

The economic impact of FDI in Moldova

- Summary of results -

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Summary

FDI concepts used: NBM and NBS

Findings based on the NBM concept

- FDI stock: USD 741 per capita → very low
- But: FDI stock amounts to 41% of GDP → middle position
- EU is by far the largest foreign investor: 61% of total stock
- Energy and financial sector together account for over 50% of FDI stock

Findings based on the NBS concept

	Number of enterprises	Value added	Employment	CIT revenues	Social security contributions
Mixed companies	3%	10%	6%	14%	10%
Foreign companies	4%	13%	9%	21%	11%
Total companies with FDI	7%	23%	15%	34%	21%

→ **Significant impact of companies with FDI on the Moldovan economy**

Structure

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2. Analysis based on NBM concept
 - FDI stock - international comparison
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 - FDI and value added
 - FDI and employment
 - Productivity
 - Exports in the manufacturing sector
 - Corporate income tax and social security contributions
4. Overview of results based on NBS concept

1. Two complementary concepts of FDI: NBM and NBS

Balance of payments concept (NBM concept)

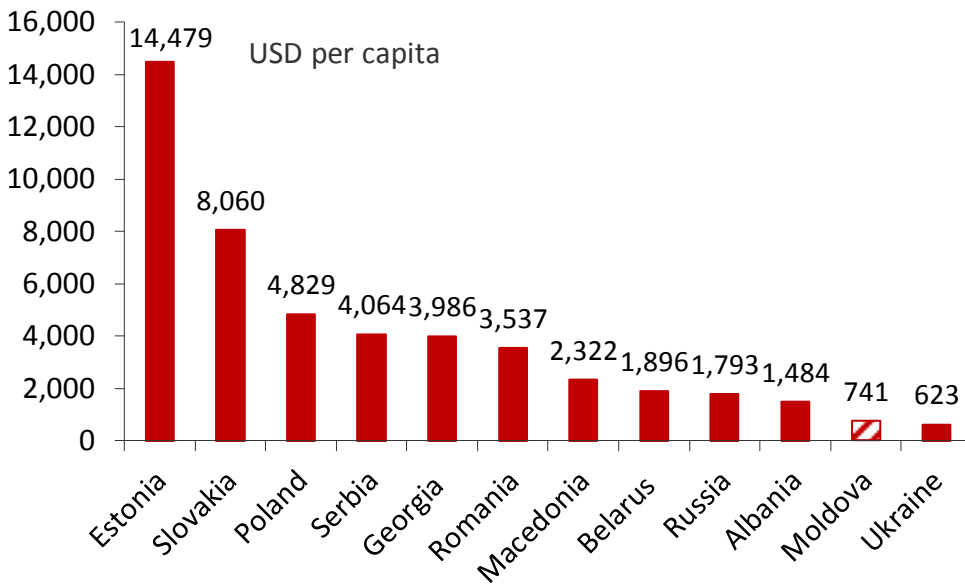
- Source: Balance of payments statistics from NBM
- FDI consists of debt and equity
- Definition FDI: strategic long-term relationship – investor owns at least 10% of target company
- Below 10%: No FDI, but portfolio investment

Definition for structural analysis (NBS concept)

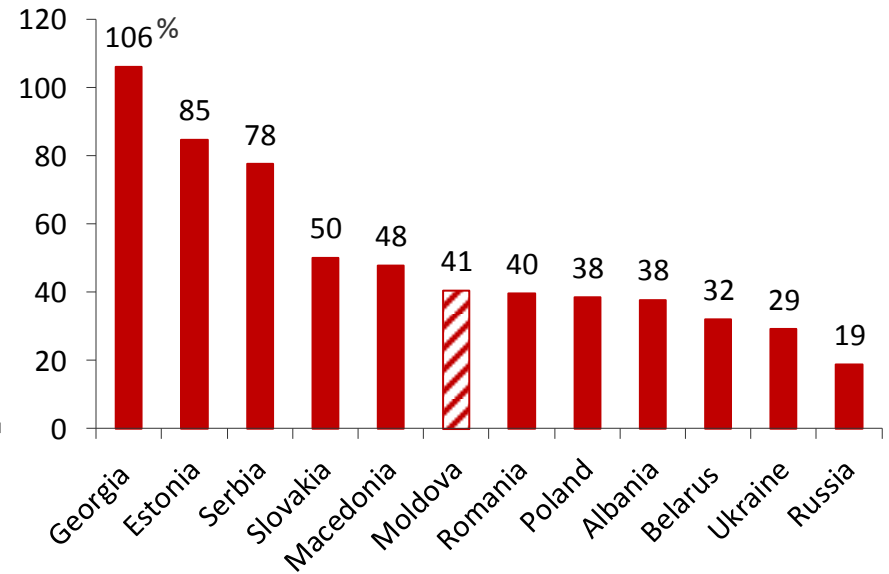
- Source: Company data gathered by NBS; further processing by NBS in cooperation with GET Moldova
- FDI consists equity in the form of share capital
- Definition FDI: share of foreign company above 0%
 - if share between 0% and 100% -> mixed company
 - If share 100% -> foreign company

