



FREEDOM BAROMETER

Europe Edition 2019

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**FRIEDRICH NAUMANN
FOUNDATION** For Freedom.

East and Southeast Europe

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FOREWORD

Dear reader,

The Friedrich Naumann Foundation for Freedom is dedicated to promoting freedom and open societies worldwide. The current political climate in most parts of Europe imparts a widespread perception as one of democratic decline. Some unsuccessful and failed democratic transitions in the region have resulted in the focus shifting slightly from building liberal democracy to capacity building of an efficient state apparatus. In many of the countries in the region, the work of freedom fighters and liberals has become not about deepening democracy but preventing it from sliding back into a semi-authoritarian and illiberal mode. During the last year, the progress to more freedom was rather slow if any. In fact, media freedom has deteriorated quite significantly in many of the countries. Freedom of expression and media freedom is and has always been regarded as principle and basic value and right in the region. However, journalists are still exposed to serious threats and constraints (the murder of journalists in Malta and Slovakia, the verbal and physical attacks in Serbia and Montenegro, the harassment by state-owned media in Poland).

The modern context is one of intensified confrontation between ideas and concepts relevant to the advancement and the protection of our freedoms and responsibilities and reality of violations of human rights and deteriorating democratic governance. For this reason, it is of high importance to have good measurements and assessment tools for the debate. The success or failure of certain measure and policies can only be evaluated if the efficiency of certain indicators related to it are constantly being observed and measured.

Since 2013, the FNF Freedom Barometer shows how non-action of politics and civil society alike might confirm stagnation, might lead to the erosion of democratic standards (such as in Hungary and Poland) or to further alienation between the citizen and the state. Thirty scrutinized countries ranging from Belgium to Tajikistan may give you a mosaic of successful approaches and failures in old and new democracies.

By bringing together information, data and indicators from existing, well-respected sources, the Freedom Barometer Index explores the economic and political freedom, as well as the rule of law and comparing them in different countries and societies. In that regard, we do not intend to reinvent the wheel but to recombine them in such a way that they reflect our liberal values. The Freedom Barometer reflects the views we have of desirable institutions and organizations that preserve our fundamental freedoms. The main purpose of the Index is to lay the foundation for conversation and debate, thereby contributing to the promotion of freedom.

I am very proud to present to you our newest edition and, as with previous issues, hope you enjoy foraging through the material of Freedom Barometer 2019.

Dr Rainer Adam

Head of the Regional Office for East and Southeast Europe

Friedrich Naumann Foundation for Freedom

TRENDS IN 2019 FREEDOM BAROMETER EDITION

A. POLITICAL FREEDOM: In decline

Negative developments in the Political Freedom section of the Freedom Barometer 2019 Europe Edition continued to shape political landscape of majority of the countries covered, marking yet another year of democratic decline. Support to autocratic and undemocratic tendencies in societies, populist rhetoric, manipulation of public opinion and crackdown on independent institutions or even media, were all trends that had a huge impact on deterioration of democracy. Electoral process is rather an uneven political playground aiming to serve ruling parties than a means to protect, strengthen and foster democracy. Free and Fair Elections indicator declined in 7 out of 15 countries, while it improved only in 2. Undermining the system of checks and balances and controlling democratic institutions outside of positions of power goes hand in hand with autocratic tendencies, themselves present in majority of the countries covered by this Index. While media outlets - if fulfilling their proper role of informal control tool over government and institutions - are perceived as “enemies of the state”. Otherwise, they serve as state propaganda mouthpiece and tool of control of the public opinion. Few positive changes were reserved for the countries which previously went through serious democratic decline, most notably for Armenia – a country which had a democratic transition of power and engaged into electoral-system transformation with intention to strengthen democracy - and to some minor extent for North Macedonia – which successfully managed a change of name and has currently been facing much calmer and stable political period.

Elections - Neither free nor fair

Despite being granted by constitution in all of the countries covered by the Freedom Barometer 2019, freedom and fairness of elections are rarely upheld in practice. Undermining thereof takes various forms, depending of a level of democratic development and current political tendencies in a particular society. In more democratically developed countries, such as Croatia or Romania, it mostly came in the form of unfair media coverage, abuse of state office and resources, or unclear/non-transparent funding of political parties. While, in the least democratically developed countries, such as Russia, Turkey or Azerbaijan, the tools are much more repressive, having in mind the imprisonment and harassment of political activists, banning of political parties and candidates from running at the elections, and/or vote buying and other fraudulent activities on the election-day. In Turkey, even, Istanbul city elections were annulled by the Supreme Election Council due to the defeat of the ruling AK Party led by autocratic leader Recep Tayyip Erdoğan. However, repeated elections saw the same outcome, resulting in the political party shift at the top of the local government in the biggest town in Turkey. Side by side with Turkey, Serbia faced deterioration of freedom and fairness of elections for the 5th consecutive year, with vast abuse of legal and use of extra-legal tools to narrow down the space for political pluralism. Having Serbia as a forefront, political landscape in Western Balkan is shaped by the strong societal division along political lines and ethnic nationalism, both of them equally used to prevent democratic developments.

Rallies and protests became the main tool of democratic improvement throughout Europe. They've led to some political improvements - or at least they have shaken the entrenched ruling elites - in almost all countries covered by this publication. The biggest success has been harvested in Armenia, where protests had overthrown the government led by longstanding Republican Party of Armenia, which was later confirmed at the parliamentary elections, marking a beginning of better times for democracy in this country.

State as an undermining factor

One of the three indicators of Political Freedom in the Freedom Barometer Index is Absence of unconstitutional veto players, an indicator established with the intention to provide tracking of the influence of informal groups on shaping a country's politics. Though these groups exist and manage to impact politics to a certain degree - like wealthy oligarchs, business elites, or in some cases religious or security instances do - the biggest threat to democratic standards and procedures is coming from the ranks of ruling political structures – be that states people or ones in control of the ruling parties. Countries such as Russia, Azerbaijan or Turkey are considered as captured states – i.e. the territories where complete power is in the hands of the ruling elites led by autocratic leaders such as Vladimir Putin, Ilham Aliyev or Recep Tayyip Erdoğan. In these countries, all branches of power are dominated by the executive, itself acting without any meaningful control. Despite being outside the constitutionally envisaged positions of power, people like Aleksandar Vučić in Serbia, Bidzina Ivanishvili in Georgia or Vladimir Plahotniuc in Moldova are proven to be the most important figures in shaping their respective countries' politics hence in undermining the integrity of democratic institutions.

Enemies of the state

Media outlets and journalists who are not in line with governmental narrative in most cases are treated as “enemies of the state”. This short phrase could summarize in the best way the level of press freedom and position of media in the countries analysed. Not everywhere exactly to a degree like last year when we even had murders of journalists in European countries, but still, press freedom continued to deteriorate, in 7 out of 15 countries monitored by this publication. Due to their role of informal control of the government and a rare instance which could hold public officials accountable for their work, autocratic regimes don't hesitate from crackdowns on critical media, and their reporting, thereby using various tools. In some cases it is done by using extensive political and economic pressure on media houses through biased procedures of state subsidies or public-sector advertising, while in some others through abuse of legal and/or use of extra-legal tools. In the most repressive media environments journalists often face verbal and physical attacks, intimidation or imprisonment. Poor economic conditions in journalism have on one hand made media prone to political and economic pressure, thus transforming them into parties' or state propaganda mouthpieces, while on the other hand they caused serious decline of professional media standards. Furthermore, another big problem remained: an increased concentration of media ownership coupled with unclear ownership structures, in many of the covered countries. With increased presence of Internet in the life of citizens and their informing, the online space became another challenge to undemocratic tendencies. One of the most common approaches by the subjects of the latter is the use of intentional and systematic misinformation, aiming to manipulate public opinion, i.e. creation and dissemination of Fake News. There is evidence of social media manipulation for socio-political purposes in 25 countries covered by Freedom Barometer Index analysis. Even in the name of the fight against fake news, authoritarian regimes managed to tighten the grip over information dissemination in society through new laws which provided them with opportunities to shut down critical media outlets or put pressure on the process of shaping their reporting. Due to the increased importance of fake news in shaping media environment, Freedom Barometer 2019 dedicated a special report to this trend, presenting its characteristics, strategies and impact.

B. RULE OF LAW: Oscillation line

In 2019, out of 45 countries of Europe, Eurasia and Central Asia monitored and evaluated by the Freedom Barometer, special focus was put on 15 of them. Quite few of those showed considerable changes (improvements or setbacks) in the rule of law in general. In average they stagnated.

Among bright examples of 2019, Armenia and North Macedonia are especially notable.

Armenia has experienced a slow albeit constant improvement of rule of law throughout the past decade, but after the political changes in 2018 this process seems to be accelerating. Breakthrough was especially visible in the field of human rights, and to small degree in the position of judiciary, while corruption still awaits to be fought against.

The biggest neighbor, Turkey, showed a minor improvement in comparison with 2018, which is possible to explain due to a dramatic fall hence current lower levels in all indicators of rule of law after the unsuccessful coup attempt as of 2016 and subsequent government showdown with all walks of the opposition. Upon „normalization“, trends stabilize and even climb a slowly bit up from the previous very low level.

Another Armenia`s neighbor which showed improvements in 2019 was Georgia. In it, the upward trends regarding respect for human rights are durable and non-neglect throughout the decade. But even more it goes for the fight against corruption, whereby one could talk about a real miracle, taken where the country had been 10 - not to mention 20 - years ago.

Alas, Azerbaijan saw decline in rule of law, from an anyway low level in the previous year, mainly due to much worse corruption. The fall in Transparency International`s score from 31 to 25 in just a year is something rarely seen. Together with declining political indicators, such as media freedom, which itself became almost non-existing, the perspectives are not shiny.

As for North Macedonia, after political changes in 2017, some expectations were met in the political sphere (name deal with Greece, accession to NATO) but also in the fields of human rights and in the fight against corruption. However, there are still huge problems in judiciary and in the issues of „transitional justice“ regarding the pre-2017 authoritarian rule, state-capture and adjacent misdeeds by the former government.

North Macedonia`s neighbors fared differently in 2019. In all of them, there was some - smaller (in Serbia) or somewhat bigger (in Albania, Greece and Bulgaria) - advance in the field of human rights. But, Serbia continued its sliding towards the corruption cliff, catalized by the lack of independence of judiciary from political and non-political outside interference, as well as by the decline in democratic standards and democratic culture in politics.

Besides Armenia, the only of the 15 countries in focus in 2019 which marked improvements in its judiciary was Greece, which might signal future improvements also in the field of anti-corruption struggle. Albania and Bulgaria stagnated regarding corruption and judiciary, wherefore for the former it meant delay in the start of its EU accession negotiations.

Bosnia and Herzegovina (BiH) and Croatia are neighbors. Former is not even a candidate for EU membership (even though belonging to Western Balkans and being a vocal EU aspirant and „potential candidate“), while Croatia is in the comfortable position of an EU member (since 2013). The latter is better in all indicators of rule of law than BiH, yet neither of the two advanced any further in 2019. On the longer run, some economic liberalization that had occurred in Croatia during the past few years might end the stalemate regarding corruption, by narrowing

the ground for it in future. In BiH, it is only some liberal think tanks which notice the connection.

Romania and Moldova are also neighbors. Similar culturally, albeit with different history. Former is an EU member since 2007, while the latter tries to get rid of political-culture influences coming from Russia as well as to be more than just an electoral democracy manipulated by powerful business or other interest groups. However, Romania declined in rule of law in 2019, considerably, which came as a cumulative effect of the small declines in each and every indicator of the rule of law – judiciary, corruption and human rights. Political elites are thereby mostly to blame, for not hearing the voice of citizens and civil society, who themselves very strongly, in the streets, in media and by every other way available, have been demanding improvements regarding corruption - and rule of law in general - ever since autumn 2015. Itself at a lower level than the said neighbor, Moldova has advanced a bit in 2019, especially regarding human rights, but also a bit regarding fight against corruption.

Finally, there is a pair of countries that have been, almost in – an undeclared – war since 2014: Ukraine and Russia. Both are big and developments therein and in between them are important for the rest of Europe and Eurasia.

Russia is a role model for all the autocrats in Europe and for many of such outside Europe. Its political and religious leaders have openly rejected the very idea and concept of rule of law, claiming that there might be other, alternative, better ways to achieve justice and social progress.

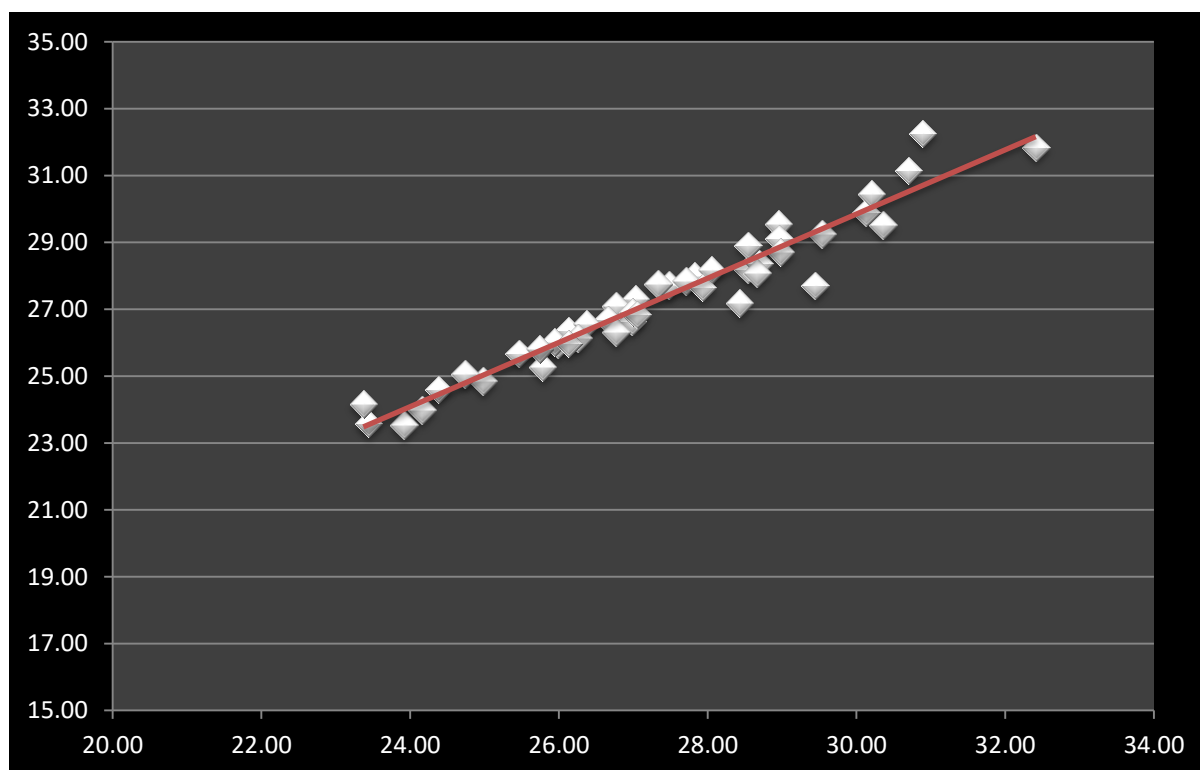
Ukraine went from the similar, post-Soviet, authoritarian starting point, and still resembles Russia in the inability to provide for more independent judiciary. But it has meanwhile considerably advanced in human rights and in the fight against corruption, and that, owing to the political changes which brought EU orientation to the country and EU role models, to be at least cherished even if not always followed in real life.

Part of this Ukraine`s re-orientation after 2014 was also better treatment of CSOs, whose role in advocating and protecting rule of law should not be underestimated, from human rights monitoring and defending, to whistle blowing at corruption cases.

C. ECONOMIC FREEDOM: No major setbacks, but also no improvements

There were little changes in the economic freedom score of the countries included in the Freedom Barometer. Most countries fluctuate near the same level they achieved in previous years – which means that they are at a stable point in their political economy, meaning that social groups that advocate reform steps that would either increase or decrease economic freedom do not have sufficient political backing for these reforms to materialize.

Changes in the level of economic freedom: 2019 score (X axis) vs 2018 score (Y axis)



The graph shows that changes which occurred, if any at all, were very small indeed: the average score in 2019 was 27,33 points (out of 40), while the score in 2018 was 27,35. There was only one country which improved its score for more than 1 whole point (Georgia), and two more whose improvement was above 0,5 points (Armenia and Italy). While Georgia's improvements stem from an increase in the score of Property Rights Protection and Business Regulation, the improvement of both Armenia and Italy is mostly confined to the improvements in the Property Rights section.

On the other hand, three countries significantly decreased their score: North Macedonia (-1,74), Norway (-1,24) and Estonia (-0,84). Estonia's decline was prompted by sections in Security of Property Rights and Business Regulation, North Macedonia's in the section of Security of Property Rights, while Norway experienced a score decline in all four areas of the Freedom Barometer.

Property rights are mostly secure

Property rights are a prerequisite for market economy activities. This means that state institutions such as police and judiciary should be effective in providing an environment in which property rights are secure and enforced. Although these rights are mostly reasonably enforced in most

countries, in practice there are many problems stemming from long court procedures and unpredictable court rulings. Judiciary can also be under strong influence of the executive power, or connected business people, and therefore rules do not apply to everyone the same. In these circumstances, the rule of law is present for those that are close to the people in power, but could be absent if otherwise.

All about the welfare state

The size of government in most countries at hand is determined by the "largesse" of their welfare state. Since there are several European social models (with a different mix of government intervention, individual and family responsibilities and market reliance) it is very difficult to compare these developments. But we can see that overall government spending is mostly put under control after several years of high deficits in the aftermath of the 2008 recession: public debt is on a downward path in most countries under investigation, but its absolute level remains a source of possible fiscal anxiety in future. Some countries, such as Croatia, or Austria, have implemented several tax reforms recently, with the aim of creating a more tax friendly business environment, in order to boost investments and support economic growth.

Business regulation continues to improve

On the paper, business regulation has somewhat increased, but its actual implementation in practice remains an open question. Favouritism by government officials, extortion or bribes are still present and have a detrimental effect on businesses. There is more and more use of online ICT services by the government institutions. Business regulation can also be a powerful tool for achievement of political goals, as different regulatory practices in Hungary and Poland have recently showed – discriminatory regulatory practices can be, and often are, challenged in front of common European institutions, but the threat posed by these practices can significantly influence local stakeholders. Legal procedures are also often changed, and that with little consultation with the private sector's representatives, due to the "government knows best" policy. However, structural changes in legislation that are quick, unpredictable and pose significant regulatory burden on business decrease the possibility of entrepreneurial calculation and lead to high sunk costs and lower investments.

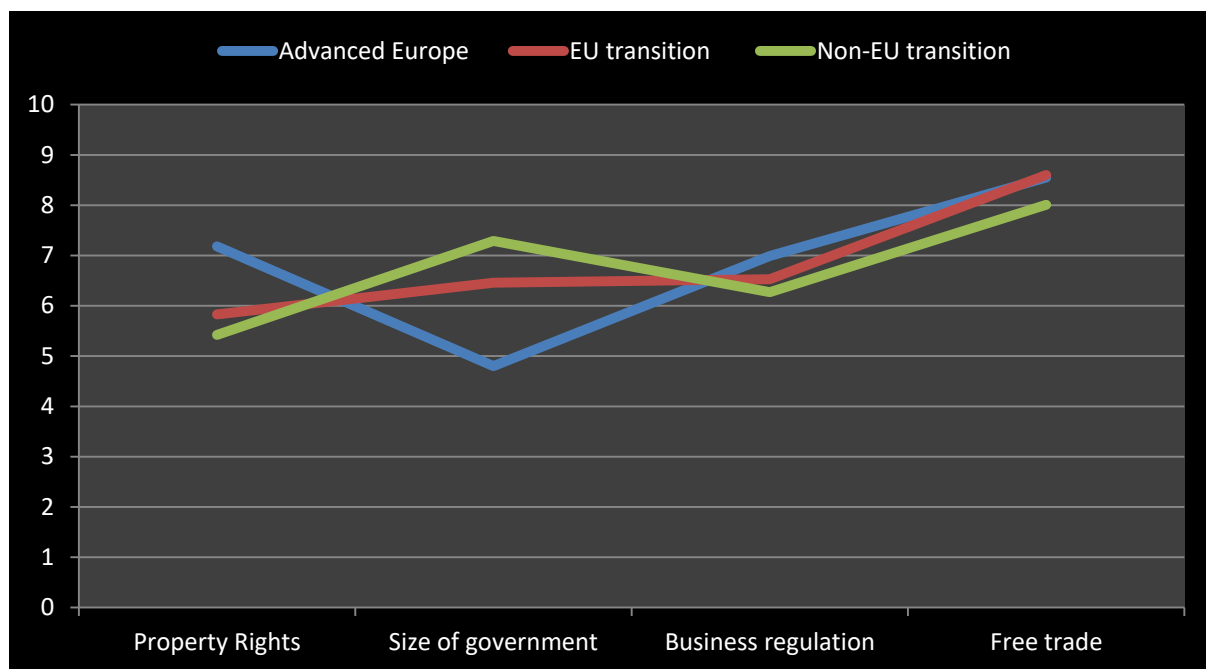
Globalization is still the most popular game in town

Although populism has opened the jar which contained the genie of trade protectionism, it seems that the lid was quickly put back on. EU trade policy remains unchallenged among its member states so far, and other countries covered by this publication also show a significant level of trade freedom. Even Russia, with its trade policy occasionally used to reach political objectives and with its import substitution programs, seems mostly opened to international trade.

Regional trends remain strong

The clear regional patterns we had witnessed in previous editions of the Freedom Barometer remained present across the European continent. Although the total economic freedom score varies also from country to country, real variation is present in its subcomponents. Again, even with differences in score, these results are highly correlated in two subcomponents (Trade, Regulation) but diverge significantly in two others (Size of Government, Security of Property Rights). It seems that advanced European countries enjoy a stronger level of rule of law, with a better institutional setup and a better quality government administration, followed by a higher degree of government transfers aimed at income disparity alleviation, as compared to their transitional counterparts. Better institutions and rule of law, if followed by higher taxes.

Economic freedom among Freedom Barometer countries, according to country clusters.



The current level of economic freedom can tell us little about the current political and social situation in a country – Switzerland has the highest level of economic freedom on the European continent, but this is the result of a long series of institutional and social developments. Countries tend to be similar to their immediate neighbors, so it would be wise to include a geographical component in the economic freedom assessment. When countries are divided in three broad geographical regions (Advanced Europe, EU transition countries and Non-EU transition countries) an interesting pattern emerges: these country groupings show a decreasing level of economic freedom. Economic freedom is more present in advanced European countries, followed by EU transition countries, with Non-EU transition countries coming last.

We can also identify countries that are outliers, i.e. whose economic freedom is above or below one standard deviation of the mean. Among advanced European countries, positive outliers are Iceland, Ireland, Switzerland and the UK, while the negative outliers are France and Greece. There are also two positive outliers among EU transition countries: Estonia and Lithuania, as well as two positives among Non-EU transition countries: Armenia and Georgia, including a single negative outlier, Ukraine. These countries provide us with example of good case studies, for a deeper understanding of both how reforms that enhance economic freedom could be facilitated and – vice versa - how economic freedom could be stunned.

IN FOCUS - SPECIAL REPORTS IN 2019 FREEDOM BAROMETER EDITION

FAKE IT UNTIL YOU MAKE IT – THE CASE OF FAKE NEWS

“Fake it until you make it” is the first special report published within Freedom Barometer 2019 Index designed with intention to provide overview of the arising trend of the manipulation over public opinion using Internet, most commonly called FAKE NEWS. Internet provided space for further democratization of our societies, making political and social processes much closer to everyday citizens. However, that very space is increasingly used for intentional manipulation over public opinion and suppressing of fundamental freedoms such are freedom of expression and freedom to information. This is mostly reserved for authoritarian states, however foreign meddling into internal country political processes turned this into an issue in all European countries. Throughout following pages, we will analyze most important information related to fake news trend such are its characteristics, impact, strategies and country developing. Aim of this report is to provide basis for future discussion on possible solutions to ensure protection of fundamental freedoms endangered with this growing trend.

=> Fake news phenomenon directly influences all three pillars of Political freedom of the Freedom Barometer Index, through hindering freedom and fairness of elections, undermining democratic institutions and decreasing trust in media and quality of journalism.

=> There are evidences of social media manipulation for socio-political purposes in 25 countries covered by Freedom Barometer Index analysis.

=> Authoritarian countries changed its strategy from wide-spreading false content from abroad, to empowering domestic groups with know-how and resources for fake news` creation and dissemination.

=> In the name of the fight against fake news, authoritarian regimes managed to tighten grip over information dissemination in society through new laws.

=> Democracies are often caught in a trap, wherein their reaction causes more harm than the event itself. Same applies to fake news. Struggle against fake news could potentially harm freedom of expression and democratic order worse than fake news themselves.

What are we dealing with?

According to Freedom Barometer Index and many other international watchdog organizations, such are Freedom House or Reporters without Borders, freedom of the press is in constant decline around the globe. Media environment faces many challenges, such as:

- => Increased concentration of media ownership and unclear ownership structures;
- => Extensive political and economic pressure on media reporting through biased procedures of state subsidies or public-sector advertising;
- => Crackdown on critical media reporting through abuse of legal and extralegal tools;
- => Hostile environment for journalists marred with verbal and physical attacks, intimidation, or even murders;
- => Poor economic situation in many countries making an impact on decreasing professional media standards.

But, also, there is increased presence of systematic misinformation campaigns, intended to undermine democratic institutions, shape public opinion, spark social polarization and diminish trust in media and their work.

However, manipulation of public opinion isn't anything new. For decades it was used by politicians and governments to shape support for their actions. But with its acceleration via Internet and social media, this manipulation became one of the biggest threats to modern democracies. These tools increased speed, decreased price, broadened reach and enhanced impact. All those were previously main obstacles to manipulation.

There are many terms for manipulation over public opinion such as disinformation, false news, hoax information or fabricated news. However, the one that has been most commonly used among citizens and political actors is FAKE NEWS. Despite the term itself, it all boils down to the same meaning.

Fake news is intentional and systematic misinformation aiming to manipulate public opinion using Internet.

Same like with terms, there are also many definitions of fake news or disinformation. One such definition was provided by the European Commission¹:

Disinformation is understood as verifiably false or misleading information that is created, presented and disseminated for economic gain or to intentionally deceive the public, and may cause public harm. Public harm includes threats to democratic processes as well as to public goods such as Union citizens' health, environment or security. Disinformation does not include inadvertent errors, satire and parody, or clearly identified partisan news and commentary.

FREEDOM AT STAKE

From the moment when concept of social media manipulation came into public spotlight (during US presidential elections in 2016) until today, its presence and usage for manipulating public has drastically increased, while strategies for creation and dissemination evolved, managing to by-pass current measures taken by the governments. This means increased presence of fake news in everyday life of people, which as a result can often cause distrust in reporting from objective and independent media outlets. Also, creation of fear among citizens of constant exposure to fake news, allowed authoritarian governments to adopt laws which would entitle solely those in power to judge whether information is false or not – using it to suppress critical reporting and freedom of expression. In addition, certain governments in more developed democracies have pushed to empower private entities with right to censor information and freedom according to their criteria, moving responsibility from democratic institutions to companies. Having everything said in mind, fake news caused a harm to democratic developments in the world, with a potential to further enhance this impact.

According to the study of the Oxford University “The Global Disinformation Disorder”², the number of countries where evidence of social media manipulation was collected increased by 150% since 2017. Social media manipulation took place in 70 countries in 2019, where at least one governmental or political organization engaged in intentional shaping of public opinion through misinformation. Majority of these activities were related to electoral processes in those countries. When it comes to countries covered by Freedom Barometer analysis, for 25 countries out of 45 there is evidence of social media manipulation.

There is evidence of social media manipulation for socio-political purposes in 25 countries covered by Freedom Barometer Index analysis.

¹ Action Plan against Disinformation, Joint communication to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions, Brussels, 05.12.2018.

² The Global Disinformation Disorder, 2019 Global Inventory of Organized Social Media Manipulation, University of Oxford, 2019

In the environment with growing presence of false information, freedom of information can hardly be granted to the citizens. They are exposed to fake news and also to a scaremongering discussion about concept of fake news, causing distrust into reporting and information in general. Such circumstances make the work of media outlets even harder and their economic sustainability more questionable.

Fake news had been previously mostly coming from foreign countries, with intention to influence outcome of certain social and political processes. Techniques in tracking down sources of such content became better and better, pushing those who are standing behind creation of fake news content to change strategies. Today, meddling from the outside is slowly vanishing, however there is a growing presence of domestic groups who engaged into public manipulation over social media. Those activities are mostly supported by the foreign actors such are Russia or China, who provide resources and know-how to domestic groups. This new strategy demands an answer in order to be able to handle the fake news` impact.

Authoritarian countries changed its strategy from wide-spreading false content from abroad to empowering domestic groups with know-how and resources for fake news` creation and dissemination.

In authoritarian states which are often accused to be in charge of creation of fake news narrative, the term “fake news” became a tool for justification of ever more repressive laws which allow governments to limit freedom of expression. These laws allowed governments such are those in Turkey, Russia, Tajikistan or Azerbaijan for further crackdown on opposition politicians, civil society activists and critical journalists, by their censorship, imprisonment and harassment, because of their attitude expressed over social media. These laws allowed them to consolidate efforts to control information dissemination in society, and empower the state to be the only one who could distinct true from false information. In this way, oversight role over governmental activities is highly limited.

In the name of fight against fake news, authoritarian regimes managed to tighten grip over information dissemination in the society through new laws.

Freedom of expression over Internet in Russia is highly limited, especially after government adopted in 2019 a new amendment which provided Roskomnadzor, the country’s media oversight agency, and many other state bodies to prohibit and censor online content which they categorize as “fake news”. This law, together with many others which prohibits insulting state or religion, is often used to silent critical voices in the society with high financial penalties, shutting down media outlets and imprisonment. Aside of many other extralegal tools that are used against them such are verbal and physical violence, intimidation and harassment.

The moment one shifted responsibility for monitoring and approving/censoring online content from democratic institutions to tech companies, threat to the freedom of expression received a new dimension. Sovereign function of state institutions is transferred to companies with no public control and accountability. This situation is currently happening in many developed democracies, such as in Germany, which adopted NetzDG, a law which stipulates huge fines for companies who do not censorship “illegal content”. This is directly endangering freedom of expression as one of the most important freedoms. As western democracies often serve as a role model for other countries, if similar laws are adopted in the countries where system of checks and balances is only weakly imposed, the right of the citizens to express themselves could become hard to obtain.

Democracies are often caught in a trap, wherein their reaction causes more harm than the event itself. Same applies to fake news. Struggle against fake news could potentially cause more harm to freedom of expression and democratic order than fake news themselves.

