



**TRADE POLICY REVIEW**

REPORT BY

REPUBLIC OF MOLDOVA

Pursuant to the Agreement Establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), the policy statement by the Republic of Moldova is attached.

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## 1 INTRODUCTION

1.1. The Republic of Moldova submits this general policy statement as part of its second Trade Policy Review.

1.2. Trade liberalization and openness continues to represent one of the key objectives of the Republic of Moldova's trade and economic policy agenda. In the reporting period the Republic of Moldova undertook a series of reforms and initiatives targeted to streamline, facilitate, and simplify trade procedures and regulations and of the improvement of business climate through the regulatory and administrative reforms.

1.3. As a result of reforms carried out by the Government of the Republic of Moldova, today Moldova pursues one of the most liberal foreign trade policies and a very favourable investment regime among WTO Members, which implies facilitated foreign trade regime and customs procedures, duty-free or low import tariffs and minimum non-tariff measures in TBT and SPS domains, as well as a favourable tax regime.

1.4. Lacking natural resources, landlocked in Central Eastern Europe, Moldova's development depends on competitive goods and businesses that would succeed in international trade through high value-added goods and services.

1.5. Since the last Trade Policy Review in 2015, the Moldovan economy has continued to perform well, despite difficult circumstances related to bank crisis, energy security crisis, climate challenges related to droughts, COVID pandemic and war. Since 2020, the international economic environment has been characterized by a severe global economic and health crisis, triggered by the emergence of the COVID-19 pandemic. This has been followed by a strong economic recovery, albeit one that has been uneven across countries. At the end of 2021, a new wave of COVID-19, combined with global bottlenecks in the supply of raw materials and intermediate goods and a sharp increase in inflation created a challenging environment for the Republic of Moldova economy.

1.6. The Republic of Moldova's economy and trade proved to be relatively resilient during the COVID-19 crisis. Its performance is due to a number of factors: a diversified economic structure and exported products (for. example: in 2019 Moldova exported to its top five major markets more than 100 agricultural products at HS 6 digit level, with the European Union (EU) being the most diversified market with a number of 54 products worth USD 663 million, in the same time Moldova exported over 514 industrial products at HS 6 digit level, exporting to EU around 190 types of products amounting a value of USD 880 million) a high degree of international openness, a high-quality education system, a flexible labour market, a moderate tax burden, sound public finances, well-established cooperation between donors and partners.

1.7. The Republic of Moldova is a genuine and strong supporter of the MTS within WTO, considering among the priorities the maintenance of the integrity and further strengthening the role and relevance of the WTO, which are essential for trade growth, further global economic development, and growth, and thereby contributing to the economic recovery from the COVID-19 pandemic. The rules-based multilateral trading system developed within the framework of the WTO provides the institutional bases and regulatory framework for predictable, non-discriminatory global trade and is an essential against protectionism.

1.8. The Republic of Moldova's trade policy priority on multilateral, non-discriminatory rules is complemented by a goal of continuous expansion of its export markets and deepening of trade relations through bilateral free trade agreements, particularly with the European Union (EU) and with other partners worldwide. Moldova deems FTAs as a complementary platform for the MTS with WTO.

1.9. As other likeminded countries, Moldova attaches great importance to promoting further integration of its small lower-middle-income economy into the global one, and to the need to make economic development more sustainable and inclusive. The Government also takes seriously concerns about the negative impact of climate change and structural changes in the economy. In this context, Moldova strongly supports the United Nations 2030 Agenda for Sustainable Development and measures that promote socially and environmentally sustainable economic growth.

1.10. The reforms implemented during the last years have contributed to the creation of competitive market conditions and a business enabling environment. Additionally, these reforms have diversified international trade and Moldova's trade and economic ties, thus generating growth and development. By undertaking numerous economic reform initiatives and ensuring a strong legal system to protect investor rights, Moldova has positioned itself as an attractive destination for foreign direct investment. The government's priorities are now focused on further improving investment climate and strengthening investor confidence to attract more foreign investment and boost economic growth.

1.11. Although the National Development Strategy "Moldova 2020" was the main strategic economic policy document, the EU-Moldova Association Agreement (AA), the Deep and Comprehensive Free Trade Area (DCFTA) established in 2014, and the IMF programme that followed the banking crisis in 2015 have been crucial in shaping policy developments in Moldova, stimulating the speed and depth of economic and financial policy reforms.

1.12. Moldova has recently developed a new National Development Strategy, "Moldova 2030", which is aligned with both its EU AA DCFTA and the United Nations' 2030 Agenda for Sustainable Development. This document will contribute to the strategic allocation of budgetary resources, according to the objectives set for its four basic pillars: (1) Sustainable and inclusive economy, (2) Strong human and social capital, (3) Fair and efficient institutions, and (4) Healthy environment. Although the Strategy does not have specific targets for SME development, many of the priority actions highlighted in the document aim to support entrepreneurship.

1.13. During the review period, Moldova has developed a well-structured institutional and regulatory framework containing all the main building blocks of a proactive SME policy.

1.14. The country's economic policy continues to focus on free market principles, with the private sector as the main driving force behind the economy. At the same time, the economic policy is channelled towards maintaining macroeconomic stability, especially in the post-pandemic period, also towards further developing the business and investment environment, to support the recovery and subsequent expansion of pandemic-affected businesses.

## **2 OVERVIEW OF RECENT ECONOMIC DEVELOPMENTS AND REFORMS**

### **2.1 Macroeconomic Overview**

2.1. Economic snapshot and reform priorities in Moldova has recovered remarkably quickly from the slowdown caused by the banking crisis and an unfavourable international environment, which resulted in a contraction in 2015. This reflects improvements in both external economic conditions and domestic fundamentals. Broad-based reforms under the 2016 IMF-supported program successfully restored macro-financial stability and strengthened the financial sector.

2.2. After an average growth above 4% in 2016–19, economic activity contracted by 7.5% in 2020, held back by temporary restrictions, disruption of supply chains, and reduced global demand, as well as the impact of a severe drought.

2.3. In 2018, unemployment and inflation rates reached their lowest levels since 2010 (3.4% and 3.1%, respectively) and, together with lower interest rates on new loans, contributed to a modest increase in investment and domestic demand.

2.4. The Moldovan economy grew by an estimated 4.2% in 2019. Growth was primarily driven by investments which increased by around 16%. Amidst buoyant investment activity, the construction sector showed the highest growth rate among the main sectors of the economy, increasing by 19% in 2019. In recent years, the economy has been driven also by consumption and fuelled by remittances. The latter have accounted for up to a quarter of Gross domestic product (GDP), among the highest share in the world. External trade increased only slightly in 2019, following dynamic growth in the previous years. In 2019, exports reached 2.8 billion US dollars, an increase of 2.7% compared to 2018, and imports amounted 5.8 billion US dollars, an increase of 1.4%. The negative trade balance amounted 3,062.6 million US dollars, compared to 3,053.9 million dollars in 2018. The considerable difference in the evolution of exports and imports led to an accumulation in 2019 of a trade deficit amounting to 3.1 billion US dollars, an increase of 0.3%, compared to 2018.

According to the National Bank of Moldova, in 2019, the current account of the balance of payments recorded a deficit of USD 1,159.30 million, the capital account registered a negative balance amounting to USD 52.08 million, and the financial account recorded a net capital inflow of USD 1,205.94 million. Inflation increased to a relatively high 7.5% at the end of 2019. The budget deficit amounted to only around 1.5% of GDP. The economic situation remained stable, despite having three different governments in 2019, including three months of coalition negotiations. Ageing population and large emigration flows are eroding already low labour participation. Boosting skills is another challenge to sustainable growth, job creation and poverty reduction.

2.5. Starting with 2020, the COVID-19 pandemic has severely impacted the Moldovan economy. After the deepest downturn in 2020, the economy is rebounding, but significant risks beset the outlook. In 2021 the economic recovery is taking strong root. However, adverse risks to the outlook remain significant, including from new infection outbreaks and virus variants, slower-than-expected recovery in trading partners, soaring energy prices, or reform fatigue and the impact of the war from the neighbouring country over Moldova's economy.

2.6. While the Government remains committed to progressively shift its policy focus towards mitigating the pandemic's long-term damage to countries economy and securing a sustainable, inclusive, and more robust recovery, the unfolding energy crisis which became more intense for 2021-2022 years, the longstanding weaknesses of domestic institutions could impede the reform momentum, all of these being amplified by the crisis due to Russian war started against Ukraine.

2.7. In 2021, the Republic of Moldova registered the highest economic growth in the last three decades. GDP amounted to 241.9 billion lei and registered a real increase of 13.9% compared to 2020. The main factors that contributed to this growth are related to the favourable crop year and thus important contribution was generated by the agricultural sector, the acceleration of the growth of private consumption and the revival of economic activity.

2.8. The largest sectors by share of GDP are trade (14.9%), agriculture (10.4%), industry (9.8%), construction (8.2%), real estate transactions (7.03%), information and communication (5.5%), transport (4.2%), public administration (3.6%).

2.9. The following activities mainly contributed to the 13.9% increase in GDP in 2021 compared to 2020:

- Agriculture, forestry and fishing (+ 4.2%) with a share of 10.4% in GDP;
- Wholesale and retail trade; maintenance and repair of motor vehicles and motorcycles (+ 2.2%), with a share of 14.9% in the formation of GDP;
- Transport and storage (+ 1.6%) with a share of 4.2% in GDP;
- Information and communications (+ 1.2%), with a share of 5.5% in GDP;
- Production and supply of electricity and heat, gas, hot water and air conditioning (+ 0.9%) with a share of 2.1% in GDP;
- Art, recreation and leisure activities (+ 0.5%) with a share of 1.0% in GDP.

2.10. The **industrial sector** rebounded after the pandemic crisis of 2020. In 2021 the volume of industrial production increased by 12.1% due to the relaunch of the manufacturing industry (+ 11.4%), of the extractive industry (+ 11.9%), as well as of the increase of the production in the energy sector (+ 16.1%).

2.11. After a year of severe drought, 2021 has been a particularly good year **for agriculture**. Global agricultural production grew by almost 50% (a record grow). The increase in global agricultural production was determined by the significant increase in vegetable production (by about 75.5%).

2.12. The **transport sector** has been growing in 2021, following the decline generated by the pandemic crisis. In 2021, freight transport increased by about 19.2%, and passenger transport by about 9.5%.

2.13. In 2021, the **retail trade in goods** increased by 12%, and the trade in **services** provided to the population – increased 1.7 times (in comparable prices).

2.14. **Tourism** continues to be affected by the consequences of the COVID-19 pandemic, but its intensity is declining. In 2021, the collective tourist reception structures with accommodation functions were attended by 178,000.2 tourists or two times more than in 2020 (deeply affected by the consequences of the COVID pandemic).

2.15. On the background of the declines in the crisis period of 2020, investment activity increased moderately in 2021. The volume of investments in fixed assets increased by 4.8%, amounting to about MDL 29.6 billion. Increasing the own investments of the economic agents oriented in new technologies, machines and equipment, as well as the increase of the investments in the public infrastructure financed from external sources were the basic factors that influenced the increase of the investments.

2.16. The annual inflation rate exceeded the upper limit of the range of variation of the inflation target set by the National Bank of Moldova (5% +/- 1.5%), constituting 13.9% (December 2021 compared to December 2020). In response to the rising inflationary pressure, the NBM on 03/12/2021 increased the base rate by one percentage point (p.p.) - up to 6.5%.

2.17. In January-December 2021, the **Moldovan leu** depreciated by 3.1% related to the US dollar in nominal terms but appreciated in relation to euro. by 4.9%.

2.18. Budget revenues remain on a positive trend, with an increase of 32.4% in December 2021. Cumulatively in January-December, the national public budget received revenues of about 77.4 billion. lei, which represents an increase of 23.5% compared to the same period of 2020. The positive result is largely due to the relaunch of domestic consumption, which favoured the increase of revenues from taxes and duties on goods and services, and the increase of salary income.

2.19. **International trade in goods** is continuously increasing. The favourable external environment and the increase in demand for goods in the main partner countries led to an increase in exports by 27.5% in 2021, amounting to 3,144.5 million US dollars. At the same time, domestic demand, which is maintaining a positive trend, as well as the increase in world prices for energy resources, especially natural gas, led to an increase in the value of imports by 32.5%, amounting to 7,176.6 million US dollars. The volume of imports exceeded about 2.3 times the volume of exports and, thus, the negative balance of the trade balance increased by about 1.4 times, highlighting the dependence of the economy on external sources.

