

# Business Guide to Moldova\*



2005 Edition

\*connectedthinking

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This guide has been prepared for the assistance of PricewaterhouseCoopers clients and also parties interested in doing business in Moldova. It does not exhaustively cover the subject, but is intended to be a synopsis of some of the important initial questions that may arise. When specific problems occur in practice, it is likely that a close understanding of the laws, regulations and decisions of the country will be of benefit, and appropriate accounting, tax and legal advice be considered.

The material contained within this guide has been assembled in May 2005 and is based on the legislation as it stands at 1st August 2005.

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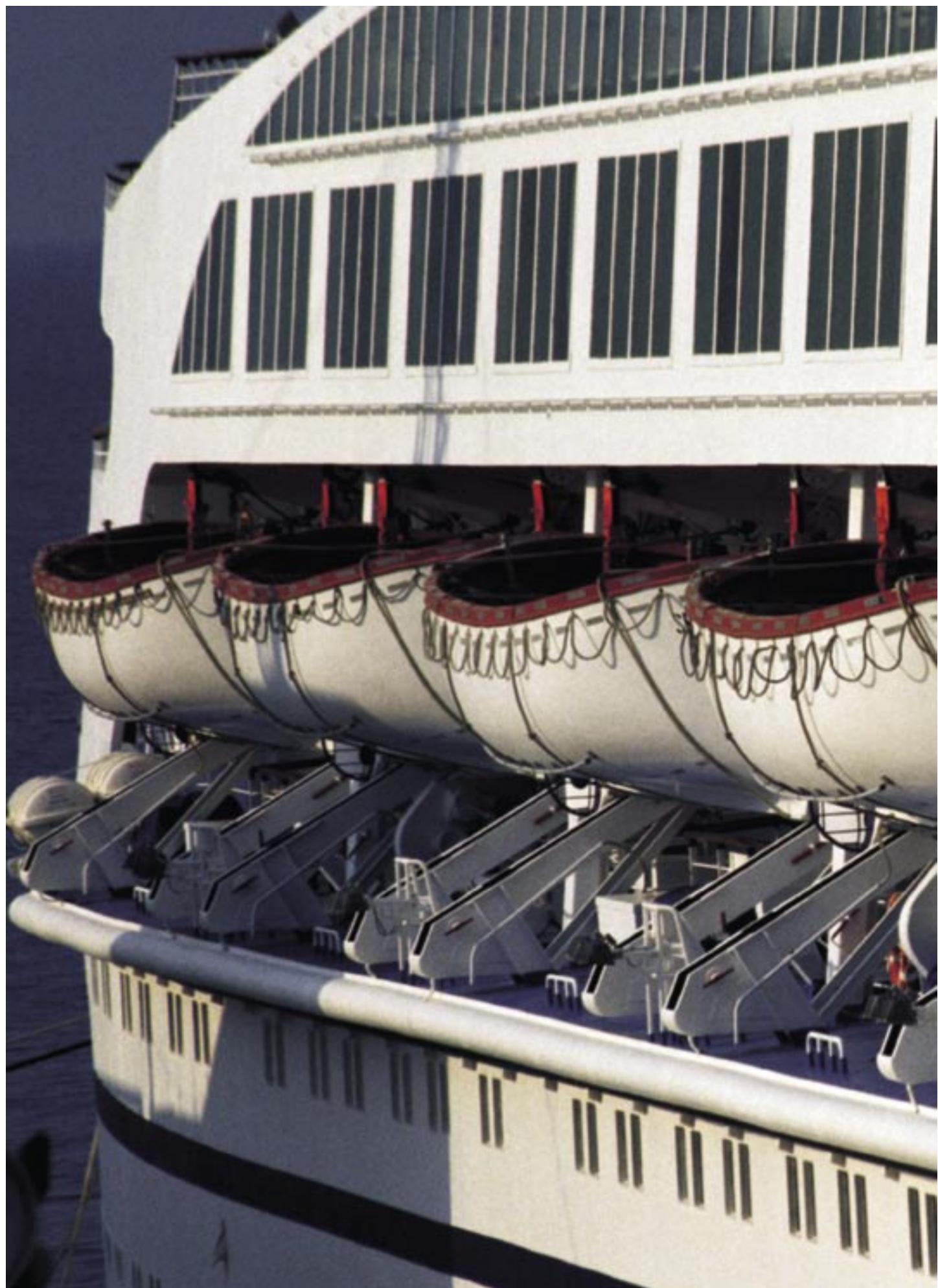
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## Moldova: a Profile



- Moldova's population accounts for 4.3 million
- 7.3% GDP growth in 2004
- Parliamentary elections were held on 6 March 2005

### 1.1 General Description

Moldova is a small, densely populated former Soviet republic that has been independent since 1991. It is situated in South Eastern Europe, north of the Balkan Peninsula. With an area of 33,700 square kilometres (about 12,600 square miles), Moldova is the second smallest country of the Community of Independent States (former Soviet Union republics). It stretches 350 km from north to south and 150 km from east to west. In the north and east Moldova borders Ukraine and in the west borders Romania.

The country's topography is diverse, ranging from a steppe area in the North and South, to forested and mountainous highlands up to 400 metres in elevation in the centre of the country. This area retains its ancient name Codru, meaning "old forest". These beautiful forests continue to hold great environmental importance. The underground water reserve, mostly drinking water, is estimated at 200 million cubic metres. The soil is black earth (chernozem) and is rich in humus. An extremely favourable combination of climatic and soil conditions creates high yields of cereals, grapes, tobacco, fruit and vegetables.

### 1.2 Political System

The Republic of Moldova has been an independent State since August 27, 1991. The Constitution dates from July 29, 1994. Parliament is elected for 4 years. Constitutional amendments stipulate that the President must now be elected by the Parliament instead of directly by the electorate. The President then nominates the Prime Minister. The latest parliamentary elections took place on 6 March 2005. Moldova's ruling

Communist Party received 46.1% of the vote, ahead of the Democratic Bloc of Moldova, which won 28.4% and the Christian Democratic People's Party, which took 9.1%. Accordingly, the Communists will take 56 seats in the 101-member parliament. This is enough for the party to form a government (the required minimum for that is 51 votes).

### 1.3 Population and Urbanisation

There has been a considerable decrease in population, according to the preliminary results of the census carried out in October 2004. As of October 2004, the country's population (except for the Transnistrian region) amounted to 3.4 million – a 6.9% drop compared with the population census from 1989.

As per the census data, 259.6 thousand people are living outside the Republic of Moldova (7.7% of the country's population).

Chisinau's population fell 10% below estimates, amounting to 716,530. According to the latest data, 39% of the population live in urban areas, compared with 45.3% at the beginning of 2004.

The population of Moldova is predominantly Christian of different denominations: Orthodox (98%), Roman Catholic, Reformed, and Greek Catholic.

### 1.4 Language

The official language of the country is Moldovan (equivalent Romanian language), although Russian is also commonly spoken. English is widely recognised as the international business language.

## 1.5 Education

Education is mandatory from the age of six to fifteen. There are 1,571 educational institutions in the Republic of Moldova. The majority of them are State Institutions (98%) and only 30 of them are private. Annual fees for private schools vary from USD 50 to USD 2,000 a year.

There are 35 institutes of higher learning, including universities, which provide training in the humanities, economics, sciences, engineering and technical fields.

The number of post-secondary institutions has grown in recent years and private education has become increasingly popular. English language business administration courses have been introduced in co-operation with the US and Canada, as well as with the European MBA programme, run by the Grenoble Graduate School of Business (GGSB) from France.

## 1.6 The Economy

Moldova is committed in its European integration efforts, on both the political and economic fronts, and it aims to strengthen economic relations with neighbouring Balkan countries. Moldova became a member of the World Trade Organisation in May 2001.

GDP growth has remained stable over the past few years. Cumulative GDP growth during 2000-2003 was 24.1% (6.1% in 2001, 7.8% in 2002 and 6.6% in 2003).

GDP totalled USD 2.5 billion and increased by 7.3% in 2004.

Real economic growth is estimated at 6% in 2005.

Total industrial output in 2004 stood at USD 1.4 billion – a 6.4% increase against 2003.

The country's historic strength is agricultural processing, in particular wine production and the processing of fruits and vegetables. Moldova's dark-earth soil, which is ideal for growing wine grapes, tobacco and sugar beet, is one of Europe's most fertile soils.

Main country's industries include steel manufacturing, agricultural machinery, foundry equipment, white goods and textiles.

The government has adopted an Action Plan for 2004-2005 with an aim to bolster Moldova's economy as well

as speed up the restructuring of the country's industrial enterprises.

The plan includes a series of measures aimed at improving the institutional framework, promoting economic reform, investment, innovation and entrepreneurial support. The plan also outlines initiatives for creating a viable and open business environment.

Agricultural output in 2004 increased by 20.4% compared with 2003, exceeding USD 1 billion.

Inflation slipped to 12.5% in 2004 compared with 15.7% in 2003.

Consolidated budget revenues amounted to USD 600 million in 2004, increasing by 13.6% compared with the previous year.

## 1.7 Transport and Communications

### Transport

**Roads:** The country has more than 9,200 kilometres of roads, but only 8,700 kilometres have rigid surfacing. There are no highways, and in winter snow may make certain areas temporarily impassable.

**Rail Transport:** "Calea Ferata", a state-owned company, runs Moldova's railroad. The Railroad company registered a profit of USD 42,000 last year. Calea Ferata carried a total of 5.1 million passengers last year, a 6% increase compared with 2003. The railway network still needs considerable investment.

**Water Transport:** Moldova's main waterway is the Dniester, which has access to the Black Sea via Ukrainian ports.

**Air Transport:** 14 air carriers operate in Moldova, which perform regular flights on 17 routes. The biggest air carriers are the national companies, "Air Moldova" and "Moldovan Airlines" and foreign operators such as: "Austrian Airways", "Tarom", "Sky Alliance", "Transaero" and "Tandem Aero" Ltd.

### Communications

**Telephone and postal service:** JSC "Moldtelecom" S.A. administers the fixed telephone network, data transmission and Internet and offers Internet access to other Internet Service Providers (ISP).

There are two GSM mobile providers, the French-Moldovan Voxtel and Moldcell - an international company, whose main shareholders are MoldFintur SRL and Fintur Holding B.V. (Netherlands). Voxtel was initially granted an exclusive license but anti-trust legislation allowed for an additional license to be granted to Moldcell.

Post and Telegraph services are available at most post offices with money transfer services, including Western Union and Money Gram.

**Television:** The cable-TV provider Sun-TV mainly presents television in Moldova. The system includes channels such as CNN, Discovery, Eurosport, Cartoon Network, HBO and others, mainly in Russian or Romanian.

**Radio:** There are both Moldovan and Russian radio stations with news and a variety of music channels. There are several FM private networks as well as national AM radio networks.

**Internet:** Some of the Internet providers operating in the Republic of Moldova are: Transcor Agency, Arax-Impex, Cartel-System, GlobNet, InterDnestrCom, MAXdsl, Meganet, MNC MoldData, MoldInfoNet, Moldpac, NeoNet Group, Riscom, StarNet, Telcom Technologies.

Moldtelecom Internet Point of Presence has direct access to the Global Network via three fibre optic cables with a total capacity of 34 Mbps, connected to the Frankfurt (Germany) Sprint - internationally recognised operator. Moldtelecom offers Internet services to other ISP and direct Internet subscribers via its own public telephone networks or via leased lines.

Visas can also be bought on arrival at Chisinau airport (single entry, valid for one month), but visitors still need an invitation from a Moldovan company or organisation.

Transit visas are issued to foreign citizens and non-residents upon presentation of an entry visa to a third country.

Types of visas and costs:

■ single entry (during 1 month)	USD 60
■ double entry (during 1 month)	USD 75
■ multiple entry (during 1 month)	USD 105
■ multiple entry (during 2 month)	USD 150
■ multiple entry (valid for 3 months)	USD 180
■ multiple entry (valid for 6 months, with permanent stay for up to 90 days)	USD 240
■ simple transit	USD 30
■ double transit	USD 60

Visas are not required for the holders of diplomatic passports of USA, Canada and EU member states. Visas for members of official UN delegations are free of charge.

Citizens of EU member or candidate countries, the United States, Canada, Japan, Switzerland, Norway and Israel do not need any invitation to get a visa, provided their stay in Moldova does not exceed 90 days.

Foreign citizens staying in the country have to register with the local police within three days of their arrival. The place of registration (usually, a district police station) depends on where a visitor is staying in Moldova. Most hotels will register guests automatically. Under Moldovan law, those who fail to register with authorities may be required to appear in court and pay a fine.

## Currency

Moldova introduced its own currency to replace the Soviet rouble in November 1993.

The Moldovan currency is the "Leu", plural "Lei", abbreviated as MDL.

## 1.8 Business Visitors

For any business trip to Moldova a degree of advance preparation is recommended. Prepared planning can go a long way towards avoiding unnecessary frustrations.

### Visa Requirements

All travellers to Moldova require passports (preferably with a validity of over six months) and most visitors (except CIS and Romanian citizens) also require a visa. Visas can be purchased from one of Moldova's embassies or consulates. To obtain a visa, visitors are required to present an invitation or booked accommodation from a Moldovan company or organisation.

From 1995 to late August 1998, the nominal MDL/USD exchange rate depreciated very slowly, due to the strong support from the National Bank of Moldova. The negative impact of the Russian crisis in 1998 and expectations of a worsening fiscal condition caused a decline in the value of the national currency thereafter. The exchange rate appreciated in 2003 by 5.4% and stood at MDL 13.22 per 1 USD. In 2004 the exchange rate of MDL to USD appreciated by 5.6%.

#### **Notable points are:**

- On 1 July 2005, the official exchange rate was USD 1 = MDL 12.5812 and EURO 1 = MDL 15.1615;
- Transactions between residents must be performed in MDL;
- Most prices are denominated in MDL but prices for some goods and services are unofficially indicated in a convertible currency (USD) but payable in MDL;
- Residents/non-residents of the Republic of Moldova are entitled to bring in / take out of the country banknotes, coins and cheques in the national currency of RM in an amount that does not exceed MDL 7,000 per person.