2. NBM concept: FDI stock - international comparison

FDI per capita



FDI as share of GDP



Source: Own calculations based on IMF WEO and IMF CDIS data, 2015. Note: NBM concept is used

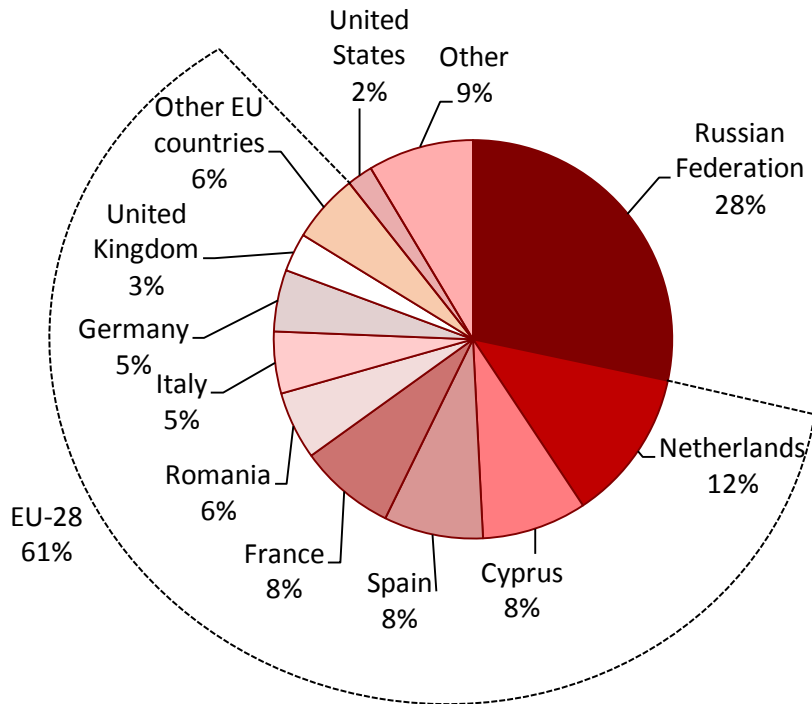
FDI stock

- USD 741 per capita: very low
- 41% of GDP: middle position

→ **Significant potential for further FDI attraction**

FDI by source countries

FDI by source countries



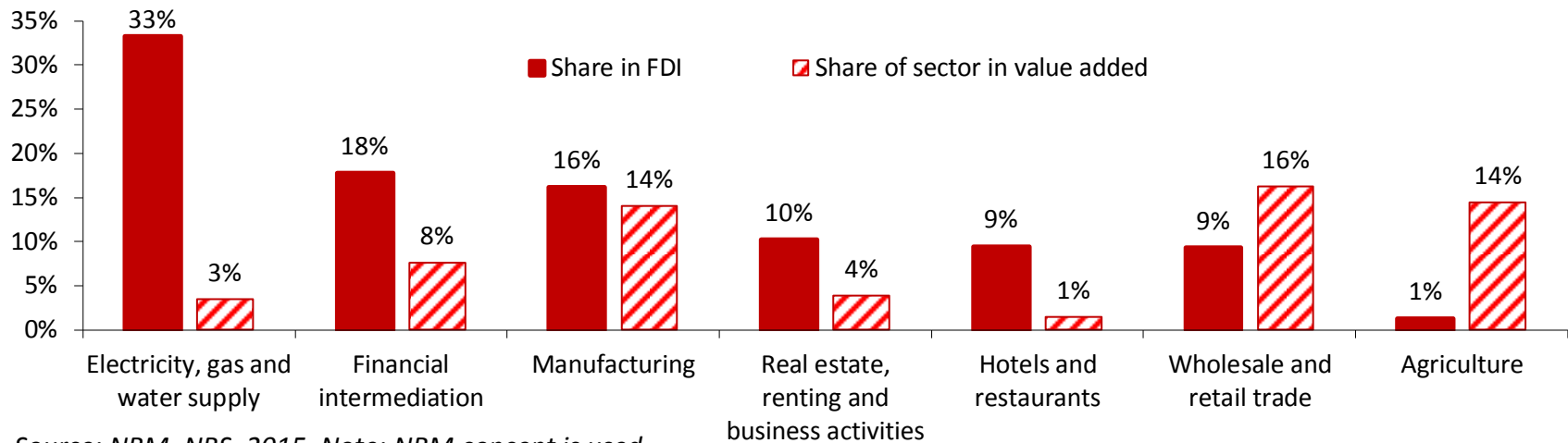
- EU accounts for 61% of FDI into Moldova
- However: Data show immediate investors' country only -> share of Cyprus probably overestimated
- On a single country basis: Russia most important investor