FAKE NEWS CREATION AND DISSEMINATION

To understand fake news and how one could deal with them, it's been necessary to know a motivation behind fake news' creation and dissemination. According to many research, most common reasons for development of false content and its widespread dissemination are:

1. **Political motivation** – Development of fake news with intention to manipulate public opinion for benefiting political actors – government or political parties, and manipulate political and democratic processes in the society. Often providing negative content of political opponents or those critical of their activities;
2. **Social motivation** – Development of fake news with intention to cause social polarization on a certain issue or to attract wider public attention to certain topic in a process primarily benefiting certain social groups and not necessarily political actors;
3. **Commercial motivation** - Development of fake news with sensationalist stories/content to achieve as big as possible outreach and to generate as high as possible revenue/financial gain.

As we noted several times in the report, manipulation of public opinion isn't anything new. These practices occurred for decades in our societies, with the same intentions behind. However, its 21st century version called fake news grabs much more attention due to threat it poses to democracy, owing to increased efficiency in dissemination. Key of its success could be boiled down to two terms – internet technologies and trust, both deeply entrenched in social media.

From the technological aspect, social media channels drastically lowered price of dissemination, increased speed and broadened reach. There is no reason for entering deeper into explanation of this part. However, another important aspect that social media brought is trust.

Being surrounded by online friends only and facing huge noise of content, made social media platforms a perfect channel for fake news' dissemination. First, people are finding themselves in a friendly environment – the one of trust. Thus, there is a higher probability that they are going to believe to the content shared by their friends, regardless of whether it is false or not. This is especially the case if the content shared confirms their already existing opinion or belief on a certain topic. Also, according to one Friedrich Naumann Foundation for Freedom analysis “What can be done to tackle fake news”³, people who doubt that given fake news item is true can be made to believe it through repeated exposure, for which social media, and especially Facebook, are suitable for. On top of that, many studies have shown that people are “scrolling” through social media content in the state of low awareness, making them prone to receive and accept certain information. Another perspective of trust is increased distrust among people. A huge noise produced around the very term fake news makes people skeptical about content they are reading and unsure whether the information is coming from trusted or untrusted sources. This is especially problematic in cases when they need to be informed prior to political or social decision they are going to make.

IMPACT ON ALL THREE PILLARS OF POLITICAL FREEDOM

Fake news impact political freedom in various ways, as could be seen from all stated above. Hence, it attracted attention of the Freedom Barometer, to have dedicated a special report to it. Political freedom in this index is separated to 3 pillars:

- Free and Fair Elections;
- Absence of Unconstitutional Veto Players;
- Press Freedom.

In the same way, impact of fake news can be separated to these pillars.

³ What can be done to tackle fake news?, Friedrich Naumann Foundation for Freedom, 2019

Main purpose of fake news is to systematically nourish the public with misinformation, in order to manipulate political processes. This manipulation is most often related to electoral processes in many countries. The term itself was coined amid intentions to manipulate public opinion ahead of US presidential elections in 2016. Therefore, fake news hinder citizens to make an informed decision based on true and objective information, depriving them of one of their basic rights – a right to information. Thereinafter, this phenomenon directly hinders freedom and fairness of electoral process.

Citizens in Turkey are heavily exposed to fake news content. According to Reuters institute, almost every second Turkish citizens was faced with made-up content, measured only in one week. Crackdown on democracy and freedom over the last couple of years in Turkey is followed with huge increase of social media manipulation ahead of electoral processes, referendum or to prevent / alleviate large number rallies against government. Fake news orchestrated campaigns are often directed to discredit political opponents, critical journalists and activists through blatant campaigns against them. Leading opposition politician Ekrem Imamoglu faced such campaign ahead of elections for the mayor of Istanbul, where he allegedly said in a video that he will bring a terrorist group to run the country.

2018 Presidential elections in Georgia saw similar developments, however this time coming from both sides – ruling and opposition one. Numerous Facebook pages appeared and noted high increase of activity directed at discrediting one or another leading political figure in the election campaign.

From the analysis provided by Freedom Barometer it could be concluded that most common unconstitutional veto players are domestic ones. Be it wealthy businessman, politicians without constitutional power, or actors like religion or security forces. Fake news` trend allowed foreign countries to undermine sovereignty of democratic institutions of one country by undermining democratic processes, either directly from abroad or indirectly through empowering domestic groups for such actions. This placed them on a list of potential unconstitutional veto players.

Ukraine public sphere is faced with intense pro-Kremlin misinformation campaigns aimed at promoting Russia interests among Russian speaking citizens in the country. These campaigns are mostly organized and placed from Russia through pro-government media outlets, sharing a content which is also often published in Ukrainian media and spread wide over social networks.

In democratic societies, media play a role of an oversight control mechanism over all three branches of power. However, with the increased presence of fake news, their power is decreasing, amid confusion regarding trustworthiness of the information. That has often led to distrust redirected toward more balanced media outlets. Also, another problem is in the commercial aspect. In order to compete with high number of false information that pops out, journalists are faced with pressure to produce more in less time, resulting in lowering of journalism standards.

Fake news impact also the other aspects of freedom, as measured by Freedom Barometer Index, such as rule of law and economic freedom. Most notably, falsified information is often used to cause social divisions and instability through manipulation with identity and minority issues, resulting in worsening of the human rights situation in those countries. In recent years, falsified information was spread so as to incite fear among European citizens from the impact which the increased influx of migrants could have on the future fabric and outlook of their societies. More about this could be found in country analyses of Freedom Barometer Index.

EVEN GOOD LAWS ALLOW FOR ABUSE

Some notions and rules regarding human right to privacy had existed much before that, but this right in its current form was in theory formulated in the late 19th century, while it in the 20th century entered into international law and spread from the constitutions of a relatively limited number of countries to national regulation of almost all countries of the world. However, it has never been properly respected, not even in countries that had first endorsed it, let alone those which paid only lip service to it or even did not know about it.

Technology advancements in the 20th and the beginning of the 21st century have multiplied challenges to the human right to privacy. Modern-day data-processing capabilities of governmental and non-governmental actors alike surpass what normal citizens could themselves collect and process about their very selves, which means that those actors could know about a particular person more than the person could know about their own self. Opportunities to limit or curb human freedom by data aggregation and processing without the informed consent by the monitored person, and various misuse thereby, grow year after year.

This special brief report is meant to highlight the importance of protection of privacy for preserving and advancing human rights, rule of law and human freedom in general, as understood and monitored by the Freedom Barometer. It will also explain through a few cases from Europe and Asia how limitless data aggregation and processing by state, para-state or commercial or other private actors could pose an enormous danger not least to individual human rights, but also to political and economic freedom in several of their aspects. Finally, the importance of monitoring data breaches, together with quantity and quality analyses thereof, by civil society, will be highlighted.

Data privacy is the most difficult one to protect while prone to breaches more than any other aspect of privacy.

Right to privacy was defined, in 1890, by Louis Brandeis and Samuel Warren as „the right to be let alone“. They reckoned that „political, social and economic changes entail[ed] the recognition of new rights“. Thus personal rights should not include just physical security but a respect for the immaterial aspects of human existence. About this they wrote: „...and now the right to life has come to mean the right to enjoy life, — the right to be let alone ; the right to liberty secures the exercise of extensive civil privileges ; and the term "property" has grown to comprise every form of possession — intangible, as well as tangible.”

Following the above assumptions, other authors further developed the concept of privacy to include protection of personal autonomy, ethical and physical integrity, the right to choose one's own lifestyle and way of life, various rights regarding free voluntary interaction with other people, etc. Legal mechanisms to achieve that were gradually developed.

Generally, there are several aspects of privacy:

- Privacy of territory, which in reality means protection of physical property (estate, habitat, etc.) used by an individual as their personal space, resp. shelter;
- Bodily integrity, as inviolability of the physical security of a person;
- Privacy of communication, including of letters, phone calls, e-mails or similar;
- Data privacy, which is much broader term than mere privacy of communication and entails rules for collecting and management of personal data of various people.

Of the above, the fourth one is the most difficult to protect or even to detect the breaches thereof. It is especially so if we define it as our right to freely and responsibly manage our identity, thus deciding how much data about ourselves we want to be revealed and available to public. Enormous advance of information technologies - with CCTV cameras almost everywhere, with RFID technology becoming necessary for our access to transport, work (or

even home), leisure, shopping and many other activities, with online social networks visited daily by billions of users, with artificial intelligence used for crossing and further processing of data, etc. – has enabled also such analyses of our personal data and creation of our virtual personal profiles that were more accurate and to-the-detail than we could ever create ourselves. These allow for political, commercial, criminal or various other manipulation.

Thus, for more than a decade now, RFID cards (active or passive) are used in almost all walks of life, to provide access to space or services. In retailing, they mark various items for sale, but also are delivered to customers, sometimes in the framework of customer loyalty schemes. In transport, all across Europe, from Istanbul to Amsterdam, as well as on the other continents, they provide access to (or secure for payment of) public transportation services. In leisure, especially on mass sporting events, they enable control of the masses of visitors. Governments use them for biometric passports and IDs so as to secure for easier identification, less fraud and smoother trans-border movement of people. In prisons, it makes it easier to monitor prisoners. In the working environment, RFID provides for more security, easier access to premises and better management of working time and human resources.

However, all those applications bring with them also various challenges. In retailing, data on customers might be misused by criminals, but also by the retailers if transferred to third persons (such as their subcontractors or suppliers, and then further). This especially goes for loyalty programs and their possible overlap with credit-card data, whereby the size and structure of consumption, as well as general customer's habits could be detected and information misused. If these data are coupled with CCTV data, the amount of information illicitly gained is even larger. In prisons – although some breach into privacy of prison inmates is necessary and legitimate – it is questionable if the misdemeanor or similar basically harmless prisoners should be forced to leave, forever, to the prison authorities, their entire personal profiles, with patterns of behavior and everyday life, all suitable for further misuse by governmental or private actors. As for biometric passports and IDs, those enable the governments to monitor not just cross-border traffic but movement of people, including individuals, within their borders. On the other hand, criminal or terrorist misuse of such data could actually harm security (e.g. through creation of „smart bombs“ that would react only upon certain RFID signals, grouped or individual). In the working environment, collecting data which is irrelevant for the working tasks and professional status of the particular employee might result in a lot of misuse (either by employers, or by trade unions, or by both).

The most developed countries of the EU are by and large also the most advanced in drafting, updating and thorough implementation of data-protection regulation

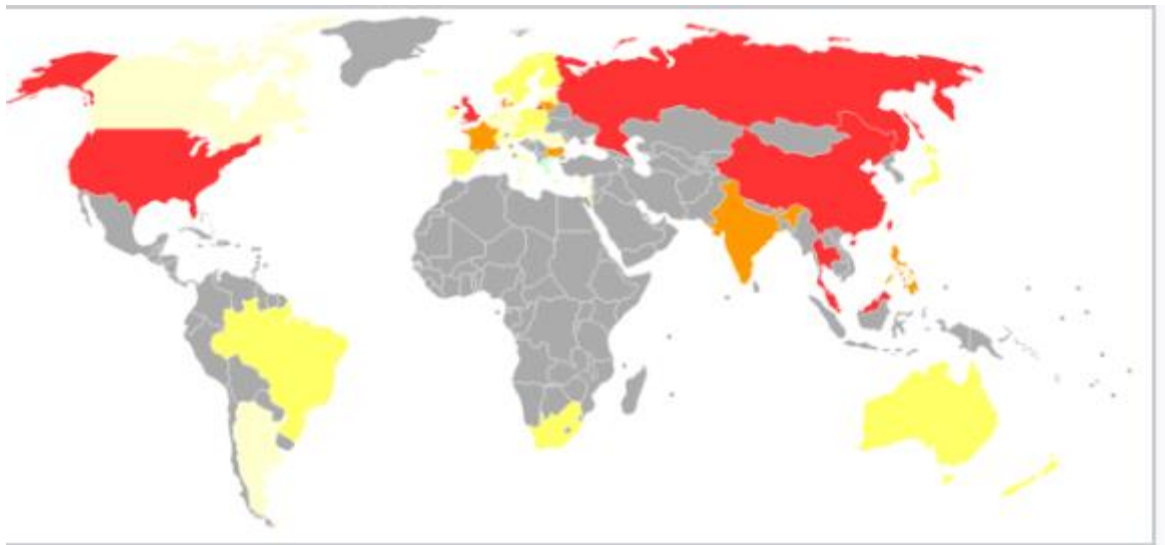
The most developed countries of the EU are – by and large - also most advanced in drafting, updating and sincere and thorough implementation of the regulation that protects citizens from the above described misuse. Alas, countries outside EU and its control mechanisms suffer from the lack of rule of law more than EU-members (no matter how „new“, being „freshmen“, or even having allegedly had „sneaked“ into the EU). Even the best drafted and state-of-the-art legislation applies randomly or selectively.

There are relatively few attempts to measure the size of government and other intrusion into citizens' privacy around the world, let alone proper and regularly updated indices. That is among the main reasons why protection of privacy and especially data protection are not directly included into the Friedrich Naumann Stiftung's Freedom Barometer index, and Human Rights Index as its part.

One of the researches, has been conducted by a UK-based organization Privacy International since 1997. Thereby, the selected 48 countries of Europe and Asia (together with a few from Africa or North America) were assessed regarding privacy protection, using 14 different criteria:

- Constitutional protection
- Statutory protection
- Privacy enforcement
- Identity cards and biometrics
- Data-sharing
- Visual surveillance
- Communication interception
- Workplace monitoring
- Government access to data
- Communications data retention
- Surveillance of medical, financial and movement
- Border and trans-border issues
- Leadership
- Democratic safeguards

The countries got scores and were ranked. The last global report was published in 2007, while in the meantime the organization continued monitoring in cooperation with others and in the framework of broader privacy protection projects. According to it, China, Malaysia and Russia were the most „endemic surveillance societies“, while, at least at that time, Greece – followed by Canada and a number of EU member states - was at the top by having in place „adequate safeguards against abuse“.



Interestingly enough, USA and UK fared poorly, similar as France, while most of the EU (including Germany as the biggest EU country) were in the middle between heavy surveillance and strong safeguards against misuse thereof.

Meanwhile, the situation has changed, for better or worse, in many countries thereby researched. For instance, India, which was near the bottom in 2007, introduced a detailed and state-of-the-art Personal Data Protection Bill in 2018. Taken its own size and the size of its economy (including digital one) this might have a considerable global positive impact.

China has resumed being a negative role model worldwide in the field of data privacy protection

The country which fared the worst in the above survey as of 2007 – China – has resumed being a negative role model in the field, worldwide. Meanwhile it tremendously advanced technologically, while legislation on civil rights and human-rights protection culture did not follow it, alas, even in some fields have reversed. In the Freedom Barometer research as of 2014 , it was noted that „Chinese socio-economic development and modernisation has not correlated with a rise in human rights conditions”, as well as, in the 2012 research , that China “continues to be ruled under an authoritarian one-party system which greatly restricts freedom”.

Thus, with enlarged possibilities to gather information about citizens from multiple sources, through various technology (monitoring of Internet traffic, RFID, new generations of CCTV cameras, phone calls` meta-data, etc.) and its analysis via artificial intelligence, Chinese government has entered into a new phase of misusing modern technology for the sake of monitoring both the public and private life of its citizens and possibly of influencing their everyday behavior. In a word, besides authoritarianism, some elements of totalitarianism thereby emerge.

So called Social Credit System , a government sponsored program of surveillance of citizens and evaluating their “trustworthiness” through awarding them positive points for what is regarded as socially desirable behavior and negative points for the alleged “anti-social behavior” has so far, since 2009 when its introduction had begun, proven as circumvention of the rule of law principles and in numerous documented cases as a breach of human rights, political manipulation and forceful social engineering. As “positive” behavior included donating blood, participation in humanitarian activities, “negative” points were scored not just for serious breaches of laws but also for minor personal misdemeanor offense or even technically legal actions such as listening to loud music, disobeying red light at pedestrian crossings, or similar. The most controversial part of the program is evaluation of the individual’s behavior on Internet, whereby not only hate speech or other breaches of netiquette by that very person but also mere online groups` friendships with those who behaved in that way brings negative points. Consequences of collecting too many negative points on behalf of positive ones include administrative problems when getting a passport, restrictions on air or speed-rail travel, restrictions in access to some forms of education (also for children of the negatively scored person) and a number of other problems in various walks of life, when interacting with government agencies or with the para-governmental private sector.

In the east of the European continent, data protection laws are often up-to-date, yet implementation lags behind – a proper example for that might be Serbia, where increasing authoritarian tendencies in government have been matched with more breaches of data or other privacy

In the countries of the eastern or central part of Europe which had joined the EU between 2004 and 2013 or have currently been EU candidates or aspirants, nothing so dramatic could be expected or witnessed that would even resemble the above described Chinese negative role model. After all, all those countries are pluralist democracies (however unstable and non-consolidated some of them might be), while EU`s influence thereon is crucial to maintain at least the basics of the rule of law. However, those countries still face serious problems with privacy of their citizens or companies and protection thereof.

Ownership of media, and illicit concentration thereof, has been a problem region-wide. Thus, many media serve the interests of various interest groups (political, commercial, criminal, etc.) instead of informing the public. Tabloid newspapers often spread fake news, conduct smearing campaigns, or disrespect other good journalism practices, encountering very little legal or professional resistance. Laws on free access to information of public interest have been introduced everywhere in the region, but implementation of those is still lagging far behind even

the most urgent needs. Finally, information and data security culture is scarce and various manipulations with the public, including via social media, are thus quite common. In countries where authoritarian tendencies in the government have increased recently, many political goals are reached through breaches into the (supposedly protected and/or classified) data-bases and misusing the thus obtained information about political opponents.

Serbia is quite an example of a country where the described practices occurred many times during the recent years, in a drastic manner. Examples included: publishing of the (per definition classified) military-reserve medical files on the health condition of an opposition presidential candidate in 2017, in a pro-government tabloid daily newspaper, and that, after another investigative journalists team was refused to legally obtain them; constant leakage of temporarily classified court documents in various criminal cases to the tabloid press, among those also in cases of abuse of minors; too broad application of court orders to secret services to collect meta-data about individual suspects` phone connections, whereby there were years with a six-digit number of people occasionally or permanently monitored; import of Chinese technology and software, by Serbia`s police, for traffic surveillance in Belgrade, without a single consideration what the similar technology was used for in the country of origin and what could be done to adapt it so as to hinder abuse in a – supposedly - different political environment; etc.

Conclusion – a few recommendations

Modern information technologies, which enabled collection and processing, as well as cross-evaluating, of huge amount of data about individual citizens, need be followed by the progress in legal and social protection mechanisms against governmental or other abuse. Civil society organizations and think tanks which monitor various aspects of human rights should go beyond “whistle-blowing” about cases of such abuse and try to quantify those, nationally and internationally, and find out patterns in which they repeated. Finally, spreading information security culture is irreplaceable for the increased citizens` immunity against cyber or classical breaches of their data or other privacy.

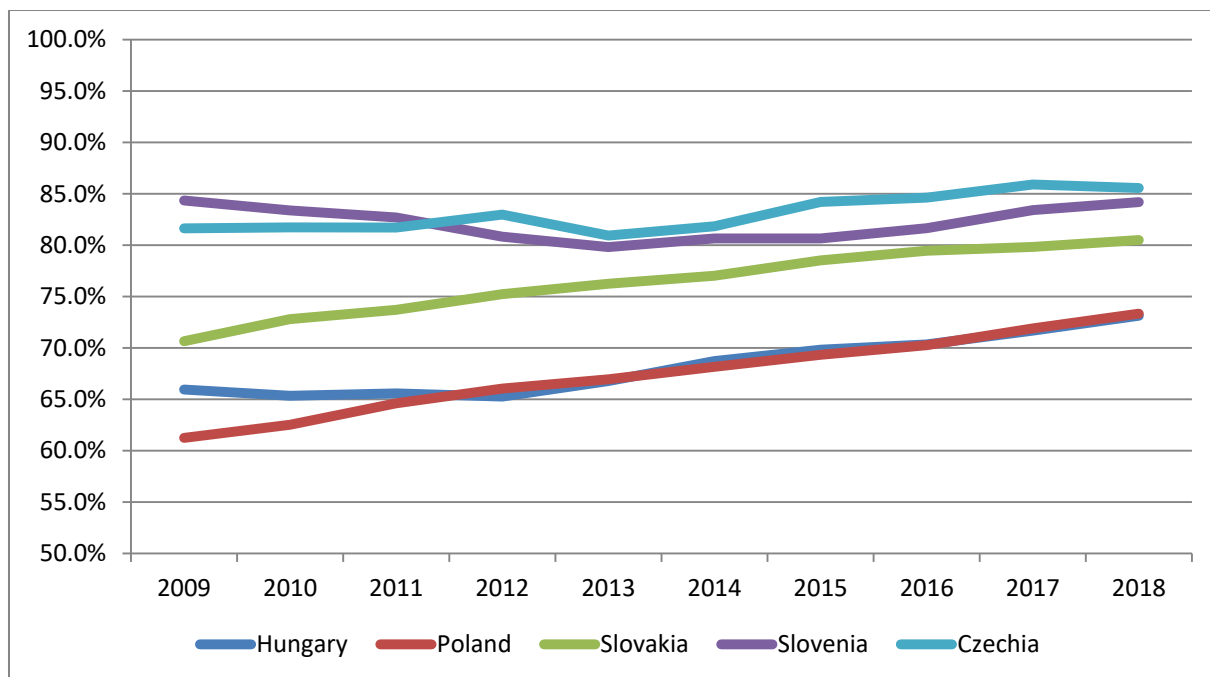
INCOME CONVERGENCE: CATCHING UP WITH THE EU15

The process of transition that started with the fall of the Berlin wall in 1989 took many people by surprise. Although the cracks in the Soviet Union system of one-party dictatorship and centrally planned economy were visible in 1980s, few thought it would so suddenly have collapsed. The economic transition to a market economy in the former Soviet Union and CEE countries was something not attested before: everyone knew how to make an omelette, but nobody knew how to make eggs out of the omelette. So the process of economic transition took many twists and turns in different CEE countries. Political considerations stemming from nation building - that took place in many countries in the region when federal political entities (such as Yugoslavia, the Soviet Union and Czechoslovakia) dissolved - took their toll in this process, in some cases even leading to prolonged military conflicts or civil wars. Strong political influence of the unreformed secret police and the security apparatus also had an impact on the process of reforms that were implemented, including macrostabilization, liberalization and privatization.

Most of the countries in the region had a remarkable success in reorienting their economies and taking a part in the global division of labour during the last three decades. New opportunities emerged both for local entrepreneurs, but also for foreign investors who brought with them new technology and inclusion in the global supply chains. All up to the global financial crisis spillover, the CESEE region as a whole experienced a period of growth rates that were higher than the EU15, thus slowly closing the income gap. This was also evident even in countries with late or superficial transition, such as Bulgaria or Serbia. This article will explore the income convergence trends in the decade after the 2008 crisis. All of the charts show income as percentage of the EU15 GDP per capita in international dollars in current prices.

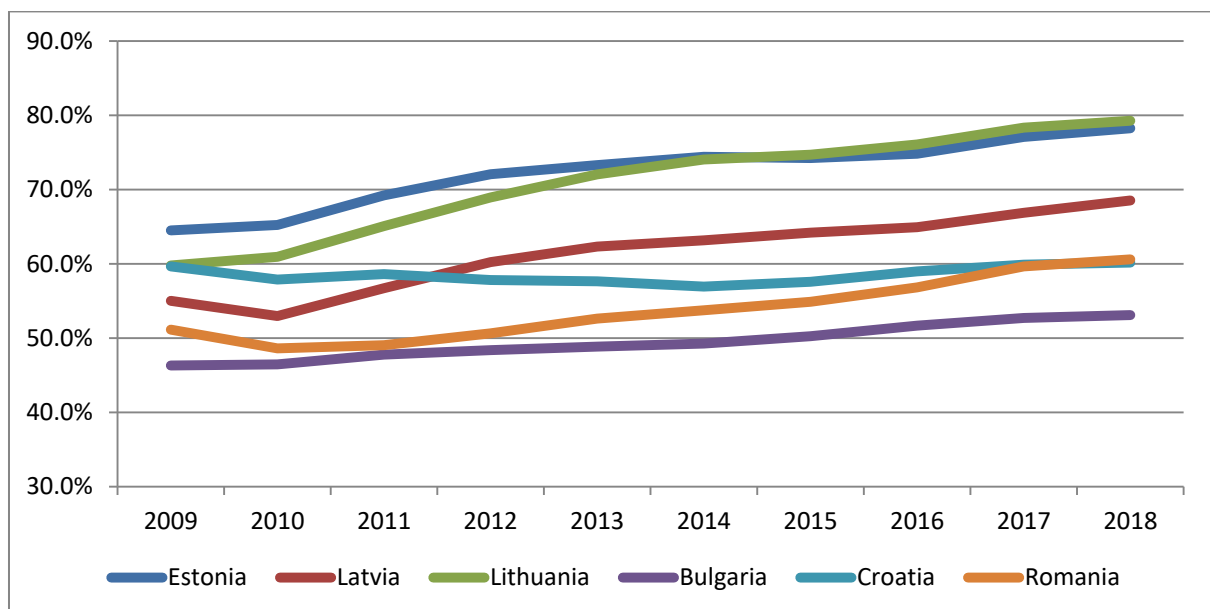
CEE5: Czechia and Slovenia lose pace

In the CEE5 region (Poland, Czechia, Slovakia, Hungary and Slovenia) there were, during the last decade, two divergent trends visible, regarding the income convergence with the EU15. The first one was visible in Slovenia and Czechia - two countries that already had attained a high level of income convergence in 2008. These countries were, however, unable to close their gap, basically staying in the same place they had already been. On the other hand, Poland, Hungary and Slovakia experienced a decade of faster growth, slowly climbing up the ladder, although from a lower starting position. Slovakia has almost caught up with Slovenia and Czechia by income, while Poland and Hungary are trailing behind, slowly narrowing the gap.



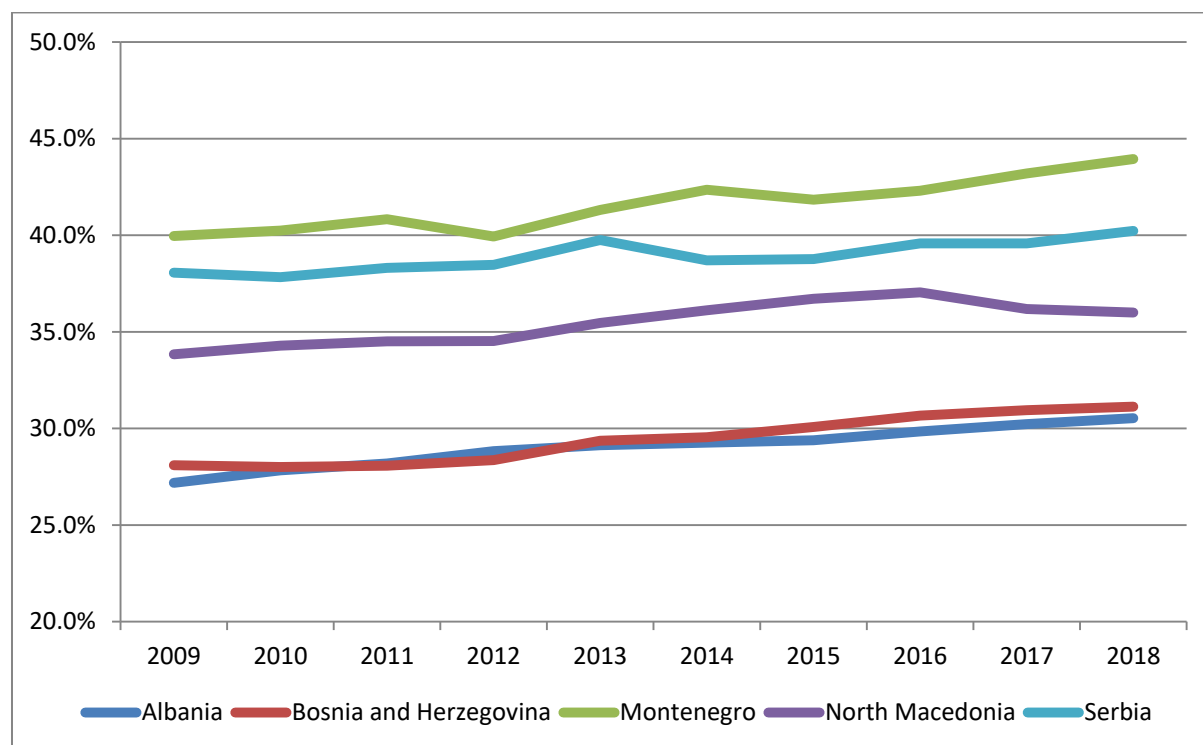
Baltics and NMS: poor performance of Bulgaria and Croatia

While all Baltic countries continued with their stellar records in approaching the EU15 income average during the recent decade, with the most successful ones being Estonia and Lithuania, reaching 80% of that level, the situation was bleaker among the new member states (NMS) that had joined the EU in 2007 and 2013. However, even here we see differences: while Croatia remained in the same relative place, Bulgaria was able to achieve some progress, while Romania had more success in closing the income gap.



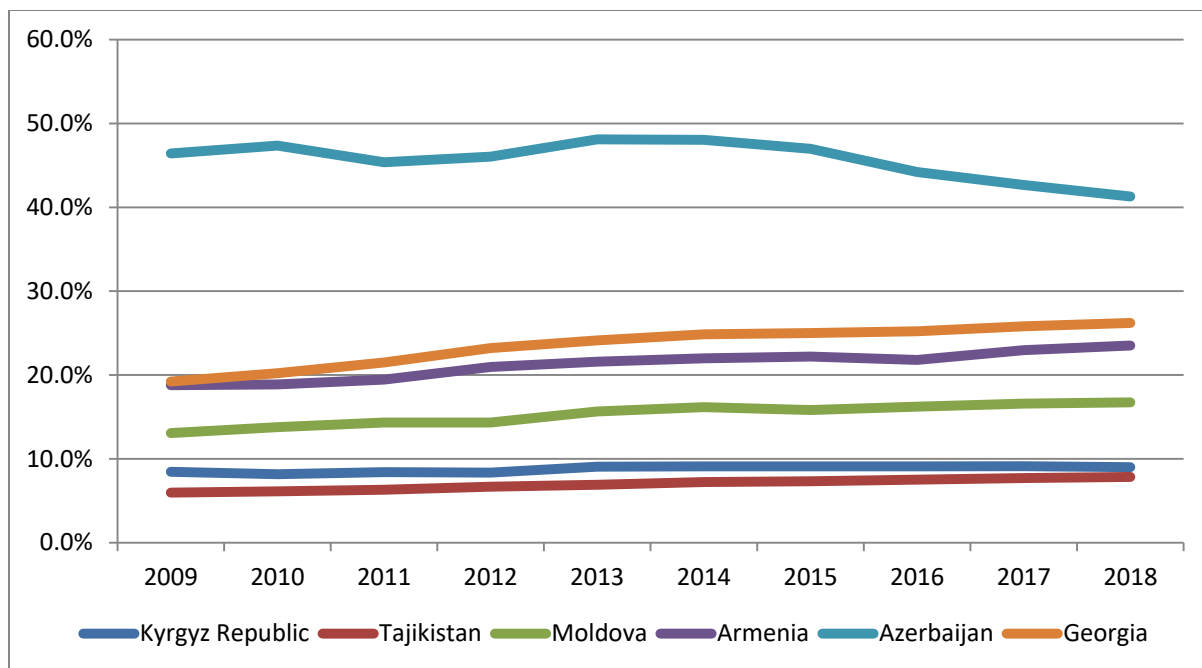
Western Balkans: lagging behind

The region of Western Balkans remains the poorest in Europe. Although all countries have achieved some level of income convergence with the EU15, this was much slower than expected, having in mind the level of income – less developed economies tend to grow more quickly since they can rely on imported technology developed by others. But weak institutions, including rule of law and political uncertainties, had a significant negative impact on economic development.



