

Moldova 2016



Total: 50.7

Quick facts

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|--------------------|-------------------|
| Population: | 3.554 million |
| Unemployment rate: | 4.9 % |
| GDP: | 6.067 billion EMU |
| GDP growth rate: | -0.5 % |
| GDP per capita: | 1 710 EMU |

Rule of Law

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 neighboring Ukraine than with the also neighboring and culturally close EU-member Romania. The state of judiciary is obsolete and ruinous. Incompetence and corruption are widespread. During the past few years some changes were initiated, following a reform strategy adopted in 2011, but all were sabotaged by political interests. As Freedom House has reckoned in its report Nations in Transit 2016, further reforms were unlikely because neither political forces in power nor those in opposition were interested in the independent judiciary. A possible turning point might be the (first instance) conviction, in late June 2016, of the former PM Vlad Filat to 9 years in jail for “passive corruption”. The judicial system has also been compromised by the non-meritocratic promotion of judges and the selective justice applied to political competitors.

Corruption : 3.3

Together with the Dominican Republic, Ethiopia and Kosovo, Moldova is, with the score 33, sharing the rank 103 on the Transparency International's CPI 2015 list of 168 countries - a relative fall as compared to previous years. Kosovo and Moldova are the worst corrupt members of CEFTA. Corruption is widespread, especially in judiciary, among public servants, in health care

and even in education. Media ownership is not regulated whereby control is in hands of corrupt oligarchy. Still widespread public ownership facilitates grand corruption, especially in banking sector. Anti-corruption and integrity-enhancing independent bodies are weak, with no political will to strengthen them. In the eastern Trans-Dniester region, similar as in other territories of unclear jurisdiction, corruption, contraband and money laundering additionally flourish despite the attempts at economic integration with the rest of the country.

Protection of Human Rights : 5.9

Child labor and human trafficking hamper personal security and prevent equality of opportunities for many. Ambiguous attitude of authorities towards freedom of speech, media and association reflects on the position of CSOs. Anti-discrimination protection of LGBTs, especially transgender, is inadequate. Amnesty International warned that hate crimes are not properly addressed. Hate speech goes unpunished. Pride march needed heavy police protection. Small religious communities are often denied registration or harassed, while the main church is favored and sometimes aggressive. Positive developments include, according to UN reports, increasing participation of women in politics. In the rebel region of Trans-Dniester, human rights` situation is worse than in the mainland, especially regarding personal security, education and minority rights.

Political Freedom

Free and Fair Elections : 7.5

Political parties are able to operate and function freely in Moldova, expressing diverse opinions. Last Moldavian parliamentary elections in 2014 were partly free and fair, with certain violations of the electoral process. Most notably, Patria party which represents pro-Russian attitude was disqualified from the electoral process due to their campaign financing which had come from abroad. After long negotiations, the government was built. However, throughout the whole observed period, it was characterized with instability and disagreements. Incumbent Prime Minister from the Democratic Party, Pavel Filip, is the 5th person in this position since the beginning of the 2015 and the creation of the first government. Local elections took place in June 2015, only two days after resignation of prime minister and, unlike parliamentary, these elections were considered as free and fair.

Absence of Unconstitutional Veto Players : 3.33

Democratically elected authorities in Moldova hold certain level of power to govern the country. Weak efficiency of the system of checks and balances, together with a high rate of corruption, creates a space for wealthy oligarchs to undermine the decision making processes. According to the Freedom House Nations in Transit report, many prominent corruption scandals and much of the government instability were caused by the confrontation between two oligarchs, Vlad Filat and Vlad Plahotniuc. Government doesn't have the control over its complete territory, referring to Transdnestrria—an autonomous territorial unit with special legal status which is according to UN a part of Moldova. This part is de facto under Russian control and they often use it to pressure country's politics.

Freedom of Press : 4.4

The press in Moldova has a status of partly free. Numerous traditional and online media outlets are trying to express as diverse as possible opinion on everyday politics, but reporting journalists are often under pressure from the owners and governing structures. Due to this and to the bad economic situation in the media, self-censorship is often practiced among journalists. Problem of concentration of the ownership in media outlets was acknowledged during March, after a law, aiming to disclose ownership structures and make the ownership process transparent, came into effect. Manipulation with the events in Ukraine led to a large fine for four television stations and a suspension of Rossiya 24, throughout 2015. Verbal and physical violence towards journalists is rare. Increased number of cases of investigative journalism is a good signal of future development of freedom and democracy in Moldova.

