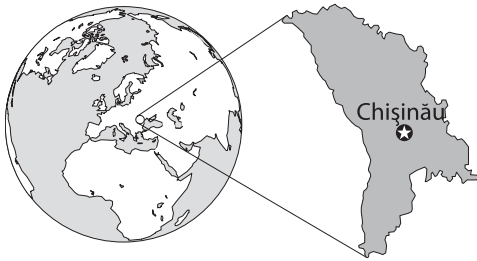


# MOLDOVA



Rank: 89

Regional Rank: 36 of 41

**M**oldova's economy is 58.4 percent free, according to our 2008 assessment, which makes it the world's 89th freest economy. Its overall score is 0.8 percentage point lower than last year, reflecting deteriorated scores in five of the 10 economic freedoms. Moldova is ranked 36th out of 41 countries in the European region, and its overall score is lower than the regional average.

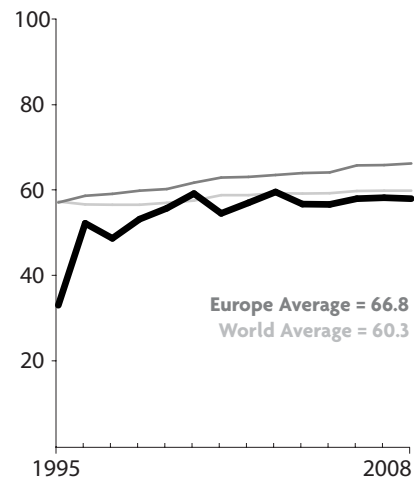
Moldova scores slightly above the world average in trade freedom, business freedom, labor freedom, and fiscal freedom, and property rights. The average tariff rate is low, but non-tariff barriers include burdensome regulations and restrictive customs.

As the poorest country in Europe, Moldova has an economy with significant shortcomings. Monetary freedom, investment freedom, and freedom from corruption are weak. Inflation is high, although the government has been phasing out price supports on certain goods. Foreign investment in virtually all sectors faces hurdles from bureaucratic inefficiency to outright restriction. There is significant corruption in most areas of the bureaucracy, and although the government has been reforming the judiciary, public institutions are weak overall.

**BACKGROUND:** Moldova, a small landlocked country located between Romania and Ukraine, has struggled since gaining its independence after the collapse of the Soviet Union in 1991. It also has had to deal with problems created by a secessionist, pro-Russian enclave in Transnistria. The Communist Party of Moldova, which enjoys a parliamentary majority, supports European integration and has not reversed market reforms instituted in the early 1990s. Agriculture remains central to the economy, and foodstuffs, wine, and animal and vegetable products are the main exports. In 2006, Russia lifted its ban on Moldovan wine imports. However, Russian bureaucrats have been slow to allow wine imports to pass through customs, and sales of Moldovan wines remain sluggish as a result.

How Do We Measure Economic Freedom? See Chapter 4 (page 39) for an explanation of the methodology or visit the *Index* Web site at [heritage.org/index](http://heritage.org/index).

The economy is 58.4% free



## QUICK FACTS

**Population:** 4.2 million

**GDP (PPP):** \$8.8 billion

7.5% growth in 2005

7.3% 5-yr. comp. ann. growth

\$2,099.8 per capita

**Unemployment:** 8.8%

**Inflation (CPI):** 11.9%

**FDI (net flow):** \$225.0 million

**Official Development Assistance:**

Multilateral: \$77.4 million

Bilateral: \$114.3 million (26.7% from the U.S.)

**External Debt:** \$2.1 billion

**Exports:** \$1.5 billion

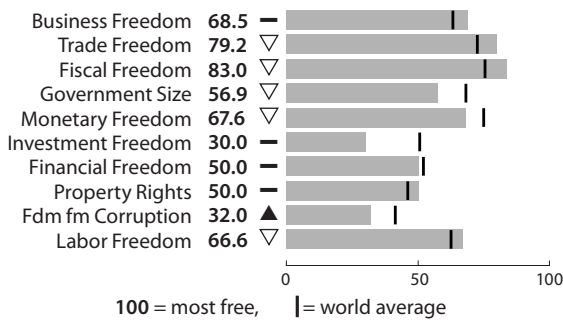
Primarily foodstuffs, textiles, machinery

**Imports:** \$2.7 billion

Primarily mineral products and fuel, machinery and equipment, chemicals, textiles

2005 data unless otherwise noted.