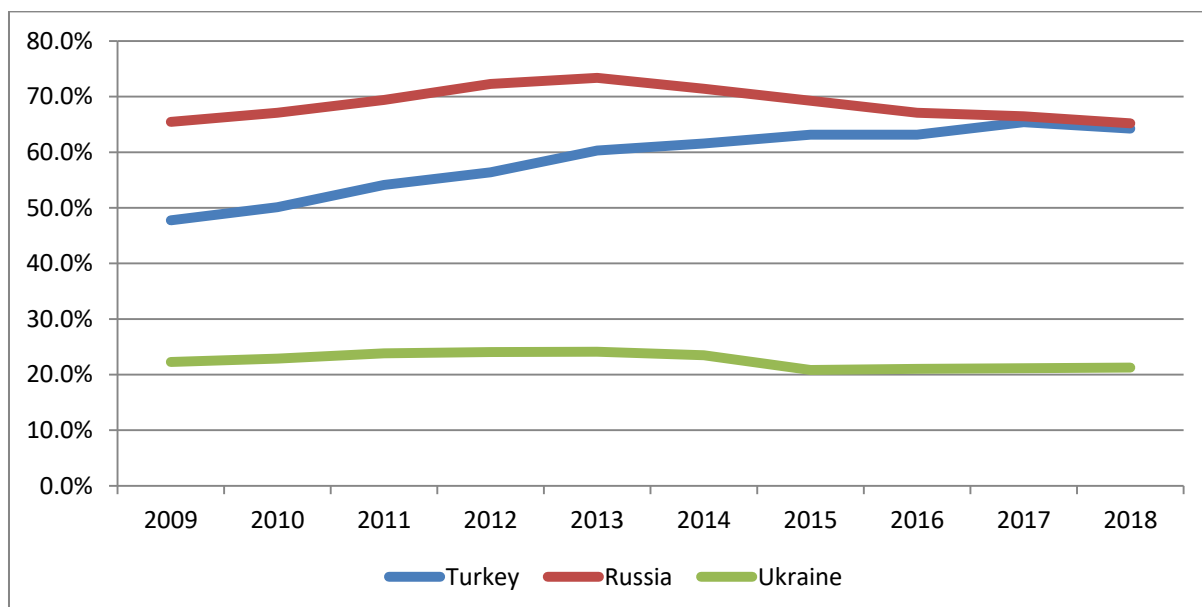
CIS: slow convergence continues

The only country in the region that is not experiencing income convergence with the EU15 is Azerbaijan, the only oil exporting country alongside Russia in this group. While high energy prices could be a blessing during economic booms, low energy prices during recessions could be a curse.



Big economies: Russia and Ukraine equally bad

The three most populous economies are clustered and presented together. Turkey has experienced strong growth performance during this decade while at the same time the economies of Russia, and to a certain extent of Ukraine, could not keep up with the EU. As in the case of Azerbaijan, Russian economy is depending on energy exports and when energy prices are low this has a strong effect on the whole economic system. Political factors also played a part in this development, including the EU sanctions on trade with Russia and the military conflict in the east of Ukraine.



Income convergence across the board

The covered countries of the region had different experience when income convergence with the EU15 is considered. Some were very successful, others less so, and some had very poor performance. We illustrate the information by comparing the level of GDP per capita in 2008 and 2018 through an index (100 = 2008).

Country	Index	Performance
Greece	79	Bad
Ukraine	93	Bad
Slovenia	105	Bad
Russia	105	Bad
Croatia	107	Bad
EU 28	109	-
Azerbaijan	110	Weak
Czechia	114	Weak
Serbia	118	Weak
Montenegro	119	Weak
Hungary	119	Weak
Estonia	119	Weak
North Macedonia	121	Moderate
Slovak Republic	123	Moderate
Armenia	124	Moderate
Latvia	124	Moderate
Kyrgyz Republic	124	Moderate
Bosnia and Herzegovina	127	Moderate
Bulgaria	127	Moderate
Romania	130	Moderate
Lithuania	131	Moderate
Albania	134	Moderate
Moldova	138	Moderate
Poland	141	Good
Turkey	145	Good
Georgia	151	Good
Tajikistan	153	Good

We could divide these countries in different clusters, with regard to their economic performance. Greece and Ukraine are in the first group, as countries with lower GDP per capita in 2018 than in 2008, and closely related to them have been Russia, Slovenia and Croatia, as countries whose economies had grown less than the EU15 average. Weak performers are countries that grew more quickly than EU15, but at a pace which is so slow that their GDP was less than 20% higher than a decade ago (these include Azerbaijan, Czechia, Serbia, Montenegro, Hungary and Estonia). Moderate performers were more successful, with GDP 20-40% higher than it had been in 2008. This group includes most of the countries at hand. The last group consists of those with good economic performance, since their GDP is more than 40% higher than before the crisis. These countries are Poland, Turkey, Georgia and Tajikistan.

When the attained level of economic development is taken into account, however, a slightly different picture emerges. Since less developed economies tend to grow faster, we would expect that these economies would have better results than those with higher GDP per capita. This is not always the case: the weak performance of Serbia and Montenegro are then more pronounced when their level of development is taken into account, while moderate results of Armenia, Bosnia and Kyrgyzstan pale in comparison. Also, this makes the stellar results of Georgia and Tajikistan less impressive, but it makes Poland's success even greater. The record of Turkey also seems very good, but its performance has significantly weakened in recent years and most of its results come from the beginning of the period at hand, so they must be taken with caution.

Income convergence is not destiny

Economic performance is shaped by underlying social institutions. Therefore, it is not guaranteed. As long as dominant institutions are inclusive, favoring savings and investments, both in physical and human capital accumulation, through meritocracy, market competition and protection of property rights, individuals will make decisions that will favor these phenomena. On the other hand, extractive institutions promote rent-seeking activities through political process, making property rights secure just for the elites while not for all citizens, and they create wide clientele networks to sustain the current division of political power. If societies on the long run want to experience growth, they need to improve their underlying social institutions.

RANKING OF THE COUNTRIES IN 2019 FREEDOM BAROMETER EDITION

The Freedom Barometer ranks countries based on their performance in the areas of political freedom, the rule of law and economic freedom. A detailed description of its methodology can be found in the **Methodology of Freedom Barometer: Measuring Freedom** section of this publication. The table below presents the scores and ranks for each country assessed.

Ranking	Country	Final Score	Distance to Frontier
1.	Switzerland	84.81	0.00
2.	Finland	82.12	-2.69
3.	Ireland	81.47	-3.34
4.	Denmark	81.35	-3.46
5.	Netherlands	81.10	-3.71
6.	Norway	80.67	-4.14
7.	Sweden	80.44	-4.37
8.	Iceland	79.98	-4.83
9.	United Kingdom	79.85	-4.96
10.	Luxembourg	79.19	-5.62
11.	Germany	79.09	-5.72
12.	Estonia	78.91	-5.90
13.	Austria	77.12	-7.69
14.	Belgium	75.93	-8.88
15.	Lithuania	75.51	-9.30
16.	Portugal	74.90	-9.91
17.	Czechia	74.01	-10.80
18.	Slovenia	73.63	-11.18
19.	Cyprus	73.40	-11.41
20.	Spain	72.88	-11.93
21.	Latvia	72.43	-12.38
22.	France	71.79	-13.02
23.	Malta	69.97	-14.84
24.	Romania	69.67	-15.14
25.	Slovakia	69.61	-15.20
26.	Poland	69.08	-15.73
27.	Georgia	69.05	-15.76
28.	Italy	67.24	-17.57
29.	Croatia	66.51	-18.30
30.	Bulgaria	66.06	-18.75
31.	Greece	64.50	-20.31
32.	Hungary	63.37	-21.44
33.	Albania	62.85	-21.96
34.	Montenegro	60.64	-24.17
35.	Armenia	60.15	-24.66
36.	North Macedonia	59.59	-25.22
37.	Serbia	58.75	-26.06
38.	Moldova	56.54	-28.27
39.	Ukraine	55.84	-28.97
40.	Bosnia and Herzegovina	54.68	-30.13
41.	Kyrgyzstan	52.52	-32.29
42.	Turkey	50.03	-34.78
43.	Russia	45.54	-39.27
44.	Azerbaijan	44.46	-40.35
45.	Tajikistan	41.09	-43.72

POLITICAL FREEDOM RANKING

Ranking of Freedom Barometer countries according to the level of political freedom.

Ranking	Country	Political Freedom	Distance to Frontier
1.	Norway	29.20	0.00
2.	Netherlands	28.90	0.30
3.	Sweden	28.90	0.30
4.	Denmark	28.80	0.40
5.	Finland	28.80	0.40
6.	Switzerland	28.34	0.86
7.	Belgium	27.97	1.23
8.	Germany	27.64	1.56
9.	United Kingdom	27.50	1.70
10.	Portugal	27.47	1.73
11.	Estonia	27.21	1.99
12.	Luxembourg	26.93	2.27
13.	Slovenia	26.87	2.33
14.	Ireland	26.67	2.53
15.	Cyprus	26.51	2.69
16.	Iceland	26.48	2.72
17.	Lithuania	26.23	2.97
18.	France	26.21	2.99
19.	Spain	26.01	3.19
20.	Czechia	25.88	3.32
21.	Austria	25.78	3.42
22.	Malta	25.32	3.88
23.	Italy	24.76	4.44
24.	Latvia	24.54	4.66
25.	Slovakia	24.54	4.66
26.	Croatia	23.88	5.32
27.	Romania	23.46	5.74
28.	Poland	23.27	5.93
29.	Greece	21.91	7.29
30.	Bulgaria	21.40	7.80
31.	Hungary	18.93	10.27
32.	Serbia	18.43	10.77
33.	Albania	18.23	10.97
34.	Montenegro	17.86	11.34
35.	Georgia	17.62	11.58
36.	Ukraine	16.84	12.36
37.	Moldova	16.07	13.13
38.	Bosnia and Herzegovina	14.30	14.90
39.	Macedonia	13.96	15.24
40.	Armenia	10.96	18.24
41.	Kyrgyzstan	9.85	19.35
42.	Turkey	9.54	19.66
43.	Russia	4.44	24.76
44.	Azerbaijan	2.90	26.30
45.	Tajikistan	2.13	27.07

RULE OF LAW RANKING

Ranking of Freedom Barometer countries according to the level of rule of law.

Ranking	Country	Rule of Law	Distance to Frontier
1	Finland	24.74	0.00
2	Denmark	24.49	0.25
3	Sweden	24.43	0.31
4	Switzerland	24.38	0.36
5	Norway	24.27	0.47
6	Netherlands	23.88	0.86
7	Luxembourg	23.71	1.03
8	Iceland	23.58	1.16
9	Austria	23.38	1.36
10	Germany	23.27	1.47
11	United Kingdom	22.77	1.97
12	Ireland	22.65	2.09
13	Belgium	22.30	2.44
14	Estonia	21.81	2.93
15	France	21.43	3.31
16	Portugal	20.99	3.75
17	Slovenia	20.89	3.85
18	Czechia	20.24	4.50
19	Lithuania	20.13	4.61
20	Malta	19.47	5.27
21	Spain	19.34	5.40
22	Latvia	19.23	5.51
23	Poland	19.03	5.71
24	Cyprus	19.01	5.73
25	Slovakia	18.51	6.23
26	Croatia	17.81	6.93
27	Italy	17.73	7.01
28	Hungary	17.49	7.25
29	Georgia	17.43	7.31
30	Romania	16.91	7.83
31	Greece	16.69	8.05
32	Bulgaria	16.26	8.48
33	Montenegro	15.78	8.96
34	Serbia	15.18	9.56
35	Albania	14.51	10.23
36	Armenia	14.45	10.29
37	North Macedonia	14.33	10.41
38	Moldova	14.12	10.62
39	Bosnia and Herzegovina	14.04	10.70
40	Ukraine	13.41	11.33
41	Turkey	12.55	12.19
42	Kyrgyzstan	11.88	12.86
43	Azerbaijan	11.46	13.28
44	Russia	11.27	13.47
45	Tajikistan	10.37	14.37

ECONOMIC FREEDOM RANKING

Ranking of Freedom Barometer countries according to the level of economic freedom.

Ranking	Country	Economic Freedom	Distance to Frontier
1.	Georgia	32.26	0.00
2.	Switzerland	31.84	0.42
3.	Ireland	31.15	1.11
4.	United Kingdom	30.14	2.12
5.	Iceland	29.90	2.36
6.	Armenia	29.55	2.71
7.	Estonia	29.52	2.74
8.	Lithuania	29.25	3.01
9.	Czechia	29.12	3.14
10.	Romania	28.90	3.36
11.	Luxembourg	28.71	3.55
12.	Latvia	28.37	3.89
13.	Azerbaijan	28.19	4.07
14.	Finland	28.17	4.09
15.	Netherlands	28.09	4.17
16.	Albania	27.99	4.27
17.	Denmark	27.84	4.42
18.	Cyprus	27.76	4.50
19.	Bulgaria	27.72	4.54
20.	North Macedonia	27.71	4.55
21.	Germany	27.65	4.61
22.	Montenegro	27.51	4.75
23.	Austria	27.30	4.96
24.	Norway	27.19	5.07
25.	Kyrgyzstan	27.09	5.17
26.	Spain	26.92	5.34
27.	Sweden	26.84	5.42
28.	Malta	26.69	5.57
29.	Poland	26.63	5.63
30.	Russia	26.56	5.70
31.	Slovakia	26.32	5.94
32.	Tajikistan	26.13	6.13
33.	Portugal	26.01	6.25
34.	Turkey	25.98	6.28
35.	Hungary	25.95	6.31
36.	Slovenia	25.81	6.45
37.	Belgium	25.68	6.58
38.	Serbia	25.27	6.99
39.	Bosnia and Herzegovina	24.85	7.41
40.	France	24.60	7.66
41.	Italy	24.16	8.10
42.	Croatia	23.99	8.27
43.	Greece	23.58	8.68
44.	Ukraine	23.54	8.72
45.	Moldova	19.86	12.40

COUNTRY SCORECARDS

Albania

GDP in 2018: USD 15,059 million

annual growth rate: 4.1%

per capita: 13,330 USD PPP

by sector:

agriculture 21.7%

industry 24.2%

services 54.1%

Population: 2,874 thousand

Human Development Index

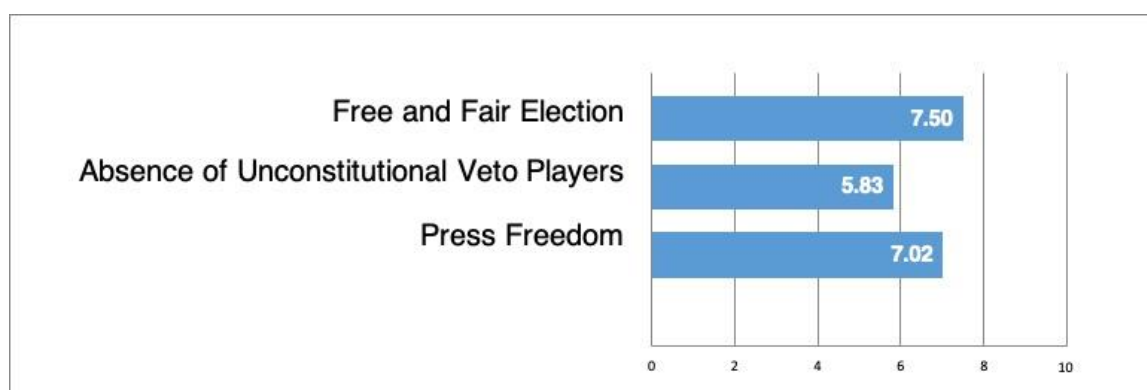
Government position in 2018

Unemployment rate: 12.2%

HDI: 0.791 (rank 69)

-1.6% of GDP

A. POLITICAL FREEDOM



FREE AND FAIR ELECTIONS

Deep political polarization in Albanian society, which was nurtured for couple of years by the ruling Socialist Party (SP) led by the PM Edi Rama and opposition Democratic Party (PD), reached another peak in the observed period. Situation started heating up in late 2018, with student demonstrations against high tuition fees, resulting in government reshuffle and abolition of the previously carried law that had regulated the issue. New government didn't have even a month before facing a new crisis. Opposition parties returned to the parliament in January, announcing a series of rallies demanding new elections due to electoral fraud and high-level corruption. From February to May, many protests which turned violent were held. Because of that, elected president Ilir Meta decided to postpone local elections previously scheduled for 30 June. However, the parliament revoked his decision and called for elections as planned. Main opposition parties boycotted local elections, hence ruling PS took power in almost all cities and municipalities without serious competition. According to international watchdogs, elections were well administered and peaceful, although voters lacked meaningful choice and were pressured by both sides. Electoral process in Albania is on a track of improvement, with last parliamentary elections having had been more competitive and fairer than the previous ones. Nonetheless, many problems with elections, such as voting irregularities and abuse of administrative resources, remained as an issue.

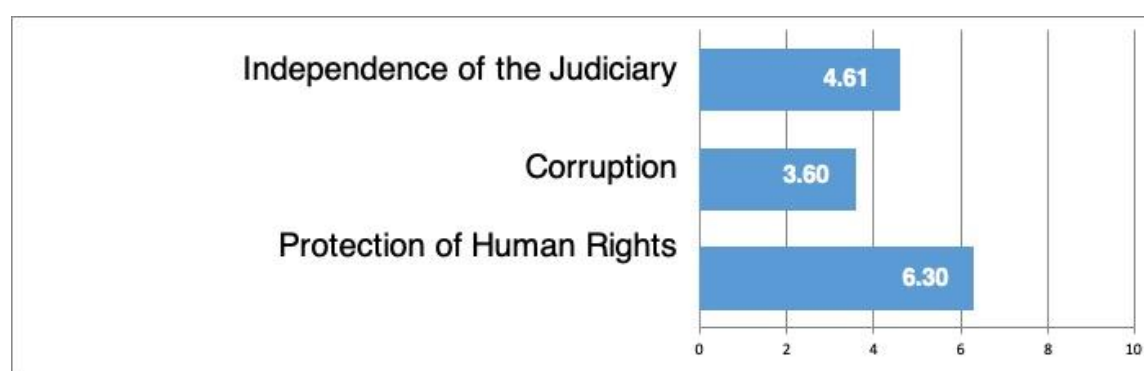
ABSENCE OF UNCONSTITUTIONAL VETO PLAYERS

The biggest threat, undermining democratic institutions and decision-making in Albania, is coming from elected state officials. Those have effective power to govern the country however it is rather often abused for personal economic and political benefit by the ruling political elite and their business allies, or even by criminal groups. Also, deep political polarization reflects on institutions. Upon government formation after last parliamentary elections in 2017, the parliament was mostly boycotted by the opposition parties, thus making it difficult to uphold its oversight role. With a weak separation of powers in practice, with current strong domination of the SP over legislative and executive, and with SP's capabilities to influence the judicial sector, their deeds can often go by with impunity. Business or criminal leaders could influence decision making process as well.

PRESS FREEDOM

Political atmosphere has shaped the media landscape in Albania to a high degree. Besides existing of a wide range of broadcast, print or online media outlets, their independent and objective reporting is subject to political and economic interests of their owners and extensive pressure coming from politicians. Therefore, many outlets provide a biased reporting, in favor or against the dominant political parties. Same goes for public broadcaster RTSH, which is controlled by the state and the ruling party. Lack of ceiling to media ownership share has led to huge concentration thereof, in the hands of few people. Another important issue is working conditions of journalists. Poor living standards lead to their dependence of financing from other sources, thus questioning their integrity. Nonetheless, they are also faced with verbal and physical harassment, violence, threats, or legal charges. This includes labeling them as enemies, poison of the society, and "trash", e.g. as it came from the PM Edi Rama. In such environment journalists often practice self-censorship. Defamation remained punishable by the law. Alas, attacks on journalists coming from state officials often go by with impunity.

B. RULE OF LAW



INDEPENDENCE OF THE JUDICIARY

In spite of constitutional guarantees of independent judiciary, the entire system of law enforcement in Albania is under heavy pressure from politics, special interest groups or outright corruption. That affects both impartiality and efficiency of courts. Cleansing of judiciary of incompetent or under-transparent officials, prosecutors or judges, i.e. the vetting process, that had begun in late-2017 under the auspices of the 2016 reform, was still incomplete by mid-2019, with many obstacles encountered meanwhile. Slow changes in the fields of fighting corruption

and organized crime and of the reform of judiciary, have been main obstacles to Albania's EU-accession process, besides recent inner-EU political considerations about enlargement process as such.

CORRUPTION

As Freedom House reports in 2019, „corruption and organized crime remain serious problems despite recent government efforts to address them.” In 2018, Albania fell on the Transparency International's CPI list, to shared places 99-104 (of 180), with the score 36 (of 100), while in 2017 it was on the places 91-95/180 with the score 38/100. Bribery rates are high. Corruption among judiciary, police, customs, land administration, tax authorities and in public procurement is marked by the business portal GAN as either very highly or highly present. Recently, efforts were put to reduce the scope of immunity and impunity of high-ranking politicians if they are charged with corruption, embezzlements, smuggling or similar. Protection of whistle blowers improved. All those was not enough to satisfy necessary conditions for the start of Albania's EU-accession negotiations in 2019, wherefore insufficient struggle against corruption has been among major non-political and domestic obstacles.

PROTECTION OF HUMAN RIGHTS

Once (during communism) officially a militant-atheist country where religion was banned, Albania is nowadays a role model of a secular one, in which everyone's worldview, religious or other, is respected. Likewise, identity rights of many ethnic minorities are respected, even though Roma might be a notable exception, being marginalized and vulnerable to various including political exploitation. LGBTs, in spite of notable improvements during the entire decade now, have still been under pressure and in fear, stuck in between conservative society and hypocrite politicians. Women are underrepresented in politics and management and still under-protected from domestic violence, harassment in public places, or human trafficking. Academic freedom is occasionally endangered by corruption, notwithstanding lack of political interference. Police abuse is still a serious matter. Tribal tradition of revenge killings, persistent in some parts of the country despite government and civil society efforts to eradicate it, limits the freedom of movement and lifestyle to numerous innocent individuals and families.

C. ECONOMIC FREEDOM



SECURITY OF PROPERTY RIGHTS

Private property in Albania is not adequately protected. The biggest problem is low judicial independence from powerful political and business interest groups connected to the executive. There were constitutional amendments and judicial reforms that were implemented in 2016 with the aim of improving the rule of law. The process includes the vetting of judges and prosecutors

through a vetting commission, in the instances such as unexplained wealth, or ties to organized crime. This process remains to impact the overall judicial system in the country. Corruption within judiciary is perceived as high in public opinion polls. Contract enforcement is largely ineffective due to very long legal procedures – 1.4 years on average, and high fees involved. There is high number of backlogged court cases whose resolution is pending, effectively flooding the courts. There are no specialized commercial courts, but adequate departments among district courts. Regarding court procedures, although court cases are randomly assigned to judges, other automated procedures are not well developed. Recent amendments to the code of civil procedure established a simplified procedure for small claims in order to lift the burden made by the less complicated cases. Bankruptcy procedures are also long, lasting 2 years on average, and lead to a moderate recovery rate of 44% through piecemeal sale of assets of the bankrupt company. Any significant improvements of the new bankruptcy law that was introduced in 2017 with the aim of addressing existing loopholes, reducing fraud and easing recover procedures, are yet to be acknowledged. The cadaster service still remains incomplete, with a significant proportion of land without a clear title, which increases uncertainties of real estate purchases. Property registration is slow, and involves very high fees, while there is also corruption within the cadaster service. To streamline the property management process, the government established the State Cadaster Agency in April 2019, which integrated several institutions responsible for property registration, compensation, and legalization, such as the Immovable Property Registration Office (IPRO) and the Office for the Legalization of Illegal Structures (ALUIZNI). Public notaries were recently given access to registries and can now confirm ownership of land and real estate. Private property expropriation is rare, restricted mostly to infrastructure projects, but the level of compensation offered is lower than the perceived fair market value. Another problem in the area of property rights regards the illegal buildings, whose number is estimated at 440 000. The wide demolition campaign that started in 2008 is still not finished, with the construction inspectorate that does not involve due legal process, ignores citizens' complaints and is partial in choosing its targets. Foreign nationals face restrictions in owning agricultural land, but they can lease it for a period of up to 99 years. Commercial property, on the other hand, can be purchased but only with a guarantee of a threefold investment against the value of the acquired land, but these restrictions can be avoided through registering a local company in Albania. There are few restrictions on foreign ownership in the country, the most notable ones regarding air transportation, electricity transmission and television broadcasting, in which foreign ownership is restricted to minority equity. The process of restitution, which started in 1993, is not yet fully implemented. Property restitution claimants are facing many challenges in practice, due to slow judicial procedures or corruption, leading to unclear property rights. The new property compensation legislation was recently introduced in order to provide a solution to the pending claims. This legislation envisages three methods of compensation (property restitution, compensation with a property of similar value and pecuniary compensation) and a 10 year long timeframe for resolving the restitution claims, but the compensation for land confiscated is difficult to obtain and inadequate. Political changes could have a significant impact on businesses and investments, due to attempts of the new government to revoke or renegotiate already settled concessions, licenses or contracts, thus significantly negatively influencing property rights. Political consideration can have an effective impact on property rights: although international arbitration is usually upheld, the previous government decided not to implement the arbitration ruling in a high level investment case in 2016, which significantly increased business uncertainties, but this decision was later changed. Furthermore, when a new government takes power, it often tries to renegotiate the existing licenses, contracts and concession agreements.

SIZE OF GOVERNMENT

Size of government in Albania is modest as compared to many other European countries, with low levels of government expenditures, slightly below 30% of GDP in 2018. Public deficits were

reined in recent years, still bearing in mind the expanding economy and the high level of public debt, reaching 70% of GDP in 2018. The deficit has been on a slow downward path, but its decrease is slow and its level remains quite elevated in the regional comparison. This could pose a significant fiscal risk in the case of another recession, but here problems are also arising from a slowdown in reforms and piling-up arrears, including VAT refunds and unbudgeted investment projects. Significant risks could also arise from contingent liabilities stemming from the private-public partnerships, which saw a significant increase, coupled with low administrative capacities for their evaluation and political influence in decision making. Further problems will arise from the population aging and the high emigration rate, since it will increase expenditures on the pension and healthcare system, which will be borne by a decreasing working age population. After the privatization program during the transition, SOEs in Albania operate mostly in so called strategic industries, such as transports, energy generation and distribution, postal services and the hydrocarbon sector, as well as in the utility sector. The state also owns significant minority equity in big companies that operate freely in the market, such as the telecommunication company Albtelekom. SOEs in the energy sector, KESh and OShEE, pose a significant risk for public finances, due to their inefficient management and operational policies, piling up losses and payment arrears. Privatization of the state oil company Albpetrol, which has been postponed several times since 2012, is currently not under consideration and the company started a restructuring process. Low public spending makes room for low taxes: personal income tax is slightly progressive, with rates of 13% and 23%, coupled with a relatively high non-taxed threshold. Corporate tax is flat and set at 15%, but there are also 5% and 0% rate for small companies with turnovers below certain thresholds. The general VAT rate is set at 20%, while the preferential rate is 6%: the VAT threshold for small businesses was recently substantially increased from 8 to 14 million leks. Relatively low level of social security contributions leads to one of the lowest labour tax wedges in Europe - below 30%. A set of tax incentives was introduced in 2018, aimed at the tourism industry, cutting the accommodation VAT from 20% to 6%, which was also spread to agro-tourism ventures. In 2019, the dividend tax was almost halved, from 15% to 8%.

REGULATION OF CREDIT, LABOUR AND BUSINESS

Although business regulation in Albania is not hostile to doing business in the country, there are significant challenges and shortcomings, stemming from widespread corruption and favoritism among public officials in their dealings with business entities. Actual impartial implementation of regulations is plagued with many problems, to do with the low administrative capacities of the civil service and political pressure. Legislation is often difficult to interpret, being ambiguous, inconsistent or outright contradictory, which could be used for manipulation and extortion, while regulatory changes are frequent and without proper consultation with the business community. Starting a business is relatively easy and quick, with low number of procedures and no paid-in minimum capital, but it is tied to high administrative fees. In order to boost registering of new businesses, the government waived the taxes on new business ventures during their first year of operation, which has been a great boost to small and micro enterprises. The issuance of construction permits was stopped in 2013 through the enacted moratorium, in order to combat illegal construction, but the process of issuance commenced again and the number of issued permits has recently risen. However, this process is complicated by numerous procedures and long time limits, lasting more than 10 months on average. On the other hand, the process of getting an electricity connection is not burdened with numerous procedures, yet it is very expensive. Tax regulations are overly complicated, with high number of annual payments, although the introduction of an online system for filing and paying taxes has somewhat improved the situation. VAT arrears have become quite high in recent years, posing a significant burden on businesses. Labour market regulations are a mix of flexible and inflexible traits. There are no limits to the maximum length of fixed-term contracts, but those are prohibited for permanent

tasks. The number of maximum working hours per week has recently been decreased. Notice periods and severance pay for redundancy workers rise significantly with the years in tenure, thus protecting more seasoned workers. The minimum wage is relatively high as compared to the average wage. It has been increased for additional 15% this year. Furthermore, there are two minimum wage types: the minimum wage for private and public sector (the latter being higher by a half). Collective bargaining is mostly concentrated in the public sector, while outside of it is prevalent in just several industries. A significant portion of the workforce is active in fully or partially undeclared economic activities. In March 2019, parliament approved a new law on employment promotion, which defined public policies on employment and support programs, aiming at increasing employment through active labour market policies.

FREEDOM TO TRADE INTERNATIONALLY

Freedom of international trade in Albania is generally respected. Albania has been a member of the World Trade Organization (WTO) since 2000, which lifted many restrictions on trade. Tariffs are low, with the average MFN-applied rate of 3.6%, but more than double that for agriculture products. Albania ratified the Trade Facilitation Agreement (TFA) of the WTO in May 2016, which went into effect in February 2017 when 2/3 of the WTO members ratified it. That is expected to have further liberalized foreign trade through cutting the red tape and modernizing import and export procedures. Albania is yet to become party to the Government Procurement Agreement (GPA) of the World Trade Organization (WTO), but it has obtained an observer status and is negotiating full accession. Major impediments, however, to freedom of international trade are product standardization procedures which are costly and lengthy, followed by the low quality of transportation infrastructure, especially the railroad, which increases freight costs. Border and documentary custom procedures also pose difficulties, and mandatory scanning inspections for exports and imports increased both time and costs for border compliance. Corruption in the customs office and unequal treatment resulting from it also can pose difficulties. Main Albanian trade partners are EU member countries (most notably Germany and Italy), closely followed by China and Turkey. Therefore, majority of the Albanian trade is conducted under the Stabilization and Association Agreement (for the EU countries) and the CEFTA (for the countries of the SEE region), while Albania has also signed preferential trade agreements with EFTA and Turkey. The process of EU-integration, which was expected to provide a significant push for further implementation of the EU regulation in this field has recently been put to a halt since the European Council did not agree to opening of the accession talks with Albania. This might have negative reform impact in future. The control of short term capital flows, introduced by the National Bank, is still maintained, mainly due to the exchange rate policy and low foreign currency reserves. The process of issuance of work permits for foreign nationals is mostly streamlined, but the legislation stipulates that foreign workers cannot encompass more than 10% of the total workforce of a company.