2.20. The recovery of the economy after the pandemic crisis, the increase in world prices for raw materials and energy resources, as well as the disruption of value chains were reflected in the **external balance of payments** indicators for 2021. The increase in domestic demand and prices for energy resources led to an increase of 33.6% of imports of goods and services. As a result, the current account deficit widened by about 1.8 times. As a result, the country's external financing needs relative to GDP have increased to 12%, compared to 8.3% in 2020.

2.21. Uncertain prospects for the future continue to influence investment activity. Although foreign direct investment inflows increased by about 1.6 times compared to 2020, they did not reach pre-crisis levels. Under these conditions, the current account deficit was largely financed by loans, trade credits and advances.

2.22. **The unemployment rate** (the share of ILO unemployed in the labour force) at the country level in 2021 registered the value of 3.2%, being lower by 0.6 pp. compared to 2020 (3.6%).

2.23. At the beginning of 2022 the economy was experiencing a recovery, but the outlook is clouded by significant vulnerabilities linked to energy crisis and the war in the neighbouring country. A robust rebound in 2021 growth (13.9%) was driven by aggregate demand supported by high credit and wage growth as well as strong remittance inflows. Remittances from the approximately one million

Moldovans who work abroad account for almost 15% of GDP. While favourable high-frequency indicators point to continued recovery, the domestic impact of global turbulence in energy markets and a new infection wave due to Delta variant pose significant headwinds and heighten uncertainty. Thus, during the first 4 months of 2022 the inflation rates picked up at its highest rates (in March 2022 the rate of inflation reached the highest pick of 22.16%), driven by high energy prices and increase of prices of the consumption basket (around 50% of the inflation rate is driven by food and energy prices).

2.24. Downside risks remain significant amid heightened uncertainty. These include a more severe or protracted fallout from the global energy crisis, a slower recovery both domestically and abroad, and scarring of balance sheets from renewed unemployment and the impact of war from Ukraine.

2.25. Moldova remains susceptible to spill overs from geopolitical tensions. Political changes continue resulting in a significant bleeding of the operational expertise from key governmental bodies, further degrading Moldova's reforms implementation capacity. On the upside, the recent arrangements with the IMF and supporting donors aimed at addressing vulnerabilities catalyzed external financing, while reforms could yield large medium-term growth dividends.

## 2.2 External Environment and Competitiveness

2.26. As a small-sized economy with very scarce natural resources, Moldova is highly dependent on foreign trade, either imports of raw materials and intermediate goods or exports of value-added goods and raw materials. In this context, the Moldovan economy has been successful at export diversification in terms of products and destinations. However, Moldovan exports of goods and services still lack domestic value creation.

2.27. For a small, vulnerable, land-locked country in Central Eastern Europe, the Republic of Moldova remains more susceptible than other, larger economies to changing circumstances in the external environment. Moldova borders Romania and Ukraine by land - the main transit countries being Romania, Ukraine, and Belarus.

2.28. An important determinant for the Moldovan economy represents the economic performance of the European Union: 43.9% of Moldovan imports of goods are from the EU (2021: USD 3.1 billion), while around two thirds 62% of Moldovan exports (2021: USD 1.9 billion) go to the EU, making it by far Moldova's most important trading partner (with Romania, Germany, Italy, Poland leading among the top trading EU partners).

2.29. Other major trading partners are the Türkiye, China, Commonwealth of Independent States (CIS) countries (particularly Ukraine, Belarus, the Russian Federation), Switzerland followed by other countries in Asia, the Americas and the Middle East.

2.30. In terms of Moldova's foreign trade, the past few years have been characterized by increased specialization towards certain high value-added products, especially those produced by the automotive and pharmaceutical industries, but also by the winemaking, textiles and machinery industries.

2.31. Top exported products by the Republic of Moldova: Insulated Wire (USD 445 million), Sunflower Seeds (USD 188 million), Wine (USD 134 million), Seats (USD 112 million), and Hot-Rolled Iron Bars (USD 105 million), Edible fruits and vegetables, etc.

2.32. Top imported products by the Republic of Moldova: Refined Petroleum (USD 328 million), Packaged Medicaments (USD 226 million), Cars (USD 224 million), Broadcasting Equipment (USD 165 million), and Insulated Wire (USD 140 million), textile, etc.

### **Economic complexity in 2020**

2.33. Most Specialized Products by RCA Index – Moldova has a high level of specialization in Sunflower Seeds (218), Hot-Rolled Iron Bars (53.6), Apples, Pears and Grapes (43.5), Seed Oils (42.3), and Other Vegetable Residues (32), Gypsum, Pitted and Dried Fruits, Alcohol exceeding 80%. Specialization is measured using RCA, an index that takes the ratio between Moldova observed and expected exports in each product.

2.34. Most Complex Products by PCI – The highest complexity exports of Moldova according to the product complexity index (PCI) are Machines for testing mechanical properties of material (1.54), Copper foil, thickness (except any backing) < 0.15 mm (1.37), Machinery, non-domestic, involving heating or cooling (1.16), Derivatives of cyclic alcohols (0.89), and Articles of iron or steel (0.87), Heating boilers, Signals for Automotive Industry, Electric transformers, Nickel tubes, Machinery for leather work including for footwear. PCI measures the knowledge intensity of a product by considering the knowledge intensity of its exporters.

2.35. Export Opportunities by Relatedness – The top export opportunities for Moldova according to the relatedness index, are Knit Men's Undergarments (0.22), Non-Knit Men's Undergarments (0.21), Raw Tobacco (0.21), Locust beans, seaweed, sugar beet, cane, for food (0.21), and Other Vegetables (0.21), Perfume plants, knitting accessories including for babies. Relatedness measures the distance between a country's current exports and each product.

2.36. During the years 2015-2020, the IT industry recorded an increase in annual sales revenues from 2.1 billion lei to 7.4 billion lei, reaching 3.6% of GDP. The volume of exports of IT products and services exceeded in 2020 the figure of 4.6 billion lei, qualitatively changing the structure of exports of the Republic of Moldova.

2.37. This positive development in the IT sector is accompanied by the increase in the number of companies during this period – from 1,000 to 1,700, and the number of employees – from 9,350 to 17,000 people, ensuring the best level of pay in the economy.

2.38. The volume of investments in computer services, according to the analyzed data, doubled in the reference period and reached 2.6 billion lei in 2020, increasing by approx. 800 million lei compared to the previous year, which speaks of the fact that more and more investment is being made in streamlining processes and digital innovation in various economic sectors.

2.39. The export volume of the IT industry in the Republic of Moldova in 2021, according to the National Bank of Moldova, reached 349.82 million US dollars, more than five times higher compared to the indicator in 2016.

2.40. The results are due to the favourable policies for the development of the sector, especially the distinct fiscal regime in which the 1,055 active residents of the virtual park "Moldova IT park" operate, out of which 182 companies with foreign capital from 39 countries.

2.41. Despite the constraints imposed by the pandemic and the regional development context, the turnover achieved by the residents of "Moldova IT park" in 2021 exceeded by 49% the income for 2020 and amounted to over 6.8 billion lei.

2.42. 85% of total IT services exports are generated by "Moldova IT park" residents. The main IT export markets are EU countries, UK, USA, Canada.

2.43. Exports of services, in 2021, increased by 19.7%, in general, due to the increase in telecommunications, IT and information services (+31.6%), travel services (+32.2%) and transport services (+32.2%).

2.44. The import of services increased by 30.4%. Within them, the imports of travel services (+34.4%), transport (+38.5%) increased. At the same time, construction services decreased (- 12.6%).

2.45. For comparison, in 2018 the balance of services recorded a positive balance of USD 373.3 million, compared to USD 317 million in 2017. Exports of services increased by 18% and imports – by 18.1%. This situation was generally due to the more intense increase in imports of transport services (by 16.3% compared to 6% for exported services). At the same time, it is important to mention the essential increase in the export of telecommunications, IT and information services – by 25.6% compared to 2017.

2.46. Since 2020, the international economic environment has been characterized by a severe global economic crisis, triggered by the emergence of the COVID-19 pandemic in early 2020, which has hit world trade and the economies of Moldovans's main trading partners hard. To combat the

spread of the virus, governments shut down entire sectors of the economy, leading to a collapse in demand and trade. At the same time, different governments introduced massive public aid programmes to support the affected sectors and the economy as a whole. Subsequently, further waves of the coronavirus occurred, triggering similar responses, particularly in Europe, although on a smaller scale than in the spring of 2020.

2.47. At the same time, it is worth mentioning that the Republic of Moldova recognizes industry and competitiveness as strategic development priorities and, in this context, they are always included in national policy agendas. Also, in the process of adapting the 2030 Agenda for Sustainable Development to the national context, the Republic of Moldova has included nine indicators defined for SDG9 – Industry, Innovation and Infrastructure, implicitly the indicators for measuring industry's share of employment and gross domestic product. Alongside sectoral strategic planning related to industrial policy, a process in which the Moldovan Government is involved, infrastructure and industrial platforms are being further developed. Thus, the Pilot program for creating multifunctional industrial platforms, adopted by Government Decision No. 748/2020, is being implemented, a document that foresees the creation of 18 Multifunctional Industrial Platforms.

2.48. In addition, in the context of signing the AA DCFTA with EU, the Government approved The Roadmap on Improving the Competitiveness of the Republic of Moldova by the Government Decision No. 4/2014. The goal of the Roadmap was to improve competitiveness of the Moldovan economy, to increase benefits generated by DCFTA and, at the same time, to cope with challenges associated with the implementation of DCFTA. The Roadmap contained a policy matrix that provided concrete actions on nine components:

- Human resources;
- Access to finance;
- Transport and energy infrastructure;
- Quality infrastructure;
- Information society;
- Trade facilitation;
- Fiscal policy and administration;
- Scientific research and innovation
- Competition.

2.49. As of 2020, most of the actions included in the policy matrix of the Roadmap were carried out (an implementation rate of 95.5%). However, despite the achievement of performance indicators, additional substantial effort is needed to increase the country's competitiveness.

2.50. To enable investment in the Moldovan economy and to ensure an efficient promotion of exports of domestic goods and services, the Moldovan Government approved the National Strategy for Investment Attraction and Export Promotion for 2016-2020 and associated implementation Action Plan, a strategic document reflecting the country's vision in this area. As stated in the strategy *"an accelerated and sustainable growth of the national income is only possible through the increase and diversification of exports. However, the technological gap represents a major structural shortcoming, which undermines the competitiveness of Moldovan exports. In order to reduce it and catalyze the export-oriented growth model, major investments are needed in the development of productive capital"*. The Strategy identified seven priority sectors for investment and export promotion: agriculture and food, automotive industry, business services such as business process outsourcing (BPO), clothing and footwear, electronics, information and communication technologies (ICT), and machinery.

2.51. The sectoral strategic plans, which are in the process of elaboration, are correlated with the international commitments of the Republic of Moldova. The draft national development strategy and

other draft sectoral strategic documents are based on two horizontal priorities - **Green and Digital** - and a number of thematic priorities, including: the development of small-scale manufacturing at local level; the development of high growth innovative enterprises at national level and the attraction of FDI in the industrial sector in the context of nearshoring. The priorities and their associated multi-sectoral activities will be implemented including through the development of existing Investment Platforms - Free Economic Zones, Industrial Parks, Multifunctional Industrial Platforms, the IT Park.

### 2.2.1 Industrialization

2.52. The economy of the Republic of Moldova has experienced, in three decades of transition, the phenomenon of premature deindustrialization. As a result, between 1991 and 2021 the share of **industry in GDP fell from 40% to 12%**. Thus, the share of the industrial sector in GDP was varying between 14% - 15% in the period of 2011-2015 then went **down to 12% in 2021**. The development of the industrial sector was disrupted by various crises: „transition shock" and financial crises from 1998; the Russian Federation's periodic embargoes; droughts (2012, 2020), local financial-banking crisis (2015-2016), pandemic crisis (2020-2021).

2.53. Despite these challenges, during 2011-2021 the industrial production recorded an average annual growth of 4%. The domestic and external demand, contribute to the increase of industry. Also, the policies related to development of the Free Economic Zones (FEZ) contributed to the growth of industry.

