



FOREIGN INVESTORS
ASSOCIATION
REPUBLIC OF MOLDOVA

REPORT 2.0

FOREIGN DIRECT INVESTMENTS

*The impact
on the economy of the
Republic of Moldova
(2012-2022)*



bis

BUSINESS
INTELLIGENCE
SERVICES

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Abbreviations

BIS	SC Business Intelligent Services SRL
CAGR	Compound Annual Growth Rate
EU	European Union
FDI	Foreign Direct Investments
FIA	Foreign Investors Association
GDP	Gross Domestic Product
GVA	gross value-added
GVC	Global Value Chain
HoReCa	Hotel, Restaurant, Catering
mil.	million
NBM	National Bank of Moldova
NBS	National Bureau of Statistics
ROS	Return on Sales
SFS	State Fiscal Service
SSC	Social Security Contribution
UNCTAD	United Nations Conference on Trade and Development
USD	US dollar

Key messages

FDI enterprises vs. local private and public enterprises

1. Between 2012 and 2022, the total number of companies in Moldova, regardless of the form of ownership, had a general trend of growth. The financial crisis of 2015 led to a temporary decrease in the number of enterprises, after which it started growing again. The crisis affected local enterprises with the form of private ownership the most, their number decreasing by 2,430 units (a 5.1% decrease) compared to 2014. FDI enterprises were much less affected by the crisis, with their number decreasing by 83 units (a 1.9% decrease) compared to 2014.

However, the pandemic had a more significant impact on companies with FDI, particularly those connected to global value chains (GVC). Additionally, the conflict in Ukraine only increased the hesitancy of foreign investors to engage in the Republic of Moldova. By the end of 2022, the number of companies with FDI had reached its lowest point in the last decade, with only 3,908 enterprises registered.

2. In the last 10 years, the share of FDI enterprises has decreased from 8.5% in 2012 to 6.2% in 2022. This evolution has been caused exclusively by the significant (dramatic) reduction in the number of mixed companies, with foreign capital.
3. In 2022, a Moldovan company, regardless of its form of ownership, employed on average 8.5 people. Public enterprises and enterprises with public capital participation are the most numerous, with an average number of employees of 92 and 97 people respectively. FDI enterprises had an average workforce of 20.8 people in 2022. Local private enterprises have the smallest average number of employees, with an average of 5.8 people in 2022. This factor can also contribute to their general vulnerability and lower resilience to various shocks.
4. The number of employees in FDI enterprises increased between 2012 and 2019 from 75 to 90 thousand people. In the segment of FDI enterprises, an interesting evolution can be noted, namely the increase in the number of employees exclusively at the expense of foreign-owned enterprises (with a CAGR of 7.3%). On the other hand, the number of mixed companies (with foreign capital) and their employees decreased with a CAGR of about 4.4%.
5. FDI enterprises are about 90% more productive compared to local-private ones. Over the past decade, mixed companies with foreign capital participation have

consistently recorded the highest labour productivity, reaching 3,042 thousand lei per employee in 2022. Meanwhile, in 2022, foreign-owned enterprises reported a turnover of approximately 1,755 thousand lei per employee.

Privately owned local enterprises achieve labour productivity almost half of that in FDI enterprises, with approximately 1,113 thousand lei per employee, a figure that closely aligns with the country's average of 1,156 thousand lei per employee.

6. The average monthly labour cost per FDI employee in 2022 was approximately 74% higher than the average for local private enterprises. The average monthly labour cost per employee was 14.4 thousand lei for mixed enterprises and 11.8 thousand lei for foreign enterprises.
7. In 2022, FDI enterprises paid a total amount of 2.9 billion Moldovan lei to the social fund (15.7% of the total), including 2.0 billion Moldovan lei (10.6%) paid by foreign companies and 0.9 billion Moldovan lei (5.1%) by mixed companies, with foreign capital ownership.

FDI: Global, regional and local developments

8. After a steep drop in 2020 and a strong rebound in 2021, global foreign direct investment (FDI) declined by 12 per cent in 2022, to USD 1.3 trillion. The slowdown was driven by the global polycrisis: the war in Ukraine, high food and energy prices, and debt pressures. International project finance and cross-border mergers and acquisitions (M&As) were especially affected by tighter financing conditions, rising interest rates and uncertainty in capital markets.
9. The global environment for international business and cross-border investment remains challenging in 2023. Although the economic headwinds shaping investment trends in 2022 have somewhat subsided, they have not disappeared. Commodity prices that rose sharply after the start of the war in Ukraine have tempered, but the war continues, and geopolitical tensions are still high. Recent financial sector turmoil in some developed countries adds to investor uncertainty. In developing countries, continuing high debt levels limit fiscal space. UNCTAD expects the downward trend of global FDI to continue in 2023.
10. In 2022, Moldova achieved a significant milestone, with a total net inflow of USD 586.4 million, marking a new record in terms of attracting investments. Foreign investors' decision to reinvest their profits in the Moldovan economy, leading to a significant increase of 1.9 times, had a substantial impact on FDI in 2022. This reinvestment resulted in a remarkable 50% jump in FDI compared to the previous year and placed it approximately 16% above the pre-crisis level of 2019.

The main positive aspect to note is that, despite the pandemic and the war in Ukraine, which brought about a series of uncertainties and increased risk, as well

as putting pressure on Foreign Direct Investment (FDI), the stock did not decrease. In fact, it increased. This trend indicates that foreign investors have not panicked and withdrawn capital from the economy.

11. By geographical region, the majority share of the direct investments in the form of equity participations and shares (87.1%) is attributed to investors from the 27 EU countries (excluding the United Kingdom). Over the last four years, this component of FDI has increased by 60% among investors from EU-27 countries. The top 5 sources of foreign investment in the form of equity participations and shares are Cyprus, the Netherlands, Romania, United Kingdom and Bulgaria.
12. Between 2012 and 2022, Moldova carried out an average of 6.4 *Greenfield* projects per year, close to the performance of Albania (5.3) and Montenegro (7.1). Other comparable countries have carried out 2-8 times more such projects in the same period. Moldova lags behind EU countries of similar size and, more importantly, other small states with economies in transition or from the former Soviet space (Armenia (13.3), Azerbaijan (19.2) and Georgia (18.5)).
13. Since 2003, the manufacturing industry has been the main target of *Greenfield* foreign investment in Moldova, both in terms of the number of projects and capital investments. This is also the case for the production of automotive and electrical components, where German and Japanese companies were the most active investors, according to the *Greenfield fDi Markets* investment monitor. However, it's worth noting that these investments had limited impact on domestic production due to low technological sophistication, limited productivity, and poor integration of local companies into the value chains of foreign direct investment (FDI) companies.
14. The degree of penetration of foreign capital in the economy is highlighted in a suggestive way by the level of FDI stocks per capita. Empirical data on this indicator reveal strong discrepancies between the comparable states, and the Republic of Moldova has a low level of this indicator (USD 1,497 per capita in 2022). Of all the comparable countries, only Ukraine has a lower level (USD 1,288 per capita). This indicator should increase almost 3 times to reach the average level of the Eastern European states.

The comparison of the FDI stocks with GDP shows a slightly more favourable picture. The stocks of FDI in USD accounted for about 34% of GDP in 2022, above the average of Eastern European economies.

FDI impact analysis

15. Enterprises with 100% foreign capital and mixed enterprises play a significant role in the economic and social development of the Republic of Moldova. Despite their relatively small number, they demonstrate high efficiency and hold systemic importance for the national economy, as evidenced by the following indicators:

- ☑ FDI enterprises actively contribute to the creation of GDP. In 2022, FDI inflows accounted for 4.0% of GDP, and FDI stocks represented approximately 34% of GDP.
- ☑ FDI enterprises are not only present in high GVA sectors but also in those with lower added value, where their higher productivity drives sectoral development.
- ☑ With a share of only 6.2% in the total number of enterprises, companies with FDI create jobs for 15.4% of the workforce, employed in enterprises in the Republic of Moldova. At the same time, their share in sales revenue is 28.2%, which shows a high labor productivity.
- ☑ FDI enterprises have a significant importance in the formation of the state budget, contributing 25.1% of all corporate income taxes accumulated to the budget.
- ☑ FDI enterprises contribute to the creation of fixed assets. They own 24.2% of immobilized assets, both for industrial and social purposes.
- ☑ In the case of companies with FDI, the level of labor remuneration is the highest, a fact that contributes to the increase in the standard of living and, to a certain extent, to the braking of emigration growth.
- ☑ Companies with FDI contribute to the creation of gross added value in the amount of 19.7% as a whole on the economy, at the same time in some types of activity their weight is impressive (financial activities and insurance (59.7%), information and communications (47.4%)).

Methodology and approach

The objective of the study was to analyze the impact of Foreign Direct Investments (FDI) on the overall economy of the Republic of Moldova. To achieve this objective, the authors of the study utilized a wide range of data sources, including both open statistical data and official information obtained from relevant government agencies. The key data sources and references include:

- | National Bureau of Statistics (NBS) and National Bank of Moldova (NBM). The authors used open statistical data provided by NBS and BNM, obtained from statistical data banks and periodical publications accessible to the general public.
- | State Fiscal Service (SFS). The authors also obtained additional detailed statistical data from SFS in response to official information requests.
- | UNCTAD Statistical Database (UNCTADSTAT). To analyze Moldova's performance in attracting FDI in comparison to other countries, the authors relied on data from the UNCTAD statistical database. UNCTAD (United Nations Conference on Trade and Development) is a reputable source for global trade and investment statistics.

These data sources provided the necessary information to conduct a comprehensive analysis of how FDI impacts Moldova's economy and to compare Moldova's FDI performance with other countries.

