COVID Matrix

Report prepared by the Economic Council to the Prime Minister

The Secretariat of the Economic Council to the Prime Minister is supported by the European Bank for Reconstruction and Development, funded by the UK Government's Good Governance Fund, and the International Finance Corporation's Investment Climate Reform Project funded by the Government of Sweden's International Development Agency.

Disclaimer

This publication has been produced with the assistance of the EBRD. The contents of this publication are the sole responsibility of Secretariat of the Economic Council to the Prime Minister of the Republic of Moldova and do not necessarily reflect the views of the EBRD.

This Report was developed within the Project "Support to the Secretariat to the Economic Council under the Prime Minister of the Republic of Moldova", co-funded by the UK. The contents are the responsibility of the authors and do not necessarily reflect the view or position of the UK Government.

This report is prepared by staff of the Secretariat of the Economic Council to the Prime Minister of the Republic of Moldova. The Secretariat is supported in part by the Moldova Investment Climate Reform Project of the International Finance Corporation ("IFC"). The findings and views included in this report are those of the authors only and should not be attributed to any of IFC, the International Bank for Reconstruction and Development ("World Bank"), the Multilateral Investment Guarantee Agency ("MIGA"), or any other affiliated organizations (together, the "World Bank Group"). Moreover, the findings, interpretations, and conclusions expressed in this report do not necessarily reflect the views of the Board of Executive Directors of the World Bank or the governments of the countries which they represent. The World Bank Group accepts no responsibility for any consequences resulting from the use of or reliance on any of the content in this report and does not assume any liability for direct, indirect or consequential loss or damage with respect to the use of or reliance on the content in this report. The information in this report is not intended to serve as legal, investment, accounting or other advice. Nor do any of the conclusions in this report reflect any official policy of any member of the World Bank Group.

Contents

Abbreviations

AIPA	Agency for Interventions and Payments in Agriculture
ANSA	National Agency for Food Safety
CPMSA	Consumer Protection and Market Surveillance Agency
PSA	Public Services Agency
ATS	Agency for Technical Supervision
B2B	Business-to-business (relations between businesses)
B2C	Business-to-client (sales to individuals)
CEAM	Classifier of economic activities in the Republic of Moldova
COVID-19	Acute respiratory syndrome 2019-nCoV
IMF	International Monetary Fund
GDPR	General Data Protection Regulation (in the EU, Regulation on private data protection)
HORECA	Hotels, restaurants and catering
SME	Small and medium-sized enterprises
MARDE	Ministry of Agriculture, Regional Development and Environment
MoF	Ministry of Finance
MEI	Ministry of Economy and Infrastructure
MECR	Ministry of Education, Culture and Research
MHLSP	Ministry of Health, Labour and Social Protection
ODIMM	Organization for the Development of Small and Medium-Sized Enterprises
GDP	Gross Domestic Product
ROA	Return on assets
ROE	Return on equity
ROI	Return on investment
SURE	Temporary unemployment benefits due to force majeure
ICT	Information technologies and communications
VAT	Value Added Tax
EU	European Union

Introduction

The COVID-19 pandemic has determined an unprecedented slowdown in economic activities, due to quarantine, social distancing, travel restrictions and other types of restrictions. While it goes without saying that people's safety remains the number one priority, the economic costs of pandemic are gigantic. Our fundamental assumption is that economic sectors have been unevenly affected by the crisis. We anticipate that some sectors that used remote and e-commerce extensively even before the pandemic hit, may see an increase in turnover, but the absolute majority of businesses, which run on traditional business models, have been severely affected.

The economic losses have resulted from a decrease in turnover against the backdrop of maintaining the same level of fixed and semi-variable costs. Rent-related expenses, interest on loans and wages remain largely constant, even though sales volumes are declining. Some costs are semi-variable, such as labor remuneration, which can be controlled to some extent by lay offs and unpaid leave. At the same time, costs related to the purchasing of raw materials, electricity consumption and other vary to the same extent, as does the turnover. But even if such spending can be optimized during the recession, the consequences for an integrated economy remain extremely negative – raw material procurements by some companies are, in fact, the main sales of other companies, so the negative impacts are producing a chain reaction.

The liquidity crunch is a major concern for most companies and ultimately leads to an increased risk of insolvency. Here, we also expect a negative impact on the quality of banks' loan portfolio, even though the reasonable decision to allow commercial banks not to reclassify loans to non-performing ones during the state of emergency would be welcome for the purpose of not allowing interest rate increases.

Not least, we are concerned about the adverse effects of pandemic on the labour market. Furloughing, facilitated by the Government's decision to provide incentives to the payment of social taxes, is the most harmless way to keep jobs. However, mass redundancies are unfortunately unavoidable, in the case of sectors that have actually lost a substantial share of the market (tourism, HORECA, transportation). In this regard the unemployment benefit is the most appropriate tool. A special category is the self-employed, whose income is directly proportional to the number of contracts they execute. They fall into the most disadvantaged category, as such being neither unemployed nor employed.

The major challenge of the national economy is to adapt to the conditions of pandemic that does not seem to disappear soon, to reinvent itself, given the situation, to innovate where markets and traditional methods of doing business have no hope of succeeding. We are aware that many will not rise to the challenge, but it is common sense that when public money is at stake, we should do it in such a way that whatever we build as a result of targeted and wise public policies, lays the foundation for a new more technologically advanced economy, more resilient to internal and external shocks, and more environmentally sustainable. At the same time, public sector should also reinvent itself, radically changing regulatory approaches and interactions with the private sector, as other states are urgently doing it, in order to maintain a competitive position and avoid deep socio-economic shocks.

"What does not kill us makes us stronger," noted the German philosopher Friedrich Nietzsche. This is an opportunity to take stock of our resources: human, financial, natural, technological and identify smart solutions to be stronger.

Summary

The pandemic crisis has seriously affected society. Beyond the feared effects on health and life of citizens of the Republic of Moldova, which one tries to counter through sanitary norms and new rules of social conduct, the country's economy has been deeply affected. At present it can be stated that among the collateral victims of COVID-19 are more than 30 thousand people who are out of a job and most of the businesses that have been out of sales. Based on statistics for the first months of the pandemic, missed sales amount to 86 billion lei, which means missed revenues to the national public budget in the amount of 17.3 billion lei or 27% compared to its level in 2019.

The effects of the shutdown of economic activity during the state of emergency were acutely felt by most sectors for which direct interaction with the customer is key. However, much costlier are the medium-term effects linked to the decline in the incomes of the population and, consequently, the decrease in turnover. The tourism industry, HORECA and non-food trade were affected the most. For many businesses in these sectors, the unprecedented decrease of market means the definitive closure of the business. Other sectors are looking for solutions that allow them to adjust to the new reality which means an operational capacity reduced to an average of 80% compared to 2019. A precondition for keeping businesses afloat is to optimize costs by means of: (i) staff cuts; (ii) postponing investment projects; (iii) reducing budgets for marketing and promotion; and (iv) switching to online commerce.

The fruit of government's targeted policies was the emerging restructuring of the real economy. Thus, new industries have been created in the Republic of Moldova on the basis of free economic zones and industrial parks; the special taxation regime has turned the sector of information technology from a semi-transparent one to the one which is a key contributor to economic growth, social programs (such as First Home), have catalyzed the development of the construction industry and related sectors; a range of programmes to support business led to the development of SMEs; free trade, both to the east and west, has provided businesses with new markets. At the same time, the pandemic crisis has unveiled a number of vulnerabilities that weigh on the economic potential: (i) risks related to agriculture remain largely unhedged, while the tax regime favors exports of agricultural raw materials at the expense of higher value-added food production; (ii) a large part of youth are not included in the educational process or work while the shortage of qualified staff becomes all the more obvious; (iii) lack of a developed infrastructure for waste processing is limiting the access of Moldovan goods on foreign markets.

It is axiomatic that private sector of the economy needs a new boost to regain previously conquered positions and develop capacities in areas where problems persist. At the same time, we realize that state resources are also limited, and indiscriminate aid can lead to squandering of these resources. We have therefore resorted to the selection of priority areas, which although contribute decisively to economic development, have been deeply affected by the pandemic crisis. We have developed the COVID Matrix taking into account specific issues of respective sectors and the desire to build a more resilient economy for the future. Measures proposed by the business representatives aim at: (i) reducing bureaucratic constraints; (ii) optimizing tax policies; and (iii) targeted economic incentives.

The cost of COVID Matrix is 3.7 billion lei. This cost may seem prohibitive to the public budget, but we want to emphasize that government inaction has its cost as well. Moreover, a delayed response can deepen the economic crisis caused by the pandemic and perpetuate the negative effects indefinitely.

Also from this perspective, we insist on the short term implementation of COVID Matrix and on the living nature of this document. We are aware that pandemic will not disappear tomorrow, and the search for rational solutions to counter the economic crisis will remain the order of the day. We are counting on the fact that the adoption of the COVID Matrix will lay the foundation for a social pact between citizens, business community and government and that together we will emerge victorious from the crisis. At the same time, we want to emphasize that the economic impact from the implementation of the COVID Matrix is 12.9 billion lei, including increased revenues to the national public budget of 4.8 billion lei. Thus, identified solutions bring net benefits in the amount of one billion lei to the national public budget.

The main objective of this study is to identify those solutions that will increase the resilience of the national economy. At its core are statistics that speak eloquently about the magnitude of the problem we are facing. Here it should be noted that the development of the study would not have been possible without close cooperation with the public authorities of the Republic of Moldova. In particular, we would like to thank the National Bureau of Statistics, State Tax Service, National House for Social Insurance, National Employment Agency, Organization for the Development of Small and Medium-size Enterprises, which have responded promptly to any requests for information, and have made an effort to structure the required information in a manner that corresponds to the methodology of the study.

At the same time, we want to emphasize that smart solutions that were identified are not the result of the discussion of a small group of experts, but the product of broad consultations with the business community. In a relatively short period, Economic Council to the Prime Minister moderated more than twenty meetings with representatives of professional associations, external assistance projects, private companies, etc., which were held on line because of the pandemic. We take this opportunity to thank the businesses that did not focus on a list of problems, but offered visionary solutions aimed at recalibrating the economic development model of the Republic of Moldova.

We hope that the COVID Matrix, developed through joint efforts, will decisively influence the government's agenda of policy priorities for the immediate period, so that we can emerge as quickly as possible from the economic crisis caused by the pandemic.

Global effects of the pandemic on the national economy

In this study we want to scrutinize the effects of the pandemic on the national economy, highlight those sectors that, being crucial for economic development, have suffered the most and, above all, identify smart solutions for economic recovery. It is clear that even though an unprecedented situation calls for unprecedented intervention from the state - budget resources, people, private capital and other are limited. A first impulse from the business community is to seek support from authorities, but providing such indiscriminate support, risks perpetuating the effects of the crisis and producing persistent structural effects.

In order to have a meaningful exercise, it is necessary to understand first of all what the national economy represented before the pandemic, what were its features and what were its strengths and weaknesses. In accordance with the proposed methodology (Annex 1) we will try to highlight the contribution of sectors to economic development and the extent to which they have been affected by the pandemic.

Secondly, we must be aware that, on the surface, the absolute majority of economic sectors have faced a decline in sales volumes. This required drastic measures: (I) to optimize costs, including through staff cuts; (ii) to postpone investment projects; (iii) to drastically reduce development and marketing budgets; (iv) to identify new channels and markets. We realize that on the whole such forced "adjustments" will accelerate the speed of economic growth. However, the systemic problems faced by various economic sectors are essentially different. No one knows the magnitude and particularities of current challenges better than representatives of business community. Therefore, the Economic Council to the Prime Minister initiated a series of thematic consultations, through which it gathered evidence and proposals directly from business people from various sectors. For practical reasons, we consulted with those economic sectors that have a turnover of at least 1.5 billion lei, so as to ensure their representativeness in the study (aggregate turnover of those sectors represents 85% of the total turnover across the national economy).

Thirdly, specific problems require smart solutions: adapted to the realities faced by the business community and capable of taking the national economy to a new level of development. One way to inform ourselves about the measures relevant for the crisis was to look at the economic and tax incentives implemented in other states affected by the pandemic crisis (see Annex 2 for more details). It was essential to conclude that the new reality, characterized by a low level of consumption and the imminent risk of new justified restrictions to safeguard the health of the population, is not a "cast in stone" reality. Economic and tax incentives, the nature of the relationship between public authorities and the business community, are able to offer a chance for economic recovery on the basis of resilient economic sectors, which contribute decisively to economic development. Respectively, the final product of this exercise is the so-called COVID Matrix, a coherent and comprehensive set of policy measures awaited by the business community.

Figure 1. Top 10 sectors by turnover (million lei)

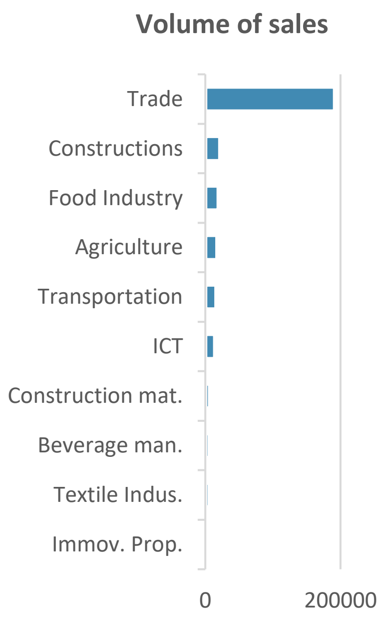
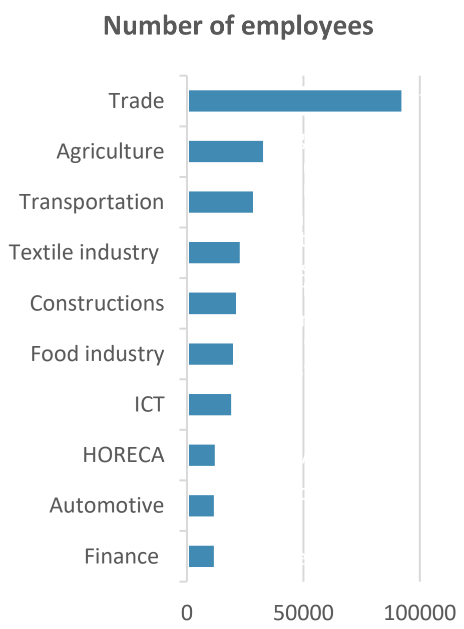


Figure 2. Top 10 sectors by number of employees



Contribution of sectors to economic development

We will not be surprised to learn that the national economy at the beginning of 2020 differs essentially from the economy at the beginning of the millennium. External shocks and targeted state policies have produced major structural changes: (i) agricultural subsidies have spurred investments into agricultural machinery; and (ii) free economic zones and industrial parks have led to the development of emerging sectors with high-export potential; and (iii) public investment in road infrastructure have stimulated the development of regions; and (iv) social projects, as well as the "First Home" have boosted the development of the construction sector; and (v) the creation of IT parks has brought information technologies to the formal sector of the economy. It can continue. On the other hand, labour migration has tipped the balance in favour of technology sectors, and the suite of embargoes has forced entrepreneurs into new markets.

In this study, we will not resort to dividing economic sectors into important and less important, essential and non-essential. Instead, we are going to try to appreciate the contribution of sectors to economic development based on a number of factors, such as: (i) the size of the sector (in terms of turnover and number of employees); (ii) value-added (labor intensity and productivity); and (iii) the relevance of the sector in the context of food security and national security; and (iv) importance of the sector for other sectors of the economy; and (v) the potential for substitution of imports; and (vi) exports potential.

We assess the size of economic sectors according to the volume of sales (turnover) and the number of jobs they create. Respectively, if we look at the real economy through the lenses of turnover (See Figure 1) the results are revealing: out of one hundred companies, 55 would be in the area of trade, 16 would be part of the manufacturing industry, 6 would be involved in transport services, 6 would be in

Figure 2. Sectors with the highest potential of import replacement

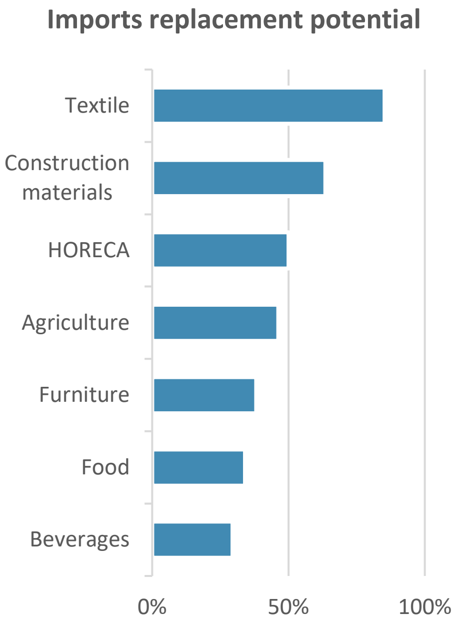
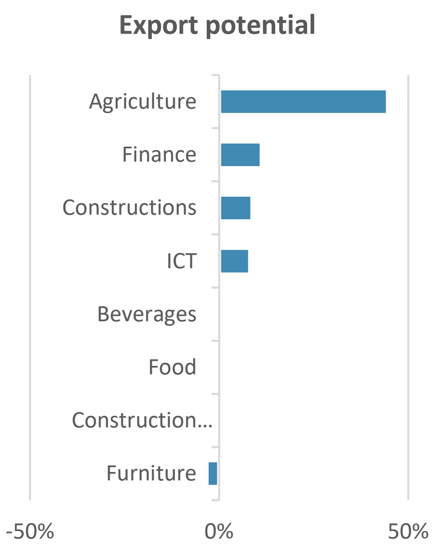


Figure 3. Sectors with the highest export potental



construction, 5 would be agricultural producers, and 4 would be developing software.[1]

On the other hand, if we are to examine, which sectors employ most of the people (See Figure 2), we will have a different picture. We will find that the number of employees in trade and workers in the processing industry is approximately equal, 26 and 24, respectively, 9 are farmers, 9 provide transport services, and 6 are builders. Accordingly, the image of an agriculture based economy that is sometimes attributed to the Republic of Moldova is obsolete because the dominant economic sectors are trade and industry.[2]

An important criterion is labor intensity and productivity. Here we have sectors, for which labor is a determinant of turnover such as art, postal and courier services, textile and automotive industries, horticulture, and sectors that depend on a smaller number of employees – travel agencies, oil production, trade, telecommunications, and building materials manufacturing. If we take into account the gross value added per employee, we will see that the best performing sectors are: logistics (in particular travel agencies - 163%), trade – 136%, telecommunications – 81%, oil production – 68%.[3]

At the same time, we understand that, regardless of the number of employees and turnover, the greatest danger during the pandemic lies in jeopardized foreign trade. In the (hypothetical) event that for a reason difficult to predict, the borders of the Republic of Moldova would suddenly close, we would be obliged to ensure the minimum existence necessary from internal resources. From this perspective, sectors that ensure food safety, as well as communications are of major importance.

A lasting feature of modern economy is inter-connectivity: the collapse of one sector, which (by virtue of the large number of transactions and invoiced volume) is closely related to other sectors, can create a domino effect, pulling other economic sectors after itself.[4] A clear example of this is trade, the function of which is to ensure the interface between producer and consumer. Its closure during the quarantine produced adverse side effects on the textile industry, furniture, construction materials manufacturing, etc., even if the latter were not subject to restrictions. Thus, based on the average between the number of tax invoices, the volume invoiced and domestic consumption, we found that the most interconnected sectors are: trade (77%), food industry (54%), beverage

[1] Presented figures are adapted from the 2019 turnover data provided by the NBS
[2] Figures adapted from the labour force survey for 2019, NBS
[3] Gross Value Added relative to the number of employees in 2019, NBS
[4] Aggregated figures based on statistical data from the financial reports of businesses for 2019, STS

manufacturing (36%) construction materials manufacturing (33%) and land transport (31%).

Looking ahead, it is crucial to assess which sectors have the highest import substitution potential and which ones have export potential. We considered that there is potential for import substitution (See Figure 3) in the sectors that produce goods and services, to which domestic consumers prefer imported goods and services, for various reasons. For example, if we produce juices but the local consumption of juices consists of 40% of domestic products and 60% of imported products, we will consider that the potential for replacement is 60%. Following this logic we found that the greatest potential for import substitution exists in the textile industry, construction materials manufacturing, HORECA (domestic tourism), furniture manufacturing, food industry and beverage production.[5]

To assess the *export potential* (See Figure 4) we analyzed the dynamics of imports by categories of goods and services in partner countries, assuming that where there is more import demand, there is also an increased potential to increase the volume of exports from the Republic of Moldova. From this point of view, we find that agriculture, banking, construction work and information technologies are in the highest demand.[6] In terms of agriculture and IT services we already have an offer that we can increase. At the same time, finance and construction are services whose export potential we have not sufficiently explored, despite the fact that there is demand for such services on foreign markets.

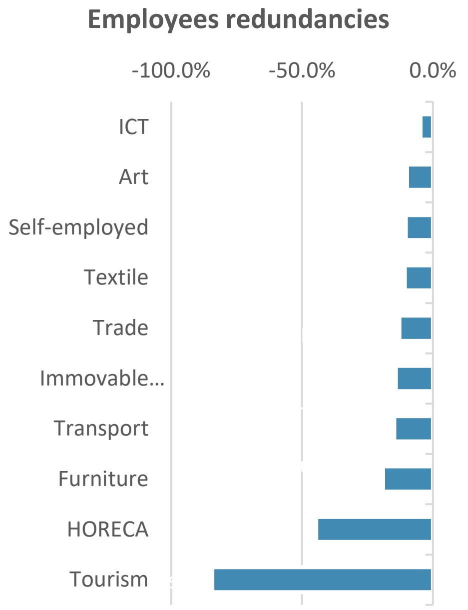
Impact of pandemic on economic sectors

The effects of pandemic on sectors of national economy were not long in coming. The shutdown of economic activity during the state of emergency had an immediate impact on jobs and sales. In some cases, this impact was indirect. Even if de jure economic activity was not interrupted, the blocking of production channels or the interruption of raw material supplies led de facto to the shutdown of economic activity. Even more alarming are the medium-term effects. With the resumption of economic activity, companies faced a decrease in sales compared to the previous year. This is both about reduced orders in the B2B segment and changing consumer preferences in the B2C segment. Against the backdrop of decreased sales and fixed rental costs, the cash gap increased, while access to new loans decreased

[5] The share of net imports in sales volume on the local market, figures adapted from statistical data for 2019 from NBS (import of goods) and NBM (import of services)
[6] The dynamics of imports in the first five months of 2020 compared to the same period in 2019 according to the balances of payments of the EU, Russian Federation and China

significantly for prudential reasons. Overall, the risk of insolvency has increased significantly, particularly in case of recapitalized companies.

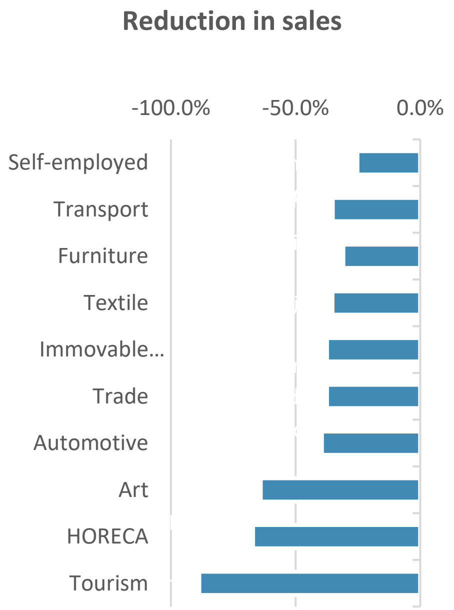
Figure 5. Drop in the number of employees during March –May 2020 compared to the similar period in 2019



In order to capture the global impact of the pandemic on economic sectors, we used statistical data analysis on the following criteria: 1. Change in the number of employees before and after the pandemic; 2. Change in production/turnover compared to the corresponding period of the previous year; 3. Change in external trade (imports and exports) compared to the corresponding period of the previous year; 4. Liquidity deficit according to the quality of the loan portfolio by sectors of the national economy and the volume of new loans issued after the start of the pandemic; and 5. Estimated solvency risk as the difference between sales and cost of sales, relative to the capital.

Since the beginning of the pandemic, about 32 thousand people in the real sector of the economy (8.9% of the number of employees) have lost their jobs.[7] To a lesser extent (or not at all) the agricultural sector, the extractive industry, the manufacturing of building materials, postal and courier service operators and the automotive industry were affected (furloughed workers resumed their work after the end of the state of emergency). A small impact was felt in the processing industry – food industry (-3.8%), beverage manufacturing (-3.9%), financial intermediation (-3.9%), construction (-4%) and ICT (-4.7%). The most massive workers' layoffs (See Figure 5) occurred in travel agencies (-84%), the HORECA sector (-44.6%) and furniture manufacturing (-19%). Land transport and storage services (-14.8%), real estate agents (-14.1%), trade (-12.8%), textile industry (-10.8%), freelancers (-10.3%) and art professionals (-9.9%) were affected quite strongly. At the same time, according to NEA in the first 7 months of 2020, the number of registered unemployed was 31.6 thousand, of which at the end of July only 3868 people (12%) were receiving unemployment benefits.[8] The real options for people who have lost their jobs are savings, family support and migration.

Figure 6. Decrease in production/turnover in March –May 2020 compared to the similar period in 2019



Employees lay offs are strongly correlated with decreased production or sales (See Figure 6). And here, the most affected were travel agencies (-88.6%), HORECA (-67%), art and sport (-64%). Significant declines occurred in the automotive industry, trade, immovable property transactions, textile industry, furniture manufacturing and transport.[9] Not all sectors of the economy have been adversely affected. The volume of production in the food industry increased by

[7] Data from financial reports for May 2020 compared to February 2020, STS

[8] Statistical report of NEA (July 2020)

[9] Dynamics of industrial production / turnover in March-May 2020 compared to March-May 2019, NBS

Figure 7. Burden of fixed costs on economic activities during the pandemic

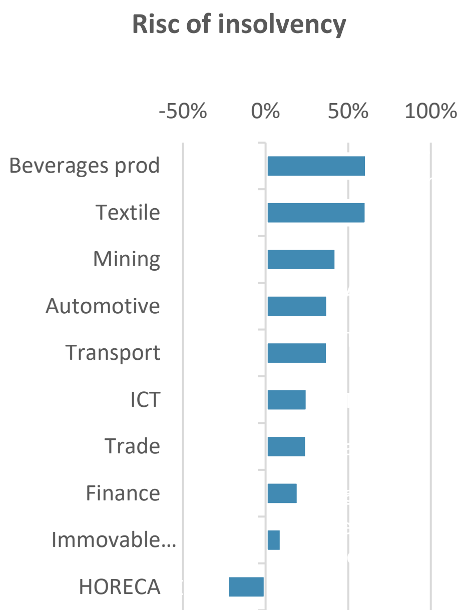
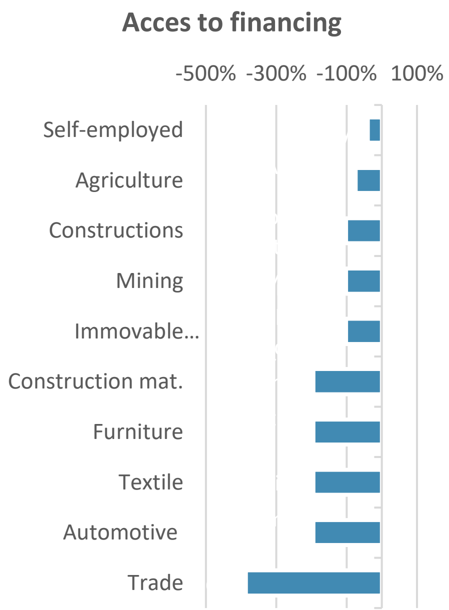


Figure 8. Change in the balance of loans granted by banks in April-June 20205



9,3% - almost exclusively due to an increase in sun flower oil production by 109,3%. Manufacturing of building materials has increased by 6.8% - many citizens returned from abroad devoted their time to home repairs.