The self-declared Transnistrian Republic has its own currency.

## Statutory Holidays

1 January	New Year's Day
7 and 8 January	Christmas (Orthodox)
8 March	International Women's Day (Gifts and flowers are given to women)
1st and 2nd day of Easter	Easter (Orthodox, dates depending)
1st Monday after Easter	Memory Day
1 May	International Labour Day
9 May	Victory Day
27 August	Independence Day
31 August	Language Day
14 October	City Day

Additionally, the period between New Year and Christmas is characterised by very limited business activity. In summer, some companies, government agencies and the courts are operating with reduced hours and staff.

■ There are no limitations to the amount of foreign currency that can be brought to the Republic of Moldova. Non-residents are entitled to take out of the country foreign currency in banknotes, coins and travellers' cheques in an amount that does not exceed USD 1,000 (or its equivalent) per person, without having to present any authorisation to the customs authorities. The amount in excess of USD 1,000 can be taken out of the country if the non-resident provides the customs declaration confirming that this amount had been introduced by him into the country.

■ Cash and credit cards (Visa Card, Master Card, and Maestro Card) may be used in Moldova but not many places accept traveller's cheques. Cash is the preferred method for transactions and can be exchanged easily at official exchange points.

# Business Environment



- Moldova is among top 10 countries worldwide in terms of achieving significant results in reforming the business environment in 2004
- Moldova counts 6 free trade zones and industrial parks
- Successful privatisation of housing has laid the foundation for the development of the real estate market

### 2.1 Business Climate

From 1991 significant steps have been taken towards improving the business environment in Moldova. In recent years Moldova has made headway on the stabilisation front (stable currency and low inflation), but has lagged behind in the area of structural reform and the creation of a business-friendly legal and tax environment.

Positive achievements have been made in the following areas:

- Successful completion of mass privatisation programme;
- Privatisation and liberalisation of the foreign trade sector;
- Monetary stability and lower inflation;
- Introduction of full current account currency convertibility;
- Implementation of national accounting and audit standards based on international standards;
- Privatisation and streamlining of the banking system;
- Successful completion of land privatisation;
- Implementation of post privatisation activities.

According to a World Bank annual private enterprise survey, Moldova is among the top 10 countries worldwide in terms of achieving significant results in reforming the business environment in 2004.

The survey assessed the economic situation in 124 countries and covered such areas as: starting a business, getting credit, enforcing contracts, hiring and firing workers, investment protection, etc.

The most successful 20 countries also include Lithuania, Finland, Great Britain, US, Hong Kong, Ireland, Netherlands, Canada, Japan, Sweden, Denmark and Switzerland.

### 2.2 The Aims of Government Policy

The Government of Moldova, realising the depth of economic and social crisis, acknowledges the need to revive the economy and decrease social tension in the country whilst continuing to integrate into the international community.

### 2.3 Free Trade Zones

There are six free trade zones and industrial parks in Moldova: Expo-Business-Chisinau, Tvardita, Vulcanesti, Otaci-Business, Taraclia and Ungheni-Business.

Since the establishment of the first free trade zone in 1995 and until the end of 2004, the amount of attracted investment totalled USD 4.38 million. The bulk of the investments went to Expo-Business-Chisinau (USD 2.05 million), Taraclia zone (USD 1.1 million), Valcanes zone (USD 700,000) and Tvardita zone (USD 417,000).

### 2.4 Small and Medium-Sized Businesses

The government acknowledges that small and medium sized enterprises (SME) play a crucial role in the transition process. A vibrant SME sector is not only a source of employment, but also a key source of innovation, entrepreneurship and productivity growth.

The SME sector employs about 29% of the total number of employees and has a 30% share of the country's total income.

The majority of SMEs perform trading activities owing to the small amount of capital investment required and to a quick capital turnover rate.

## 2.5 Participation in International Organisations

Moldova is a member of the following key organisations and associations:

- Council of Europe
- Commonwealth of Independent States (CSI)
- Stability Pact of south-eastern Europe
- GUUAM
- World Trade Organisation
- The International Monetary Fund
- The European Bank for Reconstruction and Development
- The International Bank for Reconstruction and Development
- International Development Agency
- International Finance Corporation
- Multilateral Investment Guarantee Agency

Government strategy includes the prospect of the country joining the European Union. However, strong efforts must be made in many areas to meet the preconditions.

## Support from International Financial Institutions

World Bank lending has provided consistent support for the country's economic reform program. Early lending focussed on providing adjustment support, strengthening the private sector in both the agriculture and enterprise sectors, and improving economic and financial management in the energy sector.

The total amount of funds allocated by the World Bank in 2004 for project implementation was USD 52.8 million, representing 36% of the initially projected amount of USD 146.2 million.

The new projects launched by the World Bank in 2004 are: Project on Pollution Control in Agriculture, Social Investment Fund-2 and Moldova Energy II Project.

A new Country Assistance Strategy for Moldova was approved by the World Bank's Board of Executive Directors in December 2004. The Country Assistance Strategy describes the Bank's planned operations in a country-lending, analytical work and technical assistance. The Country Assistance Strategy for

Moldova covers the period 2005-2008 and envisages a lending program of between USD 90 million and USD 137 million.

The EBRD is also active in Moldova, both in equity investment and in providing financing to investors. In addition to its participation in the electricity privatisation, the EBRD is financing major investments in transport, heating and water supply, as well as the development of the banking system.

## 2.6 Land Ownership

Under current law, land can be freely bought and sold with the exception of: foreign citizens, companies and states that have no right to purchase and sell agricultural lands and forested lands (but they can obtain the right of property for such land by inheritance).

The United States Agency for International Development (USAID) allocated USD 12 million for Moldova's post-privatisation program – the Sales Program for Farmers. The four-year program was implemented by Citizens Network for Foreign Affairs (CNFA) starting from February 2001. The programme's objective was to assist the farmers who received land under the "Pamint" ("Land") national programme with a view to increase production.

## 2.7 The Property Market

The property market has developed continuously over the last 4 years. Privatisation of housing has been successfully completed and played a significant role in the consolidation of the national real estate market. In 2004, as well as in the previous years, housing prices have increased. In 2004 the price of real estate increased by 40%.

The average price for a square metre of housing space increased from USD 350 in 2003 to USD 490 in 2004.

Commercial real estate has also seen increasing demand. The price per square metre of office space is about USD 400. For shops the price amounts to USD 350 for industrial facilities - USD 120, and for storage facilities - USD 90.

The real estate market stabilised at the beginning of 2005. It is estimated that the average price for housing will decrease substantially.

The biggest real estate agency in Moldova is "Lara" ([www.lara.md](http://www.lara.md)).

# Foreign Investment, Privatisation and Foreign Trade



- Foreign investment in 2004 totalled USD 875.1 million
- Foreign Investors Association created in Moldova in September 2004
- Foreign and domestic investments given equal treatment
- Proceeds from the sale of state-owned companies reached USD 4.9 million in 2004
- Foreign trade totalled USD 2,450.5 million in 2004

In addition to direct foreign investment, major infrastructure projects have enjoyed foreign participation: an Italian-led major road renovation project; a French project involving technical assistance to the Chisinau Water Company.

The Australian insurer QBE has also acquired a majority stake in Moldova's largest insurance company, ASITO.

### 3.1 Foreign Investment

#### Current Investment Overview

Total FDI (Foreign Direct Investment) attracted by Moldova by the end of 2004 was USD 875.1 million.

European Union countries contributed 40% of overall investment in Moldova, CIS - 24%, Central and South-East Europe - 4%, other countries - 32%.

Sectors of major interest for foreign investors are:

- The electricity sector -35%
- Processing industry- 27%
- Trade-16%
- Transport and communications-12%
- Construction- 2%.

Major foreign investors include:

- Union Fenosa (Electric Power);
- France Telecom ("Voxtel");
- Coca Cola;
- Moldcell, the mobile telephone operator;
- Efes Vitanta Moldova Brewery;
- AzPetrol, which is investing in the construction of Giurgiulesti international port. Under the existing plan, an oil, dry-cargo and passenger terminal will operate at the port. Construction of the oil terminal is expected to be finished within 5 years.

### 3.2 Foreign Investors Association

The Foreign Investors Association (FIA) was officially registered in the Republic of Moldova in September 2004. FIA is the first and the biggest association of its kind in Moldova.

The Association's main objective is to promote dialogue between the government and investors in order to improve the business climate and the competitiveness of Moldova on the regional and international scenes

### 3.3 Rights and Guarantees

Business entities, with or without foreign equity, must be registered in compliance with the legislation governing the specific form of business through which the investment is being carried out.

Foreign and domestic investors are treated equally in accordance with the "Law on enterprises and entrepreneurial activity" and the "Law on investments in entrepreneurial activity".

There are no restrictions as to the amount of capital that can be invested except for the minimum statutory capital contribution of USD 430 (allocation between foreign and local investors does not matter). Legislation permits 100% foreign ownership in companies. Investments in national defence and security enterprises require compliance with additional legislative provisions.

Moldova has concluded several bilateral treaties for the mutual guarantee of investment (see Appendix II for a list of countries with which Moldova has signed such agreements).

### 3.4 Privatisation

#### Regulatory Climate

Privatisation has been one of the cornerstones of the economic reform plan. The Department of Privatisation and Administration of State Property (DPASP) represents the government in all privatisation matters.

Under the Law on Privatisation and the Privatisation Program, all state assets can be privatised except for those involving national heritage or national security.

Privatisation methods include selling assets at auction, direct sales through open and closed tenders, stock auctions, employee buyouts or gratuitous transfers.

Foreign investors (companies or private individuals) have the right to participate in privatisation directly, or through a legal representative. Moldovan nationals can use a variety of methods of payment whereas foreign investors can purchase assets only on a cash basis.

It is estimated that in 2005, privatisation proceeds from the sale of state property will total USD 13.0 million, of which USD 10.2 million will be generated by the privatisation of wineries and tobacco processing factories.

### 3.5 Sector Privatisation

#### Energy

After Parliament adopted the Law on Debt Restructuring in the Energy Sector in April 1999, Union Fenosa, a Spanish electricity company, won an international tender to purchase three Moldovan electricity-distribution companies, marking the largest privatisation in Moldova to date.

At the beginning of 2004 an attempt to privatise the north and north-west electricity-distribution networks failed, as only one participant voiced interest.

#### Telecommunications

After a failed privatisation attempt in 1995, the state tried again to sell a 51% stake in the fixed-line operator, Moldtelecom, last year. But negotiations with the sole bidder, the Moscow City Telephone Networks (MCTN) of Russia, were unsuccessful. Employees hold 12 percent of the company's stock.

#### Wine and Brandy

Approximately 90% of Moldova's wineries have been privatised but the largest enterprises still remain in state hands. The Moldovan Government sold to foreign investors the state's controlling interests in wine producers such as Aroma, Cojusna, Struguras and Ialoveni, as well as brandy distilleries from Balti and Briceni.

#### Tobacco

The most attractive offer in the tobacco sector will be the state's controlling interest in Chisinau Tobacco factory Tutun CTC. Initially only 60 per cent of the factory was put up for sale. But under the new Individual Privatisation Draft a single 90.8 percent share package will be tendered. The company's afferent lands will also be offered to the buyer.

#### Land

Land is an important economic resource in Moldova. Adoption of the Law on Restructuring Agricultural Enterprises under Privatisation, which specifies the postponement and cancellation of debts of agricultural enterprises, is a measure that helped create a land owning class in the countryside.

### 3.6 Foreign Trade

Moldova is a member of the World Trade Organisation, which helps to reduce the barriers of mutual trade between countries, and enhance private sector progress.

The Law on Foreign Economic Activity regulates foreign trade, and provides conditions of licensing, quotas, customs and other special regulations. Generally international trade does not require special licenses. There are exceptions such as certain commodities subject to quantity restrictions or control requirements.

The volume of Moldovan foreign trade in 2004 totalled USD 2,450.5 million, an 11.8% increase compared with 2003.

Export volume in 2004 totalled USD 883 million and grew by 25.2% against the previous year. Moldovan exports to CSI countries constituted 51.3% (USD 453 million), increasing by 19.2% compared with 2003. The export volume to European Union countries amounted to USD 264.6 million, which represents 30% of Moldova's total export volume, or a 41.1% increase compared with the previous year. Exports to Central and Eastern Europe totalled USD 95.3 million, increasing 9.1% compared with 2003. The countries that receive the biggest share of Moldovan exports are: Russia (36.3%), Italy (13.8%), Romania (10.1%), Germany (7.4%) and Ukraine (6.4%).

Import volume in 2004 totalled USD 1,567.5 million, which is 29.5% more than in 2003. Imports from EU countries increased by 21.5%. Imports from CIS and Central and Eastern Europe countries increased by 30.1% and 48.4%, respectively.

The major exporters to Moldova are: Ukraine (24.7%), Russia (11.8%), Romania (9.3%), Germany (8.6%), Italy (7.6%) and Turkey (3.8%).

The country's trade deficit stood at USD 684.5 million at end-2004.



# Banking and Finance



- Moldova's banking system consists of 16 commercial banks
- The National Bank's monetary policy for 2005 was adopted in December 2004
- In 2004-2005, The National Bank of Moldova (NBM) has issued new standard acts, which regulate various aspects of banking activity
- The repatriation term for foreign currency has been extended from 90 days to 1 year

## 4.1 The Banking System

The banking system of Moldova has undergone significant changes over the past few years. Before proclaiming independence, Moldova was part of a Soviet-style banking system, which consisted of a few state-owned banks operating in different business sectors. In 1991 two major laws were drafted and in 1995 they were amended and enacted as the Law on the National Bank of Moldova and the Law on Financial Establishments.

The National Bank of Moldova operates as the country's central bank, independent but co-operating with the Government and accountable before the Parliament. Commercial banks act under the authorisation of the National Bank.

