SUMMARY

1. The Republic of Moldova is a small, open, landlocked, upper-middle-income country. The services sector dominates the economy, accounting for 64% of GDP, while agriculture continues to play an important role as well (accounting for 12% of GDP and around 21% of employment), particularly in rural areas. Remittances represented nearly 15% of GDP in 2021, and the population has continued to decline as relatively young workers emigrate. The Republic of Moldova is dependent on imports of fossil fuels (including gas, which is also used to generate electricity), while state-owned enterprises continue to play an important role in the economy, particularly in terms of employment.

2. During the review period, the Republic of Moldova generally saw strong growth until the COVID-19 pandemic dealt a severe blow to the economy, as it particularly affected key client-facing services sectors. A severe drought in 2020 also affected the agricultural sector, reducing output by more than a quarter. Growth rebounded strongly in 2021 to 13.9%, led by the agriculture sector and increases in spending, and GDP exceeded pre-pandemic levels. The war in Ukraine has clouded the outlook for 2022 as a result of increases in international prices, production chain disruptions, and large inflows of Ukrainian refugees that increased the fiscal burden on the Government.

3. To alleviate the adverse economic and social impacts of the pandemic, the Government undertook several mitigation measures including certain tax relief, support to enterprises and workers, and measures related to access to finance. Fiscal spending expanded in 2020, leading to a deficit of 5.3% of GDP, much higher than the moderate and stable deficits in previous years. Estimates by the Government and the IMF regarding the final budget outcome for 2021 differ.

4. The Republic of Moldova maintains a managed floating exchange rate regime consistent with an inflation target of 5% as the nominal anchor for monetary policy. Inflation overall moderated during the review period but started to increase in 2019 when the National Bank of Moldova (NBM) also started to tighten monetary policy and to reduce the difference between the higher reserve ratio for deposits in Moldovan leu (MDL) and a lower ratio for those in freely convertible currency. In response to the COVID-19 pandemic, the NBM reduced the policy rate from 5.5% in early March 2020 to 2.65% by November 2020, and lowered the reserve ratio for MDL-denominated deposits while raising the ratio for freely convertible currency. As inflation started to increase in 2021 and accelerated later that year, the authorities raised the key rate gradually to 15.5% by May 2022.

5. Throughout the review period, the Republic of Moldova had a negative current account balance. While it imported more goods than it exported, the services balance, primary income, and secondary income accounts were in surplus. The negative current account balance was financed primarily by "other investment" inflows, which have dominated the financial account since 2016. Merchandise and services exports and imports grew over the review period; however, they slumped in 2020, and recovered strongly in 2021.

6. Merchandise exports are dominated by manufactured goods (food and beverages, apparel, and transport equipment) and agricultural products, while main import items include capital goods (equipment) and other inputs (energy and chemicals). Transportation, travel, telecommunication, computer, and information services account for nearly 70% of services exports, while transportation and travel services also account for two thirds of services imports. The EU member States (EU-27) are by far the most important trading partners of the Republic of Moldova, and also the most important foreign direct investors.

7. In 2018, Parliament approved a new development strategy, Moldova 2030 (replacing an earlier one), which focuses on sustainable and inclusive development, strengthening human and social capital, institutional reform, and ensuring certain fundamental rights for citizens. Trade and trade-related policies in the Republic of Moldova aim to exploit its geographic position and ultimately achieve closer economic integration with its neighbours to the west (the European Union), while maintaining preferential trade relations with its eastern partners (mainly via the Commonwealth of Independent States FTA). Industrial platforms, Free Economic Zones (FEZs), and the Strategy for Investment Attraction and Export Promotion for 2016-2020 aim to attract investment and increase and structurally diversify exports.