Chapter 1

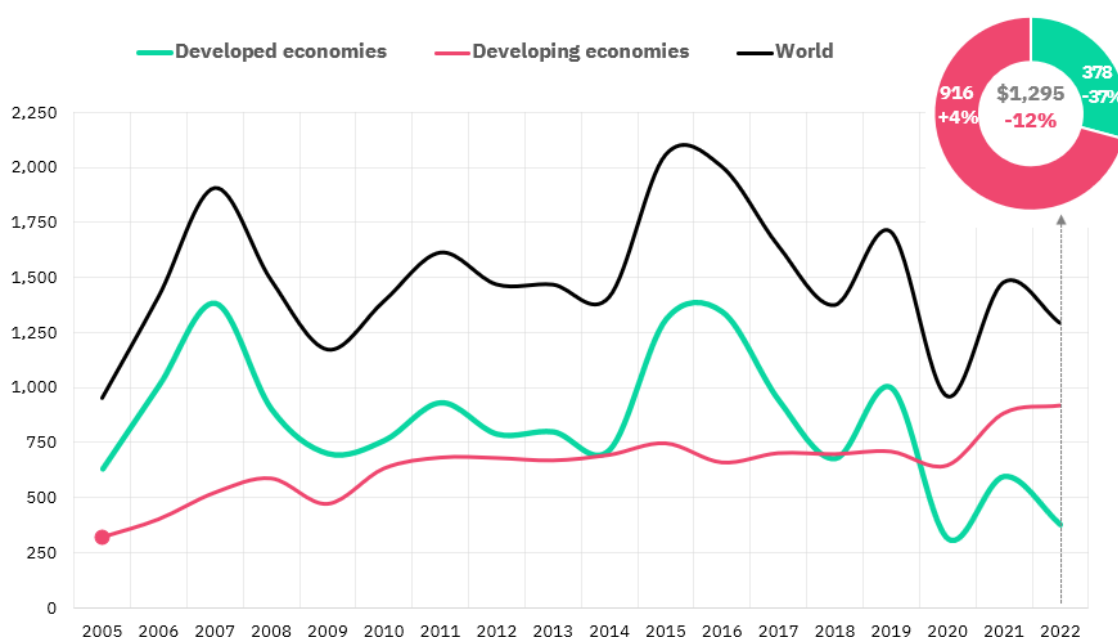
FDI: Global, regional and local developments

1.1 Global and regional trends

After a steep drop in 2020 and a strong rebound in 2021, global foreign direct investment (FDI) declined by 12 per cent in 2022, to USD 1.3 trillion. The slowdown was driven by the global polycrisis: the war in Ukraine, high food and energy prices, and debt pressures.

International project finance and cross-border mergers and acquisitions (M&As) were especially affected by tighter financing conditions, rising interest rates and uncertainty in capital markets.

Figure 1 **FDI inflows, global and by group of economies, 2005–2022**
(billions of USD and percentages)



Source: UNCTAD

The global environment for international business and cross-border investment remains challenging in 2023. Although the economic headwinds shaping investment trends in 2022 have somewhat subsided, they have not disappeared. Commodity prices that rose sharply after the start of the war in Ukraine have tempered, but the war continues, and geopolitical tensions are still high. Recent financial sector turmoil in

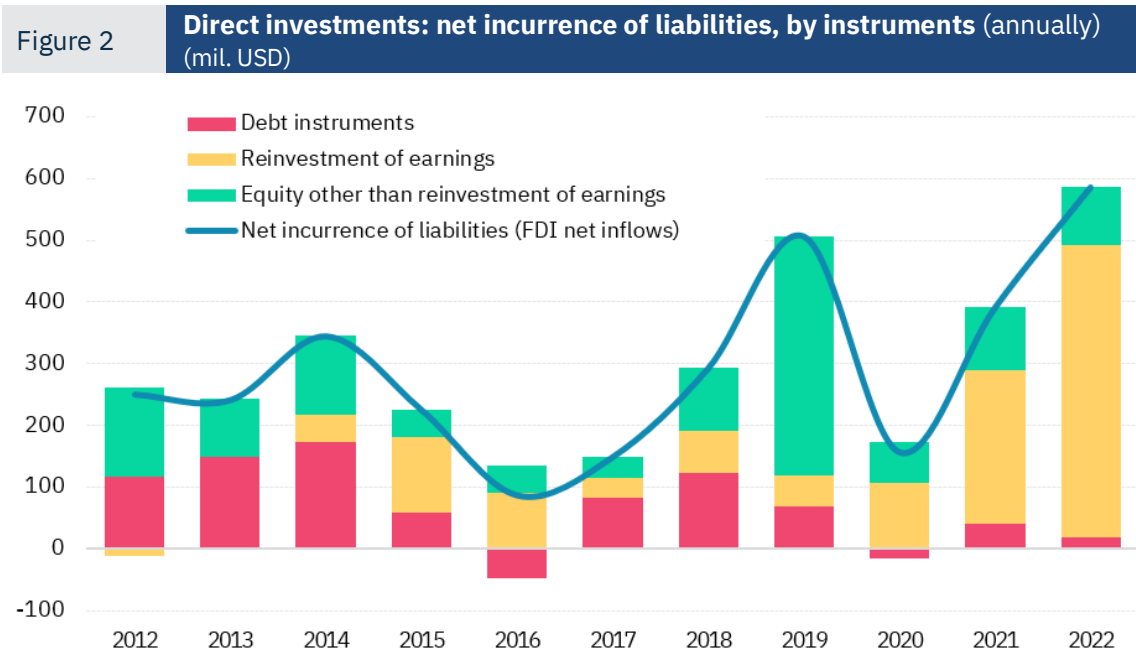
some developed countries adds to investor uncertainty. In developing countries, continuing high debt levels limit fiscal space.

UNCTAD expects the downward trend of global FDI to continue in 2023.

1.2 FDI in the Moldovan economy

FDI net inflows

The FDI net inflows attracted by the Republic of Moldova during 2012-2022 had an oscillating evolution. The weakest result was recorded in the year 2016 – USD 87.44 million. However, in 2022, Moldova achieved a significant milestone, with a total net inflow of USD 586.4 million, marking a new record in terms of attracting investments.



* Data for 2022 are provisional.

Source: NBM, International Accounts of the Republic of Moldova

According to reports from the National Bank of Moldova (NBM), the net incurrence of liabilities in the form of direct investments (FDI net inflows), totaling USD 586.4 million in 2022, was generated by:

- New participations in equity (other than reinvestment of earnings) in companies from the Republic of Moldova in the amount of USD 94.5 million (of which gross inflows – USD 160.0 million and investment outflows – USD 65.5 million);
- The net accumulation of debt instruments (in the form of loans, trade credits and other debts) of resident subsidiary enterprises to their direct overseas investors in the net amount of USD 19.5 million (of which gross accumulation of debts (inflows) was USD 244.1 million, and payments (outflows) – 224.7 million USD), as well as

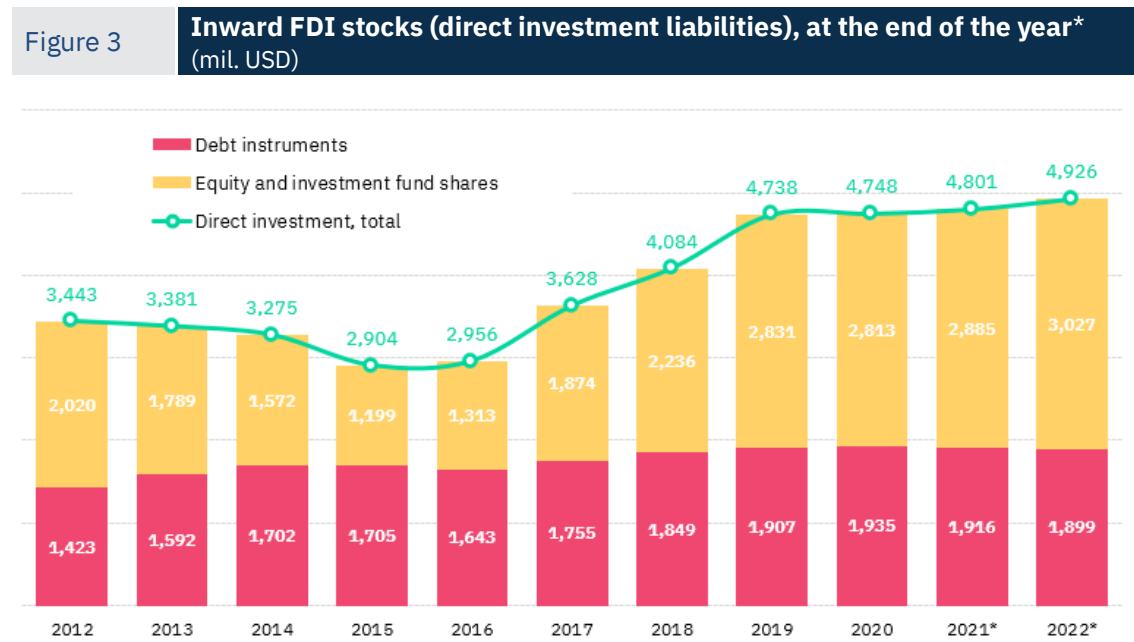
- Reinvestment of earnings by foreign investors in Moldovan subsidiaries in a net amount of USD 472.4 million.

Foreign investors' decision to reinvest their profits in the Moldovan economy, leading to a significant increase of 1.9 times, had a substantial impact on foreign direct investment (FDI) in 2022. This reinvestment resulted in a remarkable 50% jump in FDI compared to the previous year and placed it approximately 16% above the pre-crisis level of 2019. Such reinvestment signals foreign investors' confidence in the Moldovan economy and their commitment to its growth and development.

Inward FDI stocks

During 2012-2022, FDI stocks in Moldova registered fluctuations at times. The minimum of FDI stocks was recorded in 2015 - USD 2,904 million, while the maximum was reached in 2022 in the amount of USD 4,926 million.

The main positive aspect to note is that, despite the pandemic and the war in Ukraine, which brought about a series of uncertainties and increased risk, as well as putting pressure on Foreign Direct Investment (FDI), the stock did not decrease. In fact, it increased. This trend indicates that foreign investors have not panicked and withdrawn capital from the economy.



* Data for 2022 are provisional.