Moldova's banking system is made up of 16 commercial banks (see Appendix III).

All are based on private capital but – the "Banca de Economii" is still 56% state-owned. The largest investors in Moldova's banking sector are the EBRD, the Commercial Bank of Romania, Lukoil and the Western NIS Fund.

## 4.2 The National Bank of Moldova (NBM)

The National Bank of Moldova (NBM) is an independent institution whose main objective is maintaining the

stability of the national currency. An administrative department heads the bank: five members including the President of NBM are appointed by Parliament for a seven-year term. The responsibility of the department is to issue NBM policy guidelines.

The NBM represents the country in international forums and organisations on matters pertaining to monetary policy, banking regulations and others.

The primary functions of the National Bank are:

- To establish and manage the monetary and foreign currency policy of state;
- To provide ongoing analysis of the current economic situation and make recommendations;
- To license, control and regulate the activity of financial institutions;
- To grant credits to Government and commercial banks;
- To manage currency reserves;
- To issue banknotes.

The National Bank's monetary policy for 2005 has been passed in December 2004. This policy was established on the basis of macroeconomic forecasts for 2005-2007 concerning projected economic development in Moldova and in line with its low inflation policy.

Monetary policy is based on the following assumptions:

- The annual inflation rate should not exceed 8-10%;
- The real GDP growth should be of 6% in 2005;
- The maintenance of state international reserves up to a level sufficient to cover at least 3 import-months.

In 2004-2005, the National Bank of Moldova (NBM) has issued new standard acts, which regulate diverse aspects of banking activity.

Regulations on required reserves were amended in June 2004.

The newly introduced amendments aim to minimize risks related to exchange rate fluctuations.



Instructions on capital transfer in the form of investments, adopted in July 2004.

The instructions establish the main cases in which the transfer of capital does not require any authorisation and the cases in which the authorisation of the National Bank of Moldova is compulsory.

Regulations regarding the opening, modifying and closing of accounts in authorised Moldovan banks, approved in December 2004.

The Regulations hereof establish the rules for the opening of bank accounts by legal entities, residents or non-residents of the Republic of Moldova, by individuals and enterprises that are not corporate bodies.

### 4.3 The Foreign Exchange Market

The regulation and control of foreign currency is the responsibility of the National Bank. The NBM systematically collects and publishes information from commercial banks about currency exchange operations on the market, as well as giving and cancelling licences for foreign exchange activities and providing methods of establishing the official Moldovan Leu exchange rate etc.

Exchange operations can be carried out in bank establishments, stock exchanges and currency exchange points, where exchange facilities are provided for private individuals.

In 2004, the foreign exchange market has been relatively stable. During this period the MDL was devalued by only 1% compared to the USD. During 2004, the average monthly inflation was of 1.2% and at the year end in total stood at 12.4%.

### 4.4 Banking Market

Of the sixteen commercial banks currently operating in Moldova, the most successful are: The Moldova-Agroindbank, the Victoriabank, the Banca Sociala, the Moldindconbank and the Banca de Economii.

Banks must be registered with, and operate under licences issued by the NBM. Depending on the size of their equity, banks are entitled to receive different types of licence.

The Regulations on banking authorisation has undergone some changes. The major changes refer to:

- Beginning with 1 January 2006, the quantum of the minimal capital necessary for a tier I capital shall be 50 million MDL (about USD 4 million).
- In order to obtain an "A" category authorisation, banks should reach and maintain a tier I capital within at least the minimum necessary quantum;
- In order to obtain a "B" category authorisation, banks should reach and maintain a tier I capital at the level higher than the double amount of the minimum necessary quantum;
- In order to obtain a "C" category authorisation, banks should reach and maintain a tier I capital at the level higher than the triple amount of the minimum necessary quantum;

The initial quantum of the minimal capital necessary for a tier I capital was MDL 32 million (USD 2.5 million).

In order to simplify the process of capital increase the NBM has approved a scheme, whereby, from June 30th 2005 the minimal capital shall equal MDL 45 million (90 million and 120 million for "B" and "C" authorisation respectively) and from December 31st 2005, the index will amount to MDL 50 million (MDL 100 million – "B" and MDL 150 million – "C").

As of September 2004 six banks have a licence of type C, four banks a licence of type B and six banks a basic licence A

In 2004, the growth of the total normative capital in the banking system totalled MDL 401 million (USD 32 million) or 19.6 %. This indicator constituted MDL 333 million (USD 26 million) in 2003 or 19.5%.

The share of the biggest 5 Moldovan banks accounts for 56.53% of the total banking system normative capital and 70.43% of the total assets

Commercial banks may engage in the following main activities:

- Taking deposits (with or without interests);
- Giving credits;
- Making loans;
- Issuing and managing debit and credit cards, checks, security bills etc;
- Buying and selling local and foreign currency;
- Consulting services.

Once a year the bank is required to publish an annual report and an independent auditor's opinion, as well as providing a full report to the NBM.

According to Moldovan legislation the bank must suppress money-laundering transactions. Financial Institutions must have procedures for suppressing money laundering, including minimum the following:

- Internal methods, procedures and control measures;
- Permanent training of employees, as well as, strict selection in order to provide a high professional level of persons selected for certain positions;
- Using audit services for system's control purpose.

## Credit activity

The total credit portfolio of the Moldovan banking system accounted for MDL 7686.4 million (USD 611 million) in 2004.

The breakdown of the credit portfolio into fields of activity is: industry and trade sector - 47.79%, agricultural sector and food industry-24.1%, property market-5.95%, electric-power branch-4.4%, consumer credit- 3.55%, road construction and transport- 2.6%, credits to government- 1.04, other credits-10.57.

Consumer credit has registered an important growth of 65.8% in 2004, compared to 2003, and totals MDL 273 (USD 21.7 million)

The credits in foreign currency represent 41.77% of the total credit portfolio.

In 2004, the average interest rate on credits in national currency was 21% and on credits in foreign currency was 11.3%.

## Foreign Investment

Of the sixteen commercial banks in existence, five of them are wholly foreign-owned, twelve are joint ventures and only two are purely Moldovan.

EBRD has made significant investments in the Banking sector including the Moldova - Agroindbank and the Victoriabank.

## Repatriation

The current legislation contains strict rules on the repatriation of hard currency. Banks are directly responsible to the NBM for monitoring the way in which regulations on hard currency repatriation are observed. Failure to observe the deadlines set for collecting hard currency receivables earned from exports by Moldovan residents entails severe sanctions. In addition, hard currency prepayments made for imports of goods and services that have not been finalised within a set time are also governed by repatriation rules.

The legislation regulating the repatriation procedure has undergone some changes. According to the new amendments made the repatriation term of foreign currency has been prolonged from 90 days to 1 year.

The state authority in charge with the supervision of the repatriation procedure is the tax authority.

## 4.5 Financial Markets

### Primary Market of State Securities

In 2004 were registered initial and additional issue of securities in the total amount of MDL 1,646.2 million (USD 131 million) that is five-fold more than in 2003.

Such a high level has not been registered since 1999, when the amount of securities issue totalled MDL 2,911.1 million (USD 231 million).

**USD million**

<b>Indicators</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Issue amount	106.2	234	91.8	56	37.4	26	132
Foreign investments amount	5.6	67.8	27.2	21.6	14.4	4.03	70.2

An important role in the mobilisation of free investment resources in the real sector of the economy is played by the additional issue of securities. During 2004, there were registered 86 additional issues of shares (compared to 72 issues in 2003) in the total amount of MDL 1,636 million (USD 130 million).

## Secondary Market of State Securities

In 2004 the total amount of transactions on the secondary market constituted MDL 811.1 million (USD 64 million). Similar to previous years, the off-stock transactions prevail over those performed on the stock exchange market. The total amount of the difference between the off-stock transactions and the transactions performed on the stock exchange market constituted MDL 248.0 million (USD 19.7 million).

## Moldovan Stock Exchange (MSE)

During 2004, on the Moldovan Stock Exchange there were registered 1,855 transactions with securities to the total amount of MDL 281.9 million (USD 22.4 million).

<b>Indicator</b>	<b>Period of time</b>		<b>Deviation (%)</b>
	<b>2003</b>	<b>2004</b>	
Transactions amount (USD million)	38.5	22.6	-41.3
Transactions number (units)	1,903	1,855	-2.5
Number of issuers registered with the MSE	1,078	1,056	-2.0

## Insurance Market

In March 2003 there entered into force new amendments in the Insurance Law, according to which the minimum legal capital for insurance companies was established to the amount of MDL 2 million (USD 159 thousand). The companies were provided an 18 month period of time in order to increase their capital up to the limit provided by the legislation.

The license for companies with a social capital of less than MDL 2 million was going to be withdrawn. Of 46 insurance companies, existing at that moment, only 33 complied with the provisions of the law.

# Corporate and Business Law



- Legislation allows the establishment of a wide range of business entities, including wholly foreign owned companies and subsidiaries
- The most common type of company is the Limited Liability Company followed by the Joint Stock Company
- The non-resident companies are entitled to establish in Republic of Moldova subsidiaries and representative offices
- Beginning from 1 December, 2004 the new registration certificate came into force

The most widely distributed forms are joint stock and limited liability companies. Joint ventures can be established in any of the mentioned forms. Insurance companies can be registered as a Joint Stock Company, Limited Liability Company or as a State Company. Banks can be registered only as a Joint Stock Company.

## Joint Stock Company (SA)

This is a company whose capital is divided into equal shares and distributed among shareholders according to their contributions.

Joint-stock companies have to be state registered and, in addition, its shares have to be registered at the National Securities Commission. The minimum ownership capital required to open a joint stock company is MDL 20,000 (USD1,590) and MDL 10,000 (USD 795 ) for a closed joint stock company.

Types of contributions to the ownership capital shall be determined by the Memorandum of Incorporation and may be money; fully paid-in securities; other assets, including ownership rights or other rights that have monetary value.

Statutory capital of joint stock companies must be formed before registration, except non-monetary contributions, which have to be transferred to the company within one month of registration.

The supreme administrative body of the companies is the General Shareholders Meeting, which should be held no less frequently than once a year. Its decisions are mandatory for the company and its shareholders. Between General Meetings the Company board and/or its Chairman represent shareholders' interests.

## Limited Liability Company (SRL)

This kind of enterprise can be established by founders who are either individuals or legal entities. The founders of a SRL do not have shares as in a joint-stock

## 5.1 Legal Framework

The Commercial legislation of Moldova is represented by a complex system of laws, most of which have been subject to significant amendments in recent years.

The current legislative basis for investment and business operations includes the following:

- Civil Code;
- Law on Entrepreneurship and Enterprises;
- Law on investment in entrepreneurial activity;
- Law on State Regulation of Foreign Trade;
- Law on Joint Stock Companies;
- Regulations of Economic Society;
- Law on Insolvency;
- Law on Privatisation and Program of Privatisation.

## 5.2 Forms of Business Organisations

According to the Civil code and the Law on Entrepreneurship and Enterprises, the following legal forms of business organisation are possible:

- Joint stock company (SA);
- Limited liability company (SRL);
- Co-operatives;
- State and municipal enterprise;
- Limited partnership \*.

\* - These enterprises are not corporate bodies.

company. The ownership contribution of each owner is specified in company's constitutive documents. At the end of the year, profits are distributed among the founders depending on their contribution to the social capital, upon the decision of the General Meeting of Founders.

The minimum capital requirement for a limited liability company is MDL 5,400 (USD 430), 40% of which must be paid before the company is registered. The rest of the authorised capital has to be paid no later than one year after registration.

The supreme body of a Limited Liability Company is the General Meeting of Founders, which has to take place at least once a year.

The founders of the company have a pre-emptive right to purchase other member's "shares" before they are offered to a third party.

### 5.3 Enterprises with Foreign Investments (including joint ventures)

The Moldovan "Law on investment in entrepreneurial activity" provides for the following forms of investments:

- Property rights on movable and immovable assets;
- Intellectual property rights (copyright, know-how, goodwill);
- Any right granted by law or an agreement, any issued license or authorisation;
- Rights derived from shares, share parts or other forms of participation in companies;
- Monetary receivable rights or other forms of investor liabilities having an economic or financial value;
- Cash.

There is no minimum limit for the amount of foreign investment that can be placed into company's capital. A foreign enterprise is a company whose capital is formed from 100% of foreign investments.

On the territory of the Republic of Moldova enterprises with foreign investments can be founded as a joint-venture company or as a company with foreign capital exclusively.

The registration procedure for a foreign or joint company is the same as for a local company, but additional data about citizenship and location of foreign investors is required.

Foreign investors and enterprises have the right to purchase shares and stocks of other enterprises. State stocks can be bought only after permission has been granted by the Ministry of Economy and Ministry of Finance of the Republic of Moldova.

### Subsidiary and Representative office

A non-resident company is entitled to establish in the Republic of Moldova a subsidiary or a representative office.

A subsidiary of a non-resident company operates as an enterprise fully owned by a foreign investor from the moment of its registration.

A subsidiary and representative office established in the Republic of Moldova by a resident company with foreign investments is not a legal entity.

### Registration

Every enterprise or its branch has to be officially registered in Moldova before commencing activity. Otherwise, any income will be confiscated by the state.

Registration requires the necessary documents to be submitted to the State Registration Chamber within the Ministry of Informational Development.

All documents must be translated into Romanian, signed by all founders and signatures have to be notarised by a public notary (if signatures are notarised abroad, then documents must be translated and legalised).

The authorities may require additional documentation.

The establishment of a Licensing Chamber has proved quite effective for Moldova. Now the majority of licenses are granted – centralised, in correspondence with the set procedure – one for everybody.

### 5.4 New registration certificate

Beginning from 1 December 2004 the new registration certificate came into force. This certificate replaces also the certificate regarding the attribution of fiscal code.

The state identification number (IDNO) has the role both of registration number and fiscal code. In order to

get a new registration certificate it is necessary to submit to the Registration Chamber the old registration certificate and the fiscal code certificate.



## 5.5 Leasing

On 8 July 2005 the new Law on leasing entered into force.