Despite the interruption of some flights, foreign trade was not affected to a very large extent. Consumption of imported goods decreased approximately to the same extent as export demand, both of which were conditioned by declining incomes of the population. Foreign trade in the automotive, furniture and textile industries fell most sharply. Food industry and manufacturing of building materials have strengthened their positions in foreign trade.

The most negative impact on businesses is when the low volume of sales can no longer sufficiently cover fixed costs. To assess objectively how serious the situation is, we took as a basis the fixed costs of 2018 and the capital of businesses from 2019, but we have adjusted the volume of sales at the downward rate in March-May compared to the respective period of the previous year.[10] As a result we have obtained the risk of insolvency. Based on the estimation model, we concluded that the HORECA sector is de facto bankrupt. (See Figure 7)

Uninterrupted access to credit resources is essential for the survival of a sector, but the position of the credit institution that will avoid issuing new credit becomes clear when: 1. the share of doubtful and compromised loans is already high and 2. when the forecast of future sales is in doubt. From this point of view, prior to the beginning of the pandemic, the situation was already precarious in the construction sector (20.1% non-performing loans from the total portfolio of loans granted to the branch), HORECA (12.5%) and services (12.5%).[11] It is possible that the situation changed radically during the pandemic, but since the NBM allowed banks not to reclassify loans during the state of emergency, this is not seen in the figures. On the other hand, credit institutions are very sensitive to risks, so the change in the credit balance eloquently signals which sectors are perceived as vulnerable. (See Figure 8) Thus, we see that the most affected sector is that of trade (the average balance of loans granted to businesses in the trade sector for the months of April-June 2020 decreased by 387% compared to the respective period in 2019). Similarly, the financing was stopped for microfinance organizations (-200%), manufacturing (-111%), construction (-102%) and agriculture (-74%). The balance of

[10] Variable costs were estimated on the basis of NBS data as the difference between the estimated sales volume for 2020, the calculated operating margin being derived from the return on assets of 25% and fixed costs in 2019

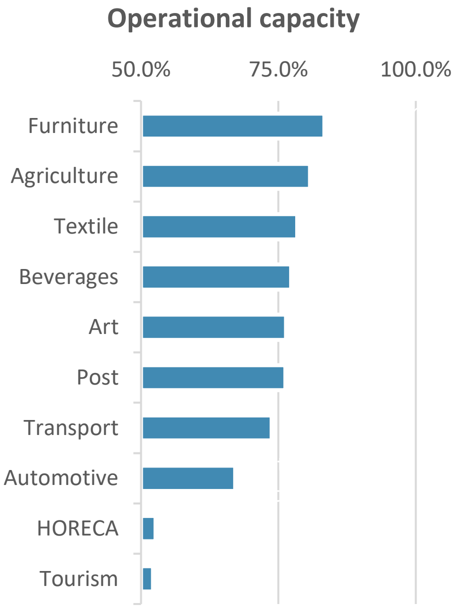
[11] Average change in balances in the loan portfolio for the real sector in April-June 2020, NBM

loans increased only for transport and communications (136%) and services (49%).

Degree of resilience in pandemic conditions

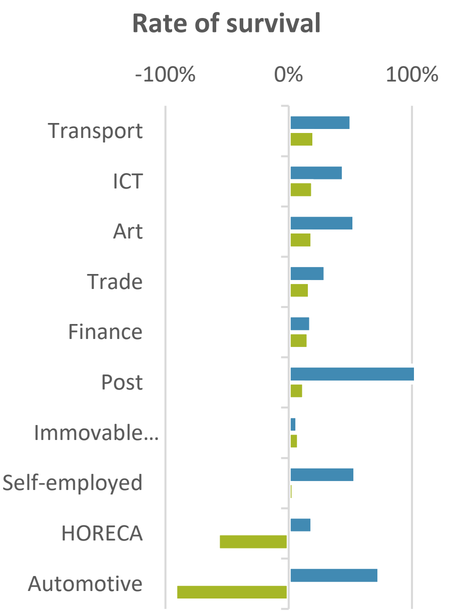
We are aware that the immediate impact of the pandemic crisis was significantly amplified by the shutdown of economic activities during the state of emergency. This exogenous shock was considered as a drastic but necessary measure to slow the infection rate with COVID-19. Some of the economic sectors resumed their normal activity, registering a slight improvement in production and sales in July-August. At the same time, it became clear that returning to conditions prior to the pandemic does not seem possible. A preliminary conclusion based on consultations with representatives of the business community tells us that it is certain that a "new normal" is emerging conditioned by additional costs related to sanitary protocols, a low consumption of goods and services, caused by lower incomes and economic activity at reduced capacity. The adjustment to the "new normal" occurs by reducing staff expenses, promoting alternative sales methods (e-commerce), sacrificing investment projects and reducing budgets for marketing and promotion.

Figure 9. Forecasted volume of production / sales in the new normal6



However, in a number of cases, keeping afloat is practically impossible. In particular, this scenario is most likely when the market shrinks dramatically, as it happened in the tourism and HORECA sector. To better understand how economic sectors will cope with the "new normal", we analyzed four sets of post-pandemic operational capacity forecasts made based on: 1. surveys conducted by AmCham; 2. consultations with business representatives; 3. general equilibrium model (Valeriu Prohnitchi) and 4. Machine learning model developed by the team of the Economic Council to the Prime Minister. The average of the four forecasts reveals the minimum use of operational capacity in case of travel agencies, HORECA, construction materials manufacturing, automotive industry and land transport (See Figure 9).

Figure 10. Difference between profitability and cost of capital resulting from low operational capacity (1) and the possibility of a repeated lockdown



Based on the specific operational capacity for the "new normal" we have calculated the degree of resilience of economic sectors, including the scenario of a new lockdown. Thus, if economic activity is stopped again, we will find that a large share of companies in the HORECA and the automotive industry will go "under water". If a new lockdown does not occur, most sectors will withstand the pandemic crisis.[12]

Priority areas for intervention

As mentioned from the start, the contribution to economic development, the impact of the pandemic crisis and the degree of resilience are multidimensional notions, each of them is based on a

[12] The basis of calculations according to the model were the data from the structural survey of companies for 2019 and adjusted sales volume according to the degree of operational capacity utilization, NBS

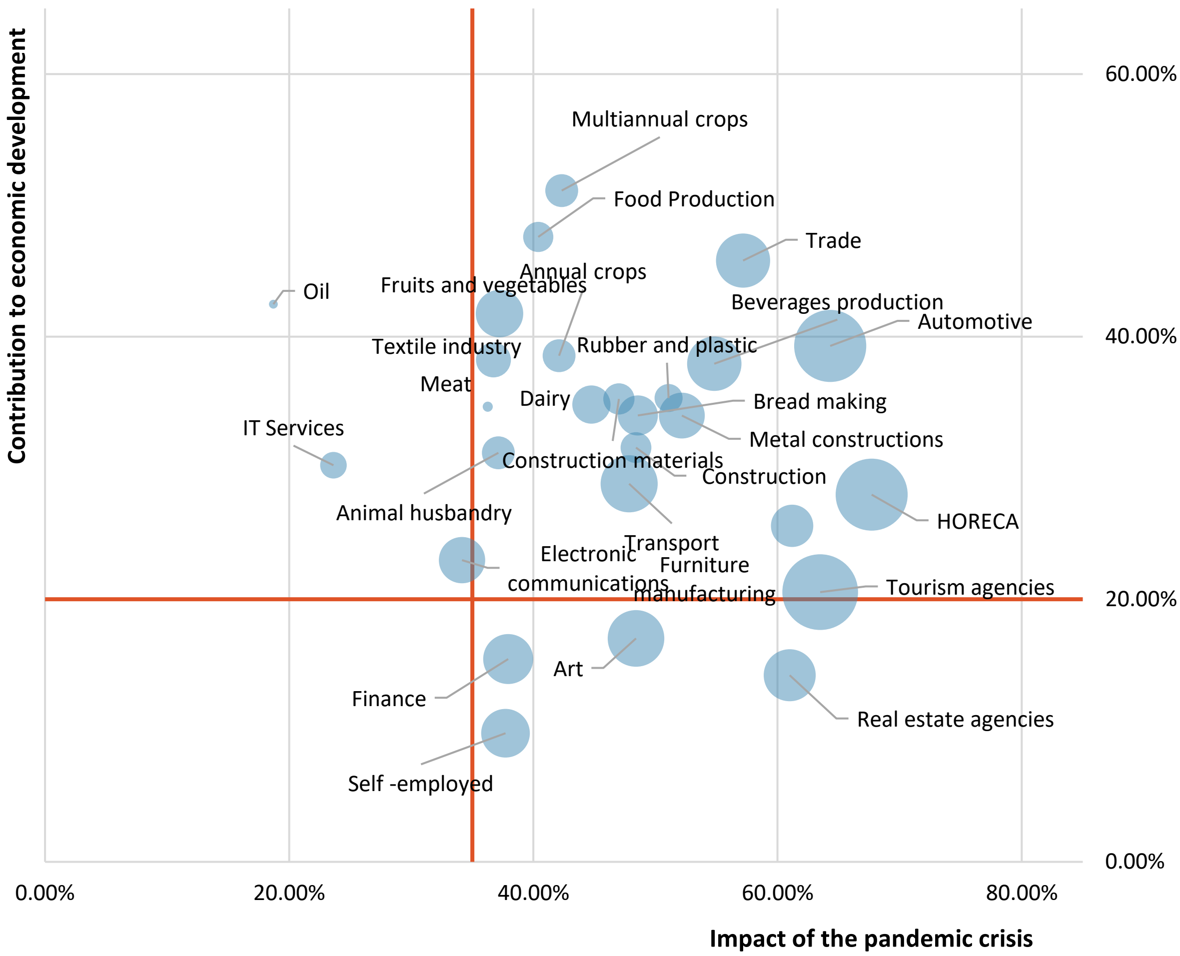
series of criteria. In order to be able to visualize this vast information on a relative scale, we converted indicators into scores – from 1 to 100, where 100 means the strongest contribution, the greatest impact and the highest chances of failure in the "new normal" and in the absence of a targeted intervention from the state.

Relative scores allowed us to group economic sectors according to the principle: 1. low contribution – small pandemic impact; 2. low contribution – high impact; 3. high contribution – low impact; and 4. high contribution – high impact. Of course, the sectors that need priority support are those that contribute a lot to development and have been badly affected. The degree of resilience (the size of the bubble) denotes how significant this support should be.[13]

In Figure 10 Figure Positioning of real economy sectors according to the contribution to economic development, impact of pandemic crisis and degree of resilience.11we have highlighted the economic sectors whose turnover exceeds 1.5 billion lei and which, in totality represents 85% of turnover across the national economy. Data on the classification of all sectors of the real economy can be viewed in Annex 3 or online, on the dedicated page of the Economic Council to the Prime Minister.[14]

[13] The size of the bubble is proportional to the degree of resilience of sectors in the new normal and a new wave of restrictions.
[14] COVID Matrix: https://consecon.gov.md/matricea-covid-19/https://consecon.gov.md/matricea-covid-19/

Figure Positioning of real economy sectors according to the contribution to economic development, impact of pandemic crisis and degree of resilience.7



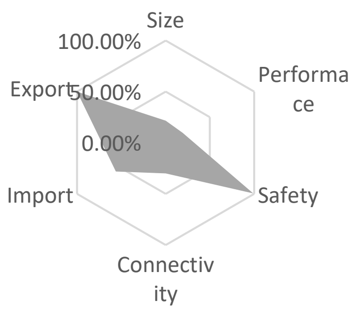
"Priority support from the state" is an ambiguous notion, but what we have understood from the interaction with business representatives is that this support is not necessarily a financial one More often, specific areas of intervention relate to:

1. Revisions of the existing regulatory framework, whose shortcomings highlight certain systemic problems;
2. Adjustments to the tax policy, which in a number of cases distort the market, causing certain businesses to operate in a semi-transparent regime; and
3. Economic incentives in specific areas of activity, which would target the competitiveness of certain sectors.

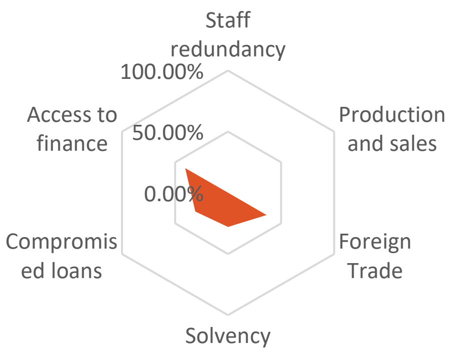
However, there is also a number of cross-cutting measures that affect all sectors of the economy regardless of the specific conditions of activity.

Sectoral analysis of specific areas for intervention

Contribution of agriculture to economic development



Impact of pandemic on agriculture



In this chapter we will focus our attention on the economic sectors that contribute the most to economic development and have been most heavily affected by the pandemic crisis. On the basis of the proposed approach, priority must be given to the following economic sectors: manufacturing, including the food-processing industry (milk, meat, fruit, vegetables, bread), production of beverages, textile industry, manufacturing of building materials, automotive industry and the furniture industry), trade and commerce, construction, transport, HORECA, ICT (electronic communications), and logistics (travel agencies).[15] By way of derogation from the principle set out above, we will also look at the agricultural sector, given the adverse climate conditions that overlapped with the pandemic and endangered the current year's harvest. Detailed statistical data on indicators that formed the basis for estimating the scores regarding the contribution to economic development, the impact of the pandemic crisis and the degree of resilience are presented in Annexes 4 to 5.

Agriculture

Agriculture is a fundamental link in ensuring food safety and, due to an increased demand for agricultural raw materials in partner countries, it also has a high export potential. One peculiarity of the agricultural sector is the fact that difficulties related to the pandemic have been eclipsed by those caused by drought. The low level of soil moisture after the winter months and the April-May drought have compromised the harvest of cereals (-75% compared to 2019) and fruits (-50% in cherries, -40% in plums, -50% in apricots, -10% in apples). In the first months of the pandemic, agricultural production sales have not been adversely affected, given that in these months the remaining stocks of the previous year's harvest have been put on the market. The consumption of agricultural production in the HORECA sector had a negative impact, which, however, was offset by better sales in the retail networks.

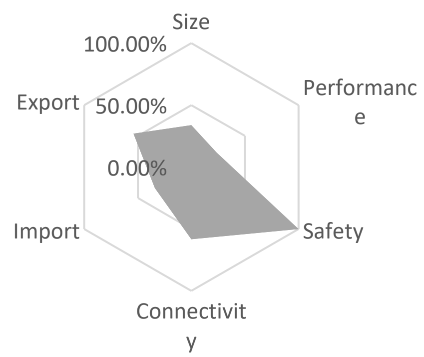
Drought has uncovered an inherent problem of the agricultural sector, namely, the supply of water for irrigation. The agricultural

[15] For practical reasons, we did not thoroughly examine sectors whose turnover is less than 1,5 billion. Also, the production of rubber, plastics and metal constructions was not examined separately, although the findings made on the basis of discussions with representatives of the automotive industry located in FEZ Balti are also valid for these sectors

development strategy provides for the rehabilitation of water supply systems, allowing the irrigation of 122 thousand hectares and the construction of new systems for an area of 116 thousand hectares. In relation to these goals, in practical terms, only 10 irrigation systems have been rehabilitated from the funds of the COMPACT program, covering an area of 115 thousand hectares. Connecting agricultural producers to water supply systems remains a major challenge. Limited access to water is the main constraint for investments in performance based agriculture. According to World Bank estimates, the monetary value of annual climate related losses in the Republic of Moldova are about 700 million USD.

Another critical aspect for the development of agriculture is access to financial resources. According to the representatives of the sector, the National Fund for Agriculture and Rural Area Development in the amount of 1 billion lei is insufficient, and it is necessary to increase it up to 3-5 billion lei, so that agricultural producers can compete on fairer terms with regional producers, who benefit from economies of scale and greater subsidies.

Contribution of food industry to economic development

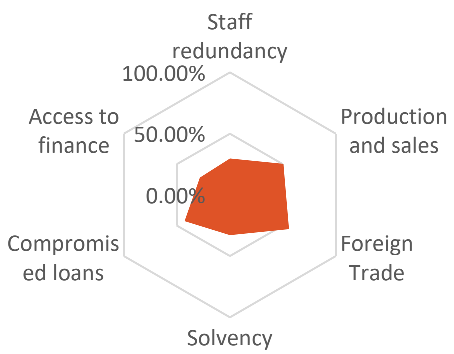


Not least, it is necessary to launch a program dedicated to small processing enterprises (in villages). At present, raw materials with low added value predominate in the structure of agricultural production exports. The creation of small processing enterprises would widen the range of buyers of agricultural raw materials on the local market and allow the development of semi-manufactured production for export with higher added value. In addition, processed production is not so perishable and reduces the vulnerability of farmers to price fluctuations.

Food industry

Food industry is a sector of utmost importance in terms of food safety. As part of the value chain in agriculture, this sector is closely linked to both agricultural production and retail units and HORECA. The export potential is significant, especially if we take into account the added value compared to agricultural raw materials. At the same time, this potential is not fully realized due to the need to comply with EU requirements for animal origin production.

Impact of pandemic on food industry



Factories in the food industry sector have been operating under a normal regime under the terms of the state of emergency, although the adjustment to new sanitary requirements had an impact on costs. In particular, additional costs were incurred for the implementation of hygiene rules, while wearing visors and protective gloves negatively affected labor productivity. On the other hand, the need to comply with sanitary norms is clear, because a small infection outbreak is able to stop production, and the revenue missed due to stoppage is much higher than compliance costs.

The structure of sales has also changed. In particular, sales through small shops and sales in the villages have decreased. The closure of catering establishments during the state of emergency, as well as the closure of schools and kindergartens, clearly contributed to the reduction in sales.

A common problem for all processors in the food industry are differentiated VAT rates. Agricultural producers can sell production at 8% VAT, while processors are obliged to pay 20% VAT. Respectively, the difference of 12% makes agricultural processors uncompetitive compared to intermediaries that offer a higher price and recover VAT when exporting. This distortion of the market generates losses for the national economy. Instead of encouraging exports of processed agricultural production, it stimulates exports of raw materials. A reduced VAT rate, undifferentiated for the entire value chain, would normalize the market and allow reaching the full export potential.

Fruits and vegetables

Consumer demand for canned fruits and vegetables has changed. As they are not considered primary necessities, their domestic sales decreased by about 20-25% and exported production decreased by about 15% in the first half of this year.

In the domestic consumption, about half of production of juices and canned fruits and vegetables is domestic, while the other half is imports. The competition conditions are not favorable for local producers because the "natural" component in the imported juices is lower and makes the prices of these product categories more competitive. Making full use of new export markets is limited to countries with which the Republic of Moldova has free trade agreements. There is a huge potential for trade on the markets of China, India, Israel, but tariff barriers of 20-50% prevent this.

Bakery products

As for the confectionery and bakery segment, in March-April there was a sales increase of 10-15% after which sales have stabilized. The closure of kindergartens, schools and catering establishments also had a negative impact on this segment of food industry. Export potential of confectionery and bakery products is largely untapped. Sporadic increases have been registered on the US and German markets (biscuits, sweet cakes), but the EU market is inaccessible for a wide range of products containing animal components (butter, milk, eggs). Accordingly, in order to access EU shelves, local producers are forced to import components which, although accessible on the local market, are not properly certified.

Sunflower oil production

Both production and sales of sunflower oil have not been affected by COVID. To the contrary, being a product of first need, its external consumption is increasing. In addition, fluctuations in sunflower oil production due to the temporary shutdown of the activity of some factories abroad revealed new niches for selling production (Ethiopia, Tanzania). The turnover of oil factories was estimated to have increased by 15% at the time of consultations.

The streamlining of customs clearance procedures is of the utmost importance. Every day, about 120 transport units enter and leave the plant, but the procedures for obtaining certificates of origin complicate the operational management.

The import component in the production of sunflower oil is negligible, the raw material being 97% sourced locally. However, fluctuations in agricultural sunflower production, have a negative influence on the export potential of sunflower oil. In a "good" year, when the production of sunflower is 900-950 thousand tons, the processing of 340 thousand tons of seeds into oil is not an issue. Conversely, if the harvest is low and agricultural producers sell their harvest for export, oil mills run out of raw material. Due to the April-May drought, producers expect a reduced harvest of only 500 thousand tons of sunflower, but when the entire crop is exported, processing capacities will remain under-used.

Dairy products

The dairy sector is currently facing a double crisis, with the pandemic having a secondary impact. Activity restrictions applied to restaurants, schools and kindergartens that have limited market access to some extent, but the consumption of milk and dairy products in stores has not been affected. Overall, turnover during the state of emergency decreased by 10-15%. On the other hand, the drought that occurred this year negatively affected the source of raw material, namely milk purchased from the population that owns cows, goats and sheep. For the latter, high feed prices served as an incentive to slaughter animals when the price of milk delivered to the producer remained at the same level.

The national particularity of milk industry is that 80% of raw material is purchased directly from the population through a network of collectors employed by dairy factories. Thus, at the moment, the number one priority for the dairy industry is support for small farmers that are supplying raw material in order to make sure that they have feed. A bureaucratic barrier for the implementation of this solution lies in the fact that subsidies offered by AIPA are aimed at agricultural producers in the formal sector, however the absolute majority of farmers, suppliers of milk as raw material, do not have a registered status.

Due to the fact that the term of consumption of milk and natural milk products is short, the local market is dominated by local production which constitutes about 70%, while import production (pasteurized milk and dairy products) constitutes about 30%. There is a potential to replace imports with local production only when raw material suppliers would be protected. In this regard, there are only isolated cases of vertical integration of the value chain. A few large cattle, sheep and goat farms have managed to set up small milk and dairy production facilities, but due to the informal and dispersed nature of milk suppliers, there are no cases when large factories would exercise control over them.

The export potential of milk and dairy products is untapped. The fundamental obstacle faced by milk and dairy producers (which in terms of prices could be competitive in Romania) lies in the implementation of European standards. To obtain export rights it is necessary to implement product traceability and the application of quality standards throughout the value chain “from farm to fork”. This does not happen due to the fact that suppliers of raw materials are small farmers, unregistered and respectively, unsupervised.

Meat and sausages

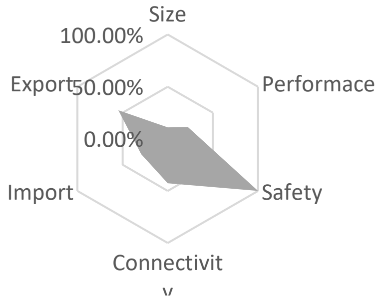
Overall, meat production decreased between March and June 2020, compared to that period of the previous year by around 10%. Activity restrictions applied to restaurants, schools and kindergartens, as well as the ban on "group activities", which traditionally stimulated the demand for meat for skewers during the summer season, played a decisive role. At the same time, the costs of pandemic prevention measures, such as working in two shifts and large quantities of disinfectant material, have been absorbed by meat producers.

Meat produced in the Republic of Moldova cannot compete in the CIS countries due to small quantities and cannot be exported to the EU due to non-compliance with the system which is under continuous evaluation by EU experts. Currently, of the 7 indicators that qualify chicken exports only 4 are accredited. However, the export potential of meat production is undeniable – as soon as exports to the European Union are allowed, local producers are ready to deliver chicken to Romania and other countries. In order to advance negotiations with the EU, an important element is to solve the problem of animal by-products (waste) by creating a unit for their processing.

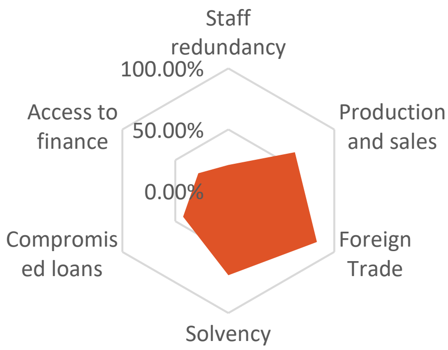
Internally, the sector is forced to work in an environment of unfair competition from unauthorized producers. According to estimates, they hold about 20-30% of the meat market, avoiding both tax obligations and compliance with sanitary-veterinary rules (meat is slaughtered in hygienic conditions). Unregistered farms are not targeted by ANSA, and the marketing of meat produced by such establishments is allowed on the local agricultural market by veterinarians.

Beverage production

Contribution of beverage production to economic development



Impact of pandemic on beverage production



Against the backdrop of the pandemic, the situation in the wine sector "is not simple but it is not catastrophic either". The absolute majority of wine production (85%) is aimed for exports, and during June there has already been a slight increase in bottled wine exports (especially to Romania, where they have gained a firm position on the market). The situation is somewhat worse with regard to bulk wines, which account for 70% of exports and which are down compared to the previous year. In particular, exports to Belarus and Georgia (Abkhazia) suffered.

At the same time, the pandemic reviled a systemic problem related to the export of bulk wines. Selling those on the EU and CIS markets erodes the image of Moldovan wines which are trying to position themselves as high quality wines. At the same time, in the Republic of Moldova there is a constant surplus of grape production, and low-quality bulk wines are the only option available to grape producers who want to market their production. Even so, wine stocks in a volume of about 24 million decalitres are putting pressure on the market and distort prices. Such a volume represents the equivalent of two years of harvest compared to an acceptable level of one year of harvest. Respectively, these excessive stocks threaten the harvest of 2020.

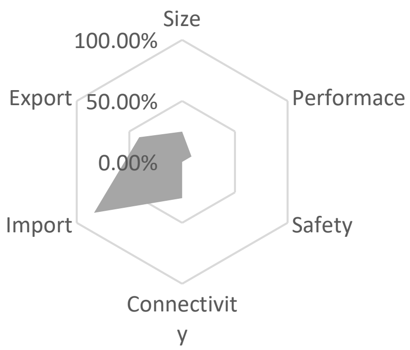
The medium-term solution is to create capacity for wine distillation and processing waste resulting from wine production. A public-private partnership based on industrial platforms could stimulate investment in this area. Distilling low-quality wine is a sustainable alternative for grape producers, who could market their product at prices of around 30 euro cents per liter of wine, thus helping to eliminate stocks and lessen pressure on the emerging sector of wine for export. At the same time, the distillation of wines and the processing of waste products resulting from wine production will allow the development of local production of medicinal alcohol, grape seed oil, natural dyes, fertilizers for farmers. All of these, are currently imported.