Source: NBM, International Accounts of the Republic of Moldova

FDI distribution by economic activities (by the accumulated equity)

According to NBM data at the end of 2022, the main economic activities that benefited from foreign investment are financial and insurance activities (with 34.4% of the FDI stocks in the form of equity), wholesale and retail trade & repair of motor vehicles (24.3%) and manufacturing industry (20.6%).

Inward FDI stocks by geographical distribution

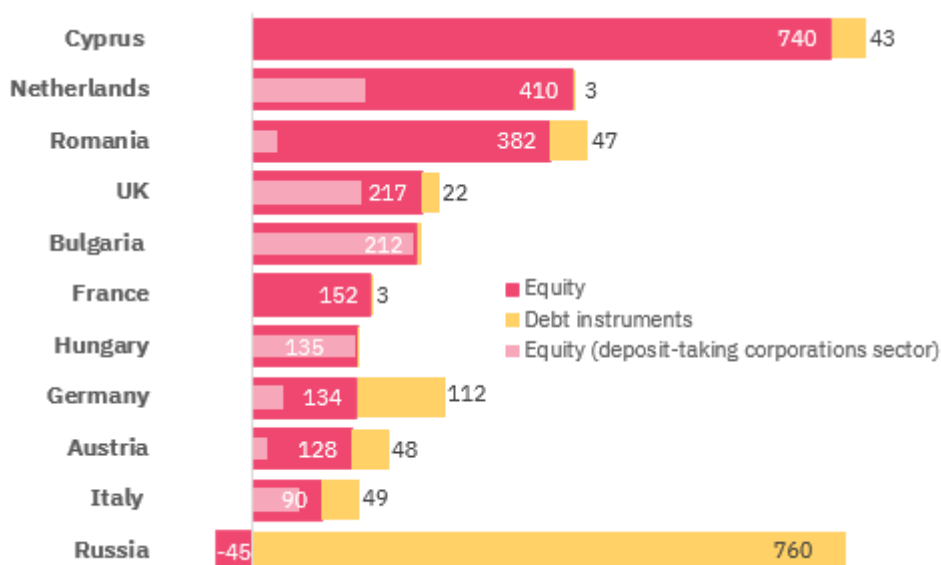
By geographical region, the majority share of the direct investments in the form of equity participations and shares (87.1%) is attributed to investors from the 27 EU countries (excluding the United Kingdom). Over the last four years, this component of FDI has increased by 60% among investors from EU-27 countries.

The top 5 sources of foreign investment in the form of equity participations and shares are Cyprus, the Netherlands, Romania, United Kingdom and Bulgaria.

On the other hand, if taking into account the component of debt instruments, the Russian Federation ranks as the second-largest investor in the national economy, holding a stock of USD 715 million at the end of 2022.

Figure 4

Inward FDI stocks as of 31-Dec 2022, by main countries
(mil. USD)



*Stocks calculated according to the balance-sheet value, distribution by countries based on the direct investor

Source: NBM, International Accounts of the Republic of Moldova and authors' calculations

1.3 FDI: Moldova's regional performance

International benchmarking is an essential part of the successful evaluation and development of new FDI policies. Understanding how other countries have managed to attract FDI can provide valuable contributions and guidance for the effective implementation of policies in Moldova.

To evaluate Moldova's performance, the following countries were selected for comparison with Moldova: Romania, Ukraine, Russian Federation, Armenia, Georgia, Albania, Bosnia and Herzegovina (BiH), Montenegro, Macedonia, Estonia, Latvia, Lithuania and Slovakia.

All these countries are competing for Moldova in the race to attract FDI. They are comparable, to some extent, with Moldova for at least one of the following reasons: size of the population or economy, political and economic context, size of the internal market, stage of economic development and recent history.

Number of 'Greenfield' FDI projects announced

Most FDI globally is represented by *Greenfield* projects. Therefore, the annual *Greenfield* projects are a key indicator of FDI competitiveness for all countries.

Between 2012 and 2022, Moldova carried out an average of 6.4 *Greenfield* projects per year, close to the performance of Albania (5.3) and Montenegro (7.1). Other comparable countries have carried out 2-8 times more such projects in the same period. Moldova lags behind EU countries of similar size and, more importantly, other small states with economies in transition or from the former Soviet space (Armenia (13.3), Azerbaijan (19.2) and Georgia (18.5)).

Since 2003, the manufacturing industry has been the main target of *Greenfield* foreign investment in Moldova, both in terms of the number of projects and capital investments. This is also the case for the production of automotive and electrical components, where German and Japanese companies were the most active investors, according to the *Greenfield fDi Markets* investment monitor.

However, it's worth noting that these investments had limited impact on domestic production due to low technological sophistication, limited productivity, and poor integration of local companies into the value chains of foreign direct investment (FDI) companies.

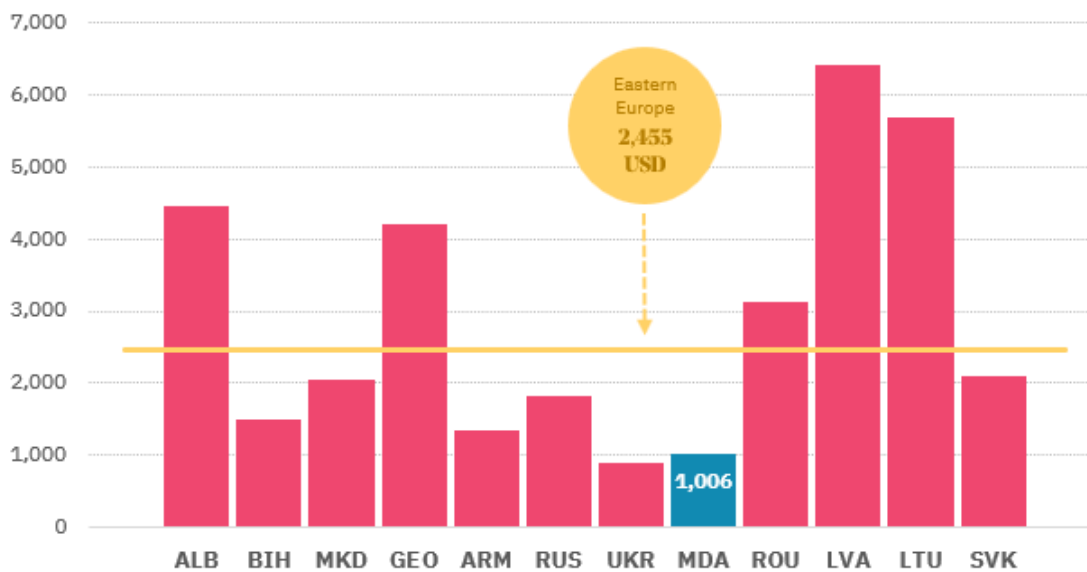
FDI inflows per capita between 2010-2019

In the last decade, the evolution of comparable countries in attracting FDI has been very different and has depended, in essence, on the economic potential, natural resources and the speed and efficiency of economic reforms of states.

In this context, the most effective proved to be the Baltic States, along with Albania and Georgia. In these states, the cumulative FDI inflows per capita between 2012 and 2022 was in the segment 4,200 - 6,400 USD per capita (Figure 5).

Figure 5

FDI inflow (cumulative) per capita: Moldova vs. other comparable countries (2012-2022), (USD per capita)



Source: UNCTADSTAT

The Republic of Moldova's results are among the weakest compared to reference countries, with a cumulative FDI flow of only USD 1,006 per capita. This figure falls well below the average for Eastern European economies, despite signs of increased investment activity in 2021 and 2022.

Share of FDI inflows in GDP

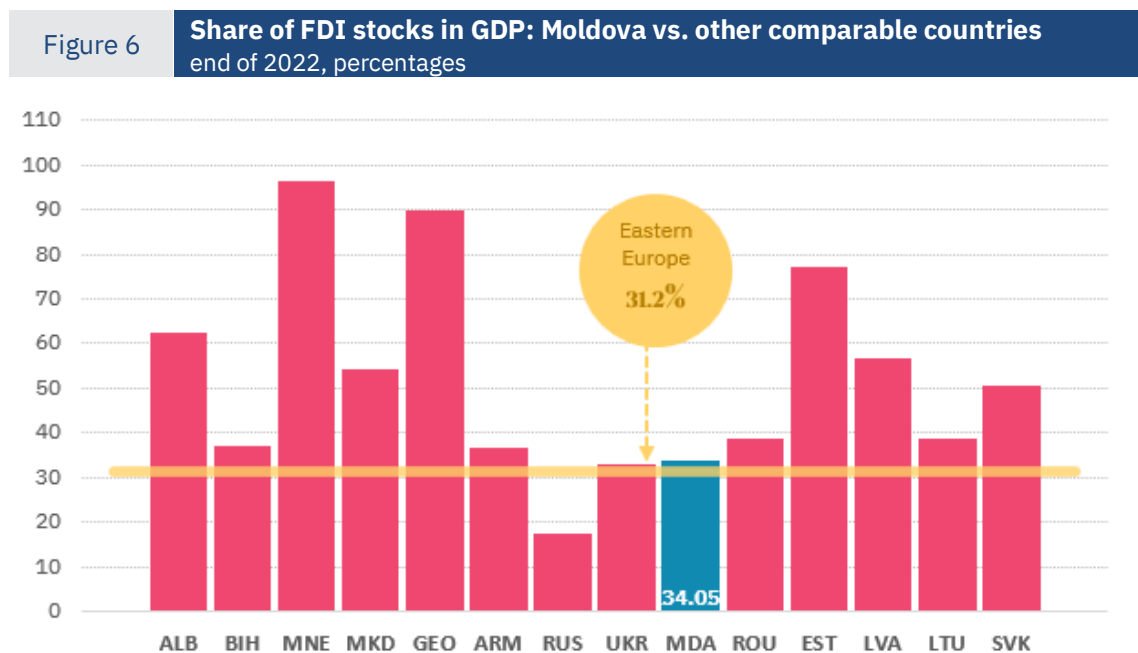
According to the FDI inflows weighted to the Gross Domestic Product (GDP) indicator, the Republic of Moldova has performed well in comparison to other countries, with a share of 4.1% in 2022 and 3.0% in 2021. These values are above the Eastern European countries' average.