The law establishes the following forms of leasing:

- a) Financial leasing;
- b) Operational leasing;
- c) Barter-leasing;
- d) Compensatory leasing;
- e) Lease-back;
- f) Consumer leasing;
- g) Direct leasing;
- h) Domestic leasing;
- i) International leasing.

The document was essentially modified compared with the 1996 law. In particular, the new document calls for creation of a favorable juridical and fiscal framework for market operators and beneficiaries of leasing operations.

The new law extends the category of subjects of leasing, including individuals as well, while the old law allowed the leasing only for commercial and industrial purposes and prohibited individuals to use and/or sell goods in leasing.

Also, the law extends the range of goods which can serve as object of leasing. If the old law stipulated that only transportation means, cars, technological complexes and equipment can be objects of leasing, the new normative framework indicates any personal or real estate, except for goods withdrawn from civil circuit or whose circulation is limited by law.

# Labour Relations and Social Security



- In 2004 the average salary per economy amounted to USD 89
- Projected average salary per economy for 2005 is USD 111
- Moldova has a well educated work force (extensive language skills)
- Employer's social insurance contribution has fallen to 27%

## 6.1 Labour Relations

### Availability of Labour

Moldova has a wide choice of potential employees: both skilled and non-skilled labour is available. Chisinau has a strong language school sector and as a result a number of professional personnel fluent in foreign languages are available.

### Employer/employee Relations

Employer/employee relations in Moldova are regulated by the Labour Code and a Collective Labour Contract, which is set up every year between the Government, the Federation of Professional Unions and the National Confederation of Patronage (independent union of employers).

The basic principles regulated by the Labour Code are provisions regarding individual labour agreements, working time, dismissal, holidays, payments (salaries and compensations), guarantees and responsibility, special protection measures for certain categories of workers (i.e. expectant mothers, young people) and resolutions of labour conflicts.

Among relevant laws in this context there are the Law on Organisations of Professional Unions and Law on Patronage Organisations.

### Trade Unions

Trade unions, historically, were very strong in negotiations on labour relations. Trade unions' activities are regulated by Law on Trade Unions (professional unions).

Generally, unions are organised by branches of industry; there is also a Confederation of independent trade unions of Moldova. Union membership for workers is not compulsory, but still among large and mainly state-owned enterprises they have a high-level of influence. In small private companies they tend to be less active.

All trade unions have the status of a corporate body and have to be officially registered. Unions represent a considerable negotiating force, being particularly effective in obtaining minimum wage legislation as well as other basic rights for employees. They also conclude annual collective labour agreements at different industrial and company levels.

Unions have no right to participate in the management of a company and its commercial activity. Nevertheless, sometimes business decisions are discussed with unions, because of potential negative social consequences for employees.

## 6.2 Working Conditions

All employees conclude a Labour Contract, either individual or collective depending on the enterprise. Labour Contract clauses cannot be stricter than provisions in the Labour Law. The contract should be concluded in written form, indicating position of employee, salary level and other important issues.

There are three basic types of employment contracts in Moldova:

- For indefinite period of time;
- For a definite time but no more than for five years;
- Project-specific contract, which is terminated when task has been completed.

Moldovan labour legislation also provides for a probationary period of employment which can be extended for up to three months (in certain cases up to six months).

## Wages and other Salary Rights

The average salary per Moldovan economy, within the period of January- June 2005 constituted 1,219 MDL (USD 97). In the budgetary sector of the economy the average salary amounted to 982 MDL (USD 78) and in the real sector to 1,343 MDL (USD 106).

It is estimated that till the end of 2005, the average salary per Moldovan economy will increase up to about MDL 1,385 (USD 110).

Most state-owned companies have a complex system of bonuses (monetary and non-monetary), and premiums that slightly increase the net base pay.

Currency regulation demands that salary payments must be made in local currency, including those to foreign staff.

## Working Hours

The standard working week set out in the Labour Code is 40 hours a week, over five or six working days a week, but generally is Monday to Friday.

Generally, overtime can be accepted only in certain cases and should not exceed 120 hours per year, or 240 hours per year in exceptional cases. Working hours on weekends or holidays, as well as over time during the working week, can be either compensated with free time or paid. Overtime is generally paid as 150% of the hourly-rate for up to a specified number of hours and 200% beyond this, although this is specific to individual enterprises.

## Paid Holidays and Vacations

Annual paid vacations are established at a minimum of 28 calendar days a year (not including statutory

holidays). In the first year of employment holiday leave can be delayed until after six months of employment.

Additional paid leave can be given to employees for special occasions such as a marriage, birth of a child, death of relatives, study, etc. Sick and maternity leaves are paid from the Social Insurance Budget.

## Equal Opportunities

The Labour Code states that is unacceptable to refuse work or to give any preferences to potential employees based on differences in sex, nationality, language, social or material situation, religion or other non-business characteristics, except in cases where this is compulsory for specific work conditions.

Additional privileges in working conditions, including holidays and limitation of overtime work exist for pregnant women and women having children, young people under 18 years old and disabled people.

## Health and Safety

Employers have to ensure the necessary level of safety at work and, if damage was caused to the health of an employee, the company takes responsibility for it (including material welfare).

Professionals with specific hazards must be supplied with special clothes, boots and other individual protection facilities where necessary.

## Termination of Employment

The Labour Contract between employee and employer may be terminated in following circumstances:

- Terminating the employment contract on the initiative of an employee requires a minimum of two weeks written notice without offering reasons for leaving;
- The contract can be dissolved earlier if both parties agree;
- For terminating the employment contract on the initiative of an employer, there are certain conditions stipulated by the Labour Code (such as: legal reorganisation of the company, lack of qualification, systematic non-compliance with the regulations/ requirements or absence of employee from the working place and others).

## 6.3 The Social Insurance System

### Coverage

Contributions to the social insurance system give an employee a right to pensions, illness, pregnancy and childcare benefits, professional accident and unemployment insurance and other social care services.

### Contributions

All employers and employees must contribute to the state social insurance system at the following rates:

- Employers must pay social security contributions to the amount of 27% of the gross salary of its employees to the Social Security Fund;
- Employees pay a contribution to the Social Security Fund to the amount of 2% from gross salary, which is deductible for income tax purposes.

The social insurance system covers only those foreign employees who have personally applied for it. The same rule applies for contributions to the pension fund.

## 6.4 Foreign Personnel

The following laws and regulations govern the legal status of foreigners in Moldova:

- Law on legal status of foreign persons and persons without citizenship;
- Law on foreign investments;
- Law on entrance and departure of the Republic of Moldova;
- Law on migration;
- Regulations giving and cancelling immigration certificates and work permits.

In general, foreign persons have the same rights and obligations as Moldovan citizens. However certain exceptions are specified in law:

- Foreign nationals have no right to vote or to be elected into the state legislative authorities and executive powers;
- Foreign nationals cannot be members of political parties and organisations;
- Foreign nationals cannot participate in military service for Moldova.

In the case where a foreign person staying in Moldova breaks legislation or their presence can damage national security or public order, they can be expelled from the country.

Foreign personnel can get visas and residency permits as is necessary for their activity in enterprises with foreign investments.

Labour conditions for foreign employees must be fixed in an individual labour contract.

### Work and Residence Permits

All foreign citizens who stay in the country more than 90 days must be registered with the local authority and get a temporary immigration certificate and a residence permit. Those who intend to work in the Republic of Moldova have to obtain also a work permit.

### Medical Insurance

Medical insurance for foreign citizens and stateless persons located in Moldova is compulsory.

The medical insurance for foreign citizens and stateless persons is made upon the type of residence permit (temporary or permanent) they have in the Republic of Moldova.

In accordance with the provisions of Moldovan legislation, and if international agreements do not provide otherwise, foreign citizens and stateless persons having permanent residence in the Republic of Moldova benefit from the same rights provided by obligatory medical insurance as the citizens of Moldova.

This category of people is granted with obligatory insurance policies and is entitled to benefit from such medical services as those included in the united program offered by accredited medical institutions of Moldova.

Insurance policies are issued for the period of labour contracts upon their signing.

### Living Conditions

Over the last few years the cities and towns of the Republic of Moldova have developed considerably. Thus, living conditions for expatriates are reasonable

A lot of houses are built for the specific purpose of being rented out. Prices for accommodation vary widely and can be relatively high compared with other living costs.

Chisinau has some reasonable private kindergartens (teaching in Russian and Romanian with English as additional lesson), but there is only one international school, QSI (attached to the American embassy).

The city has numerous restaurants and cafes, including a steadily increasing number of private restaurants

serving international cuisine. Appendix IV includes a list of contact numbers for some hotels and restaurants, in Chisinau.

A visitor can also enjoy theatres, concert halls, Cinemas, bars, night clubs and casinos and one small English language cinema in Chisinau, which presents films in English with Romanian subtitles.

# Accounting and Audit Requirements and Registrations



- Current Moldovan National Accounting Standards and regulations are based on relevant International Accounting Standards (IAS)
- Differences still exist between Moldovan National Accounting Standards and IAS
- Current National Standards on Auditing are based on 1999 and 2000 IFAC Technical Pronouncements
- Code of Professional Conduct for Auditors and Accountants is based on 2000 IFAC Code of Ethics

## 7.1 Background

The formal establishment of the audit profession in Moldova dates back to the early 1990s when the first few audit firms came to existence.

The liberalisation of the economy and privatisation processes led to a growing demand for independent reviews of financial statements. Thus, former accountants and state inspectors became auditors and established the profession, which was not specifically regulated until mid 1990s. The Moldovan Parliament passed the Law on Accounting in 1995 and the Law on Auditing in 1996. The two laws represented the basic legal and regulatory framework of Accounting and Auditing until the adoption of new National Accounting Standards (NAS) at the end of 1997, National Standards on Auditing in 2000 and the Code of Professional Conduct for Accountants and Auditors in 2001.

Currently, the Law on Accounting (1995) and the Law on Auditing (1996) are not in compliance with the 4th and 7th EU Directives on Accounting and the 8th Directive on Auditing. However, the Government of the Republic of Moldova is presently reviewing these Laws with the intention of ultimately complying with EU Directives.

## 7.2 Accounting

### Moving Towards International Accounting

Historically, accounting in Moldova as it was in the former Soviet period, was directed towards providing information to two selected user groups, the Tax Authorities (accounting profit was broadly similar to taxable profit) and the Government. This led to the preparation of financial statements that did not take into account the needs of other users such as shareholders, bankers, suppliers, customers, employees or potential investors. As a result both meaningful financial information and disclosure were somewhat lacking.

At the international level, the Republic of Moldova was ahead of other newly independent states in the development of accounting, which is evidenced by the activities of the Association of Professional Accountants and Auditors of the Republic of Moldova (ACAP). The body was set up as a result of the Moldovan Accounting Reform project financed by USAID and became the first country-associate member of the International Federation of Accountants (IFAC). However it has only limited official status or responsibility for regulation of the accounting and audit professions in Moldova.

In 1994 Moldova adopted a State program aimed at bringing accounting regulations into line with international standards and on 4 April 1995 the Law on Accounting was approved by Parliament. The current accounting system came into force on 1 January 1998, according to the Decision of the Government of Moldova on the accounting reform which approved the conceptual framework for future development of accounting standards in accordance with IAS. A new "chart of accounts" and the first twelve National Accounting Standards were introduced. This system is obligatory for all registered economic entities.

The order and the title of the National Accounting Standards correspond to the relevant IAS and broadly the content is similar. However, in order to facilitate the

process of transition toward the full implementation of the reform a few “transitional” standards and a significant number of instructions and regulations have been issued since 1998, for example NAS 3 “Structure of costs and expenses of the companies”.

The full list of current accounting standards are shown in Appendix V.

Whilst the move towards IAS and greater transparency of financial information is to be commended, it is advisable that users of Moldovan financial statements should not assume that they comply in full with IAS. Less than 50% of the total number of equivalent IAS has been adopted and none of the NAS have been updated for amendments introduced by IAS.

## Current Regulations

Unlike some countries where an independent professional body may be given responsibility to set all or part of the standards, all accounting regulations in Moldova are currently established by the Ministry of Finance. These take the form of:

- Laws or Government Decisions, detailing significant new pieces of legislation;
- Norms (or regulations), providing a detailed explanation of how the Laws or Government Decisions can be implemented;
- Orders of the Ministry of Finance providing additional guidance on accounting and tax issues.

Appendix VI provides a table highlighting some of the major differences between the current practice in Moldovan Accounting Regulations and International Accounting Standards, which are taken into account when reading Moldovan Financial Statements. The number and significance of differences between the two systems are expected to diminish as new accounting standards, based on IAS, are introduced.

## 7.3 The Chart of Accounts

The principle underlying the Chart of Accounts is that almost all companies record the same item in the same 3-digit summary account (called level I account), irrespective of the nature of their business. When further detail is needed by an enterprise due to business peculiarities, 4-digit (called level II account) or 5-digit (called level III account) sub-accounts are used. A brief summary of the current Chart of Accounts for a commercial company is given in Appendix VII. (Note

that the Chart of Accounts for banks and insurance organisations is different).

The annual financial statements submitted to the authorities include Balance Sheet, Income Statement, Cash Flow Statement and Statement of Changes in Shareholder Equity. Ministry of Finance Instruction on “Chart of Accounts” sets the account numbers of this standard grouping; however, the grouping of accounts is not always consistent with that which one might expect from a Western perspective. Enterprises may introduce additional groups of accounts and level I summary accounts as needed if the Ministry of Finance of the Republic of Moldova grants approval. Sub-accounts (level II & III accounts) may be established as needed.



## 7.4 Preparation and Approval of Financial Statements

### Legal Requirements

The legislative and normative framework of the current auditing system includes:

- The Law on Auditing Activity.
- National Standards on Audit issued by Ministry of Finance.
- Regulations on licensing auditing activity approved by the Ministry of Finance.

In addition further regulations exist for enterprises in specific industries such as public quoted, investments funds, banks and insurance companies.

