

Foreign direct investment – economic importance

Numerous speeches and analyses are dedicated to foreign direct investment (FDI) in Moldova. However, due to a lack of data, so far no systematic analysis has been conducted on the economic importance of FDI for the Moldovan economy. In cooperation with the National Bureau of Statistics, GET Moldova has now created the necessary database for such an analysis.

The database shows that companies with foreign capital account for 15% of employment and 23% of value added in Moldova. They are on average 71% more productive than domestic enterprises. This enables them to pay higher wages, thus directly benefiting the population. Companies with foreign capital account for 34% of corporate income tax revenues and 21% of social security contributions. Thus, they are of significant fiscal importance.

These are important insights suggesting to intensify the efforts for FDI attraction and to improve the conditions for FDI companies already operating in Moldova.

Background

It is generally assumed that foreign direct investment (FDI) is important for Moldova. However, up to now the existent data did not allow for a quantification of its economic importance. This does not imply that no data about FDI were collected at all. The National Bank publishes information about the countries of origin and about the FDI stock by sectors. However, these data were not sufficient to analyse the impact on the economy like the share of FDI companies in value added, employment, tax revenues and exports.

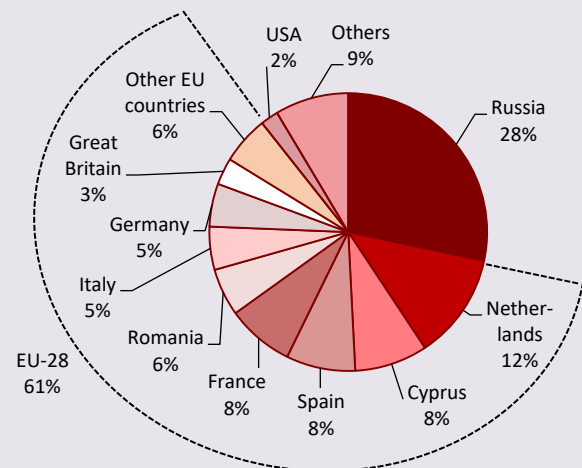
By processing already collected raw data from 2015 for the analysis, GET Moldova has filled this informational gap in cooperation with the National Bureau of Statistics. These “new” data thus complement the existing ones and allow for a comprehensive analysis of the importance of FDI in Moldova.

What has been known

Moldova’s National Bank collects and publishes information about the FDI stock by countries and sectors. These data indicate that the EU is a key investor in Moldova.

In 2015, around 61% of the total FDI stock originated from EU countries. Thus, the importance of the EU in regard to FDI is similar to that in Moldovan trade: In 2015, 62% of Moldovan exports were destined to the EU.

FDI stock



Source: National Bank of Moldova, data for 2015

As the graph above shows, off-shore companies seem also to play a role in investment. Consequently, the share of Cyprus and the Netherlands is probably overestimated. But as also other EU countries use such channels, we consider the data reliable.

Also Russia plays an important role holding 28% of the Moldovan FDI stock. Much of that is linked to the energy supplier Moldovagaz. It is the largest Russian investment.

Around one third of the total FDI stock is in the energy sector – here, apart from Moldovagaz, Gas Natural Fenosa is a key player. Also banking (18% of FDI stock) and manufacturing (16% of the stock) are sectors receiving much FDI. Agriculture seems, however, underrepresented; it accounts for only 1% of the FDI stock.

What has not been known

GET Moldova has analysed existent raw data in cooperation with the National Bureau of Statistics and created a new data base for the comprehensive analysis of the importance of FDI.

These “new” data show that 7% of Moldovan companies have foreign capital.

At the same time we calculate that these enterprises account for 15% of employment. The raw data for employment, however, include the public sector only partly and should be interpreted under this reservation.

At the same time, companies with foreign capital generated 23% of Moldovan value added in 2015. Thus, almost 1/4 of Moldova's GDP can be attributed to these companies. This share is higher than their share in employment (15%), indicating that FDI companies are in average 71% more productive than domestic companies. This can be explained by various factors: They are in average larger than domestic companies, have more capital and potentially dispose over technological and managerial advantages.

This implies that FDI companies can on average pay higher wages. Thus, the Moldovan population profits directly from foreign investors. The difference in wages paid by domestic and foreign companies is especially large in capital-intensive sectors such as energy and in knowledge-based sectors like computer programming. In low-tech sectors such as textiles, the wage difference is quite limited.

Apart from that, companies with foreign capital are an important source for state revenues. They provide 34% of total corporate income tax revenues, which is much higher than their share in value added. Additionally, FDI companies also contribute to other taxes by paying higher wages. Furthermore, they account for 21% of social security contributions, despite their lower share of 15% of employment. Thus, the government has direct and tangible fiscal benefits from FDI.

For manufacturing we could also identify the share of production dedicated for exports. Manufacturing companies with 100% foreign capital sell two thirds of their production abroad. In domestic companies, it is only 23%. This export orientation of foreign enterprises helps Moldova reduce its trade deficit.

Conclusion

Our analysis has shown that FDI play an important role in Moldova, which has probably been underestimated up to now.

Share of companies with foreign capital

	Companies with foreign capital
Number	7%
Employment	15%
Value added	23%
Corporate income tax	34%
Social security contributions	21%

Source: Own calculations

Paying higher wages, they contribute to the welfare of the population and are an important source of tax revenues. In our opinion, these results suggest to intensify the efforts for FDI attraction and to improve the conditions for FDI companies already operating in Moldova.

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A more comprehensive analysis is provided by the Policy Study PS/01/2017 „[The economic impact of FDI in Moldova - Results from an empirical analysis](#)“.

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