The level of indebtedness of the sector is quite high – the volume of attracted loans accounts for about 65% of assets, which limits the sector's ability to make additional investments. Instead of attracting credits, the sector would like to benefit from additional shares issuance, the positive experience of Purcari winery is considered a success story. At the same time, export guarantees from the Guarantee Fund managed by ODIMM are required for the active promotion of production on new markets.

Textile industry

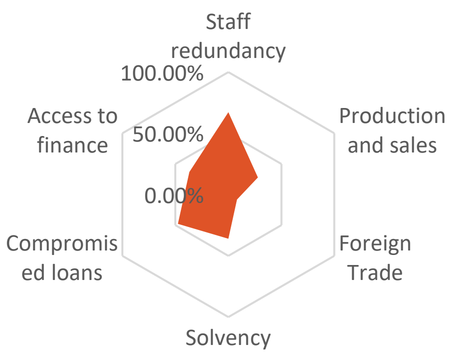
The major impact on the textile industry in the Republic of Moldova is due to changes in consumer preferences related to the pandemic worldwide. As a result of the reduced consumption of clothing, orders from abroad decreased by more than 70% for 2/3 of the companies in this sector, which will lead to an estimated decrease in exports by 1.8 billion lei in 2020.

Contribution of textile industry to economic development



The quarantine itself affected textile factories to a significant extent. The need to reorganize the work regime in shift has imposed additional costs. In addition, restricted access of employees from the risk group (people over 63 years old) in tandem with the need for some employees to stay at home with children because of the closure of schools and kindergartens has reduced the number of employees. According to surveys, a quarter of companies in this sector stopped operations during the quarantine.[16] Although international movement restrictions initially disrupted supplies of raw material and final production, they normalized during April-May. In March, factories worked at full capacity on the basis of orders from the previous months, but the number of orders gradually decreased in the following months.

Impact of pandemic on textile industry



Variable costs predominate in the cost structure of textile production. The raw materials account for 50-60% of the value of final production, while 15-20% represent labor and energy consumption. Taking into account global trends, it is considered that only in 2022 the sales volume will match that of 2019, while in the current year, factories will recover only 60% of the usual capacity.

Light industry is 90% export-oriented and EU countries also have a share of around 90%. The huge decrease in order volumes is directly linked to the closure of retail units in the EU during the lockdown, in particular shopping malls, increased interest in online consumption and low demand for mass market clothing. On the traditional export markets for the Republic of Moldova, the fast-fashion segment (the most unexpansive products) is at a loss. Production in this category remains close to the countries of origin of raw material (India, China, Bangladesh), while more expensive brands tend to strengthen their production capacities closer to the consumer (near-shore). In this regard, an opportunity for the domestic light industry is the interest shown by quality brands, such as those in the UK and Scandinavian countries, but which is conditioned by the implementation of quality standards. The trends that have formed over the last few years have been the increase in value added to exports. The emergence of local brands, fashion design elements and others conditioned the increase

[16] APIUS "COVID - 19 Impact on Moldovan Light Industry", June 2020

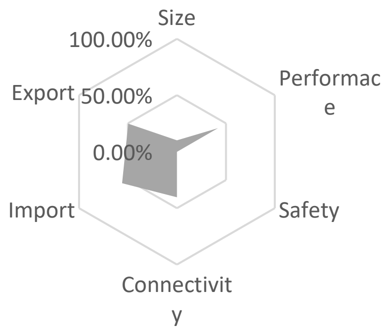
in the value of exports even though the volume of exported goods remained stable.

It should be noted that light industry also plays a significant role in import substitution. The annual increase in the consumption of textile production by 15-16% is almost exclusively due to the domestic consumption of local brands, while textile imports remain at the same level.

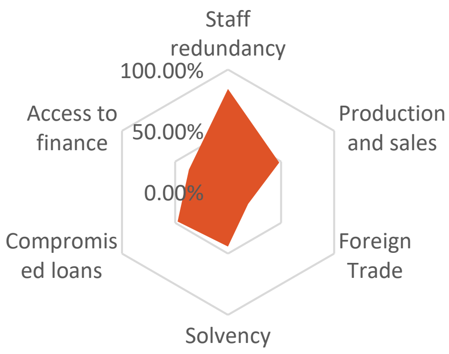
Light industry needs targeted support from the state, both to harness the export potential and to replace imports. Ordinary loans are not a viable option, taking into account the priorities of the sector, namely: (i) investments in marketing and promotion of local brands; (ii) investments in production automation (relatively high level of manual labor reduces productivity per employee compared to factories in Romania or Ukraine); (iii) implementation of Integrated Quality Management Systems; (iv) digitalization of trade. Preferential loans with a grant element of at least 20% are required for these investments.

Manufacturing of construction materials

Contribution of construction materials manufacturing on economic development



Impact of pandemic on construction materials manufacturing



The construction materials industry was deeply affected during the state of emergency when the stores were officially closed. Turnover decreased during this period by 82%. It is true that online sales increased in the same period by 10 times compared to the period before the pandemic and maintained the positive trend after the reopening of retail units, but online sales account for only 1% of total sales. The problem is that online sales is only for specialists, and the standardized range of products offered online only covers 70 thousand positions. Normally, non-professional consumers prefer to make their shopping choices within the store. Even though the sales volume recovered in June-July, the profit of enterprises in the sector could be 4 times lower than last year.

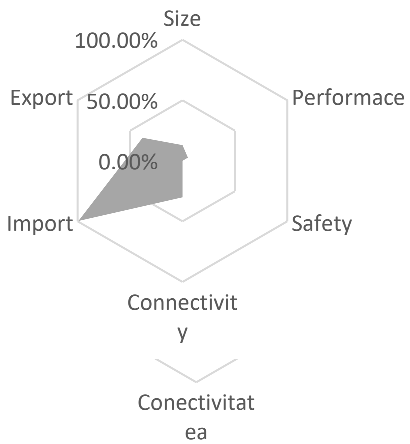
Given the dynamics of sales of construction materials, the impact of the pandemic would not be felt in the current year, given that the demand for building materials is shown at the final stage. However, the slowdown in construction, both for objective reasons (declining purchasing power) and subjective reasons (delays in the issuance of building permits), will produce a noticeable impact in the coming year. A beneficial solution in this regard would be to maintain the "First Home" project because one could see the trigger effect of this initiative on the construction sector in general, and on construction materials in particular.

Sanitary protocols are considered important, allowing both the isolation of individual cases of illness and the quarantine of persons in direct contact with them. Thus, the shutdown of activity and partial remuneration of employees who are furloughed are avoided.

Due to the stocks of raw material, production did not suffer. About 30-40 components are used in the production of finishing materials, most of which are imported. Only chalk and gypsum are supplied from quarries in the Republic of Moldova, but one can only talk about higher production volumes in the context of access to foreign markets. Currently, the free trade agreement with the CIS states applies standards that are incompatible with modern production, giving undeserved advantages to producers in Russia and Kazakhstan. Although the Romanian market is attractive (high transport costs do not allow a wider geography), the customs procedures applied to the entry of goods in Romania (3-5 days) undermine the reliability of investments in this direction.

Cement production is performing badly for reasons unrelated to pandemic. The share of cement production imported from Ukraine on the local market is increasing, reaching 10-20%, while cement exports from the Republic of Moldova have already been blocked by Ukrainian courts through anti-dumping actions. In line with them, Moldovan cement is subject to tariffs of 94.6% for a period of 5 years. The Republic of Moldova did not initiate equal measures and did not challenge the Ukrainian decision at the WTO, although the trade balance with Ukraine is in favor of the latter. According to experts, Ukrainian cement has a lower quality compared to the Moldovan one, and its use in construction can negatively affect the seismic stability of buildings.

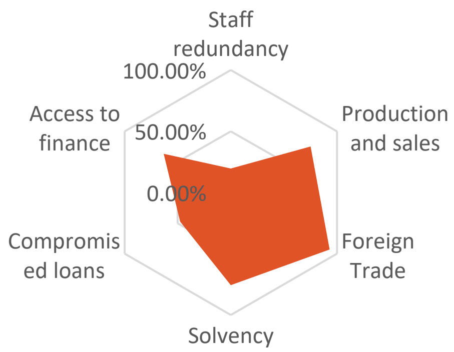
Contribution of automotive industry to economic development



Automotive industry

Heavy industry in the Republic of Moldova is mostly represented by international companies. They supply components to car manufacturers, and their turnover directly depends on the volume of orders from abroad. Thus, one effect of the pandemic, which affects the world economy, is the decrease in investment consumption, therefore the demand for automotive components is also declining. Representatives of the heavy industry of the Republic of Moldova estimate a reduction in turnover of up to 70-80% compared to the level planned for 2020. However, it is worth mentioning about certain structural trends that can favor the Republic of Moldova depending on the situation:

Impact of pandemic on automotive industry



Thus, the closure of some production units abroad (Mexico) led to an increase in the volume of orders (from China) to the plants in the Republic of Moldova. The relatively cheaper cost of labor in the Republic of Moldova, the tax regime, transportation costs, make us more competitive compared to the main regional competitors.

At the same time, there is a shortage of skilled labor. In particular, higher education studies in the category of computer-aided mechanics and technical management of production are required. The prospects of a strategic partnership with the most highly rated

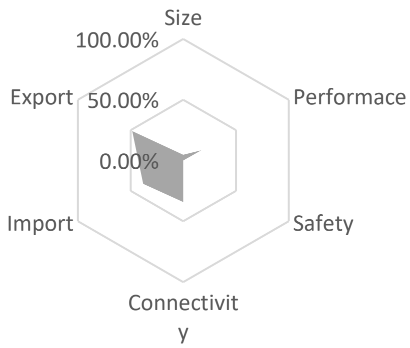
European University in this field (RWTH in Aachen) make these master's degree programs valuable, but the curricula for those programs needs to be accredited as soon as possible.

When it comes to labor force, it is also worth mentioning that during the quarantine (April), 90% of the employees in heavy industry were furloughed, benefiting from partial wage subsidies offered by the state. Since may, 80% of employees have returned to work. At the same time, the closure of schools and kindergartens complicates the options of many employees who are forced to stay at home caring for children. Of the 11,400 workers from Balti FEZ, about 10,000 have returned to work, which indicates that companies work at 75-80% of capacity.

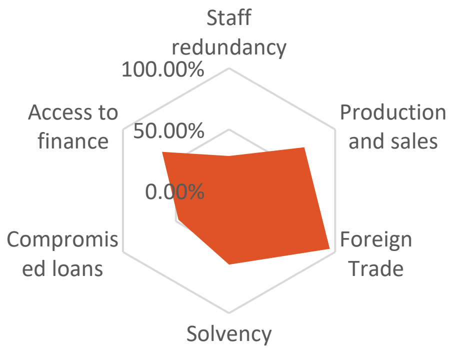
Another forward looking direction, which could become instrumental in the substitution of imports, refers to the implementation of the development program of local suppliers. In particular, this initiative is currently being implemented by Balti FEZ. According to the initiative, 100 local producers could apply to an evaluation program implemented by experts from Germany and the Czech Republic, as a result of which 50-60 will receive specific recommendations to qualify as suppliers (plastic components, rubber, etc.) for large companies in heavy industry. In relation to the latter, it would be beneficial for the state to implement an investment subsidy mechanism (according to the PARE 1+1 model) that maximizes local potential. It would be optimal for state-owned enterprises, which import raw materials from abroad (Termoelectrica, Glass Factory) to similarly encourage local producers.

Another problem facing the sector are the amendments to the Customs Code (articles 315 and 317) requiring the licensing for exports of production waste. As waste comes from imported raw material, these amendments will basically require waste to be sold on the local market at low prices, which will affect competitiveness.

Contribution of furniture industry to economic development



Impact of pandemic on furniture industry



Furniture manufacturing

The most noticeable impact on the furniture industry occurred during the state of emergency, when, along with other commercial units, the activity of furniture show rooms was stopped. The peculiarity of this industry is just-in-time production – within 2-3 weeks after placing orders through furniture show rooms. Respectively, even if there were no restrictions on the activity of furniture factories, the limited capacity of warehouses for storing finished production conditioned the shutdown of production by furniture manufacturers. During the state of emergency, employees in this industry were furloughed with their wages being partially compensated. Consequently, during the 2 months of stoppage, furniture factories incurred costs that were not covered by sales. However, it is estimated that in the absence of a new period of shutdown of activity, the volume of sales in 2020 will be approximately at the level of the previous year. This fact is also due to the return to the country of Moldovans working abroad. The reduction of orders from HORECA had a negative impact, but not a decisive one. The robust performance of the sector in previous years has facilitated access to finance, which has allowed uninterrupted payment of wages from the liquidity reserve.

Online sales have not proven to be a viable solution, given that buyers prefer to appreciate the goods directly in furniture show rooms because size, color, appearance are critical to making the purchase decision. Representatives of the sector noted that the law on e-commerce is designed to pay invoices online and does not meet the requirements.

Representatives of the sector are complying with sanitary protocols, but mention that the closure of furniture show rooms was not justified. The large areas on which the goods are exposed represent a lower risk than public transport.

Furniture production is strongly connected to foreign trade. Raw material imports component in the production of laminated, upholstered furniture and trimmings are practically 100%. Relationships with suppliers have changed during the pandemic. If previously orders were made 4 weeks before delivery, now a minimum of 8 weeks is required. At the same time, suppliers insist on immediate payments, as opposed to the pre-pandemic period. On the other hand, furniture produced in Moldova has a significant share on the Romanian market. This is explained by the speed of execution of orders, affordable prices for furniture produced from laminated material (furniture factories in Romania are oriented towards luxury production, made of wood) and consumer confidence (laminated furniture produced in Ukraine is not in demand).

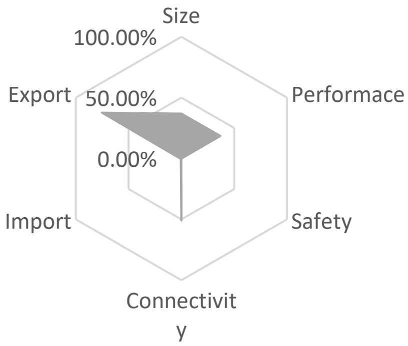
Labour costs are on a rising trend. Skilled workers (including graduates of vocational schools) take as a reference the wages they could earn in Romania or the Czech Republic, which face a shortage of labor. In the medium term, the productivity of the sector depends on the technology, for example, the purchase of new turning machines would reduce labor costs.

Taking into account the above, it can be stated that the competitive advantage that Moldova currently has in furniture exports will erode with the increase in labor costs, if measures to increase productivity based on new technologies are not taken.

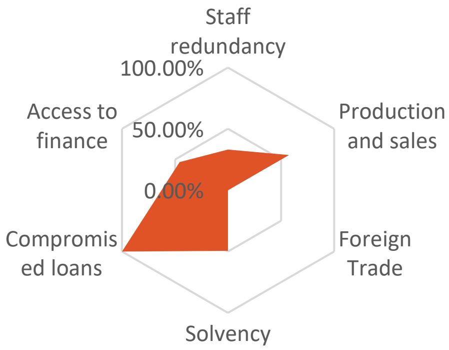
Construction

In the current phase of the pandemic, the major effects on the construction sector are late to show. A slowdown in home sales manifested itself during the quarantine months (March-April), when potential buyers did not have the physical opportunity to inspect the

Contibution of construction to economic development



Impact of pandemic on construction



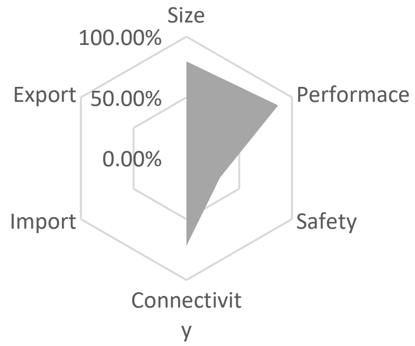
future home. However, home sales have resumed since May in volumes comparable to those of 2019. This is partly explained by unmet demand in previous months. However, a full impact on the construction sector is expected towards the end of the year. A signal to this effect are the reduced sales of construction materials in the first half of this year and the reduction in the number of permissive acts requested/issued during this period.

The difficulties caused by the pandemic are also coupled by a number of older impediments that obstruct the activity of the sector. First of all, it is about the slow and complicated process of issuing building permits in Chisinau municipality. The need to update the urban plan has become an artificial obstacle since in the absence of it, local public authorities should be guided by the old plan. Another impediment is the postponement of the adoption in Parliament of the Urban Planning and Construction Code, which integrates a set of reforms expected by the sector. These reforms would propel the Republic of Moldova into the World Bank's Doing Business ranking, according to which our position in the world ranking for 2020 in terms of construction permits is 156 out of 190 countries.

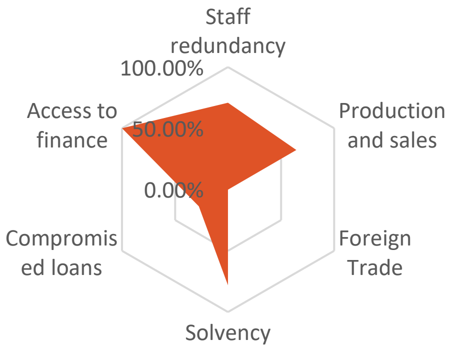
The access of developers and road builders to the public procurement system is limited. At the same time, the participation of Moldovan road builders in road infrastructure projects is conditioned by the large volumes of works that they can only support in consortia with foreign companies, the role of the local participant being a "secondary" one. Bidding for smaller lots would increase the participation of Moldovan companies. Tender (and payment) conditions are considered to be unfair compared to similar tenders organized by the World Bank or the United Nations. The emphasis is only on prices, which are as low as possible, while the technical offer only accounts for 20%, which practically prevents local companies from participating in public procurement. An adjustment of the tender terms to international standards is considered to be a necessary condition for stimulating investment in this area. Likewise, the payment for works in 2 to 4 weeks after the signing of the acceptance documents should be something normal, which is not the case in relation to works performed for the customers in the budget system.

At the same time, there is little potential for replacement of imports of construction materials. If the raw materials (cement, gravel, concrete, brick) is comparatively better, other building materials (terracotta, paints, technical glass) come exclusively from import.

Contribution of trade to economic development



Impact of pandemic on trade



Trade

Trade is by far the largest sector in the real economy, accounting for a quarter of the number of employees and more than half of turnover. At the same time, it is the most connected sector to other industries, the dependence of the latter to the access to the local market is crucial. Retail trade has been unevenly affected by the pandemic. Grocery stores stayed open during the quarantine period, and some even had increased sales due to the fact that agricultural markets, restaurants, cafes and bars were closed during that period. However, clothing and home appliances stores were severely affected. Although the decline in sales was almost equally accompanied by staff reductions, the sector's solvency and, with it, access to finance were seriously affected.

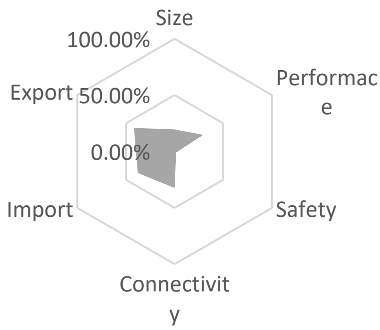
Even after the relaxation of restrictions the situation did not improve significantly. Even if they operate normally and apply hygiene rules imposed by the authorities, buyers have changed their consumer preferences. Household appliances, clothing, etc., not representing goods of prime necessity, sell more slowly. In particular, it shows the absence of the corporate sector, which represented a good part of consumer demand. Overall, in March there was a slight increase in turnover (estimated 4-5%) due exclusively to the supermarket segment. In April, sales are down 20% compared to the same month of the previous year. It is very plausible that this level represents the "new normal" and will last for the rest of 2020.

In the event of a new wave of restrictions, it would only make sense that they are not applied without sufficient substantiation. The real risks to public health that can be proactively managed through the application of hygiene measures should be taken into account. Frequency of abuses by control bodies was also identified. Fines were sometimes arbitrary and unreasonably high. Predictability of working conditions is also important. New sanitary rules and operating conditions involve (including financial) adjustment efforts, and compliance is difficult when they come into force the day after their adoption. Some sanitary measures (e.g. thermometry at the entrance into retail establishments) are considered inefficient, given that the margin of error of appliances is 70-80%, while compliance costs (a dedicated person) are quite high for small retail units.

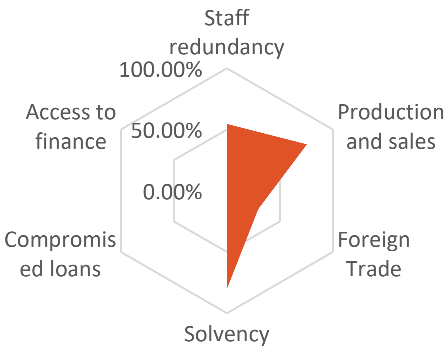
An important aspect of adjusting to the "new normal" is online trade. Although the demand for online trade has skyrocketed, the supply in stores is limited due to logistical reasons. Even if online sales solutions are accessible from the point of view of information technologies, there are major shortcomings when it comes to the logistics of sales operations. In particular, most traders do not have real-time tracking systems of inventory. Respectively, without a visual check, it is impossible for them to confirm to the potential buyer whether or not the requested quantity of goods is at the warehouse. Similarly, for the transportation of food items (which are of several types – frozen, fresh or ready made) specially arranged transport units are needed. There is no special regime for taxation of delivery services. From the point of view of taxation, distributors are made equal to sellers, being obliged to pay VAT on the "purchase" of goods and charge VAT at the "sale" of goods from the final consumer

Transport

Contribution of transport to economic development



Impact of pandemic on transport sector



Along with the tourism industry, HORECA and trade, the transport sector is one of the most affected by the pandemic. To a different extent, all segments of this sector were adversely affected. Cargo transport had a decrease of 35% in the first 5 months of 2020 compared to the respective period of the previous year (at the end of June the decrease eased slightly -22% although it remains well below the values of the previous year). Although international circulation is more difficult during the pandemic, the decisive factor in the reduction of the number of trips is the impossibility of obtaining transport permits on the territory of some states (Russia, Turkey, Hungary). The situation in the passenger transport segment is worse. Operational figures from the Modern Bus Station system shows a decrease of 63% in the number of tickets sold for suburban trips, compared to the period before the pandemic, 70% on intercity routes and 87% on international routes. It should be noted that the number of routes has not decreased proportionally (23, 40 and 67%, respectively) which means that the buses that circulate have a smaller number of passengers and operate with a boarding coefficient of 25-30%, thus incurring losses.

Against expectations, Moldovan Railways (MR) are in a similar situation. Cargo transport by rail decreased on average by 45%, of which goods transported for export by 26%, those imported by 15%, those in transit by 71% and domestic transport by 3%. The main international passenger routes (St. Petersburg and Moscow) are suspended until the decision of the authorities of the Russian Federation is changed. Internal passenger transport is operational, but with social tariffs for this category of passengers the financial situation of the MR remains precarious.

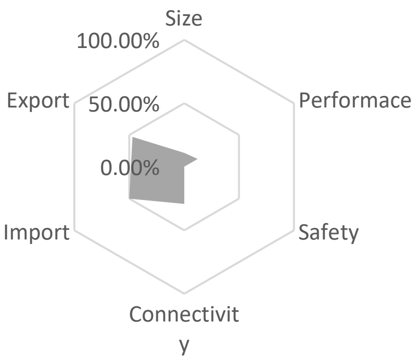
The impact of the pandemic on the transport sector is multidimensional. Unfair competition from illicit passenger transport is added to the losses from reduced volume of sales. Regular passenger routes comply with travel restrictions in the Republic of Moldova and the countries of destination and operate under the conditions of the formal economy (applying VAT, paying excise taxes on the purchase of diesel), while illicit transport avoids both travel restrictions and a number of costs. More seriously, drivers who perform regular trips are paid according to the number of hours spent behind the wheel, or as the number of trips has decreased, their wages have decreased by 30-40%. There is a risk that in the medium and long term, we could have a shortage of drivers, as they are attracted by the prospect of higher wages for the same work to EU or Russia.

Financial difficulties faced by transport operators are enormous. Interest payments on loans were deferred during the state of emergency only until 29 June, without the implementation of a staggered repayment schedule over a longer period.

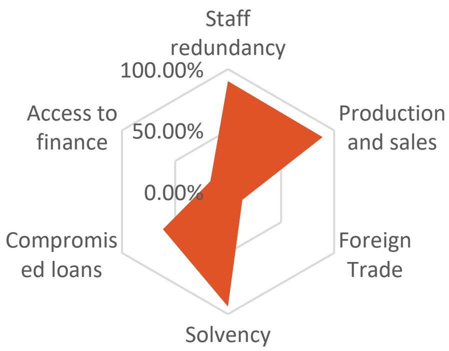
HORECA

The coup de grace on hotels, restaurants and catering sector (HORECA) came from the very first days of the state of emergency. As for the accommodation providers, the reduction of tourists numbers (including businessmen visiting the Republic of Moldova) due to traffic restrictions has drastically reduced turnover, especially in urban centers. In a similar situation, are cafes, bars and restaurants which also had to stop working due to restrictions and subsequently faced low demand due to decreased consumption.

Contribution of HORECA to economic development



Impact of pandemic on HORECA



Turnover at that time became absolute zero ("zero is zero") while inventories of products, raw materials, often perishable were still full. Rent, wages, interest on loans are a significant component of costs, which still remained at the same level. According to estimates, about 25-30% of the employees of restaurants that made home deliveries were made redundant, their share in the restaurants that did not make deliveries, was even higher (only the core of the company was retained: the administrator, the accountant, the chef). In individual cases, lessors lowered or even canceled rent payments for the months of March-April, but this act of charity is unlikely to turn into something sustainable. An alternative path for many businesses in this sector, who were not burdened with loans, was to permanently stop the activity by giving up future income but also current costs.

After the resumption of activity, it turned out that a return to normality is no longer possible. In June, sales of catering establishments made up only 30% of that figure in the previous year, while in July about 50%. Under current conditions, most businesses in this sector have counted the months to bankruptcy (about 6-9 months.) According to estimates, in the spring of next year no more than 1/3 of bars, cafes and restaurants that exist today will remain open.

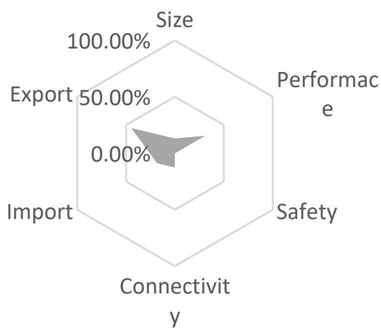
On a social level, the most negative impact comes from the layoffs of staff directly and indirectly involved in the catering sector, which reaches about 50 thousand employees. Taking into account the number of suppliers (about 90 thousand) that supply this sector with raw material, a number of chain impacts are very likely. From the accounts of affected companies, the procedures for qualifying people made redundant as unemployed by the NEA are arduous and lead to no results. During the same period, public institutions operate according to a reduced work regime. The number of applications is large, and in order to avoid physical contact, scanned copies of the document are presented, which are manually entered into the database. Also, subsidizing payroll taxes did not have the expected effect, as employers had little to pay for furloughing and made employees redundant en masse.