Auditing activity must be carried out by an auditor holding a license issued by the Ministry of Finance, National Committee for Securities or National Bank as appropriate.

## Auditing Standards for Legally Required Audits

The National Standards on Auditing (NSAs) were approved and published in 2000 that are based on 1999 and 2000 IFAC technical pronouncements (see Appendix VIII). NSAs become effective for audits of financial statements covering periods beginning on or after January 2001.

In addition, The Code of Professional Conduct for Auditors and Accountants was approved by the Ministry of Finance and published in March of 2001 and is based on 2000 IFAC Code of Ethics.

Publication of the NSAs and the Code in 2000-2001 with enforcement effectively starting in 2002 gave practitioners at least one year to absorb the pronouncements and develop appropriate policies and procedures within their practices.

All registered auditors are required under the law, to perform audits in accordance with the National Standards on Auditing set by the Ministry of Finance.

## Audit Opinions Issued under Moldovan Law

### Censors Report

The law does not require any specific format for this report but its content must address specific issues.

### Independent Auditors' Report on Statutory Financial Statements

The National Standard on Auditing 700 "Auditors" report on Financial Statements" suggests formats for the audit report as well as an audit reports guideline (in effect an adapted version of International Standard on Auditing number 700, "The Auditors Report on Financial Statements").

## Securities Commissions Requirements

Companies subject to regulations on securities are required to appoint auditors licensed by the National Commission for Securities Market (NCSM). At least once a year, these companies must submit an auditor's opinion to the NCSM.



# Taxation of Corporations



- Standard corporate income tax rate is 18%.
- Fiscal year is calendar year for all entities.
- Dividend income received has become taxable.
- Quarterly/monthly system of tax reporting and payment

ultimately bears the tax, but businesses are responsible for the transfer of these taxes.

## 8.2 Corporate Tax System

### General

Since 1 January 2005 the standard corporate income tax rate is 18%. This rate is applied to both Moldovan entities and foreign entities operating through a "permanent establishment" in Moldova.

### Territoriality

Resident legal entities are taxed on their world-wide income. Foreign legal entities are taxed only income derived from certain Moldovan sources.

## 8.3 Tax Exemptions

- Tax exemption is provided for a 3-year period to enterprises with average annual number of employees up to 19 persons (so-called small business), and with up to MDL 3 million revenue from sale. Farming entities, agricultural and service-rendering co-operative societies also benefit from this exemption. To be entitled to the tax exemption, the economic entities should submit an application to the Tax Office dealing with the company's tax return. After the tax exemption period has elapsed, the taxpayers benefit from a 35% reduction of the current corporate income tax rate for another two years.
- Business entities with software development as their main activity are completely exempted from corporate income tax for a period of 5 years from filing an application thereto to the Tax Office. To qualify for the tax concession, the entity must not be

Taxes and duties are levied both on state and local level.

The state levies taxes, duties and contributions, including:

- Corporate Income Tax;
- VAT;
- Excise Taxes;
- Privatisation Tax;
- Customs Duties;
- Road Fund Fees.

Local taxes and duties include: real estate tax; tax on the use of natural resources; hotel accommodation duty; tax on advertising placement; duty for the right to perform local auctions and lotteries; parking fee etc.

The tax system can traditionally be grouped into direct and indirect taxes.

Direct taxes: corporate income tax; privatisation tax; road tax; tax on immovable property; tax on the use of natural resources; other local taxes. Direct taxes are meant to be borne by the taxpayer paying them.

Indirect taxes: value-added tax; excise duties and customs duties. The indirect taxes are directed towards the consumption of goods and services. The consumer

in arrears with the state budget and over 50% of its revenue shall be derived from the sale of self-manufactured software.

- Commercial banks providing long term loans to finance certain capital investments are not taxed on the interest income derived from these loans, provided the loans have a term in excess of three years. For the interest income earned from such loans with a term of 2-3 years, there is a 50% tax allowance.
- Public authorities and public agencies financed at the expense of the central budgets and state social security budget are tax-exempt.
- Organisation performing their activity in the field of research & development are totally exempted from the income tax.

## Investment Incentives

- Entities with registered capital upon establishment or following a capital increase exceeding USD 250,000 are entitled to a 50% corporate income tax exemption effective for a period of five years.
- Entities with registered capital upon establishment or following a capital increase exceeding USD 2,000,000 are entitled to a 100% corporate income tax exemption effective for a period of three years.

These exemptions are effective starting from the first day of the year in which there was signed the agreement with the Tax Authority on tax exemption, under the conditions outlined below:

- the statutory capital is established and the first income is declared (meaning the tax declaration is presented);
- at least 80% of the exempted income tax is invested, every year, in the development of its own production or in governmental programs;
- the entities shall have no debt to the public budget;
- these do not benefit from other corporate income tax exemptions.
- Entities, including those with foreign participation, whose income tax benefits mentioned above have expired, are entitled to a reduction of their taxable income by 50% of the initial value of the purchased long-term tangible assets (except for cars, office furniture and assets used for non-operation purposes), including those acquired under lease agreements. The exemption cannot exceed the

enterprise's taxable income.

To be eligible for this exemption, the entity shall observe during 3 consecutive fiscal periods, following the period in which the exemption was given, the following conditions:

- shall not compute and distribute dividends to its shareholders;
- shall not alienate the assets;
- shall not give the assets into possession and/or use (rent, lease).

## Free Enterprise Zones

A Free Enterprise Zone (FEZ) is an economically separate area in the territory of the Republic of Moldova where domestic and foreign investors may carry out entrepreneurial activity on preferential terms.

FEZs have the status of an independent customs territory and benefit from favourable tax, customs, currency, visa, labour and other regimes, that are meant to stimulate entrepreneurial activity.

The tax legislation provides for the following benefits for companies that are resident of an FEZ:

- A 50% allowance from the standard corporate income tax rate for income derived from goods exported from the FEZ outside the Republic of Moldova;
- A 75% allowance from the standard corporate income tax rate for income derived from sources other than export of goods;
- A 100% corporate tax allowance for three years following a USD 1 million investment within the FEZ;
- A 100% corporate tax allowance of 5 years following a USD 5 million investment in the FEZ.

## International Giurgiulesti Port

- Companies, residents of the International Giurgiulesti port, making capital investments in an amount equal to 5 million USD, are entitled to a 5 years income tax exemption, beginning with the fiscal period when the company reached the aforementioned investment amount and declared taxable income;
- The residents, which made additional capital investments of an amount exceeding USD 5 million, are entitled to an additional income tax exemption for 2 consecutive years, subsequent to the fiscal period in which the company reached the above-mentioned investment amount and declared taxable income.

The residents' income deriving from port operations, will be subject to the following income tax rates: 25% of the established income tax rates during the first 10 years following the tax period in which port residents registered taxable income, and 50% of the established income tax rates during the remaining term of the law.

## 8.4 Taxable Base

The accounting income for the year is the basis of calculating a taxpayer's annual taxable income. The accounting income is increased or reduced for items specifically dealt with in the Tax Code.

### Non-taxable Sources of Income:

- Contribution in kind into the capital of company, if resulting in ownership of at least 80% of registered share capital;
- Income of foreign or international organisations on the territory of Moldova if stipulated by special international agreements.

### Accounting Period

Taxpayers are liable to pay income tax on their taxable income at the end of the fiscal year.

For all Moldovan entities the fiscal year is the calendar year and the annual tax return must be filed and submitted to the Tax Office by 31 March of the following year (For more details, see "Tax computation").

### Capital Gains and Losses

A capital gain derived from the sale, exchange and other disposition of capital assets is the difference between the amount of the proceeds and the fiscal book value of the assets. 50% of the positive balance between capital gains and capital losses for a year are included in the taxable income and taxed at regular income tax rates.

Capital losses can be carried forward to the next year in order to offset future capital gains.

### Interest, Royalties and Service Fees

Interest, royalties and service fees are included in a Company's gross income for accounting purposes and are subject to income tax at the standard rates.

### Dividends

Starting with January 1st 2005, dividends received by a Moldovan entity have become taxable, as it was already the case for foreign dividend income received.

### Deductible expenses

- Depreciation of tangible assets in accordance with the rates provided by Tax Code.
- Amortisation of intangible assets.
- Expenses incurred in respect of charitable gifts and sponsorship (provided that such expenses do not exceed 10% of the taxable income).
- Research and development expenses supported or incurred during the current fiscal period and recorded in the Income Statement as current year expenses.
- Wastes, spoilage and exhalation expenses are deductible within the annual framework established by the company's director.
- Bad debts incurred while performing entrepreneurial activity.
- Repair expenses of the fixed assets (used according to the lease agreement, within the limit established by the Tax Code, i.e. 10% of the rent amount).

Deductions by non-resident persons shall be allowable to the extent that they are directly related to the income subject to tax in the Republic of Moldova.

### Non-deductible expenses

- Amount paid to related persons without approval of necessity.
- Amount paid to holder of entrepreneurial patent.
- Other expenses, amount of which cannot be supported by documents, in the manner required by the legislation.
- Expenses incurred by activities generating non-taxable income.

Income taxes due cannot be deducted from the amount of annual gross income of company and neither can fines or penalties on taxes and other compulsory payments due to the budget.

### Withholding

Every company paying interests for the benefit of individuals (except for individual entities and farms) and royalty (except for payments to non-residents) shall withhold a tax in an amount equal to 15% of the payment.

Remittance of the tax withheld is made within one month, following the reporting month.

Companies obtaining advertising, audit, management, marketing and consulting services, and services with respect to installation, repairer and exploitation of computers, as well as other services related to information technologies, have to withhold 5% of the amounts paid for such services. These withheld amounts are considered part of the income tax payable by the companies providing such services.

Under Moldovan domestic rules, non-resident beneficiaries, individuals and legal entities, are subject to the following withholding tax at the following rates:

- 10% of insurance premiums under the contracts on insurance and reinsurance, concluded on the territory of Moldova;
- 15% of royalties;
- 10% of dividends; interest services and of income received from the sale of real estate located on the territory of Moldova, and other income provided by the Tax Code (except for income from leasing and income received from the sale of movable property to Moldovan resident).

The leasing services are no longer subject to withholding tax.

## Double Taxation Agreements

Appendix IX includes details of the Double Taxation Agreement signed by Moldova with other countries.

## Transfer Pricing

Transfer pricing rules apply to transactions between related parties. Arm's length marketing is the leading principle, meaning that transactions between related parties should be taken into account for tax purposes for an amount that has not been influenced by the interdependence of the parties.

However, the transfer pricing regulations are still in an incipient stage in the Republic of Moldova.

## Interest Expenditure

Generally interest expenditure is fully deductible if incurred it is a usual and necessary expense incurred in connection with the company's business activity.

Deduction of interest can be limited at the refinancing

rate of the National Bank of Moldova for REPO transactions. This limitation is applied if tax authorities ascertain that the majority of shareholders (over 50%) are foreigners or other tax-exempted persons, and the main source of company's capital (over 50%) is financed by shareholders (loans or credits).

## Depreciation and Amortisation

The general rule is that tangible assets are depreciated if their useful economic life is more than one year and their acquisition costs exceed MDL 1,000 (USD 80).

Depreciation rates for tangible assets are defined in the Tax Code according to an official list with five categories of assets. They are depreciated at 5-30% per annum from value basis of assets.

Depreciation for intangible assets applies for those assets, which have limited useful economic life. The method of its calculation is the straight-line method.

## Travel Expenses

Representation expenses and expenses related to the employees' business trips and insurance expenses are deductible up to the limits established by the Government.

## Loss Carry Forward

Companies may carry forward corporate tax losses in equal instalments for three years following the year in which the losses were incurred.

## Tax Computations

Legal entities have to make interim tax payments on a quarterly basis (31 March, 30 June, 30 September and 31 December).

Agricultural entities and farms pay taxes twice a year (31 March and 31 December).

Information concerning income tax withheld for certain kinds of activity, as well as information about VAT and excise duty, must be submitted every month.

Provisions according to the size of quarterly income tax have to be based on the income tax results of last year or on the estimated current year's profit. The provision's inaccuracy must not exceed 20% of the estimated profit

otherwise a penalty or fine will be imposed.

An annual tax return (tax declaration) has to be prepared on the basis of the annual income statement and submitted by the 31 March of each year, following the fiscal year end of 31 December.

## 8.5 Other Taxes

### Tax on immovable property

Tax on immovable property is a local tax paid on real estate (land and/or constructions on it) by the proprietor or owner of material rights (including rent for over a three-year period). Residents and non-residents, which own a real estate located on the territory of Republic of Moldova, have similar obligations.

### Tax on advertising placement

The suppliers of the advertising service pay tax for advertising placement. This tax is included in advertising services fee and paid by customers of services in accordance to an invoice.

### Land Improvement Duty

Land improvement duty constitutes 40 MDL per year for each employee. This tax is paid by the business entities quarterly.

### Road Tax

The Road Tax rate, provided by the Law on Road Fund, varies and depends on capacity of engine of vehicles or their tonnage.

The road tax due by owners of vehicles registered in Moldova is payable annually in the amount of MDL 36 to MDL 2,160. Disabled persons owning vehicles specially designed for disabled persons are not subject to the road tax. There are additional taxes for vehicles exceeding a maximum weight limit.

Transport facilities non-registered in Moldova are due to pay taxes for entering the country (2 to 45 Euro) and using roads (0.05 up to 0.3 Euro per kilometre). For vehicles (except automobiles without trailers), which are in transit in Republic of Moldova, tax rates are established in accordance with their stay in the country during 24 hours.





## Taxation of Individuals

- The maximum income tax rate is 20 %
- Tax residency in Moldova is established if an individual is domiciled in Moldova or present in Moldova for a period exceeding 183 days during a fiscal year
- Personal exemption for resident individuals has been increased to MDL 3,960 (USD 315) per year

### 9.1 Income Tax System

#### General

Personal income tax is regulated by the Tax Code.

Residents of Moldova are taxed on their world-wide income.

Non-residents are taxed on income deriving from sources located in Moldova.