2.54. Based on the existing legal framework, seven free economic zones (FEZ "Balti", FEZ "Ungheni-Business", FEZ "Export-Business-Chisinau", FEZ "Valkanes", FEZ "Tvardița", FEZ "Taraclia", FEZ "Otaci-Business") have been created and are operating, with 38 sub-zones located throughout the country on a total area of about 440 ha. According to the situation as of 31/12/2021, 229 residents were registered in the 7 FEZs, with a number of employees of 15,830 persons and a gross average monthly salary of USD 471.2 (approximative EUR 450).

2.55. The total value of investments made in the free economic zones during the entire period of activity until 31/12/2021 amounted to USD 506.2 million. The total income from sales of industrial production by free zones amounted to USD 672.9 million in 2021, of which USD 612.4 million was export revenue.

2.56. The industry of Moldova mainly consists of sectors that require resources and labour, which result in production of goods with low value-added. This is confirmed by the structure of the industrial production, according to which 47% are non-durable goods (for current use), 26% - intermediate goods and only 9% and 3% - capital goods and durable goods. Nevertheless, some positive structural changes have been observed recently: in 2014-2020 the share of capital goods and durable goods increased by 3.5 pp and 0.7 pp, respectively, due to the intensive growth of some specific branches, such as automotive and furniture industries.

2.57. The manufacturing industry is the most important branch, with a share of 84% in the total industrial production. The energy sector, along with water distribution and sanitation activities, account for about 14%, while the extractive industry accounts for less than 2%. The most important branches within the manufacturing industry are: the food industry (33%), the automotive industry (12%), the light industry (11%), the manufacturing of non-metallic mineral products (11%), beverages (10%), chemicals and plastic articles (5% for each of them), furniture production (4%).

2.58. The manufacturing industry has strengthened its position, registering an average annual growth of about 4% during 2011-2021. Some branches have developed more intensively. The expansion of the FEZ's activity, particularly the investments in the automotive industry, triggered the annual growth of machine and equipment manufacturing of over 20% during 2011-2021. The other branches that have made significant progress are the furniture industry (average growth +13%), the wood industry (+11%), the chemical industry (+8%), and the paper products industry (+8%). However, the industrial sector **was severely affected by the pandemic crisis**: the weak external demand negatively influenced, particularly the exporting industries, including those provided by the residents of the FEZ. In addition, the **extremely unfavourable weather conditions in 2020 led to a considerable decline in the agricultural sector (-27.2%), impacting the food industry by -5.8%**.

2.59. In 2021, the industrial sector rebounded after the pandemic crisis, registering 12.1% growth, due to the recovery of the manufacturing industry (+11.4%), the extractive industry (+11.9%), and of the energy sector (+16.1%). However, some exporting sectors continue to decline: manufacture of machinery and equipment (-22.8%), production of vegetable oils (-24.4%), chemical industry (-11.2%).

2.60. The entrepreneurs from the industrial sector are mostly oriented to the domestic market. Thus, about 65% of the industrial production is delivered on the domestic market and about 35% - on foreign markets. In recent years, the share of industrial exports has increased (by 3.6 pp in the period 2014-2020). The exporting sectors had the greatest impact on the industrial sector growth. The main exporting sectors are: manufacture machinery and equipment, light industry, processing of fruits and vegetables, manufacture of glass, beverages. In these sectors over 50% of production is oriented to export. However, the industrial export is represented mainly by products with low value-added, like assembled cables or textile, and Moldova has a modest position in international value chains.

2.61. At the same time, many industries currently produce mainly for domestic use (over 90% of their production). These include meat production and processing, dairy production, manufacturing of tobacco products, non-metallic mineral products, and metal constructions.

2.62. The share of industrial goods in the total exports is decreasing, while the share of unprocessed agricultural goods is growing. In 2021 the share of industrial goods in the total exports was about 72%. During 2014-2021 the volume of exported industrial goods increased by 2.9% annually. But this increase was not enough to strengthen the position of industrial products in the structure of exports, because the exports of unprocessed agricultural products recorded an average increase of 8.6% during this period. **The more intensive growth of exports with low value-added reduces the competitiveness of the national economy and does not ensure qualitative economic growth.**

2.63. The European Union is the main market for industrial exports. About 69% of the total exported industrial goods are delivered to EU countries, 14% - to the CIS countries and 17% - to the other countries. After signing of the Association Agreement and the DCFTA with the European Union, the EU's share in the industrial exports increased steadily (from 56% in 2014 to 69% in 2021).

2.64. **The Republic of Moldova does not have a policy document in force directly dedicated to industry**, but the Government of the Republic of Moldova is engaged in developing the strategic planning framework for the next decade, including relevant sectoral strategies and programs. Thus, the Government's Action Plan for 2021-2022, approved by Government Decision No. 235/2021, provides for the approval of the Strategy for an Inclusive, Sustainable and Digital Economy by 2030, as well as the development of programs under the strategy. One of the programs subordinated to the strategy will be The Industrial Development Program, defining the development of a competitive, resilient, digitalized and sustainable industrial sector, focused on thematic interventions in high value-added sectors, including electronics, creative industry, automotive industry, biopharma etc.

2.65. The last policy document dedicated to industry was the Strategy for the development of industry until 2015, adopted by Government Decision No. 1149/2006. After 2015, some sectoral strategies tangentially related to the development of the industry were implemented, including the National Strategy of Investment Attraction and Export Promotion for 2016-2020, adopted by Government Decision No. 511/2016. In this Strategy several priority industrial sectors were identified: automotive, food industry, textile industry. At the same time, there were several policy documents dedicated to different sectors: energy, transport and education that were related to the development of the industrial sector.

2.66. **The National Program for Promoting Entrepreneurship and Increasing Competitiveness for 2022-2026** and, in particular, the Industrial Development Program, once finalized and adopted, will succeed previous sectoral documents and contribute to the transition to the 4th Industrial Revolution (4IR) in the Republic of Moldova.

## 2.2.2 The impact of war in Ukraine on National Economy

2.67. Starting with 24 February, Moldova declared national state of emergency until 25 April 2022 and given the major risks the Government decided to prolong the emergency state additionally with 60 days.

2.68. Given its geographical proximity, Moldova is among the most affected countries in the region facing big challenges due to the war started by the Russian Federation against Ukraine.

2.69. Moldova stands in solidarity and supports Ukraine. Moldova co-sponsored the statement promoted by a group of likeminded members in WTO condemning in strongest terms the war of the Russian Federation against Ukraine as well as the WTO Joint Statement on Open and Predictable Trade in Agricultural and Food Products. Also, Moldova aligned to similar statements condemning the Russian Federation's aggression in many other international organizations and forums, including the debated declaration in UN.

2.70. Moldova also aligned and applied financial related measures against the Russian Federation, namely sanctions on the financial system that have cut selected Russian banks from the Visa, MasterCard and SWIFT payment system – thereby effectively blocking financial import and export transactions – and hit banks with asset freezes or exclusion from foreign financial systems.

2.71. Shall be mentioned the big contribution of Moldova in the refugee crisis. The Government of Moldova has shown leadership in responding to the protection needs of massive flow of refugees fleeing war in Ukraine. Currently, Moldova hosts around 100,000 Ukrainians which represents 4% of Moldova's population. Half of these refugees are young people and children while the other half are elder women. This situation represents and additional enormous pression on our social systems specially in healthcare and education. While the Government continues to respond to meet the challenge, it is complemented and assisted by the efforts of partners that are coordinated by UNHCR under the refugee coordination forum. UN agencies and INGO/NGOs partners have stepped up their efforts to assist the response by Moldova.

## 2.3 Economic Developments and Reforms

2.72. The COVID-19 pandemic, drought in 2020, and the ongoing surge in global energy prices, have slowed economic activity, intensified downside risks, and complicated policy making. While emergency financial assistance under IMF (a blended RCF/RFI (100% of quota) and SDR allocation (USD 236 million) helped cushion the pandemic's impact, Moldova remains among the most vulnerable countries in Europe with long-standing weaknesses inhibiting income convergence.

2.73. Over the past two years, the Republic of Moldova's economy has evolved in response to the coronavirus pandemic and associated containment measures. In the first half of 2020, economic activity collapsed in the wake of the first wave of COVID-19 and the accompanying restrictive measures, both in Moldova and abroad. This was followed by a strong economic recovery by the winter of 2021, when the recovery was severely hampered by a new outbreak of the COVID-19 pandemic and the introduction of new containment measures.

2.74. By the summer of 2021, however, most of the restrictive health measures had been lifted or significantly relaxed. This led to a strong recovery in economic activity in the second and third quarters, driven mainly by private consumption and the recovery of the service sectors that had been affected by the health restrictions. As a result, GDP exceeded its pre-crisis level in 2021.

### 2.3.1 MSMEs and regulatory, tax and administrative reforms

2.75. The small and medium-sized enterprises (SMEs) sector continue to play a key role in the national economy. With a **share of 98.6%** of the total number of enterprises in the economy, they **generate over 60% (60.1%) of the total jobs and almost 40% (39.3%) of the turnover** obtained by enterprises. As a result, they contribute **almost half (48%) to the formation of the Gross Domestic Product.**

2.76. Since 2016, the Republic of Moldova has made moderate progress in further developing a conducive business environment for SMEs. **Moldova has advanced in the implementation of**

**the SME Development Strategy 2012-2020 with substantial progress in the reduction of burdensome regulation, the implementation of regulatory impact analysis (RIA) and the provision of business development services for SMEs.** Noteworthy reforms also include **reinforced policy framework for entrepreneurial learning, start-up support for young entrepreneurs, an expansion of the credit guarantee scheme, broadened e-government services, and a formalized public-private dialogue platform.**

2.77. These reforms have been reflected in the 2020 World Bank Doing Business report, which ranks Moldova 48th, up from 63rd in 2015. Moldova performs well in the starting a business and registering property indicators. According to the 2019 Global Competitiveness Index, Moldova ranks 86th out of 141 countries, with the financial system, including the financing of SMEs, (ranked 124th and 93rd respectively), remaining one of the most problematic issues despite a slight improvement compared to 2018. Despite major improvements in the operational environment for both domestic and foreign companies, important structural challenges remain. For example, massive emigration and a rigid education system have led to shortages of skilled labour – one of the main obstacles to doing business reported by SMEs. In addition, interviews with members of the business community indicate their perception that levels of corruption continue to be high.

2.78. In future, Moldova should focus on promoting a level playing field for all enterprises through effective competition policy and a transparent and independent judiciary. Considerable work remains to be done to promote entrepreneurial learning, including meeting the specific skills requirements of SMEs. The limited **internationalization** of Moldovan SMEs is a long-term challenge, and more emphasis could be placed on making better use of Moldova's DCFTA with the EU. In addition, Moldova could further support the innovation activities of **SMEs and their transition to the green economy.**

2.79. Moldova has broadly aligned its SME policy with the guidelines set by the European Union's Small Business Act for Europe (SBA). The country's SME definition, reviewed in 2016, follows on the EU definition.

2.80. The Ministry of Economy is in charge of SME policy and supervises the overall implementation of the strategy, while ODIMM, the national SME Development Agency, is responsible for the implementation of most of the planned actions on MSMEs. Most of the actions foreseen by the strategy have been implemented, and a report on action implementation is available.

2.81. **Regulatory reform and the reduction of administrative burdens have been a high priority** for the government. **Moldova was one of the first countries to introduce the regulatory guillotine process (RIA)** and several rounds have taken place, starting from a strictly regulated business environment and having to deal with a complex, inefficient and often corrupted inspection system. Overall, those actions have produced a number of tangible results. According to the Law on Normative Acts (2017), **the application of RIA for business related legislation should be mandatory**, but the practice has not yet been uniformly applied across the public administration. The institution co-ordinating the RIA application is the State Chancellery, through an RIA secretariat, while the RIA methodology has been reviewed in 2016 and brought in line with EU standards.

2.82. **Moldova has an established practice of mandatory consultations with the public and private enterprise sectors.** According to the Law on Transparency in the Decision-Making Process (2008), public consultations are mandatory for each legislative and regulatory act that has a social, economic, or environmental impact. **For this purpose, the government has established a central dedicated website (www.particip.gov.md)**, the line ministries and most of the subordinated agencies of the public administration use it to publish draft versions of their legal acts (according to the State Chancellery, 134 draft laws were posted on the website in 2017 out a total of 185 drafts laws recorded by the Chancellery). Meetings regularly take place between SME policy institutions and private sector organizations.