This, however, was due to higher FDI inflows in the last 2 years, but also to a low level of GDP. Moldova has the lowest GDP per capita of all comparable countries. Due to the relatively low GDP, but also to the volatility of the FDI inflow in Moldova, this indicator must be analysed carefully. For this reason, other indicators for international comparison must be taken into account.

FDI stocks per capita & share in GDP

The degree of penetration of foreign capital in the economy is highlighted in a suggestive way by the level of FDI stocks per capita. Empirical data on this indicator reveal strong discrepancies between the comparable states, and the Republic of Moldova has a low level of this indicator (USD 1,497 per capita in 2022). Of all the comparable countries, only Ukraine has a lower level (USD 1,288 per capita). This indicator should increase almost 3 times to reach the average level of the Eastern European states.

The comparison of the FDI stocks with GDP (Figure 6) shows a slightly more favourable picture. The stocks of FDI in USD accounted for about 34% of GDP in 2022, above the average of Eastern European economies.



Source: UNCTADSTAT

The assessment of the FDI stocks in Moldova is, depending on the method, quite low compared to the comparable states. Therefore, there is plenty of room for improvement in policies and practices to attract FDI.

Chapter 2

FDI enterprises vs. local private and public enterprises

The efficiency of FDI enterprises was analysed and compared to that of local capital enterprises based on data offered by the National Bureau of Statistics (NBS) and in accordance with the NBS concept on identifying FDI enterprises¹.

FDI companies most affected by the Covid-19 pandemic and the war in Ukraine

According to NBS data, in 2019, the number of reporting enterprises was 62,608². The majority was held by local private enterprises, with a share of 91.9%. **FDI enterprises accounted for 6.2% of the total number of reporting entities in 2022 (compared to 8.5% in 2012). Among them, 4.0% were foreign-owned enterprises, and 2.2% were mixed enterprises with foreign capital.** Public enterprises represented the minority among the number of enterprises in the Republic of Moldova, constituting 1.9% of the total. This category included 1.8% public enterprises and 0.1% mixed companies with a combination of public and private ownership.

Between 2012 and 2022, the total number of companies in Moldova, regardless of the form of ownership, had a general trend of growth. The financial crisis of 2015 led to a temporary decrease in the number of enterprises, after which it started growing again. The crisis affected local enterprises with the form of private ownership the most, their number decreasing by 2,430 units (a 5.1% decrease) compared to 2014. FDI enterprises were much less affected by the crisis, with their number decreasing by 83 units (a 1.9% decrease) compared to 2014.

Until the Covid-19 pandemic crisis, the number of enterprises with FDI remained relatively stable. The decrease in mixed enterprises (with foreign participation) was offset by the increase in foreign enterprises.

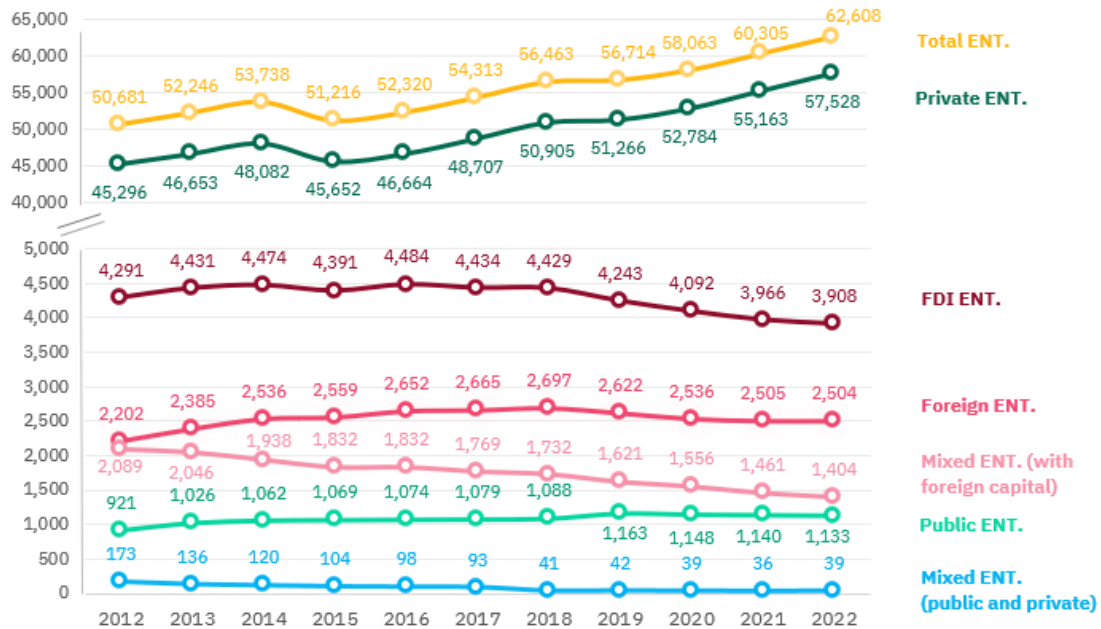
However, the pandemic had a more significant impact on companies with FDI, particularly those connected to global value chains (GVC). Their numbers decreased also due to reduction in the number of foreign companies (with 100% foreign participation).

¹ According to the NBS definition, FDI enterprises are identified depending on the form of ownership and include foreign-owned enterprises (whose share of foreign capital is 100%) and joint ventures (whose share of foreign capital is between 0% and 100%).

² Entities, except non-for-profit organizations, banks, insurance companies, savings and citizen loan associations.

Additionally, the conflict in Ukraine only increased the hesitancy of foreign investors to engage in the Republic of Moldova. By the end of 2022, the number of companies with FDI had reached its lowest point in the last decade, with only 3,908 enterprises registered.

Figure 7 Evolution of the number of enterprises during 2012-2022, according to the forms of ownership (units)



Source: NBS data

Average number of employees

FDI enterprises had an average of 20.8 employees in 2022.

Local private enterprises accounted for 63.3% of the total number of employees in enterprises. In public enterprises and mixed companies (public and private), approximately 21.3% of the total number of employees were working, while in enterprises with FDI, the figure was approximately 15.4% (11.1% in foreign-owned enterprises and 4.3% in mixed companies with foreign capital).

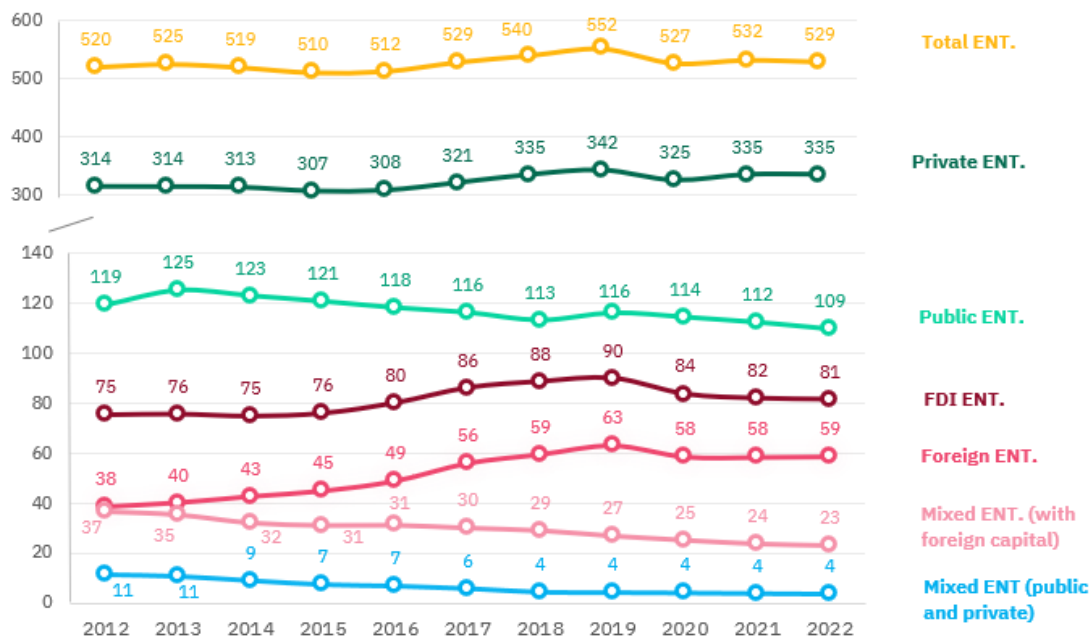
In 2022, a Moldovan company, regardless of its form of ownership, employed on average 8.5 people. Public enterprises and enterprises with public capital participation are the most numerous, with an average number of employees of 92 and 97 people respectively. FDI enterprises had an average workforce of 20.8 people in 2022. **Local private enterprises have the smallest average number of employees, with an average of 5.8 people in 2022. This factor can also contribute to their general vulnerability and lower resilience to various shocks.**

During the period from 2012 to 2019, the average number of employees in enterprises in the Republic of Moldova showed a very slight growth trend, increasing from 520 thousand employees to 552 thousand, with a Compound Annual Growth Rate (CAGR) of 0.9%) (Figure 8). This trend was influenced by the slightly increasing evolution of the average number of employees in private companies, with a CAGR of 1.2%.

During this period, there was a significant reduction in the number of employees in mixed (public and private) companies, with a Compound Annual Growth Rate (CAGR) of 13.2%. This decline is primarily attributed to the substantial reduction in the number of mixed (public and private) companies, which decreased from approximately 200 to about 40 over the last decade. This phenomenon occurred in the context of reorganization and privatization processes within this category of enterprises. Public enterprises also experienced a more moderate reduction in the number of employees.

The number of employees in FDI enterprises increased between 2012 and 2019 from 75 to 90 thousand people. In the segment of FDI enterprises, an interesting evolution can be noted, namely the increase in the number of employees exclusively at the expense of foreign-owned enterprises (with a CAGR of 7.3%). On the other hand, the number of mixed companies (with foreign capital) and their employees decreased with a CAGR of about 4.4%.

