

# Moldova 2018



**Total: 51.81**

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## Political Freedom

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### **Free and Fair Elections : 7.5**

Citizens of Moldova are able to cast their votes and elect representatives in a free electoral process however the fairness in the political playing field has been a matter of concern ahead of the parliamentary elections next year. After switching presidential elections from indirect to direct ones, electoral system for 101-seats parliament was also changed, from a party-list proportional representation to mixed member proportional representation. Adopted changes of the electoral law were backed by the ruling Democratic Party of Moldova (PDM), the European People's Party of Moldova (EPPM) and the main opposition Socialist Party of Moldova (PSRM). The move was widely criticized by domestic and international observers, as it would mostly benefit the position of the PDM and PSRM amid the rise of new political forces. Uneven access to media and political financing are also undermining factors of the electoral fairness. In mayoral elections for the City of Chisinau - capital of Moldova - in the mid of 2018, opposition leader from Dignity and Truth Party (DA) Andrei Nastase won in the second round of elections, defeating a candidate backed by President Igor Dodon. However, results were annulled by the court on the ground of technical irregularity of alleged use of Facebook for canvassing voters on the election-day. This outcome triggered protests in Chisinau and was condemned by the EU, raising concerns that there was political background of the decision. After the Liberal Party (PL) withdrew from the ruling coalition, government was reshuffled several times, while the process was in many cases blocked by the President Dodon. After blocking the process two times, he was suspended by the Constitutional Court and replaced by the parliamentary Speaker, who signed a decree of appointing new ministers in the Prime Minister Pavel Filip's cabinet.

### **Absence of Unconstitutional Veto Players : 4.17**

Constitution provides legal framework to elected public officials in Moldova to govern without interference. However, the decision making processes and democratic procedures are often influenced and hindered by close ties between business and political elites, high level corruption among officials, weak system of checks and balances, or influential non-state actors. The executive and the legislative are dominated by the leader of PDM – Vladimir Plahotniuc - an oligarch and media mogul who is often accused of “pulling the strings from behind” and of having a decisive role in country's politics. Independence of judiciary was questioned on several occasions, pointing at a politicization of court decisions. Most notably - in the case of annulling election results in the City of Chisinau. Orthodox Church has got a significant influence on shaping public opinion in Moldova. It does not restrain from interfering into political decision making.

## Freedom of Press : 4.4

Freedom and independence of media in Moldova are limited. There is a wide range of printed, broadcast and online media outlets, whereas diversity of views they are expressing is undermined by unclear media ownership and extensive control over media market by wealthy businesses. Weak democratic institutions prove to be unable to put adopted legal framework of ownership limitations (to two outlets) into practice. Although not on paper, Vladimir Plahotniuc dominates the television media market, while around 70% of the outlets are estimated to be clearly serving his personal business and political interests. Economic and political pressure is used to shape editorial policies of the outlets, resulting in their biased reporting. Journalists are often targeted by harsh rhetoric and verbal violence coming from public officials. They are subject to separation on pro-government media and those critical of the government. Thereafter, self-censorship is often practiced by reporters.

\* Press freedom score will be updated after data from primary source have been published. For more information see Methodology section.

## Rule of Law

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### Independence of the Judiciary : 2.17

In August 2017, portal GAN reported that Moldova's "judiciary is one of the weakest in the world in relation to independence from the political elite" and that "judges and prosecutors regularly extort bribes in exchange for reducing charges or imposing milder penalties". Freedom House notes that courts are politically biased or pressurized when judging in politically relevant cases, to the benefit of the ruling vs. opposition party people, or the central vs. local governments. Several of such cases were held behind the closed doors. Meanwhile, conditions in prisons are deteriorating, with a sharp rise of the number of detainees and increased mortality rate among them. Since 2011, each government has launched its own reform of judiciary, promising to change the obsolete, inefficient, biased and corrupt system, but none of those went much far. Lack of progress regarding the most recent reforms led EU, in October 2017, to cut its budgetary support to those and stop the payment of the last tranche.