The income tax rates for individuals are differentiated and depend on the size of their annual income.

The Tax Code establishes the following graduated tax rates, applied on the income received by individuals (since 1st January 2005):

- 9% - for annual income up to MDL 16,200 (USD 1,288);
- 14% - for annual income that exceeds MDL 16,200 (USD 1,288) and up to MDL 21,000 (USD 1,670);
- 20% - for annual income that exceeds MDL 21,000 (USD 1,670).

Income tax is withheld from an employee's salary and paid by the employer at the same time as monthly salaries are paid. Payment is made through a bank payment order. The employer files monthly tax returns concerning the salaries paid and the related taxes

withheld. A foreign individual on a local contract is in the same position as a Moldovan employee (unless employed with an international organisation).

In cases where a person has any other income except salary, he/she should file a tax return with the tax authorities before 31 March of the subsequent fiscal year.

#### Territoriality and Residence

A person is considered resident of Moldova if one of following conditions is met:

- He/she has a permanent domicile address in Moldova, even if at the moment he/she is abroad for study, medication reasons or on business;
- He/she is physically present in Moldova for a period exceeding 183 days during a fiscal year.

A person is considered **non-resident** of Moldova if neither of above mentioned conditions is met or if:

- The person has status of diplomat or consul (or member of family);
- The person is an official of an international organisation established based on an interstate agreement to which Moldova is party, or is a member of the family of such official;
- The person is in the country solely for study or business trip;
- Person crosses territory of Moldova (transit).

### 9.2 Gross Income

The taxable base of income (including benefits in kind) from all sources is reduced by the deductions and exemptions allowable to that person.

Taxable components of gross income of persons are:

- Income from any professional or entrepreneurial activity;
- Income of shareholders of investment funds;
- Payments received for personal services, provided in the form of salary, bonuses from employers, honorarium, commission fees etc.;
- Rental fees;
- Capital gains on sale, exchange or alienation of capital assets;
- Interests, royalty, annuity (except social security benefits and benefits received on the base of interstate agreements);
- State prizes and gratuities (if they are not defined as non-taxable);
- Investment or financial income from abroad (dividends, interests, royalty and rent payments receive from non-residents; capital gains from abroad);
- Sick payments from State Social Security Fund.

Non-taxable sources of personal income are:

- Benefits from insurance contracts (except annuities);
- Compensation for health damage and other sick compensation on health insurance contracts;
- Reimbursement of business expenses;
- Alimony, scholarship;
- Dividends received by resident individuals, who do not perform entrepreneurial activity, from a resident business entity;
- Interest received on deposits placed in Moldovan banks, until 2010;
- Income of personnel of international organisations;
- Lottery winnings and others;
- Donated or inherited patrimony;
- Compensation for moral damage;
- Indemnity for professional disease.

## Employee's Gross Income

Employee's gross income includes basic pay, overtime pay, supplementary pay, awards and bonuses, compensation for unused holiday or vacation time, and all other monetary or in kind benefits, as well as other services obtained without payment. Income from each item is defined as the total amount of revenues received, irrespective of the period in which it was generated.

## Capital Gains and Losses

Gains or losses of capital are resulting from the sale of capital assets.

Capital assets for taxpayers include:

- Securities used in business activity;
- Documents serving as evidence of indebtedness;
- Private property not used for business activity, which is sold at a price that exceeds its adjusted basis;
- Land;
- Option to purchase or sell capital assets.

The taxpayer is allowed to deduct capital losses only to the extent of capital gains. The gains from redistribution of capital assets between spouses are not capital gains.

The amount of taxable capital gain is reduced by MDL 10,000 (USD 802) with respect to any residence for each year after 1997 during which taxpayer owned the residence and used it as his/her principal residence.

## Taxation of Non-residents

Taxable income of a non-resident is taken into account only if it is received from sources located in Moldova. Expenses, losses and other payments directly related to the income are allowed as a deduction.

The salary of non-residents working in Moldova is subject to income tax at the same rates as that of residents of Moldova. Individuals, who are non-residents, are not entitled to personal exemptions, spouse exemption or dependant's exemption.

Salary of foreign personnel in certain international organisations and diplomatic offices are exempt from taxes when provided by appropriate arrangements.

The payments made to the benefit of non-resident individuals are subject to withholding tax in the following rates:

- 15% on royalties;
- 10% of insurance premiums under the contracts on insurance and reinsurance, concluded on the territory of Moldova;
- 10% on other incomes not specified in items above and established by Tax Code.

In Appendix X are provided the rates applicable to non-residents' income under the Double Tax Treaties.

## Exemption and Deductions

Each resident taxpayer is allowed to claim a personal exemption of MDL 3,960 (USD 314) per year.

Deductions for non-resident persons are allowed to the extent that they are directly related to the income subject to tax in Moldova.

Deduction of personal and family expenses is prohibited.

## Tax Administration

According to the new amendments to the legislation, tax from the salary is deducted by the employer and paid through a bank transfer within one month following the month in which the salary payment was made.

Annual tax returns must be filed with tax authorities personally (before 31 March of year following the fiscal year) if the taxpayer has various incomes in addition to salary.

The following persons are required to file an income tax return:

- Individual residents who have tax liabilities;
- Individual residents who do not have tax liabilities, but derive income from sources other than wages and exceeding the amount of personal exemption of MDL 3,960 (USD 314) a year;
- Individual residents who do not have tax liabilities, but derive income from wages exceeding MDL 21,000 (USD 1,670) a year;
- Individual residents, who do not have tax liabilities, but derive income from wages and any other sources exceeding MDL 21,000 (USD 1,670) per year;
- Resident companies.

If salary is the only source of income, an employee does not need to file a tax return.

If income tax was calculated, withheld or paid incorrectly, the taxpayer has the right to submit to the tax authorities a new tax return with accurate data. Any overpaid amount should be set off against debts on other taxes or reimbursed to the taxpayer. It also can be set off against future income tax.

## 9.3 Other Taxes

Except for personal income tax, individuals are due to pay VAT (if registered as "VAT-payer"), excise tax (if producing/reproducing or importing excise goods), custom duties (according to custom regulations), tax on immovable property (if they hold real estate in Moldova), and local taxes.

## Social Security Contributions

Contributions to the Social Fund are obligatory payments, but unlike taxes, they have a exact destination and are available for refund to the taxpayer in form of pensions, allowances, etc.

Employers must pay social security contributions in amount of 27% of the gross salary of their employees to the Social Security Fund.

Employees pay an individual contribution to the Social Security Fund in amount of 2% of their gross salary (the percentage applies to a base capped at three times the average salary for respective year). Starting with 1 January 2005 the social security contribution is deductible for income tax purposes.

Resident persons of Moldova who are working abroad may conclude an individual contract with the National House of Social Insurance of Moldova and pay an annual fixed amount of the social security contribution, which constitutes MDL 1,374 (USD 109) for 2005.

Foreign citizens working in Moldova, which have a permanent residency in the country, have the obligation to pay social security contribution. If permanent residency in the country is not established then there is no obligation to pay social security contributions.

The Republic of Moldova has mutual agreements on pension security signed with the Russian Federation, the Republic of Belarus, Ukraine, Uzbekistan and Azerbaijan.

## Medical Insurance Contributions

Moldova introduced the obligatory state medical insurance system as of 2004.

The obligatory medical insurance fee, computed as a percentage to wages and other forms of payment and remuneration, is established at the rate of 2 percent for each payer category (employers and employees).

The legislation provides also for an annual fixed amount of the medical insurance contribution paid by other category of taxpayers, which constitutes MDL 664.8 (USD 53) for 2005.

## Inheritance Tax

There is no special tax on inheritance. Estates received by residents as a donation or as an inheritance are not taxable.

## Indirect Taxation



### Value Added Tax

- There are four rates of VAT: 20%, 8%, 5% and 0%
- Only VAT registered entities are entitled to deduct and to refund VAT
- Starting with 1 January 2005, VAT payable on imported services is deductible
- Stocks of material and capital equipment, the customs value of which exceeds MDL 1,000 per unit and which are imported to the country as fixed assets, representing a contribution to the formation or increase of the statutory capital are exempt from VAT

### Customs Duty

- Customs duties vary from 0% to 20% depending on the classification of the goods;
- Generally, import-export transactions are not subject to licence;
- Stocks of material and capital equipment, the customs value of which exceeds MDL 1,000 per unit and which are imported to the country as fixed assets, representing a contribution to the formation or increase of the statutory capital are exempt from customs duties.

### 10.1 Value Added Tax (VAT)

#### The Scope of VAT

VAT is an indirect state tax payable to the budget for delivery or import of goods and services to the territory of Moldova as well as services rendered within Moldova.

The Tax Code describes the supply of goods as the transfer of ownership of goods by selling, exchanging or the non-paid (partly-paid) transfer of goods; delivery of services is the activity on providing any services, including passing right for property through operational leasing and others (paid, partly-paid or free).

#### Rates of VAT

There are four rates of VAT: 20%, 8%, 5% and 0%.

The standard rate of VAT is 20% of the taxable value of imported goods and services, as well as goods and services rendered on the internal market of Moldova.

Bakery and dairy products produced in Moldova and the import or supply on the territory of Moldova of sugar produced from sugar beet are liable to VAT at the rate of 8%.

Natural and liquid gas produced in or imported in Moldova are VAT liable at a rate of 5%.

The 0% rate is applied to:

- The export of goods and services;
- All kind of international transportation of passengers and commodities (including the expeditionary transportation);
- Electric and thermal power, and water supplied to the general population;
- Goods and services designed for the official use of diplomatic missions and other similar missions in Moldova as well as for personal use by members of supporting diplomatic staff and family members of diplomatic staff;
- Goods and services imported or/and supplied to international organisations in accordance with the special conventions and memorandum rectification;
- Construction of dwelling houses financed from real-estate loans.
- Goods and services delivered in Free Economic Zones from outside the customs territory of Moldova, delivered from Free Economic Zone outside the customs territory of Moldova, delivered from Free Economic Zone from the remained part of the customs territory of Moldova and delivered by the residents of different Free Economic Zones of Moldova to each other.

Rendering of services is considered as export of services in accordance with place of delivery (residence of real estate, of supplier or of customer) for each category of services.

## VAT Exemptions

VAT exemptions are as follows:

- Food and non-food products for children;
- State property purchased as part of the privatisation process;
- Payable medical services, with the exception of cosmetic services, medicine raw material and materials products, goods for medical use;
- Financial services;
- Commercial and intermediary transactions on the securities market;
- Insurance and reinsurance operations, except for insurance mediators' services;
- Imported transit goods, temporarily delivered to free customs storage spaces provided that they are going to be exported within a 12 months period;
- Foreign aid goods imported as provided by the Government;
- Fixed assets, with the customs value exceeding USD 1,000 per unit, aimed as contributions in the social capital of the economic agents;
- Gambling;
- Books and periodical issues (with the exception of advertising materials and those that are erotic in nature);
- Equipment imported and/or purchased (supplied) on the territory of Moldova according to Annex to Part III of Tax Code, etc;
- Income in form of interest received by the lessor based on financial leasing agreement

## Import VAT

VAT on imported goods is deductible for VAT payment purposes. Starting with 1 January 2005, VAT payable on imported services became deductible.

VAT on imported services should be paid not later than date of payment for imported services.

VAT on imported goods should be paid during the custom clearance process (except free enterprise zones).

## VAT for Transit and Temporary Imported Goods

Goods temporarily imported onto the territory of Moldova for reproduction or moved through Moldova as a transit are not subject to VAT, excise taxes or custom duties. Entities involved in this type of operation must conclude arrangements with the Department of Custom Control. Transit of goods through the territory of Moldova by any means of transport (except for by the railway) should not exceed 72 hours. Transit of goods by the railway shall not exceed 168 hours.

## VAT Refund

VAT-payer enjoys the right to refund VAT in accordance with following conditions:

- Goods or services delivered are subject to reduced VAT rate (8%) or VAT 0% rate (export of goods or services);
- VAT on purchases used for these goods (or services) exceed VAT liabilities.

If VAT-payer is requesting a refund of paid VAT, this can be done in accordance with specific provisions based on results of tax audit.

## Non-deductible Input VAT

VAT paid or due to be paid on goods or services obtained for VAT-exempted purveyance cannot be deducted or refund. These sums of VAT should be classified as expenses.

VAT paid on goods and services obtained not for business activity or on stolen goods as well as on losses exceeding legally determined norms are non-deductible and classified as expenses.

## VAT Administration

Any business enterprise, except for government bodies, public agencies, and the holders of business patents, has to register with local tax authorities as a VAT-payer, if during any twelve consecutive months it imports or delivers taxable goods and services of a value exceeding MDL 200,000 (USD 15,900).

Entities receiving services from non-residents located abroad must be registered if the cost of services exceeds MDL 200,000 (USD 15,900) per year. Only officially registered VAT-payers are entitled to refund of overpaid VAT.

The supplier carrying out a taxable delivery must submit to the buyer a tax invoice.

VAT-payers must complete payments and submit a VAT-report to the tax authorities every tax period (till the end of month following the reporting month).

## 10.2 Customs Duties

### Overview

Moldova's customs regime and tariffs system is regulated by the Customs Code, Law on Custom Tariffs and International Agreements where Moldova is participating.

Generally, any kinds of goods and transport can enter and leave the territory of Moldova without restriction. There are limitations that are specially determined by legislation. They cover the cases of goods and transport crossing the border contrary to the interests of state security, public order, environmental or by goods that have special historic or cultural value.

### Custom Duties

The Law on Customs Tariffs establishes the list and size of custom duties. The maximum rate of custom duties on imported goods is 20% of the value of the goods. Customs duties are not levied on goods and items produced and imported from Romania and countries, with which Moldova have signed agreements on setting up free trade zones.

### Preferential Customs Treatment

Incentive tariffs can be provided by legislation of Moldova or by international agreements to which Moldova is a party.

Some customs duty exemptions are stipulated for transport of international passengers and luggage delivery; goods for official use of foreign citizens (if anticipated in international agreements); national and foreign currency; goods crossing border of Moldova as humanitarian aid and as a charitable donations.