Armenia

GDP in 2018: USD 12,433 million

annual growth rate: 5.2%

per capita: 10,270 USD PPP

by sector:

agriculture	16.7%
industry	28.2%
services	54.8%

Population: 2,969 thousand

Human Development Index

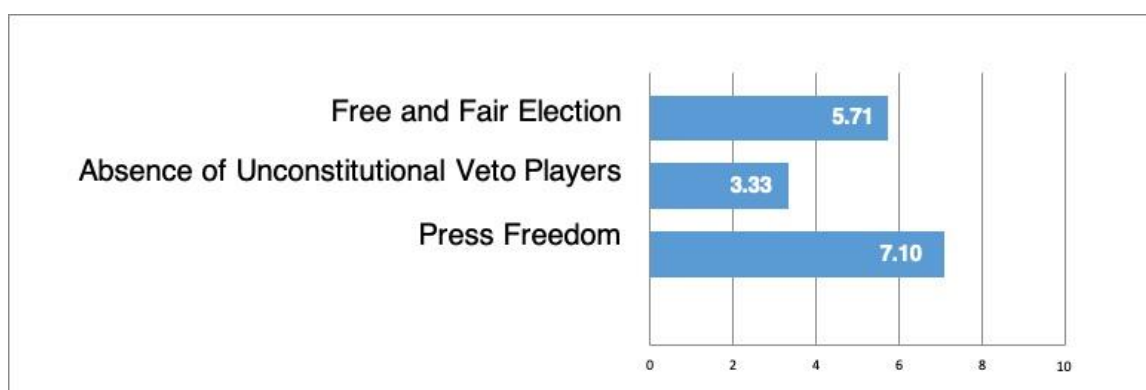
Government position in 2018

Unemployment rate: 18.2%

HDI: 0.760 (rank 81)

-1.8% of GDP

A. POLITICAL FREEDOM



FREE AND FAIR ELECTIONS

Considering the period under review, the biggest progress in political freedom section as measured by the Freedom Barometer 2019 index, was achieved in Armenia. Turbulent political activities that started in the midst of 2018 with a Velvet revolution, brought significant democratic improvements in the country. Those events marked an end of the era dominated by the former president Serzh Sargsyan and his Republican Party of Armenia (HKK) which constraint political freedom in the country, including institution of free and fair elections. Opposition and revolution leader Nikol Pashinyan was appointed as a new prime minister of Armenia – whereat he remained until resignation in October 2018, in the event which triggered early parliamentary elections in December. Although prior to elections, with weak parliamentary representation and majority of HKK MPs, he wasn't able to push through serious electoral changes, that didn't prevent his My Step Alliance (MSA) from winning 70% of the votes and ensuring the single party majority in the National Assembly (88 out of 132 MPs). Two more parties passed the threshold, while former ruling HKK party was not among them. Elections were marked by international observers as much more free and fair than all previous ones, with OSCE having had noted that “elections enjoyed a broad public trust” and that “absence of electoral malfeasance, including [...] vote-buying and pressure on voters, allowed for genuine competition”. Prior to it, elections in Armenia abounded with irregularities and fraudulent practices, led by HKK. In 2019, MSA announced that proposed electoral changes from 2018 would again be “at the table”, which included changes to voting by the party lists and lowering the threshold to 4%, or 6% for coalitions. Nikol Pashinyan was appointed as the PM once again.

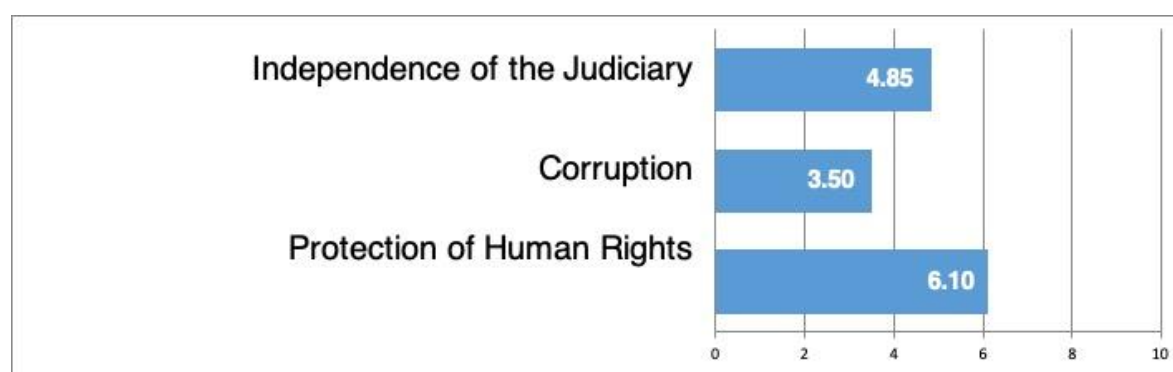
ABSENCE OF UNCONSTITUTIONAL VETO PLAYERS

Although the above score doesn't indicate annual improvement in the section of Absence of Unconstitutional Veto Players in Armenia, latest political developments showed some progress when it came to independence of democratic institutions in the country. Change of government, first through revolution and afterwards through democratic elections, has shaken long-standing ties between former political and business elites, which used to undermine decision making process for the sake of serving their personal interests. Problems of weak representation in the parliament by supporters of the PM Nikol Pashinyan prior to December 2018 elections are now replaced by the concerns about strong parliamentary majority after those elections. In the past, executive branch dominated the legislative and judiciary ones, undermining their role of control and prevention of abuse of power. Thus, it is still to be seen whether or not the ruling My Step Alliance will break away from such practices and ensure more reliable system of checks and balances. Significant influence in society is imposed by war veterans' formal or informal associations, and by the Armenian Apostolic Church, who both are able to put informal pressure on the decision-making process.

PRESS FREEDOM

Media scene in Armenia is diverse, with many traditional or online outlets which are rather partly free in their work. Situation of the media freedom improved somewhat after the Velvet Revolution, however problems like editorial and economic influence on journalists' reporting, widespread self-censorship and unclear ownership structures of the media outlets remained as concerns. This especially stands for traditional media and journalists employed at those outlets, whose reporting aligns with a political and economic interests of their owners. Lack of transparency of the media ownership is maintained with a Law on Television and Radio Broadcasting, which does not insist on full disclosure of their owners. On the other side, independent, objective and investigative reporting in Armenia can be found mostly online. Unlike before, media reporting on the electoral campaign provided citizens with diverse and more balanced coverage, allowing them to make informed decision on the election day. There were no cases of physical attacks on journalists in the period covered by this report.

B. RULE OF LAW



INDEPENDENCE OF THE JUDICIARY

Judiciary in Armenia faces lots of challenges that jeopardize its independence. There is a strong influence by the executive branch of power in politically sensitive cases, as well as the influence by the interested parties in commercial cases through corruption or via political pressure. In

criminal cases, judges often tend to follow prosecutors without much deliberation. A wide amnesty in autumn 2018, on the occasion of 100 years of the first Armenian republic, on one hand somewhat eased the situation in jails and relaxed it in society, but on the other hand was also criticized for alleged political bias in defining its beneficiaries.

CORRUPTION

As compared with neighbors, Armenia is less corruption-struck than Azerbaijan or Iran, yet worse than Georgia or Turkey. With 35/100 points and place 105/180, it's been stagnating in the Transparency International's CPI ranking. High level corruption, to do with overinvolvement of oligarchs into political life, is a bigger problem than petty corruption. Political changes and „Velvet Revolution“ as of spring 2018 put many promises on cleaner and more transparent and accountable politics, yet many of the wealthiest businessmen are still directly politically involved, holding political offices notwithstanding conflict of interest. The government Cabinet has adopted a new, 2019-2022, anti-corruption strategy and action plan in February 2019, seemingly concentrated on improving transparency and professionalism among public administration and further curbing petty corruption and nepotism.

PROTECTION OF HUMAN RIGHTS

After political changes in Armenia in 2018, steps were taken to improve the human rights situation. Past cases of police brutality or other attacks on civil liberties are investigated, although a thorough reform of the security sector is a matter of the future. Civil society organizations blossomed, on the waves of post-revolution euphoria and civic enthusiasm, but also enabled by the 2016 legal provisions that had eased their work. Even though more permissive or liberal legal provisions on the issues of gender inequality, domestic violence, LGBT discrimination and homophobia, or the position of religious or ethnic minorities, have been lacking, the social climate has thereby somewhat improved. But conservative backlash could already be detected, through activities of the alt-right groups, themselves accusing government of being a puppet of “Soros”, of selling out national interests and of subjugation to “pedophilia” and “religious sects” conspiracies. Advocating Russia-style laws on NGO gathering, or LGBT issues, or domestic violence, has been a constant among the conservatives in Armenia. Besides propaganda, unpunished physical attacks also occurred against alleged gay community members (thereby by a mob), as well as against critics of the main church in the country.

C. ECONOMIC FREEDOM



SECURITY OF PROPERTY RIGHTS

Property rights in Armenia are not sufficiently well protected. Powerful external interested parties can have a significant power over the courts on a case to case basis. Their procedures and rulings,

and corruption within the judiciary, are still present. Judicial procedures are slow and inefficient, and there is a huge backlog of cases. A case on average lasts longer than a year and half; adjournment regulations do not stipulate their maximum number, and time standards are not reasonably upheld, so slow court procedures effectively lead to property rights uncertainty. The use of precedential authorities by the Court of Cassation of the European Court of Human Rights is not widespread, which can make court decisions unpredictable. Recent changes that provided financial incentives for mediation mechanism and established mediation framework have not yet decreased the number of new court cases and out-of-court settlement mechanisms such as mediation or arbitration remain underutilized and underdeveloped. Lack of expertise of judges in commercial areas can be a negative factor in court dealings, since there are no specialized commercial courts and all these cases are dealt with in general jurisdictions courts. Unpredictability in verdicts, which can vary from court to court in similar cases, also makes significant problems in practice. Court cases are now assigned to judges randomly, but its effect on alleviating some of the pressure on courts is not yet clear. Simplified procedures for small claims have also been recently introduced. Insolvency procedures are also slow and complicated, and are mostly resolved through piecemeal sale of the business at stake. On average, this lasts almost two years, resulting in low recovery rates, below 40% of the value of the claim. Registration of property is easy, inexpensive and can be done in just a week, while majority of the land has a clear title. The land dispute resolution mechanism of the land administration was recently improved, which would have a positive impact on the property registration process. Foreign nationals are barred from owning land, but they could lease it freely. The political change stemming from the December 2018 parliamentary elections, which had ousted some important business people from the parliament, could lead to curbing important stakeholders involved in political rent seeking activities.

SIZE OF GOVERNMENT

Government expenditures in Armenia are very low as compared to other European countries, even those from the CIS region, standing at 24% of GDP in 2018. Public debt started to decrease, but is still elevated, reaching 51% of GDP in 2018, which is relatively high for a country on this level of economic development. The new government signed a new three-year stand-by arrangement with the IMF in May 2019, in order to support structural reforms and the fiscal consolidation that is under-way. New fiscal rules were introduced in January 2017, with a strict debt limit of 60% of GDP and an automatic corrective mechanism for deficits. Deficits have been subdued, but the low as of 2018 was also due to the fall in capital spending. Economic growth is robust, and manufacturing sector outperformed the fall in mining and manufacturing. A significant pension reform was introduced in July 2018, which made all people born after 1974 contribute 5% of the gross wage towards their private pension plan. Majority of former state-owned companies has been privatized since the beginning of the transition in the country. Privatization process is generally considered to have been neither transparent nor fair. SOEs are still active in specific areas, such as public utilities, infrastructure and energy. These companies do not operate efficiently, and their operations can pose fiscal risks to the government, especially those in the energy sector. The privatization program for the 2017-2020 period has recently been amended in order to take off the list the two biggest SOEs from the list: the wholesale electricity trade (Energoimpex) and the post (Haypost), which is a significant step back for privatization efforts. Overall low government consumption has led to moderate tax rates, with VAT and corporate profit tax rates set at 20%. Income tax is progressive, with rather high rates of 23%, 28% and 36% above the set threshold, with additional 2.5% of social security contributions. The government recently proposed a significant tax reform, which would include introduction of flat income tax of 23%, with a possibility of its eventual decrease to 20%, which would be offset mostly by a rise in excise duties.

REGULATION OF CREDIT, LABOUR AND BUSINESS

Regulation in the country is mostly business-friendly. However, there is a high concentration of ownership in major fields of the Armenian economy by a small group of businesses, which can use their resources and connections to gain protection from competition. Recent political changes saw to the fact that a number of these people lost their seat in the national parliament, which is expected to curb their informal political power. Lack of independence, capacities, or professionalism, by the key administrative institutions can also undermine the actual implementation of rules and regulations in practice. Informal entry barriers in these fields can serve as a deterrent to companies that would try to enter the market, and tax authorities and different inspections have a record of being used to harass possible competitors. Government procurement procedures are mostly deemed as unfair, with preferential treatment being given to companies with good political connections. In some cases, such as the gold mining project in Amulsar, the low quality of government regulatory capacities have led to widespread unrest, due to accusations of investment preferential treatment regarding the environmental regulations. On the other hand, starting a business is easy and cheap, and there is no minimum paid-in capital requirement, which was further made expedient by allowing voluntary VAT registration at the time of business incorporation. So is the process of obtaining a construction permit, although burdened with as many as 20 different procedures which on average can take 3 months. The process of connecting to electricity grid is also expedient and cheap - shorter deadlines for connection procedures have been introduced, as well as a new GIS system within the public utility company. Compliance with tax procedures involves lengthy and complicated procedures and is considered overly burdensome, even though some administrative changes in this regard have been recently introduced. Labour regulation is flexible, although fixed term contracts are prohibited for permanent tasks. The length of contracts is not restricted, Total number of working days is set at 6. There are retraining and reassignment obligations in case of redundancies. The length of notice periods and the level of severance pay do not increase with the years in tenure. However, almost half of the working force is active in the informal economy, working without written contracts. Centralized collective bargaining is mostly restricted to public sector, and trade unions are considered to be under the political influence of the government. Long mandatory military service proves to be burdensome for individuals and private enterprises alike.

FREEDOM TO TRADE INTERNATIONALLY

Freedom of trade in Armenia is generally respected. Tariffs are not high, with the Most Favoured Nation (MFN) average applied rate of 6.5%, but tariffs are higher for agriculture goods and foodstuffs. Non-tariff barriers, such as technical, sanitary and phytosanitary standards, still pose obstacles to free trade. Custom procedures remain non-transparent and prone to corruption, while custom clearance and inspections are lengthy; this was recently somewhat improved by allowing online submission of customs declarations. These procedures have recently been improved through a reduction in use of reference pricing, but manipulation of goods' classification and demands for pre-payment of custom duties still prevail. Armenia has been a member of the World Trade Organization (WTO) since 2003. It has signed the Trade Facilitation Agreement, and requirements for categories A and B have been put in place. Armenia joined the Eurasian Economic Union (EEU) in 2015, which granted Armenian goods easier access to EAEU markets and vice versa, and more opportunities for Armenian migrant workers through their preferential treatment. In November 2017, Armenia signed a Comprehensive and Enhanced Partnership Agreement with the European Union. This treaty will not affect customs or tariffs rates, since these are set on the supranational level of the EAEU, but will over time align Armenian regulatory system and standards with those in the EU. Main problems facing

Armenian involvement in foreign markets are geographical and political: the mountainous terrain provides only a limited number of routes suitable for transportation of goods, but the borders with Azerbaijan and Turkey are closed due to political confrontations. The only open borders are those with Georgia and Iran, and these lack good infrastructure, which significantly burdens international trade, through high freight costs. Main Armenian trade partners are the Russian Federation and the European Union, which combined cover one half of its international trade. The Law on Free Economic Zones was amended in October 2018, in order to provide more opportunities for this kind of clusters, and a new FEZ focused on high tech and IT opened in Hrazdan.

Azerbaijan

GDP in 2018: USD 46,940 million

annual growth rate: 1.0%

per capita: 18,020 USD PPP

by sector:

agriculture	6.1%
industry	53.5%
services	40.4%

Population: 9,940 thousand

Human Development Index

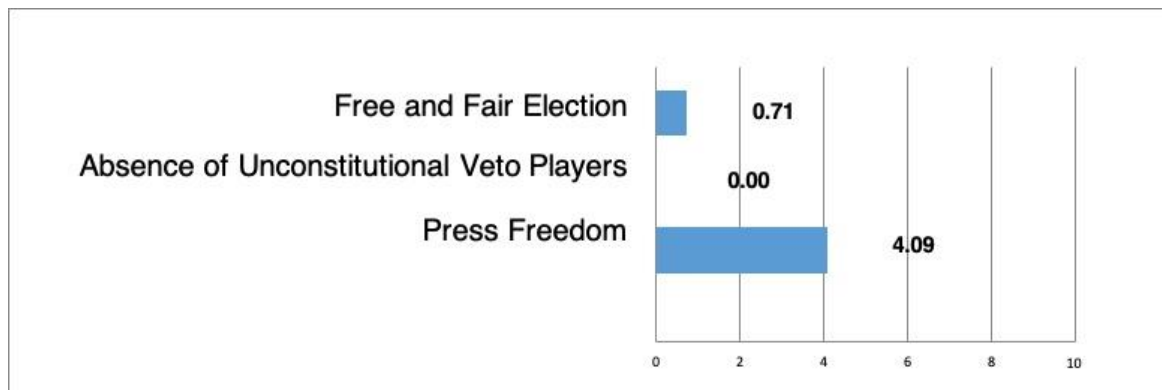
Government position in 2018

Unemployment rate: 5.0%

HDI: 0.754 (rank 87)

+5.6% of GDP

A. POLITICAL FREEDOM



FREE AND FAIR ELECTIONS

Political environment in Azerbaijan is highly restricted. Electoral process is neither free nor fair. New Azerbaijan party and its leader Ilham Aliyev hold complete control over the country and its institutions, abusing position for preventing any kind of political pluralism. Parties and political activists who are critical of government are facing verbal and physical violence, imprisonment, intimidation including members of their families, lay-offs from work, and/or censorship. Parties often lack funding, access to resources and media representation, while organization of the rallies is limited by law. Even online space became highly controlled by the state after 2017 referendum, with online outlets having been shut down, and those which posted criticism against the ruling elite having faced criminal charges. The enumerated has made opposition participation in the political life of the country almost impossible. In addition, elections in Azerbaijan abound with crackdown on opposition politicians, by placing them behind bars or restricting them from participating in elections, with abuse of state resources and power without clear distinction of the political party and governmental positions, and with irregularities on the voting day such as ballot stuffing or carousel voting. In April 2018, Ilham Aliyev was elected as president for the fourth consecutive term, in “restrictive political environment and under a legal framework that curtails fundamental rights and freedoms, which are pre-requisites for genuine democratic elections”, as marked by the OSCE. Many politicians, activists and journalists were either arrested or remained behind bars throughout the year, even though political leader Ilgar Mammadov was released in August 2018, after 5 years spent in prison.

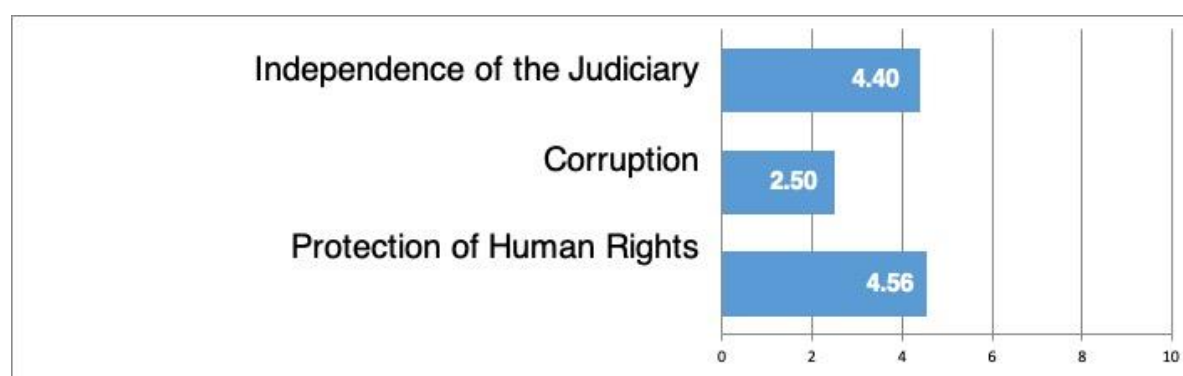
ABSENCE OF UNCONSTITUTIONAL VETO PLAYERS

As the score clearly indicates, principles of democracy do not exist in Azerbaijan, hence decision making in this country is completely subject to the interests of the incumbent president Ilham Aliyev and political and business elites surrounding him. There are no unconstitutional veto players who could force president or ruling elite to do anything unwillingly but undermining of the rule of law and of the democratic principles is coming exactly from this group of people. System of checks and balances is hindered by the domination of executive over legislative and judiciary. High level corruption is widespread in the country and these practices by state officials often go by with impunity. With all branches of power controlled by the president, and a tight grip put over state resources and decision making, Azerbaijan might be considered as a captured state.

PRESS FREEDOM

Space for free and independent media in Azerbaijan is shrunk to the very edge of existence. Despite being granted by the law, freedom of the press is limited by all means. There has been clear evidence of media censorship, with many outlets which even slightly stood out of the governmental narrative having had been shut down by the state. In August 2018, APA news agency, usually biased towards the government, was closed down. Many foreign outlets, such as Radio Free Europe/Radio Liberty or BBC, remained prohibited. Also, self-censorship is widespread among journalists and editors, restraining themselves from reporting on critical topics. Independent and objective reporting is followed by retaliation from the government, through cracking down on critical journalists, imprisonments, verbal and/or physical harassments, smear online campaigns, or defamation charges. In such restrictive environment, many journalists made decision to report from abroad, however same repressive methods are often directed towards members of their families. Journalist Afgan Mukhtarli, who was abducted from Georgia and transferred to Azerbaijan, was sentenced to 6 years in prison. Libel is a criminal offense punishable by law, by up to three years of imprisonment. Understanding that Internet became the dominant space for criticism, government pushes through legal amendments, allowing them to censorship the online content. Throughout the observed period, many online portals were either blocked by court or remained blocked.

B. RULE OF LAW



INDEPENDENCE OF THE JUDICIARY

The position of judiciary vis-a-vis executive branch of government has not improved. Not least national judicial institutions but also courts, prosecutors or even many defense lawyers are under

heavy political influence, taken the de facto government control of the Bar Association. Staged trials against political opponents or independent media actors are common, whereby usual legal procedures are avoided and verdicts often brought in advance. Arbitrary detentions - and torture thereby - are also common, while the situation in prisons is bad in spite of abundant financial capabilities to improve it. All those are countered by occasional, apparently generous, presidential pardons (last one to be proclaimed in March 2019, whereby 51 political prisoners - among the total of 400 benefiting convicts - were released).

CORRUPTION

Already very bad, the situation regarding corruption has further deteriorated in Azerbaijan during 2018. The country's downfall – in just a year - on the Transparency International's Corruption Perception Index list has been one of the most dramatic ever. From the places 122-129 in 2017 it fell to places 152-156 in 2018 (among 180 countries of the world), with the score plummeting from 30 in 2016 and 31 in 2017 to 25 in 2018 (out of 100). Grand corruption, itself capturing considerable proportions of national wealth and of its extraction industries' income, is only superficially checked, whereas it mainly comes from the very top of the government. Yet petty corruption too is widespread in almost all sectors of administration, be it tax or land administration, customs service, police, judiciary, or public procurement. On the top of it, attempts at bribing foreign politicians, journalists or businessmen, either to laundry the domestic corruption or to turn a blind eye on it and artificially boost the country's image abroad, are also common.

PROTECTION OF HUMAN RIGHTS

Azerbaijani citizens are lacking human rights and civil liberties in many fields. Freedoms of expression, gathering and association are endangered by occasional mass arrests, prosecution, unfair trials and imprisonment of political dissidents, independent journalists or NGO activists, including sometimes their defense lawyers. Legal uncertainty on what is allowed and what is not is in fact even exacerbated by occasional amnesties or presidential pardons that include political prisoners or are obviously conceived because of them. Traveling abroad is restricted to politically unsuitable individuals. While ethnic minorities face hardships, religious (especially „non-traditional“) or sexual ones face persecutions and black listing. Domestic violence and child marriages are unsufficiently fought against, while largely regarded either as a private matter or as part of traditions that should be tackled by the state very cautiously.

C. ECONOMIC FREEDOM



SECURITY OF PROPERTY RIGHTS

Private property rights are not well protected in Azerbaijan. The most important problem is political influence of the executive branch of government and connected vested interest groups over the courts. Court proceedings are not considered as fair and professional. There is a limited level of transparency regarding court procedures. Rules are enforced inconsistently. The law on expropriation could be easily misused for private gains by the members of the political elite, e.g. by unnecessary appropriation, or by a low compensation, all in spite of the legal provisions. This was further complicated by the 2016 constitutional amendments which enabled authorities to expropriate private property in dubious instances when it was necessary for social justice or effective use of land purposes. Contract enforcement is mostly effective - done in 9.5 months on average. There are specialized commercial courts. However, automated processes within courts are scarce, apart from the newly introduced electronic payment system for court fees and filing the initial complaint by plaintiffs. There are no adjournment rules. Insolvency procedures are complicated and lengthy, with low recovery rates estimated to stand at 40% on average, and lasting 1.5 year on average. Registering property is very easy, with just 4 procedures, albeit with high fees. Not all land titles are clear, especially in rural areas. Cadastre coverage has increased, while cadastre plans have been digitalized, which has been a positive move, yet not all land is covered by these actions. Land ownership is restricted to domestic nationals, but foreign nationals can lease land for long periods of time. There are broad restrictions regarding foreign ownership in different industries. Majority equity is reserved for domestic nationals in cases of mining, oil and gas; while, in the media sector, foreign equity in newspapers is capped at 33% and outright prohibited in the TV broadcasting. Furthermore, companies in the oil and natural gas sector must be in majority state ownership. The privatization process conducted in the country is not considered as transparent but prone to political dealings and corruption. Government still holds a large sway in the economy. Public procurement is also prone to corruption.

SIZE OF GOVERNMENT

Government spending in Azerbaijan stood at 34% of GDP in 2018, which was mostly in line with other Commonwealth of Independent States (CIS) countries but significantly lower than in most European countries. After the deficits in previous years due to the banking crisis and the prolonged recession due to low oil prices, the public purse recorded a strong surplus in 2018. General government gross debt is low and on a slowly downward trajectory, being below 20% of GDP in 2018. The economy has been experiencing a sluggish growth, due to still low oil prices and private sector investment constraints. Inflation, which had reached 13% in both 2016 and 2017, was put under control, below 2.3% in 2018. Numerous state owned enterprises (SOE) are present in the economy, not just in the oil or utility sector, but also in power generation, communications, or passenger and cargo transport. There are currently 5 000 active SOEs in the country. Many of these SOEs have a near-monopoly status, with unclear separation between regulatory bodies and SOE corporate interests. Although facing the same rules and obligations as the private sector companies, SOEs informally often enjoy a privileged status in government procurements or external financing, including budget subsidies when necessary. Powerful SOEs have also been able to use their influence and block new market entrants. The government recently set up a SOE monitoring commission within the Ministry of Finance, together with guidelines for their work, but this is not expected to curtail strong political interests in this field. The largest bank in the country, the International Bank of Azerbaijan, accounts for almost 40% of the total banking assets, and has received several substantial money infusions in order to deal with the non-performing assets. The bank does not have a viable business plan, yet its privatization is not nearly in sight. The banking system is still plagued with very high level of the non-performing loans (NPL). An ambitious plan of privatization of public owned companies,

drafted in 2016, is mostly stalled. Azerbaijani Sovereign Wealth Fund (SOFAZ) that was set up in 1999 with exceeding oil revenues has been linked to corruption of high state officials. Its capital was almost 90% of GDP in 2018. Corporate tax is set at 20%, while VAT is at 18%. Personal income tax is progressive, being 14% up to a high threshold and 25% above it, while social contributions stand at 25% of the gross wage (22% paid by the employer and 3% by the employee). This leads to the tax wedge of 35% on the average wage. Recently, the government implemented many small tax reforms, for example raising excise duties and the number of excise goods, reducing the simplified tax rate from 4% to 2% and broadening tax exemptions and deductions, including agriculture manufacturers, retailers and SMEs. A complicated counter-cyclical fiscal rule was introduced in 2019, with non-oil primary balance not deteriorating as compared to the current year, and nominal public spending growth not rising above 3% as compared to the previous year. But the fiscal stimulus, including a 40% nominal wage increase among the public sector employees, could lead to a collision with the fiscal rule.

REGULATION OF CREDIT, LABOUR AND BUSINESS

Regulatory framework in Azerbaijan is not business friendly. However, strong efforts in recent years to implement reforms in many regulatory areas have increased its ranking in the Doing Business from 57th to 25th but it was downgraded in 2019 to 34th place. But main problems, such as weak or partial regulatory enforcement, alongside corruption, still plague the business environment, while complicated bureaucracy keeps business administrative costs high. Also, draft legislation is often not made available for public comment, nor does it involve a public discussion process. The law that was introduced in 2015, which suspended inspections of entrepreneurs, was renewed several times, now prolonging until 2021. The licensing regime in the country has also been simplified, whereby licenses are now issued for an indefinite time period within a 10 day period while the number of activities that required a license was reduced from 60 to 32. Starting a business is cheap and quick, with no paid in minimum capital. The introduction of a single-window service, which reduced the necessary time to 4 months on average, made the process of construction permit issuance more effective. Similar measures were taken in getting electricity, with a single-window procedure and establishment of a national regulator to monitor power outages. Tax compliance has also been recently improved through the introduction of the electronic invoicing and unifying the tax returns for social security contributions. Shadow economy in the country is widespread, with many people working in undeclared activities. Labour regulations are mostly flexible, with fixed term contracts that can last up to 60 months without restrictions and with short notice periods and low severance pay, which incrementally increase with the tenure of workers. However, the relatively long mandatory military service (18 months for general male population, while 12 months for university students) is burdensome to businesses, but also for the young workers, due to disruption in human capital accumulation. Social dialogue and collective bargaining are not established, since labour unions are controlled by the government and therefore collective bargaining is restricted and present mostly in the public sector.