### Corruption : 3.1

Slow post-Soviet era transition to democracy and market economy, as well as the burden of separatism in the east, have left widespread public ownership in the economy, or enabled oligarchs to grasp it cheaply, without proper institutions built to provide for transparency. Thus, both high level and petty corruption are pervasive. Former also includes participation of the financial authorities in the international money laundering schemes. Latter is mostly present in education, healthcare and police. Few of the corrupt are exposed while even fewer get convicted, because corruption is widespread in courts as well. Official anti-graft initiatives and campaigns have failed to reduce it. The main anti-corruption body NIA has slowly transformed according to

the 2016 reform and remained dysfunctional until end-2017. Portal GAN claims that “Moldova’s public officials commit acts of corruption with impunity.” Freedom House has warned of a selective justice and excessive politicization of the anti-graft struggle in 2017 - namely, none of the recently accused were from the ruling party. Transparency International, in its CPI 2017 ranking, put Moldova to share places 122-129/180 with just 31/100 points. It is just a bit better than neighboring Ukraine (30), or Russia (29), while far worse than another neighbor, an EU-member Romania (48 points). Moldova is the worst corrupt country of all seven members of CEFTA.

## **Protection of Human Rights : 5.74**

Human rights` situation worsened during the past year. Unfair trials and ill-treatment in detention are common, with judges being obvious accomplices. The position of ethnic minorities such as Roma, or Gagauz, is a matter of concern despite government efforts to improve it. Anti-discrimination laws to protect LGBTs as individuals, let aside their partnerships` equality, are lacking. Homophobia comes straight from the presidential office and spreads throughout – anyway predominantly conservative and traditionalist - society. But the gravest threat to women`s (and other human) rights in Moldova is human trafficking. The country is both the one of origin and the one of transit. Moldova signed the Istanbul Convention on prevention of violence against women and vulnerable groups as late as in February 2017, while ratification is still pending. On the positive side, civil society is active despite occasional attacks on CSOs. In autumn 2017, the latter managed to stop the draft law on NGOs which discriminated against recipients of foreign financial support for their projects or against those who dealt with politically relevant themes.

## **Economic Freedom**

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### **Security of Property Rights : 4.6**

Property rights in Moldova are mostly secure. As in many other countries with weak institutions, the problems in this area are not due to the quality of the regulatory environment but mostly to low judicial independence and strong influence of politically and economically connected groups. Judiciary lacks integrity and favouritism and corruption are still present. Enforcement of contracts is very slow, lasting more than a year and a half on average, and litigation costs are very high. There are no courts that are specialized in commercial cases only. Recent changes in the judiciary, such as the optimization of court network and encouragement of the mediation, are yet expected to bear any significant results. Insolvency processes are also very slow due to the high number of procedures, and could last up to 3 years, with very low recovery rates of only 28% on the average. At the same time, registering a property is inexpensive and efficient, due to reformed cadastre and notary services, but the coverage of land with clear titles is restricted mostly to urban areas. Division of ownership of public assets between the central and the local governments is not always clear, leading to under-utilization of public resources. Foreign nationals face restrictions in ownership of the agriculture and forest land, since it can only be owned by the Moldovan citizens, while foreign nationals can only lease the land. There is also a rule that restricts land ownership to local companies without foreign capital.

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

### **7.1**

The size of government in Moldova is near the average level of comparable countries of Eastern Europe, with public expenditures reaching 36% of GDP in 2017. The economy is experiencing a robust growth of 4.5% in 2017, which is supported by a strong private consumption and rise in exports, but it is expected for growth to moderate in the following years. Fiscal discipline in the election year remains an open question, but rise in fiscal revenues and decrease in subsidies and interest payments provide a solid foundation for it. The deficit therefore was decreased to -0.8% of GDP in 2017, but it is envisaged to surpass -3% in 2018 while public debt would be kept near the level of 44% of GDP, which is in line with the 3 year IMF backed program approved in November 2016. Main fiscal risks stem from the unsustainable pension system and demographic changes that are expected to increase these expenditures, but also from unreformed local government system and SOEs. Recent parametric changes that increased compulsory retirement age were envisaged to alleviate some of the problems in this regard (these reforms also included all the public sector employees in the general contributions system) but for a real impact more efforts are needed. Unification of different tax administrations into a single public entity – the State Tax Service - has led to a significant reduction in shadow economy and increase in revenues as compared to previous years. SOEs are still present in many areas and the most important government-controlled companies are public utilities and electrical distribution, but also the largest tobacco company, the air carrier, the railway company and the fixed line telephone operator. Private companies are not legally discriminated, but SOEs can use close political connections for obtaining preferential treatment in the market. The Moldovan government plans to register SOEs as joint stock companies in order to increase the transparency of their conduct. Privatization stalled after 2013 – but the government held three big rounds of privatization for state assets in 16 companies. The privatization has historically been perceived as rigged and prone to corruption. Income tax is progressive, with tax rates of 7% (approximately up to the half of the average wage) and 18%, while corporate income tax is set at a low level of 12%. General VAT rate is 20%, while a limited number of products, such as foodstuffs, are taxed by the reduced rate of 8%. High social security contributions coupled with the PIT lead to a high labour tax wedge of 40% on the average wage. The tax system is not well organized and coherent, with many tax incentives and deductions, including the special single tax on IT employees, in place since 2017.