- Main Russian investment: Moldovagaz

→ EU is by far the main source of FDI into Moldova (61%)

Source: NBM, 2015. Note: NBM concept is used

FDI stock by sectors

FDI and total value added by sectors

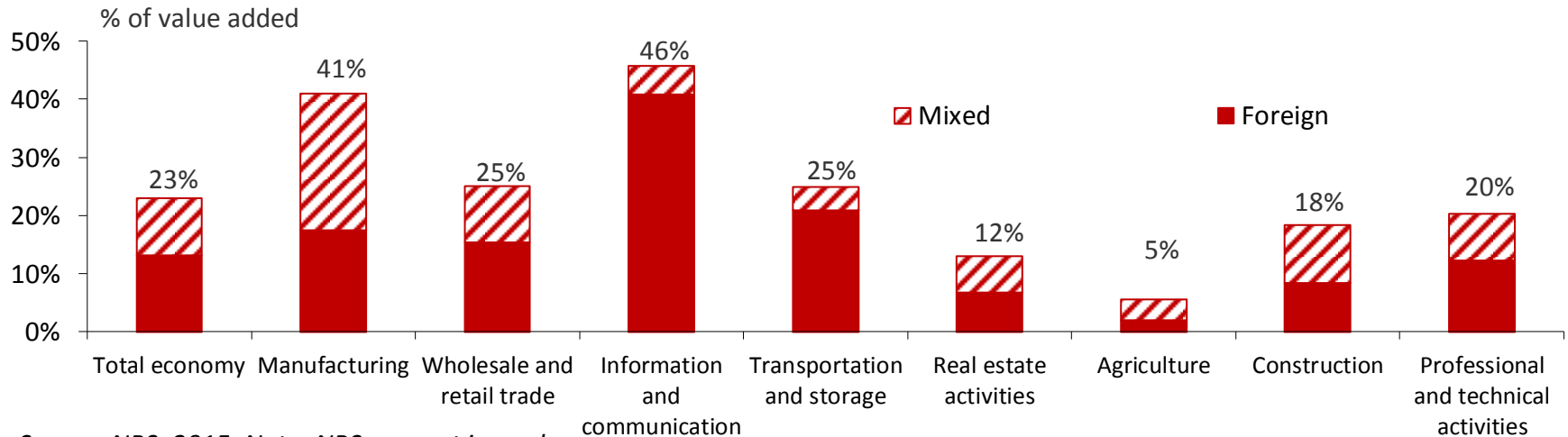


Source: NBM, NBS, 2015. Note: NBM concept is used

- Energy accounts for 1/3 of total FDI
- Largest FDI: Moldovagaz and Gas Natural Fenosa
- Also prominent: financial sector (18%) and manufacturing (16%)
- Considerable underinvestment in agriculture (only 1%)
- Little correlation between sectoral structure of FDI and economic importance of sector (as measured by share in value added)

