



MAIN INDICATORS (2020)

Population: 2 640 438 (National Bureau of Statistics - NBS)
GDP: \$11.5 billion (IMF)
GDP per capita: \$4 640 (IMF)
Growth rates: -7.5% (IMF)
Inflation rates: 3.8% (IMF)
Export to France: \$29.8 million (NBS)
Import from France: \$119.14 million (NBS)
Position of France: 9th supplier – 15th client (NBS) -4th foreign investor (National Bank of Moldova)
Doing Business 2020: 48th position/190 countries

ECONOMIC PRESENTATION OF THE REPUBLIC OF MOLDOVA

Situated between Romania and Ukraine, the Republic of Moldova benefits from a truly privileged geographical location at the gates of the European Union. The labor force is highly qualified and cost-efficient. Being bilingual in Romanian and Russian, there are many Moldovans who speak French and English as well. Moldova is the most 'Francophone' country in Central and Eastern Europe.

As proof of its determination for open trade and European rapprochement, the country signed, in 2014, an Association Agreement which led to the creation of a full and complete free trade zone with the EU. This agreement comes hand in hand with a consolidation of European aids for the implementation of reforms. Reinforcing political association and economic integration, the agreement unveils a new horizon of opportunities for the country and foreign investors. It has enabled a strong development of the commercial trade with the EU, which is the country's number one client and supplier to date.

The Moldovan economy relies mainly on small and middle processing and service companies (business and distribution, textile, agri-food, IT etc.) and on agriculture.

The country offers many benefits to companies wishing to set up there, among which an advantageous tax system. France is the country's 4th foreign investor to date.

With the election of Maia SANDU as the President of the Republic of Moldova, the bilateral relations with France are experiencing renewed dynamism. When receiving her in France in February 2021, the President of the Republic, Emmanuel MACRON, announced a deepening of cooperation between the two countries, namely in the economic and development field, and in particular, the announcement of a possible implication of the AFD in the Republic of Moldova.



ECONOMIC TRENDS

The health crisis hit the Moldovan economy hard – an economy which started to decelerate after 4 years of growth. The Moldovan GDP thus decreased by 7.5% in 2020, affected by the decline in household consumption, the reduction of commercial and industrial activity and, finally, by the severe drought which affected agriculture.

Employment fell to its lowest level in five years.

While in the second half of the year, the economy gradually began to recover, most of the short-term indicators maintain a negative trend, even if the IMF predicts a revival of growth in 2021 estimated at 4.5%. With lower oil prices and lower domestic demand, inflation slowed significantly in 2020 to 3.8%.

While export decreased by 7.4%, as did remittances from abroad (-4.6%), the larger drop in import (-16.4%), however, allowed an improvement in the current-account deficit, which stood at 4.4% of GDP, or 2.5 times less than in 2019.

Mainly financed by the instruments of the external public debt, the debt reached 65% of the GDP in September 2020, meaning 3 points more than in 2019. However, at the same time, the foreign exchange reserves of the country reached a record level after nearly 15 years - \$3.5 billion.

On the fiscal front, and as the economy sank into recession, the situation deteriorated. At the end of October, revenues, mainly fueled by VAT on imports and corporate tax, fell by 1.7%. At the same time, public spending increased with the introduction, by authorities, of measures to mitigate the consequences of the health crisis, but also with the increase in certain social expenditures announced in the pre-election period. These new expenditures were made to the detriment of public investment, which diminished by more than 4%. This situation has led to a deterioration of the budget deficit which now stands at 4.5% of the GDP.

In the short and medium term, the prospects for Moldova are uncertain and should have consequences for households and businesses alike. Most of investment activities have been postponed or cancelled. The decreasing global demand, combined with the recent drought, is expected to continue to slow exports and affect most sectors of the economy. Imports, penalized by anaemic consumption, are also expected to decline further.

Nevertheless, the experts expect, together with the implementation of the vaccine policy, the resumption of transfers from abroad, the increase in social transfers and accommodating monetary guidelines, a regaining of the consumers' and businesses' trust. The Moldovan growth could thus rebound strongly in 2021, in the range of 3.8% to 4.5%, figures, however, below the potential of the Moldovan economy. The Moldovan economy is expected to return to its 2019 level in 2022. The agricultural sector is expected to rebound strongly from its feeble results in 2020 and all sectors of the economy will be affected by this recovery. The current account deficit is expected to continue to narrow in 2020, before widening again with the economic recovery. Likewise, inflation will remain below the 5% target in 2021, but could accelerate with the recovery.

Budget deficits are expected to continue to grow, as is the external debt. Still, this will remain low compared to international standards.

Moldova's outlook thus remains subject to uncertainties and a fragile recovery, which also relies on the authorities' ability to push ahead with long-term structural reforms, while implementing measures to support the recovery in the medium term.

The recent election of Maia SANDU to the Presidency of the Republic of Moldova and the organization of early parliamentary elections could allow the country to finally regain political stability conducive to the implementation of the reforms expected by the country's international partners and investors.