A nuisance in the current work of restaurants comes from the unpredictable and uneven procedure of applying restrictions. It is logistically difficult to comply with the new rules, announced by the media at 9 PM and implement them at the opening of the premises the next morning. It would be more appropriate for the entry into force of the new rules to occur in 3-4 days, so that businesses in the catering sector can adjust their business model. Some rules are not well founded and implementable, such as demonstrating kinship or applying the distance of 1.5 meters between customers and not between tables, as is the practice in other countries. Likewise, it is not clear what happens to the older rules since new rules that partially replace them come into force. The activity of control and finding bodies, apart from ANSA, which has clear powers in this field, the police, the praetor and others are present during the control, which is in contradiction with the state's promise to help. In addition, the fines imposed, are prohibitive.

ICT and creative industries

The transformation of the ICT sector from a semi-formal one to one that accounts for about 10% of GDP has been made possible by the smart policy of creating IT spaces. Creative industries (design, movie production, video game production) that for the moment face more difficulties, could have a similar trajectory. Even though the pandemic crisis has not affected the ICT sector to the same extent as other sectors, it has become of utmost importance when remote work, online trade, dependence on electronic communications are sine qua non factors for the new reality.

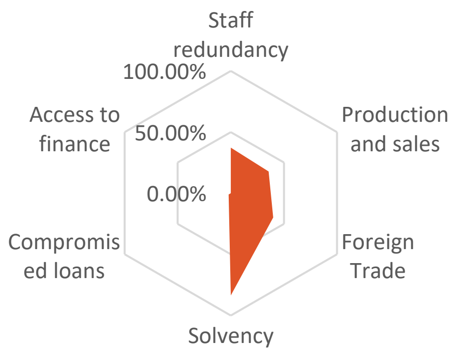
Contribution ot ICT to economic development



Information technologies

IT sector has not been " immune " to the effects of the pandemic. It has been offering services to other sectors which once the state of emergency was established, considered investment in process automation not a priority and stopped or terminated contracts with information technology companies. This massive impact was consumed during the month of March, and between April and June a new direction of activity was outlined, also determined by the existence of traffic restrictions. It is about the e-commerce that has taken on an unprecedented significance under the quarantine conditions.

Impact of pandemic on ICT sector



Respectively, in the early period of the pandemic there was a structural reorientation of the demand for information technologies to which the companies in the field responded with appropriate supply. Therefore, e-commerce, which "overnight" has become an important tool in maintaining sales and offering new export opportunities, has revealed a number of problems that are specific not so much for the ICT sector, as for this type of tool.

However, there are gaps and artificial obstacles for the widespread application of e-commerce. The most important of them are: 1. how to apply the digital signature; 2. compliance with the requirements of the legislation on the protection of personal data; 3. high bank charges related to online payments; and 4. poor regulation of labor relations during remote work.

Electronic communications

A concern for representatives of the ICT sector is keeping the "luxury tax" on mobile services, contrary to the previously announced budgetary-fiscal policy proposing its cancellation. Similarly, the sector is disappointed by keeping the excessive contributions, such as the payment for the operation of the centralized database for ensuring portability, the compensatory remuneration for private copy and the introduction of the portability fee in the amount of 50% from the payment for operation. It goes without saying that these charges directly lead to higher mobile telephony costs for consumers, but as the pandemic places an increasing emphasis on e-commerce, remote work, online services, these costs will become an additional and unjustified burden on mobile telephony consumers. The drastic reduction, in the midst of the pandemic of the mobile termination rate and keeping at the same time an excessive fixed termination rate of the state-owned incumbent operator also raises concern. Added to this are the extremely complex and inefficient procedures for authorizing civil works for the construction of broadband networks, especially in the regions.

These, as well as other proposals from the ICT sector, can be found in the roadmap for the digitization of the economy launched during May by the Ministry of Economy and Infrastructure.

Creative industry

Creative industry brings together about 2500 micro, small and medium enterprises, providing jobs for about 12-15 thousand people, including about 3000 freelancers. The pandemic has unevenly affected companies in this sector. With the introduction of the state of emergency, marketing and promotion budgets were slashed, which negatively affected the volume of orders at large and medium-sized production houses. At the same time, online commerce caused a sudden demand for web design services, which benefited small entrepreneurs and freelancers. Due to the limitations of social distancing, the event industry has ceased to function.

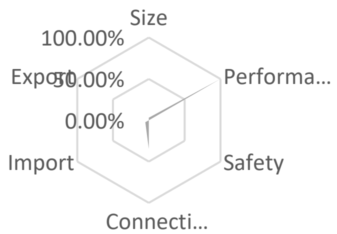
A major challenge for the sector is the informal nature of employment. The costs of hiring as a natural person are prohibitive for the clients (56% of the costs are taxes), while obtaining the status of a legal entity is complicated. Tax legislation offers the possibility of carrying out individual economic activities (IEA), but the tax/statistical reporting requirements and the need for bookkeeping discourage freelancers from adopting the status of a legal entity. An optimal solution for them would be the regime of an authorized natural person (ANP) according to the model applied in Romania. Automated taxation subject to the volume of the transaction would allow these freelancers to be introduced into the formal economy and turn them into tax payers.

The solution described above is optimal for individual entrepreneurs. When it comes to medium-sized production houses, they want to benefit from special tax regimes similar to those offered to the ICT sector. Indeed, the economic potential to produce added value and generate exports is comparable. In essence, this would allow the use of local talent without requiring people to opt for emigration.

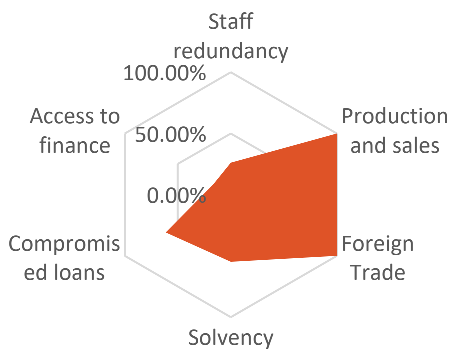
A specific problem for the film and advertising industry is the state's policy on cash rebates (financial support). Such a policy applies in Romania, Ukraine and Georgia and consists in the reimbursement to the producer of a share (10-15%) of the cost of filming. In the Republic of Moldova, the policy has been accepted in principle by the adoption of the Law on foreign investments in the production of film and other audio-visual works, which provides financial support in the amount of 25% plus a 5% bonus if the film is promoting the image of the country. Unfortunately, that law was to be implemented through a government regulation, which has not yet been approved.

And not least, a coherent state policy that would promote local content is required. Annually, we import significant volumes of content (movies, music, books) from abroad and do very little to export. Currently, content producers survive thanks to donor support for social advertising, which limits creativity. To sell local content and especially to export it, one should offer national awards in neglected areas such as design, media, advertising, video games, etc. Another option is to organize and participate in thematic festivals, but his option cannot be implemented because of the pandemic.

Contribution of tourism agencies to economic development



Impact of pandemic on tourism agencies



Tourism

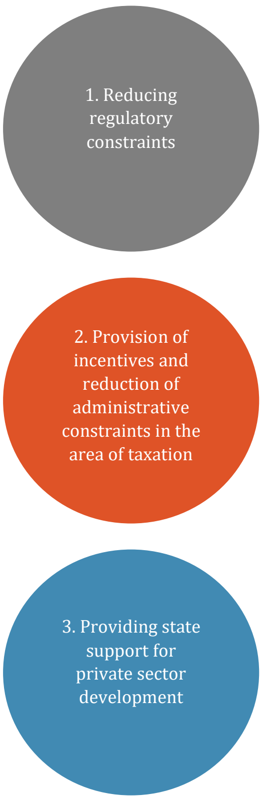
Restrictions imposed on interstate traffic by the authorities of the Republic of Moldova and other states have seriously affected tourism. The first blow was from the cancellation of previously made reservations. In the absolute majority of cases, these bookings accounted for more than 60% of turnover. Thus, travel agencies lost about 52 million lei in orders, airlines 40 million lei, hotels 29.5 million lei, and event organizers 2.5 million lei. According to representatives of the sector, they are "on the brink". Just the hotel industry (part of the HORECA) gives signs of life, although during the quarantine the level of occupancy in the hotel decreased down to 10%, and began to slowly increase to 20-30% after the quarantine. A peculiarity of inbound tourism is that it is largely determined by business visits and official delegations, so remote work and online conferences make it impossible to return to normality in the foreseeable future. Wineries are not in such a catastrophic situation; they manage to ensure a capacity of 50% from domestic tourism numbers.

It is important to note that travel restrictions also affected external tourism. According to estimates, the annual cost of foreign holidays of Moldovans is approximately 150 million euros. Domestic tourism is not a viable alternative. Even though our nationals "rediscover Moldova", accommodation expenses are most often avoided, given that the short distances allow casual tourists to return home. On the other hand, accommodation opportunities are not always present either. Of the 33 rural guest houses, only 5 (those with loans to repay) were officially open at the time of consultations. A remarkable exception are wineries that due to tastings, have managed to supplement 50% of accommodation capacity.

Operators and travel agencies have stopped their activity. The unofficial policy of companies in this segment was "Whoever can, saves oneself". Among those" rescued " were directors and accountants, the rest of the staff was made redundant.

Looking ahead, the prospects for the tourism industry are quite bleak. According to experts, the new tourism model will have a number of particularities. Safety of people during their stay will come first, followed by the tendency to travel within the country or neighboring countries (near-shoring). Sustainable tourism will be of greater importance where eco-friendly activities in the middle of nature will be preferred to those which involve crowds. The hotel industry is trying to adapt to new realities by implementing security protocols and reducing personnel costs. The number one priority in relation to the government is the application of safety measures so that the Republic of Moldova does not appear on the "red list" of other states, warnings are issued for visiting Moldova and/or requirements are imposed on people visiting our country. A request from the sector is the establishment of a" green line" when it come to sanitary-epidemiological controls. The new hygiene protocols contain interpretable rules, and businesses implement them unevenly risking fines from ANSA. The use of free capacity in hotels would also be significant. They could provide isolation conditions at minimal cost for medical personnel and other professions on the front line in the fight against COVID-19 . In addition, the domestic tourism sector would need a boost in the digital environment with the reduction of costs for payments processing.

COVID Matrix: economic and tax policy measures supported by the business community



The pandemic crisis is about to produce an unprecedented impact on the economy of the Republic of Moldova and demands an unprecedented package of economic stimulus and tax incentives. If we only refer to the decrease in sales and staff redundancies, they point to a decrease of 86 billion lei in turnover and a decrease in the workforce by 32 thousand people. Taking into account that sales and labor force are the basis of budget revenues formation, budget losses could amount to 17.3 billion lei in the current year. The experience of other countries has clearly demonstrated how dangerous a tight budgetary policy combined with the effects of the crisis can be. Beyond not producing desired effects, it can hurl the economy into a vicious cycle that will continue for years to come. On the other hand, quick measures applied without delay are able to put the economy of the Republic of Moldova on an upward trajectory in 2-3 years.

It is worth noting that the proposals from the business community are rational. In most cases they aim at reducing bureaucratic constraints through amendments to the existing regulatory framework, which does not entail additional costs for the budget. Another category of measures refers to the optimization of the tax regime. In this respect, the aim is to avoid market distortion by applying a reduced single VAT in the agricultural value chain and granting certain tax breaks, where these measures can bring new businesses into the formal sector of the economy. The last set of measures is about the economic incentives needed to implement large-scale investment projects. At the same time, these support measures will catalyze bank credit, which, in an environment of uncertainty caused by the pandemic crisis, has declined.

Roughly speaking, the total cost of measures promoted by the Economic Council to the Prime Minister are 3.7 billion lei, while the economic impact is 12.9 billion lei, including increased revenues to the national public budget of 4.8 billion lei. We would like to mention that both costs and impact are estimated presuming a full implementation of programs. This means that both the budgetary costs and the economic impact would show during their implementation (medium and long term). Partially, the implementation costs can be covered with the support of the development partners of the Republic of Moldova (Annex 7 for details).

POLICY MATRIX
for economic recovery during covid-19 pandemic

	Area of intervention / actions	Outcome Indicator	Term	Resp.	Policy cost	Impact / Benefits
A.	**Reducing regulatory constraints to support the private sector affected by the pandemic crisis**					
1.1	Boosting the process of digitization of the national economy and development of e-commerce					
1.1.1	Ensuring unconditional acceptance of electronic documents and signatures, in accordance with the provisions of Law No.91/2014, by public authorities, legal entities governed by public and private law, and natural individuals.	Amendments to the regulatory framework Monitoring compliance with the regulatory framework	Fourth quarter, 2020	MEI	Virtually all central and local public authorities are equipped with qualified certificates for the application of the electronic signature. Therefore, significant costs related to obtaining qualified electronic signatures for the authorities are not foreseen. No major costs are provided for in relation to procedures either, as authorities can continue to process relations with legal and natural persons in the back office, as usual, with documents being printed and physically archived if desired. The situation is even simpler in case of private institutions,	The implementation of the targeted measure will reduce the risks of blocking economic activities due to pandemic-related situations. At the same time, it increases access to public services and reduces their costs. According to estimates from the Regulatory Impact Assessment developed for legislative amendments that would facilitate remote interaction, the net savings from reducing administrative costs for the private sector could exceed 170 million lei annually.

					which are to comply with these provisions, such as public utilities, electronic communications companies, banks.	
1.1.2	Identifying situations of remote interactions, including with public authorities, that may occur without electronic signatures or with the application of simple signatures and drafting regulatory amendments to this effect	Classifying remote interactions Approved regulatory amendments	Fourth quarter, 2020	MEI	There are many interactions that are risk-free or are not about private data, such as requesting information that can be made public. **As with action 1.1.1, no essential costs to the public budget are anticipated.**	The implementation of the targeted measure will reduce the risks of blocking economic activities due to pandemic-related situations. At the same time, it will increase access to public services and reduce their costs for businesses and citizens. Savings generated in this action contribute to the amount of savings referred to in action 1.1.1.
1.1.3	Ensuring the possibility of remote registration and de-registration of businesses, including the operation of amendments to incorporation documents	Approved regulatory amendments	Fourth quarter, 2020	MEI	Some legal provisions do not make it possible to only interact remotely with PSA in case of registration, de-registration of legal entities and changes to incorporation documents. **The legislative amendments provided for in this action will practically not entail costs for implementation,** since the procedures in the *back office* can remain unchanged, that is, the requests are printed and archived together with the decisions.	In 2019, more than 6 thousand legal entities were registered, more than 27 thousand amendments to the incorporation documents and more than 10 thousand de-registrations of legal entities were made. All these operations are carried out with the physical presence of the business. Therefore, savings just from the reduction of administrative costs (time and effort lost) in case of implementation of the action will be substantial. At the same time, the implementation of the targeted measure will contribute to reduced risks of blocking economic activities due to pandemic-related situations, increase the access of

						foreign investors to businesses in Moldova and increase economic activity overall.
1.1.4	Unilateral recognition of electronic signatures issued in the EU under Regulation (EU) no 1009/2009 910/2014 (eIDAS)	Approved regulatory amendments	Fourth quarter, 2020	MEI	Qualified electronic signatures in the EU are strictly regulated and member countries are obliged to recognize any signature from another member country. The validity of signatures can be verified online, including the configuration of the automated verification mode. Mutual recognition of signatures between the EU and Moldova is unlikely. However, the recognition of EU signatures practically does not involve additional risks because in the EU the regulation and supervision of this area is much more advanced than in Moldova. No major implementation costs are anticipated because the signature verification infrastructure is well developed. This means that they are also used in relations with individuals and institutions outside the EU.	Unilateral recognition of EU signatures would provide better access to a market of about 500 million people and about 9 trillion euros of investments placed by the EU business outside the EU area. At the same time, the implementation of the targeted measure will contribute to reduced risks of blocking economic activities due to pandemic-related situations, increase the access of foreign investors to businesses in Moldova and increase economic activity overall.

1.1.5	Eliminating constraints from the normative framework in the area of private data protection related to the form of consent in data processing and the obligation of notification/registration as data operator.	Approved regulatory amendments	Fourth quarter, 2020	MEI	The EU has essentially revised the legislation in the field of personal data protection by introducing the GDPR regulation, in order to remove major impediments for the development of business and society. In Moldova, impediments remained in the form of notification/registration of consent. **Removing these constraints will not generate major costs.**	At the moment, only 2,800 institutions, including businesses, are notified /registered. However, 56,000 active businesses fall under the law. Registering all of them would take years because one registration takes months. Thus, all businesses operate under the risk of tough sanctions or should cease their activity for an indefinite period in order to register. Additionally, the paper based consent form or electronically signed, restricts many economic activities or even makes them impossible. These unbearable risks and costs will be eliminated through legislative changes. At the same time, the implementation of the targeted measure will help to unblock e-commerce activities and reduce the risks and costs associated with this activity, as well as increase the volume of e-commerce on the local and export market.
1.1.6	Removing constraints and reducing costs in carrying out e-commerce both on the local and export markets, including administration and regulation in the areas of tax, customs, accounting, electronic payments, consumer protection, as	Approved regulatory amendments	Fourth quarter, 2020	MEI	No major implementation costs are anticipated as amendments cover administrative simplifications.	E-commerce involves major risks. The costs of electronic payments, which also include the unconditional return of goods, are increased, and the accounting and tax administration are not adapted to the specifics of the activity. Moreover, customs conditions and procedures make it virtually impossible to export goods to consumers. These and other

	well as for different groups of products and services.					regulations will be adjusted to the needs of e-commerce while reducing impediments and costs. An increase in the share of e-commerce by 1.9 billion (1% of the total volume of sales in the year 2019) would allow keeping this volume of sales, even in the event of a new lockdown with a duration of 3 months, which, in case of the application of a reduced VAT rate of 12% would mean additional budget revenues of 57.5 million.
1.1.7	Simplifying procedures for obtaining permissive documents by promoting online public services and ensuring electronic payments for all services	Increasing the share of public services offered online	Fourth quarter, 2020	MEI	No major costs are foreseen because all central and local public authorities are equipped with qualified certificates for electronic signatures. Thus, authorities are able to issue permissive acts and other decisions/documents in electronic form. In addition, the MPay government service offers the possibility of implementing the service of receiving payments electronically for any public service, quickly and at minimal costs.	The implementation of this measure offers the possibility of obtaining permissive documents remotely by businesses, which implies the reduction of administrative costs and risks associated with the existence of permissive documents and other paper documents. These benefits can be found in the aggregate savings estimates presented in action 1.1.1
1.2	Removing constraints from the existing	Amendments to the regulatory framework	Fourth quarter, 2020	MEI	This measure does not involve major costs because it is related to the simplification of	Last year, the Republic of Moldova ranked 152 out of 190 countries in terms of permissive acts in

	regulatory framework in the field of construction	developed and promoted			the regulatory framework and the reduction of bureaucratic procedures.	construction. **However, if the existing reforms were adhered to, including the adjustment of some normative provisions, the Republic of Moldova could advance among the first top 40.** In practical terms, this would mean reducing costs and risks for the private construction sector, as well as reducing the informal construction economy. At the same time, this would signal a noticeable improvement in the business climate, as Moldova becomes more attractive for foreign direct investment.
1.3	Preparing improvements to the draft Urban Planning and Construction Code registered in the Parliament and promotion of those in the framework of consultations with parliamentary committees	Improvements to the draft Urban Planning and Construction Code Draft Urban Planning and Construction Code promoted	Fourth quarter, 2020	MEI	This action does not involve major costs, as it is relates to the preservation of the best existing regulatory provisions and additional simplification of bureaucratic procedures.	The implementation of the targeted measure contributes to achieving the impact described in action 1.2.
1.4	Strengthening export potential and protecting domestic producers					
1.4.1	Strengthening MEI capacities in identifying and promoting the interests of domestic producers within the	Identified required capabilities Necessary allocated funds	Fourth quarter, 2020	MEI	In competing countries, state structures are actively involved in defending the interests of domestic producers both on the foreign and domestic	The monetary impact of this measure cannot be accurately quantified. However, in certain areas of economic activity, the interests of the Republic of Moldova are harmed (e.g. cement

	framework of economic and free trade agreements	Capabilities created			markets. Although WTO membership offers Moldova certain rights in this regard, these rights are not fully used due to lack of institutional capacity. Given that there is not enough expertise in Moldova, **technical assistance from development partners** will be requested.	exports to Ukraine, imports of juices that are declared natural despite a high concentration of additives, etc.) although in a number of cases remedial actions are justified, low capacities do not allow for a full exploitation of the import substitution potential and export potential.
1.4.2	Strengthening MEI capacities in the area of investigating economic protection of business stemming from bilateral and multilateral trade agreements	Identified required capabilities Necessary allocated funds Capabilities created	Fourth quarter, 2020	MEI	The costs of implementing the sub-action shall be included in sub-action 1.4.1.	The benefits of implementing the targeted sub-action are included in the impact described in sub-action 1.4.1
1.4.3	Improving control capacities of the compliance of imported goods with regulatory requirements, especially where violations are detrimental to local producers	Identified required capabilities Necessary allocated funds Capabilities created	Fourth quarter, 2020	MARDE ANSA	No major additional costs related to the creation of new laboratories are expected. Authorities will have to assess and review the control modality, based on current allocations.	As a result of the implementation of this measure, the protection of consumers from imported goods of poor quality will be ensured to an appropriate extent, which will allow harnessing the potential for import substitution through a more consistent application of quality requirements.
1.4.4	Improving market surveillance capacities for non-food products ' compliance with regulatory requirements, especially where such violations are	Identified required capabilities Necessary allocated funds Capabilities created	Fourth quarter, 2020	MEI MARDE MIA MHLSP CPMSA ATS ANRCTI	No major additional costs are expected. Authorities will have to assess and review the way market surveillance is carried out. If testing abroad is necessary, it shall be paid by interested producers.	The implementation of this measure aims to ensure a high level of protection of public interests such as health and safety in general, health and safety at work, Consumer Protection, Environmental Protection and safety.

	detrimental to local producers			IPM		At the same time, it will allow harnessing the potential for import substitution.
1.4.5	Identification of priority industrial sectors in order to increase the competitiveness of domestic products	Priority industrial sectors identified	Fourth quarter, 2020	MEI MARDE MHLSP	No major additional costs are expected. Authorities will need to assess and identify priority sectors	Following the estimation of export potential and import substitution potential, a coordinated and coherent policy of public authorities will be implemented with the aim of increasing the competitiveness of domestic production.
1.4.6	Development of measures to improve testing capabilities of industrial products in priority sectors	Measures developed	Fourth quarter, 2021	MEI MARDE	Costs cannot be estimated at this stage. The amount of costs will be calculated after the completion of action 1.4.5	Exploring export potential and import substitution potential.
1.5	Improving the procedure for determining the value of goods in customs in light of its applicability and reasoned presentation of decisions on increasing the value of imported goods by customs officials	Trained customs officials	Fourth quarter, 2020	MOF	No major additional costs are expected. The action relates to some changes in certain procedures carried out by the Customs Service. At the moment the regulatory framework is adjusted according to good practice in the field, but its implementation is uneven.	As a result of erroneous determination of the value of goods in customs, businesses incur substantial losses. The training of customs officials is intended to strengthen the dialogue between the Customs Service and the business community, which would lead to a reduction in cases of erroneous determination of the value of goods in customs.
1.6	Review of the regulatory framework governing employment relations in the area related to remote employment relations	The Labor Code amended by introducing a chapter that adequately regulates remote labor relations	Fourth quarter, 2020	MHLSP	The existing normative framework does not exclude the possibility of remote labor relations, but some normative provisions make it difficult to implement them when the physical presence of the subject is implicitly presumed.	Worldwide, more and more companies are implementing remote work, in some cases this is the main form of hiring staff. Despite the disadvantages of the lack of direct interaction, there are also a number of advantages. In particular, this form of employment contributes to the mobilization of

					No major costs are expected because amendments are aimed at clarifying and simplifying certain relationships.	human resources with the right to work (e.g. citizens of the Republic of Moldova abroad) and a flexibility of the working schedule which favors the employee. Implementing this measure by removing bureaucratic constraints will lead to an increased use of human potential, including more access to skilled labour.
1.7	Reducing the minimum weight of the price element in the criterion for the award of public contracts/framework agreements	Amended Law on public procurement	Fourth quarter, 2020	MOF	It could increase the value of public procurement, but at the same time, reduce the costs of frequent maintenance and repair of objects built at reduced prices. There are no sufficient estimates to quantify the possible costs of reducing the weight of the price element, but it is presumed that in an honest competition, such losses are compensated by quality.	The action is aimed at increasing public procurement of goods, services and quality works, improving after-sales services, technical assistance and delivery conditions. In particular, producers and service providers from the Republic of Moldova (who are working in the country and are more aware of the importance of reputation than foreign producers and service providers) believe that this policy would favor competition in terms of quality criteria, giving them greater chances of winning. As a result, the increase in procurement costs could be covered by the benefits from savings in the maintenance and repair of objects of poor quality
1.8	Development of fair, clear and predictable sanitary rules, adapted to the risks specific to economic activity	Adopted sanitary protocols taking into account good practices in the field	Fourth quarter, 2020	MHLSP	Due to lack of experience (and time) sanitary rules applied during the pandemic are not differentiated according to the specifics of the activity (many	The action aims to optimize costs related to sanitary protocols, the clarity of obligations in case of state inspections, but also reduce costs for businesses that are related to the

					clients vs. few customers; outdoor activity vs. activity inside a production hall, etc.). As a result, the costs of implementing sanitary norms are exaggerated for some businesses and, possibly insufficient, for other businesses. No major costs are expected, as the measure is related to better clarity of conditions, but also based on justifications	uncertainty of the conditions, but also to reduce the effort of control bodies.
1.9	Improving agricultural production performance					
1.9.1	Increasing the subsidized share of state insurance premium from 50 to 70% for farmers connected to irrigation networks	Amended regulation	Fourth quarter, 2020	MARDE	Stimulating connection to irrigation networks through the progressive provision of incentives (subsidized share of the agricultural risk insurance premium) leads to the reduction of the insured risk, as the damage caused by drought will be lower if farmers are connected to irrigation networks. In fact, there will not be additional budgetary costs since the increased share will be offset by the reduction of insured damage.	It is estimated that climate related losses in agriculture (mainly drought or floods) reach an annual average of 11.9 billion lei. Although irrigation systems are the only viable damage prevention measure and investments in the rehabilitation of irrigation systems have been massive, the area of irrigated land has not increased as much due to the cost of connecting agricultural households to the grid and the cost of water consumption. The unhedged risks lead to the perpetuation of damage, while the offered incentive seeks to increase the number of households connected to irrigation networks.