8. The Republic of Moldova-European Union Association Agreement, signed in June 2014 and fully in force since July 2016, also established the Deep and Comprehensive Free Trade Area (DCFTA). The Agreement covers, *inter alia*, goods and services (covering all four modes of supply), general transparency disciplines, a special dispute settlement mechanism, rules on competition, trade defence instruments, and government procurement. It foresees a gradual approximation of legislation, rules, and procedures of the Republic of Moldova with those of the European Union in a wide range of areas relating to, *inter alia*, SPS, TBT, trade in services, customs, procurement, taxation, auditing, statistics, and the energy sector. It also foresees extensive cooperation in a number of areas including among regulatory and supervisory authorities to promote regulatory quality and performance. The Agreement has provided guidance for policy action in areas covered in this Review, as the Republic of Moldova has continued to align its regulatory framework with the EU *acquis*. In March 2022, the Republic of Moldova applied for EU membership. In addition, RTAs with Türkiye and the United Kingdom (signed in 2020) entered into force during the review period, bringing the number of RTAs in force to 15, covering 46 partners.

9. The Republic of Moldova is strongly committed to the multilateral trading system and is an active participant in discussions and reform initiatives at the WTO, including the four Joint Statement Initiatives (JSI) and some informal working groups. It is a party to the Information Technology Agreement, and the Agreement on Government Procurement (GPA 2012) since 14 July 2016. It ratified the Agreement on Trade Facilitation (TFA) on 24 June 2016 and accepted the Protocol Amending the TRIPS Agreement in 2015. It also endorsed the Buenos Aires Declaration on Trade and Women's Economic Empowerment. The Republic of Moldova submitted its pre-finalization schedule of specific commitments as part of the JSI on Services Domestic Regulation. Compared to the period prior to this Review, it significantly increased its notification efforts including regarding TBT and SPS measures, although at least five notifications remained outstanding at the end of February 2022, in particular those relating to the Agreement on Agriculture. During the period under review, the Republic of Moldova was only involved in dispute settlement cases as third party.

10. Reforms of the regulatory framework improved the environment for domestic and foreign investors. The reforms included revisions to the Civil Code, the Fiscal Code, and the approach to regulating economic activity. The authorities reduced the number of activities subject to licensing, and permissive documents (e.g. authorizations or permits) are generally issued electronically through a system operating as a one-stop shop. They also reduced the number of inspection bodies and inspections with a view to lowering regulatory costs for businesses while increasing the efficiency of controls. Some progress was made regarding a comprehensive public administration reform agenda aimed at modernizing public services, improving policy making, and improving public financial management, although some shortcomings remain. In 2019, the concept of a branch of foreign companies was introduced while that of a representative office was eliminated. A Citizenship-by-Investment programme was in place between 2018 and September 2020. New mechanisms for the conclusion of investment agreements between the Government and investors, and the prior approval of investments in sectors of importance for state security were established.

11. While the Government has put in place a National Integrity and Anticorruption Strategy, challenges, such as those relating to corruption or the rule of law, continue to affect the attractiveness of the investment and business environment and negatively affect the productivity of firms and ultimately their competitiveness.

12. E-commerce in the Republic of Moldova has grown, particularly during the pandemic, but it remains limited compared to that in other economies in the region. Since 2020, the Government has implemented a roadmap for boosting digitization of the national economy and development of e-commerce. Key enabling conditions for e-commerce, such as regulations regarding electronic signatures, personal data protection, rules for consumer protection, or those affecting the import/export of small parcels, are in place. Since October 2019, exporting SMEs have been able to use the periodic declaration facility, submitting one single electronic customs declaration for all transactions below a certain threshold carried out within one month.

13. Customs procedures and other requirements remained largely unchanged during the review period, but a new Customs Code was passed by Parliament and is expected to enter into force on 1 January 2023. During the review period, the Republic of Moldova continued its trade facilitation efforts. It launched a trade information portal, provided simplified procedures such as a periodic declaration facility for MSME exporters, and improved the Approved Economic Operator regime.

Seven measures, including the single window and expedited clearance, remain in Category C under the TFA, requiring technical assistance for implementation.