FRENCH-MOLDOVAN TRADING EXCHANGES

Trade relations between France and Moldova are stable and long-lasting, but still remain too modest despite the existing opportunities, especially since the implementation of the EU-Moldova Association Agreement and its free trade component. The size of the local market is still slowing the interest of our exporting companies, even though the Moldovan domestic demand could rebound strongly, our foreign trade is also seeking to re-launch on new markets, and finally that French products have a very positive image in Moldova.

Since 2016, trade relations with the European Union have experienced high growth. The EU has become the country's leading customer and supplier, with France positioning itself, in 2020, as the 9th supplier and 15th customer with a very positive trade balance.

If French imports mainly consist of agricultural and textile products, our exports are heavily made up of capital goods, in particular electrical equipment and motor vehicles. This is followed by textile products and agricultural equipment, particularly in the viticulture sector. In a country where consumption remains the main engine of growth, our margins for growth are significant and our companies would benefit from being more interested in the Moldovan market, by relying in particular on our strong presence in neighboring Romania or Ukraine.

The Republic of Moldova having signed Free Trade Agreements with 43 countries representing a market of more than 880 million inhabitants - those of the EU, the CIS (Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Russia, Tajikistan, Uzbekistan), Turkey, Macedonia, Albania, Serbia, Montenegro, Bosnia and Herzegovina, Kosovo, Georgia and Ukraine – as well as several preferential trade agreements with developed countries – United States, Japan and Canada – it displays a strong desire for trade openness and constitutes a platform for exchanges through which our companies could approach new markets.

A STRONG AND ORGANIZED FRENCH PRESENCE

CCI FRANCE MOLDOVA, the Embassy of France and its various services (Economic Services in Kiev, Regional Financial Service in Moscow, Customs Attaché in Belgrade and Business France) are actively working to develop French trade and investment in the country.

France is one of the very first countries to invest in Moldova at the end of the 1990s, primarily because of the level of the Francophonie in the country, which is still important to date.

French investments benefit from a reciprocal investment protection agreement signed on September 8, 1997 and entered into force on November 3, 1999.

Grouped for the most part within the CCI FRANCE MOLDOVA, French investments in Moldova are substantial. They help structure the local economy and remain a factor in the attractiveness of the country. They are structuring, with high visibility and job creating.

Our companies, subsidiaries of large groups or SMEs, are present in diversified sectors: telecommunications, new technologies - thanks to favorable taxation and the quality of network infrastructures -, BPO, agro-food and agriculture, marketing of equipment or goods for the agro-food or agricultural sector, construction industries or automotive and electrical equipment suppliers, civil engineering and infrastructure, renewable energies, services, hotels, marketing of pharmaceutical products, etc.

France is today the fourth foreign investor in the country, behind Cyprus, the Netherlands and Romania, this position not fully reflecting the reality of the weight of French investments in the country, the importance of so-called "offshore" investments, having a substantial influence on the ranking of the FDI.

The start of negotiations for the signing of a new tax treaty between France and Moldova should make it possible, in addition to avoiding the risks of double taxation, to partly clarify the origin of French investments not marked as such today. This signing should also encourage the arrival of new French investors in the country.

Finally, the revival of the bilateral cooperation between France and Moldova, announced during the recent visit to France by the new Moldovan President, could be reflected, with the stabilization of the political situation and the authorities' reinforced will to conduct reforms, through a mandate given to the French Development Agency group (AFD, Proparco and Expertise France) to support development projects in the country. This would be a positive signal to attract new French investors in Moldova.

THE MOST PROMISING SECTORS

Investment opportunities and the development of new trade concerns almost all the economic sectors. They are facilitated by a local economic support system structured around the CCI FRANCE MOLDOVA and the French Embassy.

International donors also support and finance numerous programs in the field of construction, maintenance or rehabilitation of major infrastructure, energy and sustainable development, and improvement of the supply of basic services to the population. This financing offers many opportunities to French companies.

INFRASTRUCTURE, SUSTAINABLE DEVELOPMENT AND MANAGEMENT OF BASIC SERVICES TO THE POPULATION

Moldova is an emerging country, independent since 1991, which is trying to gradually meet, with the support of the international community, significant needs in terms of basic equipment and infrastructure (roads and communication routes, water and sanitation, irrigation, waste management, urban development, equipment and transport, energy management and efficiency, renewable energies, sustainable development, health infrastructure, education, etc.). There are many opportunities in these areas where French expertise is recognized.

Whether it is a response to international or local calls for tenders, the investments to be carried out within the framework of Public - Private Partnerships, of delegated management of services to the population, opportunities arise on a regular basis or they can be supported and defended by the CCI FRANCE MOLDOVA.

The needs are great. The funding is there. Projects often struggle to emerge due to the lack of sufficient local expertise.

