wine Path Tours. Moldova has rich traditions and a well-developed vine growing and wine producing industry. On wine routes, which spread out like a web from Chisinau, visitors can appreciate, along with European wines like Chardonnay, Pinot, Riesling, Cabernet, and Aligote, the local, high quality wines like Rara Neagra, Feteasca, Plavai, etc. Excursions to world renowned underground wine cellars such as: Cricova, Purcari Ciumai, Romanesti, Cojusna, Milestii Mici, etc., are organised for tourists.

Business Tourism. This type of tourism is new for Moldova, as it involves the organisation of various events (meetings, conferences, seminars, symposia, etc.) on the territory of the Republic. The favourable geographical location, traditional hospitality and the relatively low price are good preconditions for the development of this type of tourism.

4.2. Construction and real estate

The construction industry, along with the machine building industry, back the country's investment potential and account for 9-10% of GDP. The availability of local raw materials presents a significant advantage for the development of the sector. Raw materials deposits are sufficient for satisfying Moldova's needs, and certain quantities are also exported, such as: limestone, granite, natural stone, clay, raw materials for brick manufacturing, etc. There are some mineral sediments, which could be used for the manufacturing of construction materials: heat-resistant glue, chalk, ceramic glue and quartz sand for glass production.

Therefore, the construction industry is a promising sector for future investment. Geopolitical traditions and conditions in Moldova are favourable for the implementation of the policy in the field of urban and territorial management. The documents adopted by the Government in 1996-1997 serve as a normative basis for the construction sector development policy until 2005 and provide:

- Strategy for the construction sector development;
- Main directions for the construction materials industry development in Moldova until 2010 (Concern "Inmacom");
- The concept of municipal economy and housing reform;
- National housing strategy;
- Forecast on construction, industry of construction materials, and municipal economy sectors' evolution until 2005.

There is no special regime for the operation of foreign construction companies in Moldova, and they enjoy national treatment. The laws regulating the building and construction industry are:

- Law on the Principles of Urbanism and Development of territory No. 835 from 17 May 1996;
- Law on the State Control of Quality in Construction No. 721 from 2 February 1996.

Neither these laws, nor the Law on Foreign Investments provide any specific incentives or restrictions for the involvement of foreign construction companies on the local market, except for the general incentives provided to all foreign investors.

The state does not hold any exclusive rights in the construction of infrastructure. The Ministry of Ecology, Constructions and Development of Territory (created under Government Decision No. 703 from 23 July 2001) is the local administrative body, which holds the authority over construction and development of the territory.

According to the Law on Licensing of Certain Types of Activities No. 451-XV (30 July 2001), the following activities in the construction sector are subject to licensing:

- Design for all the categories of construction, urbanisation and (or) engineering, reconstruction, and restoration;
- Building and (or) engineering constructions and technical maintenance networks, reconstruction, consolida-
- tion, and restoration.

The Chamber of Licensing is responsible for issuing the above-mentioned licenses.

4.3. Electricity

Until October 1997, a state monopoly, Moldenergo, has been responsible for all power sub-sector operations - importation, generation, transit, supply and distribution of electricity, as well as district heating in Chisinau and Balti cities. Moldenergo has then broken up into 16 separate entities including three joint-stock combined heat and power generation companies, five joint-stock power distribution networks and the transmission and dispatch company, Moldtranselectro. Moldtranselectro will remain under state property in the foreseeable future; three distribution companies have already been privatised and the remaining generation and distribution companies are all slated for full privatisation:

- Combined Heat and Power Plant No. 1 (CET 1) - 54 MW;
- Combined Heat and Power Plant No. 2 (CET 2) - 240 MW;
- Combined Heat and Power Plant Nord (CET Nord) - 24 MW;
- Municipal Electricity Network Chisinau (RE Chisinau);
- Electricity Distribution Network Central.
Moldova

(RED Centru):
- Electricity Distribution Network North (RED Nord) - 1090 MVA;
- Electricity Distribution Network North-West (RED Nord-Vest) - 620 MVA;
- Electricity Distribution Network South (RED Sud).

On 7 February 2000, a contract has been signed with the Spanish company Union Fenosa for the purchase of the distribution companies of Chisinau, Central and South Moldova. The total transaction has amounted to USD 25 million plus additional committed investments of USD 60 million over a 5-year period. This contract includes new licenses for the companies and a new tariff methodology to be applied to privatised companies, which in particular provides incentives for reducing power purchase costs, operating costs and technical and commercial losses, and enables the profit element of the tariff to be calculated as a return on investment. Signing this contract has been a major factor in ensuring the future stability and efficient development of the energy sector in Moldova.

Useful Internet links

| Parliament | www.parliament.md |
| Ministry of Transport and Communication | http://mci.gov.md |
| Moldovan Export Promotion Organization | www.mida.md; www.mepo.net |
| Department of Privatization and State Property Administration | www.privatization.md |
| Agency for Restructuring and Enterprise Assistance | http://aria.mdnet.com |
| National Bank of Moldova | www.bnm.org |
| National News Agency Moldpres | www.moldpres.md |
| Moldova News | www.azi.md |
| Interlic (Independent News Agency) | www.interlic.md |
| BASA-Press (Private News Agency) | www.basa.md |
| General Information | www.moldova.md |
| Moldova Internet Directory (Links and News) | www.ornet.md |