Figure 8 Evolution of the average number of employees in enterprises with different forms of ownership during 2012-2022 (thousand people)



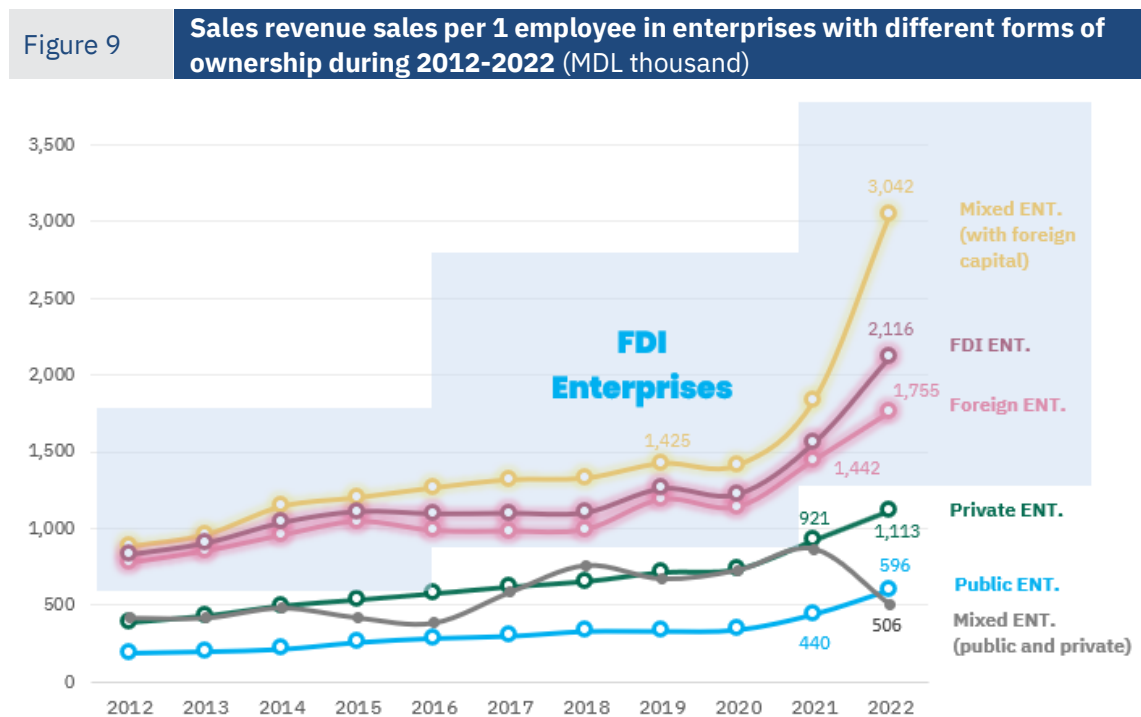
Source: NBS data

Approximately 25,400 employees lost their jobs during the pandemic, with around 6,300 from FDI enterprises (4,600 from foreign enterprises and 1,700 from mixed enterprises). Even though the number of employees has increased in private enterprises (by approximately 10,000) and foreign enterprises (by approximately 1,000) in the last two years, the overall increase in the economy was marginal, with only about 2,000 new jobs. Meanwhile, the downward trend continued for other categories of enterprises.

Analysis of sales revenue

In 2022, Moldovan reporting enterprises achieved a cumulative turnover (sales revenue) of MDL 612.0 billion, representing a 25.4% increase compared to 2021. Of the total sales revenue in 2022, approximately 60.9% was generated by local private enterprises, 28.2% by FDI enterprises (including 16.8% by foreign-owned enterprises and 11.4% by mixed companies with foreign participation), and 10.9% by enterprises that are wholly or partially owned by the state.

FDI enterprises are about 90% more productive compared to local-private ones.



Source: NBS data

Over the past decade, mixed companies with foreign capital participation have consistently recorded the highest labour productivity, reaching 3,042 thousand lei per employee in 2022. Meanwhile, in 2022, foreign-owned enterprises reported a turnover of approximately 1,755 thousand lei per employee.

Privately owned local enterprises achieve labor productivity almost half of that in FDI enterprises, with approximately 1,113 thousand lei per employee, a figure that closely aligns with the country's average of 1,156 thousand lei per employee. Despite the general upward trend in labour productivity in fully or partially state-owned enterprises over the past decade, the sales revenue per employee indicator remains the lowest.

FDI enterprises consistently demonstrate higher labor productivity compared to local enterprises, both across the economy as a whole and within most economic sectors.

Analysis of the profit (loss) before tax

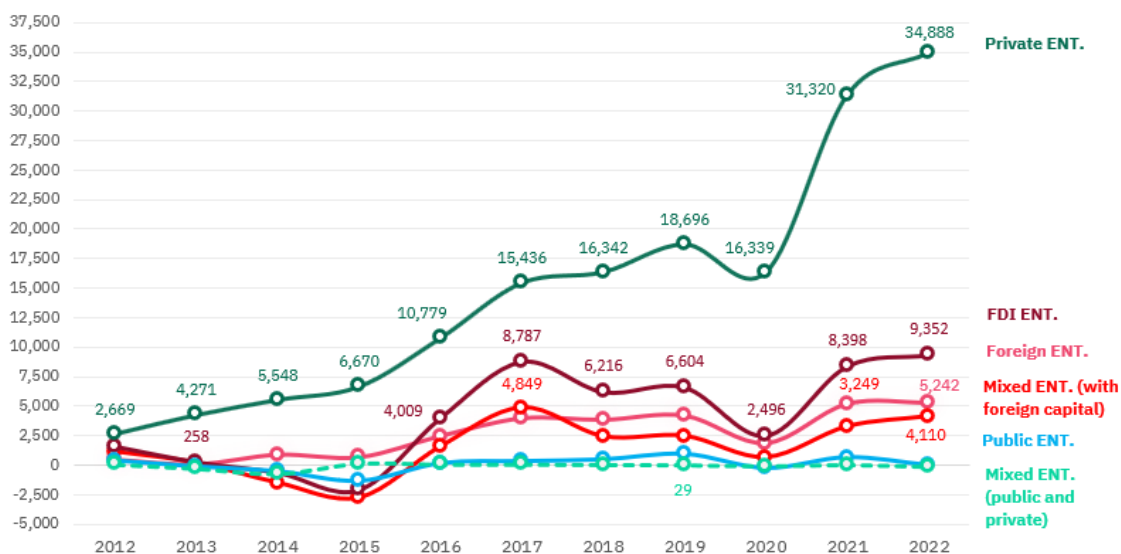
In 2022, Moldovan enterprises, regardless of their ownership structure, collectively generated a pre-tax profit of approximately 44.1 billion lei. This profit was distributed as follows: 79.1% to local private enterprises, 21.2% to FDI enterprises (11.9% to foreign-owned enterprises and 9.3% to mixed enterprises). Public enterprises contributed a minimal 0.01% to the total profit, while mixed enterprises with public capital participation reported a pre-tax loss of 121.7 million lei.

After the 2015 crisis, companies with FDI consistently generated pre-tax profits each year, accumulating a total of 8.8 billion lei in 2017 and over 6 billion lei in the following two years.

However, the pandemic led to a significant reduction in pre-tax profit for FDI companies, especially those closely integrated into global value chains. In 2020, their pre-tax profit dropped by approximately 2.6 times, amounting to 2.5 billion lei. Nevertheless, in the years 2021-2022, they not only recovered to pre-pandemic levels but also achieved record pre-tax profits in 2022, totaling approximately 9.4 billion lei.

Over the past decade, local private enterprises demonstrated the most dynamic growth in pre-tax profits, driven by substantial improvements in business productivity. In contrast, public and mixed local enterprises consistently struggled with poor financial performance, often recording losses (Figure 10).

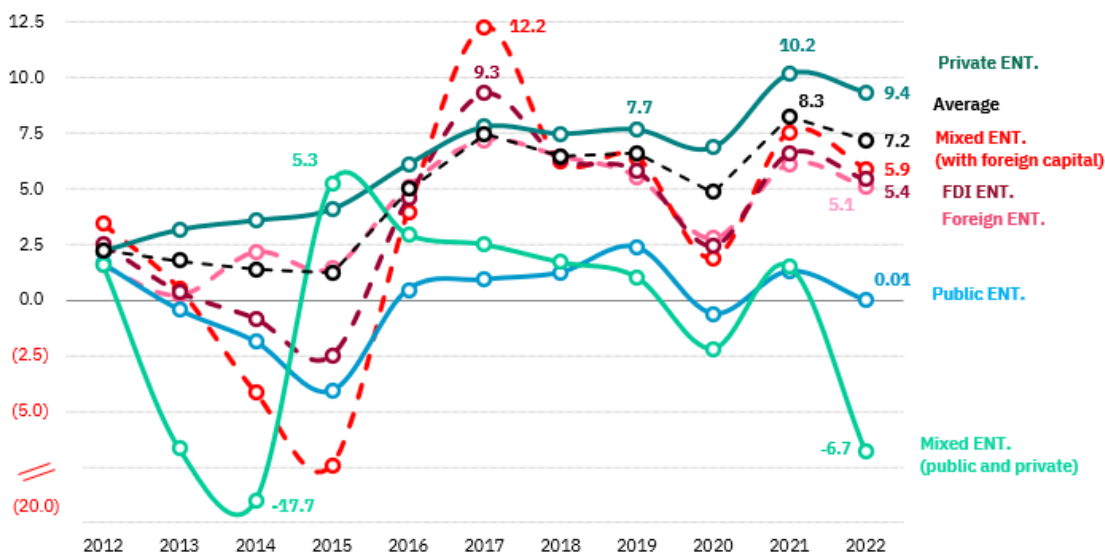
Figure 10 Profit (loss) before tax of enterprises with different forms of ownership during 2012-2022 (MDL millions)



Source: NBS data

On average, Moldovan enterprises, regardless of ownership structure, reported a return on sales (ROS) index of 7.2% in 2022.