3. Analysis based NBS concept: FDI and value added

Value added of companies with FDI by sectors

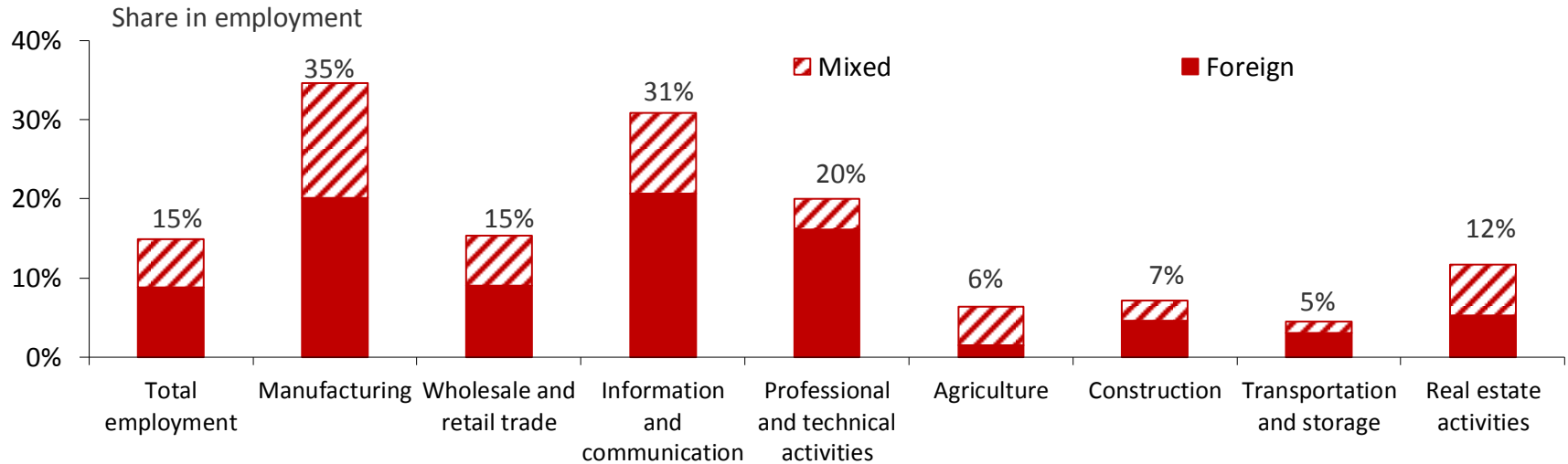


- Companies with FDI capital amount to 7% of total companies, but for 23% of total value added
- High importance of FDI in manufacturing (41% of total sector value added) and information & communication (46%)

→ FDI is very important, especially high concentration in manufacturing and information and communication