14. All tariff lines are bound, with the difference between bound and MFN applied rates generally small. The simple average bound tariff rate is 7.7%, compared to the simple average MFN applied rate at 6.2% (unchanged from the time of the previous Review). The 2021 MFN schedule contains 18 tariff bands, including a newly introduced band of 1%. The majority of the MFN tariffs are at *ad valorem* rates (the highest rate being 75% levied on imports of sugar), and about 36% of total lines are zero-rated. Applied rates exceed the corresponding bound rates for 24 tariff lines. Specific rates (mostly applied to alcoholic drinks and tobacco products) and compound or mixed rates (mostly for meat and dairy products) apply to 414 tariff lines. Tariff rate quotas (TRQs) are maintained for certain agricultural goods and allocated on a "first come, first served" basis upon registration of the import declaration, with no advance application for quotas possible. To benefit from preferential tariffs, preferential rules of origin are applied, with bilateral cumulation applying in most cases, and diagonal cumulation allowed for goods from participants of the pan-Mediterranean regional convention. No trade contingency measures were initiated, imposed, or terminated during the review period.

15. Imports of used motor vehicles are no longer prohibited since 1 January 2021, while exports of personal protection equipment were temporarily banned between late-May and mid-October 2020. In the context of the state of emergency declared following the start of the war in Ukraine, exports of maize, sugar, wheat, and certain medical consumables and equipment are prohibited. Licences for importing or exporting restricted goods are, in practice, authorizations for engaging in such activities, and are hence valid for one to five years depending on the activity.

16. A new regime for residents in Information Technology (IT) parks was established in 2017, complementing other investment platforms such as FEZs and Industrial Parks. The number of residents in the IT park set up in 2017 has grown to more than 1,000, with firms generating at least 70% of their sales revenue from predominantly IT-related activities. The use of FEZs by domestic and foreign investors continued to increase as investment and employment more than doubled, and total production and exports more than tripled during the review period. In 2018, a reform of the Fiscal Code introduced a single rate of 12% for corporate and individual income taxes (except farming households and SMEs).

17. During the review period, the Moldovan regimes for TBT and SPS measures were modernized and aligned to the ones applied in the European Union. The authorities note that more than 85% of the roughly 35,000 applicable Moldovan standards were adopted from European and international standards. The Republic of Moldova adopts the "new approach" to administering technical regulations. For products subject to technical regulations, conformity certificates issued by accredited foreign certification bodies are accepted, as are testing reports issued by accredited foreign laboratories. A new Law on Food Safety entered into force in December 2019. Imports of animal products must be sourced from establishments that are approved by the National Food Safety Agency. Imports of food products whose remaining shelf life is less than half of their original shelf life have been prohibited since 29 February 2020, on the ground of food safety.

18. The competition policy framework remains broadly unchanged. To address existing regulatory barriers to competition and anti-competitive barriers in some economic sectors, having a negative impact on economic activity, the authorities developed a national programme to open economic sectors to competition and effectively monitor state aid. They also undertook efforts to address weaknesses in enforcement regarding anti-competitive practices, and around 30 investigations were initiated per year during the review period. To transpose the 2019 EU Directive on strengthening of competition enforcement, the authorities developed a draft law. A number of products and services remain subject to regulated prices.

19. State-owned enterprises (SOEs) continue to play an important role in the economy, although their number fell during the review period as the authorities continued to privatize state assets, including Air Moldova. SOEs are generally concentrated in a number of backbone services considered important to the overall competitiveness of the economy; they remain active in many sectors and employ nearly 25% of the labour force. The authorities undertook efforts to address challenges with SOE governance, transparency, and information disclosure. A new Law on Works Concessions and Service Concessions was adopted in 2018.

