

# Moldova 2015



**Total: 53.54**

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## Quick facts

Population:	3.56 million
Unemployment rate:	4 %
GDP:	7.94 billion \$
GDP growth rate:	4.6 %
GDP per capita:	2230 \$

## Political Freedom

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**Free and Fair Elections : 7.86**

The legal framework in Moldova provides a sound basis for the conduct of free and fair elections. While the November 2014 parliamentary elections were praised as genuinely competitive and generally well administered, still there were some significant deficiencies. The fiercely pro-Russian Patria Party was abruptly disqualified just days before the voting on the grounds that it received campaign funds from abroad, which is illegal. Meanwhile, a party whose name and symbols closely resembled those of the PCRM was allowed to participate, potentially confusing voters. The distribution of overseas polling places favoured residents of EU countries over those living in Russia. Nevertheless, the Constitutional Court approved the election results in early December, rejecting challenges by opposition parties. Moldova's multiparty system features rivalry and diversity within the loosely defined pro-European and pro-Russian camps. Moldova was credited by the Freedom House with a score of 12 from 16, the major challenges being the November disqualification of the Patria Party, which was accompanied by police raids on an affiliated "antifascist" movement, the reported seizure of arms and explosives, and the arrest of several members. Also, the Gagauz, a Turkic ethnic minority group in the country's south, enjoy regional autonomy, but their leaders complain that their interests are not well represented at the national level. Gagauzia held a referendum in February asking local residents whether they favored EU integration or a customs union with Russia. Amid 70 percent turnout, more than 98 percent backed closer ties with Russia, and nearly 99 percent supported secession if Moldova were to lose its independence—namely through a union with Romania. Moldova's central authorities deemed the vote illegal; a Russian businessman provided funding for it after a court barred the use of public resources.

## **Absence of Unconstitutional Veto Players : 5**

The institutional and legal framework of Moldova guarantees the independent functioning of the democratically elected government and restricts the existence of traditional unconstitutional veto players. The National Anticorruption Center (CNA) should ensure that this was upheld. Interest groups, however, wield power over various sectors of the economy and public life, which undermines public confidence in the state authorities. Corruption remains as a major problem in Moldova. The country's leading politicians regularly trade accusations of graft and illegal business activities. The politicization of anticorruption mechanisms became especially apparent during the partisan feuding of early 2013. The National Anticorruption Center (CNA), led by a PDM nominee, launched cases against PLDM cabinet ministers and allied officials. The CNA was then shifted to the government's control under legislation passed in May, reversing an earlier reform that had placed it under Parliament.

## **Freedom of Press : 4.5**

Moldova ranks 72 out of 180 countries in the Press Freedom index. The public broadcasting service has grown more impartial since 2009, while the entry of new private outlets into the market has added to the diversity of national news coverage. Internet penetration has increased in recent years to nearly 50 percent of the population. Access is limited only by high costs and underdeveloped infrastructure. Many media outlets are perceived as party affiliates, with wealthy businessman and PDM powerbroker Vladimir Plahotniuc reportedly controlling four national television stations, among other assets. In 2014, the Audiovisual Coordinating Council (CCA), the broadcast media regulator, repeatedly issued warnings and fines to television channels for violating rules that required pluralism and balance in news coverage. In January 2015, major cable services dropped three channels known for critical reporting on the government and for carrying Russian content, allegedly under political pressure. Following an outcry from international

institutions and local non-governmental organizations the channels were quickly restored. Reporters in Moldova sometimes face physical abuse, threats of violence, or selective exclusion from events of public interest.