FREEDOM TO TRADE INTERNATIONALLY

Azerbaijan is not a champion of free trade. It is one of the rare countries that are not members of the World Trade Organization (WTO), although its accession talks have been conducted since 1997 but with little success, since the last meeting of the working party on Azerbaijan's succession met over two years ago, in July 2017. Trade with other countries is conducted through the General Agreement on Trade and Tariffs (GATT), or bilateral agreements, which are for the time being signed only with ex-Soviet states from the region. Import tariffs remain high, with simple average Most Favoured Nation (MFN) applied tariff rate of 9%. Border compliance costs are high, and it involves considerable time. Recent introduction of an electronic system for

submitting export and import documentation has just partially improved the situation. Electronic customs procedures have been somewhat streamlined, and the “green corridor” system is under full implementation. However, corruption and partial treatment by the custom administration is still a matter of concern. Standardization procedures which are still not in line with the international practice serve as non-tariff barriers to trade. In 2016 the government introduced new tariffs on imported goods from several industries, including agricultural products, in order to follow the import substitution policy. In order to boost investments and exports, the government established the first free trade zone in the country, in the city of Alat, in 2016, with a very high degree of autonomy from the government, but implementing regulations is still pending. Thus the zone still waits to commence its operation. Poor condition of the infrastructure is another burden to trade, lowering not only volume of imports and exports but also the volume of transit goods. The closed border with Armenia, due to political tensions over the contested region of Nagorno-Karabakh, also poses significant problems. Three quarters of the Azerbaijani exports are fossil fuels, such as crude or refined oil and gas. Its main trade partners are the EU, Russian Federation and Turkey. The national currency, the manat, has officially been in the float regime since 2016, after two major depreciations that occurred in recent years, but it is de facto pegged to the US dollar.

Bosnia and Herzegovina

GDP in 2018: USD 20,162 million

annual growth rate: 3.6%

per capita: 13,580 USP PPP

by sector:

agriculture 6.8%

industry 28.9%

services 64.3%

Population: 3,504 thousand

Human Development Index

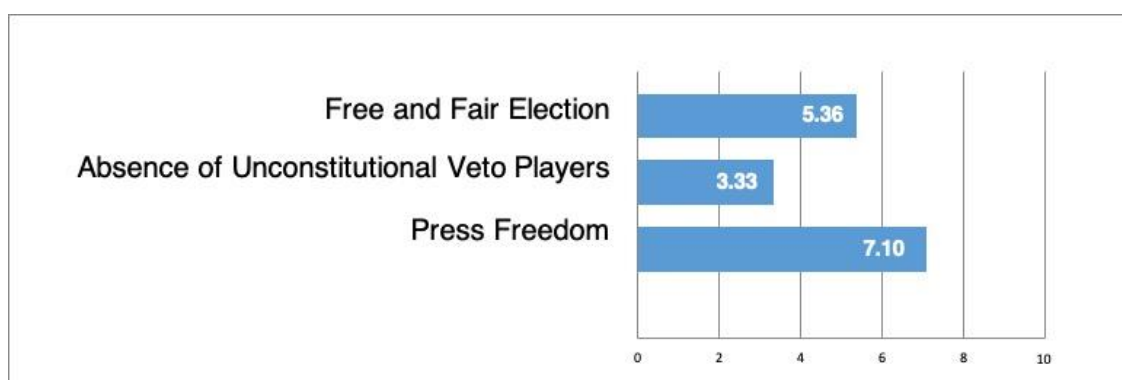
Government position in 2018

Unemployment rate: 18.4%

HDI: 0.769 (rank 75)

+1.7% of GDP

A. POLITICAL FREEDOM



FREE AND FAIR ELECTIONS

Fairness of electoral process has deteriorated further throughout the observed period in Bosnia and Herzegovina, since October 2018 elections abounded with electoral violations and irregularities, such as fraud on the election-day, misuse of state resources, or unfair coverage in media. Elections were held in environment of strong division in society alongside ethnic lines and inflammatory nationalistic rhetoric by political parties, resulting in dominance of the ethnic nationalist parties – Party of Democratic Action (SDA) and Alliance of Independent Social Democrats (SNSD). Only traditionally Croat party – Croatian Democratic Union didn't manage to have elected candidate for a three-party presidency of Bosnia and Herzegovina, losing to Željko Komšić, candidate of Democratic Front. Also, SDA formed government together with 4 other political parties. While SNSD, led by Milorad Dodik, remained in control of the government of Republic of Srpska. Political system is characterized by large, complicated and asymmetric state apparatus, separated into two entities – Federation of BiH and Republic of Srpska, and numerous other tiers of government. Country's tripartite collective Presidency is represented by one elected representative from the ranks of each of the constitutional – “constituent” - ethnicities: Bosniaks, Serbs and Croats. Strong societal division along ethnic lines is constantly maintained by the established nationalistic parties, alongside of the political system created by Dayton agreement which favors those parties, ensuring their constant dominance at almost all executive levels of power. Another problem remained unaddressed throughout the observed period. Namely, electoral process remains restricted for BiH's citizens who are neither ethnic Serbs nor Croats nor Bosniaks, since only these three constitutional ethnicities are eligible

to run for the Presidency of BiH and for the Houses of Peoples (parliamentary upper chambers on various tiers of government). European Court of Human Rights declared this constitutional provision as a violation of human rights, but it nevertheless remained unaddressed during the period under review.

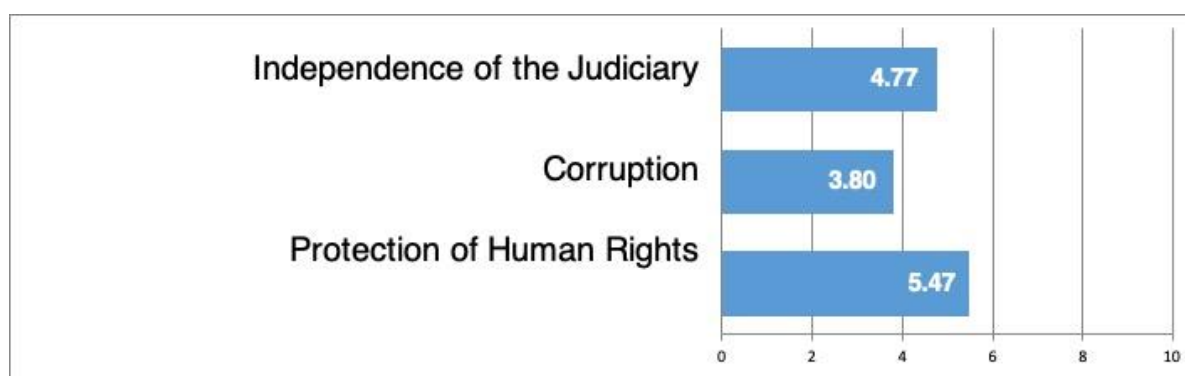
ABSENCE OF UNCONSTITUTIONAL VETO PLAYERS

Bosnia and Herzegovina is the only country covered by Freedom Barometer analysis that has constitutionally empowered veto players. According to Dayton Peace Agreement as of 1995, each constitutional ethnicity has been given power to veto legislation in order to protect its “vital national interests”, which is often abused, so as to benefit narrow interests of political parties or their leaders. Also, veto powers are constitutionally given to the Office of the High Representative, an international institution in charge of overseeing the peace treaty. However, in practice, OHRs have recently ever more restrained from interfering into country’s political decision making. This made the issue of inter-ethnic relations in Bosnia and Herzegovina dominant to citizens, thus sparking inflammatory nationalistic rhetoric in society became a common practice by political parties. Elected officials do not restrain from abusing their power and position for political and economic benefits, maintaining close ties with business elite in the country. Despite being de jure separated from the state, religion and religious institutions play an important role in shaping public opinion and have got significant influence on decision making. Deadlock in BiH is additionally instigated by the lack of independence and impartiality of judiciary, itself proving unable to hold politicians accountable for their actions.

PRESS FREEDOM

Despite being granted by the constitution, press freedom is only partly upheld in practice in Bosnia and Herzegovina with numerous problems that remained unaddressed during the observed period. Media market is highly pluralistic and diverse however the reporting is often shaped by strong ethnic and political divisions in society. Lack of media ownership transparency cast serious doubts on independence of reporting of many private outlets. Tools - such as state-sponsored advertising through public companies which have the biggest share in advertising market and are traditionally controlled by the politicians in power - are often used to shape narrative of private media outlets. Also, abuse of legal powers is extensive – frequent, discriminative inspections are used to put additional pressure on their reporting. On the other side, state and entities’ public broadcasters are showing clear bias in favor of ruling parties and often serve as their propaganda mouthpieces. Public broadcasters are largely financially dependent from the state, making them prone to censorship by the ruling parties. Journalists are often target of verbal and physical attacks, intimidation and threats. In August 2018, a reporter covering protests in Republic of Srpska was attacked and seriously injured. On top of that, heated atmosphere in society and strong division alongside ethnic and political lines, which surrounded October 2018 elections, made working environment for journalists even more hostile. Bad working conditions for journalists, alongside strong economic and political pressure, made them practice self-censorship and contribute to partisan reporting of the media. Defamation is decriminalized. However, this is often resulting in high financial fines, thus used as another tool to put pressure on journalists.

B. RULE OF LAW



INDEPENDENCE OF THE JUDICIARY

The judiciary in Bosnia and Herzegovina (BiH) is formally independent, yet there are many political or other outside influences that mar it. Some important court decisions (including by the Constitutional Court of BiH) are disregarded or even openly rejected by politicians at the state or entity level. Generally, members of political class enjoy not least normal immunity that goes with the function but also impunity for corruption, embezzlements or similar misuse of power, due to political influences on prosecutors or judges. Judicial system lacks efficiency overall, among other also due to unclear division of responsibility between various levels of government. Backlog of cases is considerable. Additionally, according to portal GAN, corruption and bribery risks are high in BiH's judiciary.

CORRUPTION

With the score 38/100, same as in 2017, Bosnia and Herzegovina arrived to shared places 89-92/180 on the Transparency International's Corruption Perception Index 2018. State capture by political parties at all six tiers of government and impunity of the political class due to the lack of independence and efficiency of the judiciary, huge public sector and high public spending, state-dependence mentality among citizens and poor coordination between anti-corruption actors at various tiers of government, are the main factors that facilitate a very high level of corruption. The most expensive manifestations and consequences thereof are misappropriations in public procurement and infrastructure spending coupled with non-transparent and lavish financing of political parties, but also economic and investment losses due to legal uncertainty, itself due to politically dependent, inefficient and often corrupt judiciary and police. Politicians who are blacklisted for entering USA by the State Department as seemingly "seriously corrupted" are not even investigated in their home country, or entity.

PROTECTION OF HUMAN RIGHTS

War crimes' denial or minimization has remained as the most common form of hate speech in Bosnia and Herzegovina (BiH), spoiling inter-ethnic relations and on a longer run being a powder keg under its security. Leading politicians of (at least) Serbs and Croats in BiH have repeatedly questioned the effective verdicts of international courts or openly praised convicted war criminals. Political rights – and with them majority of opportunities for climbing the social ladder – in BiH are closely tied to ethnicity and adjacent quotas and veto-powers. Even members of the three „constituent“ ethnicities have hard times if living outside their own ethno-religious environment. „Non-constituent“ ethnicities have hard times obtaining political representation or influence regardless of habitat. Among those, Roma are especially deprived. A growing new

vulnerable group are migrants, who increasingly use the routes via BiH to get to their desired destinations in the EU. Living in poor conditions and often subject to police brutality, they are also an occasion to raise tensions between various ethnic or political communities in BiH for the benefit of populist or other demagogue politicians. Freedom of assembly especially became endangered in the RS entity, following new restrictive by-laws and adjacent crackdown on the citizens' movement against police brutality (launched after suspicious death of a young man in Banja Luka in March 2018). Human-rights or similar NGOs, even though rarely suffering open legal action against themselves, are subject to smearing campaign by authorities, especially in the entity RS. Constitution of BiH does not ban same-sex marriages, yet in both entities they are still not legally accepted. The entity FBiH declaratively accepted yet it is still in process of regulating same-sex unions. LGBT Pride March was organized in Sarajevo in 2019, but in Mostar or Banja Luka it is still only dreamed of. On the other hand, human trafficking, domestic violence, discrimination at workplace, or similar misdeeds against women or children have been insufficiently fought against by governments at various levels.

C. ECONOMIC FREEDOM



SECURITY OF PROPERTY RIGHTS

Private property rights in Bosnia and Herzegovina are not adequately protected. Powerful political and private interests can have a significant influence over court decisions, which can therefore be partial. Corruption and nepotism are widespread among the civil service, and the judiciary is not immune to these problems. Judicial processes and enforcement of judicial decisions are slow and inefficient, due to the high number of backlogged cases, but also to lax implementation of the stipulated time standards in legal proceedings. The number of adjournments is not prescribed. The level of expertise of judges in commercial cases could be dubious, especially in specific areas, or could vary between courts, which led to prolonged court procedures and uneven decisions in similar cases. Although there are specialized commercial courts, commercial cases are not always given priority. Bankruptcy procedures do not put sufficient emphasis on rehabilitation or reorganization of companies, so they are mostly sold through a piecemeal sale. Insolvency procedures are extremely long (more than 3 years on average) and lead to very low recovery rates, below 40% of the claim. Registering property is a very long procedure, which could be expensive in some Federation's cantons due to high property transfer taxes. This tax, however, is not applied in the entity of Republika Srpska. The land registry service is also divided, with each entity organizing its own cadastre services. A significant proportion of land does not have a clear title, due to an inefficient and slow restitution process, but also to weak administration capacities. This situation is further aggravated by the unnecessary role of municipality courts in land registration process. An additional problem stems from the population displacements during the war and slow and inefficient proceedings of the

Commission for Real Property Claims of Displaced Persons and Refugees, which in effect do not protect property rights of internally displaced persons and refugees although more than two decades have passed since the end of hostilities. Foreign nationals face few ownership restrictions - in areas such as defense industry, media and electricity transmission; land ownership by foreign nationals is restricted through a reciprocity clause, but this is easily circumvented through establishment of a foreign-owned legal entity.

SIZE OF GOVERNMENT

With government expenditures reaching 41% of GDP in 2018, the size of government in Bosnia and Herzegovina is moderate as compared to other European countries. However, taken the level of economic development, government expenditures are significantly higher than expected, mostly because of the prematurely developed welfare state system. As a direct legacy of the war, there are several different layers of government, leading to the omnipresence of bureaucracy. The political fragmentation also leads to economic one: the country does not comprise a single economic space, since they are differing regulation and taxation principles or rates, and SOEs that follow administrative divisions. In order to put under control the public debt that was rising, the country took on the IMF backed program conditional on economic reforms. Most of the fiscal goals of the program were reached: the general government recorded surpluses during the last three years, but the reform package accompanying the fiscal measures in order to improve business environment was mostly not implemented. Banking sector reform was partial, as there were no changes in the fiscal mix that would increase competitiveness of the economy (increase in consumption taxes and decrease of taxes on labour). In 2019, the expenditures on wages and social transfers increased, as well as capital expenditures for infrastructure investments, which would probably lead to a budget deficit in 2019. But, it is expected that the fiscal stance will gradually improve. Economic growth recorded in 2018 stood at 3,6%, which was above the projected one, but it is expected to have been moderated to 3,1% in 2019 due to a slow-down in exports. These growth rates are considered as sluggish having in mind the development level of the economy and regional peers. Growth is mostly propelled by rise of economic activities in the European core (through increase in exports and rising local consumption through higher remittances). Government gross debt has recently been on a downward path, standing at 33% in 2019, down from 44% in 2016. Although a wide scale privatization process was conducted after the war, the SOE sector still makes up a significant part of the economy. There are more than 550 SOEs in the country, which employ more than 10% of the total workforce. The SOEs are transferred to the 2 entities, 10 cantons and 145 municipalities and the special district of Brčko. The SOE sector provides high salary bonus compared to the private sector, of approximately 40%, and is considered to be overstaffed. Companies operate inefficiently, mostly with negative return on assets and capital, with high leverage and liquidity problems. SOE management is politicized, since the appointees are often with close political ties to the government and the political party in power. There are also significant arrears to other SOEs or to the revenue service for unpaid taxes and social security contributions. Some of these companies therefore rely heavily on government indirect or direct subsidies. Privatization plans have been drafted in both entities, but no major privatizations took place in the previous several years apart from some minority stake ones in several important companies in pharmaceuticals, insurance, tobacco and petrol retail sectors. Corporate and personal income tax has been harmonized between the entities, both being flat and set at 10% of the taxable income. On the other hand, social security contributions differ between entities since they organize their own healthcare and pension systems. As a consequence, labour tax wedge on the average wage is different on the entity level – approximately 40% in Federation (which is on the upper threshold of the Western Balkans) and

34% in Republika Srpska (which is slightly below the regional average). VAT is low for European standards, and consists only of one standard rate of 17%, without preferential rates.

REGULATION OF CREDIT, LABOUR AND BUSINESS

Business environment in Bosnia and Herzegovina is overall not business-friendly. It suffers from excessive red tape, high bureaucracy costs and high regulatory uncertainty. Legislation is often ambiguous or contradictory. Business activities are overly regulated. Corruption thrives in this kind of environment, both petty corruption and centralized high corruption that stems from political influence of high officials. Inspection reform in Republika Srpska entity gave good results in this area, cutting uncertainty among entrepreneurs, but this is yet to be introduced in the Federation. Inspection fees are non-transparent and high, with an ineffective appeal process. Because each of the multilayered executive government (with the national, entity, cantonal and municipality government) establishes its own regulatory framework regarding conduct of business activities, regulatory environment is very complex, with conflicting jurisdictions or unclear authority borders. Unstable political situation and divisions across ethnic and entity lines stifle much needed reforms of the business environment. Thus the economic space of the country remains effectively fractured, as was evident recently with the political stalemate regarding the building of the government at state level, which had taken more than one year after elections, having had deep impact on the business climate. The procedure of starting a business differs between the entities: while Republika Srpska introduced a one-stop shop in 2013, whereby a new company can be registered within two weeks, in the capital of Sarajevo this process takes more than 2.5 months on average, burdened with bureaucracy and including not only notaries but also municipal courts and other various bodies, and including the high minimum capital requirement. Obtaining a construction permit and getting electricity also incur very high costs due to high fees involved, as well numerous and slow procedures. Compliance with tax regulation involves a high number of payments, with complicated and inconsistent procedures, of which VAT regulations are considered the most burdensome. Both entities introduced labour code changes in 2016 in order to make labour market more flexible, easing the process of hiring and firing. Fixed-term contracts are not prohibited for permanent tasks, and their duration is 36 months. On the other hand, severance pay still increases with years in tenure, thus protecting more seasoned workers, but notice periods have been significantly shortened. Recent changes decreased wage premiums for overtime, weekly holiday and night work. Minimum wage in the country is high relative to the average wage, which encourages activities in the shadow economy. It was recently increased again.

FREEDOM TO TRADE INTERNATIONALLY

Freedom to trade internationally in Bosnia and Herzegovina (BiH) is generally respected. However, the country still remains outside the World Trade Organization (WTO), being among few European countries in this status, alongside Serbia and Belarus. Although this lengthy accession process progressed steadily until 2013, it was then effectively put on hold due to unwillingness of the BiH's side to alter its domestic policies that went against WTO rules. The last meeting of the working group was in February 2018, after five years, to assess the situation after the meanwhile implemented reforms. BiH is considered as being no closer to fulfilling the WTO criteria, but the necessary bilateral negotiations have not yet been concluded. Since this process could be lengthy, and there is a lack of clear political will to finish with the remaining reforms, the BiH's WTO accession is not likely in near future, and it will probably be resolved only within the further EU integration, since WTO membership is a prerequisite for EU accession. Tariffs are on average higher than in the region, especially as compared to the EU

countries, with the average applied MFN tariff rate standing at 6.3%. Also, tariffs on agriculture products are on average significantly higher than on industrial goods. Furthermore, there are also regulatory trade barriers in the field of certification and quality standardization, which pose significant burden on international trade. Custom service is not well organized, with inefficient or complicated procedures and with outdated electronic systems. Corruption and partial treatment of different companies by the administration also remain present. The most important trade partners for BiH are EU countries, most notably Germany and Croatia, followed by countries from the region, most notably Serbia. Therefore, the majority of trade is conducted under the Stabilization and Association Agreement (SAA) that supplanted the Interim Agreement on Trade in 2015, and the CEFTA agreement signed in 2006. However, trade dispute mechanism within CEFTA is malfunctioning, making trade dispute settlement very difficult in practice, mainly through bilateral negotiations. Following political reasons, since they had not recognized its proclaimed independence, Kosovo* declared 100% import tariffs on all goods from BiH and Serbia in November 2018. These tariffs are still in place.

Bulgaria

GDP in 2018: USD 65,197 million

annual growth rate: 3.1%

per capita: 23,170 USD PPP

by sector:

agriculture 4.3%

industry 28.0%

services 67.4%

Population: 7,000 thousand

Human Development Index

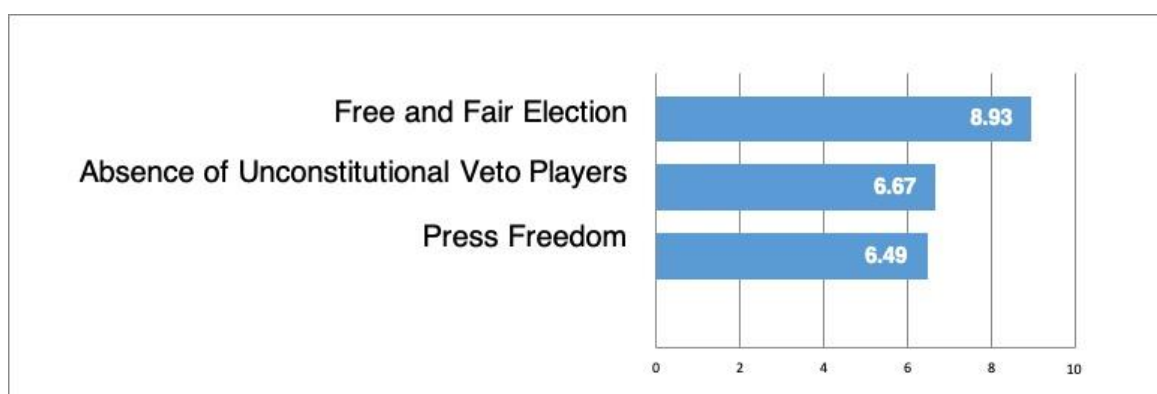
Government position in 2018

Unemployment rate: 5.3%

HDI: 0.816 (rank 52)

+0.1% of GDP

A. POLITICAL FREEDOM



FREE AND FAIR ELECTIONS

In the observed period, citizens were able to cast their votes at the European Parliament elections, held in May 2019, with around 33% of them exercising their voting rights. Political parties were competing for 17 MEP seats, with most of the seats having had been won by the ruling Citizens for European Development of Bulgaria (GERB) – 6 of them, while 4 seats each were won by the Movement for Rights and Freedoms (DPS) and by the Bulgaria Socialist Party (BSP). The biggest surprise came from the newly developed Democratic Bulgaria coalition, which had not had significant political influence before these elections. Namely, Democratic Bulgaria won 1 seat. The victory of GERB came in the mid of the so-called “Apartment” scandal, itself including several high-profile GERB representatives, who had obtained real estate at prices far below the estimated market value. According to the opinion polls at that moment, they were measured behind BSP. The ruling party GERB also retook the capital Sofia, as well as 15 out of the 28 mayoral seats, at the local elections in November this year. Current Mayor of Sofia Yordanka Fandukova was at the second round despite scandals with the poor repair work of the city center and deteriorating air quality in the capital. Bulgaria is a parliamentary democracy, with its 240-seat unicameral National Assembly. Representatives are elected via proportional representation in multiple constituencies. Elections are generally deemed as free and fair by international community, with some problems which remain yet to be addressed, such as party financing, restrictions to conduct a campaign in Bulgarian language only, and election-day violations such as voter intimidation or cases of vote buying. Ruling party pushed for several electoral changes in recent years. However, many of them were declined. Key concerns include

the introduction of electronic vote, the regulation of preferential votes, voting abroad, campaign transparency and vote-buying. Sanctions - as a part of legislative changes adopted in parliament in regard to mandatory voting - were later declared as unconstitutional by the court. In the mid-2019, Bulgarian parliament adopted measures that should cut state subsidies to political parties and remove limits for private donations to political parties. It is still to be seen whether these measures will enter into force later during the year, since they were widely criticized, for limiting political pluralism in the country and for their potential to increase the already high level of corruption.

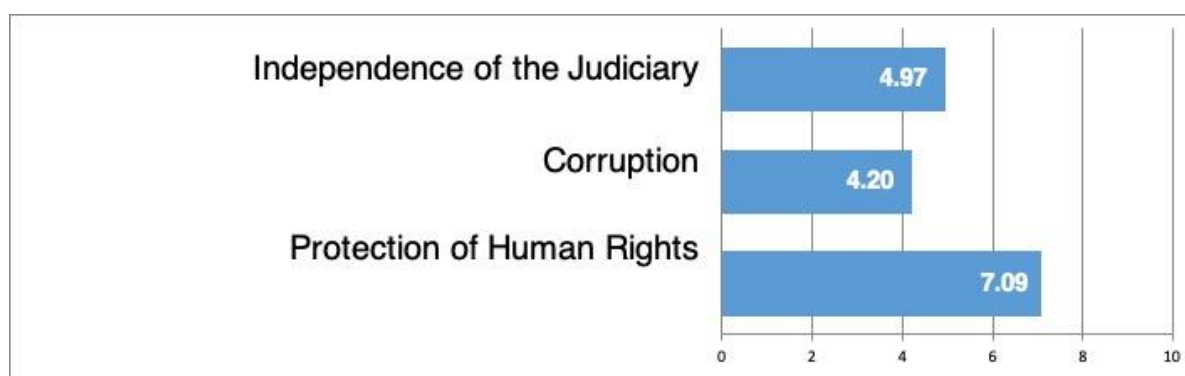
ABSENCE OF UNCONSTITUTIONAL VETO PLAYERS

Bulgaria doesn't have unconstitutional veto players and decision-making process is in the hands of the democratically elected officials. Legal framework is set to ensure their effective governance over the country. However, there are certain players in Bulgarian society that are able to undermine democratic procedures and institutions. According to Transparency International, Bulgaria remained as the most corruptive EU country, with little of it having been done to tackle high profile corruption and organized crime. Legislation for the establishment of the commission for tackling official corruption was adopted by the parliament in 2018. Besides corruption among politicians, organized crime and wealthy oligarchs are also representing undermining factors to democracy in Bulgaria. Many of them maintain close ties with politicians or even are involved into politics, using their influence to shape the country's policies according to their personal needs. Weak system of checks and balances allows for manipulation of democratic institutions. Although formally independent, judiciary is often subject to extensive political pressure, or pressure by wealthy businesses.

PRESS FREEDOM

Likewise as in the case of corruption, Bulgaria is also at the forefront among all EU countries when it comes to lack of freedom and independence of the media sector. Despite the fact that law provides for freedom of the press, there are many problems related to this area, resulting in Bulgaria's country ranking on the 111th place in the Reporters without Borders 2019 World Press Freedom Index, lower than any other EU-member state. Period under review was marked by growing physical and verbal violence toward journalists, creating an atmosphere of fear among them. High level corruption and strong connections between organized crime and politicians provide fertile ground and huge space for investigative journalism but at the same time make this profession very dangerous. The problem of abuse of budgets for communicating EU programs in Bulgaria, by using them as a tool for the influence over the media environment in the country, has remained. Namely, EU funds are relocated in a way so as to fund government-friendly media outlets. Also, recent concentration of the media ownership in the hands of wealthy businessmen, as well as media opaque structures, caused growing concerns over independence of journalistic profession and pluralism of the Bulgarian media scene in general.

B. RULE OF LAW



INDEPENDENCE OF THE JUDICIARY

During more than a decade in the EU, Bulgaria has made some progress in advancing rule of law, including more independence of its judiciary. Freedom House noted that the country “has benefited from legal and institutional reforms associated with EU membership” but also that “it is still prone to politicization”. To its part, the EU, through its Cooperation and Verification Mechanism (CVM), established specially for Bulgaria and Romania, has notified – in the former - “significant progress” in 2017 and “sufficient progress” in 2018. Among new institutions, there would also be a special inspectorate to investigate the judges’ conflicts of interest and their asset declarations. The election of the new Supreme Judiciary Council in 2017 has certainly been encouraging news, yet FNF’s own monitoring on the ground showed that – during the selection process regarding recent judicial appointments - trade-offs between political parties, instead of merit-based decisions, were in place too often. Big challenge for the independence of the judiciary system in Bulgaria is also the structure of the Bulgaria’s prosecutor’s office. The Chief Prosecutor, who is above all other prosecutors, can stop any investigation, including a (hypothetic) investigation against his own self. He is elected by the Supreme Judicial Court, which has 25 members, 11 of which are appointed by political parties. Recently, Ivan Geshev was elected as the Chief Prosecutor, amid protests against him. Better selection, monitoring and evaluation of judges and prosecutors might on a longer run decrease corruption in the judiciary. As for the latter, the portal GAN assessed in December 2017: “Organized crime in Bulgaria is enabled by corruption in the public administration, judiciary, police, and customs.”

CORRUPTION

Bulgaria is the most corrupted EU-member. Transparency International ranked it as 77/180 in its Corruption Perception Index 2018 report, with a score slightly lower (42/100) than in 2017 (43) but higher than in 2016 (41). State capture by the informal alliance of political and business oligarchy, organized crime, only partially reformed secret services, and biased media, had for a very long time been the main catalyst of corruption. Under the influence of the EU, serious legislative steps were taken, especially during 2017 and 2018, and in particular against conflict of interest and money laundering. By the late 2018, EU had already noticed improvements, while during 2019 it has considered on whether or not to completely end the corruption monitoring program in Bulgaria in the framework of CVM (unlike the one in the neighboring Romania that would certainly continue). If the EU withdrew, that would mean that domestic (at least legal) mechanisms were all in place and sufficient to provide results on the longer run. That would also mean more responsibility on the face of domestic (old as well as recently created) anti-graft institutions.

PROTECTION OF HUMAN RIGHTS

Academic freedom, huge operational space for international, foreign or domestic NGOs and think-tanks, and a decent level of freedom of assembly and movement - all those human rights and freedoms have been undisputed in Bulgaria. Treatment of migrants is but high on the list of disputable and sometimes despicable policies: summary detentions, push backs and abuse, as well as denial of even basic services to migrant children are quite common. Treatment of Roma is also improvable, whereby the latter face systematic obstacles in access to education, health care, housing and employment. On the other hand, a number of ethno-linguistic minorities (such as Turks) enjoy various educational, cultural or media rights and freedoms, alas, the one to conduct political campaigning in the mother-tongue is quite limited to them. Women employment rate is lower than for men, but on the other hand the gender pay gap is smaller than the EU average. Women are still under-represented in management structures, but numerous have recently come to important political positions. Domestic violence and insufficient application of the existing laws that protect women thereof remain as a problem, yet, in July 2018, the Constitutional Court has found Istanbul Convention on prevention of gender-based violence as unconstitutional hence unfit to be ratified by Bulgaria. LGBT people face numerous problems in society, while enjoying at least a basic protection by the state. Sofia Pride was freely held in June 2019, yet LGBT people in Bulgaria still lack equality of their unions, with all the adjacent social benefits that different-sex couples enjoy, as well as opportunities to adopt and raise children.