20. The share of total government procurement spending covered by the commitments made under GPA 2012 ranged between 17.1% and 37.2% between 2017 and 2020, after the Republic of Moldova became a party to the Agreement. Reforms were undertaken to align the relevant framework to that of the EU *acquis*, streamline the (electronic) government procurement system, centralize procurement processes, increase transparency, and ensure better value for money. The Law on Public Procurement (amended repeatedly during the review period) covers government procurement by contracting authorities above national thresholds, while a separate law has regulated procurement in the areas of energy, water (and sewerage), transport, and postal services since 2021. Tenders at or above separate thresholds require publication in the Official Journal of the European Union. Procurements above the threshold are all completed using an improved electronic government procurement system. Since November 2020, beneficial owner information has to be included as part of the documentation submitted with tenders and is published for all entities signing contracts. There are no preferences for local suppliers.

21. The Republic of Moldova's main intellectual property (IP)-related objective is to ensure a level of protection similar to that in the European Union, including effective means of enforcement. To harmonize the legal framework with the EU *acquis*, it has been amended although its key features remain unchanged. In November 2018, the Trade Secret Protection Regime was amended. Since 2020, two new electronic systems have allowed the exchange of IP-related data among relevant Moldovan agencies. Since 2017, cooperation with European Union Intellectual Property Office (EUIPO) has increased, widening the range of tools offered to IP users, including the integration of the Moldovan trademark and design data into the EU databases, and later aligning trademark and design examination practices with those of the European Union. Indicators of enforcement generally increased during the review period.

22. Agricultural production, dominated by cereals and sunflower, increased during the review period, although it declined as a share of GDP. In 2020, a major drought led to significant declines in agricultural production, especially for wheat and maize crops, which fell to roughly half of the average production over the past years. Production more than recovered in 2021. The Republic of Moldova remains a net exporter of agricultural goods; its total exports and imports increased during the review period. Average applied tariffs for agricultural goods at 13.9% remain higher than the average for non-agricultural products (4.3%); they have increased slightly since 2015 largely due to the introduction of mixed tariffs. The Republic of Moldova applies TRQs on sugar-related tariff lines as well as some preferential TRQs for agricultural goods. There are no restrictions on foreign investment in the agricultural sector, although foreigners cannot purchase agricultural or forest land (they can lease it for 99 years). Reforms of the Law on Internal Trade introduced a requirement for (non-itinerant) traders selling certain food items included in a list, to allocate at least 50% of the shelf length to products manufactured and/or processed on the territory of the Republic of Moldova.

23. A new law in 2016 established a framework for agricultural subsidies, reflecting the priorities to modernize the agro-industrial sector and rural development outlined in the Strategy for Agricultural and Rural Development. Support measures are implemented via the National Fund for Agriculture and Rural Development (FNDAMR), including investment subsidies (mostly at a basic rate of 50% of total investment), disaster compensation (in 2020), and direct payments (for livestock, since 2021). Investment subsidies accounted for the largest share of support measures, primarily for investments aimed at increasing competitiveness through restructuring and modernization. The insurance subsidy scheme was revised in 2020. Important changes to agricultural support following the introduction of the FNDAMR are not yet covered in the latest available notification on agriculture domestic support (for 2016). The authorities indicate that they have requested technical assistance from the WTO Secretariat regarding the preparation and submission of pending agriculture domestic support notifications.

24. The Republic of Moldova continues to be highly dependent on energy imports, particularly of natural gas, which is its main source of energy supply, as well as oil and petroleum. Electricity is mainly generated from gas. Some renewable energy and energy from waste is generated domestically. To approximate its legislation to the EU *acquis*, the Republic of Moldova introduced five new laws during the review period and undertook additional reforms, notably in the electricity and gas sectors where the regulator approved market rules. The authorities undertook steps to separate energy supply and generation from the operation of transmission networks. In late 2021, the supply of electricity under non-regulated prices reached around 10% of consumption but fell back to zero in the beginning of 2022 due to economic developments with the supplier. In March 2022, the electricity grids of Ukraine and Republic of Moldova were successfully synchronized

with the European Network of Transmission System Operators for Electricity (ENTSO-E), in what had initially been planned only as a test. The grids are now synchronized with the Continental European Power System, instead of the electricity system to the east.