1.9.2	Simplifying the requirements and procedures for the approval and registration of plant protection products accepted in the EU and extending the application of those registered for other agricultural crops	Amendments to the regulatory framework approved New plant protection products accepted in the EU registered in Moldova	Fourth quarter, 2020	MARDE	No major additional costs are expected. The action practically reduces the undue effort to evaluate plant protection products, which have already undergone a rigorous evaluation process in the EU.	Bureaucratic obstacles compel the farmer to use only those plant protection products that are approved and registered in the Republic of Moldova. Unintentionally it comes to the situation when agricultural performance is below the optimal level.
1.9.3	Ensuring access to subsidies for imported plant varieties registered in the EU	Amendments to the regulatory framework approved	Fourth quarter, 2020	MARDE	No major additional costs are expected. The action practically reduces the unjustified effort to include EU varieties in the variety catalogue in order to qualify for subsidies.	Limiting access to subsidies for local plants varieties distorts the market by creating artificial demand for varieties that do not have export potential, are not the most resilient or adapted to conditions. Accessing funds by more farmers and for a wider range of plant varieties, including better performing ones, will create prerequisites for increasing the share of European varieties and exports to the EU respectively.
1.9.4	Simplification of the conformity assessment procedure, revision of the mandatory indicators of the physical - chemical analysis, revision of the methodology for calculating prices and the rules for applying prices for wine certification	Approved regulatory amendments	Fourth quarter, 2020	MARDE	No major additional costs are expected. The action practically reduces the unjustified and unnecessary requirements for the export of wine products	The conformity assessment procedure for alcoholic beverages aims to maintain a quality standard which, in certain situations, exceeds the conformity requirements required on external markets. This situation leads to excessive costs for the manufacturer. By implementing a differentiated approach, it is intended to reduce the costs related to

	services, through the ANSA network, specifically "Central laboratory for testing alcoholic/non-alcoholic beverages and preserved products" for exported wines, focusing exclusively on the requirements of the importing state. Development of procedures, prices adapted for small wine producers.					regulatory requirements and procedures when exporting wines and consequently increase wine exports.
1.10	Identify and implement optimal solutions to support employees with children when kindergartens and schools are closed. An alternative would be the creation of a regulatory framework, including by granting tax incentives to businesses and employees who benefit from employer support, in relation to the creation of pre-school and school educational service centers or covering expenses that	Amendments to the regulatory framework approved	Fourth quarter, 2020	MHLSP MOF MECR MEI	The measure provides for the payment of a monthly allowance for the supervision of the child when both parents are employed and at least one of the children is less than 10 years old. In the Republic of Moldova, there are 335,280 children aged up to 9 years that require adult supervision during the closure of schools and kindergartens. Based on maternal fertility of 1.8 children, we assume that the number of families with children in that age category is 186.3 thousand. Respectively, based on the assumption that	Even if in the absence of a monthly benefit for child supervision, the costs are invisible, it is logical to assume that they are commensurate with the proposed budget. At the moment, "invisible" costs are shared between the state, which pays the unemployment benefit for furloughed employees, the employee who gives up all or part of the income, and the employer, who loses a qualified employee. In a number of cases, this forced decision can be remedied by remote work where employment relationships allow this. The implementation of this scheme of support for employed parents, who have children up to 9 years old, will

	would allow parents to remain active on the labor market.				at least 10% of families mentioned above will need to hire a person for the supervision of children at an average monthly salary of 7,234 lei, the monthly ceiling for the care of children without supervision would be 135 million lei.	produce certain savings in relation to unemployment benefit to furloughed employees, which in a number of cases are preferred to employment precisely because of the lack of alternatives to childcare. As a result, employment opportunities will increase and non-voluntary redundancies will be reduced.
1.11	Accreditation of Master's programs in areas where there is a shortage of skilled labor	Accreditation of Master's programs in Computer-Assisted Mechanics and Technical Production Management	Third quarter, 2021	MECR	**The costs of implementing this measure are part of ongoing efforts to adjust the educational offer to labour market requirements and are not an additional burden on the budget.**	The implementation of the targeted measure will increase access to skilled labour for heavy industry enterprises and make heavy industry more competitive regionally, thus offering the possibility of increasing the volume of exports. At the same time, the potential for retraining the talents working in other areas of activity will be capitalized.
1.12	Drafting and adoption of the regulation for the implementation of the law on attracting foreign investment in the field of movie production and other audiovisual works	Approved regulation	Fourth quarter, 2020	MECR	The mechanism for attracting foreign investments in the field of film production and other visual works (approved by law) provides for partial reimbursement of film production costs. In the absence of investments, conditioned by the absence of regulation for the implementation of the law, these costs are void.	Currently, this mechanism operates in countries such as Romania, Ukraine, Georgia, which have become target destinations for film production, exclusively due to the existence of that incentive. Its application in the Republic of Moldova could remove film production from anonymity and greatly stimulate the use of talents in the creative industry, and there is a real possibility of exporting services. At the same time, it will allow the creative industry to strengthen its

					At the same time, no major costs are expected for the state, since the benefits from attracting foreign investment (job creation, additional income from "social taxes" will cover the costs of reimbursements.	positions on the international market in a transparent way, creating a source of revenue for the budget and avoiding the exodus of labor abroad.
1.13	Implementation of the Integrated Road Transport Management System (Government Decision no.126/2020 for the approval of the technical concept on the Integrated Management System in the field of road transport, which includes the development and implementation of Information Systems: - SSI " e-transport authorization”; - SSI " e-Ticket”; - SSI "GPS monitoring” - SSI "Self-Test").	System developed and implemented	2021	MEI	The costs for the development of information systems have not yet been estimated.	The implementation of this measure is aimed at reducing the share of illicit transport of people, which will introduce those services into the legal field and create a source of budget revenue.
1.14	Providing free of charge premises for the delivery of postal services in the area of universal postal service	Tax policy incentives	Fourth quarter 2020	MOF MEI PPA	The costs in the form of missed income from renting out of immovable property in public ownership have not yet been estimated.	The implementation of this measure is aimed at reducing the costs of postal dispatch services.

				Post Office of Moldova		
B	**Provision of incentives and reducing administrative constraints in the area of taxation**					
2.1	Identification and development of an optimal VAT taxation regime within the agricultural value chain	Formulation of legislative proposals as a result of the analysis carried out	Fourth quarter, 2020	MOF	In order to avoid market distortion, it is proposed to introduce a single VAT of 12% throughout the agricultural value chain. The annual cost of applying the undifferentiated rate of 12% VAT throughout the agricultural value chain (both for producers of agricultural raw materials and for processors) is 568.2 million lei (determined on the basis of the turnover multiplied by the difference between VAT at the standard rate of 20% and VAT at the reduced rate of 12%)	The expected impact of this measure concerns the elimination of the preference for the export of agricultural raw material, when processors are obliged to absorb the difference in VAT in the cost of production. The estimated costs will be largely offset by VAT revenues of 397.6 million lei as a result of the increase in sales volume in the food industry by 3.3 billion lei (up to the production capacity of 2019). The positive non-monetary effects are: (i) increasing the share of exports of value-added goods; (ii) making full use of production capacities in the food industry; (iii) creating new jobs in the food industry; (iv) capitalizing on export potential and import substitution potential.
2.2	Assessing the possibility of lowering the VAT rate for the HORECA sector	Formulation of legislative proposals as a result of the analysis carried out	Fourth quarter, 2020	MOF	It is proposed to introduce the quota of 12% to the deliveries made by the HORECA sector (decrease by 3 percentage points of the existing quota).	If we extrapolate the effects of the introduction of the reduced VAT rate of 10% in 2019 compared to 2018, we find that reduction has led to a ”refresh” of the sector. First, there has

					Starting from the deliveries in 2019, it was estimated that the cost of the given measure would be about 70 million lei. The given measure needs to be implemented, first of all, in order to overcome the effects of the pandemic crisis in the HORECA sector. Many of the countries in the region (Bulgaria, Romania, Austria) have opted to reduce the VAT rate in the HORECA sector either for a fixed period (2020-2021) or for an unlimited period. Moreover, the proposed quota comes to standardize the VAT quota with other reduced rates that are currently applied or are expected to be introduced (12%), which is in line with the basic principles of VAT organization in the EU area – principles, which Moldova implements through the Moldova-EU Association Agreement.	been a substantial increase in sales that went through bookkeeping (one of the main purposes of the VAT reduction is to" formalize" the sector. Thus, in 2019 sales revenue increased from 215 to 469 million lei. Respectively, we can conclude that the halving of the VAT rate was fully compensated by the two-fold increase in the tax base, sales volume. Moreover, the profitability of HORECA companies in 2019 doubled compared to 2018. Prior to the introduction of the reduced VAT rate, VAT inflows did not balance VAT payments, since the procurement of raw materials is often made from individual producers who are not VAT payers. Respectively, under the VAT rate of 10%, the savings made by HORECA companies amounted to about 44%, being reinvested in re-equipping and creating more favorable working and leisure conditions.
2.3	Subsidizing mandatory state social insurance contributions for youth employed in the first two years of activity	Exemption provided for in the specialized law	Fourth quarter, 2020	MOF	Sectors with the largest number of employees aged up to 21 years are retail, HORECA, agriculture, construction, creative	The expected impact from the implementation of this measure aims to reduce the share of youth Not in Education, Employment, or Training (NEET) system, which until the

					industry. The cost of the subsidy was calculated on the basis of social contributions paid by employers in 2019 in relation to the salaries of new employees entering the social system. In case of subsidizing 50% of employers ' contributions to the Social Fund for young employees, the budget costs will be about 45 million lei.	pandemic was 28.3% of the total. Taking into account the lack of work experience among young people, employers avoid hiring them, while in case of a low tax burden, tax incentives will encourage their employment. At the same time, the burden of social contributions is one of the factors leading to practicing undeclared work. Thus, just a 1% increase in tax compliance of taxpayers in the relevant areas would have a positive budgetary impact of about 117 million lei (just in relation to taxes and fees) Other indirect positive effects include reducing delinquency among young people, a social problem exacerbated by the fact that one or both parents work abroad.
2.4	Tax incentives for domestic passenger transport in order to combat illegal passenger transport.	Revised tax regime provided in the budgetary-fiscal policy	Fourth quarter, 2020	MOF	It is proposed to introduce a regime that would involve the exemption with the right of deduction (so-called ”0” VAT rate) for transport services, which implies budgetary costs of about 80 million lei (estimated by adjusting the supplies from VAT declarations with procurements declared in the Annex on VAT for 2019). This will allow transporters to	The expected impact concerns the elimination of unfair competition from the informal sector, which provides unauthorized transport services and avoids paying taxes. Accordingly, the implementation of proposed measure will lead to increased tax compliance by motivating carriers to interact with companies that will issue invoices. Implicitly, this will favor the "formalization" of transport-related sectors.

					credit VAT from their interactions (car import, repair, etc.) as opposed to the current exemption regime.	An estimate of the potential for tax compliance on the payroll side, shows that the expected losses will be covered with a slight increase of about 3% of compliance, which will bring a financial inflow of at least 70 million lei to the sector.
2.5	Application of the ”0” rate for micro-enterprises on income tax reinvested for 2020 and 2021	Revised tax regime provided in the budgetary-fiscal policy	Fourth quarter, 2020	MOF	It is proposed to apply the " 0 " rate to the income tax of micro-enterprises that reinvest the profit of 2020 and, implicitly, do not distribute dividends (if they distribute them, they will pay both the income tax (12%) and the tax on dividends (6%)).[17] Given that about 40% of companies report a decrease in revenues of more than 50%, and about 28% - a decrease between 20% and 50%, the budget costs of the measure would be about 14 million lei (12% of the forecasted revenues for micro-enterprises.	Even though micro-enterprises that generate income in 2020 and 2021 are in a relatively better position than the businesses that register losses, their financial situation is nevertheless at the limit, which is also exacerbated by the curtailed access to finance. The implementation of this measure will allow the capitalization of micro-enterprises and increase the degree of resilience during the pandemic. The positive impact of the given measure is conditioned by the formula for the use of reinvested income: (i) if reinvested funds are used to pay wages, it would bring budgetary benefits in the form of taxes and mandatory payments; (ii) if the money is used to honor obligations towards third-party companies, this would lead to an increase in VAT and income tax receipts; (iii) if reinvested money is used for capital investments, this

[17] According to the definition, microenterprises are businesses whose average annual number of employees is no more than 9 people, annual amount of sales revenue is no more than 3 million lei and total annual balance sheet value of assets not exceeding 3 million lei.

						would lead to increased receipts of VAT and customs duties.
2.6	Identification of local tax exemptions solutions / capping the local tax on e-commerce sales	Exemption provided in the fiscal-budgetary policy	Fourth quarter, 2020	MOF	The introduction of the moratorium for the application of certain local taxes on electronic commerce, by specifying this directly in the Tax Code. Taking into account the fact that the attempt to introduce such a tax occurred recently, we can not talk about missed tax revenues, and therefore about additional costs to the budget.	Even if the moratorium on the introduction of local taxes on e-commerce sales will not boost directly the growth of aggregate consumption, its share in total trade will be increasing. The increase in the share of e-commerce is consistent with the policy of social distancing, giving consumers the opportunity to avoid physical contact in retail units.
2.7	Identifying the level of optimal VAT rate for e-commerce in order to facilitate its development	Tax policy incentives	Fourth quarter, 2020	MOF	It is proposed to introduce a 12% rate for e-commerce transactions. According to estimates, the share of e-commerce represents less than 1% of the total sales volume, which would mean reduced VAT receipts of 76.4 million lei (resulting from the sales volume multiplied by the difference between VAT at the standard rate of 20% and VAT at the reduced rate of 12%). Alternatively, one can examine the possibility of reducing VAT by 4% (from 20 to 16) and refunding 4% (Cash-back) to the buyer. Although this option is more	The given measure will boost the development of e-commerce in a form in which it could meet the recommendations of social distancing and avoiding physical contact with a large number of people. At the same time, online payments, a feature of e-commerce, are consistent with the policy of constraining the circulation of cash in favor of card payments, which limits the room for maneuver for the informal economy.

					complicated from an administrative point of view, the effects on the development of e-commerce will be more pronounced. The cost of this option is identical.	
2.8	Simplification of tax, accounting, reporting and other requirements and procedures for individual economic activities and micro-enterprises	Legal norm approved	Fourth quarter, 2020	MOF	It is proposed to broaden the scope of application of the system of taxation of natural entities, self-employed and on some of the areas other then trade, whilst at the same time rising the threshold of the maximum amount of transactions up to 1.2 million that can be carried out by means of the procedure (similar to other special arrangements as specified in Title II of the Tax Code, see, for example, the procedure set out in Chapter 103 of that Title) regarding the implementation of a simplified system for reporting tax obligations to the state budget. In particular, it is a question of assigning the role of intermediary to banks, authorized to withhold and transfer the transaction tax to the budget. The proposal also means non use of cash	The implementation of this measure would bring into the formal economy a large part of self-employed (an estimated 3 thousand people), whose contracting for the purpose of providing services involves exacerbated costs for the contractor (who is obliged to treat them as their own employees) and prevents the harnessing of human potential, especially in free professions and art. The assignment of the status of self-employed to this category of entrepreneurs will allow the simplification of the interaction in the area of accounting - taxation with third parties and will ensure a fair, controlled and continuous inflow of money to the budget. On the basis of the estimated total number of beneficiaries of these measures, approximately 1500 people (1000 self-employed persons and 500 workers in the area of art), it is anticipated that the turnover will increase at a rate similar to that of the SMEs in the ICT industry, which is by

					registers for transactions made through service providers, provided for in law 114/2012. It is proposed that this regime does not require accounting, while tax reporting would be in the form of a pre-filled declaration generated from the system of the State Tax Service on the basis of information received from banks on the value of transactions and taxes paid (1% of the value). The implementation of the given measure does not entail budgetary costs.	455,9 million, which will result in additional revenue related to the tax on economic activity (1%) of 4.6 million (the volume of increased sales, multiplied by the VAT rate of 1 per cent).
2.9	Granting tax credits by developing the mechanism for paying tax obligations in installments during 2020-2021	Legal norm provided for in the fiscal-budgetary policy	Fourth quarter, 2020	MOF	It is proposed to improve the staggered mechanism provided for in art.180 of the Tax code, and adjust it to the realities of companies facing the economic crisis associated with the effects of COVID. **The measure does not involve tax losses.**	The pandemic crisis has reduced the ability of companies to meet their tax obligations, some of which are on the verge of bankruptcy. Most countries in the region have provided for measures aimed at introducing mechanisms for staggered tax payments (Austria, Romania, Slovenia, Georgia, Estonia, Czech Republic, etc.) in order to provide taxpayers with a more convenient payment schedule and avoid insolvency. The 1% increase in tax compliance by taxpayers would have an impact of about 400 million lei (1% of the total amount of taxes and fees recorded in 2019).

2.10	Reducing the penalty for late payment of taxes and fees, social contributions and medical premiums during 2020-2021	Legal norm provided for in the fiscal-budgetary policy	Fourth quarter, 2020	MOF	It is proposed to reduce in half the amount of the penalty for late payment (given the the current basic rates – up to 0.0172% per day or 6.27% per year) for all payments to the budget (taxes, fees, social contributions, medical premiums). An alternative would be to bring the amount of approved penalty for late payment of medical premiums or social contributions (0.1% per day) in line with the penalty for late payment applied to taxes and fees. The impact on the budget is about 39.7 million lei.	This reduction could contribute not only to maintaining the level of tax compliance, but even at increasing it, due to increasing taxpayers ' confidence in public authorities, including by perceiving this measure as one of support for the business community. In case of a 1% increase in tax compliance, a positive impact on the budget would be about 400 million lei (1% of the total amount of taxes and fees recorded in 2019). During the pandemic, most countries have waived the penalties and the penalties for late payment in light of the difficult situation for most businesses.
2.11	Deducting the cost of maintenance and repair work of transport units on the basis of receipts issued by car repair and maintenance services, sellers of spare parts, etc.	Legal norm provided for in the fiscal-budgetary policy	Fourth quarter, 2020	MOF	A temporary measure is proposed that would allow the deduction of the costs of repair, maintenance or sale of spare parts on the basis of either receipts issued by cash registers, or on the basis of the e-invoices issued by the service provider, or on the basis of simplified special registration documents. At the moment, tire vulcanization services are covered by the patent regime. However, there are a large	The implementation of this measure would lead to customers insisting on receiving receipts in order to ensure the deductibility of expenses for tax purposes, which will lead to a formalization or even increase in the sales of services providing maintenance, repair services, or sell spare parts.

					number of repair, service and spare parts centers that are not registered, respectively they do not issue documents which leads to the impossibility of quantifying services provided by them to transport companies and other beneficiaries. A temporary measure is proposed that would allow the costs of repair, maintenance or sale of spare parts to be deducted on the basis of receipts issued by cash registers.	
2.12	Formulation of viable tax options for representatives of the creative industry (designers, staff responsible for sound and visual arrangements, etc.).)	Legal norm provided for in the fiscal-budgetary policy	Fourth quarter, 2020	MOF	It is proposed to extrapolate the regime applied to ICT companies (specified in the law on the implementation of Title I and II of the Tax Code) and to companies in the creative industry. This measure does not refer to self-employed, but to medium-sized production studios (producers of advertising, film, video games, etc.).)	The economic potential of creative industries to produce added value and generate exports is comparable to that of the ICT sector. In essence, this would allow the harnessing of domestic talent on the basis of competitive wages, without motivating people to emigrate. Extrapolating the success of the ICT sector, whose SMEs have generated a 39% increase in sales in just 2 years of activity, creative industries can generate additional sales of 602.5 million lei annually, which under the conditions of taxation at 7% on turnover would mean additional

						revenue to the budget in the amount of 42.2 million lei.
2.13	Examining the suitability of eliminating the tax for mobile phone services and portability fee in the amount of 50% from the payment for operation in exchange for the launch and provision by mobile operators of electronic payment services on advantageous conditions for citizens and entrepreneurs, as well the identification of another financing instrument of the Population Support Fund	Amendments to the regulatory framework	Fourth quarter, 2020	MOF	**The annual cost of this action is equivalent to the annual inflows of the National Social Assistance Agency in the amount of about 90 million lei from the luxury tax and portability tax.** If we insist on the progressive nature of taxation, it would be much more rational to introduce a new tax rate on the income of individuals whose annual income exceeds, 1 million lei.	The tax on mobile phone services is an anachronism considering that at the time of the implementation of the so-called "luxury tax" it was meant to support the vulnerable population by people with high incomes, who can afford a mobile phone. Currently, any citizen of the Republic of Moldova, regardless of income level, uses mobile telephony to communicate with relatives, for work, to purchase services, etc. Indirectly, both types of taxes applied on mobile operators are included in the tariff paid by the consumer, which leads to an increase, though marginal, in the costs of electronic communication. As a result of abandoning these tax "anachronisms", mobile operators will create savings that can be used either to normalize tariffs or to launch new mobile services that would facilitate remote services, e-commerce, etc.
2.14	Extending the term of application of tax incentives for the income tax provided for employees whose basic activity is " creating (software) programs "(art. 24 (para. 21) of	Amended and approved regulatory framework	Fourth quarter 2020	MOF	It is proposed to extend the term by 5 years provided in par. 21, art. 24 of Law No.1164 of 24.04.1997 which will contribute to a favorable environment for the development of the IT sector, which was not covered by law	About one thousand IT companies with a number of about 6 thousand employees are not eligible to become residents of the IT park, because they do not meet the condition stipulated in art. 2 of Law No. 77/2016 (main activity-activity that generates 70% or more of the sales income of the park

	Law No. 1164/1997 for the implementation of titles I and II of the Tax Code				no.77/2016, to attract foreign investment in an environment of international and regional competition, in particular.	resident) or who do not wish to become residents due to objective and subjective reasons, operates in a general regime and generates a turnover of about 3 billion lei. Moreover, exports of the IT industry as a whole increased more than 15 times in the period 2005-2012 (from USD 3.64 million to USD 57 million). This impressive export dynamics were also due to these tax breaks, which were granted to employees of IT companies when paying the mandatory state social insurance contribution and income tax.
2.15	Amending the legislation with a view to extend the deadline for submitting financial statements and the audit report to at least 31 May, preferably, however, would be the end of June, in line with European best practice (180 days from the last day of the management period)	Amended and approved regulatory framework	Fourth quarter 2020	MOF	It is proposed to extend the deadline for submitting the financial statements and the audit report until 30 June for companies other than those of public interest, for which it is proposed to keep the current deadline. At the same time, for companies submitting consolidated reports, it should be extended until August 30. **This measure does not involve any budgetary expenditures.**	Members of the business community have noticed important problems in the application of current law, which provides for a relatively short period of publication of financial statements and audit reports. It is important to take into account that keeping the deadline set at the moment in the text of the law considerably increases the compliance cost with the provisions of the law for audited entities, because of the large number of compulsorily audited entities and the small number of audit companies. According to EU directives a reasonable period for the publication of reports is 12 months from the date of the balance sheet.

2.16	Suspending the action of the norm which presupposes the sanctioning of businesses for paying in advance an amount different from that actually paid at the end of the year	Amended and approved regulatory framework	Fourth quarter 2020	MOF	It is proposed to suspend the action of art.261 par.(6) of the Tax Code for the tax periods 2020-2021. Normally, this rule aims to level advance payments based on the actual situation. However, during the pandemic, economic activity is dominated by a major uncertainty about the volume of sales, especially when economic activity is stopped. **That action does not entail significant costs to the budget.**	This measure aims to ensure a fair attitude towards companies that could not anticipate their financial results, as a result of the effects of COVID and establish trustworthy relationships between the state and tax payers.
2.17	Full deduction and non-consideration as incentives granted by the employer of expenses incurred by the company to ensure the fight against the effects of COVID or ensure compliance with the rules for preventing the spread of COVID	Amended and approved regulatory framework	Fourth quarter 2020	MOF	It is proposed to supplement the Tax Code with a new rule, which would expressly provide for the deductibility of expenses of businesses related to the prevention and fight against the effects of COVID-19, in particular: specifically, we will refer to: 1. Expenditures related to masks, disinfectants and similar products, included as mandatory in the recommendations of MHLSP or specialized committees;	The aim of the measure is to ensure a fair attitude towards the commitments that the manager of a company has during a pandemic period by not taxing his financial effort. In fact, many of the expenses were incurred by the businesses without their will or as a result of the provisions of national or group sanitary rules, which are required to prevent or combat the effects of COVID-19. Namely, their support is presented as a necessary one in the context of the pandemic, in order to continue to carry out economic activity and

					2. Expenses related to transportation of employees, including by taxi; 3. Covid test expenses; 4. Expenses related to the rent, depreciation of work spaces (including those that were in units closed mandatorily by the decisions of specialized committees); 5. Expenses for compensation of remote work; 6. Expenditures for writing off services provided to workers on the "front line". **The impact cannot be estimated due to the inability to anticipate the volume of such expenses incurred by businesses in 2020.**	generate a tax base for direct and indirect taxes and duties. On the other hand, the treatment as incentives granted by the employer of measures taken to protect life or to test his ability to work or to facilitate remote work in order to prevent some effects is inadmissible, given that this, in principle, is not something that brings hidden economic advantage to the employee (the essence of the logic of applying tax incentives / benefits in kind).
C.	**Providing state support for the development of the pandemic-affected private sector**					
3.1	Increase the ceiling of the Guarantee Fund for SMEs up to 1 billion lei	Increased ceiling	Fourth quarter, 2020	MEI	The portfolio of bank loans granted to the private sector is about 41.3 billion lei (June 2020), of which about 13 billion go to SMEs. At the same time, during the months of April-May alone, the loan	Limited access to credit resources is likely to exacerbate the impact of the pandemic crisis, turning temporary liquidity shortfalls into chain bankruptcies. The intensification of the effort to grant state guarantees administered by ODIMM up to 1 billion

					portfolio decreased by 1.1 billion lei, registering an increase in June of 557 million lei. The main reason for the decrease is the uncertainty related to the pandemic crisis and the inability to forecast turnover. In this context, the banking sector requested an increase in the ceiling for state guarantees. On October 26, ODIMM's resources for guaranteeing loans, amounted to 145.24 million lei. CGF will receive 50 million lei for the new COVID guarantee product. ODIMM has the capacity to guarantee around 585.72 million lei, considering the multiplication coefficient of 3. Of these, 90.75 million lei is the value of active guarantees. Respectively, the amount of guarantees it can offer at the moment is 494.97 **million lei.** Increasing the guarantee capacity up to 1 billion lei can	lei will successfully counteract this phenomenon. In the event that guarantees of 1 billion are used, compared to the current value of active guarantees of 90.75 million lei, the bank loan portfolio could increase by 2.65 billion lei considering the multiplier effect reported by ODIMM in the amount of 2.91. The recent recognition by the NBM of guarantees issued by ODIMM as a credit risk mitigator will be another solid catalyst for the dynamization of loans. In addition, efforts to publicize these tools would also boost the interest of entrepreneurs. Based on the sensitivity of turnover/production of various sectors to the volume of lending, we estimated that VAT revenues, mandatory insurance premiums and social insurance contributions will increase in this case by 1.48 billion lei.**[18]**It should be noted that these estimates do not represent annual revenues, but revenues from the full capitalization of the state guarantees portfolio.