### Customs Duties Exemptions

- The stocks of material and capital equipment, the customs value of which exceeds MDL 1,000 per unit and which are imported to the country as fixed assets, representing a contribution to the formation or increase of the statutory capital are exempt from customs duties;
- The goods introduced to the territory of Moldova on basis of a international leasing agreement and placed under the regime of temporary admission;
- Movable goods, the value of which does not exceed 1,000 MDL, and the usefulness of which is more than one year, imported by legal entities performing leasing activity, for the purpose of paying off liabilities deriving from lease agreements concluded with Moldovan natural or legal entities.

### Customs Regime for Individuals

Citizens of Moldova, as well as foreigners, are allowed to move in or out of Moldova any goods under a simplified custom regime, provided such goods will not be used for business or commercial purposes.

Department of Customs Control of Moldova determines full or partial exemption from custom duties.

Law nr.1569 dated 20.12.2002 – regarding the ways of import and export of goods to/from the Republic of Moldova by the individuals contains an index of personal belongings allowed for crossing borders without paying VAT, excise tax and custom duty.

## 10.3 Other Indirect Taxes

### Excise Tax

Excise tax is a state tax applied to specified consumer goods and for gambling activities. The goods (products) produced in Moldova or imported ones are subject to excise duties.

Subjects of excise taxation are:

- Any individual or entity who produces and (or) processes excisable goods on the territory of the Republic of Moldova;
- Any individual or entity who imports excisable goods, with the exception of goods under exemptions;
- Any person involved in gambling activity.

Corporate bodies or individuals performing above-mentioned activities must be registered and possess excise certificates.

Excise duties on imported goods are calculated and paid at the same time when customs duties are paid. Excise liable goods are subject to obligatory excise stamp marking.

Excise duty rates represent either a fixed amount per unit of goods, or are established based on the market value of goods. The current rates of excise tax for a range of goods are listed in Appendix X.

Excise liable goods, imported in Moldova as humanitarian or technical assistance, as established by the Government, as well as excise liable goods temporarily imported into (exported from) the country, or transiting the country, or imported into free-zone customs warehouse, are not subject to excise taxes.



# Introduction to PricewaterhouseCoopers

## PricewaterhouseCoopers in Moldova

PricewaterhouseCoopers entered the Moldovan market in 1996 and was established as a legal branch of the Romanian firm. We have continuously expanded the scope of our services and currently offer a full range of professional services to both international and Moldovan enterprises. Overseen by 6 partners and employing 350 specialists and support staff, PricewaterhouseCoopers operates in Romania and Moldova out of four offices in Bucharest, Timisoara, Cluj-Napoca and Chisinau.

Service lines include:

- **Assurance Services:** external and internal audit, financial and accounting reviews and investigations; regulatory consulting; training courses;
- **Tax and Legal Services:** all aspects of inbound investment into Moldova, corporate structuring of investments and trading activities, international tax planning, indirect taxation (customs and VAT), individual taxation and human resources advisory. Our lawyers are qualified to give advise on all significant areas of law, including corporate law, mergers and acquisitions, project finance and privatisation, and litigation representation;
- **Corporate Finance and Recovery Services (CF&R):** mergers and acquisitions, project finance and privatisation, valuation and strategy, feasibility studies and preparation of business plans; and business recovery, investigation and forensic services

## Assurance Services

The Assurance Services practice comprises internationally trained Moldovan and foreign accountants. All Assurance Services staff is familiar with local and international accounting practices. As part of our long-term development strategy,

PricewaterhouseCoopers Moldova requires its local auditors to obtain an internationally recognised professional qualification in accounting (UK ACCA) to enhance their understanding of International Financial Reporting Standards.

PricewaterhouseCoopers knowledge and experience gained over the period of reform in all of the former Eastern European countries, enables its specialists not only to advise on audit and non-audit matters, but also to put them in context and to advise on the likely impact that the pace and direction of economic and financial change will have on a commercial activity in Moldova. As a result of a long-term presence

PricewaterhouseCoopers Moldova has developed strong relationships with key contacts, including government ministries and leading professional organisations. These relationships enable the firm to be well placed to assist in resolving queries on accounting, reporting and related regulatory issues.

Services available include: audits in accordance with IFRS or other recognised, generally accepted auditing standards; compilation of financial statements in accordance with International Financial Reporting Standards (IFRS) or other recognised accounting standards (US or UK GAAP); compliance audits (National Bank of Moldova); regulatory consulting; internal audit; training in IFRS, Statutory Accounting Rules and others.

## Tax and Legal Advisory Services (TLS)

Tax and Legal Services Department of PricewaterhouseCoopers Moldova consists of a team of 6 professionals, permanently supported by PricewaterhouseCoopers' Romania knowledge and expertise.

PricewaterhouseCoopers Moldova's tax advisory practice comprises international and local tax experts, and customs, VAT, bookkeeping, individual taxation and human resources specialists. We are able to specialise in all areas of tax including:

**Corporate Taxation:** The team has extensive experience in advising clients based on Moldovan laws and their interpretation by tax authorities, as well as their interrelation with international regulations and treaties. PricewaterhouseCoopers are highly qualified to advise in all aspects of inward investments in Moldova, and the structuring of those investments in terms of profit tax, withholding tax, dividend tax and local tax regulations. The team provides proactive advise on international tax planning and structuring; mergers and restructuring, undertakes company health checks and due diligence projects, liaises with tax authorities (during tax inspections, and lodging of objections) and also available to provide bookkeeping services.

**Indirect Taxation:** With group members that include specialists who bring their experience from Moldovan Finance Ministry and Tax Authorities, PricewaterhouseCoopers indirect tax specialists have extensive experience in resolving complex issues related to indirect taxes, customs procedures and foreign trade.

Services available include VAT consultancy and tax reviews; VAT planning and efficiency schemes for domestic and cross-border operations; assistance with standard and fast VAT refund procedures; assistance during tax inspections; support and advice during appeals. Customs consulting includes tax planning for minimising import duties; implementation of temporary customs regimes; authorised exporter status and simplified customs procedures implementation; use of bonded warehouses and customs-free trade zones; intellectual property rights, obtaining import/export licences; assistance during customs clearance and audits; support during customs litigation or complaints.

#### **Integrated Personnel Solutions:**

PricewaterhouseCoopers Integrated Personnel Solutions brings together all of the professionals working in the human resource consulting arena – specialising in individual tax, payroll, benefits, assessment, education, equity, reward, staffing, regulatory, legal, and process management – offering clients and unmatched breadth and depth of local and global expertise. Services available includes individual advise, ranging from assistance with obtaining work and residence permits, to advice and assistance with all matters regarding Moldova's personal income taxation legislation, executive recruitment and selection; executive recruitment and selection; salary surveys, outplacement, and human resources audit.

Our experience in Moldova covers various areas of law and PwC's clients are mainly major corporations, banks and financial institutions. Our lawyers are qualified to

give advise in a multitude of areas that includes advising multinational companies and local businesses on how to structure their investments and activities in Moldova, *inter alia* foreign investment, banking, securities and financing, privatisation, mergers and acquisitions, legal audit, corporate structures, competition, trade practices, intellectual property, and employment.

#### **Corporate Finance and Recovery Services (CF&R)**

The Moldovan CF&R practice, in co-operation with CF&R PricewaterhouseCoopers Romania, offer four types of services:

- Corporate Finance, providing advice in mergers & acquisitions; privatisation; valuations, feasibility studies and business plans; project finance; finance raising; and transaction support;
- Business recovery/insolvency specialised in corporate recovery and turnaround; loan portfolio management; insolvency/liquidation; optimised exits; real estate and asset valuations.
- Business research and development, providing a variety of services including market and sector analysis;
- Forensic Services and Investigation.

**Corporate Finance:** PricewaterhouseCoopers provides a full range of services to guide clients through complex business transactions, and supports companies through every aspect of a transaction, from identifying the appropriate acquisition or divestiture candidates to assisting with deal structuring and capital sourcing. A wide range of privatisation services including lead advisory, target identification, company profiles, analysis of privatisation options, and transaction support are available, as well as assistance and support for companies seeking new capital, or companies involved in an acquisition, divestiture, restructuring or shareholder buyout. Services in relation to transactions, such as identification and evaluation of a transaction through due diligences, structuring services, and post-deal services are available.

**Business Recovery Services:** Dedicated team of professionals specialised in business recovery and insolvency advises on and implements a complete range of solutions for business recovery situations, corporate bankruptcy and implementation of large-scale turnarounds for under-performing corporations. The practice has extensive experience in the management of under-performing portfolios, as well as in the divestment of the under-performing assets of a

business in order to extract or preserve the optimum value for shareholders.

**Business Research and Development:** Tailor-made studies harnessing wide-ranging expertise locally and internationally are available.

**Forensic Services and Investigation:**

PricewaterhouseCoopers Forensic practice, the global market leader, involves corporate investigation, fraud risk management, background research of entities, computer forensics and cyber-crime investigations, as well as investigations on insolvency and bankruptcy, and intellectual property.

# Appendices

Ministry (Departament)	Phone (Fax)
The Government of Moldova	(+373 22) 25 01 01
The Ministry of Agriculture and Food Industry	(+373 22) 23 34 27
The Ministry of Culture and Tourism	(+373 22) 22 76 20
The Ministry of Defence	(+373 22) 79 91 09
The Ministry of Economy and Trade	(+373 22) 23 74 48
The Ministry of Education, Youth and Sport	(+373 22) 23 33 48
The Ministry of Energy	(+373 22) 25 31 00
The Ministry of Environment and Natural Resources	(+373 22) 22 62 73
The Ministry of Finance	(+373 22) 23 35 75
The Ministry of Foreign Affairs and European Integration	(+373 22) 57 82 07
The Ministry of Health and Social Protection	(+373 22) 72 99 07
The Ministry of Industry and Infrastructure	(+373 22) 27 80 59
The Ministry of Informational Development	(+373 22) 22 80 98
The Ministry of Internal Affairs	(+373 22) 22 45 47
The Ministry of Justice	(+373 22) 23 47 95
The Ministry of Transport and Road Industry	(+373 22) 22 10 01
The Bureau of Interethnic Relations	(+373 22) 21 40 80
The National Bureau of Migration	(+373 22) 54 46 03
The National Bureau of Statistics	(+373 22) 73 37 74
The Standardisation and Metrology Service	(+373 22) 74 85 88
The Customs Service	(+373 22) 54 94 60
The Service of Frontier Troops	(+373 22) 22 10 25
The Agroindustrial Agency "Moldova-Vin"	(+373 22) 21 02 37
The Department of Penal Jurisdiction of the Ministry of Justice	(+373 22) 55 15 21
The National Bank of Moldova	(+373 22) 22 16 79

## Appendix II

## Bilateral Investment Treaties

Moldova has negotiated a series of treaties on protection on investment with a number of countries.

Investment protection agreements with the following countries are currently in force:

■ Romania	14.08.1992
■ China	06.11.1992
■ USA	21.04.1993
■ Turkey	14.02.1994
■ Poland	15.11.1994
■ Hungary	19.04.1995
■ Finland	25.08.1995
■ Ukraine	29.08.1995
■ Netherlands	26.09.1995
■ Uzbekistan	21.11.1995
■ Switzerland	30.11.1995
■ UK	19.03.1996
■ Bulgaria	17.04.1996
■ Israel	22.06.1997
■ France	08.09.1997
■ Azerbaijan	27.11.1997
■ Georgia	29.11.1997
■ Russian Federation	17.03.1998
■ Greece	23.03.1998
■ Czech Republic	12.05.1999
■ Republic of Byelorussia	28.05.1999
■ Lithuania	20.09.1999
■ Latvia	22.09.1999
■ Austria	05.06.2001
■ Croatia	05.12.2001
■ Kuwait	26.09.2002
■ Kirghizia	20.03.2003
■ Tajikistan	20.03.2003
■ Slovenia	02.10.2003
■ Bosnia and Herzegovina	09.10.2003
■ Albania	28.10.2004

### Appendix III

### Major Banks Operating in Moldova

Bank		Tel. Number
■ Banca de Economii	bem@bem.md	(+373 22) 24 47 22
■ Banca Sociala	office@socbank.md	(+373 22) 22 14 81
■ BCR, Branch Chisinau	office@bcr.md	(+373 22) 22 05 49
■ Businessbank	bank@businessbank.md	(+373 22) 22 33 38
■ Comertbank	comertbank@mdl.net	(+373 22) 73 99 91
■ Energbank	office@energbank.com	(+373 22) 54 43 90
■ EuroCreditBank	info@ecb.md	(+373 22) 50 02 00
■ Eximbank	info@eximbank.com	(+373 22) 27 25 83
■ Fincombank	fincom@fcb.mldnet.com	(+373 22) 22 74 35
■ Investprivatbank	ipb@mdl.net	(+373 22) 27 43 86
■ Mobiasbank	info@mobiasbank.com	(+373 22) 27 92 69
■ Moldincombank	info@moldinconbank.com	(+373 22) 54 64 11
■ Moldova – Agroindbank	aib@maib.md	(+373 22) 21 28 28
■ Universalbank	ub@mail.universalbank.md	(+373 22) 25 59 00
■ Victoriabank	office@victoriabank.md	(+373 22) 23 30 65
■ Unibank	welcome@unibank.md	(+373 22) 22 55 86

