

Moldova 2019



Total: 56.54

Quick facts

Population:	3.544 million
Unemployment rate:	3 %
GDP:	11.309 billion \$
GDP growth rate:	4 %
GDP per capita:	7310 \$ PPP

Political Freedom

Free and Fair Elections : 7.14

The way the reviewed period in Moldova started, the same way it ended – with turbulent political events and democratic crisis. Firstly, in June 2018, mayoral elections for the capital City of Chisinau were held. Opposition leader from the Dignity and Truth Party (DA) Andrei Nastase scored victory in the runoff, defeating the candidate backed by President Igor Dodon. However, the results were annulled by the court, on the grounds of technical irregularities, regarding the alleged use of Facebook for canvassing voters on the very election-day. Repeated elections haven't been held until July 2019. Moldova parliamentary elections were held in February 2019. These were the first elections under new electoral system, meanwhile changed from a party-list proportional representation to mixed member proportional representation. According to OSCE, elections were competitive and fundamental rights were generally respected, but they were "tainted by allegations [of] pressure on public employees, strong indications of vote buying and the misuse of state resources". Also, long-standing problems of unbalanced media coverage for all contestants and party financing were noted, further undermining electoral fairness. Four parties managed to pass the threshold and enter the parliament, namely Socialist party (PSRM) with 35 seats, Democratic Party of Moldova (PDM) with 30 seats, coalition between DA and the Party of Action and Solidarity (PAS) with 26 and Sor Party with 7 seats. Results were approved and officially announced on the 8th of March. As the deadline of 3 months (90 consecutive days) to form a government was ending without any coalition agreement, political situation heated up. On the 8th of June, DA, PAS and PSRM finally reached agreement to form a government. However, president Dodon refused to dismiss the previous government, on the basis that the period of 90 consecutive days had expired, while the parties that had reached the agreement argued that the

period of 3 months had not. This situation triggered another political crisis in Moldova, which was unexpectedly resolved on the 15th of June with the formation of the government led by PM Maia Sandu.

Absence of Unconstitutional Veto Players : 3.33

Democratic procedures and institutions in Moldova are often hindered by the strong influence of wealthy oligarchs onto political structures, high-level corruption among officials, weak system of checks and balances, or influential non-state actors. Led by Vladimir Plahotniuc - former leader of PDM, businessman and media mogul - the oligarchs often use their economic power to navigate country's politics. Even without holding any public office, Plahotniuc has been perceived as the key figure in all political developments in recent years. 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. Also, during the crisis, in the middle of 2019, constitutional court adopted a request, filed by PDM, to have dismissed president Dodon, due to his inability to replace government. Pavel Filip, a former prime minister, was appointed to that position. As the crisis was resolved, all constitutional court judges, including their president, announced resignations. Moldovan 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 : 6.88

Moldova deteriorated by 10 places in the Reporters Without Borders 2019 World Press Freedom Index, holding 91st position as of this year. Reasons for this are unresolved problems of media ownership concentration and transparency thereof, editorial pressure on journalists as well as intimidation and harassment against them, growing self-censorship, and fraudulent media advertising schemes that favor outlets which tend to follow governmental narrative. Ownership structures of the main media outlets are opaque, while, according to international watchdog organizations, Vladimir Plahotniuc dominates the television media market, with estimated 70% of the outlets clearly serving his personal business and political interests. Extensive economic and political pressure is used to limit independent and non-biased journalism. Many outlets are on the "edge of existence" due to economic instability. Many reporters are practicing self-censorship. Journalists are often targeted by harsh rhetoric and verbal violence, coming from public officials. On the other hand, a positive step towards more press freedom was the introduction of the new Audiovisual Media Service Code, in January 2019, itself aiming, among other goals, also at de-concentration of media ownership, increase of transparency in the sector, better protection of journalists and better regulation of editorial independence.

Rule of Law

Independence of the Judiciary : 4.59

Judiciary in Moldova lacks independence from political pressure. In high profile cases, especially politically sensitive ones such as of disputed mayoral elections in the capital Chisinau in June 2018, Supreme Court showed its weakness to political influences. Judges lack security of tenure and might be dismissed or even tried for their decisions. Appointment of judges is not transparent

and politically neutral or blind. As Freedom House noted, due process was often lacking in the Moldovan justice system. Equal access to justice is questioned not just because of direct political pressure but also of generally obsolete judicial system, too many trials behind closed doors, backlog of cases, lengthy pretrial periods and occasional prosecution of human rights lawyers. Besides, as portal GAN notes, “risks of corruption in Moldova`s judiciary are very high”. Conditions in prisons are deteriorating, being inhumane and degrading, with a sharp rise of the number of detainees and increased mortality rate among them. In the breakaway region of Transnistria, situation with judiciary, prisons, or legal security in general, is even worse.

