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## **German Economic Team Moldova - Press release**

### **New research reveals a significant impact of FDI on the Moldovan economy**

**So far, little was known about the quantitative impact of FDI on Moldova. A thorough analysis by GET Moldova reveals a significant impact on production, employment, wages, state revenues and exports.**

Much has been said and written about FDI in Moldova, but nobody so far quantified the relevance of FDI for the Moldovan economy. One major reason for this was the lack of processed data. GET Moldova teamed up with the National Bureau of Statistics and closed this informational gap by processing the relevant data. GET Moldova's analysis of the new data suggests that the impact of FDI is considerably stronger than commonly assumed making FDI an important source for economic growth and improving living standards. The main findings are summarised below.

#### **Main results**

##### **1. Companies with FDI account for 15% of employment**

FDI companies employ a total of 76,000 persons. As such FDI companies account for around 15% of employment. Almost half of the people employed by FDI companies work in the manufacturing sectors such as textiles, food products and automotive supplies manufacturing.

##### **2. Companies with foreign capital are responsible for 23% of production**

Companies with foreign capital account for 23% of value added; thus, almost ¼ of Moldova's GDP is produced by these companies.

##### **3. Output per employee in companies with FDI is 71% higher than domestic average**

The average output per employee in companies with FDI is on average 71% higher than domestic ones due to a number of factors such as size of the company, capitalisation, as well as the use of new technologies, managerial advantages and training of employees. Thus, jobs created by FDI typically contribute to higher productivity.

##### **4. Companies with foreign capital pay on average higher wages**

Thanks to higher productivity, companies with foreign capital are able to pay on average considerably higher salaries than domestic companies. Thus, the population of Moldova directly benefits from FDI. This difference 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.

### 5. Strong contribution to the state budget

Companies with foreign capital contribute strongly to the state budget. They account for 34% of corporate income tax, which is much more than their proportion in the value added/production. Furthermore, these companies account for 21% of social contributions, despite their share of 15% in total employment. Thus, the government has direct and tangible fiscal benefits from FDI.

### 6. Strong contribution to exports

In the manufacturing sector, companies with 100% foreign capital export 2/3 of their production, while domestic companies sell about 23% abroad. In such a way, these companies contribute to the inflow of foreign currency into the country.

### 7. Summary of findings

	Number of enterprises	Employment	Value added	CIT revenues	Social contributions
<b>Companies with FDI</b>	<b>7%</b>	<b>15%</b>	<b>23%</b>	<b>34%</b>	<b>21%</b>

Note: Data for 2015

Woldemar Walter, Project Manager of GET Moldova and leading author of the analysis comments:

*“GET Moldova’s analysis of the new data in cooperation with the National Bureau of Statistics shows that FDI is one of the main drivers for economic growth and key to improving living standards in Moldova. Policy makers need to ensure that this importance is reflected in their policy decisions.”*

Dr. Ricardo Giucci, Leader of GET Moldova, adds:

*“Because of the relatively low level of FDI per capita in Moldova, most experts thought that the impact of FDI on the economy was not very strong. However, our analysis reveals a rather strong impact, with benefits for both the population and the government. These findings are a good encouragement for intensifying efforts to attract FDI into the country.”*

**About the German Economic Team Moldova:** GET Moldova, a group of economists, advise the Moldovan government on economic policy issues since 2010. It is funded by the Federal Ministry of Economic Affairs and Energy.