## **Regulation of Credit, Labour, and Business : 5.2**

Business regulation in Moldova is not overly too business-friendly. Corruption among the public administration, inconsistent government policies and uncertainty in implementation of the rules and procedures continue to burden the business environment. The government has a wide program of regulatory changes, but their record of execution is not flawless. Recent positive changes are establishment of the Agency for Public Services in 2017 as a one stop shop for businesses and citizens in their dealings with the administration, by merging the State Registration Chamber, Licensing Chamber, Land Registry and other entities; and the New Banking Law that came into force on 1 January 2018, which was passed in order to strengthen bank governance and risk management after the massive bank fraud in 2014. Starting a business in Moldova is easy and may take just a couple of days, and there is no paid-in minimum capital. Tax-compliance red tape also is not excessive, with few annual payments and high incidence of online services. On the other hand, obtaining a construction permit is a long process, due to inefficiently high number of procedures, which could involve not only many documents as a prerequisite but also discretionary

decisions of the public administration. Getting electricity is also lengthy, due to many expensive procedures, even though the new legislation eliminated inspection by the state energy inspectorate for smaller electricity consumers. Corruption and political instability are perceived as the most important deterrent to a better business environment. Labour code has both flexible and inflexible characteristics. On one hand, the maximum length of a fixed term contract is as long as 5 years, enabling a 6 day workweek in the case of increased workload, and fat notice periods; while on the other there are restrictions on night work or on public holidays, firing regulations are burdened with trade union notifications in case of redundancies and with retraining or reassignment rules. Redundancy rules also protect more seasoned workers, with severance pay increases as years in tenure rise. Another significant burden is the 12-month obligatory military conscription.

## **Freedom to Trade Internationally : 7.83**

Freedom of trade in Moldova is generally respected. Apart from other countries in the region which are members of either the EU or of the EEU, Moldova conducts its own trade policy. The country has been a member of the WTO since 2001 and of the CEFTA since 2006. Tariffs are relatively low, with the simple average Most Favored Nation (MFN) applied rate standing at 5.3%, which is almost at the same level as the EU. However, regulatory non-tariff trade barriers such as technical standards impede trade and burden imports. Custom documentation could be a lengthy procedure, especially regarding exports, although only 7 documents are needed. Corruption and partial treatment with the customs department are still present. Poor transport infrastructure also hinders international trade, by increasing freight costs, especially the poor quality of roads, but one of the 7 reform pillars of the government concerns capital investments in this regard. Although national treatment for foreign companies is secured, public officials might favour domestic companies through regulation, a clear example being the environmental tax on bottles from imports. Main Moldovan trade partners are EU countries (the most important one being Romania, followed by Italy and Germany) which comprise more than 55% of the overall trade. Trade with the EU is conducted via the Association Agreement (AA) signed in 2014, which stipulates creation of the Deep and Comprehensive Free Trade Area between them. The government adopted the national 2017-2019 plan for adoption of the necessary trade rules for its implementation, and a significant reform in the area of sanitary and phytosanitary regulations has been made. In June 2016, Moldova ratified the revised Government Procurement Agreement (GPA), lowering barriers towards foreign companies competing in public contracts in the country, and the Trade Facilitation Agreement of the World Trade Organization that is envisaged to enhance the clearance of trade flows and transit.