Economic Freedom

Security of Property Rights : 4.56

Property rights in Moldova are mostly secure. However, low judicial independence due to the strong influence of politically and economically strong groups is seen as one of the major problems in the judiciary. Judicial sector is weak, and judicial malfunctions involve dubious proceedings. Reliability of the police is very low, thus business costs connected to prevention of damages caused by crime are perceived as high. On the other hand, registering a property is inexpensive and efficient, due to reformed cadastre and notary services. Insolvency system has recently been improved by the introduction of licensing for insolvency administrators and supervisory bodies for their work. However, these procedures are still slow and plagued with high costs and very low recover rates. Enforcement of contracts is also characterized by lengthy procedures due to the lack of clear adjournment rules and by high enforcement costs. Division of ownership of public assets between the central and the local governments is not always clear, leading to underutilization of public resources. Foreign nationals face restrictions in ownership of the agriculture and forest land, which is restricted to Moldovan citizens only. Foreigners can acquire land through inheritance only, but they can lease it freely. Moldova has eliminated economic and commercial courts, so all the cases are litigated at general courts.

Size of Government: Expenditures, Taxes, and Enterprises : 7.05

The size of government in Moldova is at the average of Eastern Europe, with public expenditures reaching 38% of GDP in 2015. Moldova has recorded another, yet mild, recession in 2015, after years of growth. Public debt can still be considered as moderate, reaching 41% of GDP in 2015, but fiscal position of the public sector is increasingly unsustainable, exacerbated by an increase in the already high pension transfers. A stand-by arrangement with the IMF is expected to support another fiscal consolidation program. High recorded inflation is expected to be substantially decreased. SOEs are still present in many areas and hold monopoly status in some. Major government-controlled companies are public utilities and electrical distribution, but also the largest

tobacco company, air carrier, railway company and telecom operator. In 2014 and 2015, privatization was mostly done as a part of private-public partnerships. Since early 2016, the government is considering new plans for privatization of state companies. Although private companies are not legally discriminated against, these SOEs sometimes obtain preferential treatment in the market. Income tax is progressive, with tax rates of 7% and 18%, while corporate income tax is set at a low 12%. Regular VAT rate is 20%, while a limited number of products is taxed by the reduced rate of 8%. High social security contributions coupled with income tax lead to an overall high labour tax wedge.

Regulation of Credit, Labour, and Business : 5.13

Business regulation in Moldova poses many problems to free conduct of entrepreneurial activities. Starting a business is easy and inexpensive. Tax-compliance red tape is not excessive. The procedure has been made even easier by abolishing an inspection by the Territorial State Fiscal Inspectorate. On the other hand, getting electricity is a lengthy and expensive procedure, and obtaining a construction permit is also a long process due to inefficiently high number of procedures. An environment with many bureaucratic procedures leads to high levels of corruption and extortions from public administration. A widespread corruption, as well as policy instability, are perceived as the most important deterrents to a business environment that would be conducive to growth. Labour code is mostly inflexible. Regulation of working hours takes both flexible and inflexible characteristics, allowing for longer working periods in case of increased workload, with a 6-day work a week as a possibility, but also restricting work during the night or on public holidays. Another rigidity is a very short probation period, up to two weeks. Firing regulations are burdened with trade union notifications in case of redundancies and with retraining or reassignment rules. Redundancy rules protect more seasoned workers, with severance pay increasing with the years in tenure. Another significant burden is the 12-month obligatory military conscription.

Freedom to Trade Internationally : 7.36

Freedom of trade is generally protected in Moldova, but there are many problems in this field. Tariffs are low, standing at 4.6%, but regulatory non-tariff trade barriers are burdening imports. Custom documentation could be a lengthy procedure, especially with exports. Corruption remains present within the customs department. Although - legally - national treatment is secured for foreign companies, public officials might favour domestic companies through regulation, a clear example of which being the environmental tax on imported bottles, while this tax isn't levied on bottles produced in Moldova. Freight cost elevated by poor transport infrastructure also hinder international trade. 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 the Central Europe Free Trade Agreement (CEFTA) since 2007, and also has a number of bilateral trade agreements. The Association Agreement (AA) between the EU and Moldova, signed in 2014, is now in implementation, since its full ratification by all parties concerned. Moldova has ratified WTO Trade Facilitation Agreement (TFA). Once implemented, it is expected to further lower trade barriers in customs clearance. Furthermore, Moldova has also joined the Government Procurement Agreement (GPA), which will provide the level playing field for domestic and foreign companies and goods in the area of public procurements.