1. The Republic of Moldova became the 142nd Member of the WTO in July 2001. This is its first Trade Policy Review. 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 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. Nonetheless, political tensions, internally and in some of its main trading partners pose big risks.

2. The Republic of Moldova is a small, landlocked economy although in 2009 it gained indirect maritime access by opening the port of Giurgiulesti on the Danube. It has few natural resources and is almost entirely dependent upon imports from the Russian Federation for its primary energy requirements. Services constitute the most important sector in terms of share of GDP (almost 60%). Agriculture plays a significant role as it contributes for about 13% to GDP and provides almost half of total merchandise exports. Despite a sharp decline in poverty in recent years, the Republic of Moldova is one of the poorest countries in Europe, with a GDP per capita estimated at US$2,233 in 2014.

3. Real GDP growth rate averaged 5.4% during 2010-14, which was among the strongest in the region and largely the result of sound macroeconomic policies and structural reforms. As a result, the unemployment rate was reduced to 5.1% in 2013 after peaking at 7.4% in 2010. However, growth has been volatile reflecting vulnerability to climatic and geopolitical conditions; a contraction in economic activity of 1-2% is expected in 2015. Some of the main risks to the Republic of Moldova's outlook relate to fluctuations in remittances from workers abroad (22% of GDP), and donor support (about 10% of government spending). Furthermore, possible disruption of trade routes and gas supply can severely impact the economy since all land routes to CIS countries pass through Ukraine, and the Republic of Moldova is almost totally reliant on Russian gas transported via pipelines in Ukraine.

4. The Republic of Moldova's exchange rate regime is classified as "floating". The National Bank of Moldova (NBM) intervenes in the domestic foreign exchange interbank market in order to smooth out sharp exchange rate fluctuations of the the Moldovan Leu (MDL) against the US dollar. This exchange rate system has provided a credible anchor for price stability and the annual average inflation rate was 4.9% over 2009-14. However, headline inflation has been artificially contained due to unchanged utility tariffs during the last few years. In addition, several product/services are subject to regulated prices.

5. In the first half of 2015 the MDL depreciated significantly against major currencies partly as a result of transactions that led to the placing of three Moldovan banks under special administration. This depreciation is likely to contribute to inflationary pressures and have a positive effect on the trade balance.

6. The Republic of Moldova reduced its overall budget deficit, excluding grants, from 8.5% of GDP in 2009 to 5.4% in 2014 due to the steps taken to strengthen the fiscal policy framework as well as buoyant revenues on the back of strong GDP growth during most of the period 2009-14. Nonetheless, the overall budget deficit (excluding grants) is expected to increase to 6.6% of GDP in 2015 reflecting, inter alia, significant wage and pension increases, new ad hoc tax benefits, and weaker economic activity. To reduce the budget deficit to a level that can be sustained without exceptionally high donor support, further measures seem necessary such as reforming the social security and health systems, and enhancing privatization.

7. Despite being affected by the global economic crisis and other external shocks, the Republic of Moldova reduced its current account deficit, as percentage of GDP, from 8.2% in 2009 to 5.7% in 2014, after peaking at 11% in 2011. Exchange rate flexibility and ongoing trade liberalization efforts which have had a positive impact on exports are some of the contributing factors for the improvement of its external sector. The economy of the Republic of Moldova is highly dependent on international trade (the ratio of exports and imports to GDP reaching 135% in 2013). Its trade is also very concentrated geographically. In 2014, exports to the EU and CIS represented 86% of total merchandise exports, while 81% of imports originated in such countries.
8. Trade policy formulation and evaluation are under the overall 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 Regional Trade Agreements (RTAs), and promoting trade and investment. The ME holds consultations with the private sector in the formulation of trade policy on ad hoc basis, including organizing briefings on RTA negotiations.

9. The Republic of Moldova's efforts to integrate into the world economy are reflected in the dismantling of the restrictive trade regime inherited from the Soviet Union, and in its accession, participation in, or adherence to various multilateral, regional, and bilateral trade initiatives. The Republic of Moldova grants at least MFN treatment to all its trading partners.

10. The Republic of Moldova is strongly committed to the multilateral trading system. It has reduced the number of outstanding notifications to the WTO over the recent years, and undertook extensive commitments upon its WTO accession (binding 100% of its tariff lines and making extensive specific commitments under the GATS). The Republic of Moldova is neither a party to the Information Technology Agreement (ITA) nor to the plurilateral agreement on trade in civil aircraft. To date, it has been involved in two cases under the WTO dispute settlement mechanism.

11. The orientation of the Republic of Moldova's economic and trade policies is, however, like that of other central and eastern European countries, largely driven by the goal of accession to the EU. In this regard, the Republic of Moldova aims to have EU candidate status by 2017 and full EU membership by 2020. In June 2014, the Republic of Moldova and the EU signed their Association Agreement which has three main components: visa liberalisation (which went ahead in April 2014), increased political cooperation, and the Deep and Comprehensive Free Trade Area (DCFTA).

