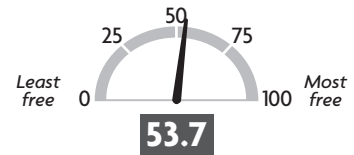


MOLDOVA

Economic Freedom Score



World Rank: **125**

Regional Rank: **40**

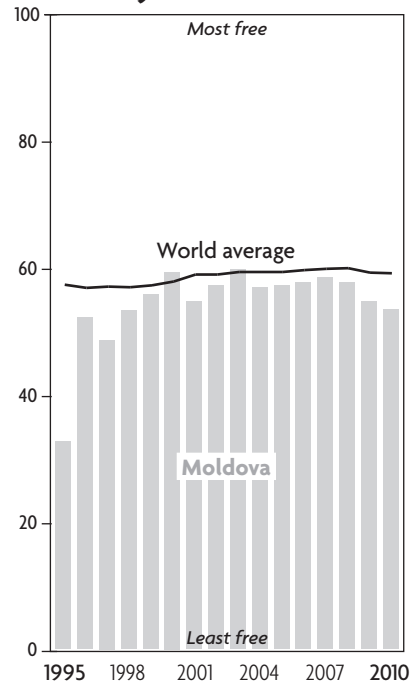
Moldova's economic freedom score is 53.7, making its economy the 125th freest in the 2010 *Index*. Its score has decreased by 1.2 points since last year, reflecting lower scores in five of the 10 economic freedoms. Moldova ranks 40th among 43 countries in the Europe region, and its overall score is below the world and regional averages.

Moldova scores just above the world average in trade freedom, business freedom, and fiscal freedom and has achieved relatively steady economic growth of 5 percent over the past three years. In recent years, the government has implemented measures to improve regulatory transparency and the overall entrepreneurial environment. Recent tax reforms have made the country's tax regime quite competitive.

Overall economic freedom remains constrained by a number of institutional shortcomings that impede economic dynamism within the private sector. Monetary stability, investment freedom, and freedom from corruption are weak. Foreign investment faces hurdles that range from bureaucratic inefficiency to outright restriction. There is significant corruption in most areas of the bureaucracy. Political instability has left fiscal policy fragmented. Strains on the budget are mounting.

BACKGROUND: Moldova became independent after the collapse of the Soviet Union in 1991 and continues to face a secessionist, Communist, and pro-Russian enclave in Transnistria. The reformed Communist Party, 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. Moldova is Europe's poorest country, and remittances account for one-third of GDP. The Communist Party won the April 2009 parliamentary election, but the results were disputed, and violent protests erupted. The Organization for Security and Cooperation in Europe concluded that violations during the elections did not affect the outcome.

Country's Score Over Time



Quick Facts

Population: 3.6 million

GDP (PPP): \$10.6 billion

7.2% growth in 2008

5.9% 5-year compound annual growth

\$2,925 per capita

Unemployment: 2.1% (2007)

Inflation (CPI): 12.7%

FDI Inflow: \$713 million

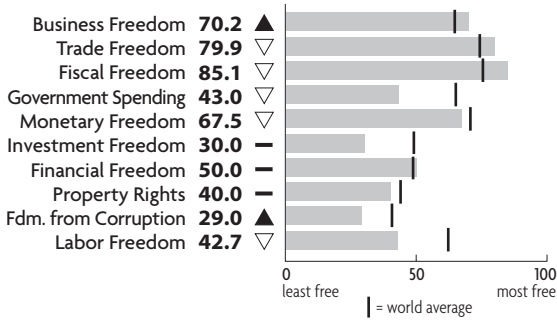
2008 data unless otherwise noted

Data compiled as of September 2009

How Do We Measure Economic Freedom?

See page 457 for an explanation of the methodology or visit the *Index* Web site at heritage.org/index.

MOLDOVA'S TEN ECONOMIC FREEDOMS



BUSINESS FREEDOM — 70.2

The overall freedom to conduct a business is relatively well protected under Moldova's regulatory environment. Starting a business takes an average of 10 days, compared to the world average of 35 days. However, obtaining a business license still requires more than the world average of 18 procedures and 218 days.

TRADE FREEDOM — 79.9

Moldova's weighted average tariff rate was 2.5 percent in 2008. Import and export restrictions, import taxes and fees, burdensome regulations, non-transparent government procurement, weak enforcement of intellectual property rights, and an inefficient and non-transparent customs process that is prone to corruption add to the cost of trade. Fifteen points were deducted from Moldova's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM — 85.1

Moldova's tax rates have been significantly reduced in recent years. The top income tax rate is 18 percent, and the corporate tax was eliminated as of January 2008. However, the tax regime remains complex, and businesses still have to file tax returns or be penalized. Other taxes include a value-added tax (VAT) and a capital acquisitions tax. In the most recent year, overall tax revenue as a percentage of GDP was 34.1 percent.

GOVERNMENT SPENDING — 43

Total government expenditures, including consumption and transfer payments, are high. In the most recent year, government spending equaled 43.6 percent of GDP. The government is slowly revitalizing privatization and plans divestiture of MoldTelecom and a major state-owned bank.

MONETARY FREEDOM — 67.5

Inflation has been high, averaging 12.6 percent between 2006 and 2008, but fell sharply in 2009 because of lower food and oil prices, relatively tight monetary policy, and falling domestic demand as the economy moved into recession. 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. Ten points were deducted from Moldova's monetary freedom score to account for policies that distort domestic prices.

INVESTMENT FREEDOM — 30

Foreign capital and domestic capital are legally equal. Foreign investment is generally welcome, subject to some restrictions, and some sectors are reserved for state enterprises. There is no screening of investment. Regulatory administration can be non-transparent, burdensome, and inconsistent. Poor physical infrastructure and weak contract enforcement hinder investment. Government officials have been known to interfere in business decisions in favor of a privileged individual or to use governmental power to pressure businesses for personal or political gain. Legal disputes may not result in impartial rulings. Residents and non-residents may hold foreign exchange accounts. Some payments, capital transactions, and transfers require National Bank of Moldova approval. Non-Moldovans may not buy agricultural or forestry land.

FINANCIAL FREEDOM — 50

Moldova's financial system has been undergoing restructuring and consolidation, and bank supervision and regulation are now more in line with international standards. New regulations are being implemented for non-banking financial sectors. Rapid credit growth has supported private-sector expansion, but long-term financing can still be a problem. The banking sector remains highly concentrated, and the top five of 16 commercial banks account for more than 50 percent of total assets. Foreign capital in banking has been increasing steadily. In July 2007, regulation in the non-bank financial sector was consolidated in a single National Commission for the Financial Markets. Capital markets remain underdeveloped.

PROPERTY RIGHTS — 40

The judiciary has been improved but is subject to executive influence. Delayed 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 and has a State Agency for Intellectual Property to protect copyrights, but IPR enforcement is sporadic.

FREEDOM FROM CORRUPTION — 29

Corruption is perceived as widespread. Moldova ranks 109th out of 179 countries in Transparency International's Corruption Perceptions Index for 2008. The government is trying to adopt European anti-corruption and anti-crime standards and to participate in international cooperation and evaluation mechanisms. Corruption and bribery reportedly are serious problems for foreign investors. In 2007, Moldova ratified the United Nations Convention against Corruption.

LABOR FREEDOM — 42.7

Moldova's labor regulations are rigid. The non-salary cost of employing a worker is high, and dismissing an employee is not easy. Restrictions on work hours remain rigid.