2.83. Operational environment for SMEs Moldova has made significant progress in a number of areas related to the operational environment for SMEs, such as **company registration and licensing.**

2.84. The domain of **e-government services is one of the areas where progress has been more notable**. In 2016 the government adopted an Action Plan for the Reform and Modernization of Public Services covering the 2017-2021 period. The action plan's implementation is coordinated by the State Chancellery, which presents an annual report to the National Council for Public Administration Reform. **Currently, the government provides a wide range of e-government services**. Access is granted through an e-signature system and taxes and fees can be paid through the M-Pay public platform. The availability of internet connection through the country has significantly increased, more than 90% of Moldova's population has access to high-speed internet, Moldova is ranking among top countries with best coverage of superfast internet in the world. However, the level of IT skills of entrepreneurs remains limited, which prevents the uptake of e-government services.

2.85. Also, **company registration procedures have been significantly simplified** since 2016. According to the 2020 World Bank Doing Business report, **it takes three procedures to start a business in Moldova**; the entire process takes four days, and the cost is equal to 5% of the country's per capita annual income. In the starting a business indicator, Moldova ranks 13th out of 190 countries, up 13 positions since 2016. **Company registration procedures are conducted in one-stop-shops managed by the Public Service Agency**, which is present in 26 cities across the country. Company registration can be **partly completed online**, but the notifications procedures (registration with the tax office, social insurance organizations and the statistical office) have to be conducted in person.

2.86. Moldova has introduced a **simplified tax regime for sole proprietors and small companies, complemented by low tax rates for microenterprises**. Enterprises with a turnover below MDL 600,000 (approximately EUR 30,000) are subject to a presumptive tax regime and a tax rate equal to 1% of their turnover, but not less than MDL 3,000 (approximately EUR 150). Cash accounting can be applied only to sole proprietors. SMEs with a turnover below MDL 1,200 000 (approximately EUR 60,000) are subject to a tax equal to 4% of the operational income.

2.87. At the same time, the Republic of Moldova provides fiscal stimulation in the country's seven free economic zones and the IT sector, consisting primarily of tax exemptions for resident companies and their employees (any company, foreign or local, can register as a resident of the FEZ and IT parks). Specifically, the IT Park grants residents a 7 % single tax on revenue (but not less than the equivalent of EUR 150 per employee).

2.88. As of the Law No. 179/2016 on small and medium enterprises, any state control of small and medium-sized enterprises, during the first three years from their registration, should be of advisory nature, except the cases of criminal offences.

2.89. According to the Government's Action Plan, by the end of 2022, the approval of draft laws is expected, that will come with regulations for small and micro enterprises on simplified tax and reporting mechanisms, as well as simplifying labour relations and reporting on this dimension.

2.90. **SMEs in the Republic of Moldova have been more affected by the impact of the pandemic compared to large enterprises**. According to the NBS publication on National Accounts, in 2020 the contribution of SMEs to **the formation of GDP decreased by 2.9 percentage points to 48%**. It should be noted that until the pandemic; SMEs have tended to lag behind in creating added value in the economy. For example, in 2017 the small and medium enterprise sector generated 52.1% of GDP.

2.91. The evaluation conducted in 2021 emphasizes the positive impact on the SME sector that was achieved in the period of the implementation of the SME Strategy 2012-2020, primarily by improving the business environment and implementing diverse direct support programmes for SMEs. It also points to failures, especially in outreach to the larger population of SMEs and in substantially increasing access to finance and international markets. The implementation of the strategy was further complicated by continued migrations and brain drain, weak governmental management structures, especially in the regions, and a large skills mismatch. The COVID-19 pandemic put further pressure on the economy and reversed some of the early achievements.

- The important reforms have been made, but progress needs to be maintained. The index highlights some areas where Moldova should focus in the future:
- Promoting a level playing field for all enterprises through effective competition policy and a transparent and independent judiciary.
- Promoting entrepreneurial learning, including meeting the specific skills requirements of SMEs.
- Internationalization of Moldovan SMEs is a short and long-term challenge.
- More emphasis on making better use of Moldova's DCFTA with the EU and
- Supporting the innovation activities of SMEs and their transition to the green economy.

2.92. In this regard, the **National Program for Promoting Entrepreneurship, and Increasing Competitiveness for 2022-2026 is being developed and will replace the old policy document** – Small and Medium Enterprise Sector Development Strategy for 2012-2020, which expired in 2020.

2.93. The Programme is planned to be approved by the Government by September 2022. The strategic objective of the Programme is to drive national entrepreneurship from a demand and opportunity-based entrepreneurship to one that is based on innovation and smart specialization that operates in a holistic and conducive entrepreneurship ecosystem and leads to sustainable, balanced, and inclusive socio-economic development in the Republic of Moldova.

2.94. The objective is to be achieved through measures and actions in five areas defined as specific objectives:

- Enable Business Environment for the Creation and Operation of SMEs.
- Strengthen Entrepreneurial Culture and Capabilities.
- Improve SMEs access to finance.
- Improve competitiveness and access to markets.
- Facilitate Technology Exchange and Innovation.

2.95. According to Law No. 179/2016<sup>1</sup> on small and medium enterprises, the implementation of the state policy on supporting the development of SMEs is carried out by the Organization for the Development of the Small and Medium Enterprises Sector (ODIMM), the organizational structure responsible for this field, as well as other authorities, public and private institutions in the field.

2.96. ODIMM currently manages a wide range of business support programs, most of which provide integrated training, funding and mentoring. The total budget allocated from public funds for 2022 is MDL 340 million. Among the most relevant Grant Component Funding Programs are:

- "START for YOUTH: a sustainable business at home" Program;
- "Women in Business" Program;
- The Program for attracting remittances in the economy "PARE 1 + 1";
- SME Digitization Support Instrument;

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<sup>1</sup>Law No. 179/2016 on small and medium enterprises, available in Romanian at: [https://www.legis.md/cautare/getResults?doc\\_id=131008&lang=ro](https://www.legis.md/cautare/getResults?doc_id=131008&lang=ro).

- Small and medium-sized enterprise greening Program;
- Business support Program with high potential for growth and internationalization.

2.97. Other two new SME support programs have been launched this year: the Digital Innovation and Technology Start-up Support Program and the Digital Transformation Program for Small and Medium-sized Enterprises, with a cumulative budget for 2022 of MDL 35 million.

2.98. Furthermore, it is planned to review also other Programs for supporting SMEs: Program "Women in Business"; Program "Start for Youth – a sustainable business at your home"; Credit Guarantee Fund; Program "Business support with high growth potential and internationalization"; Program "Greening Small and Medium Enterprises", in order to improve the implementation conditions, but also their extension.

2.99. In 2022, the government is on course to approve six more new SME support programs, with a cumulative budget of MDL 600 million under the short-term budgetary policy framework for 2022-2024:

- Refurbishment and Energy Efficiency Program;
- Social enterprise support Program;
- The "Second Chance" Program;
- "Rural tourism start-up" Program;
- Program to facilitate the grouping of SMEs in Clusters;
- Fund for the Development and Acceleration of the Sustainable Economy (allocated budget – MDL 70 million).

2.100. Currently, ODIMM is in close collaboration with strategic donors of the Republic of Moldova, including the Delegation of the European Union to the Republic of Moldova, the World Bank, USAID, EBRD, GIZ, etc., and for 2022 a financial support of EUR 20-30 million is planned in order to support the business environment.

### **2.3.1.1 Women entrepreneurship and trade**

2.101. Since 2015, significant efforts have been made by the Moldovan authorities to improve support for women's entrepreneurship. First, the SME Strategy 2012-2020 was revised, giving particular attention to women's entrepreneurship. This includes a dedicated "Women in Business" programme supporting women entrepreneurs through all phases of start-up development: pre-start-up and early phase development through to business growth. Start-up financing is also available, with projections for 2019-20 of 280 women's start-ups and up to EUR 75,000 in start-up capital per business. Additionally, the Business Academy for Women includes knowledge transfer between experienced entrepreneurs and women keen to scale up their businesses. Second, the setting of targets for women's entrepreneurship is good practice. ODIMM has set a target of 30% for women within its training drive, including a 30% target set for women within the wider effort to support young entrepreneurs and returning migrants, including loan guarantees and credits. These targets are already yielding results. For example, under the young entrepreneurs' programme, 45% of those receiving entrepreneurial consultancy are women, with 43% following entrepreneurship training and 30% accessing finance. Further, 34% of 132 participants of the Moldovan Business Incubators Network are women. But more needs to be done to support women's entrepreneurship in rural areas where employment opportunities are limited and where opting for migration comes at great family and social cost.

2.102. In terms of institutional support structures, the National Council for Women's Entrepreneurship established in 2015 has lost momentum, but its mandate remains important: to ensure that government, private sector and civic interest groups can discuss, review and propose policy options to the government. A Women's National Platform provides links to women entrepreneurs in local communities, and plays an important role in sharing success stories. It

cooperates with ODIMM in hosting a Women's Entrepreneurship Contest with prizes for (1) new product/services, (2) innovative start-up, (3) corporate social responsibility and (4) Women Entrepreneur of the Year.

2.103. Additionally, new initiatives launched during the review period provided an opportunity to develop and extend women's entrepreneur networks for good practice exchange. Notwithstanding the substantial progress on women's entrepreneurship, in terms of policy, data and training provision, challenges remain – particularly in terms of access to finance, with questions raised as to unequal treatment of women by banks and public authorities. By way of example according to the assessment made under the "SME Policy Index Eastern Partner Countries 2020 – Assessing the implementation of the small business act for Europe", in applying for a bank loan, women business owners in the retail trade must pledge four times the collateral that men do, and are subjected to more severe tax scrutiny than their male counterparts, including requests for informal payments to tax inspectors.

### 2.3.2 ICT development

2.104. Moldova's ICT industry has been experiencing a dynamic growth, thanks to high market demand, competition, and consolidated effort. It annually generates about 7% of the country's GDP, approaching a total value of revenues of about MDL 15 billion or USD 900 million. About five years ago, the electronic communications market in Moldova has experienced a period of agile competition and growth, positioning the country in top destinations with high-speed Internet, accessibility, and recently – with availability of Gigabit Internet (ranked as 3<sup>rd</sup> and 10<sup>th</sup> country in the world). **During the 2015-2020, the engine of the ICT industry growth in Moldova became the IT sector, which increased fourfold, outpacing the telecoms. A dedicated policy and legislative framework for the Information Technology and Digital Industries has played a central role in its outstanding and dynamic evolution.**

2.105. Comparing the GDP share of the IT sector in 2020 of about 3.6% with the 0.8% in 2013, when the IT sector was only declared as a policy priority, **the dynamic is remarkable. The growth in the IT industry has been driven by Moldova's advantages as an outsourcing destination for the IT services, based on cost, location, and skills, as well as on a facilitated fiscal and administrative regime for the Virtual Moldova IT Park residents.**

2.106. The number of ICT companies has exceeded 2,000, while the number of employees reached 24,000, registering about 140% growth for both indicators. The contribution to National GDP of those 24,000 ICT professionals, which constitute 1% of total population, is **7.45%, revealing the highest level of productivity in the industry per national economy.** From another perspective, this is about 2% of the available labour force in the country of about 900,000, which is more than two times lower than the EU average of 4.2% of ICT professionals.

2.107. The volume of the ICT industry exports doubled in 5 years, from 2.8 billion to MDL 7.3 billion when this evolution is attributed particularly to the IT share of export, which increased from MDL 1 billion to 6.4 billion - 460%.

2.108. The main engine of IT industry is "Moldova IT Park" - a virtual park which aims to improve competitiveness of national IT sector by providing a comprehensive organizational platform, a single tax of 7% on the sales revenue for all its residents, extended list of eligible IT and related activities, simplified interaction with public authorities and "IT Visa" mechanism for attracting foreign employees. In 4 years of activity, it comprises almost 1,055 active residents, with more than 15,200 employees and a forecasted revenue for 2022 of EUR 370 million, making it one of the most successful IT sector support initiative in Moldova.