## MOLDOVA'S TEN ECONOMIC FREEDOMS



### BUSINESS FREEDOM — 68.5%

The overall freedom to start, operate, and close a business is relatively well protected by Moldova's regulatory environment. Starting a business takes an average of 23 days, compared to the world average of 43 days. Obtaining a business license requires more than the world average of 19 procedures and 234 days. Closing a business is relatively simple and straightforward.

### TRADE FREEDOM — 79.2%

Moldova's weighted average tariff rate was 2.9 percent in 2001. Import and export restrictions, import taxes and fees, burdensome regulations, and an inefficient and non-transparent customs process that is prone to corruption add to the cost of trade. An additional 15 percentage points is deducted from Moldova's trade freedom score to account for non-tariff barriers.

### FISCAL FREEDOM — 83%

Moldova's tax rates have been gradually reduced over the years. The top income tax rate is 20 percent, and the top corporate tax rate is 15 percent. Other taxes include a value-added tax (VAT), an advertising tax, and a vehicle tax. In the most recent year, overall tax revenue as a percentage of GDP was 32.8 percent.

### GOVERNMENT SIZE — 56.9%

Total government expenditures, including consumption and transfer payments, are moderate. In the most recent year, government spending equaled 37.9 percent of GDP. Privatization has become sluggish. The government retains considerable ownership in companies like MoldTelecom and electricity generators. The privatization law expired early in 2007, and a new law has not been enacted.

### MONETARY FREEDOM — 67.6%

Inflation is relatively high, averaging 12.5 percent between 2004 and 2006. Relatively high and unstable prices explain most of the monetary freedom score. The government has phased out most price controls and many subsidies but still influences prices through numerous state-owned enterprises and utilities, including electricity and energy. An additional 10 percentage points is deducted from Moldova's monetary freedom score to account for policies that distort domestic prices.

### INVESTMENT FREEDOM — 30%

Foreign and domestic capital are legally equal. Foreign investment that does not conflict with national security interests, anti-monopoly legislation, environmental protection norms, public health, and public order is welcome. Non-Moldovans may not buy agricultural and forestry land. There is no screening of investment. Progress is being made toward a more transparent and less regulatory investment climate, and a national development plan scheduled to take effect in 2008 is aimed at further improving FDI conditions and ensuring macroeconomic stability. Residents and non-residents may hold foreign exchange accounts, subject to certain approvals. Some payments and transfers require National Bank of Moldova approval. Nearly all capital transactions require approval by or registration with the National Bank of Moldova.

### FINANCIAL FREEDOM — 50%

Moldova's small financial system, wholly state-controlled as recently as the 1990s, has been undergoing restructuring and consolidation. Banking supervision and regulation meet most international standards, and new regulation of the non-banking financial sectors is being implemented. There are 15 commercial banks, including two foreign bank branches. The top five banks control 66 percent of assets. The government holds shares in two banks and has announced its intention to sell its majority stake in Banca de Economii, one of the largest banks. Foreign capital in banking has been increasing steadily. The insurance market was opened to foreign competition in mid-1999 and consisted of 33 insurance operators by the end of 2006. Two companies (one foreign) control more than 45 percent of premiums. Capital markets are immature, and the stock market is very small.

### PROPERTY RIGHTS — 50%

The judiciary has been improved but is still subject to executive influence. Delays in salary payments make it difficult for judges to remain independent from outside influence and free from corruption. Moldova adheres to key international agreements on intellectual property rights, although enforcement of IPR laws is sometimes weak.

### FREEDOM FROM CORRUPTION — 32%

Corruption is perceived as widespread. Moldova ranks 79th out of 163 countries in Transparency International's Corruption Perceptions Index for 2006. Moldova is trying to adopt European anti-corruption and anti-crime standards and to participate in international cooperation and evaluation mechanisms.

### LABOR FREEDOM — 66.6%

Relatively flexible employment regulations can hamper rather than enhance employment opportunities and productivity growth. The non-salary cost of employing a worker is high, and dismissing a redundant employee is not easy. Restrictions on the number of work hours can be rigid.