FDI and employment

Employment of companies with FDI by sectors

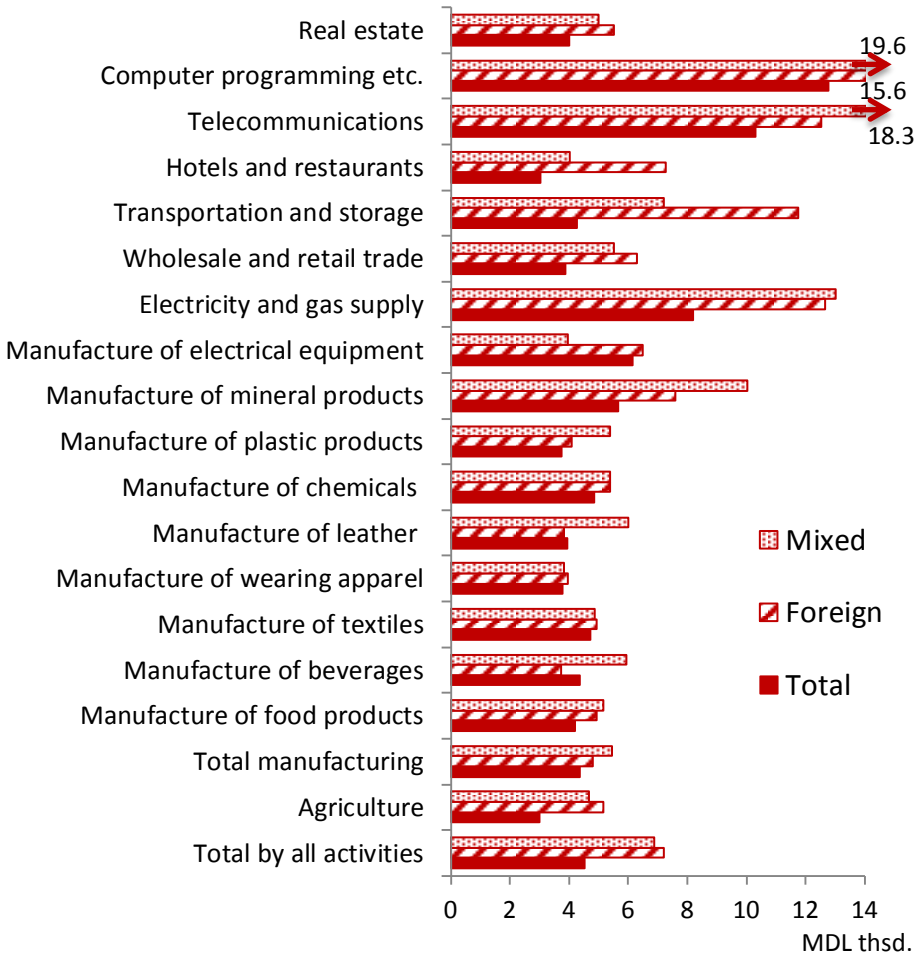


Source: NBS, 2015. Note: NBS concept is used. Total employment without public budget financed employment.

- Companies with FDI account for 15% of total employment
 - High concentration in manufacturing and information and communication
 - Most important sectors regarding absolute job numbers are manufacturing (32,000), wholesale and retail trade (17,500) and information and communication (7,700)
- **Companies with FDI play a significant role for employment, especially in manufacturing and information & communication**

Productivity

Average wages by sectors



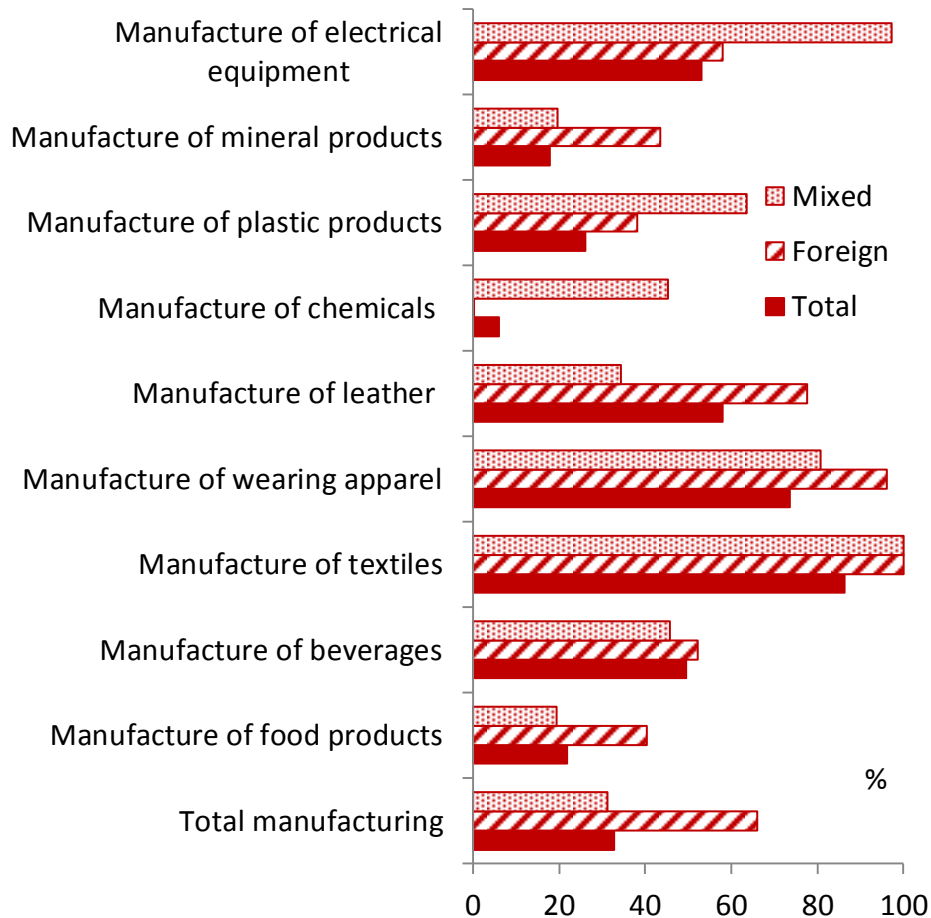
Source: NBS, 2015. Note: NBS concept is used

