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MOLDAVIAN ECONOMY IN EUROPEAN FINANCIAL SYSTEM

Foreign investments have an impact on the Moldavian economy in two ways. In the first place, inflows of foreign capital in the form of loans and credits represent a significant addition to Moldova's financial resources. They thereby support emergency measures designed to reverse the deterioration of the economy and lay the foundations for restoring basic monetary and financial equilibrium to the domestic market. Secondly, as a source of investment funds, foreign capital plays a structural role in that it represents a vital means whereby the overall productive output of the country is increased, production capacities are modernized, and the economy is restructured.

Foreign Direct Investment in Moldova increased by 10.90 USD Million in the third quarter of 2015. Foreign Direct Investment in Moldova averaged 48.83 USD Million from 1995 until 2015, reaching an al l time high of 244.77 USD Million in the third quarter of 2008 and a record low of -2.78 USD Million in the second quarter of 1999. Foreign Direct Investment in Moldova is reported by the National Bank of Moldova.

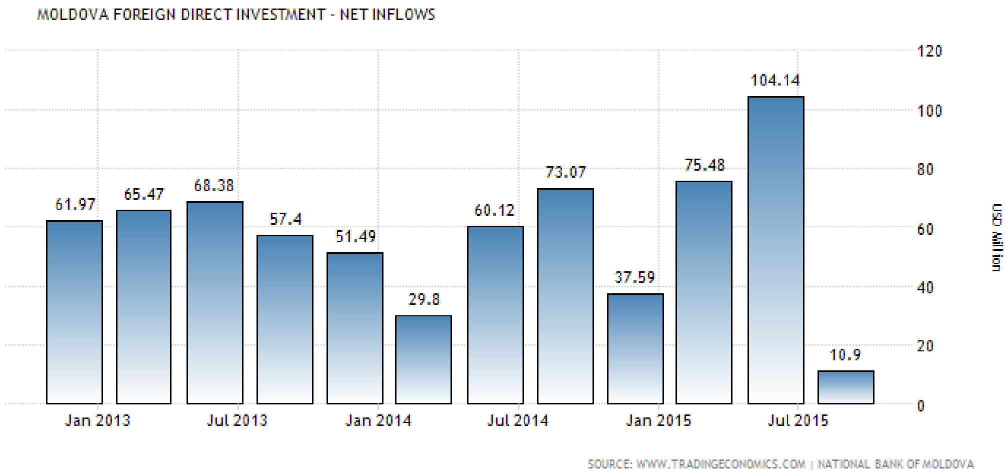

Fig. 1. FDI, net inflows (% of GDP)

Moldova has experienced economic difficulties, like many other former Soviet republics. Since its economy was highly dependent on the rest of the former Soviet Union for energy and raw materials, the breakdown in trade following the breakup of the Soviet Union had a serious effect, exacerbated at times by drought and civil conflict. Moldova's recent economic performance reduced poverty and promoted shared prosperity. The national poverty and extreme poverty rates, using national poverty definitions, fell from 30.2 percent and 4.5 percent in 2006 to 16.6 percent and 0.6 percent respectively in 2012, making Moldova one of the world's top performers in terms of poverty reduction. Similarly, consumption growth among the bottom 40 percent of the population outpaced average consumption growth.

Despite a sharp decline in poverty, however, Moldova remains one of the poorest countries in Europe. The most vulnerable groups at risk of poverty in

Moldova remain those with low education levels, households with three or more children, those in rural areas, families relying on self-employment, the elderly, and Roma. Additionally, the reduction in remittances could negatively impact consumption and poverty. Moldova performs well in some areas of gender equality, yet disparities persist in education, health, economic opportunity, agency and violence against women. Human trafficking is a serious problem; Moldova is a source, and to a lesser extent a transit and destination country, for both sex trafficking and forced labour.

Considering the fragile economic and political external environment the pace of reforms must be accelerated. Key challenges include fighting corruption, improving the investment climate, removing obstacles for exporters, channelling remittances into productive investments, and developing a sound financial sector. Moldova needs to improve the efficiency and equity of its public spending, in particular through better management of public capital investments, which are crucial for higher growth. Administrative and judicial reforms remain a challenge for improving public sector governance, which is a precondition for European integration and economic modernization.

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The Moldovan government does not maintain many formal barriers to foreign investment, and the Moldovan embassy reports that foreign investors are free to "place their investments throughout the Republic of Moldova, in any area of business activity, as long as it does not go against the interests of the national security, anti-monopoly legislation, environment protection norms, public health and public order." However, there are significant informal barriers and indications that the formal reasons to block investment are liberally applied. According to the International Monetary Fund, «despite efforts to simplify licensing and business registration, there has been no significant improvement in the business climate. Moreover, the privatization program has stalled, while corruption remains widespread and governance weak. Government interference in the private sector…casts doubt over the authorities' commitment to market-oriented reforms.» The Economist Intelligence Unitreports that the «poor investment climate, including annulments of some earlier sales, continues to deter many Western investors. Between 2001 and 2004 the government privatized less than 60 of the 480-odd enterprises scheduled for sale.» Foreign investors may not purchase agricultural or forest land. The IMF reports that both residents and non-residents may hold foreign exchange accounts, but approval is required in some cases. Payments and transfers require supporting documentation and approval of the National if they exceed specified amounts. Nearly all capital transactions require approval by or registration with the National Bank of Moldova.

There are no official barriers to founding foreign banks or branches in Moldova. The central bank has increased the minimum capital requirement, which is expected to contribute to consolidation in the banking sector.

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FOREIGN TRADE OF BELARUS

The EU is Belarus' second main trade partner with almost a one third share in the country's overall trade. Russia is Belarus' most important trading partner and absorbs almost half of Belarus' international trade. The EU-Belarus bilateral trade in goods has been growing steadily over the past years.

Belarus' exports to the EU are dominated by mineral fuels. Other product categories – such as chemicals, agricultural products, machinery and textiles – all form a much lower share. The EU exports mainly machinery, transport equipment and chemicals to Belarus.

The EU has also introduced an Outward Processing Trade regime for Belarus. This regime provides for additional import quota amounts for textiles and clothing manufacturers within the European Union so they can produce garments in Belarus that will return to the EU after processing.