## Rule of Law

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### **Independence of the Judiciary : 2.17**

Lack of independence of judiciary is the main obstacle to implementation of the rule of law in Moldova. There are more similarities with the neighbouring Ukraine than with the also neighbouring yet EU-member Romania. Prolonged post-1991 communist party rule with a facade of democracy and market economy, or a Soviet-era tradition of subordination of the judicial to the executive branch of government, or subsequent Russian influence and pressure, could all be among reasons for the obsolete and ruinous state of the Moldovan judiciary. Incompetence and corruption are widespread. Even after the regime change as of 2009 reforms of the judiciary were not the immediate priority. It was only in 2012 that some changes were initiated, following a reform strategy adopted in 2011. Since 2010, a third of the judges were replaced. Judges' wages have doubled and are envisaged to rise further. There were efforts made to reeducate judges. But in 2013-2014, draft legislation regulating criminal liability of judges for corruption met a strong opposition by parts of the judiciary, while some of its provisions are still under review by the Constitutional Court.

### **Corruption : 3.5**

Corruption in Moldova is widespread. Transparency International, in its Global Corruption Barometer 2013, noted that 80% of the citizens found the judiciary, 76% found the police - while 75% of them found political parties and also 75% the legislature - corrupt. The staggering 34% reported that they had paid bribes to judiciary during the last 12 months preceding the survey. Corruption is also very much present among public servants, in the health care sector and even in education. A more recent Transparency International's publication, the Corruption Perception Index 2014, puts Moldova to the place 103 (out of 175 countries), with the score 35. There was almost no advance as compared to 2013 or to 2012 (while the pre-2012 situation was indeed worse). Media ownership law is missing. National Anticorruption Center is still struggling for its autonomy from the government. It made some advancement in the struggle against corruption among public servants, but it is discouraged of investigating the high politics. Meanwhile, a grand scale banking scandal was revealed, whereby at least 870 million USD (ca. 14% of the Moldova's annual GDP) was misappropriated through bad or corrupt loans. It was followed up by a corruption scandal in the management of the biggest airport in the country. Those events have had serious effects on the political stability of the country, anyway faced with a continuous Russian media and economic pressure, separatism and unwanted presence of Russian troops in the Trans-Dniester region. In the latter, similar as in other territories of unclear jurisdiction, corruption, contraband and money laundering additionally flourish, because of the legal limbo, lack of proper international scrutiny and near-war conditions.

### **Protection of Human Rights : 5.85**

Human rights have been the only subcategory of the Freedom Barometer that showed a non-neglect improvement in Moldova in 2014. While comparing various elements of the Maplecroft's Human Risk Atlas index, this might largely be explained by less bad treatment of citizens by security forces and partially improved labour conditions (suppression of forced and involuntary labour and improvements for international migrant workers). Huge problems still remain regarding child labour. Minority rights are poorly protected. Homophobia is strong. Moldova's Contravention Code ("anti-propaganda law") as of 2013 breaches European standards regarding LGBT rights. In May 2014, an LGBT Pride March was nonetheless held in Chisinau. Except for the latter issue, NGOs are given relatively free hand to operate, perhaps because they play an important role in countering Russian propaganda and promoting the country's independence. According to Freedom House's report Freedom of the World 2015, in the rebel-held territory Trans-Dniester, which has been guarded by Russian troops since 1990s, the situation with human rights is far worse than in Moldova. Romanian/Moldavian native speakers are seriously discriminated - in education, politics or other areas of life. Small religious communities are often denied registration and harassed. The territory is a significant source and transit point of sex trafficking.

## Economic Freedom

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### Security of Property Rights : 4.58

Property rights in Moldova are mostly secure. However, there are many challenges to this issue due to the low judicial independence, which can be swayed to a certain legal stance by powerful vested interest groups and political elite. Court impartiality also remains a weak point of the judicial system as a whole. Reliability of the police is very low, thus increasing business cost of crime. On the other hand, registering a property is cheap and easy, increasing legal certainties and property rights. Enforcing contracts is within reasonable time schedule and with reasonable costs. Relations regarding ownership of public assets between the central and local governments are not always clear, which leads to underutilization of public resources. Ownership of the agriculture and forest land is restricted to Moldovan citizens, while foreign nationals can acquire land through inheritance only, albeit they can rent the land freely.