2.109. According to Speed test Global Index, which provides a monthly comparison of Internet speed data for a benchmark of 100 countries around the world, the Republic of Moldova **is ranked 58th in terms of mobile broadband speed, with the download speed of 38 Mbps compared to the global average of 48 Mbps, and ranked 38th in terms of fixed broadband speed, with the download speed of 106 Mbps - higher than the global average of 98 Mbps. Moldova is among top 10 countries in the world in terms of accessibility and affordability of Gigabit Internet access, where the users have access to unlimited Gigabit Internet for about EUR 15 per month.**

2.110. UN DESA e-Government Index attests considerable access to the internet and IT devices in the Republic of Moldova, but the existing telecommunications infrastructure deployment in the country is below the Eastern Europe subregion average, meaning that further effort in this regard is needed to keep the country competitive.

2.111. Market demand and available content is the key element in the process of network development. **So far, the capacities of 4G and terrestrial fibre networks are not fully used. Access to mobile Internet networks in 4G is accessible on 98% of the territory**, as well as the points of presence of fibre optic backbone network (PoP) is at the same level, leaving to the potential beneficiaries to choose/request.

2.112. Following the previous Review, the Government of Moldova has provided a preferential legislative framework for the IT industry and came with policies dedicated to this industry being based on several public policy documents.

2.113. In this context, the main initiative dedicated to the development of the national IT industry is the Law on information technology parks No. 77/2016. Further, according to the provisions of this law, the Ministry of Economy and Infrastructure promoted the Government Decision No. 1144 of 20/12/2017 on the creation of "Moldova IT Park".

2.114. The law on IT Parks offers a special tax regime for companies registered in the park, which includes the single tax of 7% that incorporates all taxes and fees paid by an IT company. This regime also involves a simplified tax administration, reduced tax burden and virtual presence of residents, as well as a large number of eligible IT and related activities (software development, IT services, digital graphics and design, IT research and development, IT educational projects). The special tax regime has allowed the unprecedented formalization of IT business and has considerably increased the tax base. Appreciating its positive impact, the Government promoted and approved a new draft law by which it guarantees an extended fiscal regime of the IT Park until 2026.

2.115. Additionally, there is also important to mention that IT Park residents can attract foreign IT workforce on preferential terms, as a result of the adoption of the "IT Visa" initiative (Law No. 121 of 23 July 2017).

2.116. This initiative provides the necessary legal framework in the field of migration of foreign IT specialists and IT managers, employed by the residents of Moldova IT Park, in order to be able to enter and remain on the territory of the Republic of Moldova.

2.117. Concerning the electronic communication, by Law No. 257/2020 on amending some legislative acts, was reduced the special tax in the amount of 2.5% of the income obtained from the sales related to the mobile telephony services, paid in the population support fund (1.5% from 1 January 2022).

2.118. Additionally, by Law No. 28 of 10 March 2016 on access to properties and shared use of infrastructure associated with public electronic communications networks was transposed some provision of the Directive No. 2002/21/EC.

2.119. Statistical data show that in 2021 the total volume of revenues in the electronic communications sector, after a five-year recession, for the first time increased by 2.9% and exceeded EUR 305.97 million. This trend took shape having as background the growing markets for mobile broadband access, fixed broadband access and audiovisual programs broadcasting. However, the decrease of revenues from fixed voice services was by 12%, and of mobile voice – by 0.9%.

2.120. According to the statistical data for 2021, the total volume of investments in the electronic communications sector increased by 19.3%, compared to 2020, and was estimated at EUR 56.28 million. In terms of the share of investments, the values of this indicator on the segments of mobile and fixed electronic communications networks, in 2021, represented 35.3% and 43.7%, accordingly. The share of this indicator on the audiovisual program broadcasting reached the value of about 21%.

### 2.3.3 Trade facilitation and customs developments

2.121. The Republic of Moldova ratified the Trade Facilitation Agreement (TFA) on 24 June 2016. During the review period, Moldova achieved considerable progress in the implementation of the Agreement being among the first countries establishing a National Trade Facilitation Committee under the supervision of the Prime-Minister and by adopting a National Action Plan.

2.122. The Government continues its efforts on reducing trade barriers and facilitating trade through the implementation of the TFA. As a landlocked country, the implementation of this agreement by all Members is very important for Moldova. The Republic of Moldova has adopted in November 2017 its National Action Plan for Trade Facilitation. The Plan comprised 91 actions, with an estimated budget of over EUR 137.1 million was implemented by 14 State agencies in collaboration with the private sector under the guidance of the National Trade Facilitation Committee. Moldova implemented around 80% of the agreement and still needs budget support in the implementation of the category C provisions of TFA which are mostly related to the creation of single window, pre-arrival processing, expedited shipment, perishable goods and transit.

2.123. The Customs Service aims to maintain a balance between control and trade facilitation measures. Measures to simplify planned customs procedures will aim to reduce compliance costs, voluntary compliance with customs regulations and, at the same time, increase the efficiency of customs control. Priority measures in the direction of trade facilitation and security implemented coherently and systemically will create conditions in which compliance with customs regulations will be easy to ensure and difficult to avoid. For this, customs regulations will have to be adjusted so that they are simpler, more predictable and accessible to the environment business and passengers, and the risks of fraud are identified in advance and treated accordingly.

2.124. Recognizing that simplification and harmonization require, in particular, the approximation of customs regulations with international standards in the field of trade facilitation, the Customs Service will continue to transpose European and international treaty rules into national regulations.

2.125. Developing the administrative capacity to apply international customs standards as a priority is key to the success of reforms and aims to create a more efficient and effective administration. Administrative capacity refers primarily to the preconditions that should be met in order to have a successful administration, or to the Customs Service at the current stage, these preconditions are in the field of customs infrastructure, IT system, staff and quality management. The overall objective of trade facilitation will be supported by ensuring adequate customs infrastructure that supports the needs of the business and ensures the provision of quality and safe customs clearance services.

2.126. Moldova, customs control is based on automated risk analysis system. The distribution of customs declarations for control (physical/red channel, documentary/yellow channel or without control/green channel) is ensured by the ASYCUDA Information System, through the Selectivity Module. The selectivity module contains Risk Profiles (national, regional or local) which are the result of risk analyses of potential or determined risks. Additionally, this Module contains the minimum control parameters as well as the control level based on random selection.

2.127. The risk profiles are evaluated periodically or upon their expiration, as a result of which proposals are elaborated for modification, cancellation or extension of the profiling term.

2.128. **In January 2014 started the use of Moldova Authorized Economic Operator (AEO) program.** There are **115 economic operators with valid AEO authorizations.** This concept is a compliance management model designed in line with the Moldova AEO legal framework and international standards (WCO SAFE -Framework of Standards to secure and to facilitate Global Trade), including the EU AEO regulatory framework. In November 2021, EU Validation Mission on the implementation of Authorized Economic Operator (AEO) programme in Moldova confirmed its compatibility with that of the EU.

2.129. The conclusion of the Agreement on the Mutual Recognition of AEO Programs between the Republic of Moldova and the Member States of the European Union will provide certain mutual benefits to economic agents, including priority border crossings - a special band for AEO holders and less controls.

2.130. Additionally, starting from 2015 Republic of Moldova grants the status of **approved exporter**, within the existent FTAs. The status of approved exporter from Moldova to contracting state – Republic of Türkiye, all EU member states, or Central European Free Trade Agreement (CEFTA) member states and United Kingdom of Great Britain and Northern Ireland, may be granted to any exporter satisfying a range of conditions approved by Government such as: performs export transactions for at least 1 year; has frequent shipments originating from Moldova; in previous 12 months has not committed repeated infringements or economic crimes related to the export of preferential originating goods etc.

#### 2.3.4 GPA developments

2.131. A major development in the government procurement sector since the last TPR, **marks Moldova's accession and implementation** of the Government Procurement Agreement (GPA) since July 2016.

2.132. Public procurement is one of the priority areas of the Government of the Republic of Moldova that contributes to the development of economic and social infrastructure, the provision of efficient and qualitative public services, and the increase of trust in state institutions. In recent years the field of public procurement is undergoing a permanent reform, which aim to streamline the public procurement process, increase its level of transparency, reduce the risks of fraud and corruption by the use of e-procurement platforms and tools.

2.133. The Ministry of Finance (MoF) is responsible for the implementation of GPA, having the role of developing and promoting policies in this area. For this purpose, a Directorate of public procurement was recently created, taking over staff positions formerly allocated to the Public Procurement Agency. In the same time, the Public Procurement Agency (PPA) continues to be in charge of policy implementation under the subordination to the MoF. The National Agency for the Settlement of Complaints is responsible for the remediation of the complaints submitted by the tender participants.

2.134. The policy of the public procurement system is oriented and focused on the main objectives:

- Complete alignment of the legal framework with the European Union Acquis;
- Improving the e-Procurement system – increasing transparency at all stages of the procurement process, "*Everyone Sees Everything*";
- Centralization of public procurement – development and use of centralized procurement activities;
- Professionalization and certification of specialists in the field of public procurement - development of a professional evolution in the system for the staff responsible for public procurement.

2.135. In relation to public procurement, there is a high degree of harmonization of national legislation with the relevant EU standards. Since 2021 the public procurement legislation includes regulations on public procurement procedures for the award of contracts related to utility services and concessions for works and services. Since 2018, all public procurement procedures are conducted electronically, with a general reduction in the administrative burden for economic subjects and substantial savings. Still, public authorities lack sufficient capacities in this sector, considering also the lack of a regulation on certified specialists. Additionally, tenderers are provided with fully functional remedial opportunities, with the establishment of a new body for examining and resolving appeals in the interest of all parties.

2.136. Among the major developments registered in government procurement sector shall be mentioned the following:

2.137. In 2015 was approved Law on public procurement No. 131/2015 that transposes Directive 2004/18/EC of the European Parliament and of the Council of 31 March 2004 on the coordination of procedures for the award of public works contracts, public supply contracts and public service contracts.

2.138. As an initial stage, among the first obligations to be fulfilled in the field of public procurement under the Association Agreement, as well as to implement the provisions of the Agreement on Government Procurement, the Republic of Moldova adopted its first Strategy for the development of the public procurement system for 2016 - 2020 and its first action plan for the years 2016 - 2018 approved by the Government Decision No. 1332/2016. The strategy was developed to reflect a clear vision of reforming the entire public procurement system, in line with the general principles of good governance, so as to provide the basis for sustainable development in the country.

2.139. Subsequently, on 1 October 2018, the new amendments to Law No. 131/2015 on public procurement was adopted by Law No. 169/2018. The Law amending and supplementing Law No. 131/2015 on public procurement was developed in order to harmonize the national regulatory framework with the *acquis Communautaire*, in accordance with the commitments of the Republic of Moldova to the European Union with the ratification of the Association Agreement, by Law No. 112/2014.

2.140. All types of public procurement procedures were implemented: open tender, restricted tender, competitive dialogue, negotiated procedures, request for price offers, solution competition, procurement for social services and other specific services, partnership for innovation, how and specific techniques and instruments for the award of public contracts: framework agreement, dynamic procurement system, electronic auction, electronic catalog, in accordance with Directive 2014/24/EU on public procurement.

2.141. Starting with 1 October 2018, with the entry into force of the amendments to Law No. 131/2015, all contracting authorities were obliged to use the electronic procurement system for the publication of invitations/notices of participation, for the submission and evaluation of tenders, the award and electronic signing of public procurement contracts, in accordance with Directive 2014/24 / EU on public procurement.

2.142. From 14 December 2018, based on Law No. 319/2018 for amending the Law No. 131/2015, the value thresholds for the application of the provisions of the Law on public procurement have been increased. Thus, the publication of the participation notices became mandatory for the acquisitions of goods and services, the value of which, without VAT, exceeds MDL 200,000 and for the works of MDL 250,000 without VAT.

2.143. On 26/06/2021, Law No. 74/2020 on procurement in the energy, water, transport and postal services sectors, which regulates the procedures for awarding procurement contracts, applied by entities carrying out relevant activities in the field of energy, water, transport and post. Law No. 74/2020 aims to align with the legal framework of the European Union *Acquis*, as well as to transpose the basic elements of the European Union Directive 2014/25/EU on procurement by entities operating in the water, energy, transport and services sectors and repealing Directive 2004/17/EC, published in the Official Journal of the EU No. 94/243 of 28 March 2014.

2.144. In addition to legal reforms, profound institutional reforms have taken place in the field of public procurement. Thus, during 2019 and 2020, changes were made to the structure of the central apparatus of the Ministry of Finance, through which the Public Procurement Regulatory Policy Service was replaced by the Public Procurement Department and the limit staff was increased to 12 units. The basic function of the Department is to develop, implement and promote state policy in the field of public procurement, including by harmonizing legislation with European Union Directives and international standards.