C. ECONOMIC FREEDOM



SECURITY OF PROPERTY RIGHTS

Private property rights in Bulgaria are mostly protected. However, the rule of law in Bulgaria is undermined by the deficiencies in the judiciary, which is considered to be under external influences. It is - also, still - one of the least trusted institutions in society, and it is perceived as corrupt. Court proceedings are generally long, effectively limiting the right to a legal proceeding within a reasonable timeframe. They last 1.5 years on average and incur very high costs. There are also a significant number of backlog court cases in the courts, which further impedes court dealings. There is a specialized commercial court, but not a court dedicated to small-claims cases. Resolving insolvency lasts longer than three years on average, and results in a low recovery rate, below two fifths of the claim. There have been several judiciary reforms under the Cooperation and Verification Mechanism (CVM) of the EU, including establishing a unified anti-corruption commission, and aiming at strengthening the independence of judges and prosecutors in the Supreme Judicial Council. However, most of these actions are not perceived as successful in increasing the level of independence and accountability in the judiciary, and the CVM was concluded in October since it was mostly considered as ineffective. Although most of the land

has a clear title, property registration is burdened with numerous procedures and associated costs through notary fees and the property transfer tax that vary from one municipality to another. Registration of property has been made more secure with the recent introduction of notaries, but the local tax administration is often slow. There is no general discrimination against foreign companies in Bulgaria, but in specific cases regulatory obstacles could be used to benefit important market players. An important example is the energy company that enjoys a quasi-monopoly status, since new prospect market players from the US have been actively discouraged from entering the market. The Offshore Company Act stipulates restrictions for companies that have got more than 10% registered offshore equity participation, in 28 specific industries (including banking and insurance, natural resource exploitation etc.). That was one of the measures against money laundering and corruption, but its influence has been diluted by the fact that it did not apply to Bulgarian nationals or businesses whose parent companies were publicly traded. Private property can be expropriated by the Cabinet of Ministers or by local governors, but these cases are rare. Non-EU nationals cannot own agricultural land, and neither could offshore registered companies do so.

SIZE OF GOVERNMENT

Government expenditures in Bulgaria are moderate in comparison to other European countries, reaching only 35% of GDP in 2018. Economic growth is robust, reaching 3%. Unemployment has fallen to its lowest level, nearing only 5%. However, Bulgaria remains the poorest country in the EU, as measured by GDP per capita, with approximately 50% of the EU purchasing power average. After a fiscal stabilization program that was implemented in 2016, Bulgaria enjoyed a prudent fiscal policy with small deficits in recent years and even a surplus in 2018, supported by a fiscal rule framework. Fiscal policy framework envisages a balanced budget in medium term. Public debt is low, currently standing at 20% of GDP, which provides significant fiscal space in case of need. Even though the pension reform - implemented in 2015 through an increase of the pension contribution rate and the statutory retirement age - has somewhat alleviated fiscal pressures stemming from population aging on the medium run, the pension system is not sustainable. That will lead to high pension deficits, that will themselves need to be addressed. Apart from public utilities, SOEs operate in various industries, but are mostly notable in energy sector, transportation and infrastructure. There are approximately 220 SOEs in the country, and their revenues surpass 13% of GDP. However, their management is often dubious, suffering strong political influence, which is often leading to poor performance, which to its part creates infrastructure bottlenecks and fiscal risks. Although direct government subsidies to inefficient SOEs are below the EU average level, this figure is inflated through indirect channels, such as by tolerating arrears. Total SOE debt is lower than the EU average, but several SOEs in the energy and transportation sectors have accumulated considerable debts, and the bulk of it needs to be serviced by loss-making state entities, which itself is unsustainable. Improving SOE governance could have a significant positive impact on public infrastructure. Therefore, the commitment to enter the ERM II mechanism could prove as an important vehicle for this, since it requires alignment of the current SOE legislation with the OECD guidelines. The Sofia airport concession, which was initially cancelled and delayed on several occasions, was finally finalized, by awarding the concession to an international consortium. However, there are several outstanding issues that have not been fully resolved, since this consortium did not provide the highest financial bid. Shadow economy in Bulgaria is widespread, reaching up to one third of the GDP, and although tax collection has improved there is still much more to be done in this field. Relatively low level of public spending, as compared to the EU average, leaves room for lower taxation: both personal income and corporate tax are flat and set at 10%. The standard VAT rate is 20%, while the preferential one is just 9%. However, high social contributions make the labour tax wedge significant - approximately 34% on the average wage - which is comparable to the OECD average and somewhat below other countries in the region.

REGULATION OF CREDIT, LABOUR AND BUSINESS

Bulgarian regulatory framework is mostly business-friendly. However, the quality of regulatory framework is not as much a pressing issue as it is the case with its impartial implementation. Due to political influence and corruption, some companies receive preferential treatment by the authorities. Application of the rules could be inconsistent also due to the low quality of the civil service. Widespread corruption among the administration also remains a serious issue, as is also the policy instability stemming from frequent regulatory changes. Starting a new business is inexpensive but not very expedient, mostly due to a slow VAT registration process. There is no minimum paid-in capital requirement. Getting a building license is a process consisted of many procedures, which could last for more than 3 months. It could incur significant costs through mandatory fees. Obtaining an electricity connection is very expensive due to high mandatory fees of the utility company, and also a very lengthy procedure, lasting up to 9 months, due to inefficiency of the public utility provider and municipality supervision bodies. Tax regulations are overly complicated and burdensome, especially those pertaining to VAT and social security contributions, requiring long hours to comply, although the overall number of payments is not high. Labour regulation in Bulgaria is mostly flexible: fixed term contracts are not prohibited for permanent tasks and could last up to 36 months while redundancy notification period and severance pay do not increase with the number of years in tenure. Collective bargaining is mostly limited to public sector employees, through the tripartite social dialogue, and is mostly absent from private sector. The last increase of the minimum wage was in July, for additional 10% nominally, which is a manner that has been in place for several years now - significantly above the productivity rise. Nevertheless, the unemployment has reached its historical low records, partially due to emigration. The process of minimum wage determination is mostly arbitrary, with political considerations overcoming the economic ones.

FREEDOM TO TRADE INTERNATIONALLY

Freedom of international trade in Bulgaria is generally respected. Since its EU accession in 2007, Bulgaria implements the common EU trade policy, with overall low tariffs. Average applied MFN tariff rate for manufactured goods is 5.2%, while those on agriculture products could be double that level. Although trade tariffs have been generally liberalized, complicated and expensive standardization requirements for imported goods often created regulatory non-tariff barriers to trade. On the other hand, customs office documentation compliance procedures are quick and inexpensive, but corruptive practices within the customs office remain a concern. Low quality of transportation infrastructure - both railways and roads - increases freight costs, thus burdening international trade; financial resources from the EU for these purposes - through regional cohesive funds - are underutilized due to the lack of accountability in project financing and low administrative capacities for absorption. Bulgaria's main export markets are fellow EU-member countries such as Germany, Italy, Romania or France, followed by Turkey, with similar patterns in imports. Bulgaria, alongside Romania, Croatia, Ireland, Cyprus and United Kingdom (which will exit the EU), is one of the few EU countries that is not a part of the Schengen area. To its part, not being a euro-zone country is mitigated by the fact that Bulgaria has - since 1997 - been using a currency board, with its currency previously pegged to German mark, and now to the euro. As an EU member, Bulgaria is obliged to aim towards the euro-zone. Unlike some other CEE countries, which have put this question on hold, it has made progress in this regard. It has already fulfilled the Maastricht criteria, regarding the level of public debt, deficit, inflation and interest rates, and is now in the process of joining the ERM II currency exchange mechanism, in which it would need to stay for at least two years prior to the adoption of euro. In order to join the ERM II, and the banking union, Bulgaria needs to complete strengthening of the financial sector supervision, improve SOE corporate governance and enhance anti-money laundering

framework. There are some restrictions on foreign workers, such as the one that non-EU workers cannot exceed 35% of total workforce in SMEs or 20% in large companies. In 2017, the procedures for obtaining work permits for non-EU workers were simplified and the necessary waiting time was shortened.

Croatia

GDP in 2018: USD 60,805 million

annual growth rate: 2.6%

per capita: 26,260 USD PPP

by sector:

agriculture 3.7%

industry 26.2%

services 70.1%

Population: 4,089 thousand

Human Development Index

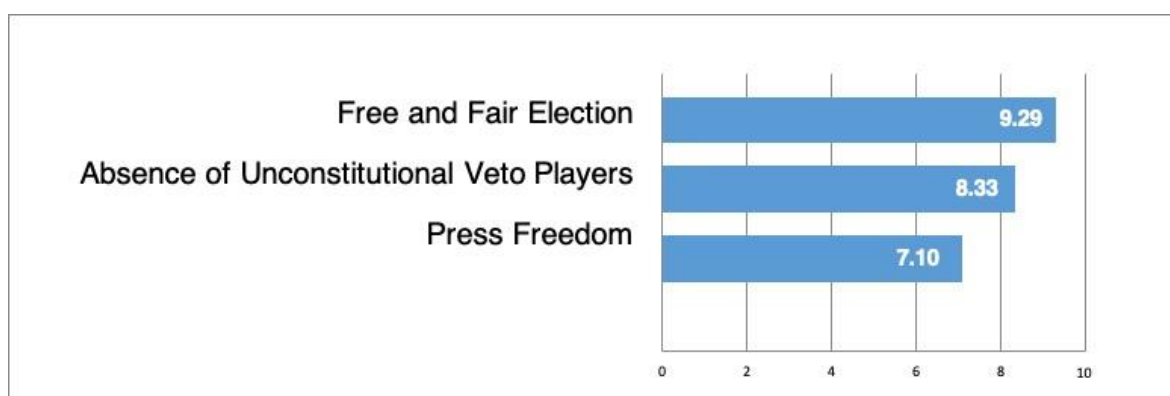
Government position in 2018

Unemployment rate: 9.9%

HDI: 0.837 (rank 46)

+0.2% of GDP

A. POLITICAL FREEDOM



FREE AND FAIR ELECTIONS

Elections in Croatia are considered largely as free and fair. Some minor violations occur, however not of a kind that could endanger the integrity of the very process. This is confirmed through observation reports by OSCE and other domestic and international watchdogs during the last presidential and parliamentary elections. In May, citizens were able to cast their votes in the elections for European parliament. Once again, the turnout was low, at around 30%, with ruling Croatian Democratic Union (HDZ) and opposition Social Democratic Party (SDP) winning 4 seats each, out of 12 reserved for Croatia in the European parliament. These elections served as a major test for the upcoming presidential elections, scheduled for late-2019, especially for the two above-mentioned political parties. Political landscape is pluralistic and diverse, with several new parties emerged in recent years, providing citizens with a wide spectrum of political views. However, this trend also made increase of far-right parties and groups in the society, contributing to more nationalistic and conservative political narrative. Representatives in the 151-seat Sabor, the Croatia's unicameral national assembly, are elected through proportional representation system, in 12 constituencies.

ABSENCE OF UNCONSTITUTIONAL VETO PLAYERS

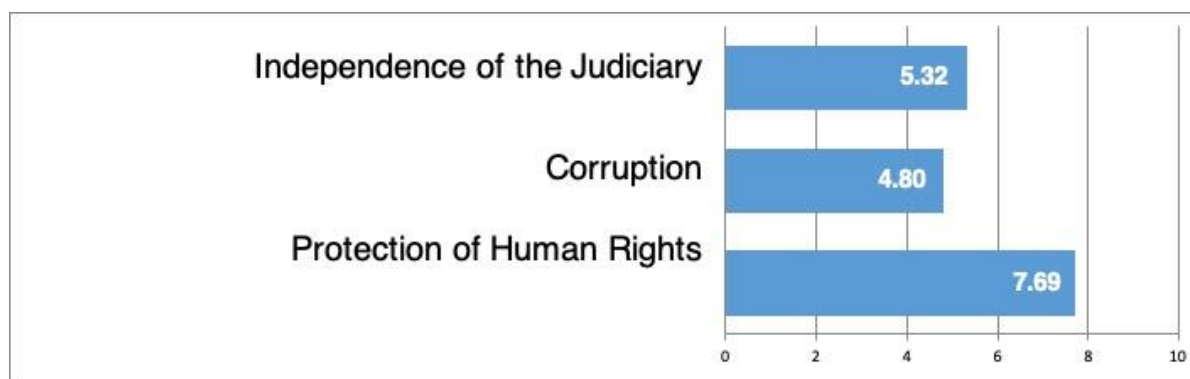
Democratically elected officials in Croatia have effective power to govern the country without interference from unconstitutional veto players. System of checks and balances among all three branches of power is in place, although in practice the executive dominates the legislative and

politicization of judiciary is not rare. Still, there are several influential players in Croatia that are able to influence political decisions, although that is rather for mutual benefits by those influential players and politicians in power. Catholic Church has significant influence on public and political life, and quite often does not refrain from interfering into the political decision making, usually by propagating social-conservative standpoints. Same applies to war veterans, who comprise large portion of the society, thus representing an influential factor on politics. Also, corruption among high ranking public officials proves to be one of the biggest threats to country's democracy. Several scandals that emerged in the last couple of years were decisive elements for voters at the elections.

PRESS FREEDOM

Croatia continued on its way of improving media environment. There is a wide range of TV, radio, print and online media outlets in the country, that provides citizens with diverse, objective and independent reporting. Country was ranked as 64th on the Reporters without Borders 2019 World Press Freedom Index, making improvement by 5 places as compared to last year. Investigative journalism is present and has an important role in scrutinizing the ruling political elite. However, journalists who choose this line of reporting are often target of violent attacks, physical and verbal harassment, intimidation and threats. A journalist was physically attacked in June 2018 in Zadar, with a warning that attacks would continue if he did not stop reporting on the ruling HDZ activities. Government does not restrain from seeking influence on the most important public and private media outlets, especially on the Croatian National Radio Television (HRT), by trying to interfere into the program management. According to Reporters without Borders, one of the biggest problems for press freedom in Croatia remained defamation charges for insulting state symbols or publishing humiliating content. Therefore, self-censorship is not rare.

B. RULE OF LAW



INDEPENDENCE OF THE JUDICIARY

Judiciary in Croatia has lately been halted and stagnant in progress towards more independence from the executive branch of power. Thus, the country fails to fully overcome its (communist, followed by authoritarian-nationalist) heritage, itself in both forms negligent towards rule of law, and catch up with the mainstream tendencies in the EU. Additionally, as Freedom House has noted in its Freedom of the World 2019 report, there are influences on the judiciary also by the right-wing NGOs or by the ruling HDZ party (or some factions thereof), as for instance manifested through a disputable reversal of a 1945 court verdict against suspected complicit in WW2 war crimes. In commercial disputes, as the portal GAN notes, there is still a danger of court partiality and/or corruption. Croatian judiciary has made it to secure for the arrest and

extradiction of the fugitive tycoon, former owner of Agrokor Ivica Todorić, from the UK in November 2018, while the subsequent proceedings in Croatian court have meanwhile slowly unveiled (taken the importance of the case on one and its relative simplicity on the other hand). Generally, backlog of cases is considerable. On the top of it, in high profile cases at Croatian courts justice is often impeded by unexpected and disputable acquittals, or witnesses who change their statements in the midst of a trial, or through different other seeming outside manipulation. As Freedom House notes, prison conditions in Croatia still „do not meet international standards due to overcrowding and inadequate medical care”.

CORRUPTION

Except briefly in the mid of this decade, Croatia's score has remained under 50/100 on the Transparency International's Corruption Perception Index. In 2018, the country fell to place 60/180, scoring 48. Agrokor scandal was mostly in the focus of public attention. Former owner Ivica Todorić was extradicted from the UK and is awaiting trial in Croatia. Once praised world-wide for innovative solutions and smart government intervention regarding restructuring of Agrokor's debts (so as to avoid them being paid by taxpayers' money and at the same time avoid negative domino effects on much of the Croatia's economy), Minister of Economy Martina Dalić was later herself caught in a conflict of interest and had to resign. Some far worse cases of non-transparency occurred at the local level in Croatia, whereafter the suspects (usually Mayors) remained in their positions, mostly through political trade-offs with politicians at the national level. The most notorious case is capital Zagreb, with clientelism being just the most visible misdeed of its long-standing Mayor Milan Bandić. On the other hand, it is exactly the local level whereby, in some towns, such as Bjelovar, new, innovative solutions are being sought and found to increase transparency and accountability of local administration, by narrowing ground for would-be illegalities through fiscal prudence and more openness towards public.

PROTECTION OF HUMAN RIGHTS

Hate speech remains as the most visible threat to human rights in Croatia. It is present not just at the margins of society but quite often in sport arenas, in show bizz, or during political campaigns. It manifests differently: through racism (mostly against Roma, or migrants), or ethnic hatred (mostly against Serbs), or homo- or trans-phobia, or historic revisionism and praising of the WW2 quisling Ustasha regime. In September 2018, the leader of the Serb minority was physically attacked, while there were meanwhile several other cases of hate speech against their organizations. In a number of cases, Croatian border police was accused of using excessive force against illegal migrants who tried to cross over from Bosnia and Herzegovina. However, legal response (through much stricter laws and somewhat stricter application thereof), as well as civil society's immunity mechanisms towards hate speech, are gradually improving (e.g. as seen through public outcry over the most drastic cases of hate speech). Many other freedoms, such as those of thought, expression (despite a few threats against journalists), association, education or scientific research (despite pressure by far-right groups to re-shape the academic discourse) are reasonably well maintained in Croatia. Participation of women in politics or on other leading or management positions is in the rise and is higher than in any of the neighboring countries. Domestic violence is still a serious problem, whereby ratification of the Istanbul Convention by Croatia, in April 2018, itself much disputed by conservative groups, might help improve the situation.

C. ECONOMIC FREEDOM



SECURITY OF PROPERTY RIGHTS

Private property rights in Croatia are mostly protected. However, in practice there are many problems stemming from the weakness of judiciary. Although judicial independence is mostly attested, the influence of strong groups with political connections can have a strong impact on courts, including through corruption. Contract enforcement is not efficient due to slow proceedings and unreasonable delays, which makes court litigation long lasting, almost two years on average. There is also the problem of the high number of back logged cases, even though there have recently been some success in reducing them; some of it by transferring non-disputed cases to public notaries. There are courts solely devoted to hearing commercial cases. There is no maximum number of adjournments and while some IT solutions are being introduced, court digitalization is proceeding rather slowly. Dispute resolution mechanisms are weak and underutilized, while procedures for small claims are burdensome and expensive. The number of courts of the first instance is being optimized in order to ensure a more even case burden, which can vary significantly from region to region. Another significant issue is the uniformity of verdicts, since they can vary substantially from court to court in similar cases, which may be the consequence also of uneven legal interpretation of existing laws. Procedures for resolving insolvency are also very slow, lasting for more than three years on average, and leading to recovery rates slightly above one third of the claim. The most usual outcome is the piecemeal sale of the bankrupt company. There are some restrictions on foreign ownership or control in several industries in the country, the most important ones being in transport and freight sectors, as well as in publishing, education and broadcasting, but the rest of the economy is open to foreign entrepreneurs. The improvement of the cadastre service has been a lengthy reform, which is expected to have strengthened property rights. Land registry has recently been digitalized, and land titles could be assessed online. Most of the land has a clear title, but this is less present in rural areas, since people try to avoid transfer tax. The transfer tax was recently decreased as a part of the reform package from 4% to 3%. Property rights over land and property are separated, which in practice could pose many technical and legal problems. Land Registry Offices are still inefficiently slow, burdening the process of property registration. The situation of non-conforming to local zoning in the coastal areas and turning the blind eye by the authorities at this problem until recently has made the solution of this problem rather complex, and there were cases of clearing of land of these objects without compensation and at the same time political promises that the constructed objects would be legalized retroactively. Acquisition of agricultural land is restricted to local and EU nationals, since the EU accession, but this restriction could easily be circumvented through a long term lease or through setting up a local legal entity in foreign ownership. The property of legal entities from other former republics of Yugoslavia is often disputed and was recently under attack through the legislation that would put them in lease by the state instead of handing them back to their rightful owners.

SIZE OF GOVERNMENT

Size of government in Croatia is excessive as compared to its level of development. Overall government consumption stood at 46% of GDP in 2019, similar to the level in previous couple of years. Croatian economy has been recording growth since 2015, with growth being estimated at 3% in 2019 due to a good tourist season, growing consumption and exports. However, Croatia is the slowest growing economy in the region, alongside Serbia, when compared to its pre-crisis 2008 GDP. Slow growth significantly contributed to high emigration rates of young people, which already have put some constraints on economic activities in certain industries, but which on the other hand have significantly decreased the unemployment rate. Economic improvement is also visible in public finance, allowing for some tax burden relief, with a balanced budget. The public debt is still on a downward spiral, being estimated at 71% in 2019, but its level is still elevated for an economy at this level of development. A new Fiscal Responsibility Law was adopted in September 2018 after several delays. It introduced three new concrete fiscal rules governing the structural balance, budget expenditure and public debt. It also strengthens the autonomy of the Fiscal Policy Commission in the Parliament. The state budget 2019 was improved in quality since it envisaged the recognition of contingent liabilities as part of the budget process. The actuary reforms, implemented recently, have increased the statutory retirement age for both men and women to 67 years of age by 2033 and hardened existing penalties for early retirement, in order to alleviate some of the deficit problems of the state pension system. Also, the retirees are now allowed to work half a day, with the aim of increasing the participation rate, which is also connected to the high emigration rate of the young people to other EU countries. SOEs in the country are numerous, with more than 400 companies, operating in almost all sectors. Some of these companies suffer from low efficiency and generate substantial fiscal costs, and contingent liabilities included, but the overall sector transfers to the budget in 2019 were estimated at 0.4% of GDP. Their management is not depoliticized and professional, enabling political considerations to enter into their daily business. Too many of these companies are considered as strategic, which prevents their privatization. The privatization of inefficient shipbuilding companies such as Uljanik is still not completed, while the government continues to support companies like this through direct state guarantees. State guarantees were also lavishly used in recent privatization of state owned fertilizer company. Even with several tax reforms initiatives put forward, taxes in Croatia remain high. Corporate tax rate is set at 18% (with a lower rate, of 12%, for SMEs below a certain threshold). The personal income tax is progressive, with two tax rates, of 24% and 36%, and with a relatively high tax deduction, which also recently increased during the tax reform. VAT is set at a very high level of 25%, being among the highest in the EU, with lower rates for certain products, of 13% or 5%. Social contributions on labour are high. That, coupled with personal income tax, leads to high labour tax wedge, which is higher than the OECD average. The latest wave of tax reform reduced the labour tax wedge on average salary from 37,2% to 36,5% in 2020 through changes in social security contributions rates. However, these tax-reform measures are not considered as being enough to significantly alter the economic situation in the country, since their impact is mostly incremental. More efforts are needed in order to stimulate economic growth.

REGULATION OF CREDIT, LABOUR AND BUSINESS

Business environment in Croatia is not overly business-friendly. Even though several waves of regulatory reforms have cut the red tape and increased the use of online mechanisms in dealing with administrative procedures, bureaucracy is still widespread, increasing the costs of doing business. Another significant problem is in that regulation is frequently changed, making significant alterations in the regulatory environment, which could have a strong impact on terms of doing business in specific industries. Corruption and partial treatment of those entrepreneurs

who had good political ties, by the government officials, remained present. Inefficient government bureaucracy, policy instability and tax regulations are considered to be among the most important hindrances to a better business environment. Starting a business is unnecessarily long (almost 20 days on average), with a high number of procedures and a relatively high notary fees and paid-in minimum capital. This process was, however, made less burdensome by abolishing the requirements to reserve the company name and obtain director signature for company registration, and by lowering the mandatory paid-in minimum capital. Obtaining a construction permit is a poorly conducted process, both slow and burdened with a high number of administrative tasks, with as many as 22 different procedures that need to be tackled with. It takes on average almost 5 months and is also expensive, due to high local utility fees. This process was recently made less expensive by cutting the mandatory water contribution fees. Getting electricity is a streamlined process, but very expensive due to high fees by the public utility company HEP. Although tax payments are rare, and are mostly administered through online mechanisms, tax regulations are considered as complicated and difficult to implement in practice. A significant success through several waves of regulatory reforms that were implemented in Croatia in recent years is attested in the OECD Product Market Regulation research. In 2013, Croatia was the most regulated economy in the EU, while in 2018 it was able to reach the score of the EU and OECD average. Para-fiscal surcharges remain widespread in the economy, contributing to a high tax but also administrative burden. Licensing restrictions for professional services are present, creating barriers to entry into many professions in the service sector. The educational system, as in many other countries of the region, provides little actual links between classrooms and labour market needs. Several waves of labour code reforms took place in recent years in order to increase flexibility of the labour market, but these lackluster measures did not alter much the main issues, so the labour legislation remains very rigid concerning hiring and firing procedures. Duration of notice periods and severance pay package significantly increase with the years in tenure, while fixed contracts are prohibited for permanent tasks, which protects seasoned workers to the detriment of those with less experience. On the other hand, working hours are flexible, and there is no maximum duration to fixed-term contracts and redundancy obligations. Collective bargaining is mostly concentrated in industries where SOEs play a dominant role and public sector.

FREEDOM TO TRADE INTERNATIONALLY

Freedom of international trade in Croatia is mostly respected. As a member of the European Union since 2013, Croatia implements the common EU trade policy. Therefore, the tariffs applied on imports are low, with the MFN applied rate of 5.1%, but those for agricultural products are often significantly higher. But non-trade barriers in the form of technical standardization and certification pose effective barriers on goods coming from abroad. Customs office is efficient, without lengthy or complicated procedures neither for imports nor exports. The quality of road and port infrastructure is satisfactory, but the railroads, operated by a state company, do not follow this trend, creating considerable bottlenecks, which increase freight costs and time necessary for the transport of goods. Main Croatia's trade partners are EU member states from its proximity, such as Germany, Italy and Slovenia, followed by Central Europe Free Trade Area (CEFTA) countries from the region: Serbia, and Bosnia and Herzegovina. The National Bank continues to exert control over the flow of short-term capital, which is mostly connected to the exchange rate policy of the national currency, the kuna (HRK). Croatia is not yet a member of either Schengen area agreement or the Euro-zone, which would further liberalize flows of people and capital. Although there are no clear deadlines for its accession yet, the European Commission has officially supported Croatia in its bid for Schengen area membership in late 2019. In recent years the quota for foreign workers (those coming from outside of the EU) has been increasing, especially in the construction and tourism sectors, which themselves have faced considerable labour shortages, due to emigration of Croatian workers to

the EU. In July 2020 the last remaining restrictions for Croatian nationals in the EU countries (most notably, in Austria) will be abolished, completely opening the internal EU labour market.

Georgia

GDP in 2018: USD 16,209 million

annual growth rate: 4.7%

per capita: 11,430 USD PPP

by sector:

agriculture 8.2%

industry 23.7%

services 67.9%

Population: 3,730 thousand

Human Development Index

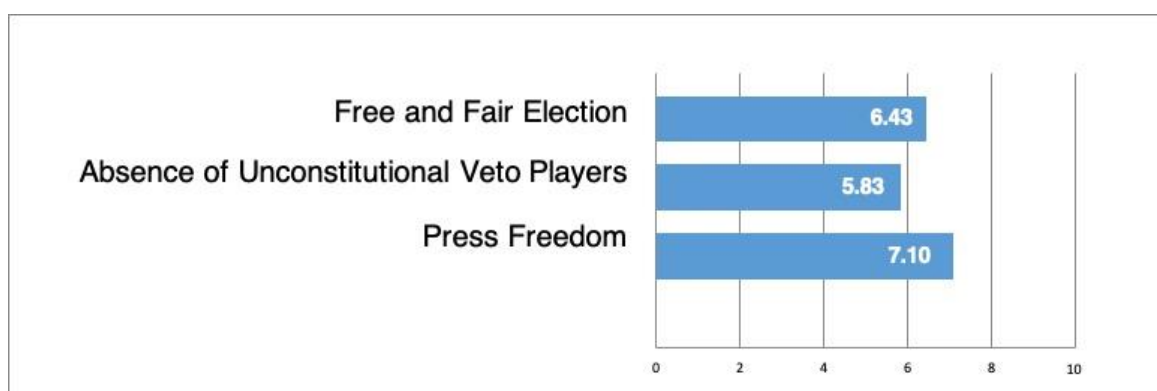
Government position in 2018

Unemployment rate: 12.7%

HDI: 0.786 (rank 70)

-0.9% of GDP

A. POLITICAL FREEDOM



FREE AND FAIR ELECTIONS

Elections in Georgia are considered as mostly free and fair, however with many irregularities during campaigns and on election days, that still make the playing field uneven and put pressure on citizens' genuine choice. Political parties are free to organize and operate. However, ruling parties have always enjoyed undue advantage of state resources. There were several important moments worth mentioning, that shaped political life throughout the year. First, former Prime Minister Giorgi Kvirikashvili resigned in June 2018 due to his disagreement with the most influential political persona in Georgia and the leader of the ruling Georgian Dream party – Bidzina Ivanishvili. He was replaced by Mamuka Bakhtadze, at the time the finance minister. In October and November, citizens cast their votes for the new president of Georgia, in the first round and run-off respectively. A Georgian Dream backed candidate Salome Zourabichvili scored a narrow victory in the first round, over United National Movement candidate, and then secured 60% of votes in the second round, thus becoming the first female president of Georgia. Although elections were marked as free and competitive, electoral irregularities were noted, such as blurred separation between public and party activities by officials, abuse of state resources, pressure on public employees, voter intimidation and biased public media reporting. Georgia introduced electoral changes in 2017, to enter into force as of 2024. Those changes involved abandoning of a mixed proportional electoral system for the fully party proportional system, while the president would be elected in an indirect way, by the local, regional and state level representatives, and with his/her powers further limited. Demonstrations, as well as inadequate use of power transmuted to violence against protesters, led to civic demands to pursue the

immediately next parliamentary elections, i.e. those in 2020, through fully party proportional system. The leader of the ruling Georgian Dream party Bidzina Ivanishvili and other party leaders publicly promised to implement the demanded electoral changes within the next parliamentary sessions. The Georgian Dream party dropped the draft law, causing further protests in the streets. The mixed proportional electoral system is regarded by Georgian civil society as the main obstacle to a democratic transfer of power.