## Appendix IV

## Hotels and Restaurants

Hotels	Tel. Number
Chisinau***	(+373 22) 57 85 06
Codru ****	(+373 22) 20 81 02
Cosmos ***	(+373 22) 54 27 57
Dacia ****	(+373 22) 23 22 51
Dedeman ****	(+373 22) 20 12 01
Flowers Hotel ****	(+373 22) 27 72 62
Jazz Hotel ***	(+373 22) 21 26 26
Jolly Alon ****	(+373 22) 23 28 96
Luna Hotel ***	(+373 22) 23 35 23
Monte Nelly ****	(+373 22) 29 25 74
Nobil ****	(+373 22) 22 85 80
Villa Natali***	(+373 22) 23 36 63
VisPas Hotel ****	(+373 22) 24 21 29
Restaurants	Tel. Number
Alaverdy (Georgian food)	(+373 22) 44 50 82
Barracuda (Eastern European cuisine)	(+373 22) 20 21 02
Cactus (Moldo-Mexican cuisine)	(+373 22) 50 40 94
Coliseum (Italian food, Pizza)	(+373 22) 29 28 00
Dublin Irish Pub	(+373 22) 24 58 55
El Paso (original Mexican food)	(+373 22) 50 41 00
Equator (Moldo-American)	(+373 22) 20 20 20
Green Hills Nistru Cafe (Turkish-Moldovan)	(+373 22) 22 32 95
Green Hills Nistru Restaurant	(+373 22) 22 04 51
Hunting yard	(+373 22) 78 44 40
La Roma Club	(+373 22) 22 85 90
La Taifas (traditional Moldovan cuisine)	(+373 22) 22 76 92
Monte Cristo (Moldovan cuisine)	(+373 22) 21 05 07
Old City (Moldovan cuisine)	(+373 22) 22 50 63
Berlin (Beer Restaurant)	(+373 22) 75 25 80
Gambrinus	(+373 22) 27 44 50
New York Bar	(+373 22) 23 21 55
Nori (Japanese)	(+373 22) 21 10 80
Robin Pub	(+373 22) 24 11 27
Passepartout	(+373 22) 27 94 82
Pani-Pit (European Food)	(+373 22) 24 01 27
Yakiniku zen (Japanese)	(+373 22) 21 10 20
Hutoroc (Ukrainian food)	(+373 22) 22 21 02
Ermak (Russian cuisine)	(+373 22) 22 49 31
Pizza House	(+373 22) 23 51 62
The Golden Stag	(+373 22) 33 77 45

During 1997-2004 the following accounting standards were introduced:

- NAS 1 "Accounting Policy",
- NAS 2 "Inventories",
- NAS 4 "Accounting for small businesses",
- NAS 5 "Presentation of Financial Statements",
- NAS 6 "Accounting for agriculture",
- NAS 7 "Cash flow statement",
- NAS 8 "Net profit or loss for the period, fundamental errors and changes in accounting policies",
- NAS 9 "Accounting of scientific research and development activity charges",
- NAS 10 "Events after the balance sheet date",
- NAS 11 "Construction Contracts",
- NAS 12 "Income taxes",
- NAS 13 "Intangible assets",
- NAS 14 "Reporting Financial Information by Segment",
- NAS 16 "Property, Plant and Equipment",
- NAS 17 "Leasing",
- NAS 18 "Revenue",
- NAS 20 "Accounting for subsidies and disclosure of information on state assistance"
- NAS 21 "The effects of changing in foreign exchange rates",
- NAS 23 "Borrowing costs",
- NAS 24 "Disclosures of Related Parties",
- NAS 25 "Accounting for investments",
- NAS 27 "Consolidated financial statements and accounting for investments in subsidiaries",
- NAS 28 "Accounting for associates",
- NAS 30 "Disclosures in the financial statements of banks",
- NAS 31 "Financial reporting of interests in joint ventures",
- NAS 36 "Disclosures in the financial reporting of Borrowings and Savings Associations",
- NAS 62 "Simple accounting system",
- NAS 63 "Disclosure of information in the financial statements of savings and borrowing associations and other similar institutions".

# Appendix VI

## Appendix VI

### Major Difference between the Practical Implementation of International Accounting Standards and National Accounting Standards

IAS Number and Description	NAS Number and Description	Difference between IAS and NAS
"Presentation of Financial Statements", effective July 1, 1998. Supersedes IAS1 "Disclosure of Accounting Policies", IAS5 "Information to be Disclosed in Financial Statement" and IAS13 "Presentation of Current Assets and Current Liabilities".	"Accounting Policies" based on IAS1 "Disclosure of Accounting Policies" 1994 revision	NAS 1 contains an additional section "Formation of accounting policies", which sets forth fundamental assumptions, principles and procedures for development of accounting policies at enterprise level.
"Inventories" IAS2 , revised 1993, effective January 1, 1995	"Inventories", based on IAS2 1993 revision	NAS does not provide for application of LIFO. Starting on March 9, 2010 LIFO is allowed as well. IAS allows LIFO as alternative treatment to FIFO and weighted average.
Superseded by IAS27 "Consolidated Financial Statement and Accounting for Investment in Subsidiaries" and IAS28 "Accounting for Investment in Associates"	"Composition of Costs and Expenses"	NAS contains an additional section on accounting for Low value and Short Life Items and their depreciation.
Superseded by IAS1 "Presentation of Financial Statements" effective July 1998	"Presentation of Financial Statements", based on IAS% "Information to be disclosed in Financial Statements" and E53 "Presentation of Financial Statements"	No comparable IAS exists. The purpose of NAS2 is to explain the composition of costs and expenses of an enterprise based on types of activities. In addition, the Standards set Forth criteria of expense measurement and recognition for financial accounting purpose.
Cash Flow Statements" IAS7, revised 1992, effective 1 January, 1994	"Cash Flow Statement", based on IAS7 1992 revision	Unlike IAS, NAS5 introduces strict forms of financial reporting, which are approved by the Ministry of Finance and are imperative for use by all enterprises. In addition, NAS5 states that accounting period is one quarter and not one year as envisioned by IAS.
Construction Contracts" IAS11 revised 1993, effective 1 January, 1995	"Construction Contracts"	NAS 7 recommends that only direct method by applied for Operating Activities section of Cash Flow Statement while IAS7 allows for both direct and indirect.
"Income Taxes" IAS12, revised 1996, effective 1 January, 1998	"Accounting for Income Taxes", based on 1996 revision	NAS 11 does not provide for an expected loss to be accrued immediately and included in the results of the reporting period.
Superseded by IAS1 "Presentation of Financial Statements" effective 1 July, 1998	"Accounting for Income Taxes", based on Exposure Draft E50	IAS 12 is using Balance Sheet Liability Method. NAS 12 is using Income Statement Method.
"Property, Plant and Equipment" IAS16, revised 1998	"Accounting for Long Term Tangible Assets", based on IAS16 1993 revision	NAS 13 was developed on the basis of Exposure Draft E 50 and does not differ from it. With publication of IAS38 it is planned to make changes to NAS13 accordingly.

## Chart of Accounts

<b>Class I. Long – term Assets</b>	
111-113	Intangible Assets
121-126	Long-term Tangible Assets
131-135	Long-term Financial Assets
41-142	Other Long-term Assets
<b>Class II. Current Assets</b>	
211-217	Inventories
221-229	Short-term Receivables
231-233	Short-term Investment
241-246	Cash
251-252	Other Current Assets
<b>Class III. Owner's Equity</b>	
311-314	Statutory and Additional Capital
321-323	Reserves
331-334	Retained Earnings (Deficit)
341-342	Non-Owners Equity
<b>Class IV. Long-term Financial Liabilities</b>	
411-414	Long-term Financial Liabilities
421-426	Long-term Accrued Liabilities
<b>Class V. Short-term Liabilities</b>	
511-516	Short-term Financial Liabilities
521-523	Short-term Trade Liabilities
531-534	Short-term Accrued Liabilities
535	VAT an Excise Tax Accrued
536	Non-budgetary Liabilities
537	Liabilities to Founders and Other Co-founders
538	Provisions for Future Expenses and Payments
<b>Class VI. Revenues</b>	
611-612	Operating Income
621-623	Non-Operating Income
<b>Class VII. Expenses</b>	
711-714	Expenses of Operating Activity
721-723	Non Operating Expenses
731	Tax Expense (Income)
<b>Class VIII. Managerial Accounting</b>	
811-813	Manufacturing Cost
821	Trade Mark-up
822	Return and Allowance on Goods Sold

## Appendix VII

## Chart of Accounts

<b>Class IX. Off-balance Accounts</b>	
911-912	Leased Long-term Assets
921-924	Tangible Assets That Do Not Belong to The Enterprise
931-934	Securities That Do Not Belong to The Enterprise
941-944	Conventional Liabilities and Payments

- 110. Glossary of Terms used in NSAs
- 120. Conceptual Framework of National Standards on Auditing
- 200. Objective and General Principles Governing an Audit of F/S
- 210. Terms of Audit Engagements
- 220. Quality Control for Audit Work
- 230. Documentation
- 240. Fraud and Error
- 250. Consideration of Laws and Regulations in an Audit of F/S
- 300. Planning
- 310. Knowledge of the Business
- 320. Audit Materiality
- 400. Risk Assessments and Internal Control
- 401. Auditing in a Computer Information Systems Environment
- 402. Audit Considerations Relating to Entities Using Service Organisations
- 500. Audit Evidence
- 501. Audit Evidence – Additional Considerations for Specific Items
- 505. External Confirmations
- 510. Initial Engagements- Opening Balances
- 520. Analytical Procedures
- 530. Audit Sampling and Other Selective Testing Procedures
- 540. Audit of Accounting Estimates
- 550. Related Parties
- 560. Subsequent Events
- 570. Going Concern
- 580. Management Representations
- 600. Using the Work of Another Auditor
- 610. Considering the Work of Internal Auditing
- 620. Using the Work of an Expert
- 700. The Auditor's Report on F/S
- 710. Comparatives
- 720. Other Information in Documents Containing Audited F/S
- 800. The Auditor's Report on Special Purpose Audit Engagements
- 810. The Examination of Prospective Financial Information
- 910. Engagements to Review F/S
- 920. Engagements to Perform Agreed-Upon Procedures Regarding Financial Information
- 930. Engagements to Compile Financial Information

## Appendix IX

Double Taxation Agreements to Which  
Moldova is a Party\*

State	Dividends	Interest	Royalties
Albania	5 / 10	5	10
Azerbaijan	8 / 15	10	10
Belarus	15	10	15
Bosnia & Herzegovina	5 / 10	10	10
Bulgaria	5 / 15	10	10
Canada	5 / 15	10	10
China	5 / 10	10	10
Czech Republic	5 / 15	5	10
Estonia	10	10	10
Germany	15	5	0
Hungary	5 / 15	10	0
Japan	15	10	0 / 10
Kazakhstan	10 / 15	10	10
Latvia	10	10	10
Lithuania	10	10	10
Netherlands	5 / 15	5	2
Poland	5 / 15	10	10
Romania	10	10	10 / 15
Russian Federation	10	0	10
Switzerland	5 / 15	10	0
Turkey	10 / 15	10	10
Tajikistan	5 / 10	5	10
Ukraine	5 / 15	10	10
Uzbekistan	5 / 15	10	15

\* This list includes only the double tax treaties which are currently applicable

## Excise Tax for Imported and Domestic Products

No	Products of Groups of Products	Units	Excise Rate
1	Red caviar	MDL	20 %
2	Sturgeon caviar (black caviar) and caviar substitutes from grain of roe of other fish	MDL	25 %
3	Coffee, roast and non roast , with caffeine and decaffeinated; coffee-substitutes in any proportion	MDL	10 %
4	Malt Beer	Litre	1.00 MDL
5	Sparkling wines	Litre	10%, but not less then 2.50 MDL /litre
6	Champagne	Litre	10%, but not less then 2.50 MDL /litre
7	Natural alcoholic drinks in empties till 2 litre - with alcohol contained till 13% - with alcohol contained over 13%	MDL	10%, but not less then 1.25 MDL /litre 10%, but not less then 1.5 MDL /litre
8	Soft drinks	Litre	10%, but not less then 0.15 MDL /litre
9	Cigarettes -with filter -with out filter	1000 pieces 1000 pieces	8.7 MDL 3.7 MDL
10	Other cigars, cigarillos, and cigarettes containing tobacco substitutes	1000 pieces	6.2 MDL
11	Cigars, cigars with cut tops and cigarillos (thin cigars)	1000 pieces	1240 MDL
12	Diesel oil	Ton	MOL 500
13	Premium, Regular and Normal fuel	Ton	MOL 1200
14	Precious jewellery or jewellery from plated and non-plated metals	MDL	10 %
15	Perfumes	MDL	10%
16	Fur clothes (mint, polar fox, fox, sable)	MDL	25 %
17	Video recording devices or video reproducing devices connected or connected with video tuner	A piece	10 Euro

18	Tape recorders, radio tape recorders, auto tape recorders, audio players	MDL	15 %
19	Video cameras and frame imaging and other recording video cameras	A piece	30 Euro
20	Automobiles with internal combustion engine and spark ignition:  - with working capacity of engine not more than 1000 cc - with working capacity more than 1000 cc, but not more than 1500 cc - with working capacity more than 1500 cc, but not more than 2000 cc - with working capacity more than 2000 cc, but not more than 3000 cc - with working capacity of 3000 cc	cubic cm	0.30 Euro 0.40 Euro 0.60 Euro 1.00 Euro 1.60 Euro
	Automobiles with internal combustion engine of compression ignition (diesel or half-diesel)  -with working capacity of engine not more than 1500 cc -with working capacity more than 1500 cc, but not more than 2500 cc -with working capacity more than 2500 cc	cubic cm	0.40 Euro 1.00 Euro 1.60 Euro
21	License for gambling business	price	25%
22	Mixtures of aromatic compounds used as feedstock; other preparation on basis of aromatic compound used for the production of beverages	Litre of absolute alcohol	0.09 MDL/% ab.alcohol/litre
23	Stamping foil	Litre of absolute alcohol	0.09 MDL/% ab.alcohol/litre
24	Pearl essence	Litre of absolute alcohol	0.09 MDL/% ab.alcohol/litre
25	Fluid and slurred pigments used for the production of dyes	Litre of absolute alcohol	0.09 MDL/% ab.alcohol/litre
26	Dye and dye-stuffs destined for retail sale	Litre of absolute alcohol	0.09 MDL/% ab.alcohol/litre



## Notes



Your worlds



Our people\*

\*connectedthinking

PRICEWATERHOUSECOOPERS 