2.145. The Public Procurement Agency, which is a specialized administrative authority subordinated to the Ministry of Finance, was assigned with the tasks of monitoring the compliance of public procurement procedures, performing the analysis of the public procurement system, providing methodological assistance and consultations, and organizing seminars training in public procurement.

2.146. In addition to the Public Procurement Agency, in accordance with Law No. 131/2015 on public procurement, the National Agency for the Settlement of Appeals/Complaints was established as an autonomous and independent public authority from other public authorities, from individuals and legal entities, which is responsible for ensuring the transparency of the decision-making process

in resolving appeals, being a commitment of the Republic of Moldova assumed by signing the Association Agreement with the European Union.

2.147. Additionally, another major development since the 1st TPR in GPA is the use of e-procurement system.

2.148. Moldova's e-procurement system, the Automated Information System "State Register of Public Procurement" (SIA "RSAP" MTender) is an online electronic system, accessible via the Internet at a dedicated address, used for the electronic application of public procurement processes, for posting invitations /notices at national level, submission and evaluation of tenders, award, and electronic signing of public procurement contracts. The SIA "RSAP" owner is the Ministry of Finance. However, the current edition of SIA "RSAP" ("MTender") is not fully aligned with all e-procurement provisions in the PPL. At the same time, a previous e-procurement system is still functional and is being used by the Centre for Centralized Procurement in Health (CAPCS), mainly due to the lack of technical functionalities for centralized procurement within the new system. As prescribed by the law, the CAPCS is intended to shift to the new e-procurement system starting 1 January 2021. Moldova: MAPS Assessment of the Public Procurement System 12 The MTender platform started being developed by the MoF with the support of the EBRD in the framework of a Memorandum<sup>1</sup> between the competent authorities, the private sector and civil society that was signed on 30 November 2016. The use of current MTender system was launched at the beginning of 2017 as a pilot project for small value procurement. While the old system was still in place, the contracting authorities had the right to decide to carry out electronically small value procurement through the new system. A year and a half later, in October 2018, the new electronic system became mandatory for conducting procurement under the PPL, despite a number of technical shortcomings, including the limitation to only two of the procedures provided for in the PPL, carried out through electronic auctions with price as the only award criterion. Efforts have nevertheless continued to improve the system so that it would cover the entire procurement cycle, from planning to contract management, allowing the contracting authorities to conduct any procurement activity or procedure regulated by the PPL.

### 2.3.5 IP rights

2.149. IP registered significant developments during the reporting period. The Moldovan IP system continued to be developed in accordance with the international and European commitments in the field, including WTO/TRIPS, WIPO treaties and RM-EU Associations Agreement and in line with the goals provided in the National Intellectual Property Strategy (NIPS) up to 2020 and the NIPS implementation Action Plans for the years 2015-2017 and the 2018-2020 respectively.

2.150. In order to consolidate the institutional capacities of intellectual property system, continuous efforts were made to improve the access and quality of IP services, to increase the competences of the personnel involved in IP protection and enforcement from control bodies and judiciary. State Agency on Intellectual Property (AGEPI), the state authority responsible for granting IPR in the Republic of Moldova, has continuously consolidating its institutional capacities with a view to improve the access and quality of IP services. AGEPI implemented an e-filing and e-payment system and provides a broad range of IP services, including a Call Centre. Since 2017, AGEPI is certified with ISO 9001:2015 for Quality Management.

2.151. To better integrate into the European IP system, on 11 July 2017, AGEPI signed a Memorandum of Understanding with the European Union Intellectual Property Office (EUIPO), providing for measures and projects aimed at consolidation and development of the tools offered to IP users, including by the integration of Moldovan Trademark and Design data into the EU databases.

2.152. Since 2015, a European patents validation system is implemented in Moldova, making possible for European patents right holders to validate their patents in the Republic directly through the European Patent Office.

2.153. To increase the efficiency of the National Commission on Intellectual Property, the Government Decision No. 489/2008 on the National Commission on Intellectual Property was amended (by Government Decision No. 542/2020).

2.154. The Custom Code was brought in line with the TRIPs provisions and incorporates the principles of the EU Regulation No 608/2013 concerning customs enforcement of intellectual property rights and repealing Council Regulation (EC) No 1383/2003. In addition, New Regulations of customs measures applied at the border for intellectual property protection was approved by Government Decision No. 915 of 26 June 2016, establishing the border enforcement procedure in line with the EU Regulation No 608/2013 concerning customs enforcement of intellectual property rights and repealing Council Regulation (EC) No 1383/2003.

2.155. In order to consolidate the IP Attorneys' system in Moldova, a Code of Ethics and Conduct for IP Attorneys was approved by the Government Decision No. 714 of 18 July 2018 amending the Regulations on the Activity of the Authorized Intellectual Property Attorneys.

2.156. Also, important improvements have been made in relation to the enforcement. Therefore, with the purpose to improve the IP dispute settlement system, through the Government Decision No. 987 of 21 November 2017 was approved the Regulation on the Organization and Functioning of the Arbitration Specialized in Intellectual Property and the Arbitral Procedure, which aims to establish the mechanism for settling disputes concerning the violation of intellectual property rights through a specialized arbitration in the field of intellectual property.

### 2.3.6 Agriculture

2.157. The Republic of Moldova is a country with an agrarian economy, whose area consists of 3,384.7 ha, of which 63% are agricultural land (2,129.6 ha). With more than 2.6 million people, i.e. 57 % of the total population, living in rural areas, the Republic of Moldova is a predominantly less urbanized country. Thus, the agriculture sector is a mainstay of the country's economy with the majority of the population living in rural areas and depending on agriculture for food and income. Since about 90% of crop production is rainfed, the survival of farmers strongly depends on their resilience to the weather.

2.158. Agriculture and agriculture processing industry remain among the most important activities in the Republic of Moldova, contributing with MDA 46,385 billion (EUR 2,361 billion) to the GDP. The employment in the agricultural sector consists of 181,200 workers in 2021, amounting around 21.5% of total employment in the labour market. In terms of employment, the sector registered a significant decline in the last 10 years comparing to the share of the same indicator was about 48.9% in 2011.

2.159. The reason for such a significant decrease is mainly due to the fact that until 2019, the calculation of persons employed in the agricultural sector included persons who practised agriculture as the main source of income in households, thus raising the share of those who worked in the agricultural sector. Nevertheless, the share of employment rate in the sector remains the highest in the Republic of Moldova.

2.160. Between 2017 and 2021, overall agricultural production increased both, in volume and value. The volume of plant production increased by 24%, while the volume of animal production declined by 24%. The value of agricultural production increased overall by 27%, with plant production increasing by 35.8% and animal production increasing only by 1.8%. Overall, real production increased by 8% between 2017 and 2021, being measured in USD. During this period, the share of cereals, sunflower, potatoes, and some other plant products in the total value of agriculture production increased significantly at the expense of animal products.

2.161. Moldova's agriculture is highly vulnerable to climate change and natural disasters as freezing, hail, heavy rains, or severe droughts, etc. For example, recently, in 2020, a severe drought affected all the entire country and almost all its crops, leading to sharp declines in Agri production, especially for wheat and maize which lead to a decrease of almost half comparing to the average production over the past years. Due to weather and climate conditions agriculture sectors is highly unpredictable. In 2021, according to the National Bureau of Statistics, the overall agricultural production increased by nearly 50% back to volumes exceeding those of the 2019 year. The increase was due to the good harvest year and increase of the crop production.

2.162. As mentioned, and in the Secretariats report, the agricultural enterprises play an important role in the agricultural sector, although their role varies significantly across different commodities. In 2021, they accounted for 58% of total crop harvests, with peasant (farmer) households

accounting for 23%, and other households for 19%. While their share in the production of cereals and pulses (without maize) accounted for 77% and around 90% for sugar beet, tobacco, and rape, peasant farmers were the largest producers of fruits, nuts, and berries (51% of total production) and grapes (36%), while potatoes and vegetables were primarily produced by other households.

2.163. In the area of foreign trade in agri-food products, there is the same trend as at the beginning of the previous decade, which only intensified after the signing of the Association Agreement and DCFTA with the European Union in 2014. Thus, after signing the Agreement, share of trade with CIS states steadily declined, reaching record lows in 2021 (17.8%). At the same time, exports of agri-food production to other markets, especially the EU market, have grown rapidly. Thus, in the period 2014 - 2021 the share of agri-food production exports in EU countries increased from 41.3% to 45.2% and in other countries from 23.7% in 2014 to 37% in 2021.

2.164. The National Strategy for Agricultural and Rural Development 2022-2027 (NSARD 2027) which is in the final phase of parliamentary endorsement represents the third consecutive planning document in the domain of agri-food and the second one with regard to rural development. NARDS-2027 corresponds to the provisions of the National Development Strategy "Moldova 2030" and the Common Agricultural Policy of the European Union.

2.165. The new Strategy starts from the general goal of contributing decisively to the implementation of pillars 1 and 4 of the National Development Strategy "Moldova 2030", respecting the commitments on the implementation of the Sustainable Development Agenda 2030.

2.166. The strategy gives continuity to initiatives in the field funded by external partners. International donor programs and projects will continue to have a significant impact on both the development of the agro-industrial sector and the growth of institutional strengthening capacities.

2.167. The strategic vision of this document is to develop a competitive agro-food sector, focused on value chains with high potential, environmentally friendly and climate resilient, which strengthens food security and safety and provides better welfare and living conditions in rural areas.

2.168. Based on the development needs related to inputs, agricultural processes, markets and community involvement in rural development, the Strategy defines three general strategic objectives, which aim to strengthen the potential of the resilient agricultural sector to climate change, promote smart, efficient and sustainable agricultural practices, the development of the local market and the increase of the export potential, as well as the support of a sustainable rural socio-economic development.

2.169. With reference to the fiscal policy measures aimed primarily at the agricultural sector, according to Art. 96 of the Fiscal Code No. 1163/1997, the following reduced VAT rates are set:

- 8% – for the production of animal husbandry in natural form, live mass, pyrotechnics and horticulture in natural form, produced, imported and / or delivered on the territory of the Republic of Moldova, such as dill and parsley, fresh or chilled sugar beet, etc.
- 8% – for sugar beet sugar, produced, imported and / or delivered on the territory of the Republic of Moldova;

2.170. At the same time, in order to develop the agricultural sector in terms of fiscal policy, the reduced rate of income tax for peasant households was established – in the amount of 7% (general rate of 12%).

2.171. The Republic of Moldova's applied MFN tariffs on agricultural products (WTO definition), including certain AVEs, averaged 11.7% in 2021, less from 13.5% in 2015; non-*ad valorem* tariffs applied mostly to agricultural imports. Tariff protection remains highest for sugar (75%), followed by animals and animal products (averaging 16.2%). The Republic of Moldova applies seasonal tariffs to 14 lines (e.g. certain types of potatoes, tomatoes, cucumbers, grapes and other fruits). It applies tariff rate quotas on imports of sugar; preferential tariff rate quotas are also in place for certain exports under autonomous trade preferences granted by the EU in 2008. Certain agricultural products are subject to import licensing requirements. No taxes or licensing requirements apply to agricultural exports. The TRQs are applied on a FIFO principle (First come first served).

2.172. The Government fully acknowledges the importance of agricultural sector which is being a vital part of the economy. In this context it has increased subsidies for the farmers, however the rate of the subsidies remains modest given insufficient budget funds. In the period of 2020-2022, 6.4 billion Lei (EUR 328 million) were allocated for the Agriculture and Rural Development sector from the state budget, distributed on the priority programs of the agricultural field, as well as from other external sources.

### **3 TRADE POLICY AND PREFERENTIAL TRADE REGIMES**

#### **3.1 Overview**

3.1. The Republic of Moldova became the 142nd Member of the WTO in July 2001.

3.2. Since its independence in 1991, the Republic of Moldova embarked on an ambitious reform programme aimed at transforming a centrally planned economy to a fully functioning market economy, and restoring macroeconomic stability. It has largely met these objectives creating an outward-oriented economy, well integrated worldwide. Liberalization of trade and investment, driven by extensive commitments taken during its accession to the WTO in 2001 and its goal to accede to the European Union (EU), has been a major feature in this process.