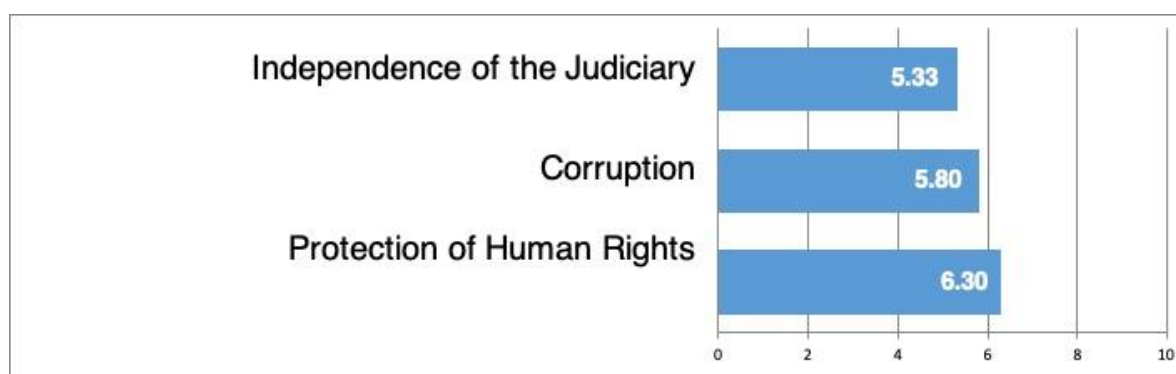
ABSENCE OF UNCONSTITUTIONAL VETO PLAYERS

Democratic decision-making process and orientation of country's policies in Georgia are often interfered by influential individuals, business interests or religious groups. Most prominent and most influential person on the Georgian political scene is Bidzina Ivanishvili – a former prime minister, wealthy businessman and president of the ruling Georgian Dream party. Despite his withdrawal from public office, Ivanishvili continues to exert control over the most important decisions, through his political party that has got a supermajority in the national parliament. Former PM Kvirikashvili, who had stepped down in June 2018, named disagreement with Ivanishvili as reason for the decision. That clearly points out at a significant role the latter is playing in Georgian politics. Also, with supermajority in the parliament, the government can hardly be held accountable through a system of checks and balances. Close ties between business and political elites in the country have significant influence over decision-making as well, itself thus often serving rather for personal or group benefits than for public interest. Georgian Orthodox Church, as the most trusted institution in the country, is able to shape public and political narrative in accordance with its interests.

PRESS FREEDOM

Constitution of Georgia is granting freedom of the press. In recent years this right was generally upheld in practice. However, there are still many problems remaining to be addressed. There is wide variety of broadcast, print and online media outlets that operate in the country, providing citizens with diverse opinions. However, the reporting often tends to be biased, with media coverage reflecting deep political divisions in society. This was especially evident during the run-off for presidential position in 2018, with private media having had been highly polarized between the two candidates. Traditionally, public outlets tend to provide more positive reporting on governmental activities. On top of that, appointments of close allies of Bidzina Ivanishvili to the top of the Georgian Public Broadcaster and adjacent change of editorial policy drew concerns over its independence. In October 2018, a TV station Iberia suspended its operations due to financial problems related to advertisement revenues and seizure of its parent Omega group property. Dispute over ownership of an opposition leaning Rustavi 2 television channel has been resolved by expropriation of the shares in favor of the former business partner of Bidzina Ivanishvili. Supreme Court of Georgia ruled in favor of the former owner of the outlet, triggering criticism and protests. The suspension put by Human Rights Court in Strasbourg has been abolished by HRC itself due to questionable reasons. However, two private opposition TV stations were created (Mtavari and Formula) on core basis of the crew of Rustavi 2 television. There are cases running at State Prosecutor's Office against general director of Mtavari TV and shareholder of TV Pirveli. Journalists do not restrain from practicing self-censorship that reflects the political leaning of the owners. An Azerbaijani investigative journalist had been abducted in Georgia and deported to his home country, where he was later sentenced to 6 years in prison.

B. RULE OF LAW



INDEPENDENCE OF THE JUDICIARY

Freedom House noted in a 2019 report on Georgia: „Despite ongoing judicial reforms, executive and legislative interference in the courts remains a substantial problem, as does corruption and a lack of transparency and professionalism surrounding judicial proceedings.” However, Global Competitiveness reports 2015-2017, and some earlier relevant World Bank reports, have all claimed that, at least in commercial litigations, corruption might not be expected to play an important role. The key problem seems to be the lack of depoliticizing of judiciary, even under the ongoing reform started in 2017. Meanwhile, throughout the last decade and half, Georgia has gradually reformed its penitentiary system, by building new, modern prisons, as well as changing the prison rules and culture so as to be closer to the EU’s than to the inherited Soviet models. In spite of those, violence in prisons and occasional torture in detention are still present. Georgian Ombudswoman stated that prisons’ administration leans on the criminal authorities dealing with prisoners. Listening of the Supreme Court nominees at High Council of Justice and Judiciary Committee of the Parliament and subsequent affirmation of 14 Supreme Court judges by parliamentary majority was accompanied with demonstrations, boycott by the opposition, escape of a few MPs from the ruling majority block and critical statements by the EU, Council of Europe and USA, themselves regretting lack of impartiality of the affirmed judges and demanding a review of the affirmation process.

CORRUPTION

For more than a decade now Georgia has - in a number of leaps - improved regarding the fight against corruption. In the Transparency International’s Corruption Perception Index 2009 it scored 38/100, while in 2018 it scored 58/100, to share the places 41-44/180, i.e. to be less corrupt than one third of the members of the EU and less than any of the official EU candidates from Balkans. This miracle owes to robust post-2003 privatizations and economic liberalization which narrowed any - let alone discretionary - power of government to micro-manage economy affairs, coupled with bold measures to clean the remaining public sector of graft, and with thriving civil society organizations as watchdogs. Outright bribes have become a lesser problem in the country. Therefore, its anti-corruption bodies have been left with more resources, to have concentrated on more hidden and sophisticated forms of misuse of public office for narrow individual or group interests, such as favoritism, nepotism, or trading with influence.

PROTECTION OF HUMAN RIGHTS

Respect for human rights in Georgia is higher than in most of the ex-USSR, yet considerably lower than in the EU (which most of the people in Georgia set as their ideal). Freedoms of

thought, assembly and association are reasonably well maintained. Civil society is vibrant. Yet, there were cases of smearing campaign by officials against NGOs which had criticized them. Right to privacy, especially when citizens' radio frequency activities are concerned, has stayed far behind the average EU rules of protection of privacy, although even the latter ones themselves have been nascent and constantly lagging behind the advance of technology. There are still unreleased investigations of murder cases involving public officials or their relatives. Georgian society is still very conservative, which includes uninterrupted activities of various homophobic (often at the same time ultra-nationalist) pressure groups. LGBTs' "March of Dignity", planned in late June 2019, initially had to be shifted indoors. However, a few days later, a very small, semi-public and quite short, LGBTs' protest gathering was peacefully held in the open in the capital Tbilisi, as the first one of the kind ever. Meanwhile, in the breakaway regions of Abkhazia and South Ossetia Russian troops and local authorities continued with policies that severely restricted human rights. There have been cases of kidnapping, extortion, ransom, torture or even murders.

C. ECONOMIC FREEDOM



SECURITY OF PROPERTY RIGHTS

Property rights in Georgia are mostly secured. Although courts are perceived as mostly independent from the government, in important cases political considerations influence court decisions and lead to favouritism in rulings. Recent introduction of an automated process for case assignment to judges is hoped to increase judicial independence and decrease opportunities for mismanagement. There are no specialized commercial courts, which can often have repercussions on the quality of rulings in these matters, but there are efforts in creating commercial chambers within existing courts, which is expected to increase efficiency in commercial rulings. Contract enforcements through courts last up to 10 months on average, but more than half of this timeframe is dedicated to enforcement of court rulings. The number of adjournments in court cases is not limited, which might prolong them. The recent legislative reforms are expected to increase the efficiency of judiciary, through efforts to address the backlog cases regarding petty loan disputes and the reforms regarding the High School of Justice. The constitutional reform abolished the probation period for judges as of 2025, which is expected to increase judiciary independence. Regulation regarding disciplinary procedures against judges is under reconsideration. Expropriation disputes are not common, but there have been cases of illegal land appropriation in newly created tourist zones, or illegal seizure of property even in Tbilisi, at unfairly low prices, for instance those connected to Tbilisi Railway Bypass project. In these cases, powerful interest groups were able to take advantage of legal loopholes or low land coverage in the cadaster. Insolvency procedures are long, taking up two years on average, with a recovery rate of just 40%. The process of registering property is very efficient and inexpensive, done through an electronic registry, but land title coverage outside the capital is not high -

approximately only one quarter of agricultural land has a clear land title, which may lead to insecure property rights. Acquisition and possession of agricultural land is largely restricted for foreign nationals and private entities with foreign capital, to 20 and 200 hectares respectively. There are also a few industries in which foreign capital is restricted, and the government is by law obliged to retain a controlling equity share in air, shipping and rail traffic control, defense and armaments industry and nuclear energy. The Georgian government does not exert de facto control over the two separatist regions of Abkhazia and South Ossetia, therefore many internally displaced persons and businesses face challenges in asserting their property rights in those regions.

SIZE OF GOVERNMENT

Government expenditures in Georgia are very low as compared to other European and even post-transition countries, just below 30% of GDP in 2018, which is according to one of the legal fiscal rules adopted in 2014. Georgian economy experienced robust growth in 2018, of 4.7%, due to increasing foreign demand that led to a high rise in exports, and to rising private consumption. While inflation pressures were subdued in 2018 with a 2% inflation rate, they increased in 2019 with the inflation rate expected to reach 7% in 2019, significantly above the 3% target of the central bank. The government entered a three-year Extended Fund Facility (EFF) program by the International Monetary Fund (IMF) in April 2017, in order to provide backing for the envisaged fiscal austerity program with the aim of diverting resources from current to capital expenditures. That has been successful so far. Current spending has been put under control, while capital spending on infrastructure was significantly increased. Public debt is at 44% of GDP, which is within the fiscal rule limit of 60%. After the thorough privatization process, major remaining government-owned companies operate mostly in utility services, energy sector and transportation (airports, railways). The most important government companies (railways, oil and gas corporation and electro system) are combined to a Partnership Fund in order to improve public asset management, but some of these companies suffer from inadequate management and incur losses that require budget transfers. Low public expenditures allow for moderate tax rates. Both corporate and personal income taxes are flat, with the rates of 15% and 20% respectively, while VAT is set at 18%. Undistributed corporate income is not taxed. In July 2018 the turnover tax for small business which are not included in the VAT system was significantly reduced (from 5% to 1% of revenues). The Economic Freedom Act stipulates that an increase in tax rate or introduction of a new tax must be approved at a national referendum to become valid, which significantly restricts additional tax revenues.

REGULATION OF CREDIT, LABOUR AND BUSINESS

Business environment in Georgia is mostly positively oriented towards entrepreneurial activities. Georgia was twice designated as the Reformer of the Year by the World Bank, and is consistently ranked high by the Doing Business project. Although low level corruption has mostly been eradicated, there are still problems with selective implementation of economic regulation and low capacities of local governments, whose decision making process can have significant impact on entrepreneurial activities. Starting a business is quick and inexpensive, conducted in only 2 days and without minimum paid in capital. This process was further streamlined with the recent change that enabled voluntary VAT registration at the time of business incorporation. Obtaining a construction permit is also a well streamlined process, with 11 procedures lasting just over two months and with low associated costs. On the other hand, getting electricity is considerably expensive due to high fees set by the electrical distribution company, but the recent regulatory changes have stipulated penalties for utilities whose quality of services, measured by outages index, was worse than in the previous year. Besides, connection fees for new customers were reduced, in order to increase the quality of rendered services. The online system for VAT refunds

has recently been updated and additional annex for corporate income tax returns was abolished: online procedures are used, but it is still time consuming. The system has recently been made more burdensome, since the VAT is imposed on advance payments. There were also reforms to make compliance with tax legislation easier, by increasing the threshold for defining a small business and enabling them to pay taxes at the end of the month instead of in advance. For medium and large companies, an automatic system for VAT refunds was introduced. Inadequately trained workforce (especially outside the capital Tbilisi) and difficult access to financing pose significant burden on businesses. Labour regulation is overall flexible. Severance payments and notice periods are low and do not rise with years in tenure. Maximum duration of fixed term contracts is 30 months. Collective bargaining is mostly restricted to public sector employees. The minimum wage is very low, and it is not really applied in practice. However, the 18 months mandatory military conscription poses significant burden both on businesses and citizens.

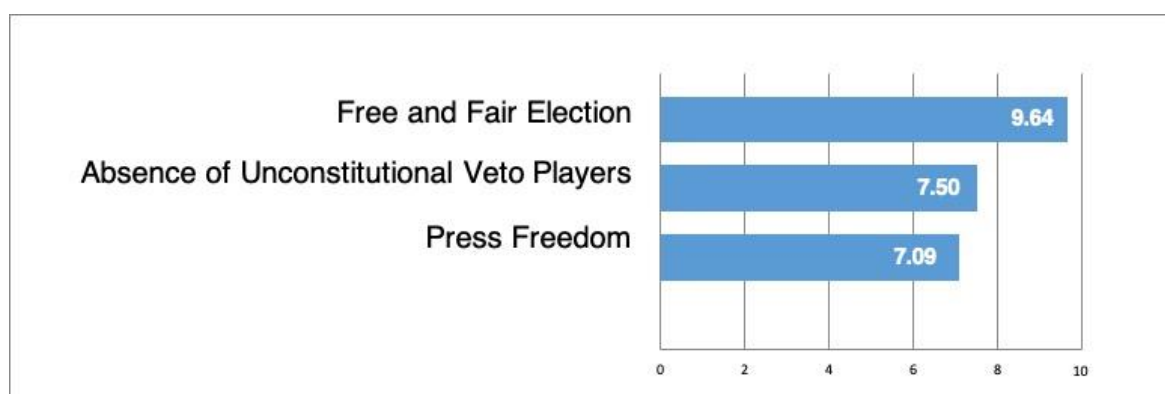
FREEDOM TO TRADE INTERNATIONALLY

Freedom of international trade is well respected in Georgia. Import tariffs are among the lowest in the world, with the applied Most Favoured Nation (MFN) tariff rate of just 1.5%. As in other countries, tariffs are higher for agricultural products than for the industrial ones (with the MFN applied rates of 6.5% and 0.6% respectively). Although regulatory trade barriers in the area of standardization of imported goods have been decreased, they still create some problems regarding free flow of goods. Border and documentary compliance are efficient and pose little administrative burden on trade, via electronic system for document processing and an advanced document submission. Georgia has been a member of the World Trade Organization since 2000. The latest trade policy review by the WTO, in 2016, did not find any significant problems, confirming Georgia's free trade orientation, but the country needed to establish a national trade facilitation committee. The Trade Facilitation Agreement (TFA), which Georgia signed in January 2016, has been put in action in 2017, after the necessary number of WTO members acceded to it. This is expected to further ease custom clearances and border controls, which is especially important for Georgia due to its geographical location making it an important transport corridor. Georgia also hosts 4 free industrial zones (FIZ), whereby the one in the port city of Poti is the first FIZ in the Caucasus region. The country became an observer to the Government Procurement Agreement (GPA) of the WTO, and is currently in the process of acceding to it, which is expected to ensure transparent and open conditions for international competition within the public procurement sector. Georgia remains as one of the most visa free countries for foreign nationals to visit, encouraging cultural and economic ties, as well as the local tourism industry. Besides, since March 2017 Georgian nationals have been waived from visa requirements for the Schengen area countries. Main Georgian trade partners are the EU countries, followed by countries from the region, such as the Russian Federation, Turkey, Ukraine, Azerbaijan and Armenia. Economic relations with the EU are conducted via the Association Agreement and the following Deep and Comprehensive Free Trade Area (DCFTA), which were signed in 2014. A gradual introduction of the EU standards in the economy and increase of the rate of standards' harmonization in areas such as sanitary standards and technical barriers to trade are under way. The free trade agreement (FTA) with the European Free Trade Association (Norway, Lichtenstein, Iceland and Switzerland) began with its implementation in 2018. Recent signing of the FTA with China was followed up by signing an FTA with Hong Kong, in the same year.

Greece

<i>GDP in 2018: USD 218,230 million</i>		
<i>annual growth rate: 1.9%</i>	<i>per capita: 29,070 USD PPP</i>	<i>by sector:</i>
		agriculture 4.1%
		industry 16.9%
		services 79.1%
<i>Population: 10,741 thousand</i>	<i>Human Development Index</i>	<i>Government position in 2018</i>
<i>Unemployment rate: 19.3%</i>	<i>HDI: 0.872 (rank 32)</i>	<i>+1.0% of GDP</i>

A. POLITICAL FREEDOM



FREE AND FAIR ELECTIONS

Greece is a parliamentary democracy. Citizens are able to elect their representatives in a free and fair manner. During the period under review, citizens were able to do so on two occasions – first on the European parliamentary elections, which were held together with local and regional elections, and afterwards at snap Greek parliamentary elections, which happened due to loss of majority in parliament by Syriza, at that moment the main ruling party. Aftermath of EP elections brought 6 political parties to the European Parliament, with Syriza falling second, behind the New Democracy party (ND). That made Prime Minister Alexis Tsipras call snap elections, on July 7th 2019. Results showed similar voting tendencies, as ND defeated Syriza once again, scoring around 40% of the popular vote and allowing their candidate Kyriakos Mitsotakis to become new prime minister of Greece. Election turnout was around 58%. Voting is mandatory in Greece however sanctions for non-compliance are almost never imposed. Changes to the electoral code adopted by the parliament made these elections the first national ones where voting age was lowered to 17 years. However, even a bigger change of rules, i.e. the abolition of additional 50 seats in parliament given to the winner of plurality at the elections, which was adopted without necessary supermajority of 200 MPs, would take effect from the next parliamentary elections on. Current electoral system in Greece is specific, often debated and questioned in regard to accuracy of political representation. Designed in a way to favor the winning political party, “enhanced proportional representation” provides the winner of the

elections with 50 bonus seats in the Greek unicameral parliament, itself consisting of the total of 300 MPs, thus facilitating the formation of single-party governments.

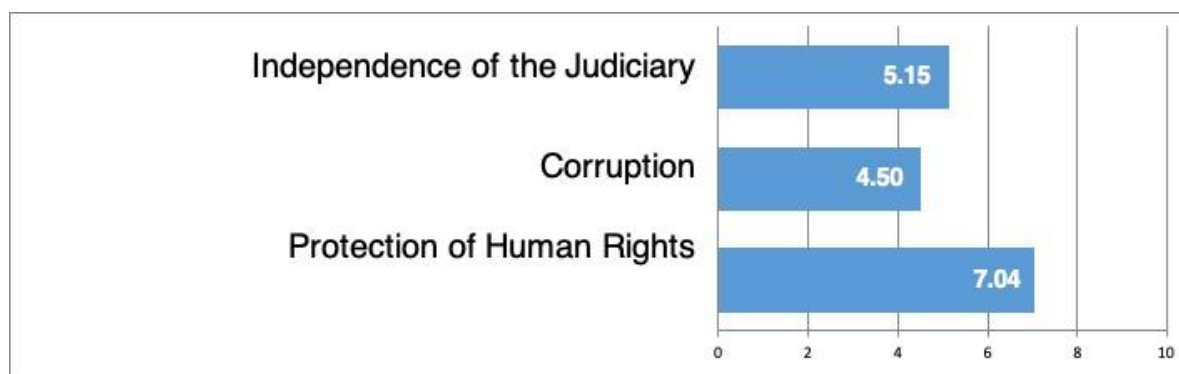
ABSENCE OF UNCONSTITUTIONAL VETO PLAYERS

There are no unconstitutional veto players in Greece who are able to undermine decision making processes, leaving democratically elected officials to govern without interference. Greek Orthodox Church is not separated from the state as Greek Orthodoxy is recognized by the constitution as the state religion. However, Greek Orthodox Church operates on a fully state-controlled framework, thus its direct influence on political decisions in the country is very limited. Also, corruption among high ranking officials is also seen as potential undermining factor to democratic institutions. Greece is positioned on the 67th place in Transparency International 2018 Corruption Perception Index.

PRESS FREEDOM

Greece continues its progress on improving freedom of the press. Wide array of broadcast, print and online media outlets exist in the country, making media landscape pluralistic and diverse. Still, deep political polarization of society is reflected on the media, with many outlets leaning to report according to political and economic interests of their owners, making the media landscape deeply partisan. Environment of fear, on one side economic (of losing a job) and on the other side of physical and verbal threats they were facing, led some journalists to practice self-censorship. Quality of journalism, which drastically decreased in the years of crisis, is still recovering, with investigative journalism being rare. Journalists were on several occasions target of verbal and physical attacks. In December 2018 a bomb exploded next to Skai TV and Athens Voice in Athens, causing a big damage on the building, with offices of Athens Voice being completely destroyed. Parliament passed the bill changing defamation to be criminal offense only in very serious cases. Defamation charges were regularly brought against journalist, placing additional pressure on their reporting. Crisis of issuing licenses for national televisions, after the Council of State had ruled that this was constitutionally a task for the National Council for Radio and Television (NCRTV) and not for the Government, was successfully resolved during period under review. State-owned public radio and television broadcaster ERT was often accused of biased reporting, i.e. of supporting pro-government stance on many issues. Country is ranked on the 65th place of the Reporters Without Borders 2019 World Press Freedom Index, improving its position by 9 places.

B. RULE OF LAW



INDEPENDENCE OF THE JUDICIARY

According to several latest Freedom House reports Freedom in the World, the judiciary in Greece is “largely independent”, though this is sometimes undermined by corruption. In August 2018, portal GAN estimated that two fifths of all corruption events in Greece occurred in judiciary, especially noting commercial cases as vulnerable. Judges are appointed by the President (ceremonial, elected by the Parliament), upon the advice of the Supreme Judicial Council (mainly consisted of other judges), and their tenure is to last until retirement. Besides corruption, other problems include backlog of cases, too long pre-trial detention and cases of physical abuse of detainees, particularly those from vulnerable groups (minorities, migrants, etc.).

CORRUPTION

During several recent years, corruption situation in Greece has been oscillating and very slowly improving. In the Transparency International’s Corruption Perception Index, Greece scored 45/100 in 2018, which put it to the shared places 67-69/180, the second worst among EU member countries. The advance in absolute terms since early 2010s has to thank to several consecutive anti-corruption campaigns and attempts at liberal economic reforms, both having had been a must taken the country’s debt crisis. Yet, in spite of government activities and domestic and foreign pressure for change, aside of judiciary, tax administration and public procurement remain as the worst corruption-hit parts of public life. Inequalities on the market and in society caused by corruption and/or tax evasion seriously harm social stability, especially taken the high taxes put on those who pay them and tough competition between those entrepreneurs who play by the rules. Meanwhile, notable anti-corruption proceedings included former defense minister, himself in custody since October 2018.

PROTECTION OF HUMAN RIGHTS

Freedom of expression, especially in the academic field, is fairly well respected in Greece. Freedom of association and gathering is also facing very few limitations, with NGOs and trade unions enjoying full freedom. An exception to this trend is ethnic minorities, of which some even lack legal recognition. The country has become more secular. Privileges of the biggest religious community Greek Orthodox Church decreased. Application of Sharia laws in some parts of the country (stipulated by post-WW1 peace treaties) has been further limited. On the other hand, a few new opportunities were offered to religious minorities (such as the shortly expected official opening of a mosque in Athens for worship, for the first time in 180 years). Influx of new refugees to the islands has decreased since the EU-Turkey agreement went into effect. Their resettlement to mainland, however, is still in plans, while dozens of thousands still live in bad conditions on Chios, Lesbos, Samos, or other islands. Besides, Greece is an important transit point for human trafficking, fighting it with varying success. Military service is mandatory, whereby conscientious objectors face obstacles in access to alternative means of service. Hate-speech and hate-motivated attacks (such as against migrant workers) are not rare. Strong legal protection of LGBTs against discrimination and regulated same-sex unions (with their recently acquired right to serve as foster parents) have largely neutralized the anyway gradually decreasing homophobia in society, itself now fuelled only by a few conservative political groups. Gender equality level has been lower than in much of the EU. In 2018, Greece ratified the Istanbul Convention against domestic violence or other discrimination of women.

C. ECONOMIC FREEDOM



SECURITY OF PROPERTY RIGHTS

Private property rights in Greece are mostly respected. However, there are many problems arising from the inefficient and slow judicial procedures, which in practice can restrict property rights. Judicial impartiality is not attested in public perception. Corruptive practices within judiciary are still present. The court system is extremely time-consuming, with contract enforcement lasting for more than 4.5 years on average. Effective enforcement of court decisions is also weak, due to slow procedures. Insolvency procedures are lengthy, being 3.5 years on average, leading to low recovery rates which approximate one third of claim, mostly through piecemeal sales. There are no specialized commercial courts, so commercial cases are presented before general courts. Obtaining real property in Greece is a complicated and expensive process, since there are multiple layers of authority that are involved in issuance and approval of land use and zoning permits, coupled with a high property transfer tax and notary and register fees. In certain areas, a prerequisite for obtaining real property is permission from the local council. There are restrictions on acquisition of land in border areas or on small islands, due to national security reasons. Comprehensive national land register is still under construction, with the aim of being finished by 2020, in order to increase transparency and security of real estate rights. Currently, many homes, especially outside the big cities, wait to be registered. Greece still keeps restrictions on foreign equity ownership in several industries, whose total number is more numerous than in other OECD countries, thus hindering investment and decreasing competition. This is mostly visible in the sectors of public utilities and energy, areas which the Greek government considers as being of strategic importance.

SIZE OF GOVERNMENT

General government expenditure in Greece reached almost 47% of GDP in 2018, with stable prospects. The economy pulled out of recession in 2017, with growth rates of 2% in 2018, also projected for 2019. Investments are slowly rising, but are still very low, nearing 13% of GDP. Unemployment remains very high, but it is slowly decreasing, and is expected to fall below 18% at the end of 2019, a significant reduction from the 2014 level of 26.5%. The economy remains significantly exposed to the bad situation in banks due to the large non-performing loans and other toxic assets. The very high level of public debt, of 185% in 2018, will pose significant problems on the long run, but the liquidity of public finances is currently assured and the fiscal program even exceeded its 2018 primary fiscal balance target of 3.5% of GDP. After the August 2018 termination of the European Stability Mechanism (ESM) program, the Greek government was able to borrow resources on international capital market, for the first time since 2014. The new government is faced with a significant policy retreat after the ESM program exit, when induced reforms were put on hold (fiscal area), or canceled (pension and tax reform package, labour regulation and broadening of the tax base). Although significantly reduced, public

transfers remain very high. Pension expenditures are the highest in Europe, reaching the remarkable level of 17% of GDP, while government wage bill is also very high in international comparison. These areas remain to be properly addressed, including the scrapping of the newly introduced pension bonus. State-owned enterprises (SOE) are still present in the country, especially in industries considered to be of strategic importance, such as utilities, transportation, energy and defense. Most of them are under supervision of the HCAP (Hellenic Corporation for Assets and Participations), an independent holding company for state assets, whose board is independent from the state, since it was partially elected by the international creditors, while some remain supervised by the Finance Ministry. As a part of the financial assistance package, a thorough privatization program was designed in 2015, but its implementation lagged in practice. The most important recent privatizations were the railway company Trainose, the Thessaloniki port, railroad services company Rosco, the gas transmission company DECSFA and the residual of government equity in OTE Telecommunication Company. Also, the government extended the Athens airports concession agreement, and it also plans to privatize 10 regional ports and marinas across the country. The plans to fully privatize the Public Power Corporation (DEI) have been recently cancelled, but the restructuring plan envisages minority equity privatization of some of its assets. The new government also plans to continue with the privatization of the energy companies, such as the DEPA (natural gas) and HELPE (petroleum). High government consumption requires high tax rates: personal income tax is progressive, with rates of 22%, 32% and 45%, and there is a special solidarity tax on income, also progressive, ranging from 2.2% to 10%. High social security contributions included, this leads to the overall high labour tax wedge, reaching 40% of the total labour costs on the average wage, which is above the OECD average. The corporate tax rate was incrementally lowered from 29% in 2018 to 28% in 2019, with medium term plan to reduce it further to 25% in 2022. The standard VAT rate is set at 24%, with two preferential rates of 6% and 13%, with a special case of some Greek border islands where the VAT rates were lower by 30% until July 2019. The plan of changes in the fiscal mix, by decreasing direct taxes while increasing at the same time the tax compliance, especially on VAT, is a pro-growth move, but it remains to be seen if this would be effective enough to offset the fall in tax receipts.

REGULATION OF CREDIT, LABOUR AND BUSINESS

Regulatory environment in Greece is not overall business-friendly. The pressure of the international creditors facilitated some deep reforms which made the business environment in the country more conducive to entrepreneurial activities through abolishing licenses and quasi-monopolies, streamlining business procedures and simplifying legal framework, but the actual impact of these reforms is yet to be discerned. Corruption and burdensome bureaucracy remain weak spots of the business environment, while formal and non-formal impediments decrease the level of competition in many industries. These are cases of competing regulations stemming from different sources, creating a level of business uncertainty. Professional services, such as pharmacists, lawyers, notaries etc. are highly regulated, with high barriers to entry such as quotas or similar vehicles. On the other hand, starting a new business is easy and inexpensive, done within a couple of days and with no minimum paid-in capital. A unified social security institution was created, in order to make registration of new companies an easier task. Obtaining a construction permit lasts 6 months on average, while getting electricity requires significant costs due to the high fees of the public utility company. Tax procedures are also considered as burdensome: although the number of annual payments is low. Labour regulation has many built-in inflexible areas: fixed term contracts are prohibited for permanent tasks and restricted to just 36 months, while severance payments increase with the years in tenure, protecting more seasoned workers. Minimum wage is still relatively high as compared to the median wage, and has recently been increased in January by 10%, since it has been flat since 2012. There is also a lower minimum wage (84% of the national one) for young workers below the age of 25. Centralized

collective bargaining is dominant in the public sector, while in private sector it is present only in industries with a strong history of trade unions. The new government plans some labour regulation changes which would introduce an opt-out mechanism for collective bargaining, making them less burdensome for companies not included in the process, but also to lift new restrictions on dismissals. These restrictions are placed on mass dismissals in companies employing more than 20 workers. If the number of dismissals exceeds the set limit, they need government authorization and consultation through the supreme labour council. Since September 2017, the law prescribes temporary closure of businesses in cases where employers repeatedly violate the law concerning undeclared work or safety, and employers are obliged to declare in advance overtime work or changes in their work schedules.

FREEDOM TO TRADE INTERNATIONALLY

Freedom to trade in Greece is generally respected. As an EU member state, Greece implements the common EU trade policy, with overall low trade tariffs: the Most Favoured Nation tariff rate on manufactured goods stands at 5.1%, but those on most agriculture products face substantially higher tariffs. On the other hand, non-tariff obstacles to trade remain present mostly due to the complicated process of product standardization. Customs service is not well organized, with expensive or slow procedures which further hinder trade. High freight costs are partially attributed to the deteriorating public transport infrastructure, due to the underinvestment of resources for its maintenance and resolving of transport bottlenecks. The quality of railroad infrastructure is particularly low, while roads and ports are in better shape, some of them being privatized. Main Greek trade partners are other EU member countries, most notably Italy, Germany and Bulgaria, followed by non-EU countries such as Russia and Turkey. The most restrictive capital controls on the capital outflow from the country, that were set up in June 2015 during the negotiation process with the “Troika”, were waived or at least eased after the agreement with the European Stability Mechanism (ESM). Most of capital controls on cash withdrawals were lifted in October 2018, while the ceiling for withdrawals from banks abroad and transfer from Greece to abroad were increased from 3 000 to 5 000 euro per month, and from 3 000 to 10 000 euro, respectively. However, the daily limit for commercial payments abroad remains at 250 000 euros. Working permits for non-EU nationals are generally difficult to obtain, although recent legislation somewhat eased the position of non-EU immigrant workers, lowering the number of residence years necessary to obtain a residence permit. The “golden visa” program, which allows foreign nationals that buy property above a certain value threshold (250 000 euros) or Greek national debt bonds in order to obtain a five year residency permit, was recently changed in March 2019. These changes increased the eligibility for this program by including investors that would invest more than 400 000 euros in Greek companies.