Figure 11 Return on sales of enterprises with different forms of ownership during 2012-2022 (percentages)



Source: NBS data

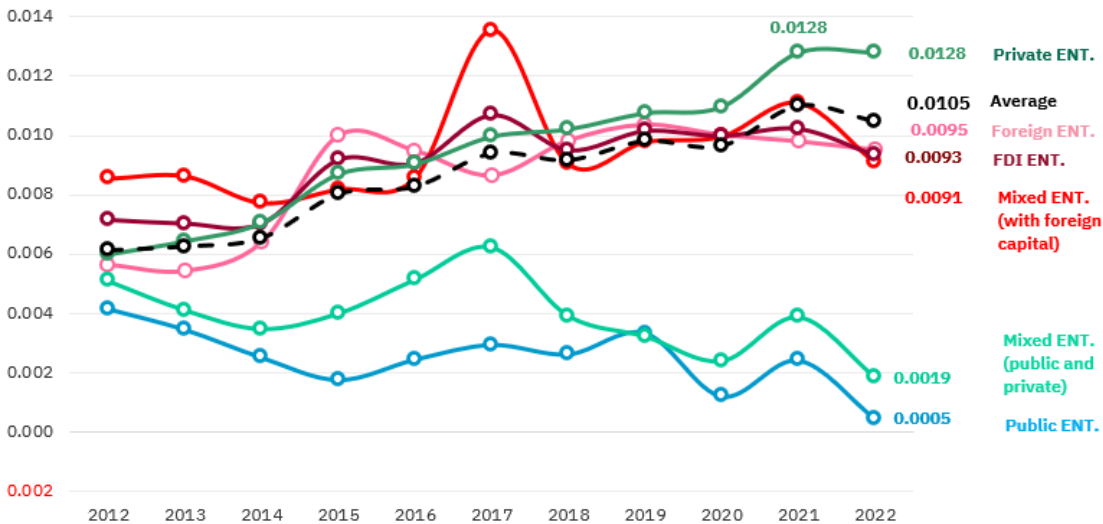
In the case of foreign direct investment (FDI) enterprises, the ROS was somewhat lower compared to the average level at 5.4%. Mixed enterprises (with foreign capital participation) had a higher ROS at 5.9%, and foreign-owned enterprises had an ROS of 5.1%. The lower ROS for FDI enterprises can be attributed to their significant presence in the manufacturing industry, which typically requires intensive capital usage and may have a relatively lower degree of technological sophistication compared to some other sectors.

Analysis of income tax expenses

The contribution of enterprises to the economic development of the country is also reflected in the amounts of corporate income taxes paid. In 2022, of the total amount of corporate income tax paid by enterprises in the Republic of Moldova, 74.4% belonged to local private enterprises. The share of FDI enterprises constituted 25.1% in the total income tax, of which 9.9% belong to enterprises with foreign capital participation (mixed) and 15.2% to enterprises with 100% foreign capital. The lowest share of income tax was paid by public enterprises (0.5%) and enterprises with public capital participation (0.1%).

The comparison of the income tax expenditure rates per 1 leu of sales revenue in enterprises with different forms of ownership shows that in 2022, this indicator was the highest in local private enterprises, followed by enterprises with FDI. For enterprises with the participation of public capital, the respective indicator was by far the weakest.

Figure 12 Income tax expenses rate to MDL 1 sales revenue for enterprises with different forms of ownership during 2012-2022 (MDL)

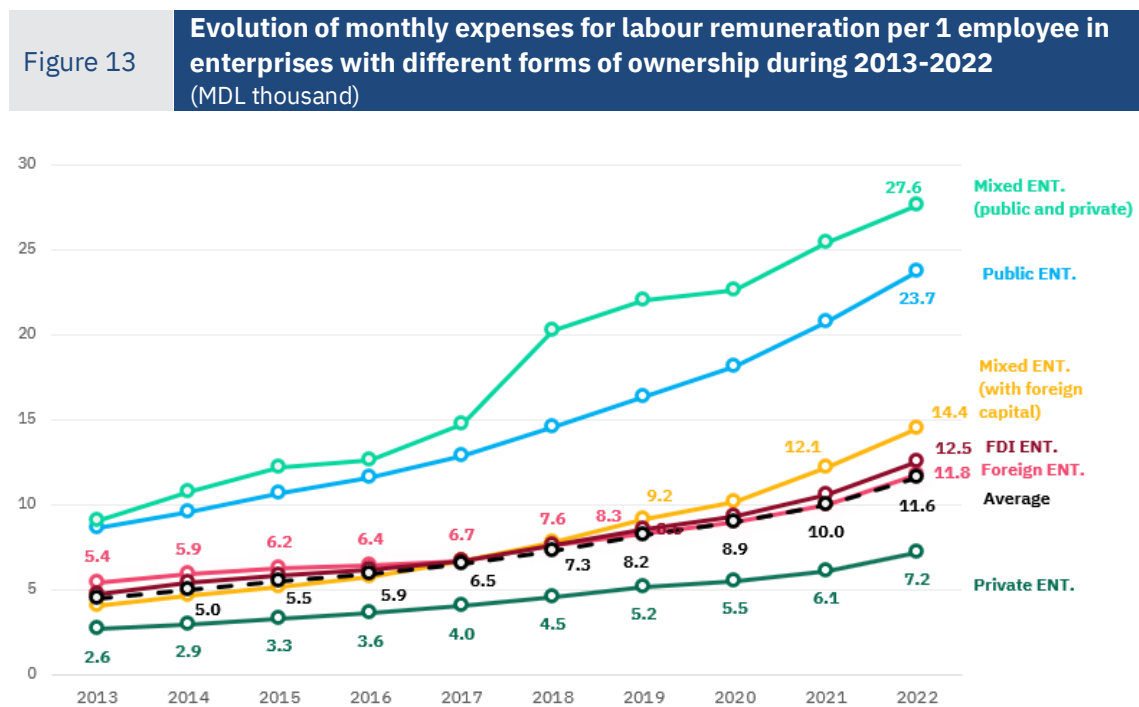


Source: NBS data

Total labour costs

The level of the average monthly labour cost per employee was 11.6 thousand lei in 2022. The average monthly labour cost per FDI employee in 2022 was 12.5 thousand lei (11.8 thousand lei for foreign enterprises and 14.4 thousand lei for mixed enterprises), which is approximately 74% higher than the average for local private enterprises.

In 2022, the highest level of the average monthly labour cost per employee was observed in mixed enterprises with public capital participation (27.6 thousand lei) and public enterprises (23.7 thousand lei). The lowest level of the average monthly labour cost was found in local private enterprises, at 7.2 thousand lei in 2022, which is 38% below the national average.



Source: NBS data

Employers' contribution for compulsory Social Security Contribution (SSC)

(Indirect) expenditures related to employers' contributions for compulsory social insurance are also correlated with the total labour costs.

In 2022, FDI enterprises paid a total amount of 2.9 billion Moldovan lei to the social fund (15.7% of the total), including 2.0 billion Moldovan lei (10.6%) paid by foreign companies and 0.9 billion Moldovan lei (5.1%) by mixed companies, with foreign capital ownership.

In 2022, the average annual expenses for employers' contributions to mandatory state social insurance per employee were 35.3 thousand lei. The highest value of this indicator was observed in enterprises with a mixed (public-private) form of ownership, with 80.8 thousand lei annually per employee.

For FDI enterprises, the annual expenses for employers' contributions to mandatory state social insurance per employee amounted to 36.2 thousand lei in 2022.

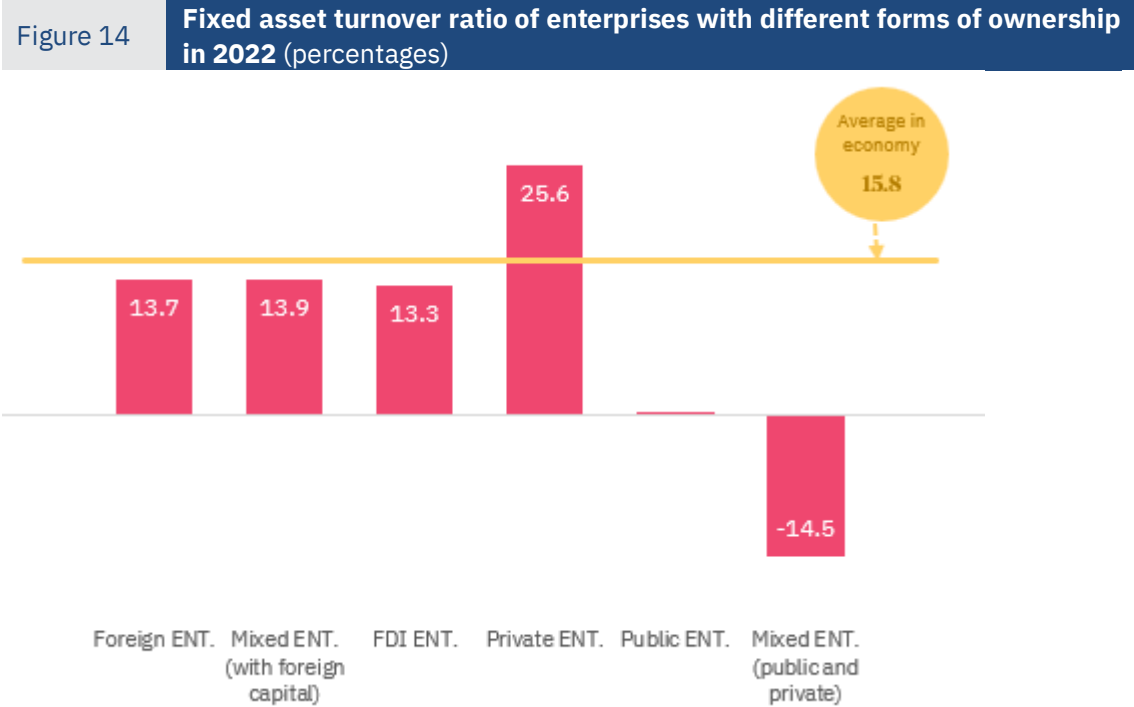
The lowest average annually payments into the state social insurance budget per employee was found in private enterprises, at 21.0 thousand lei. This is related to the lower level of labor remuneration in this group of enterprises.