SERVICE AND IT SECTOR ACTIVITIES

There are numerous BPO activities - call centers, IT services and remote technical support, financial and accounting operations, architecture, design and engineering, back-office processes - established in the country, drawing on the qualifications of the Moldovans, their language skills in particular, and on moderate operating and human resource costs.

In the IT field, relying on quality network and Internet infrastructures, the Moldovan authorities are pursuing an extremely active policy to attract foreign companies in this sector, in particular by increasing tax advantages (IT Park). Nevertheless, the lack of qualified human resources in the sector and the strong competition between the already present players can pose certain difficulties for those interested in the country, when it comes to considering a major establishment. It is nevertheless possible to approach the country through the present actors, including many French companies.

The country also offers opportunities in the hotel industry, green or medical tourism, education and human services. The insurance sector may also offer opportunities, particularly in the area of business insurance.

RETAIL TRADE, LARGE DISTRIBUTION AND SPECIALIZED DISTRIBUTION

The growth of the Moldovan economy has been largely supported by consumption in recent years, it being driven by large transfers from abroad.

With the gradual rise of living standards, today the Moldovan population aspires to be able to access a new supply of consumer goods and quality equipment, and European or Western standards.

There is thus a potential for developing the marketing of French products, both through local distribution networks and by developing new distribution brands (mass distribution or retail), in direct investments, as part of joint ventures or franchises.

This concerns all the sectors: sports and leisure articles, textiles, food products, small repairs, home equipment and decoration, pharmacy and drugstore etc.

AGRICULTURE AND AGRI-FOOD INDUSTRIES

Recognized for the richness of its soils, Moldova is a country where agriculture, viticulture and the agri-food industry still have a considerable weight in the GDP.

Despite significant investments, the sector must continue to modernize. The small size of farms, as well as the difficulty for foreign investors to acquire land, are obstacles in the exploitation of the potential of the sector.

However, there are many opportunities to market agricultural equipment and machinery, seeds, biological and technological solutions to increase yields and quality, and equipment for the food industry.

The livestock sector remains to be developed.

Wine production, Moldovan fruits and vegetables, cereals, beets, sunflowers, nuts, honey, tobacco, essential oils, etc. are widely exported.

INDUSTRIAL SUBCONTRACTING

With a qualified human resource and that at a very moderate cost, having a very favorable geographical location at the gates of the European Union, with an attractive tax system and offering possibilities of setting up in free trade zones, the Republic of Moldova has attracted, in recent years, many subcontracting industries, particularly in the sector of electrical components for the automotive industry.

It is now of definite interest for investors wishing to relocate their productions from Asia, in order to gain proximity to the European market, shorten their production circuits and secure their supply.

Moldova is also the land of textile industry. The country thus offers opportunities in the field of textile subcontracting, in particular for restocking or high-end textiles. Many well-known brands now have their collections manufactured by local companies in Moldova.

ADVICE TO COMPANIES WISHING TO APPROACH THE REPUBLIC OF MOLDOVA

Advice 1

Do not come to Moldova full of prejudices. The country often positively surprises business visitors.

Advice 2

Avoid direct approaches. The surest way to approach the country is to contact the CCI FRANCE MOLDOVA, who will provide you the necessary information or direct you to competent and trustworthy contacts.

Advice 3

Despite the undertaken reforms, Moldova is still a country subject to excessive bureaucracy, which sometimes generates corruption. It is important to avoid taking the easy way out, because one request often leads to another. These acts or attempts should then be reported to CCI FRANCE MOLDOVA or the French Embassy, so that appropriate measures can be taken with the authorities to put an end to them. CCI FRANCE MOLDOVA will facilitate your commercial or establishment procedures with a range of services and advice tailored to your needs.

Advice 4

While Moldova has entered a market economy, it is still an emerging country where "lobbies" remain. The competition between market players can sometimes be distorted. The CCI FRANCE MOLDOVA raises the concerns of foreign investors with the Embassy, authorities or international institutions to allow you to approach the country in full confidence.

Advice 5

The region of Transnistria has an important tradition and industrial potential. However, it is in a particular situation which should encourage a cautious approach. The CCI FRANCE MOLDOVA has privileged contacts and interlocutors on site.

THE CCI FRANCE MOLDOVA

Founded in 2008, the CCI FRANCE MOLDOVA became a French International Chamber of Commerce and Industry (CCIFI) in 2010, member of CCI France International.

Its objectives are to unite, animate, inform, promote and assist the French business community - and more broadly, the French-speaking business community present in the country. It also supports the development of investments, and economic and commercial exchanges between France and Moldova. It promotes the arrival and reception of new French companies on the Moldovan market by offering them information, prospecting and support services, but also contacts companies, institutions and partners within its network.

The CCI FRANCE MOLDOVA is the institutional relay of the French economic presence in the country, promoting it and defending its interests in relation to the French Embassy, its services and other international institutional actors present in the country. It has access to all the useful contacts with the local authorities.

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