3.3. The Republic of Moldova is strongly committed to the multilateral trading system and it has undertaken extensive commitments upon its WTO accession binding 100% of its tariff lines at low rates and making extensive specific commitments under the GATS, as well as under the rest of WTO Agreements.

3.4. The Republic of Moldova bound all its tariff lines at a final average rate of 6.9%. On agricultural products the Republic of Moldova bound its tariff lines at a final simple average rate of 13.8% (compared with a simple average applied MFN rate of 13.5%). For non-agricultural goods, the final simple average bound tariff rate is 5.9%, while the simple average applied MFN rate is only 4.4%.

3.5. According to the most recent tariff statistics Moldova applied in 2021 the total simple MFN applied average represents 5.3%, while the total trade weighted MFN applied average only 4.2%. In the same time for Agri products the simple MFN applied average represented 11.7% while the trade weighted applied average represented a lower figure of 11.2%. For Non-agricultural products Moldova applied a simple average of 4.3% while the trade weighted average represented only 3.2%.

3.6. Therefore, comparing to most Members, commitments made by Moldova on market access show a very impressive rate of liberalization.

- The formulation and implementation of the Republic of Moldova's trade policy lies within the responsibility of the Ministry of Economy (ME), in cooperation with other ministries and trade-related agencies. The ME is also responsible for: WTO issues, negotiating and implementing Free Trade Agreements (FTAs) and promoting trade and investment. The ME coordinates several institutions including the Agency for Consumer Protection and Market Supervision and the Agency for Technical Supervisory, as well as supervises several institutions including the Investigation Body for contingency trade measures, the National Accreditation Centre of the Republic of Moldova (MOLDAC), the Organization for the Development of Small and Medium Enterprises Sector (ODIMM), the National Institute of Metrology, and the National Institute of Standardization.
- The Ministry of Economy cooperates during the trade policy formulation process, also with other ministries and trade-related agencies, notably the Customs Service under the Ministry of Finance. Additionally, the ME holds consultations with the private sector in the formulation of Moldova's trade policy on *ad hoc* basis, including through briefings and public consultations on FTA negotiations.

#### **3.2 WTO and Joint Statement Initiatives**

3.7. Moldova makes continuous efforts of trade liberalization, global economic integration and development – being a genuine and determined supporter of the multilateral trading system (MTS) set up within WTO.

3.8. The Government of Moldova reaffirms its determination to contribute for further strengthening and improving the existing multilateral trading system, with a view to better enabling Members to respond to the needs of economic, financial, inclusive and sustainable development.

3.9. Moldova deems WTO as the main platform for discussion of trade matters and considers that the determination to join hands in working for the cause of development through trade and other instruments are essential for the organization.

3.10. In this context, during the last 7 years, Moldova has been actively engaged in intensified discussions within WTO on the topics related to the establishment of the Joint Initiatives on E-commerce, Investment Facilitation for Development, Services Domestic Regulation, MSMEs participation in international trade, Trade and Gender, Trade and Environmental Sustainability, as well as Fossil Fuel Subsidies Reform.

3.11. Moldova is a cosponsor of all Joint Initiatives (JSIs) established within WTO and was among the founding members of these joint initiatives back at MC11 (starting from Nairobi and Buenos Aires). Moldova also strongly supports new initiatives within WTO which make the organization more relevant and responsive to the current realities.

3.12. Moldova considers itself as a 'friend of the system', therefore during the review period it also co-sponsored a series of Declarations and statements in support of the WTO and MTS<sup>i</sup>.

3.13. We maintain the view that our common efforts must be oriented towards keeping WTO relevant and efficient including through these, trade-related initiatives - which add a fresh air to negotiations within this house, registering commendable results during last year.

3.14. **Referring to the compliance with notifications obligations** of the Republic of Moldova within WTO, shall be noted that Moldova is a strong supporter of the principle of transparency promoted within WTO.

3.15. In order to comply with its transparency obligations assumed under the Multilateral Trade Agreements within WTO, as well, plurilateral Agreements as GPA (Government Procurement Agreement), the Republic of Moldova presents annually all its compulsory notifications according to the established timeline, as well as *ad hoc* ones.

3.16. During the review period Moldova submitted more than 130 notifications comprising around 153 notifications. The Republic of Moldova has made regular notifications to the WTO, increasing the rate of notifications during the review period. At the end of 2017, Moldova had no outstanding notifications. It has also regularly submitted tariff and imports data to the WTO Integrated Data Base (IDB). Also, Moldova, TRIPS notifications, Customs Notifications, Import licensing, as well as Market Access notification.

3.17. Since its last TPR, the Republic of Moldova took an active part in the Trade Policy review of other Members. Moreover, Moldova is among those few WTO members who provides quarterly TPRB feedback and notifies all its recent modifications of the national legislation, which could have a direct or indirect impact on trade in goods and services within the WTO Trade Monitoring Reports.

3.18. Republic of Moldova notified in a timely manner the WTO members the measures imposed in the context of Covid Pandemic affecting trade in goods, services and impact on economic activity. Notifications have been sent to the relevant Committees, as CMA, TPRB semi-manual reports, and informal group on MSMEs and others.

### 3.3 Preferential Trade Regimes

3.19. One of the priorities of the Government remains to be the diversification of export markets, as well as products. Few regional free trade agreements entered into force and have been implemented by Moldova since the previous Review (DCFTA with EU, FTA with Türkiye, as well as FTA with UK).

3.20. The Republic of Moldova considers Free Trade Agreements (FTAs), as an important supplement to the multilateral trading system established under the WTO, allowing further

integration into the global economy and increased trade cooperation with other countries. Moldova particularly aims to exploit its favourable geographic position in the Central Eastern Europe (being seen as a bridge between the European and Asian economic regions), through the implementation and negotiation of new Free Trade Agreements which remain an important priority to the Government.

3.21. Moldova already has a wide range of FTAs in place with all its major trading partners.

3.22. FTAs are in place with all major export destinations, which cover around 90% of current exports. Similarly, around 82% of imports are sourced from FTA partners, with some exceptions.

3.23. Moldova has 16 free trade agreements (FTAs) in force encompassing 46 partners: Albania, Armenia, the Republic of Azerbaijan, Belarus, Bosnia and Herzegovina, EU-27, Georgia, Kazakhstan, UNMIK/Kosovo, Kyrgyz Republic, FYR of Macedonia, Montenegro, Russian Federation, Serbia, Tajikistan, Türkiye, Turkmenistan, the United Kingdom of Great Britain and Northern Ireland, Ukraine and Uzbekistan. A part of Moldova's RTAs has been notified to the WTO and some have been reviewed by the Committee on Regional Trade Agreements (**Table A1.1**).

### 3.3.1 DCFTA with European Union

3.24. The Deep and Comprehensive Free Trade Areas between the EU and its Member States and the Republic of Moldova (the DCFTA) is the economic and trade pillar of the EU-Moldova Association Agreement (AA). The general purpose of the AA is to deepen political association and economic integration between the EU and Moldova. To achieve this objective, the DCFTA provides far-reaching and progressive regulatory approximation to EU law in trade-related areas and foresees gradual reciprocal market opening. With these distinctive components this type of agreement goes beyond the 'new generation' FTAs and represent "a unique type of trade agreements". DCFTA's implementation contributed to the country's economic growth, as a result of increased trade exchanges and volumes. Moreover, it triggered deep transformations of the economy, way of thinking and operating in terms of quality of goods, diversification of products, competitiveness, and management.

3.25. The European Union is Moldova's biggest and most important trading partner, accounting for 61% of its total export of goods in 2021. This figure varied in the last 6 years between 61% in 2021 and 69% in 2018. Moldova's exports to the EU received a strong boost especially after the provisional entry into force of the EU-Moldova Association Agreement (AA) and the Deep and Comprehensive Free Trade Area (DCFTA), on 01 September 2014, which removed most part of tariff and non-tariff barriers. The number of companies involved in trade with the EU has continued to increase since then, from 1,243 exporting companies in 2015, 1,748 - in 2017, 1,837 Moldovan companies exporting to the EU in 2019 and 1,860 - in 2021. In 2021, Moldovan exports of goods to the EU amounted to slightly more than USD 1.9 billion, an increase of 44% as compared to 2016. Imports from the EU increased, however, in the same period by almost 60%, causing a negative trade balance of USD 1.2 billion.

3.26. Exports to the EU countries increased at a faster pace - 44% in 2021 compared to 2016, or 8% per year, on average. More than ¼ of all Moldovan exports in 2021 were generated by the agriculture sector (26%). Together with the food production (11.7%) and beverages & tobacco (6.9%) sectors, the agri-food products accounted for almost 45% of all Moldovan exports in 2021 (figure 3). Machine building sector was the second largest sector in terms of exports, with 1/5 of all exports (20%).

3.27. Only five out of the 20 sectors decreased or increased only marginally exports in the last five years: production of leather or related products (-1.8%), textiles (0%) and computer, electronic and optical products (1.4%). Most dynamic increase was displayed by the water, sewerage and waste management (523%), other industrial activities (274%), basic metals (147%). The machine building sector increased exports by 97% in the last 5 years, agriculture - by 51%, foodstuffs - by 68%, beverages and tobacco - by 27%, while the pharmaceutical sector - by 75%.

3.28. Most part of Moldova's exports to the EU in 2021 were generated by the machine building sector (25%). Agriculture provided almost 13% of all exports to the EU, followed by the foodstuff

sector (11%), basic metals sector (12.5%), wearing and apparel (8.5%), furniture (7%) and textiles (5%) sectors. Altogether, these 7 sectors made up 83% of all exports to the EU in 2021.

3.29. In contrast to the trade in goods, trade in services with the EU is more balanced, even with a trade surplus in 4 out of the last 5 years. In absolute terms, however, exports of services to the EU are almost 4 times smaller than the exports of goods, amounting to USD 482 million in 2020. Also, in contrast to the exports in goods, most of the exports of services go to other than the EU countries. In 2020, the EU share in total Moldovan export of services accounted only for 38%, reaching its peak of 43% in 2017, in the last 5 years. Export of services to the EU grew only by 20% from 2016 to 2020, however one should keep in mind that 2020 is not a representative year for any trend's analysis, as exports of any kind (goods and services) had been severely affected by the COVID-19 crises.

3.30. Preliminary NBM data on the exports of services in 2021 show an increase of almost USD 360 million (28%) in the overall export of services from 2020 to 2021, much above the average of the last 5 years, up to USD 1.635 billion. Compared to 2016, total export of services grew by 53% in 2021.

### 3.3.2 Ongoing FTA negotiations

3.31. Currently, the Republic of Moldova is undergoing negotiations of a free trade agreement with the EFTA Member States. Negotiations on a free trade agreement between the Republic of Moldova and EFTA countries (European Free Trade Association) have been launched in March 2021. For the second round of FTA negotiations Parties met in July 2021.

## 4 CONCLUSIONS

4.1. Moldova is a small Central–Eastern European country with widely opened developing economy, which undertook high level of commitments both in goods and services, back in 2001 when acceding to the WTO (being an Art. XII group member), comparing to that of developed countries (in some cases even overpassing them). Undoubtedly the accession to WTO and the reforms undertaken continue to further contribute to the development of our country.

4.2. Moldova registered significant progress after its 1<sup>st</sup> TPR. Thus, during the review period, Moldova registered important developments in many sectors, notably shall be highlighted the improvement of business climate through the regulatory reform, the fast development of ICT sector, progress in GPA implementation, trade facilitation, etc.

4.3. WTO is of a vital importance, especially for a small, vulnerable, and liberalized economy, as the one of the Republic of Moldova's. The Government of Moldova continues to be opened to support activities and initiatives that are considered pragmatic, efficient, and that would improve the functionality this organization – making it stronger and more responsive towards the realities of the current century.

4.4. During the review period, the Republic of Moldova was not only a beneficiary of the MTS processes, but actively participated and took action to strengthen the commitment to the liberalization of international trade under the umbrella of WTO agreements, with a view to making more efficient and responsive the organization. In this context, Moldova has supported the initiation and participation in all joint initiatives on: E-commerce, Investment Facilitation for Development, Informal group of Micro, Small and Medium-sized Enterprises (MSMEs), Services Domestic Regulation, Fossil Fuels Subsidies Reform initiative, Trade and Environmental Sustainability for Development, as well as discussions on Women's empowerment within Trade and Gender initiative. Additionally, Moldova supported most statements for the efficient functioning of the MTS under WTO, also considering itself a `friend of the system`. Besides, these Moldova is being a member of Trade and Health Initiative co-sponsor.