Corruption : 3.3

Regarding corruption, Moldova is the worst of all seven members of CEFTA. For years and again the situation has not improved. With just 33/100 points, the country took places 117-119 in the 2018`s Transparency International`s CPI ranking. As Freedom House notes in 2019, „corruption remains a widespread problem at all levels of government, and existing anti-corruption laws are inadequately enforced.” A notorious banking scandal as of 2014, when one billion USD were stolen from the banking system due to lack of supervision by the Central Bank, is still far from its judicial finale. In another yet possibly connected high profile case, former PM Vlad Filat had been sentenced to 9 years in prison on abuse-of-office and corruption charges, but was released after having had served four and half years. Since 2016 there were a few attempts at “fiscal amnesty” of the assets with no clear records of origin. The last one so far, carried in July 2018, stipulating legalization upon 3% taxation, was revoked in June 2019. The underlying causes of the situation might be found in a slow post-Soviet era transition to democracy, rule of law and market economy. Also, there is separatism in the east and some legal limbo therein. All those left the country with widespread public ownership in the economy, or enabled oligarchs to grasp it cheaply, without proper institutions built to provide for transparency and monitoring of financial flows.

Protection of Human Rights : 6.23

Human rights in Moldova are insufficiently protected. The situation is worse than in the neighboring Romania. Some personal freedoms, such as those of thought, or expression, are by and large upheld, while some are still seriously challenged. On the bright side, also freedom of movement, including between mainland-Moldova and breakaway Transnistria region, was upgraded in 2018, through a number of agreements that enabled citizens to commute across the disputed lines or to third entities. On the darker side, citizens` and organizations` right to privacy is endangered by uncontrolled wiretapping by police and/or secret services. Moldovan Orthodox Church (to which ca. 90% of the population belonged) has had a de facto privileged position while some religious minorities complained they were discriminated. Ethnic minorities such as Gagauz also complain thereof. Being numerous and very active, NGOs sometimes suffer smear campaigns by pro-government actors, or wiretapping, or discriminate justice, or exclusion from the social mainstream. In May 2018, they faced some new legal restrictions as well. Women are inadequately protected against domestic violence. Human trafficking remains a major issue, whereby Moldova is both a country of origin and of transit for traffickers and their victims. There is no recognition of same-sex unions. Societal climate is very much homophobic. LGBTs` protest marches have been legally held, but only under heavy police guard and amid violent incidents caused by opposing traditionalist groups.

Economic Freedom

Security of Property Rights : 4.84

Property rights in Moldova are mostly secure, but are not fully protected. The main problem in this area is weak judicial independence from the executive power, which can be used to influence the court decisions and gain competitive advantage. Low judiciary integrity can also be attested through corruption and nepotism. Enforcement of contracts is very slow, lasting more than a year and a half on average, while litigation costs are very high. There are no specialized commercial courts, which could lead to differing verdicts among local courts, due to different resources and knowledge among the judges. Although overall trial time standards have been drafted, they are seldom implemented in practice, due to weak procedural rules and a high number of backlog cases. Recent changes in the judiciary, such as optimization of the court network and encouraging mediation, are yet expected to bear any significant results. The judicial reform, reorganizing the system, is expected to be terminated only in 2027. Civil procedures` code has recently been amended so as to establish a simplified procedure for small claims. Insolvency processes are also very slow, due to the high number of procedures, which last almost 3 years on average, resulting in very low recovery rates of only 30% of the claim. 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. Although there are no formal restrictions on foreign control of property, foreign nationals cannot own agriculture or forest land, not even through a local domiciled company with foreign capital, yet they can lease it.