25. The Republic of Moldova is connected to the Ukrainian gas system that carries all gas imports from the Russian Federation, accounting for nearly all national gas imports. In late 2021, the Republic of Moldova's gas sector faced supply shortages as a gas delivery contract between Moldovagaz and the Russian Federation's Gazprom was set to expire. Negotiations concerning a new gas supply contract with Gazprom were lengthy and were concluded only days before the earlier contract expired, allowing for continued gas supply via the traditional route.

26. Banking continues to dominate the financial sector, although the importance of insurance and non-bank financial services increased during the review period. As part of its regulatory responses to the 2014-15 bank fraud, the NBM continued to reform the regulatory framework in areas such as improving monitoring, strengthening corporate governance, addressing large exposures, using a risk-based supervisory approach, and improving information transparency of banks. The Republic of Moldova also undertook additional reforms to strengthen its Anti-Money Laundering (AML) and counter-terrorism financing (CTF) frameworks. From 2018, the NBM advanced the gradual transposition of Basel III into the national regulatory framework. At the beginning of 2020, the deposit guarantee scheme was expanded to also cover the deposits of legal entities and the ceiling for all deposits was increased. Significant changes to the ownership (structure) of banks took place and the share of foreign investments in the capital of banks stood at 86.6% at the end of 2021. The solvency position of banks remains solid.

27. The insurance market in the Republic of Moldova remains relatively small with a penetration rate of 0.7% of GDP. Discrimination of insurance contract pricing based on gender has been explicitly prohibited since January 2017. Since January 2019, residents of the Republic of Moldova can only conclude insurance contracts with nationally registered companies or branches of foreign companies unless such insurance is not available domestically. A new law strengthened the regulatory framework for other non-bank financial institutions, covering non-bank lending (excluding deposit taking) and financial leasing operations. Regulation of the insurance sector, non-bank credit organizations, and savings and credit associations is expected to shift from the National Commission for Financial Markets (NCFM) to the NBM starting in July 2023. To improve the supervision of financial conglomerates and to transpose relevant EU legislation, the authorities established additional capital adequacy requirements for financial conglomerates.

28. Total annual revenues in the telecommunications sector, as well as the number of subscribers, declined during the review period as market concentration remained elevated and prices remained moderate. Legislative changes to align regulations to the EU *acquis* introduced provisions to foster competition, network integrity, data privacy, consumer protection, and net neutrality. Regulations for active and passive infrastructure sharing were introduced in 2016. The sector regulator is tasked with identifying providers of electronic communications networks or services with significant market power, and taking remedial actions. The regulator also monitors the quality of service indictors and related consumer rights. A luxury tax of 2.5% for mobile services was abolished in late 2021. There are no restrictions on foreign ownership in the telecommunications sector. Regarding postal services, since September 2021, the transportation of all letters has been fully liberalized, and competitors have been allowed to set tariffs freely for these services.

29. The quality of transport infrastructure combined with regulatory barriers increases the costs of trade. Trucks and trains transported 99% of freight in 2021. Road transport operators for passengers or freight must be established locally and licensed by the National Agency of Road Transport (ANTA). There are no restrictions on foreign capital participation in road transport. Firms undertaking cross-border transport must also be ANTA-licensed. Ride-hailing services are not allowed in the Republic of Moldova. Efforts to modernize the regulatory regime for railways started in February 2022. The regulatory regime for aviation was modernized in 2017 and 2018, reflecting the Republic of Moldova's membership of the European Common Aviation Area (ECAA). Most of the 22 bilateral air services agreements cover up to fourth freedom rights. Aviation transport expanded considerably during the review period. All Moldovan carriers have foreign equities.