Fixed asset turnover ratio

FDI enterprises own 24.2% of the fixed assets of all enterprises operating in the Republic of Moldova, including 13.7% for foreign-owned enterprises and 10.6% for mixed companies with foreign capital.

The fixed asset turnover ratio (calculated as the ratio between Profit (loss) before taxation and fixed assets) depends largely on the sector in which the enterprise operates. For capital-intensive activities (such as manufacturing, electricity production and supply, etc.) this indicator is lower. For service sector businesses, which do not require large capital investments and working capital, the return on assets is higher.

Thus, local enterprises with the form of private ownership, with an important share in sectors such as trade and real estate transactions, recorded the best return on fixed assets in 2022 (25.6% vs. the average level of 15.8%).



Source: Calculated based on NBS data

In the case of FDI enterprises, with an important presence in sectors such as manufacturing, information and communications, the ratio was 13.3% (including for foreign-owned enterprises 13.7% and for mixed companies, with foreign capital 13.9%).

The lowest fixed asset turnover ratio was recorded in public enterprises, with a significant presence in sectors such as transport, production and supply of electricity and heat, water distribution: 0.004% in the case of public enterprises and -14.5% in the case of enterprises with public capital participation.

Chapter 3

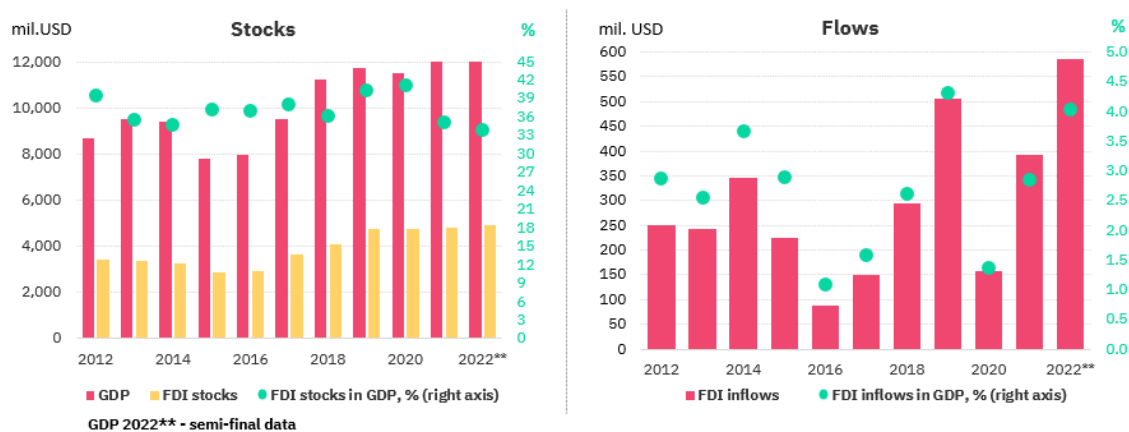
Impact of FDI on the economy of the Republic of Moldova

Contribution of FDI enterprises to GDP

Participation in GDP formation is a key indicator of the impact of FDI on the Moldovan economy. According to NBM data from the period 2012-2022, the share of FDI flows in GDP experienced significant fluctuations, with the highest value recorded in 2019 (4.3%) and the lowest in 2016 (1.1%). In 2022, the share of FDI flows in GDP stood at 4.0% (Figure 15).

The highest share of FDI stocks in GDP (41.2%) was recorded in the pandemic year 2020, against the background of a small GDP. In 2022, the share of FDI stocks in GDP was 34.0%. That indicator is quite low compared to the comparable states, which reflects the country's existing potential to attract FDI.

Figure 15 Share of FDI stocks and flows in GDP, 2012-2022

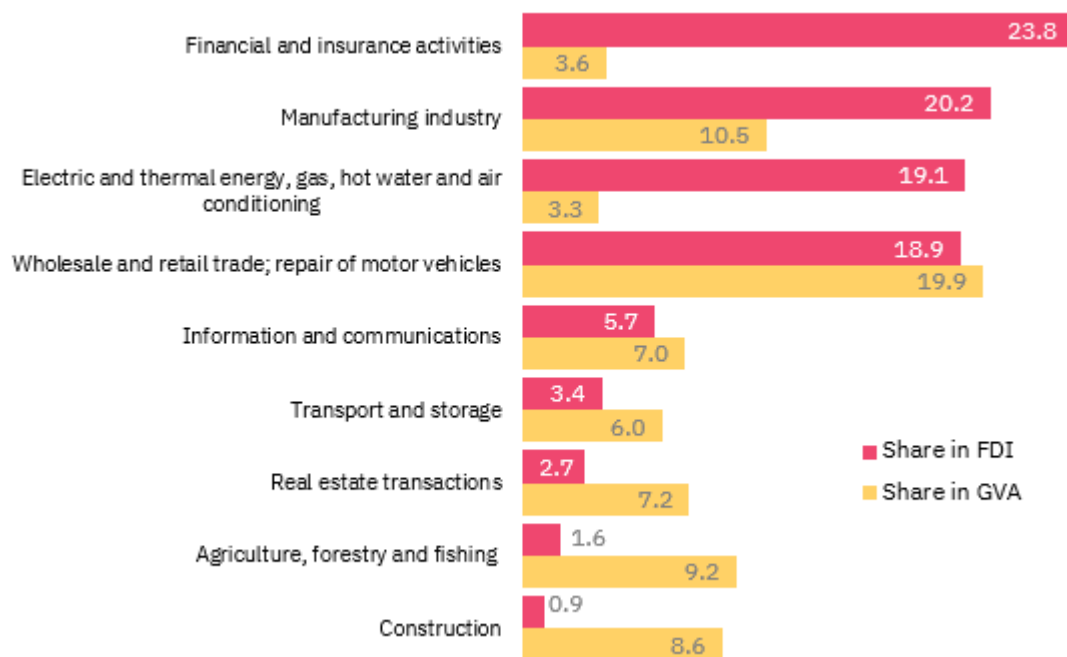


Source: NBM, International Accounts of the Republic of Moldova

FDI distribution by sectors of economy (types of activity)

According to NBM data, in 2022, FDIs are present in almost all economic sectors (types of activity). Therefore, 96.3% of all FDIs in the Republic of Moldova in 2022 were concentrated in nine types of activity, unevenly distributed (Figure 16). The largest share of FDI is present in such sectors as ‘Financial and insurance activities’ (23.8%), ‘Manufacturing’ (20.2%), ‘Production and supply of electricity and heat, gas, hot water and air conditioning’ (19.1%), and ‘Wholesale and retail trade; maintenance and repair of motor vehicles and motorcycles’ (18.9%).

Figure 16 **Comparison of economic sectors’ share in FDI and GVA in 2022**
(percentages)



Source: NBM data (Coordinated Direct Investment Survey), NBS

At the same time, of the respective types of activity, only the manufacturing industry and the wholesale and retail trade are characterized by quite high shares in the formation of gross value added (GVA). Other sectors with a high share of added value, such as agriculture, construction, real estate transactions are less attractive to foreign investors.

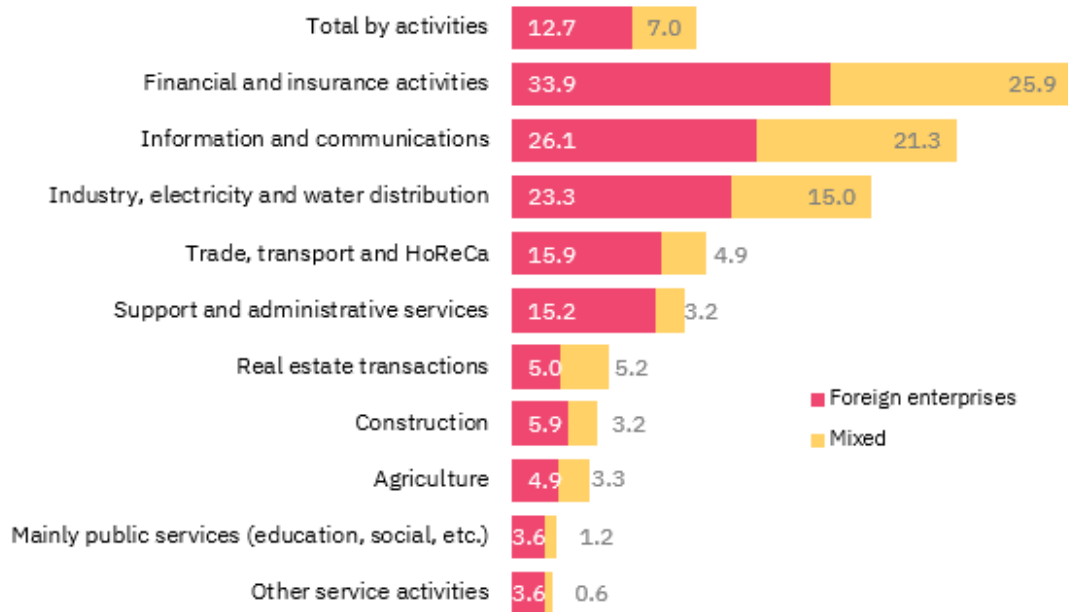
Thus, the sectors of greatest interest to foreign investors are not necessarily the sectors with the highest GVA in the economy, the decisions of foreign investors to enter the Moldovan market are based on more reasons than pure financial interest.

Share of FDI enterprises by sectors of economy by gross value added

FDI enterprises (foreign and mixed) create 19.7% gross value added overall in the economy, of which 12.7% - foreign-owned enterprises and 7.0% - mixed companies, with foreign capital.