- **On average:** Companies with FDI are 71% more productive and pay higher wages than domestic companies
- **However:** High differences among sectors
- In low-tech sectors (textiles), wage differences are rather small
- In capital intensive (energy) or knowledge-based sectors (computer programming) differences are bigger

→ **Companies with FDI are in average more productive and pay higher wages; but high differences among sectors**

Exports in manufacturing

Production destined for export



Source: NBS, 2015. Note: NBS concept is used

Export orientation

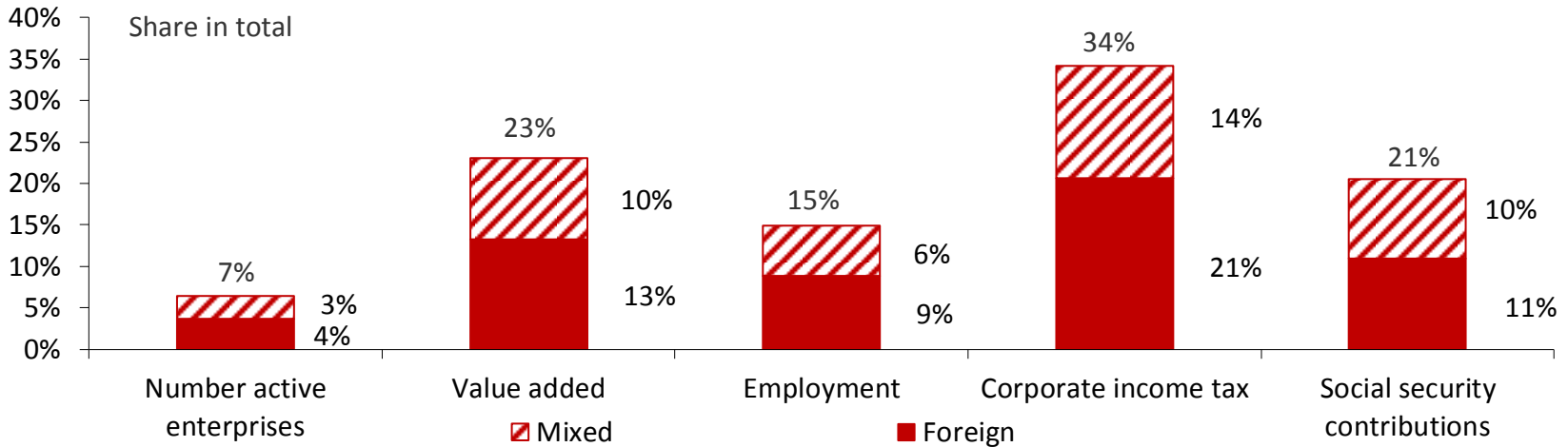
- In the manufacturing sector, one third of production is destined for export
- But for foreign companies in manufacturing, this share amounts to two-thirds

Implications of export orientation

- Positive effects like technology transfers can be expected from integration into international value-added chains
- Companies with FDI mitigate Moldova's current account deficit

Corporate income tax and social security contributions

Importance of companies with FDI – different indicators



Source: NBS, 2015. Note: NBS concept is used. Employment without public budget financed employment.

- Companies with FDI are an important source of state revenues as they account for 34% of CIT revenues
- Additionally, they contribute to other taxes through higher wages and thus stabilise the social system through higher social security contributions (21% of total)

→ **Fiscal relevance of FDI should further motivate the government in its FDI attraction activities**

4. Overview of analysis based on NBS concept

Relevance of companies with FDI in Moldova

	Number of enterprises	Value added	Employment*	CIT revenues	Social security contributions
Mixed companies	3%	10%	6%	14%	10%
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Source: NBS, 2015. Note: NBS concept is used. Employment without public budget financed employment.

- Companies with FDI are in average 71% more productive than domestic companies
- Companies with FDI are paying higher wages to their employees, thus improving the wellbeing of the population and contributing to higher taxes

→ Findings speak for an intensification of FDI attraction in Moldova

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