12. Since 1 March 2008, the Republic of Moldova has been benefitting from the EU's Autonomous Trade Preferences (ATP) scheme which currently coexists with the DCFTA. The ATP will apply until 31 December 2015 to make it easier for business to adapt during the transition period between the ATP and the DCFTA. The Republic of Moldova has also received Generalised System of Preferences (GSP) treatment from Canada, Japan, Norway, Switzerland, Turkey, and the United States.

13. The Republic of Moldova has 14 RTAs in force encompassing 45 partners: Albania, Armenia, Azerbaijan, Republic of; Belarus; Bosnia and Herzegovina; the EU-28; Georgia; Kazakhstan; UNMIK/Kosovo; Kyrgyz Republic; FYR of Macedonia; Montenegro; the Russian Federation; Serbia; Tajikistan; Turkmenistan; Ukraine; and Uzbekistan. In 2014, merchandise trade with RTAs partners accounted for 76% of Moldovan total imports and 86% of total exports. In September 2014, the Republic of Moldova also signed a free trade agreement with Turkey, which is not yet in force.

14. The foreign investment regime of the Republic of Moldova is fairly liberal, with most business activities open to domestic and foreign natural and legal persons alike. In addition, the Constitution provides several guarantees for foreign investors. Some 48 activities, however, may be carried out only based on a licence. These activities include: manufacture of alcoholic beverages except for wine, mining operations, banking and foreign exchange, insurance, and tourism. Foreign investors may lease agricultural land for up to 99 years. Despite measures taken recently to attract larger FDI inflows and improve its business climate, FDI in the Republic of Moldova has been inhibited by factors such as governance, policy instability and limited access to finance.

15. The Republic of Moldova has made its notification of Category A commitments under the Agreement on Trade Facilitation. In 2014, Moldovan Customs introduced the Authorized Economic Operator (AEO) programme to simplify customs procedures and facilitate legitimate trade. So far, the Republic of Moldova does not have mutual recognition arrangements on AEO programmes, but a pilot project on EU AEOs recognition was recently launched. Some fees for customs processing apply, while customs value is primarily assessed based on the transaction value.

16. Goods imported into the Republic of Moldova may be subject to customs tariffs, VAT, and excise duties. The tariff is relatively simple, although non-ad valorem lines (specific, compound, and other) represent 4.5% of the total. The simple average MFN tariff went from 4.9% in 2001
(when the Republic of Moldova joined the WTO), to 5.3% in 2009, and 6.3% in 2015. Excise duties are mostly non-ad valorem, while those on cigarettes, fuel and alcohol will be progressively raised to reach the EU minimum threshold by 2025. VAT is levied at three rates: 20% (the standard rate), 8% (e.g. on certain agricultural products), 0% for, inter alia, export of goods and services.

17. The Republic of Moldova bound all its tariff lines at a final simple average rate of 7.7%. On agricultural products (WTO definition), the Republic of Moldova bound its tariff lines at a final simple average rate of 14.4% (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 4.4%. For some 27 lines, MFN applied tariff rates exceed bound rates when using AVEs based on 2013 import data.

18. With the exception of the free trade agreement with the EU for which there is an average preferential rate of 0.8% on all products (2.7% for agriculture and 0.3% for non-agricultural goods), the rest of the Republic of Moldova's RTAs in force appear to be duty free.

19. The Republic of Moldova's use of non-tariff barriers seems limited. It has licensing requirements to regulate several goods, such as alcoholic beverages, tobacco products, and fertilizers. The Republic of Moldova has neither imposed nor initiated any anti-dumping or countervailing measure, while one definitive safeguard measure applied on sugar imports during 2004-12.

20. During the last few years, the Republic of Moldova has been aligning its legislative framework with the EU acquis communautaire; harmonization is already ongoing in certain areas, notably TBT, SPS, competition, state-aid, government procurement, IPRs, energy, telecommunications, and civil aviation.

21. The Republic of Moldova is an observer to the WTO Government Procurement Agreement (GPA) and aims to join in 2015. To do so, the Republic of Moldova has been aligning its legislation with international best practices and a modern e-procurement system is in place since 2013. These reforms have resulted in an increase of open tendering procedures, particularly of e-procurement.

22. While the Republic of Moldova has established a functioning market economy, the State continues to provide aid on economic or social grounds. In addition to direct costs to the budget, there are indirect costs as a result of forgone revenues, associated with, for example, tax exemptions, state aid, regulated prices, and incentives.

23. During the last few years, the trade regime of the Republic of Moldova has also focused largely on export promotion, particularly through free economic zones and industrial parks. The government provides various incentives comprising, inter alia, duty and tax concessions, and state aid. In 2014, almost 80% of the goods and services produced in the FEZs were exported, i.e. 9% of Moldovan exports. Enterprises registered in the Republic of Moldova (local and foreign), different from those established in FEZs and/or industrial parks, also benefit from certain incentives such as reduction of the taxable income and other tax deductions.