[18] The sensitivity of global agricultural production (turnover of trade excl. cars/ industry turnover) in real terms and logarithms to the volume of loans with a one quarter lag in real terms is estimated according to a quarterly LASSO model, by controlling the level of precipitations in Balti, Chisinau and Cahul with a one quarter lag in logarithms (wage gain in real terms and logarithms, physical volume of exports) and quarterly seasonality. The amount of taxes collected is the ratio between VAT related to tax invoices, bonuses, health insurance, social insurance contributions and the income from sales in 2019 (13%/11.5%/10.4% for agriculture and commerce, e.g. auto/ industry), multiplied by the number of business/agricultural production resulting from the increase in granted loans (7.4/1.9/2.5 billion lei to agriculture/trade excl.cars/ industry)

					be achieved by two methods. The first is the additional capitalization of CGF in the amount of 138 million lei that would increase the guarantee capacity by 414 million lei. The budgetary cost for the additional capitalization would be 21 million lei (resulting from the equivalent loan cost in lei from development banks for 10 years, at 3% and the failure rate of 12%). The second method would be to increase the multiplication coefficient from 3 to 5 which would boost the guarantee capacity to 976 million lei without further allocation of financial resources. Considering that failure rates could increase in the coming period, a combination of additional capitalization and the increase in the multiplication coefficient would be optimal.	
3.2	Accelerating the First Home program by offsetting banks' margin	Budget allocated for margin compensation	Fourth quarter, 2020	MOF	At the moment, the ceiling of guarantees offered under the First Home program constitutes 2.5 billion lei, of which only half are capitalized. This allowed the granting of	The main impact of the proposed measure is social, meaning better living conditions for the categories of eligible beneficiaries. At the same time, one can see a significant sensitivity of the residential construction sector to this

					loans for the purchase of housing by the eligible beneficiaries (about 48 thousand) in a total amount of 2.445 billion lei. According to the initial lending conditions, the bank margin was 3%, having been reduced to 2% from 2019. In these circumstances, the release of new loans under the programme has become unattractive. The proposed measure provides for 1% Bank margin offsetting from the volume of granted loans. The budget cost of the proposed measure is 91.5 million lei up to the announced ceiling.	program. In fact, using the guarantees under the First Home program in the amount of 1 million lei contributes to the increase in the volume of residential constructions in the amount of 2.1 million lei.[19] Respectively, anticipating an increase in the volume of residential constructions, we determined that budget revenues will increase by 1.3 billion lei (270 million lei due to subsidizing the bank margin and 1.056 billion lei due to usage of state guarantees up to the established limit).[20]
3.3	Simplifying procedures for registering the unemployed at the NEA and identifying solutions for increasing the budget for unemployment benefits and providing direct financial support	Unemployment benefit budget	Fourth quarter, 2020	MHLSP	At the moment, support in the case of furloughing is allocated to the employer by reimbursing his social contributions. However, employers do not have the resources to pay salaries for stopped activities, so that they	Under the conditions of application of the proposed mechanism, the furloughed employee will retain contractual relations with the employer except that instead of receiving the usual salary, during the state of emergency, he will receive a "salary"/allowance from the state.

[19] The impact was estimated by the LASSO model where the volume of residential constructions vs dummy is calculated, which represents the period since the bank margin was reduced, controlling for loans granted for the purchase of immovable property with a one quarter lag and real terms, the guarantees offered under the First Home program in differences with a one quarter lag and real terms, remittances with a one quarter lag

[20] The amount of taxes collected is the ratio of VAT related to tax invoices, medical insurance premiums, social insurance contributions and sales income for 2019 (38.7%) multiplied by the turnover resulting from Bank margin compensation and the increase in granted loans (estimated at 3.4 billion lei)..

	to furloughed employees equivalent to the amount of the allowance				could subsequently partially benefit from the reimbursement of contributions. This leads to massive layoffs, and the unemployed apply for benefits. In the future, in the event of a new lockdown, it is desired to provide direct financial support to furloughed employees, in the amount of the unemployment benefit, the employer being exempt from any payments, provided that the employment contract is kept and only during the period of prohibition of activity. This measure does not impose additional costs on the budget beyond those that have already been assumed, since the employees will in any case be eligible to receive the amount of the allowance in the event of dismissal. Only the mechanism of administration is changed.	
3.4	Analysis of appropriateness of state allocations that can only be used for catering units, in particular for persons registered as	Amendments to the regulatory framework approved	Fourth quarter, 2020	MHLSP	At the moment, the uninsured unemployed, about 40 thousand people, already benefit from unemployment benefits for which budget expenditures in the amount of	State aid to the unemployed is not just about unemployment benefits. Since registering as unemployed at NEA, they benefit from a number of public services, including job search assistance, training and retraining

	unemployed, until obtaining the right to unemployment benefits				162.5 million lei have been provided. Our proposal aims at additional aid in the form of food vouchers granted to individuals registered as unemployed at the NEA, for whom the decision to grant unemployment benefits has not yet been taken. Based on the average cost of food vouchers of 40 lei daily for 90 days and the estimated number of registered unemployed of about 30 thousand people, the budget cost of the measure is 108 million lei.	services. However, we must point out that those individuals, without a reliable source of income, have basic needs such as food expenses. The implementation of the proposed measure would also have the effect of creating additional demand for catering units, whose turnover would increase correspondingly by 108 million lei, which will ensure VAT revenues of 16.2 million lei (at the VAT rate of 15%). At the same time, the targeted measure will positively influence the HORECA sector that during the pandemic operates at a reduced operational capacity being forced by circumstances to liquidate premises and reduce the number of employees.
3.5	Increasing the National Fund for Development of Agriculture and rural environment, in order to implement measures on direct payments per hectare and per capita.	Number of beneficiaries of direct payments per hectare / capita.	Fourth quarter, 2021	MARDE	Under this measure, the National Fund for the Development of Agriculture and rural environment is increased from 1 billion lei to 1.5 billion lei, which implies additional costs for the budget in the amount of 500 million lei.	The increase in the National Fund for the development of agriculture and rural environment will allow direct payments to agriculture according to the area under cultivation/number of animals. This measure will counterbalance the negative effect on farmers as a result of the increase in the VAT rate for agricultural production from 8% to 12%. Subsidies provided so far aimed to increase productivity as a result of investments in agricultural technology and infrastructure and have largely

						reached a saturation point. In essence, direct payments per hectare and per per capita will have a positive influence both on the costs of agricultural production and on the production cycle, offering the possibility of early procurement of seed material and phyto-sanitary products.
3.6	Stimulating the rehabilitation of centralized irrigation systems to mitigate the pedological drought	Rehabilitated / constructed irrigation systems Irrigated area	Fourth quarter, 2021	MARDE	As a reference point in estimating the costs associated with the rehabilitation of 10 more irrigation systems (out of the total number of 88 systems, 10 were rehabilitated under the Compact program) are the costs incurred by the US government.[21] Thus, within this program component, 129 million US dollars (equivalent to 2.2 billion lei) were disbursed, and subsequently grants were offered to farmers connected to networks in the amount of about 345 thousand US dollars (about 6 million lei). Based on lessons learned, we could replicate that program with savings of about 30%, in	Currently, in the Republic of Moldova there are 88 irrigation systems of which only 10 systems rehabilitated under the Compact program from US government funds are functional. This allows irrigation of only 10% of arable land. In 2019, the 10 rehabilitated systems delivered a water volume of 2.3 million m3, or 10% more than the previous year. Grants amounting to about USD 345 thousand offered in the areas of the irrigation system have generated an additional private investment of more than USD 1.7 million. According to US experts' estimates, the economic rate of return of investments in the rehabilitation of irrigation systems is 14.3% which implies a net present value of future benefits of USD 39.9 million. As a result, the total

[21] The Millennium Challenge Corporation Project (COMPACT) on the transition to performance agriculture (https://www.mcc.gov/resources/story/section-mda-ccr-agriculture-project)https://www.mcc.gov/resources/story/section-mda-ccr-agriculture-project

					which case the budget cost would be 1.5 billion lei.	benefit for the country's economy is expected to be 2.2 billion lei. Considering that the sales revenue would increase by 2.2 billion lei, the receipts to the state budget would increase by 286 million lei.[22]
3.7	Initiating the development of infrastructure for the management and neutralisation of animal by-products not intended for human consumption	Normative amendments developed and approved Allocated funds	Fourth quarter, 2021	MARDE	The aim of this measure is to stimulate investment in animal waste recycling facilities, compost manufacturing, etc. **The costs of implementing the action will be clear after the evaluation of a feasibility study.**	The major impact from the implementation of this measure is the harmonization with EU directives that would speed up the admission of meat and dairy products on the EU market. Beyond this, animal waste recycling units will have a beneficial effect on the environment, reducing the level of soil, air and water pollution and will indirectly lead to increased productivity due to the production of compost used to increase soil productivity.
3.8	Implementation of a public-private partnership solution in the area of distillation of wine for bulk sale and processing of waste from wine making	Monetary compensation for production / waste brought for distillation / processing	Second quarter, 2021	MARDE	Through this measure one intends to create a public-private partnership to ensure the purchase of surplus low-quality wine in the state reserve with the subsequent sale to a distillation plant in exchange for private investment in production facilities. Costs associated with	The implementation of that measure will allow a drastic reduction in the volumes of wine sold in bulk, offering the possibility of promoting quality wine on foreign markets. At the moment, Moldova exports wine at the approximate price of 1 US dollar for a liter of bottled wine. As a result of a correct positioning on the market the selling price for a liter of bottled wine

[22] The amount of collected taxes is the ratio of VAT related to tax invoices, medical insurance premiums, social insurance contributions and income from sales for 2019 for agriculture (13%) multiplied by the increase in income from sales of 2.2 billion lei.

					the implementation of the action will be clear after the evaluation of a feasibility study, but in principle they refer to the difference between the cost of wine purchased from farmers, the price that ensures an agreed margin of profitability for the private agent.	could constitute 3 US dollars, which will triple the exports of wine in monetary expression. For comparison, the shelf price of Georgian wine is about 4.5 US dollars, since Georgia totally banned the export of bulk wine.
3.9	The creation of a grant program for small entrepreneurs in the area of agricultural production processing	Allocated grants	Fourth quarter, 2020	MARDE	This measure is intended to provide a PARE 1+1 program for farmers who want to invest in agricultural production processing plants. Taking as a reference point the volume of grants offered by ODIMM to 27 investors under this program, the budget required for investments in 35 agricultural production processing units (250 thousand lei per unit) would be 8.75 million lei.	Based on the outcomes obtained under the PARE 1+1 program brought for comparison to the cost estimates, investments from the private sector could constitute 21.4 million lei. The ratio of tangible fixed assets to sales income is around 3.1 for SMEs in agriculture for the period 2015-19. Respectively, sales revenue could increase by 66 million lei which would contribute to the state budget by 8.6 million lei.[23]
3.10	Implementation of the local supplier development Program for the period 2020-2021	Necessary allocated funds	Fourth quarter, 2021	MEI	This program is currently focused on the automotive sector. However, there is a pressing need to expand the programme at the national level. **The budget cost of such**	Exploiting the potential for import substitution in the value chain is one of the objectives pursued. In addition, local processors would implement international standards that would expand their scope of activity.

[23] The amount of taxes collected is the ratio of VAT related to tax invoices, medical insurance premiums, social insurance contributions and sales income for 2019 for agriculture (13%) multiplied by the increase in sales income of 66 million lei

					a national program would be around 60 million lei.	Similarly, such a program would stimulate investment in cluster development.
3.11	Providing financial support (national programmes / funds) to SMEs for the development of e-commerce	Allocated grants	Fourth quarter, 2020	ODIMM	**This measure does not entail costs outside the budgetary limits laid down for the programmes implemented by ODIMM.**	The implementation of this measure will allow the beneficiaries of financial support to increase their access to the market during the pandemic.
3.12	Developing the mechanism for stimulating industrial enterprises to implement new technologies	Mechanism developed Necessary allocated funds	Fourth quarter, 2021	MEI	Light industry has been suffering from a high employee turnover (36% compared to the 19% average across the economy in 2018) for a decade. Respectively, automation and digitization of production processes is a pressing necessity. The cost of automation and digitization of an average company is around 80 000 euros, and more than 150 000 euros for a large company in the industry. In 2018, the sector comprised 681 enterprises in total with 457 active companies. The share of small and micro enterprises in the light industry sector accounts for 65% of the total number of active	Making light industry more technological would boost turnover by 8% and 12% for companies producing under the Lohn regime and those producing for the local market, respectively. Sales revenues could increase by 555 million lei (10% multiplied by the turnover of 5.5 billion lei in 2019) which would additionally contribute to the state budget by 45.6 million lei.[26] We have the presumption that the turnover for the furniture manufacturing sector could increase by 10% or 197.6 million lei which would generate additional revenue to the state budget in the amount of 24.9 million lei. The total impact on the budget will be 70.5 million lei, almost at the same

[26] The amount of taxes collected is the ratio of VAT related to invoices, medical insurance premiums, social insurance contributions and sales income for 2019 for textiles and clothing/furniture (8.2%/12.6%) multiplied by the increase in sales income of 555/197.6 million lei.

					companies, 25% are medium-sized companies, and 15% are large companies. Respectively, the approximate calculation for the purpose of automation and retrofitting of the light industry sector would amount to **25.26 million euros.** If the state provides these interest-free loans to the light industry, then the cost of the state budget would be 3 million euros (equivalent to 57 million lei).[24] The furniture manufacturing sector represents 0.62% and 0.54% in the total number of employees and turnover, respectively. Similarly, textiles and clothing account for 3.43% and 1.4%. The average of the above-mentioned shares for the furniture manufacturing sector is 24% of the textiles and clothing sector. This makes it clear that the cost of automation in the furniture manufacturing sector would be about a quarter of the investments for light industry	level as the costs of implementing the targeted measure.

[24] Resulting from the cost of borrowing from development banks for a period of 10-years at 0.2% in euros and the failure rate of 12% for SMEs

					or 6.1 million euros. If the state offers these interest-free loans to the furniture manufacturing sector, then the cost to the state budget would be 0.75 million euros (equivalent to 14.25 million lei)[25] Respectively, the total cost of a retrofitting programme in the light industry and furniture manufacturing would cost the state budget about 71.25 million lei.	
3.13	Granting permission to use public spaces (squares, parks, immovable property) for catering units during the pandemic	Competitions for the use of public spaces organized by local public authorities	Fourth quarter, 2020	PPA	**The initiative does not involve costs to the budget.**	The expected impact from the implementation of this initiative is due to the increase in the number of people served in catering units.
3.14	Implementation of the Program for the creation of multifunctional industrial platforms	Implemented program Necessary allocated funds	Fourth quarter, 2021	MEI ODIMM	The creation of multi-functional industrial platforms will help reduce existing regional imbalances and revitalize "disadvantaged areas". The program aims to create 16 platforms on which to attract investments of at least 20 million lei per platform and create at least 100 jobs per platform. **The budget cost at**	The main impact of the proposed measure is social because it balances the country's regional development by also contributing to the deceleration of harMoFul migration processes. At the same time, the goal of industrialization of the country is also pursued by attracting international companies and their technologies. By extrapolating the performance of FEZ Balti, we estimated that annual industrial production is approximately twice the

[25] Resulting from the cost of borrowing from development banks for a period of 10-years at 0.2% in euros and the failure rate of 12% for SMEs

					the moment is estimated at 150 million lei.	volume of investments made. Namely, industrial production might increase to a minimum of 710 million lei, which would bring the budget revenues to the amount of 74 million (the amount of fees collected is the proportion of VAT related to tax invoices, bonuses, health insurance, social insurance contributions and the income from sales in 2019 for the industry (ratio of 10.4%), multiplied by the increase in the manufacturing output).
3.15	Stimulating the development of green SMEs/ Greening SMEs	Supported SMEs Allocated grants	2020 – 2021	MEI ODIMM	Promoting, supporting and developing the capacity of SMEs to adopt greening practices in production and service delivery processes is a sustainable goal that has become even more important in recent times. **The budget cost of the greening program is 60 million lei for 3 years.** The programme would support financially through grants amounting to 50% -70% of the total investments of more than 150 SMEs.	International companies pay much attention to the environmental aspects of their partners. Investment in greening SMEs would provide standards that could attract new trade relationships. Grants amounting to 45 million lei would lead to investments of at least 79 million lei. The ratio of tangible fixed assets to income from sales is around 4 for SMEs for the period 2015-19. Accordingly, sales revenue could increase by 300 million lei, which would contribute to the state budget by 33 million lei.[27]

[27] The presumption that the distribution of grants by sectors will be similar to the distribution of guarantees offered by ODIMM. Respectively, the amount of taxes collected is the ratio of VAT related to tax invoices, medical insurance premiums, social insurance contributions and sales income for 2019, multiplied by the turnover/global agricultural production resulting from the provision of grants.

3.16	Development and implementation of the program " Second chance for companies in difficulty”	Supported SMEs	2020 – 2021	MEI ODIMM	The measure concerned is to be implemented within the framework of programmes under implementation by ODIMM and does not involve any additional budgetary expenditure at the moment.	The expected impact aims at the entrepreneurial potential of undertakings which, due to objective reasons (e.g. unfavorable market conditions), failed at the first attempt. Lessons learned and knowledge gained in management provide better chances of success. Such programs are successfully implemented in Scandinavian countries and are of undoubted importance during the pandemic, which unexpectedly hit companies that otherwise would have laid the foundation of viable businesses.
3.17	Implementation of the Raw Milk Monitoring Programme (RMMP) in accordance with EU requirements	Program implemented by monitoring indicators: total number of NTG (bacterial) germs); number of somatic cells NTS; freezing point; inhibitors.	2021-2022	MARDE ANSA	The National Raw Milk Quality Monitoring Program (RMMP), aligned to EU requirements, was developed within the framework of the Technical Assistance Project " Investment Climate reform in the Republic of Moldova, funded by the Government of Sweden and implemented by the International Finance Corporation (IFC). In this context, MARDE will develop a mechanism for implementing the programme, as well as estimate the costs of implementing the action plan.	The main impact of the implementation of the PMMP is to facilitate the export of dairy products to EU markets, in particular Romania. That program aims to access funds by more farmers for the implementation of the RMMP, which will lead to the reduction of the trade balance deficit and increase the competitiveness of the milk production and processing sector.

Next steps

The pandemic crisis is on the agenda. No one can say for sure how soon a population vaccination program will be implemented, how effective such a program will be, and when the pandemic will be defeated. We try to be optimistic, but the harsh reality requires us to adapt to the new reality while looking for lasting solutions.

From this perspective, the implementation of the COVID Matrix must be given the highest priority, based on a stable partnership between government, business community and citizens. Some working principles for the operation of this partnership are critical:

1. We have no time to waste. The deadline for implementing the policy measures listed in the COVID Matrix is very short – any delay entails additional costs and lasting adverse effects;
2. The implementation of the COVID Matrix should be closely monitored. In this regard, the Economic Council to the Prime Minister undertakes to strictly monitor the implementation of the proposed measures and continue discussions with a view to further exploring those not accepted or in the process of discussion, using the following codes: red (for measures proposed and not accepted by the authorities); yellow (for measures on which the authorities have not yet expressed their decision and); green (for measures accepted for implementation);
3. The COVID matrix should remain a living document. Adapting to the new reality is a process that involves intelligent and unorthodox solutions. We cannot exclude the fact that during the process of implementing policy measures new issues will emerge that will have to be resolved on the go. Nor do we exclude the possibility of new proposals which if they are substantiated and accepted by the government, shall complement the set of measures proposed from the start.

Annex 1: Methodology of the study

A. Analysis of sectors of the national economy

The methodology for analyzing the economic impact of the pandemic on sectors of the national economy aims to contrast three basic dimensions:

- Contribution to the economic development of sectors;
- The impact of pandemic crisis on economic sectors; and
- The degree of resilience of some sectors to the shock of the crisis.

The sectors of the national economy under analysis are sectors covered by the CEAM whose turnover is greater than 1% of the total turnover in the real economy. For the purpose of the analysis, we define the real economy as the one where private capital predominates (excluding public administration, education and health care). Following this method, we will will cover about 88% of the real economy.

There are 5 basic criteria in order to define the contribution of economic sectors covered by CEAM to economic development ; and in particular: (a) the size of the sector is defined in terms of the number of employees and annual turnover; (b) the economic performance from the point of view of the intensity and productivity of labor; (c) their role in ensuring the security of supply and other policy considerations; (d) the importance of other sectors of the national economy; (e) potential for substitution of imports; (f) potential for growth in exports.

1. The size of the sector will be determined according to two indicators: the number of employees in 2019 and production / turnover in 2019. The basic premise in using these indicators is that those sectors that contribute massively to job creation and GDP require more attention from public authorities because: (i) job retention is closely linked to the level of household income; (ii) turnover contributes significantly to the formation of budget revenues.

The performance of the sector will be calculated on the basis of (I) labor intensity (turnover related to the number of employees) and (ii) labor productivity (gross value added related to the number of employees). The logic of this indicator is that more technologically advanced sectors, which produce more added value, contribute in a more pronounced way to economic growth.

Food security and public health play an increased role during the pandemic. We will treat as very important those sectors of the economy that contribute directly to food security and public health, including agriculture, food industry, pharmaceutical industry and health system. Of medium importance will be sectors that are indispensable for the functioning of any economy, such as financial intermediation, energy and water supply, transport. In view of this criterion, the other sectors will be considered of low importance.

The importance for other sectors of the national economy lies in the need to prevent chain reactions. In theory, an isolated company is a business that risks its own capital, while a company closely connected with other companies' risks contaminating other sectors. In practical terms, we will approximate the degree of inter-connectivity of companies based on the number of invoices issued to other businesses during 2019, the value of transactions invoiced in 2019 and the share of domestic consumption in 2019.

The import substitution potential is a criterion whose importance increases during the pandemic. A policy that is growing globally is about reducing dependence on imported goods and services. We would like to point out that import substitution is not seen here as a protection measure for local producers, but as the capacity to secure the local market with goods and services in an environment of limited access to the world market. To measure the import substitution potential we will subtract from the unit the ratio of sales of goods and services on the local market (turnover minus export) and domestic consumption of goods and services (turnover minus export plus import) .

Export potential comes into play when the world economy shows an increased demand for imports of goods and services, a demand that can theoretically be met by sectors of the national economy that have the capacity to produce those goods and services. As an indicator for approximating the export potential, we will analyze the dynamics of imports of goods and services in the main partner countries and assign the categories of goods and services that are increasing in 2020 compared to 2019 to those sectors that have the capacity to produce those goods and services.

In relation to the impact of the pandemic on the national economy, we will focus on the severity of economic losses experienced by businesses following 5 impact criteria: (a) the extent to which national restrictions and changes in local consumption affected the number of employees; (b) the extent to which national restrictions and changes in local consumption affected production/turnover; (c) the extent to which foreign trade was affected by global mobility; (d) the liquidity crunch determined by the slowdown in economic activity; (e) economic losses since the beginning of the pandemic.

It is true that restrictions applied during the quarantine (60 days from 17 March to 15 May) and the partial restrictions applied in the immediate period (until 15 July) had an immediate impact on the number of employees. To capture the impact of national restrictions, as well as changes in local consumption, we will track the dynamics of the number of employees in the sectors of the national economy during the period March-April 2020, compared to January-February 2020, so as to highlight the severely affected sectors.

Similarly, but with some specific characteristics, many businesses have experienced a significant decrease in production/turnover due to national restrictions. This was due to the lack of physical access to retail units (access to e-commerce benefited certain businesses who continued to make online deliveries), the reduced presence of staff at the workplaces and the change in consumer preferences and priorities, with a major impact expected in the March-May period compared to the corresponding period of the previous year.

The impact generated by the decline in foreign trade is of another nature. Changes in consumer preferences, a decrease in purchasing power and, consequently, a decrease in the number of orders contributed to its development. Difficulties in the transportation of goods had a temporary impact, whereas the cancellation of air traffic had a drastic impact on tourism-dependent sectors. We anticipate that the impact on turnover has not yet been fully shown, given that import / export operations were carried out on the basis of orders placed in the pre-pandemic period. To capture the economic impact we will use the reconciliation of statistical data on external trade (groups of goods and services) with the sectors of the national economy (types of activities).

Another category of impact is the risk of immediate insolvency dictated by losses since the beginning of pandemic. In this case, we will use the ratio of turnover for 2018 adjusted with the decrease in sales in March-May minus fixed costs (depreciation, labor remuneration, interest, rent, energy, telecommunications, banking services in 2018) minus the cost of procurement of goods sold (2018 adjusted to the impact on turnover in March-May) and assets (2019) minus debts (2019) (%, source NSB). Our presumption is that the costs of sold production are not very elastic, being largely made up of fixed and semi-variable costs.

In addition to solvency, which is an extreme test of survival in the pandemic crisis, we will also analyze the financial sustainability of economic sectors, which determines their ability to attract financing during the pandemic crisis. As an indicator of financial sustainability we will examine the share of bad loans (doubtful and compromised) during the pandemic (March-May). The statistical data provided by the NBM allow the analysis of these indicators by sectors of the national economy, respectively we will extrapolate the share of non-performing loans to the economic sectors that are part of that branch.

The last, but not least is access to new loans. We will assess the extent to which access is constrained based on the percentage change in the balances of loans issued by sectors of the national economy for the months of April-June 2020 compared to April-June 2019. Access to credit is most constrained in the sectors of the economy for which the change in balances is negative.

To summarize a comprehensive picture of development of sectors during the pandemic, we will also refer to the third dimension, namely, the degree of resilience of the sectors in a partial recovery of economic activity.

To estimate the resilience of sectors of the national economy we will use the 6-month turnover model compared to the current moment, taking into account that the" new normal" will imply a sub-optimum use of operational capacities. We made the estimates based on a machine learning model (machine learning-Recurrent Neural Networks) that estimates the turnover if the stringency indicator for Moldova from the Oxford University drops to 37.7 in the next months compared to 80.5 in June controlling for economic growth in the euro area and wholesale turnover adjusted for inflation. In addition, we also use the results of the general equilibrium model developed by Valeriu Prohnitchi. These statistical / econometric models are complemented by the estimates made based on the survey organized by AmCham. In addition to these, we will propose our own set of estimates based on discussions with business representatives from different sectors. The estimated turnover will be calculated as an average of several econometric models and compared to the historical costs of production, the result being relative to the capital of companies.

Namely, we will generate two sets of data, corresponding to the possible scenarios in which events will be carried out. In the first scenario, the survival rate of 1 will be determined by the creditworthiness in an environment of decreased operating capacity (the new normal), while in the second scenario, the survival rate 2 will be determined by the creditworthiness in an environment of decreased operating capacity, plus the recurrence of a new lockdown (the amount of sales will be estimated on the basis of the decrease registered in March-April 2020 to February 2020).

As a result of this modelling we will have a plausible map of sectors that will remain on their feet as a result of the economic crisis caused by the pandemic. This map will allow the government to focus support on remodeling the business and strengthen existing capacities.

B. Prioritization of sectors of the national economy

In order to prioritize the sectors of national economy for the application of economic and tax stimulus, we will focus on three dimensions specified in point A, namely: the importance of the sector, the impact of the pandemic and the resilience of the sector to the "new normal". For this purpose we will assign a score from 1 to 100 for each criterion analyzed on the basis of proposed indicators. Thus, the score for the size of the sector (represented by 2 indicators - number of employees and turnover) will be calculated as the average of the scores for each of the two indicators, according to the following formula:

$$S_{a1} = (100 \times \frac{N_S - N_{min}}{N_{max} - N_{min}} + 100 \times \frac{V_S - V_{min}}{V_{max} - V_{min}})/2 \ ,$$

where:

Sa1 - Score for sector size;

Ns - Number of employees in the sector;

Nmin - number of employees in the sector with the fewest employees;

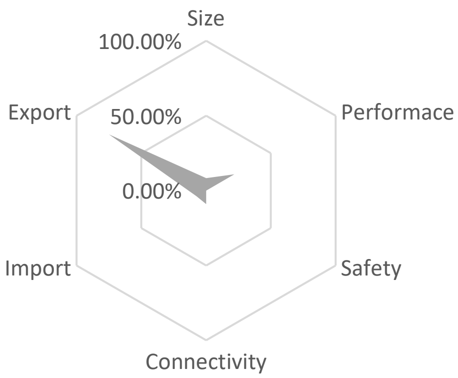
Nmax - number of employees in the sector with the most employees;

Vs - turnover (sales volume) in the sector concerned;

Vmin-turnover in the sector with the lowest sales:

Vmax - turnover in the sector with the highest sales.