The value added of FDI enterprises, including foreign and mixed enterprises with foreign participation, plays a significant role in specific economic sectors. Notably, these enterprises contribute the most to value added in the sectors of financial and insurance activities (59.8%, with 33.9% from foreign enterprises), information and communications (47.4%), industry, electricity, and water distribution (38.3%), as well as trade, transport, and HoReCa sectors (20.8%).

Figure 17 Share of FDI enterprises by economic sectors by gross value added in 2021 (percentages)



Source: NBS data

Share of FDI enterprises in the number of economic agents

In the last 10 years, the share of FDI enterprises has decreased from 8.5% in 2012 to 6.2% in 2022. This evolution has been caused exclusively by the significant (dramatic) reduction in the number of mixed companies, with foreign capital.

If 10 years ago the number of mixed companies (with foreign participation) was close to that of enterprises with one hundred percent foreign capital (about 2,100), in 2022, their number decreased to about 1,400. Thus, the share of mixed enterprises (with foreign capital) reached 2.2% in 2022 (from 4.1% in 2012).

Regarding the companies with one hundred percent foreign capital, their number increased from about 2,200, 10 years ago, to about 2,500 in 2022, accounting for 4% of the total.

Table 1	Evolution of the share of FDI enterprises in the total number of enterprises during 2012-2022 (percentages)											
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	
Foreign-owned enterprises	4.3	4.6	4.7	5.0	5.1	4.9	4.8	4.6	4.4	4.2	4.0	
Mixed enterprises (with foreign capital)	4.1	3.9	3.6	3.6	3.5	3.3	3.1	2.9	2.7	2.4	2.2	
Total FDI enterprises	8.5	8.5	8.3	8.6	8.6	8.2	7.8	7.5	7.0	6.6	6.2	

Source: NBS data

Share of FDI enterprises in employment

The share of workforce employed in FDI enterprises increased during 2012-2022 from 14.5% to 15.4%. This evolution occurred exclusively due to the increase in the number of employees in 100% foreign-owned enterprises.

Ten years ago, both foreign and mixed enterprises had an average of around 17 employees. However, by the end of 2022, foreign companies averaged 23-24 employees, while mixed enterprises averaged approximately 16 employees.

Table 2	Evolution of the share of FDI enterprises in the total number of employees during 2012-2022 (percentages)											
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	
Foreign-owned enterprises	7.4	7.6	8.2	8.8	9.5	10.6	11.0	11.4	11.1	11.0	11.1	
Mixed enterprises (with foreign capital)	7.1	6.7	6.2	6.1	6.1	5.7	5.4	4.8	4.7	4.4	4.3	
Total FDI enterprises	14.5	14.4	14.4	14.9	15.6	16.3	16.4	16.3	15.9	15.4	15.4	

Source: NBS data

Share of FDI enterprises in sales revenue (productivity)

The share of FDI enterprises in the total sales revenues showed slight fluctuations from 2012 to 2022, with the highest recorded in 2015 (29.8%) and the lowest during the pandemic and post-pandemic period (26%).

Throughout the 2012-2022 period, FDI enterprises consistently outperformed their share of employees in total, indicating higher labor productivity. In 2022, 15.4% of employees contributed to 28.2% of the total sales revenue in the economy.

Table 3	Evolution of the share of FDI enterprises in the total volume of sales revenue during 2012-2022 (percentages)											
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	
Foreign-owned enterprises	14.1	14.7	15.5	16.6	16.0	16.6	16.6	18.8	17.5	17.2	16.8	
Mixed enterprises (with foreign capital)	15.4	14.6	14.0	13.2	13.1	12.0	10.8	9.6	9.3	8.8	11.4	
Total FDI enterprises	29.5	29.3	29.4	29.8	29.1	28.6	27.4	28.4	26.7	26.1	28.2	

Source: NBS data

Share of FDI enterprises in the volume of corporate income tax expenses

FDI enterprises play a significant role in contributing to the budget through income tax payments. Over the period 2012-2022, their share of income tax paid ranged from 24.2% (in 2021) to 34.5% (in 2012).

In recent years, this share has slightly decreased due to an increase in the income tax paid by enterprises with other ownership forms. In 2022, FDI enterprises accounted for 25.1% of the total income tax paid to the budget.

Table 4	Evolution of the share of FDI enterprises in the total volume of income tax expenses during 2012-2022 (percentages)											
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	
Foreign-owned enterprises	13.0	12.7	15.1	20.6	18.3	15.3	17.8	19.9	18.1	15.3	15.2	
Mixed enterprises (with foreign capital)	21.5	20.2	16.5	13.5	13.6	17.3	10.7	9.5	9.6	8.9	9.9	
Total FDI enterprises	34.5	33.0	31.7	34.2	31.9	32.5	28.4	29.4	27.7	24.2	25.1	

Source: NBS data

Share of FDI enterprises in the total labour costs

The share of companies with FDI in the total labor costs increased from 15.2% in 2013 to 16.7% in 2022. Additionally, the average monthly remuneration of an employee at FDI enterprises is approximately 74% higher than the average at local private enterprises.

Table 5	Evolution of the share of FDI enterprises in the total volume of labour costs during 2013-2022 (percentages)									
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Foreign-owned enterprises	9.2	9.7	9.9	10.3	10.9	11.5	11.6	11.1	10.9	11.3
Mixed enterprises (with foreign capital)	6.0	5.8	5.7	5.9	5.8	5.7	5.4	5.4	5.4	5.4
Total FDI enterprises	15.2	15.5	15.6	16.1	16.7	17.2	17.0	16.5	16.3	16.7

Source: NBS data

The share of FDI enterprises in the volume of fixed assets

FDI enterprises make a substantial contribution to the utilization and creation of fixed assets. In 2022, they held 24.2% of immobilized assets for both industrial and social purposes. The share of fixed assets in companies with FDI has exhibited minor fluctuations over the past decade, typically falling within the 24-30% range.

Table 6	Evolution of the share of FDI enterprises in the total volume of fixed assets during 2012-2022 (percentages)										
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Foreign-owned enterprises	10.6	11.3	12.4	13.6	14.2	14.3	14.9	15.1	15.2	14.3	13.7
Mixed enterprises (with foreign capital)	19.1	18.0	15.0	14.2	13.7	13.3	12.3	12.3	11.3	11.1	10.6
Total FDI enterprises	29.7	29.3	27.4	27.8	27.8	27.6	27.2	27.4	26.5	25.4	24.2

Source: NBS data

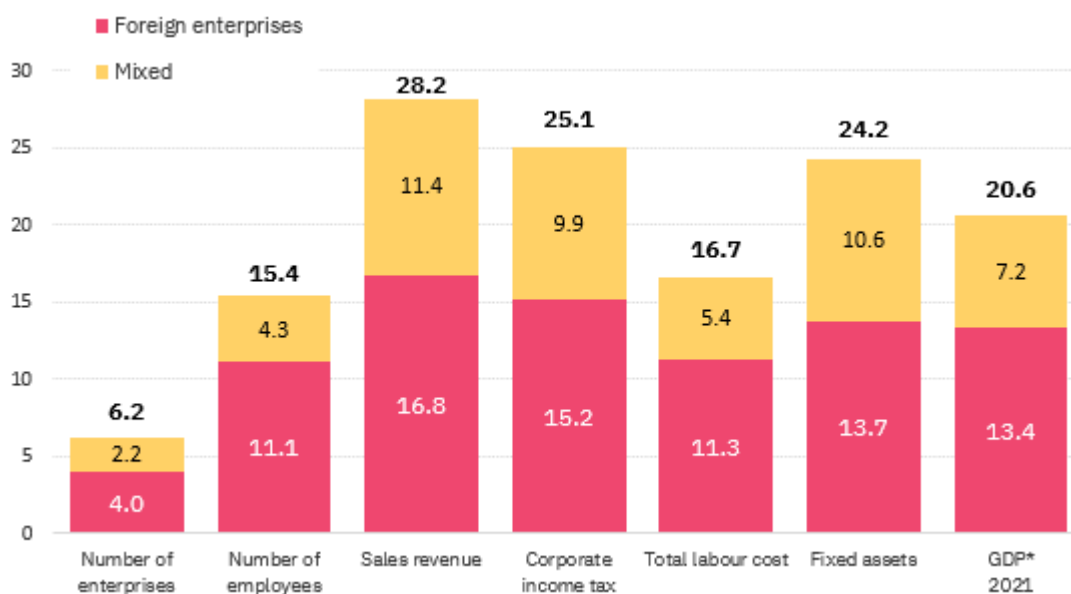
In conclusion, enterprises with 100% foreign capital and mixed enterprises play a significant role in the economic and social development of the Republic of Moldova. Despite their relatively small number, they demonstrate high efficiency and hold systemic importance for the national economy, as evidenced by the following indicators:

- ☑ FDI enterprises actively contribute to the creation of GDP. In 2022, FDI inflows accounted for 4.0% of GDP, and FDI stocks represented approximately 34% of GDP.
- ☑ FDI enterprises are not only present in high GVA sectors but also in those with lower added value, where their higher productivity drives sectoral development.

- ✔ With a share of only 6.2% in the total number of enterprises, companies with FDI create jobs for 15.4% of the workforce, employed in enterprises in the Republic of Moldova. At the same time, their share in sales revenue is 28.2%, which shows a high labor productivity.
- ✔ FDI enterprises have a significant importance in the formation of the state budget, contributing 25.1% of all corporate income taxes accumulated to the budget.
- ✔ FDI enterprises contribute to the creation of fixed assets. They own 24.2% of immobilized assets, both for industrial and social purposes.
- ✔ In the case of companies with FDI, the level of labor remuneration is the highest, a fact that contributes to the increase in the standard of living and, to a certain extent, to the braking of emigration growth.
- ✔ Companies with FDI contribute to the creation of gross added value in the amount of 19.7% as a whole on the economy, at the same time in some types of activity their weight is impressive (financial activities and insurance (59.7%), information and communications (47.4%)).

Figure 18

Impact of FDI enterprises on the economy of the Republic of Moldova
(percentages in total)



Source: NBS data