Size of Government: Expenditures, Taxes, and Enterprises : 7.23

The size of government in Moldova is near the average level of comparable countries of Eastern Europe, with public expenditures reaching 31.5% of GDP in 2018. The economy is experiencing a robust growth of 4% in 2018, supported by a strong private consumption and rise in exports, but it is expected for growth to moderate in the following years. The recorded deficit stood at the moderate level of -1% of GDP in 2018. Public debt has been in decrease since 2015, standing at 30% of GDP in 2018. However, the government has been involved in several dubious reform moves, such as the implementation of tax and capital amnesty laws in July 2018 (enacted in order to raise new revenues). These laws basically legalized significant funds that were made through illegal means, and created a very dangerous precedent, sending a signal that tax evasion could be lucrative. This measure in fact led to the suspension of the IMF program, itself approved in November 2016. Public pensions system is unsustainable due to the high dependency ratio, while demographic changes are expected to increase these expenses, since the Moldovan working age population will shrink significantly in the upcoming decades due to low birth rates and a high emigration rate. Recent parametric changes that increased compulsory retirement age (these reforms also included all the public sector employees in the general contributions system) are not enough for a significant improvement of the situation. Shadow economy remains widespread in the country, even though unification of different tax administrations into a single public entity (State

Tax Service) has led to an increase in public revenues due to curtailing of undeclared work through better inspection capacities.

Even though several privatization waves significantly reduced the scope of government involvement in the economy, SOEs are still present in many areas. The most important government-controlled companies are public utilities and electrical distribution, but also the largest tobacco company, the railway company and the fixed line telephone operator Moldtelecom. 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 was mostly stalled after 2013 – but the government put more efforts to the process in recent years through several rounds of privatizations for state assets, including Air Moldova, itself privatized in October 2018, and the Vestmoldtransgaz gas company, privatized in August. The government also plans to sell its stakes in the telecom operator and power distribution companies, but these remain uncertain. 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 the 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 approximately 35% 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. Social security contribution rate paid by the employer has recently been incrementally lowered, but the environmental tax has been increased.

Regulation of Credit, Labour, and Business : 5.2

Business regulation in Moldova is not business-friendly. Bureaucratic procedures are not always transparent, and administrative procedures can often be unnecessarily long and burdensome. Public administration suffers from a high level of corruption, supported by a significant degree of discretionary power for public officials. Laws and regulations are inconsistently applied, which can create competitive advantage for some business players. Although the government adopted several important regulatory reforms in recent years in order to improve the quality of business environment, their actual implementation remains partial at best. In 2018, significant reforms concerned central public administration, which reduced the number of entities that could engage in inspection of business activities, while some ministries were combined together or eliminated. This included the bundling of the State Registration Chamber, Licensing Chamber, Land Registry and other entities into the new Agency for Public Services. Starting a business in Moldova is easy and may take just a couple of days. There is no paid-in minimum capital. The process was recently made incrementally more efficient by removing the requirement to file separately a registration with the national statistics bureau. On the other hand, obtaining a construction permit is a long process, taking up to 9 months on average, 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, on the other hand, is not overly complex, yet it is very expensive. Labour code has both flexible and inflexible characteristics: 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 notice periods that do not rise with years in tenure; while on the other hand there are restrictions on the night work or work on public holidays, plus that 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 increased as years in tenure rose. A 12-month obligatory military conscription is another significant burden, especially on younger workers.

Freedom to Trade Internationally : 7.8

Freedom of trade in Moldova is generally respected. Moldova is one of the few countries in the region that is not a member of an economic union, such as the EU or the EAEU, so it conducts its own national trade policy. The country has been a member of the WTO since 2001, and of the CEFTA since 2006. Moldova also 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. Tariffs are relatively low, with the simple average Most Favored Nation (MFN) applied rate standing at 5.3%, which is almost on the same level as the EU, although agriculture tariffs are double this level. However, regulatory non-tariff trade barriers such as technical standards impede trade and burden imports. Compliance with custom documentation could be a lengthy procedure, especially for imports. Corruption and partial treatment with the customs department are still present. Poor transport infrastructure also hinders international trade, by increasing freight costs. It goes especially for the poor quality of roads, even though there have been increased efforts to rehabilitate the existing and build new ones. Although national treatment for foreign companies is secured, public officials might sometimes favour domestic companies through regulation, a clear example thereof being the environmental tax on imported bottles (which is levied on the goods imported, but not on the goods produced in Moldova). There are also problems regarding custom valuation of imported goods, since the custom service often uses the maximum possible value in order to increase tariff revenue, even though their actual purchase level has been lower. 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, eliminating tariffs on industrial and most agricultural products. Currently, there are 7 operating free economic zones in Moldova, but these tools for trade liberalization have not been utilized to the full extent.