Similarly, the scores for each of the 5 economic development contribution criteria specified in Section A will be assigned and, respectively, the scores for the 5 impact criteria specified in Section B, as well as the resilience score in Section C will be assigned. The average of the scores (possibly a weighted average, if the results of the analysis showed that some criteria are more important than others) on the 5 criteria of importance will provide a score (Sa) for the importance of the sector, and the average scores on the 5 criteria of impact (Sb) will provide the score for the impact of the pandemic on the sector. In case of abnormal indicators, we will use the values in their vicinity. The graphical representation (in the figures below, random scores are indicated) for each analyzed sector there will be a diagram according to the following model:



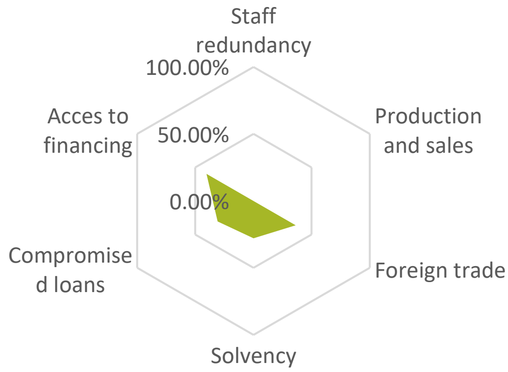


Figure 1 Contribution of the sector to the development of the national economy

Figure 2 Impact of the pandemic crisis on the sector

The scores for the sectors of the national economy (letters from the CEAM) are the weighted average of scores for the sectors that are part of these branches. The individual scores on the above criteria are aggregated into total scores on the contribution to economic development, impact of the pandemic crisis and resilience using the following weights:

Contribution to economic development	Impact of pandemic crisis	Degree of resilience
size of the sector defined according to the number of employees (10%) and turnover (10%); economic performance in terms of labor intensity (5%) and labor productivity (5%); role in ensuring food security and other strategic aspects (10%) importance for other sectors of the national economy (25%); potential for import substitution (25%); export growth potential (10%).	the extent to which national restrictions and changes in local consumption have affected the number of employees (20%); the extent to which national restrictions and changes in local consumption have affected production / turnover (15%); the extent to which foreign trade has been affected by global mobility (15%); insolvency risk in economic sectors (25%); financial sustainability of the sectorsof national economy (15%); access to new loans from the banking system (10%).	•Operational capacity under the conditions of the new normal (40%) •Survival rate 1 (new normal) (30%) •Survival rate 2 (new normal + lockdown) (30%)

The proposed method will allow policy makers to focus economic and tax stimulus on sectors of high importance for the national economy on which the impact of the pandemic has also been noticeable and to choose from the menu of proposed policy measures, those that best meet the needs. Therefore, sectors that are both important and have been severely affected will receive priority attention. Scores by individual categories are also useful: for example, realizing that pandemic caused primarily a deficit of liquidity in a particular sector, the Government can opt for measures to reschedule interest claims, whereas if a sector is at risk of insolvency-a more appropriate measure would be to offer grants.

C. Development of anti-COVID economic and tax policy measures

A comprehensive set of policies aimed at stimulating the national economy is at the juncture of a good coordination of the process and an appropriate selection of structural, economic and tax measures. Currently, there are a several development partners with a mandate to develop public policy interventions based on their own objectives. For example, a team hired by UNDP is trying to determine the extent to which the pandemic has affected vulnerable groups of the population. A similar mission is coordinated by the Ministry of Economy. In order to achieve synergies, avoid duplication and harmonize communication, the analysis proposed by the Economic Council will also reflect the results of the work carried out in parallel by such teams.

One way or another, all countries in the world are trying to live up to the challenges of COVID-19 pandemic. Depending on their financial strength, strategic positioning in the world economy and the severity of the crisis, several governments have developed sets of economic, monetary and tax measures that: I. enable the survival of important sectors; ii. are commensurate with the severity of the losses incurred by businesses; and iii. promote resilience and stimulate the recovery of economic activity in the affected sectors.

Our goal is to learn from the experience of countries that have already launched similar programs that are comparable to the Republic of Moldova in terms of their relative size and the degree to which they are affected by the crisis. We will therefore carefully select a number of national programmes (at least 10) and make an overview of the relevant ones.

Another source of information for the development of policy measures is the analysis of the needs of beneficiaries of economic and tax stimulus. A number of surveys have already been conducted by other development partners (or are in the process of being conducted). We will use the results of existing surveys to develop the descriptive part for each sector and thus facilitate understanding of the mechanism through which the crisis developed, as well as the specific impact on employment, other sectors, external trade, etc. In addition to the survey data, we will hold dedicated interviews with experts in the field and representatives of sectors concerned. It should be noted that the Economic Council to the Prime Minister already has a network of experts that can be accessed for this purpose. Moreover, the Economic Council has already accumulated around 400 proposals from the private sector, including both desperate calls for help and concrete policy measures.

As a result, we will combine two types of approaches to policymaking: top-down and bottom-up. The top-down approach will be based on the experiences of other countries relevant for the Republic of Moldova, and the bottom-up approach will be based on the proposals collected from businesses in the country.

D. Finalizing the scorecards for major sectors affected by the pandemic

Based on the information accumulated in steps A-C, we will define scorecards for each of the targeted sectors. Of the 145 sectors (according to the CEAM classification), in this document we will retain about 15-20 target sectors that contribute significantly to the development of the national economy, but are seriously affected by the impact of the pandemic. However, the scorecards for most sectors can be found on the website of the Economic Council to the Prime Minister by accessing this link.

https://onedrive.live.com/view.aspx?resid=B1A413A23F27BFA5!122&ithint=file%2cxlsx&authkey=!ADZL7IfuVqYEiAI A scorecard will represent an overview of each target sector, presented on a single page containing the following elements:

- Qualitative analysis. In this section we will include the descriptive part that will provide information on the factors leading to economic losses, the general trend and possible scenarios in the absence of stimulus measures from the government, including the medium-term impact on unemployment, food security and other related sectors;
- Quantitative analysis. In this section, we will include diagrams that will summarize the importance and impact criteria described in point A, based on provided scores according to the relative size of monitored indicators;
- Policy measures. Taking into account international experience and the specific needs of the target sectors, highlighted by surveys and semi-structured interviews with their representatives and experts in the field,

we will provide a policy menu for decision makers. A combination of top-down and bottom-up approaches will help us synthesize the proposed policies, including a prior estimate of implementation costs;

E. Matrix of policies to support the sectors of the national economy affected by the pandemic

The final product of this exercise is a policy matrix that lists all policy measures, estimated costs, responsible institutions and anticipated impact. This matrix will be consulted with stakeholders, will be available online throughout the exercise and will be discussed at the Economic Council to the Prime Minister in a participatory manner. Based on the feedback received following public consultations the COVID Matrix will be updated and approved.

At the same time, we want to draw attention to the "living" nature of the document. Judging by the experience of other countries, governments have adopted not a single set of economic and tax policies, but several sets, depending on the evolution of the situation. We realize that we are not at the end of the pandemic, and the situation in the national economy needs to be closely monitored, including on the basis of indicators proposed by this methodology, and the government's response must live up to the challenges.

Annex 2: Tax measures to remedy the economies of other states affected by the pandemic

Albania

- **1171 / 1M people infected with COVID[28]**
- **31 / 1M COVID deaths**
- **2,8% / GDP anti-COVID economic program**

The Albanian government has adopted two sets of support for citizens and companies affected by the pandemic totaling 321 million euros (2.8% of GDP) composed of budget spending, state guarantees and tax holidays. The first set, worth 185 million euros, contained budget reallocations, spending increases and state guarantees for business. The key measures in this set (adopted on 19 March) were: (I) additional financing for the health protection sector; (ii) compensation of minimum wages for micro-enterprises and individual enterprises, doubling unemployment benefits and social assistance premiums; (iii) reallocation of national defense resources to humanitarian aid to vulnerable categories of citizens; (iv) supplementing the state guarantee fund to access bank loans for the payment of salaries for 3 months at a rate of 2,85% and with a maturity of up to 2 years. Starting with April half of the salaries of deputies and ministers will be transferred to an anti-COVID Social Fund.

The second set (adopted on 15 of April) includes: (I) one-time transfers in the amount of 318 euros to employees made redundant due to the pandemic and all tourism workers; (ii) state guarantees for supplementing the working capital of solvent, tax-paying companies. The guarantees cover 60% of the loan amount and the interest rate is capped at 5%. The Government has also implemented tax holidays for large companies (except for banks, telecommunications, state-owned enterprises) to allow the deferral of tax claims from the second and third quarters of 2020 to 2021. Tourism and logistics companies can defer tax claims from the whole of 2020 to 2021. Micro-enterprises with turnover up to 111,5 thousand euros are exempt from paying income tax by 2021 inclusive.

Armenia

- **10593 / 1M people infected with COVID**
- **189 / 1M COVID deaths**
- **2% / GDP programme**

The government announced an aid package worth 300 million USD (2% of GDP) to mitigate the socio-economic impact of the pandemic, including direct spending, state loans and increased investment. Policy measures fall into three categories: (i) preferential loans, on a term of 2-3 years for affected companies and the SME sector; (ii) direct subsidies to small and medium businesses in order to maintain the number of employees; and (iii) grants for entrepreneurs; and (iv) one -off transfers for low-income population who have lost their jobs, and families with multiple children, micro-enterprises, and citizens who have arrears fro the payment of utilities, and those employed part-time. To date, 19 support sets have been adopted, and 138 million US dollars have already been spent.

Austria

- **2085 / 1M people infected with COVID**
- **78 / 1M COVID deaths**
- **9,5% / GDP anti-COVID economic program**

The tax measures adopted on 15 March are worth 38 billion euros (9.5% of GDP). Budget allocations include: 4 billion euros for the medical system, long-term care of the sick, part-time employees and individual enterprises, micro-enterprises that have missed income due to illness; 9 billion euros in the form of state guarantees for exporters and tourism companies; 10 billion euros as tax holidays when paying income tax for individuals and legal entities for 2020, payment of social assistance obligations for 3 months and payment of VAT (2020) at the end of September. The Civil Code was amended by declaring COVID-19 as a force majeure

[28] The information in the summary for each country is represented for august 2020

circumstance, empowering companies to force employees to take unpaid leave of up to two weeks from accumulated days in previous years. On March 22, 22 million euros were set aside for research, and the period in which companies can hire part-time has been extended for another 3 months. Under this norm, working days can be reduced by 10% and paid at 80-90% of the usual salary. Employers pay only the time of work actually worked, the rest is paid from the budget. From April 2, households can postpone the payment of rent until the end of 2020. Also, individuals and SMEs can defer the payment of interest on loans for 3 months.

More recently, authorities announced new tax holidays measures for the hotel sector and non-profit organizations (500 and 700 million euros) that continue to operate on a regular basis for 6 months. To re-start the economy, businesses are encouraged to recruit apprentices for 2 thousand euros for the job positions created between March and October of this year.

On the expenditures side, economic incentives have been introduced for the investment in climate protection, affordable housing, health, digitization and one-time support for the unemployed and their families. Taxes in agriculture, forestry, culture and publishing were reduced. The reduced tax on low income tax has been reduced from 25 to 20% with retroactive application as of January 2020.

Belgium

- **5401 / 1M people infected with COVID**
- **844 / 1M COVID deaths**
- **11,8% / GDP anti-COVID economic program**

The government has implemented a set of tax measures for the economic remedy, including through a stabilization Program worth 10.2 billion euros and guarantees on bank loans worth 51.9 billion euros. Key measures include: (i) increased expenditures for the hospital system; (ii) benefits for furloughed employees and individual companies; (iii) liquidity for deferring Social Assistance and tax claims for companies; (iv) additional support for affected companies from the budget of local public authorities. A reinsurance scheme for trade credits and other tax measures have been put in place to recover losses and recapitalize companies.

In June, new measures were announced to help severely affected sectors and vulnerable groups of the population, in particular by extending bank guarantees to improve the participation of SMEs.

Bulgaria

- **1033 / 1M people infected with COVID**
- **38 / 1M COVID deaths**
- **7,5% / GDP anti-COVID economic program**

The policy measures were implemented under the revised budget for 2020 which allowed for a deficit of 1.75 billion euros and an increase in public debt up to 5.1 billion euros in 2020. The main measures include: (i) covering 60% of the salaries of the employees in the affected sectors, which were expected to be laid off, including the payment of contributions to the Social Fund on the employers ' side (by the end of September); and (iii) deferred claims to the tax on the income of legal entities up to 30 June; and (iii) increase of the salaries in the area of health, interior and defense ministries; and (iv) the possibility for the unemployed registered to perform seasonal work in agriculture without losing their entitlement to unemployment benefits; and (v) additional premiums for workers in the health care and social systems and extension of social patronage ; (iv) support to vulnerable groups, and affected professions, as well as free -lance employees in the field of culture, one off payments for parents forced into furloughing during the quarantine; (vii) reduction of VAT rate from 20 to 9% for restaurants, books, and food for babies until the the end of 2021; (viii) reallocation of 102 million Euros from the EU in order to support large companies that have suffered a loss of more than 30% for the duration of three months, who employs the unemployed.

Czech Republic

- **1225 / 1M people infected with COVID**
- **33 / 1M COVID deaths**
- **4,6% / GDP anti-COVID economic program**

The government announced a package of tax measures worth 9.6 billion euros. By the end of august, the government takes over 80% of employees ' salaries, including payments to the Social Fund in the event that: a. Employees are quarantined; b. businesses have been stopped or reduced due to government imposed restrictions. A contribution of 60% of employees ' salaries, including payments to the Social Fund, is paid if the company's activity is limited due to the epidemiological situation (in the country and abroad). Between June and august, the government cancelled contributions to the Social Fund from businesses with fewer than 50 employees. The Government also reduced VAT from 15 to 10% for certain services (accommodation, culture, sports) and introduced the possibility of reducing revenues for 2018 and 2019 from the anticipated losses in 2020 (maximum loss of 11.25 million euros). SMEs, sole proprietorships and self-employed persons are eligible for a one-time payment of EUR 18.75 per day for the period from 12 March to 8 June. The state should cover 50% of the rent expenses for the tenant companies, after applying a forced reduction of 30% to the size of rent (tenants only pay the remaining 20% of the value of the rent). Additionally, the government approved premiums for medical and social workers and issued state guarantees amounting to 18.9 billion euros. The Government also imposed a moratorium on bank loans for up to 6 months – with the calculation of interest and the corresponding extension of maturity.

Croatia

- **895 / 1M people infected with COVID**
- **29 / 1M COVID deaths**

The main measures include: a deferral in interest free public payments for a three-month period (with the possibility to extend for 3 additional months); a temporary suspension of quasi-tax payments; - interest-free loans to local public authorities, Medical Insurance Fund and the Social Insurance Fund for the compensation of the lost contributions; subsidizing the minimum wage for a maximum period of 3 months, subject to keeping the work place (with the possibility to extend for 3 additional months); early payment of of reimbursement of taxes to individuals. Beneficiaries of European structural and investment funds will receive increased amounts. Part of the EU funds have been reallocated for micro-loans, a new credit line has been introduced, in conjunction with accelerated disbursements, lower interest rates and higher partial guarantees. The government decided to purchase goods produced in agriculture and food industry, medical equipment and other strategic goods.

On April 1, the government announced additional measures, including: an increase in the state-subsidized minimum wages; deferral or cancellation of companies ' tax obligations based on losses and a decrease in turnover; postponement of VAT payment obligations until its value is received from the supplier; extension of the deadline for submitting financial reports for 2019 to June 30. Application to the EU Solidarity Fund and SURE (temporary support for the risk of unemployment in case of a force majeure).

On June 25, the government announced the possibility of introducing a reduced work program, funded by SURE, whereby companies with more than 10 employees who reduce the working day are eligible for compensation proportional to the salary fund.

Estonia

- **1518 / 1M people infected with COVID**
- **52 / 1M COVID deaths**
- **7% / GDP anti-COVID economic program**

In order to recover the socio-economic situation affected by the pandemic, Parliament approved an additional budget on 15 April. Under this budget, a set of tax measures amounting to EUR 2 billion is adopted that will lead to an increase in the deficit in excess of 9% of GDP. Additional allowances are directed towards the procurement of additional materials for the medical system and the support of employees and enterprises. The set also includes grants to the Unemployment Fund to cover the premiums, in the amount of 250 million euros, Health Insurance Fund in the amount of 213 million Euros in loans to businesses in rural areas through the Rural Development Fund (Eur 200 million); state guarantees for rescheduled loans (1 billion Euro) credits aimed to cover the shortage of liquidity of enterprises (500 million Euro); support to local authorities (€130 million); - investment loans to companies (€50 million); compensation for cancelled cultural and sporting events (€3 million).

The government also introduced a moratorium on payments to Pillar II of mandatory social insurance, authorizing the increase of the short-term public debt by 200 million euros (up to 1 billion euros). The government contracted a loan of 750 million euros to the Nordic Investment Bank over a 15-year term and issued a Eurobond of 1.5 billion euros over a 10-year term (at an annual interest rate of 0.125 percent). At the same time, the government has attracted a loan of 200 million euros from the Council of Europe in support of local authorities.

Finland

- **1316 / 1M people infected with COVID**
- **59 / 1M COVID deaths**
- **3% / GDP anti-COVID economic program**

The tax measures include additional budgetary spending for: (i) health, protection, protection measures, medical facilities, public policy and controls at the border crossing points (1 billion euros); (ii) reduced contributions to the Social Fund, for the year 2020 (1.05 billion euros); and (iii) grants to the SMES and individual businesses (650 million Euros); and (iv) increase in compensation to parents, social aid and unemployment benefits (3 billion Euros). In addition to these discretionary measures, the government announced a recapitalization of 500 million euros for Finnair (where the state holds a 56% share), investments in the share capital of other private companies of 700 million euros, support for restaurants worth 123 million euros and 16 million for vaccine and drug research. Additional budget also involves an increase in guarantees to the Labor Employment Fund (EUR 880 million), SURE (EUR 432 million) and the European Investment Bank (EUR 372 million).

On June 3rd, Government implemented the fourth amendment to the budget which involves support amounting to 1.2 billion euros for households and business, 1 billion euros for public investments, 750 million euros VAT reductions. Eligibility conditions for unemployment benefits have been relaxed.

Ireland

- **5185 / 1M people infected with COVID**
- **353 / 1M COVID deaths**
- **6% / GDP anti-COVID economic program**

Ireland has just announced a comprehensive set of measures, amounting to a total of 6.8 billion Euros which includes (i) a scheme for subsidizing wages by means of which the employers are compensated by up to to 70% from the Wage Fund (up to 410 Euros per person employed) in order to allow the compensation of the employees during the period of the pandemic (for employees who are receiving less than 24,400 Euros a year, the ceiling for compensation was then increased to 85%); (ii) payment of sick leave in the amount of 700 Euros for the two weeks of self-isolation of infected patients from COVID; (ii) Eur 350 per week for all the unemployed, and self-employed; (iv) Eur 1 billion to support the companies that are in a crisis of liquidity; (v) a € 2 billion to increase the capacity of the medical system, preventive measures, and the purchasing of necessary equipment.

On the 2nd of May, the Government announced a round of additional help to business in the amount of 6.5 billion Euros which includes (i) a grant in the amount of 10 thousand Euro, in order to resume the activity of SMEs; and (iii) a moratorium of 3 months for the payment of interest by the affected party; (iii) the establishment of a Pandemic Stabilization and Recovery Fund, in the amount of 2 billion Euro, within the the Strategic Investments framework which will provide capital for medium and large enterprises; (iv) the establishment of the Credit Guarantee schemes of € 2 billion to support access to credit (up from 10 thousand to 1 million) to SMEs at preferential rates; and (v) freezing of tax claims for a period of 12 months following the re-launch of activity.

The Tax Inspectorate has adopted an adjustment to the customary practices by way of: (i) immediate transfers of tax reimbursement, particularly in retail, hospitality and leisure, and entertainment by the end of the month; and (ii) the suspension of interest payments for the payment of the taxes overdue in the period between February and may; (iii) suspending (for an indefinite period) of the enforcement of tax liabilities; or (v) the implementation of "green corridor" for the import of pharmaceutical and medical products.

Israel

- **4073 / 1M people infected with COVID**
- **38 / 1M COVID deaths**
- **7,2% / GDP anti-COVID economic program**

On 8 April Parliament adopted a set of budgetary measures worth 20 billion euros, including 2.8 billion euros for the healthcare system. The package supports "safety nets" (EUR 5.1 billion) in the form of unemployment benefits (under relaxed eligibility conditions) and grants for self-employed. Measures also provide for an injection of liquidity (10.5 billion euros) through: (I) direct loans and guarantees for large companies, SMEs and other organizations; (ii) tax holidays on land tax for enterprises; (iii) deferrals of payments on VAT payments, municipal taxes, communal services and income taxes; (iv) accelerated tax refunds; and (v) business grants. The package also includes EUR 2 billion for infrastructure projects, including support in the implementation of information technologies and the digitalization of government services. One-time grants worth 127 Euros were offered to families with children, the elderly and other vulnerable categories.

On 2 June parliament adopted a € 3.6 billion increase in the package of measures to support employees, high-risk businesses and SMEs. Compensation in the amount of EUR 511 million was offered to companies that were unable to resume their activities after the relaxation of lockdown measures.

Italy

- **4016 / 1M people infected with COVID**
- **578 / 1M COVID deaths**
- **4,6% / GDP anti-COVID economic program**

On 17th of March, the Government has adopted a contingency fund in the amount of 25 billion Euro („Cura Italia”), which includes: (i) funds for the support of the health care system and for the protection of the child (€3.2 billion); (ii) measures for the keeping jobs, and support to workers made redundant or self-employed (10.3 billion Euros); and (iii) other measures to support the economy, including tax holidays, and suspension of payments of utility services in affected municipalities (6.4 billion Euros), as well as; (iv) measures to support the crediting (Eur 5.1 bn). The liquidity decree allowed the increase of the ceiling for state guarantees to 400 billion euros, aiming to unlock financing in the amount of 750 billion euros (about 50% of GDP) for the liquidity deficit of companies and households.

On May 15, the government adopted an additional set of 55 billion euros to re-launch economic activities. It includes support for families (14.5 billion euros), funds for the healthcare system (3.3 billion euros) and business support measures, including grants and tax holidays for SMEs (16 billion euros).

Netherlands

- **2972 / 1M people infected with COVID**
- **424 / 1M COVID deaths**
- **4,9% / GDP anti-COVID economic program**

A number of tax measures were introduced at the beginning of the pandemic to counter the economic impact of the quarantine. Following the relaxation of restrictions, on May 20, Government announced a new set of measures to support business and re-launch activities, as well as to extend some already measures announced until October. The total amount of budget expenditures stood at 36.6 billion Euros, and includes: (i) compensation at the rate of 90 per cent of the remuneration to employers whose turnover has fallen by more than 20%; (ii) compensation for affected sectors (hospitality, tourism, agriculture, culture, etc.); and (iii) support for business owners and self - employed, start-ups and smaller companies in the sector of innovations, and (iv) the rise of the scheme of compensation for the reduced work day (unemployment benefits awarded to enterprises that were expected to reduce its workforce by 20%); and (v) grants to SMEs for financing of fixed assets. In addition, businesses can defer payment of taxes without being penalized, based on projected turnover reduction. For 2020, missed tax revenues are estimated at 27 billion euros (3.6% of GDP). Credit guarantee schemes have also been increased to EUR 33 billion (4.4% of GDP) to finance the liquidity deficit of the SMEs, but also of large companies that are in a position of liquidity risk. A credit guarantee scheme from the supplier was newly established. The cost of those programs depends on the demand.

Poland

- **991 / 1M people infected with COVID**
- **41 / 1M COVID deaths**

- **4,6% / GDP anti-COVID economic program**

The volume of budget support is estimated at 23.3 billion euros, of which 16.8 billion euros are guarantees and micro-loans for entrepreneurship. In addition to this support, the Polish Development Fund will provide financial support in the amount of EUR 22.4 billion to cover the liquidity deficit of the companies. The basic steps include the following: (i) additional financial means for equipment and consumables in the hospital system; and (ii) Subsidies to wages of employees of affected businesses, and self-employed (businesses, regardless of size, can apply for a grant of up to 3 months in the event of the shutdown of the operation of the program or reduced business activity – subsidy provided to cover between 50 and 90 per cent of the minimum wage per one employee in light of the decline in turnover of the business in 2020; and (iii) Guarantees from Liquidity Fund is managed by the National Development Bank for loans to medium and large enterprises that are in shortage of liquidity; and (iv) credit for micro-enterprises; and (v) a postponement or cancellation of the contributions to the Social Fund (for micro-enterprises with less than 9 employees, contributions over the previous 3 months shall be covered from the state budget, while for the companies employing between 10 and 49 employees, budget contribution is 50%), the possibility of a delay, rescheduling or cancellation of tax obligations and benefits for self employed employees, or those without a permanent job; or (v) the deduction of losses incurred in 2020 from tax obligations in the year 2021; (vi) social aid for parents of school-age children in relation to remote learning; (vii) establishment of the COVID Fund, in order to counteract the effects of the pandemic; (viii) granting of preferential loans in the amount of up to 22.4 billion Euros from the Polish Development Fund to cover the deficit of company liquidity (irrespective of size) subject to keeping the number of employees, continuation of activities, and in the light of the decline in the volume of sales; and (ii) extension of work permits for non-residents who work in Poland.

Romania

- **1668 / 1M people infected with COVID**
- **97 / 1M COVID deaths**
- **3,5% / GDP anti-COVID economic program**

The main announced tax measures include: (I) additional funds for the health care system; (ii) partial compensation of salaries of parents who are forced to stay at home during the period when schools are closed; (iii) measures to support entrepreneurship by partially compensating the remuneration of work of self-employed and those to be made redundant, as well as rescheduling the payments for 1 month due by the SMEs for public utility services. In addition, the Government provided state guarantees amounting to EUR 3 billion for loans granted at preferential interest rates to finance working capital and investments made by the SMEs. Other measures include accelerated reimbursement of VAT, suspension of forced execution of payment obligations, suspension of tax controls, reduction in the payment of income tax by legal entities, postponement of payments related to land tax for 3 months; exemption of the hotel industry from special taxes for 90 days.