### Size of Government: Expenditures, Taxes, and Enterprises : 6.85

The size of government in Moldova is at the average of Eastern Europe. Public consumption stood at 39.7% of GDP in 2014, higher than in the previous year, due to the increase in public pensions in the election year. Robust growth has been present since 2009, apart from 2012 when agricultural output plummeted due to persistent drought, but growth is now expected to be negative due to political uncertainties and problems in export of agriculture products to Russia. High fiscal deficits that were recorded after the outbreak of the financial crisis were subdued by a successful fiscal consolidation program. Public debt is moderate, expected to reach 44.8% of GDP in 2015, but fiscal position of the public sector is increasingly unsustainable due to very high pension transfers which even will increase in the long term. Fiscal decentralization that is currently under implementation could lead to high fiscal risks due to the weak fiscal policy framework. In order to make fiscal decentralization viable, the collection of revenue resources by local

governments should increase and the management of local utility companies should be transformed as proposed by the Court of Accounts. There are still companies in state ownership, mostly in utility and energy sectors, but government portfolio also includes companies in telecommunications and banking, and an airliner. These companies, although not legally protected from competition, are able to obtain preferential treatment in the market. Income tax is progressive, with the tax rates of 7% and 18%, while corporate income tax is set at a low 12%. VAT's regular rate is 20%, and the reduced rate implemented for a limited number of products is 8%. Social security contributions are high, leading to an overall tax wedge on the average wage of 38.4%.

## **Regulation of Credit, Labour, and Business : 5.25**

Business regulation in Moldova is not too open to entrepreneurial activities. Starting a business is easy and inexpensive and the costs of tax compliance are not excessive. On the other hand, administrative requirements are very demanding, incurring high cost. Obtaining a construction permit or getting electricity are lengthy and expensive processes. This business environment leads to high levels of corruption in dealings between the public administration and the entrepreneurs. Inspection service and the customs administration are among the most corrupt public agencies. Labour code is mostly inflexible. Regulation of working hours allows for longer working periods in case of an increased workload, with a 6-day work week possibility, but it also imposes restrictions on the work during the night or on holiday days. Very short probation periods (up to two weeks) is another rigid regulation. Firing regulations are burdened with trade union notifications of redundancy workers, retraining or reassignment rules, as well as by the cost of dismissal, with the severance pay increasing with the years in tenure, itself protecting older workers while employed yet putting them at a disadvantage in the labour market. Obligatory military conscription of 12 months is a significant burden.

## **Freedom to Trade Internationally : 7.98**

Free trade is relatively well present, although Moldova thereby faces a lot of obstacles. Tariffs are low (average trade weighted tariff rate stands at 3.6%) but the problems lie in the field of regulatory non-tariff trade barriers, with mandatory bureaucratic requirements necessary to be fulfilled. Customs' documentation incurs cost due to the long schedules, while corruption within the department is present. The bad shape of the transport infrastructure hinders international trade by incurring high freight costs. Although almost all infrastructure is in bad shape due to low public investments, roads are especially stricken. Bearing in mind fiscal challenges that are an important obstacle to alleviating this problem, more involvement from international organizations for project financing or private sector involvement in concessions or other private-public partnership forms should be reconsidered. Moldovan main trade partners are Commonwealth of Independent States (CIS) countries, most notably the Ukraine and the Russian Federation, followed by the EU countries (Romania, Italy and Germany). Moldova has been a World Trade Organization (WTO) member since 2001, and of Central Europe Free Trade Agreement (CEFTA) since 2007, although trade distance, poor transport connections and low complementarity of economies result in modest levels of trade. The Association Agreement (AA) between the EU and Moldova was signed in June 2014, with its provisional application starting in September of the same year. As with other countries included in the European Neighbourhood Policy, the document put into effect the creation of a Deep and Comprehensive Free Trade Area (DCFTA), which is to further liberalize trade between the EU and Moldova. A free trade agreement with Turkey was also signed in 2014.