4.5. Moldova strongly supports the necessity of restoring of a fully functional two-tiered Dispute Settlement System, considering that the DSS must remain a priority for all members which is imperative for the enforcement of the WTO legal framework, representing its core legal guarantee. Moldova is among the list of members who supported the initiative on unblockage of the Appellate Body crisis.

4.6. As a strong promoter of transparency principle within WTO, Moldova has made regular notifications to the WTO, however by September 2021, it had few outstanding notifications mainly, those related to Agriculture Agreement (DS1 notifications) which were not presented due to capacity constraints. Moldova is in close collaboration with ITTC in order to fulfil its notification obligations including in Agriculture, in an urgent manner.

4.7. Currently, the external macroeconomic situation is determined by a sharp acceleration of the annual rate of inflation since last year which is maintaining a high level the current year. This has generated inflationary pressures pronounced against the background of the energy crisis at the regional level, sharp rise in commodity prices, raw materials and food, but also the significant increase in international freight transport costs and war in Ukraine.

4.8. The pandemic, the energy crisis, and most recently, the refugee crisis starkly exposed the vulnerabilities of this growth model to shocks. Moldova is likely to be one of the countries most affected by the conflict not only because of its physical proximity to the war but also because of its inherent vulnerabilities as a small, landlocked economy with close linkages to both Ukraine and the Russian Federation.

4.9. As economic activity shrinks due to shocks from the war and the ongoing impacts of the COVID-19 pandemic, the Government, which has a strong mandate, parliamentary support, and trust among citizens and international partners, is making efforts to find ways to mitigate the economic impact while maintaining momentum on the long-term agenda. At the current economic juncture, it is paramount that short-term recovery measures are complemented by long-term reforms that will help steer the economy away from the current economic model.

## ANNEXE TABLE

Table A1. 1 The Republic of Moldova's Free Trade Agreements in force

Agreement	Description
<b>Republic of Moldova – European Union</b>	
Title	Deep and Comprehensive Free Trade Area between the EU and Moldova
Parties	Austria; Belgium; Bulgaria; Croatia; Cyprus; Czech Republic; Denmark; Estonia; Finland; France; Germany; Greece; Hungary; Ireland; Italy; Latvia; Lithuania; Luxembourg; Malta; Republic of Moldova; Netherlands; Poland; Portugal; Romania; Slovak Republic; Slovenia; Spain; Sweden
Date of signature/entry into force	June 2014/September 2014
Selected features	Agreement applies to goods and services; national treatment and market access for goods; trade remedies; TBT, standardization, metrology, accreditation and conformity assessment; SPS measures; customs and trade facilitation; establishment, trade in services and electronic commerce; current payments and movement of capital; public procurement; IPR; competition; trade-related energy; transparency; trade and sustainable development; dispute settlement,
WTO document series	WT/REG352
<b>Central European Free Trade Agreement (CEFTA)</b>	
Title	CEFTA 2006
Parties (current)	Albania; Bosnia and Herzegovina; Moldova; Montenegro; Serbia; The former Yugoslav Republic of Macedonia; UNMIK/Kosovo
Date of signature/entry into force	December 2006/May 2007
Selected features	Agreement applies to goods only; customs-related procedures; investment; dispute settlement; intellectual property rights
WTO document series	WT/REG233
<b>CIS<sup>a</sup></b>	
Title	Treaty on a Free Trade Area between members of the CIS
Parties	Armenia; Belarus; Kazakhstan; Kyrgyz Republic; Republic of Moldova; Russian Federation; Tajikistan; Ukraine
Date of signature/entry into force	October 2011/September-December 2012
Selected features	Agreement applies to goods only; accession; balance of payments; competition; customs-related procedures; dispute settlement; exceptions, general or for security; export restrictions; rules of origin; safeguard measures
WTO document series	WT/REG173
<b>Republic of Moldova–Türkiye</b>	
Title	Free Trade Agreement between the Republic of Moldova and Türkiye 2014
Parties (current)	Republic of Moldova – Türkiye
Date of signature/entry into force	2014
Selected features	Agreement applies to goods only and services to be negotiated; customs-related procedures; investment; dispute settlement; intellectual property rights, trade remedies, rules of origin
<b>Republic of Moldova – Armenia</b>	
Title	Free Trade Agreement between Armenia and Moldova
Parties	Armenia and Moldova
Date of signature/entry into force	December 1993/December 1995
Selected features	Agreement applies to goods only; accession; balance of payments; competition; customs-related procedures; dispute settlement; exceptions, general or for security; export restrictions; rules of origin; safeguard measures
WTO consideration status	Factual presentation completed
WTO document series	WT/REG173
<b>Republic of Moldova – Kyrgyz Republic</b>	
Title	Free Trade Agreement between the Kyrgyz Republic and Moldova
Parties	Kyrgyz Republic and Moldova
Date of signature/entry into force	May 1995/November 1996
Selected features	Agreement applies to goods only; accession; balance of payments; competition; countervailing measures; customs-related procedures; dispute settlement; exceptions, general or for security; export restrictions; intellectual property rights; rules of origin; safeguard measures; SPS; TBT

<b>Agreement</b>	<b>Description</b>
WTO consideration status	Factual abstract distributed
<b>Republic of Moldova Russian Federation</b>	
Title	Agreement between the Cabinet of Ministers – the Russian Federation and the Republic of Moldova on Free Trade
Parties	Russian Federation and Moldova
Date of signature/entry into force	February 1993/March 1993
Selected features	Agreement applies to goods only; customs-related procedures
WTO document series	WT/REG320
<b>Republic of Moldova – Ukraine</b>	
Title	Free Trade Agreement between the Cabinet of Ministers of Ukraine and the Government of the Republic of Moldova
Parties	Ukraine and Moldova
Date of signature/entry into force	November 2003/May 2005
Selected features	Agreement applies to goods only; competition; customs-related procedures; dispute settlement; exceptions, general or for security; export restrictions; government procurement; intellectual property rights; rules of origin; safeguard measures; SPS; subsidies; TBT
WTO document series	WT/REG249
<b>Republic of Moldova – Azerbaijan</b>	
Title	Free Trade Agreement between the Government of the Republic of Moldova and the Government of the Republic of Azerbaijan
Parties	Moldova and Azerbaijan
Date of signature/entry into force	May 1995/April 1996
Selected features	Agreement applies to goods and services
<b>Republic of Moldova – Belarus</b>	
Title	Free Trade Agreement between the Government of the Republic of Moldova and the Government of the Republic of Belarus
Parties (current)	Moldova and Belarus
Date of signature/entry into force	June 1993/December 1994
Selected features	Agreement applies to goods only
<b>Republic of Moldova – Kazakhstan</b>	
Title	Free Trade Agreement between the Government of the Republic of Moldova and the Government of the Republic of Kazakhstan
Parties	Moldova and Kazakhstan
Date of signature/entry into force	May 1995/February 1996
Selected features	Agreement applies to goods only
<b>Republic of Moldova – Georgia</b>	
Title	Free Trade Agreement between the Government of the Republic of Moldova and the Government of Georgia
Parties	Moldova and Georgia
Date of signature/entry into force	November 1997/April 2007
Selected features	Agreement applies to goods only
<b>Republic of Moldova – Turkmenistan</b>	
Title	Free Trade Agreement between the Government of the Republic of Moldova and the Government of Turkmenistan
Parties	Moldova and Turkmenistan
Date of signature/entry into force	December 1993/March 1996
Selected features	Agreement applies to goods only
<b>Moldova – Uzbekistan</b>	
Title	Free Trade Agreement between the Government of the Republic of Moldova and the Government of the Republic of Uzbekistan
Parties	Moldova and Uzbekistan
Date of signature/entry into force	March 1995/August 1995
Selected features	Agreement applies to goods only
WTO document series	WT/REG383/1/Rev.1
<b>GUUAM</b>	
Title	Agreement on the creation of a free trade area between GUUAM
Parties	Georgia, Ukraine, Republic of Azerbaijan and Republic of Moldova
Date of signature/entry into force	July 2002/April 2005

Agreement	Description
<b>Republic of Moldova – United Kingdom</b>	
Title	Strategic Partnership, Trade and Cooperation Agreement between the United Kingdom of Great Britain and Northern Ireland and the Republic of Moldova
Parties	Moldova and United Kingdom
Date of signature/entry into force	December 2020/January 2021
Selected features	Agreement applies to goods and services; national treatment and market access for goods; trade remedies; TBT, standardization, metrology, accreditation and conformity assessment; SPS measures; customs and trade facilitation; establishment, trade in services and electronic commerce; current payments and movement of capital; public procurement; IPR; competition; trade-related energy; transparency; trade and sustainable development; dispute settlement

Source: Ministry of Economy.

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- <sup>i</sup> 1. "GC – Statement on Immediate Action to Support the Multilateral Trading System in Preparation for a Successful MC12" (WT/GC/W/841), latest document dated 28/04/2022;
2. "GC – Joint Statement on Aggression by the Russian Federation against Ukraine with the support of Belarus" (WT/GC/244), latest document dated 15/03/2022;
3. "DSB – Appellate body appointments" (WT/DSB/W/609/Rev.18), latest document dated 18/02/2022;
4. "Draft General Council Declaration on COVID-19 and Beyond: Trade and Health" – TRADE POLICY RESPONSE TO THE COVID-19 PANDEMIC AND TO ENHANCE RESILIENCE AGAINST FUTURE PANDEMICS (WT/GC/W/823), 15/07/2021, latest document dated 18/02/2022;
5. "Final draft Ministerial Declaration on Micro, Small and Medium -Sized Enterprises (MSMEs)" (WT/MIN(21)/1), latest document dated 18/02/2022;
6. "Trade and Environmental Sustainability Structured Discussions (TESSD) – Ministerial statement on trade and environmental sustainability" (WT/MIN(21)/6/Rev.2), latest document dated 14/12/2021;
7. "FFSR – MINISTERIAL STATEMENT ON FOSSIL FUEL SUBSIDIES" (WT/MIN(21)/9), Document date 03/12/2021;
8. "Declaration on the conclusion of negotiations on Services Domestic Regulation" (WT/L/1129), Document dated 02/12/2021;
9. "General Council – Work programme on electronic commerce" (WT/GC/W/831/Rev.5), WT/MIN(21)/W/7 document dated 26/11/2021;
10. "Ministerial Conference – Joint Ministerial Declaration on the advancement of gender equality and women's economic empowerment within trade – 12th WTO Ministerial Conference" (WT/MIN(21)/4), dated 10/11/2021;
11. "General Council – Joint communication on systemic issues" (WT/GC/W/827), dated 27/07/2021;
12. "General Council – Procedural Guidelines for WTO Councils and Committees addressing trade concerns – Draft General Council Decision" (WT/GC/W/777/Rev.6), latest document dated 15/07/2021;
13. "General Council – COVID-19 and beyond: trade and health" (JOB/GC/251/Rev.1), dated 22/04/2021;
14. "Committee on Budget, Finance and Administration – Procedural improvements for the Committee on Budget, - Finance and Administration" (WT/BFA/W/538/Rev.2), document dated 01/04/2021;
15. "Joint statement on agriculture export prohibitions or restrictions relating to the World Food Programme" (WT/L/1109), Document date 21/01/2021;
16. "General Council – Committee on Agriculture – Special Session – Proposal on agriculture export prohibitions or restrictions relating to the world food programme – Draft General Council decision" (TN/AG/46/Rev.3, WT/GC/W/810/Rev.3), Document date 18/12/2020;
17. "Committee on Trade and Environment – Communication on trade and environmental sustainability" (JOB/TE/67), Document date 12/11/2020;
18. "General Council – Statement on COVID-19 and the multilateral trading system by Ministers responsible for the WTO" WT/GC/212), Document date 29/05/2020;
19. "General Council – Statement on highlighting the importance of MSMEs in the time of COVID-19" (WT/GC/215), Document date 14/05/2020;
20. "General Council – Statement in support of the rules-based multilateral trading system" (WT/GC/203), Document date 10/12/2019;
21. "General Council – Unofficial room document – Comparative table of working methods in selected WTO bodies – Communication from the co-sponsors of the communication "procedural guidelines for WTO councils and committees addressing trade concerns" (RD/GC/12), dated 06/12/2019.