Serbia

- **2069 / 1M people infected with COVID**
- **44 / 1M COVID deaths**
- **6,5% / GDP anti-COVID economic program**

The tax measures adopted so far amount to EUR 3 billion. The main ones are related to: (i) an increase by 10 per cent of the employees in the health care system (110.5 million Euro) and supplementary budget allocations for the health care system (221 million Euros); (ii) one time social assistance for all the retired people (59,5 million); (iii) one-time monetary aid of € 100 for all persons who have reached the age of 18 years of age (552,9 million); (iv) deferral of contributions of all employers to the social fund, and mandatory medical insurance insurance fund for a period of 3 months, with the rescheduling of payments in 24 installments that will be paid out starting in 2021 (850,6 million); and (v) the deferral of the income tax on income of legal persons related to the second quarter of 2020 (178,6 million Euros); (vi) subsidies for the payment of salaries and wages, including the payment of the national minimum wage for 3 months to all the SMEs employees (791,1 million), and 50% of the minimum wage for 3 months to all the employees of the big companies, and those who are on forced leave of absence (34 million Euros). Other measures include a 3-month moratorium on enforcement of arrears and interest to the budget. A new scheme to guarantee SME loans of EUR 2 billion and SME loans of EUR 200 million from Development Fund sources was also approved.

Slovenia

- **879 / 1M people infected with COVID**
- **53 / 1M COVID deaths**
- **14,4% / GDP anti-COVID economic program**

The 1 billion euro economic stimulus programme announced on March 9 includes tax policy measures and budgetary expenditure relating to: (I) the 24-month deferral of tax obligations and their rescheduling for the next 24 months; (ii) subsidies for the payment of salaries to employees on forced leave or in quarantine (about 50 million euro); (iii) state guarantees and credit lines to support affected companies, in particular SMEs (600 million euro). Additionally, the Government has lowered electricity prices. An emergency order allowed the Government more discretion in using budgetary means to combat the pandemic, including funds allocated for Health Protection.

On April 2, Parliament approved a new € 3 billion economic stimulus program that also reinforced some previous measures. New measures included selective tax exemptions, state co-financing of Social Fund contributions, increased wage subsidies, temporary support for vulnerable categories, premiums for medical workers, as well as credit lines and state guarantees. On 28 April, Parliament made a series of amendments to the economic stimulus programme by increasing it to 2 billion euros which focused on granting guarantees to businesses and relaxing the eligibility criteria for previous beneficiaries.

On 29 May Parliament adopts the third programme to stimulate the economy worth 1 billion euros by granting subsidies for the reduced work programme, vouchers for the tourism sector and credits to cover the liquidity deficit.

Ukraine

- **1209 / 1M people infected with COVID**
- **31 / 1M COVID deaths**
- **5,9% / GDP anti-COVID economic program**

Ukraine introduced a number of measures to support business: (i) penalties calculated for a number of arrears to the budget were canceled from March 1 until the last day of the quarantine; (ii) a moratorium on tax inspections and audit was adopted; (iii) the deadline for income and interest declarations was extended to July 1; (iv) the costs related to the lease of land have not been calculated for the month of March 2020; (VI) penalties for late or partial payments have been canceled for the period from March 1 to May 31.

The Parliament also amended the legislation by increasing the thresholds for the simplified taxation regime, granted tax holiday on social contribution payments until 31 May and granted 300% premiums for medical staff treating COVID patients. In support of households, the deduction of COVID-related expenses from taxable income was allowed.

The government expanded the preferential credit program (the so-called 5-7-9 program) and the Credit Guarantee Scheme. The maximum loan amount was increased to about 100 thousand euros with an annual ceiling of 3.5 million euros. The eligibility criteria have been amended to include the financing of production costs affected by COVID (wages, housing, rescheduling of bank loans). The legislation on unemployment benefits was amended by introducing a new eligibility criterion – quarantine-related furloughing, compensated by 2/3 of the basic wage but capped at the minimum wage. Employers are compensated for salary expenses for employees on forced leave, but provided that they have no arrears to the pension fund in the 6 months preceding the quarantine. The first transfer in the amount of about 300 million euros has already been made in this regard from the COVID Fund.

Annex 3: Relative position of economic sectors (extended version)

Annex 4: Contribution to economic development: indicators

	Criterion	Number of employees (2019) thousands of people	Turnover (2019) million lei	Labour intensity CA / NA	Labour productivity VAB/NA	Food safety (1-3)	Share of the number of transactions (2019) *invoice number / total*	Share in transaction value (2019) *invoice value / total*	Average share of domestic consumption in production volume (2017-2020)	Import substitution potential *(V-X)/(V+M)*	Export potential *X/X1*	**Score 1**
		Contribution to economic development										
A.	**Agriculture**	**33444.9**	**17.502**	**52%**	**30%**	**3**	**5.7%**	**12.6%**	**42%**	**46%**	**45%**	**47.7%**
	Annual plantations	26620	11.973	45%	26%	3	2.2%	5.0%	42%	41%	-17%	38.6%
	Perennial plantations	6035	1.739	29%	17%	3	0.5%	1.1%	42%	100%	13%	51.1%
	Animal husbandry	3480	2.521	72%	42%	3	0.3%	0.7%	42%	9%	18%	31.2%
B	**Extractive industry**	**1943.4**	**1.141**	**59%**	**31%**	**1**	**0.3%**	**0.4%**	**47%**	**82%**	**-21%**	**0.0%**
C.	**Processing industry**	**87934.2**	**57.062**	**65%**	**22%**	**3**	**14.4%**	**18.1%**	**66%**	**73%**	**-7%**	**61.1%**
10	Food industry	20624	19.544	95%	23%	3	4.3%	5.5%	75%	34%	-1%	47.6%
	Meat	5498	4.751	86%	21%	3	1.1%	1.5%	75%	18%	-1%	34.7%
	Fruits and vegetables	3253	2.923	90%	22%	3	0.7%	0.9%	75%	45%	5%	41.8%
	Milk	4173	3.155	76%	19%	3	0.9%	1.1%	75%	27%	-6%	34.8%
	Bread making	9144	3.034	33%	8%	3	1.9%	2.4%	75%	17%	-2%	34.0%
	Oil	975	2.662	273%	68%	3	0.2%	0.3%	75%	21%	14%	42.5%
11	Beverages production	6894	6263	91%	22%	3	0.7%	1.9%	71%	30%	-1%	37.9%
13+14+15	Textile industry	23413	6170	33%	13%	3	0.6%	0.7%	54%	85%	-7%	38.2%
20+23	Manufacturing of construction materials	5163	6814	142%	47%	2	1.4%	1.8%	70%	64%	-1%	35.3%
29	Automotive industry	12332	3276	27%	10%	1	0.0%	0.0%	59%	99%	-8%	39.3%
31	Furniture manufacturing	3657	2151	59%	22%	1	0.7%	0.4%	62%	38%	-3%	25.6%
F	**Construction**	**21985**	**22021**	**100%**	**45%**	**1**	**5.3%**	**7.0%**	**56%**	**1%**	**9%**	**21.2%**

G	**Trade**	**92910**	**191808**	**206%**	**136%**	**1**	**62.0%**	**48.0%**	**35%**	**0%**	**0%**	**52.4%**
H	**Transportation**	**34344**	**21838**	**64%**	**30%**	**2**	**2.9%**	**4.2%**	**53%**	**33%**	**-6%**	**30.9%**
49+52	Land transport and storage	29107	16422	76%	34%	2	2.7%	4.0%	55%	32%	-6%	30.8%
53	Mail and courier services	4304	702	16%	11%	2	0.1%	0.1%	30%	20%	-6%	18.3%
I	**HORECA**	**12665**	**4633**	**37%**	**20%**	**1**	**4.4%**	**1.6%**	**46%**	**50%**	**-4%**	**26.5%**
55	Hotels	1728	623	36%	20%	1	0.4%	0.5%	45%	50%	-4%	24.5%
56	Restaurants	10937	4009	37%	20%	1	4.0%	1.1%	47%	50%	-4%	28.5%
J	**ICT**	**19851**	**14150**	**71%**	**47%**	**1**	**1.0%**	**1.9%**	**34%**	**15%**	**8%**	**17.9%**
61	Telecommunications	5057	6879	136%	81%	1	0.4%	1.4%	39%	8%	8%	23.0%
62+63	IT services	11811	6200	51%	40%	2	0.4%	0.4%	22%	60%	8%	30.2%
K	**Finance**	**12288**	**4083**	**33%**	**25%**	**1**	**0.5%**	**1.2%**	**24%**	**8%**	**11%**	**10.6%**
64	Banks	9653	3342	35%	26%	1	0.4%	1.0%	24%	6%	7%	15.0%
65	Insurance companies	1850	615	33%	29%	1	0.1%	0.1%	12%	21%	20%	17.5%
66	Microcredit	785	741	94%	72%	1	0.1%	0.0%	27%	2%	7%	7.4%
L	**Immovable property**	**9132**	**5374**	**59%**	**46%**	**1**	**1.2%**	**2.0%**	**22%**	**0%**	**0%**	**7.4%**
M	**Self-employed**	**11736**	**4561**	**39%**	**24%**	**1**	**1.0%**	**0.8%**	**38%**	**5%**	**-20%**	**8.1%**
N	**Logistics**	**11493**	**5438**	**47%**	**24%**	**1**	**1.0%**	**2.0%**	**48%**	**5%**	**-20%**	**10.9%**
79	Travel agencies	677	3016	445%	163%	1	0.2%	0.5%	64%	5%	-25%	20.5%
R	**Art**	**11968**	**1611**	**13%**	**6%**	**1**	**0.3%**	**0.2%**	**51%**	**16%**	**-4%**	**15.2%**

Annex 4: Impact of the pandemic crisis: indicators

	Criterion	Staff reductions (mar-apr 2020)	Reduction of the workforce	Turnover (2020)	Change in turnover (mar-may 2020)	Production and sales	External trade (Jan-May 2020/201)	Insolvency risk	Share of compromised loans (Mar-May 2020)	New loans contracted (Apr-Jun 2020)	Score 2
		Pandemic impact									
		thousands of people	*%/2019*	*million lei*	*%/2019*						
A.	**Agriculture**	**5.550**	**16.6%**	**17352**	**-0.9%**	**99%**	**88%**	**191%**	**6%**	**-75%**	**21.1%**
	Annual plantations	4.417	16.6%	9994	-16.5%	83%	87%	191%	6%	-75%	42.1%
	Perennial plantations	1.001	16.6%	1451	-16.5%	83%	85%	191%	6%	-75%	42.3%
	Animal husbandry	577	16.6%	2630	4.3%	104%	126%	191%	6%	-75%	37.1%
B	**Extractive industry**	**22**	**1.1%**	**880**	**-22.9%**	**77%**	**70%**	**43%**	**20%**	**-102%**	**57.8%**
C.	**Processing industry**	**-7.317**	**-8.3%**	**51539**	**-9.7%**	**90%**	**85%**	**10%**	**10%**	**-194%**	**55.4%**
10	Food industry	-785	-3.8%	21369	9.3%	109%	130%	191%	9%	-12%	40.4%
	Meat	-209	-3.8%	5042	6.1%	106%	79%	308%	9%	-12%	36.3%
	Fruits and vegetables	-124	-3.8%	2781	-4.9%	95%	213%	113%	9%	-12%	37.2%
	Milk	-159	-3.8%	3193	1.2%	101%	115%	140%	9%	-12%	44.8%
	Bread making	-348	-3.8%	2804	-7.6%	92%	104%	121%	9%	-12%	48.6%
	Oil	-37	-3.8%	5573	109.3%	209%	145%	735%	9%	-12%	18.7%
11	Beverages production	-271	-3.9%	5307	-15.3%	85%	89%	61%	9%	-12%	54.8%
13+14+15	Textile industry	-2519	-10.8%	3994	-35.3%	65%	77%	61%	10%	-194%	36.7%
20+23	Manufacturing of construction materials	43	0.8%	7768	14.0%	114%	95%	117%	10%	-194%	47.0%
29	Automotive industry	-182	-1.5%	1983	-39.5%	61%	75%	38%	10%	-194%	64.3%
31	Furniture manufacturing	-696	-19.0%	1488	-30.8%	69%	72%	92%	10%	-194%	61.2%
F	**Construction**	**-993**	**-4.5%**	**21062**	**-4.4%**	**96%**	**0%**	**131%**	**20%**	**-102%**	**38.2%**
G	**Trade**	**-11857**	**-12.8%**	**148071**	**-22.8%**	**77%**	**# N / A**	**25%**	**6%**	**-387%**	**56.9%**
H	**Transportation**	**-4399**	**-12.8%**	**13673**	**-37.4%**	**63%**	**# N / A**	**43%**	**0%**	**137%**	**40.7%**

49+52	Land transport and storage	-4305	-14.8%	10662	-35.1%	65%	0%	38%	0%	137%	44.5%
53	Mail and courier services	-17	-0.4%	505	-28.1%	72%	50%	93%	0%	137%	31.5%
I	**HORECA**	**-5651**	**-44.6%**	**1529**	**-67.0%**	**33%**	**# N / A**	**-23%**	**13%**	**49%**	**80.7%**
55	Hotels	-638	-36.9%	206	-67.0%	33%	50%	-22%	13%	49%	70.9%
56	Restaurants	-5013	-45.8%	1323	-67.0%	33%	0%	-28%	13%	49%	67.2%
J	**ICT**	**-943**	**-4.7%**	**10710**	**-24.3%**	**76%**	**83%**	**25%**	**0%**	**137%**	**39.9%**
61	Telecommunications	-295	-5.8%	6600	-4.0%	96%	0%	30%	0%	137%	40.1%
62+63	IT services	-390	-3.3%	5863	-5.4%	95%	0%	126%	0%	137%	29.6%
K	**Finance**	**-488**	**-4.0%**	**3605**	**-11.7%**	**88%**	**0%**	**20%**	**0%**	**0%**	**32.4%**
64	Banks	-87	-0.9%	3501	4.8%	105%	0%	20%	0%	0%	36.1%
65	Insurance companies	-232	-12.5%	501	-18.5%	81%	0%	20%	0%	0%	38.8%
66	Microcredit	-170	-21.6%	-397	-153.5%	-54%	0%	20%	0%	0%	
L	**Immovable property**	**-1291**	**-14.1%**	**3365**	**-37.4%**	**63%**	**0%**	**10%**	**20%**	**-102%**	**58.7%**
M	**Self-employed**	**-1210**	**-10.3%**	**3414**	**-25.2%**	**75%**	**138%**	**70%**	**1%**	**-40%**	**34.7%**
N	**Logistics**	**-2467**	**-21.5%**	**5270**	**-3.1%**	**97%**	**# N / A**	**273%**	**13%**	**49%**	**18.6%**
79	Travel agencies	-571	-84.3%	344	-88.6%	11%	50%	112%	13%	49%	63.5%
R	**Art**	**-1180**	**-9.9%**	**580**	**-64.0%**	**36%**	**0%**	**70%**	**13%**	**49%**	**53.0%**

Annex 5: Degree of resilience: indicators

		Resilience							
	Criterion	CA1 Amcham	CA2 Consecon	CA3 Prohnitchi	CA4ML (Consecon)	Operational capacity	Survival rate 1	Survival rate 2	**Total 3**
A.	**Agriculture**	**82%**	**80%**	**80%**		**80.7%**	**134%**	**151%**	**31.9%**
	Annual plantations	82%	80%	80%		80.7%	134%	151%	47.8%
	Perennial plantations	82%	80%	80%		80.7%	134%	151%	47.8%
	Animal husbandry	82%	80%	80%		80.7%	134%	151%	47.8%
B	**Extractive industry**	**90%**	**90%**	**82%**	**85%**	**86.9%**	**49%**	**38%**	**0.0%**
C.	**Processing industry**	**75%**	**75%**	**81%**		**77.0%**	**118%**	**13%**	**52.6%**
10	Food industry	80%	85%	85%	88%	84.4%	134%	151%	51.0%
	Meat	80%	90%	85%		84.7%	235%	253%	28.3%
	Fruits and vegetables	80%	65%	85%	88%	79.4%	87%	81%	
	Milk	80%	85%	85%		83.0%	105%	107%	58.0%
	Bread making	80%	85%	85%		83.0%	102%	90%	60.2%
	Oil	80%	95%	85%		86.4%	275%	629%	29.7%
11	Beverages production	80%	65%	77%	88%	77.3%	50%	39%	66.8%
13+14+15	Textile industry	80%	60%	79%	95%	78.4%	75%	27%	40.1%
20+23	Manufacturing of construction materials	82%	88%	87%	79%	83.9%	78%	94%	50.6%
29	Automotive industry	58%	75%	66%	70%	67.1%	74%	-92%	68.7%
31	Furniture manufacturing	73%	100%	78%		83.4%	121%	69%	57.5%
F	**Construction**	**90%**	**90%**	**89%**		**89.7%**	**122%**	**115%**	**47.2%**
G	**Trade**	**79%**	**90%**	**85%**		**84.6%**	**30%**	**17%**	**73.2%**
H	**Transportation**	**73%**	**80%**	**61%**		**71.3%**	**54%**	**21%**	**58.4%**
49+52	Land transport and storage	73%	88%	61%		73.8%	51%	21%	66.8%
53	Mail and courier services	73%	95%	61%		76.3%	113%	13%	61.3%
I	**HORECA**	**56%**	**30%**	**72%**		**52.6%**	**19%**	**-57%**	**57.8%**
55	Hotels	56%	30%	72%		52.6%	-14%	-29%	60.4%
56	Restaurants	56%	30%	72%		52.6%	139%	-161%	56.1%
J	**ICT**	**94%**	**95%**	**91%**		**93.3%**	**45%**	**20%**	**77.9%**
61	Telecommunications	93%	95%	91%		93.0%	28%	25%	84.7%
62+63	IT services	96%	95%	91%		94.0%	93%	113%	63.6%
K	**Finance**	**95%**	**90%**	**89%**		**91.4%**	**18%**	**16%**	**81.5%**
64	Banks	89%	90%	89%		89.3%	18%	19%	83.3%

65	Insurance companies	98%	90%	89%	92.5%	19%	20%	86.0%
66	Microcredit	98%	90%	89%	92.5%	19%	20%	83.6%
L	**Immovable property**	**93%**	**90%**	**88%**	**90.3%**	**7%**	**8%**	**83.6%**
M	**Self-employed**	**79%**	**95%**	**87%**	**87.2%**	**54%**	**4%**	**73.1%**
N	**Logistics**	**60%**	**83%**	**77%**	**73.0%**	**175%**	**3%**	**39.1%**
79	Travel agencies	60%	20%	77%	52.2%	17%	50%	47.9%
R	**Art**	**52%**	**90%**	**87%**	**76.4%**	**53%**	**19%**	**61.6%**

Annex 7: Budgetary costs and expected economic impact

	Million lei	Costs to the budget	Economic Impact	Revenues to the budget
A.	**Reducing regulatory constraints to support the private sector affected by the pandemic crisis**	**135**	**2088.1**	**57.5**
1.1	Boosting the process of digitization of the national economy and development of e-commerce			
1.1.1	Ensuring unconditional acceptance of electronic documents and signatures, in accordance with the provisions of Law No.91/2014, by public authorities, legal entities governed by public and private law, and natural individuals.	0	170	-
1.1.2	Identifying situations of remote interactions, including with public authorities, that may occur without electronic signatures or with the application of simple signatures and drafting regulatory amendments to this effect	0	-	-
1.1.3	Ensuring the possibility of remote registration and de-registration of businesses, including the operation of amendments to incorporation documents	0	-	-
1.1.4	Unilateral recognition of electronic signatures issued in the EU under Regulation (EU) no 1009/2009 910/2014 (eIDAS)	0	-	-
1.1.5	Elimination of constraints of the normative framework in the area of private data protection related to the form of consent in data processing and the obligation of notification/registration as data operator.	0	-	-
1.1.6	Removing constraints and reducing costs in carrying out e-commerce both on the local and export markets, including administration and regulation in the areas of tax, customs, accounting, electronic payments, consumer protection, as well as specific to different groups of products and services.	0	1918.1	57.5
1.1.7	Simplifying procedures for obtaining permissive documents by promoting online public services and ensuring electronic payments for all services	0	-	-
1.2	Removing constraints from the existing regulatory framework in the field of construction	0	-	-
1.3	Development of improvements to the draft Urban Planning and Construction Code registered in the Parliament and promotion of those in the	0	-	-

	framework of consultations with parliamentary committees			
1.4	Strengthening export potential and protecting domestic producers			
1.4.1	Strengthening MEI capacities in identifying and promoting the interests of domestic producers within the framework of economic and free trade agreements	0	-	-
1.4.2	Strengthening MEI capacities in the area of investigating economic protection of business stemming from bilateral and multilateral trade agreements	0	-	-
1.4.3	Improving control capacities of the compliance of imported goods with regulatory requirements, especially where violations are detrimental to local producers	0	-	-
1.4.4	Improving market surveillance capacities for non-food products ' compliance with regulatory requirements, especially where such violations are detrimental to local producers	0	-	-
1.4.5	Identification of priority industrial sectors in order to increase the competitiveness of domestic products	0	-	-
1.4.6	Development of measures to improve testing capabilities of industrial products in priority sectors	0	-	-
1.5	Improving the procedure for determining the value of goods in customs in light of its applicability and the reasoned presentation of decisions to increase the value of imported goods by customs officials	0	-	-
1.6	Review of the regulatory framework governing employment relations in the area related to remote employment relations	0	-	-
1.7	Reducing the minimum weight of the price element in the criterion for the award of public contracts/framework agreements	-	-	-
1.8	Development of fair, clear and predictable sanitary rules, adapted to the risks specific to economic activity	0	-	-
1.9	Improving agricultural production performance			
1.9.1	Increase of subsidized share of state insurance premium from 50 to 70% for farmers connected to irrigation networks	0	-	-
1.9.2	Simplifying the requirements and procedures for the approval and registration of plant protection products accepted in the EU and extending the application of those registered for other agricultural crops	0	-	-
1.9.3	Ensuring access to subsidies for imported plant varieties registered in the EU	0	-	-

1.9.4	Simplification of the conformity assessment procedure, revision of the mandatory indices of the physical - chemical analysis, revision of the methodology for calculating prices and the rules for applying prices for wine certification services, through the ANSA network, specifically "Central laboratory for testing alcoholic/non-alcoholic beverages and preserved products" for exported wines, focusing exclusively on the requirements of the importing state. Development of procedures, prices adapted for small wine producers.	0	-	-
1.10	Identification and implementation of optimal solutions to support employees with children when kindergartens and schools are closed.	135	-	-
1.11	Accreditation of Master's programs in areas where there is a shortage of skilled labor	0	-	-
1.12	Drafting and adoption of the regulation for the implementation of the law on attracting foreign investment in the field of movie production and other audiovisual works	-	-	-
1.13	Implementation of the Integrated Road Transport Management System	-	-	-
1.14	Providing free premises for the delivery of postal services in the area of universal postal service	-	-	-
B	**Provision of incentives and reducing administrative constraints in the area of taxation**	**983,3**	**4358.4**	**1431.4**
2.1	Identification and development of an optimal VAT taxation regime within the agricultural value chain	568,2	3300	397,6
2.2	Assessing the possibility of lowering the VAT rate for the HORECA sector	70	-	-
2.3	Exemption of working youth from mandatory state social insurance contributions in the first two years of activity	45	-	117
2.4	Tax incentives for domestic passenger transport in order to combat illegal passenger transport	80	-	70
2.5	Application of the ”0” rate for micro-enterprises on income tax reinvested for 2020 and 2021	14	-	-
2.6	Identification of local tax exemptions solutions / capping the local tax on e-commerce sales	0	-	-
2.7	Identifying the level of optimal VAT rate for e-commerce in order to facilitate its development	76.4	-	-
2.8	Simplification of tax, accounting, reporting and other requirements and procedures for individual economic activities and micro-enterprises	0	455,9	4.6
2.9	Granting tax credits by developing the mechanism for paying tax obligations in installments during 2020-2021	0	-	400
2.1	Reducing the penalty for late payment of taxes and fees, social contributions and medical premiums during 2020-2021	39.7	-	400

2.11	Deducting the cost of maintenance and repair work of transport units on the basis of receipts issued by car repair and maintenance services, sellers of spare parts, etc.	-	-	-
2.12	Formulation of viable tax options for representatives of the creative industry (designers, staff responsible for sound and visual arrangements, etc.).	-	602,5	42.2
2.13	Examining the suitability of eliminating the tax for mobile phone services and portability fee in the amount of 50% from the payment for operation in exchange for the launch and provision by mobile operators of electronic payment services on advantageous conditions for citizens and entrepreneurs, as well the identification of another financing instrument of the Population Support Fund	90	-	-
2.14	Extending the term of application of tax incentives for the income tax provided for employees whose basic activity is " creating (software) programs "(art. 24 (para. 21) of Law No. 1164/1997 for the implementation of titles I and II of the Tax Code	-	-	-
2.15	Amending the legislation with a view to extend the deadline for submitting financial statements and the audit report to at least 31 May, preferably, however, would be the end of June, in line with European best practice (180 days from the last day of the management period)	0	-	-
2.16	Suspending the action of the norm which presupposes the sanctioning of businesses for paying in advance an amount different from that actually paid at the end of the year	0	-	-
2.17	Full deduction and non-consideration as incentives granted by the employer of expenses incurred by the company to ensure the fight against the effects of COVID or ensure compliance with the rules for preventing the spread of COVID	-	-	-
C.	**Providing state support for the development of the pandemic-affected private sector**	**2570.5**	**6413**	**3293.3**
3.1	Increase the ceiling of the Guarantee Fund for SMEs up to 1 billion lei	21.0	2650	1480
3.2	Accelerating the First Home program by offsetting banks' margin	91.5		1325
3.3	Simplifying procedures for registering the unemployed at the NEA and identifying solutions for increasing the budget for unemployment benefits and providing direct financial support to furloughed employees equivalent to the amount of the allowance	0	-	-
3.4	Analysis of appropriateness of state allocations that can only be used for catering units, in particular for persons registered as unemployed until obtaining the right to unemployment benefits	108	-	16.2

3.5	Increasing the National Fund for Development of Agriculture and rural environment, in order to implement measures on direct payments per hectare and per capita.	500	-	-
3.6	Stimulating the rehabilitation of centralized irrigation systems to mitigate the pedological drought	1500	2200	286
3.7	Initiating the development of infrastructure for the management and neutralization of animal by-products not intended for human consumption	-	-	-
3.8	Implementation of a public-private partnership solution in the area of distillation of wine for bulk sale and processing of waste from wine making	-	-	-
3.9	The creation of a grant program for small entrepreneurs in the area of agricultural production processing	8.75	21.4	8.6
3.1	Implementation of the local supplier development Program for the period 2020-2021	60	-	-
3.11	Providing financial support (national programmes / funds) to SMEs for the development of e-commerce	0	-	-
3.12	Developing the mechanism for stimulating industrial enterprises to implement new technologies	71.25	752,6	70.5
3.13	Granting permission to use public spaces (squares, parks, immovable property) for catering units during the pandemic	0	-	-
3.14	Implementation of the Program for the creation of multifunctional industrial platforms	150	710	74
3.15	Stimulating the development of green SMEs/ Greening SMEs	60	79	33
3.16	Development and implementation of the program " Second chance for companies in difficulty”	-	-	-
3.17	Implementation of the Raw Milk Monitoring Programme (RMMP) in accordance with EU requirements	-	-	-
	Total costs and benefits (million lei)	**3688.8**	**12859.5**	**4782.2**