24. A major privatization programme of state-owned enterprises (SOEs) has been implemented since 1993 as part of the transition into a market-oriented economy. New provisions concerning privatization were approved in 2007 by the Law on Public Property Management and its Privatization, and by the legal framework for Public-Private Partnerships (PPPs) implemented since 2008. Nonetheless, by the end of 2014, there were still 363 SOEs (down from 551 at the end of 2001), with the State keeping a majority holding in 71 of them.

25. Agriculture has traditionally been an important pillar of the Moldovan economy, on account of fertile land. The Republic of Moldova is a net exporter of agriculture and food products, which accounted for 46.2% of total export earnings in 2014. Nevertheless, the agriculture sector continues to face a number of challenges, including: land fragmentation; infrastructure deficiencies; limited coverage and poor condition of irrigation systems; a weak SPS framework; and a declining and ageing rural labour force.

26. Non-product specific domestic support in agriculture was below the de minimis threshold in 2009-10 and zero in 2011-13. Budgetary outlays on "Green Box" measures were in the range of
SDR21.3 million to SDR37.8 million; there were no export subsidies. Since 2010, disbursements to agricultural producers have been managed by a single public body, the Agency for Interventions and Payment in Agriculture.

27. In 2009, the Republic of Moldova created a State Cereals Reserve to guard against possible market shortages and to ensure the nation's food security. According to the authorities, stock replenishment is done at market prices and on competitive terms; the size of the reserve stocks (some 60,000 tonnes) is deemed too small to influence prices on the Moldovan market.

28. Although manufacturing output expanded between 2009 and 2014, the Republic of Moldova remained a net importer of manufactures on account of sustained dynamism in imports of machinery and transport equipment, and chemicals. The food and beverage industries dominate manufacturing activity, representing over 43% of the sector's output and 45.1% of all exports of industrial products in 2014. The manufacturing sector's challenges include: limited access to financing, nearly depreciated fixed assets, high energy costs, and low levels of innovation and adoption of new technologies. Domestic support to manufacturing mainly takes the form of incentives granted within industrial parks and free economic zones.

29. The Republic of Moldova imports most of its energy resources, with fossil fuels dominating the primary energy supply matrix. Notwithstanding some steps towards supply diversification, it remains strongly dependent on natural gas imports from the Russian Federation; other supply-side risks are linked to internal and regional socio-political tensions. Although improving, the Republic of Moldova's energy efficiency performance is still considered as among the worst in Europe.

30. The Republic of Moldova became a contracting party to the Energy Community Treaty in May 2010, committing to gradually bring its energy sector in line with EU rules and practices. The transposition of EU rules on unbundling for the natural gas market has been postponed until 1 January 2020. A number of legislative hurdles and technical constraints remain in the natural gas and electricity segments.

31. The Moldovan financial system is still underdeveloped, with a particularly shallow non-bank segment, which hampers the domestic economy's growth. Approximately half of total deposits and 40% of all loans remain foreign-currency denominated. A number of weaknesses in the legal and regulatory framework are yet to be addressed. In the context of its Association Agreement with the EU, the Republic of Moldova has committed to a ten-year time-frame for the gradual approximation of its legislation on financial services to the EU regulatory framework.

32. Banks continue to dominate the financial system, accounting for 93.7% of total assets, 93.5% of all loans and 99.3% of all deposits in 2014. In order to protect the integrity of the banking system, the National Bank of Moldova has granted lines of credit, on favourable terms, to some banks; its most recent intervention was in the fourth quarter of 2014 when it also placed three banks under special administration and suspended their credit activities.

33. Companies incorporated and authorized to carry out investment activities related to securities in a EU jurisdiction may benefit from fast-track access to the Moldovan market via the status of "accepted persons", dispensing them from the requirement to obtain a licence. Access to the insurance market is restricted to Moldovan-incorporated and duly licensed joint-stock companies.

34. The Republic of Moldova's electronic communications market expanded steadily between 2009 and 2014; growth was most dynamic in broadband data transmission. Most electronic communications segments remained fairly concentrated during the review period, reflecting lags in the enforcement of legal provisions and the scope for introducing additional pro-competitive measures. The electronic communications regulator's enforcement powers could also be strengthened.

35. The opening up of the electronic communications market has been complemented with gradual (voluntary) alignment of the Moldovan legal and regulatory framework to the one applied in the EU. The Republic of Moldova has yet to implement some of its specific commitments on postal services.
36. Due to inadequate funding, the Moldovan transport infrastructure has been in a general decline since the late 1980s, but efforts to reverse this trend have intensified in recent years. Further reforms and significant investments are still required to address the relatively high transportation costs and low journey speeds, and to improve safety conditions.

37. Road and railroad remain the main modes of transport in the Republic of Moldova. Nevertheless, air traffic has been increasing, fostered by the gradual integration, since 2012, into the European Common Aviation Area. In addition, the opening of a port with indirect maritime access on the Danube in 2009, has triggered a steady growth in cargo handling volumes. Two strategic infrastructure facilities, namely the Giurgiulesti International Free Port (GIFP) and the Marculesti International Free Airport (MIFA), have been granted special incentives, broadly similar to those applied to FEZs.