North Macedonia

GDP in 2018: USD 12,670 million

annual growth rate: 2.7%

per capita: 15,710 USD PPP

by sector:

agriculture 10.9%

industry 26.6%

services 62.5%

Population: 2,077 thousand

Human Development Index

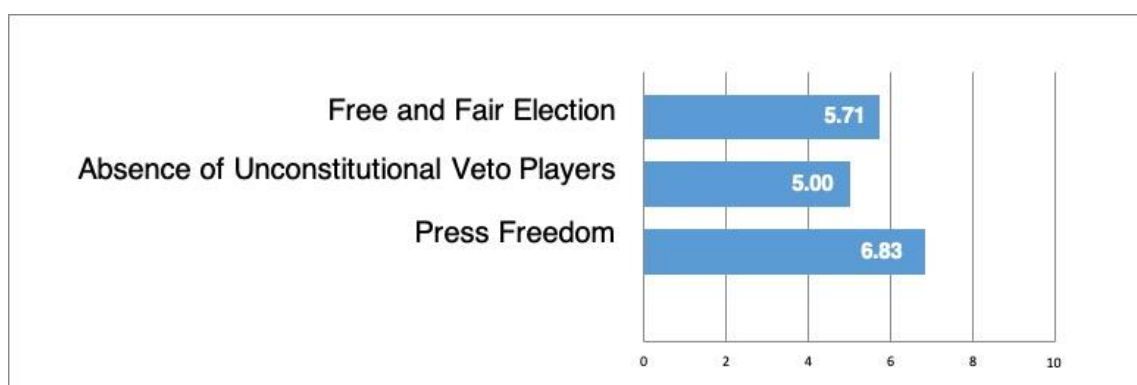
Government position in 2018

Unemployment rate: 20.7%

HDI: 0.759 (rank 82)

-1.8% of GDP

A. POLITICAL FREEDOM



FREE AND FAIR ELECTIONS

Political life in North Macedonia has significantly normalized in comparison to previous years. The country changed its name during the observed period and thereby ended its long-standing dispute with Greece, thus paving way towards democratic reforms and EU and NATO accession. A referendum on the change of name was held in September 2018, with opposition calls to citizens to boycott voting, resulting in insufficient turnout by 37% of citizens. Ruling Social Democratic Union of Macedonia (SDSM) then brought initiative to the Parliament, which adopted it in October. Another opportunity for the citizens of North Macedonia to cast their votes arose in April and May 2019, when two rounds of presidential elections took place. In the runoff, an SDSM-backed candidate Stevo Pendarovski defeated Gordana Siljanovska-Davkova from the Internal Macedonian Revolutionary Organization – Democratic Party for Macedonian National Unity (VMRO-DPMNE). With 53,6% of votes, he became President of North Macedonia. OSCE over-sighted the electoral process, concluding that elections were “well administered” and “respected fundamental freedoms”. Hence, electoral fairness was improved as compared to previous elections, which abounded with abuse of power by politicians, politicization of the State Electoral Commission (SEC), non-transparent campaign financing and vote frauds and irregularities on the election-day. Problem of party financing in the campaigns remained unaddressed, however voter intimidation, abuse of power and voting-day violations were minor.

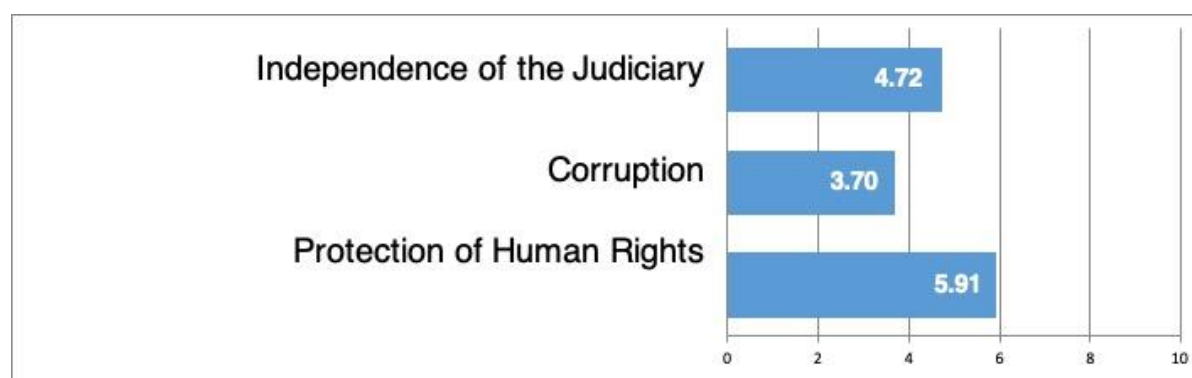
ABSENCE OF UNCONSTITUTIONAL VETO PLAYERS

Constitution provides democratically elected officials in North Macedonia with effective power to govern the country and conduct decision-making processes without interference from unconstitutional veto players, which themselves exist in society. Although the situation has improved, there are still some undermining factors that remained to be addressed after the democratic shift of governments in 2017. Deep social division alongside political party lines exists and is often reflected on supposedly neutral institutions. New state president is elected in 2019, thus it is now expected that greater level of cooperation will be established between the President and the Parliament, institutions which so far had often misused their authority to transfer political-party disputes onto - and re-dig societal trenches at - the state level. Corruption is widespread in all branches and tiers of power in North Macedonia, making the system of checks and balances weak and prone to undermining. Strong ties between political and economic elites enable their interference into decision-making processes.

PRESS FREEDOM

North Macedonia showed progress when it came to media freedom during the observed period. There is wide range of broadcast, print and online media outlets that operate in the country however their objective reporting is subordinate to deep polarization of society along political lines and politicization of private media. Poor economic situation in the media and very low salaries have caused decrease of professionalism among journalists. Due to such political, social and economic pressure, journalists often tend to censor their own narrative. Still, the recent normalization of the political situation led towards more balanced reporting by some media outlets. There are now fewer cases of intimidation and verbal and physical violence directed towards reporters. EU welcomed improvements in the media sector as a part of the accession process, in its latest report on North Macedonia, especially emphasizing that “Amendments to the Law on Audio and Audio-visual Media Services which have been adopted will require strong political commitment to guarantee professionalism, respect for the principles of transparency, merit-based appointments and equitable representation”. North Macedonia is ranked as 95th on the Reporters without Borders 2019 World Press Freedom Index, improving its position by 14 places.

B. RULE OF LAW



INDEPENDENCE OF THE JUDICIARY

Regardless of who was in power, judiciary in North Macedonia has for the entire decade been equally far away from independence of executive branch of power or other outside influences. After the protests of 2015, 2016 elections and change of government in 2017, lots of hopes were put into the Special Prosecutor Katica Janeva, to have charged all those responsible for a decade of state capture, corruption, embezzlements or other misuse of power. By mid-2019, upon the outbreak of the „Boki 13“ scandal, she herself had to resign and criminal investigation was launched against her, for extortion and/or corruption. The affair came atop suspicions that many other investigations (or even trials) regarding misdeeds of the former (VMRO-DPMNE) government officials were manipulated, and trade-offs thereby concluded, so as to get enough support by the opposition for constitutional changes and ratification of the „name-deal“ with Greece. Not least independence but also efficiency of the judiciary is a problem. Discrepancy between reforms adopted in parliament and those implemented on the ground is another one. EU has put the progress in judiciary as one of the main demands prior to even opening accession negotiations, while poor condition thereof, coupled with corruption, have been welcome excuses for all those in the EU who for political reasons wanted to delay such opening. On the brighter side, the situation in prisons in North Macedonia, notably in the by-far the biggest and most notorious one in Idrizovo, started improving, especially in terms of living conditions and more humane treatment of inmates, although much more is to be done regarding their medical care and in fighting inner-prison violence and drug-trafficking.

CORRUPTION

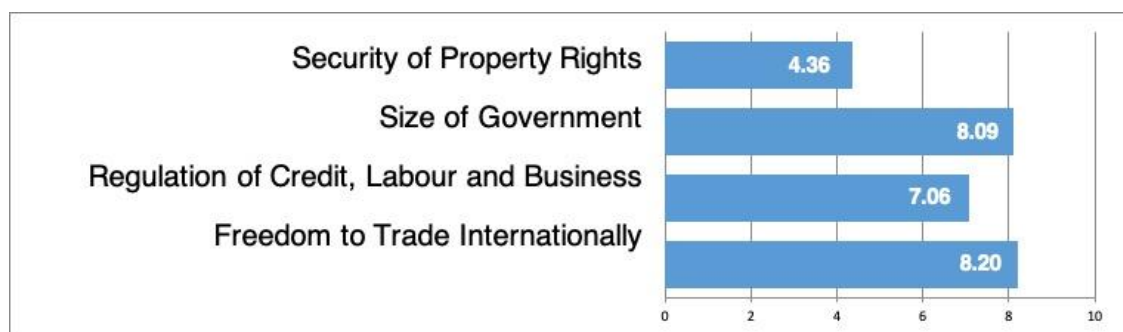
Unlike judiciary, situation regarding corruption in North Macedonia has somewhat improved in 2018 as compared to 2017. The country rose on the list of Transparency International's Corruption Perception Index, to share the places 93-98/180, with an improved score of 37/100 (against 35 in 2017). But, as Freedom House warns in its 2019 report, „corruption remains a serious problem, and there has been widespread impunity for corrupt government officials“. The circumstances of flee, in late-2018, of the sentenced ex-PM Nikola Gruevski to Hungary, to avoid serving his prison term, have never been fully explained. Anti-corruption portal GAN named, in its January 2018 update, that public procurement, land administration and public services were areas with the highest corruption risks. Many monitors pointed out at patronage networks (especially at the local level), including not least public but also private sector companies and their employees, as a political factor, e.g. in illicit deeds such as vote buying or voter intimidation.

PROTECTION OF HUMAN RIGHTS

Since the change of government in 2017, there have been a few notable improvements in the field of human rights in North Macedonia, yet a lot has to be done to merely get back to where the country was a decade and half ago. Accession to NATO has catalyzed reforms of the security structures, but newly established intelligence agencies are yet to demonstrate their independence from political pressure and dedication to respect civil rights and liberties. The biggest breakthroughs were in the field of minority rights. The official use of the Albanian language alongside Macedonian was extended in 2018. In 2017, legal change of gender was allowed. LGBT community has organized, albeit under heavy police protection, the first Pride Parade in the capital Skopje, on 29 June 2019. Still, when ethnic minorities are concerned, much more has to be done for the inclusion and mainstreaming of Roma. As for same-sex unions, their legalization and regulation are still not in sight. Last decade's conservative backslide in the field of women rights and family regulation has mostly been revoked, yet more has to be done to fight domestic violence, human trafficking, or under-representation of women in politics or management. In

academia, corruption and nepotism have been seriously damaging the otherwise favorable intellectual climate amid lack of political influence on the contents of the academic work.

C. ECONOMIC FREEDOM



SECURITY OF PROPERTY RIGHTS

Private property rights in North Macedonia are mostly respected. The political changes with the new government, which has been in charge since June 2017, created a reform momentum which alleviated some problems within judiciary. There is a widespread opinion that the current government until now demonstrated a greater respect for independence of judiciary than previous governments during their term. However, the main judiciary problems, such as out-of-court influence over courts, politicization of the judicial oversight body and inadequate funding of the judiciary, remain widely present. Still, the judicial environment remains under political influence and law and regulations are not equally applied to all entities. Furthermore, judicial processes are slow, lasting on average almost 1.7 years, which is a slight improvement as compared to the previous year. These problems lead to an overall low public trust in judiciary. Administrative courts often fail to deliver verdicts in accordance to judicial precedents, urging concerned parties in the process to appeal to appellation courts, increasing their workload substantially and prolonging legal processes. There are special courts that cover commercial and contract disputes between business entities. Insolvency procedures are also slow, taking on average 1.5 years, and they deliver very low recovery rates of less than 50% of initial claim. Recent changes in voting procedures for the reorganization plans and greater participation of creditors in insolvency proceedings have not significantly improved the situation in this area. Private property registration is a long process, lasting almost a month on average, due to inefficient local tax office procedures which determine the level of transfer tax, which can be substantial. The cadastre system has been improved in recent years. Majority of real estate records have been digitalized. Not all land has a clear title, but urban areas are mostly covered. But, local and regional zoning plans are not coordinated, which could have a negative impact on business certainty in land development. The 2016 legislation - which requires obligatory mediation between companies in all disputes up to 15 000 euro of value as a precondition for going to court - imposes additional costs to businesses and further prolongs contract enforcement, even though its initial intention was to promote mediation and decrease pressures on the judiciary. Foreign investors can be active in almost all industries, but in certain ones (such as banking, insurance, energy and transport, etc.) they have to meet licensing requirements. Foreign residents cannot acquire agricultural land in Macedonia, but this is easily avoided through establishment of a local, foreign-owned, company.

SIZE OF GOVERNMENT

Government consumption in North Macedonia is relatively small as compared to other countries of the region, with public expenditure reaching just 32% of the GDP in 2018. Economic growth in 2018 reached 2.8% after the political situation stabilized and the business environment was normalized with the new government. The growth also picked up in 2019, but mostly on rising wages and pensions, and public investments which had been recently increased. Budget deficit is rising again, from -1.1% of GDP in 2018 to a projected -2.4% in 2019. Capital spending on infrastructure also increased, but it is still below its previous years' levels. The level of public debt stood at 40.5% of GDP in 2018, but it has been rising due to the high deficits, although its medium-term level is expected to slowly decrease. However, since the early parliamentary elections were called for April 2020, fiscal slippage could be attested. Government pension system is unsustainable, with huge deficits, which are covered from state coffers. As in other countries in the region, demographic changes will further create stress to public finances, with high emigration rate being more important on the short run. After the full scale privatization programs during the previous two decades, the number of SOEs in the country is estimated to stand at 120, most of which are public utility companies owned by the central government. But SOEs are also present in energy, transportation, media and banking. Corporate governance in SOEs is weak and prone to political influences through politically appointed management boards. The SOEs mostly have weak business performance, and their operations are tied to alleviating social pressures through lower prices, at the expense of investments in capital. Two biggest public-owned companies, operating in road infrastructure (PESR) and electricity (ELEM) could pose a significant financial challenge for the public finance if their efficiency is not assured. Low government spending results in a relatively lower tax burden than in other European countries, with VAT rates of 18% (standard) and 5% (preferential rate). Social security contributions put the overall labour tax wedge slightly below the OECD and regional average. There is a significant exemption from social contributions for employment of young workers, decreasing their relative costs, but this has contributed only slightly to the decrease in their unemployment rate. The recent tax reform, as of January 2019, made significant changes in the tax system: the tax system with the 10% personal income tax rate was made progressive by establishing a new tax bracket with the rate of 18%, albeit upon a very high threshold, effectively covering only 1% of (the highest) earners. Income from property rights, capital gains, capital, insurance etc. is now taxed by 15%, instead of 10%.

REGULATION OF CREDIT, LABOUR AND BUSINESS

Regulatory environment in North Macedonia is mostly business friendly. The country is ranked very high on the Doing Business list. On the other hand, the overall regulatory system is complex. Its unpredictability due to frequent legislative changes and inconsistent implementation remains a significant hurdle. Corruption also remains widespread, although the new government committed itself declaratively to its eradication. Alignment with the EU regulatory standards is progressing, but its actual implementation in practice remains to be fully attested. Public procurement is prone to corruption, although usage of an automated electronic customs clearance process is widespread. Starting a business is expedient, without a paid in minimum capital, and is done in two weeks' time, all due to the compulsory electronic online registration. Tax procedures are also not overly burdensome, due to widespread electronic filing system - although they still require significant workload - but the VAT refunds take more than six months on average. Obtaining a construction permit and getting electricity is simplified - with only 3 procedures, taking on average three months - but incurring significant costs due to high fees of public utilities in charge. On the other hand, labour regulation is mostly flexible - due to flexible working hours and hiring procedures: fixed term contracts are not prohibited for permanent

tasks and their duration is limited to a very long period of 60 months. Collective bargaining is mostly concentrated in the public sector, so it does not incur high costs to private entities. The already high minimum wage (when compared to the average one) was further increased in July 2018, and again in April 2019, reaching almost two thirds of the average wage, with government commitment to increase it further, almost doubling its initial level in 2020. This might have significant impact on the labour market, through increase of shadow economy and unemployment. Firing workers could be costly due to the prescribed levels of severance pay, which rises with the years in tenure, protecting more seasoned workers, but notice periods remain flat. Recent changes to the labour regulations have increased worker protection at the expense of employment flexibility. The probationary period was lessened from 6 to 4 months; the deadline for submitting applications for new employees was decreased to 3 days; in poor performance cases, the employer must warn the employee in writing and provide a 15 day deadline for performance improvement prior to contract termination; contract termination must be based on criteria from the collective agreement; and, the reemployment rule was prolonged to two full years. New Labour Law has been announced by the government, with promises to have specifically tackled new types of working contracts. Macedonia levied the obligation of paying social contribution for natural persons on professional contracts, if they are not employed in the entity, which boosted freelancer and professional activities.

FREEDOM TO TRADE INTERNATIONALLY

Freedom of foreign trade in North Macedonia is mostly respected. The country has been a member of the World Trade Organization (WTO) since 2003, which liberalized its foreign trade. Trade tariffs are moderate, with the average MFN applied tariff rate of 6.7%. However, tariffs on agriculture goods (13.1%) are more than double those of on manufactured goods (5.7%). Regulatory trade barriers are still a hindrance to foreign trade, due to complicated procedures of product standardization. Since North Macedonia aims at EU accession, it is slowly harmonizing its regulatory system with the common EU standards, which is also concerning trade. However, a recent halt of this process by the European Council, which did not allow the opening of the accession talks, might disturb that. Bureaucracy procedures at the Customs Office also impede free movement of goods, with long procedures and allegations of misconduct and partial dealing with different companies. The poor state of the transportation infrastructure - most notably the quality of the roads and railways - is another obstacle, since it increases freight costs. Macedonia ratified the WTO Trade Facilitation Agreement (TFA) in July 2015, which is expected to further liberalize trade flows after its implementation, that is pending; and, in late 2017, the government established a National Trade Facilitation Committee in order to identify areas that needed harmonization with the TFA. Macedonia is also an observing member to the Government Procurement Agreement (GPA); and in February 2018 the government sent its bid to the WTO to upgrade its status from observer to a fully-fledged member. This process is ongoing. Macedonian main trade partners are the EU countries Germany, Italy, Greece and Bulgaria, followed by neighbors from the region, such as Serbia and Kosovo. Therefore, bulk of its trade is conducted through Stability and Accession Agreement (SAA) with the European Union, signed in 2001, and Central European Free Trade Area (CEFTA) agreement as of 2006. However, there have been repetitive problems in trade in the CEFTA region since the dispute resolution mechanism is not fully functional. The current Kosovo 100% tariffs on goods from Serbia or Bosnia and Herzegovina had a significant impact on the growth of Macedonian exports to Kosovo. There are also trade agreements with EFTA, Turkey and Ukraine. In March 2018, the government passed its "Plan for Economic Growth", which provided substantial incentives to foreign companies operating in the 15 free economic zones (Technological Industrial Development Zones - TIDZ). These incentives have included a variety of measures, e.g. job creation subsidies, capital investment subsidies, or financial support to exporters. The central bank of North Macedonia pegged the national currency, the denar, to euro, and has kept it at

practically the same level consistently since 1997. Full liberalization of the capital accounts is yet to be carried out, since there are capital controls on movements of short-term capital.

Moldova

GDP in 2018: USD 11,309 million

annual growth rate: 4.0%

per capita: 7,310 USD PPP

by sector:

agriculture 17.7%

industry 20.3%

services 62.0%

Population: 3,544 thousand

Human Development Index

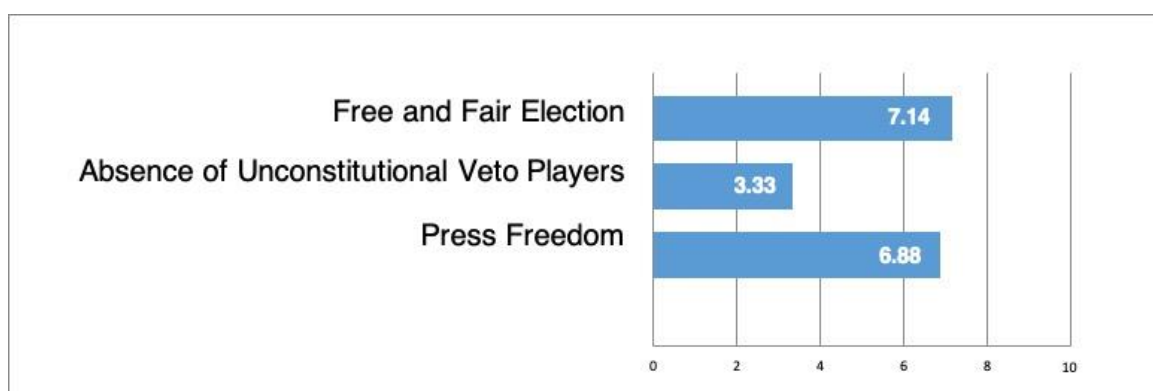
Government position in 2018

Unemployment rate: 3.0%

HDI: 0.711 (rank 101)

-1.1% of GDP

A. POLITICAL FREEDOM



FREE AND FAIR ELECTIONS

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.

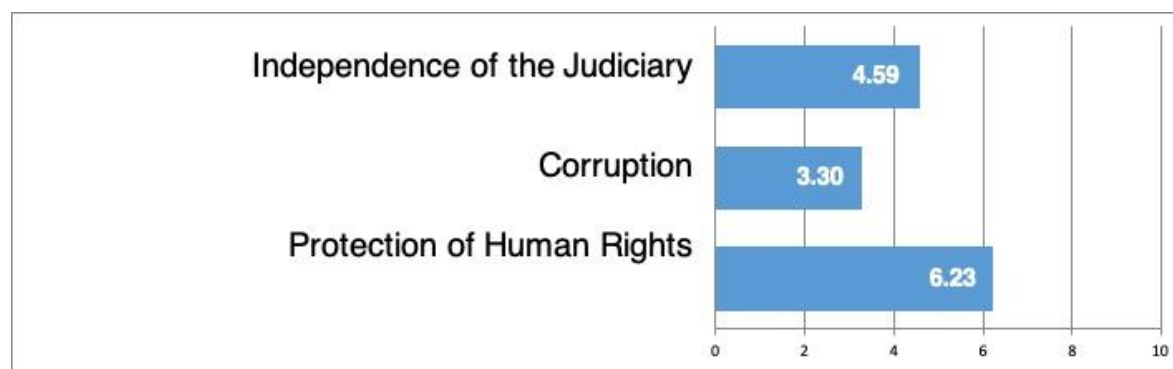
ABSENCE OF UNCONSTITUTIONAL VETO PLAYERS

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.

PRESS FREEDOM

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.

B. RULE OF LAW



INDEPENDENCE OF THE JUDICIARY

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

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 anticorruption 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

Human rights in Moldova are unsufficiently 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 opponent traditionalist groups.

C. ECONOMIC FREEDOM



SECURITY OF PROPERTY RIGHTS

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

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

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

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.

Romania

GDP in 2018: USD 239,552 million

annual growth rate: 4.1%

per capita: 26,450 USD PPP

by sector:

agriculture 4.2%

industry 33.2%

services 62.6%

Population: 19,524 thousand

Human Development Index

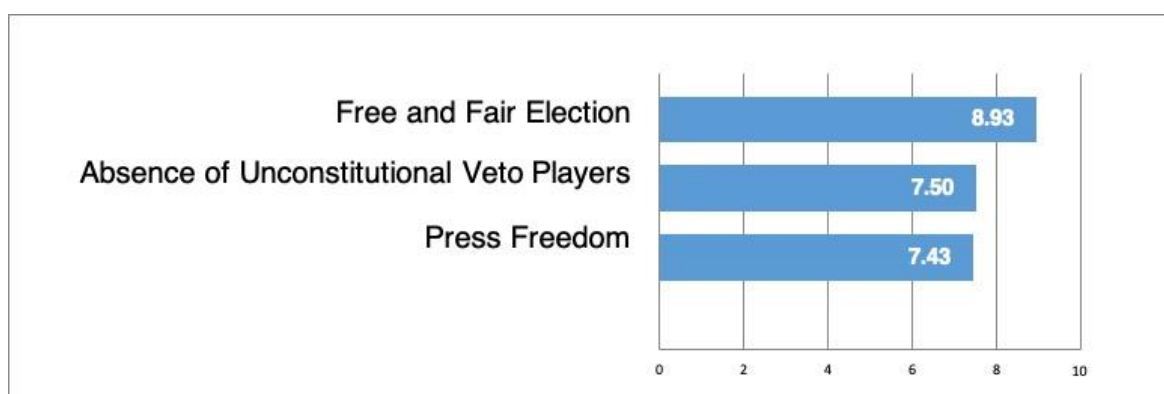
Government position in 2018

Unemployment rate: 4.2%

HDI: 0.816 (rank 52)

-2.8% of GDP

A. POLITICAL FREEDOM



FREE AND FAIR ELECTIONS

Romania is a parliamentary democracy in which citizens have opportunities to elect their representatives in a free and fair elections. Recently adopted legislative changes improved to a certain extent the quality and pluralism of the electoral process, but the problem of high number of signatures for candidacy has remained. It requires 1% of the electorate (ca. 183.000 voters) to merely participate at the parliamentary elections. Changes also introduced thresholds for coalitions consisting of two or more than two political parties, of 8% and 10% respectively. Throughout the observed period, political life in Romania was very intense. After last year's change of Prime Minister, when Viorica Dancila had replaced Mihai Tudose, both having had been backed by the ruling Social Democratic Party (PSD), government faced mass public demonstrations. Following two no-confidence votes in the parliament, the third one, in November 2018, dismissed the Government and replaced it by a minority one, led by the conservatives from the National Liberal Party (PNL). In such environment, amid preparations for the European Parliament elections, that were held in May 2019, and presidential elections, having had been scheduled for November 2019, the ruling PSD had taken even more conservative and Eurosceptic stance on politics. Massive anticorruption protests were held in August 2018, with more than 100.000 citizens gathered in Bucharest, demanding resignation of the PM Dancila. In October 2018 the referendum on definition of the marriage failed to meet the needed 30% threshold. In such environment Romania welcomed in the 2019 European Parliament elections, with National Liberal Party (PNL), PSD and liberal coalition Save Romania

Union – The Freedom, Unity and Solidarity Party (Alliance 2020 USR-PLUS) won 10, 9 and 8 seats respectively. The turnout was around 51%. At the presidential elections in November the pro-European and pro-NATO acting president Klaus Iohannis was reelected with 66% of the votes. Almost one million of Romanians abroad (10%, of the entire electorate) voted by 94% for the European path.

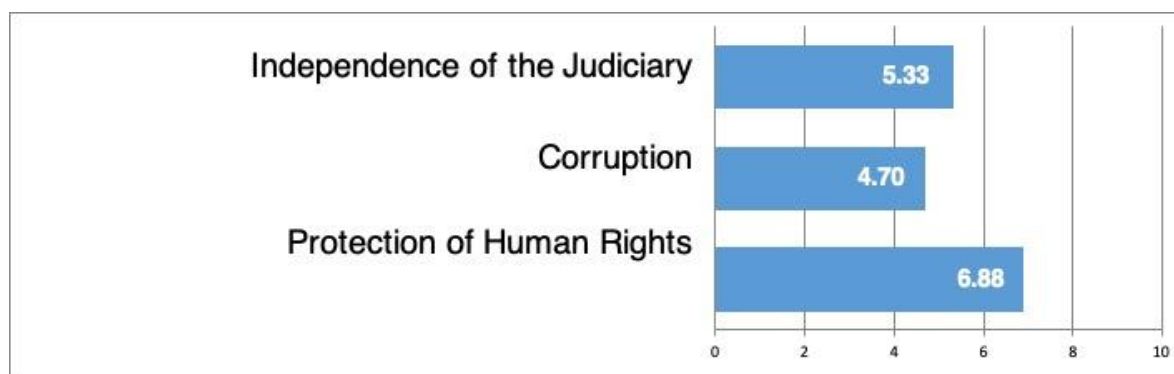
ABSENCE OF UNCONSTITUTIONAL VETO PLAYERS

There are no unconstitutional veto players in Romania that are able to undermine decision-making processes. Still, ruling PSD party chairman and head of the Chamber of Deputies (lower house of the Romanian bicameral parliament), Liviu Dragnea, who himself, personally, was prohibited from holding office, on the grounds of past electoral frauds, has had a big influence on the country's politics. By replacing three governments in a year through his PSD, Dragnea undermined the division of powers and proved that at the moment he was representing the biggest threat to democratic procedures in Romania. But at the end of his trail for corruption he was sentenced and imprisoned - in May 2019, to 3.6 years. Strong ties between political and business elites and widespread corruption in Romania are as well considered as factors that are able to shape political decisions.

PRESS FREEDOM

Freedom of the press is granted by the constitution in Romania and to certain extent upheld in practice. There is a wide variety of broadcast, print and online media outlets which operate in the country, but fewer of those who are providing independent and objective journalism. Reporting coming from most of the media outlets is subordinate to interests and political leaning of their owners, who are either involved into politics or maintaining close ties with politicians in power. Therefore, this extensive politicization of public and private media outlets threatens media diversity in Romania, while on the other side pluralism is at stake due to financial problems. Government do not restrain from abusing power to increase pressure on outlets critical of their activities and of Liviu Dragnea. In one such case, at the end of 2018, investigative media group was threatened by the National Supervisory Authority for Personal Data Processing to reveal sources of its information for the articles that had connected Dragnea with corruption and embezzlement of public money. Both economic and political pressure made self-censorship a regular practice among journalists. Romania deteriorated by 3 places in the Reporters without Borders 2019 World Press Freedom Index, currently holding 47th position. In August 2018, during demonstrations that had turned violent, unlike all previous recent ones, many domestic and international journalists were injured due to the use of excessive force by the police.

B. RULE OF LAW



INDEPENDENCE OF THE JUDICIARY

Freedom House has noted in 2019 that in Romania „judiciary is generally independent, but it faces increasing pressure from the executive and legislative branches”. Judicial reform, launched in 2017 and mostly – upon fierce debate and amid serious concerns in the EU - adopted in 2018, opened new challenges instead of further advancing independence of judiciary. Due to those, Romania has resumed being under additional scrutiny by the European Commission, through Mechanism for Cooperation and Verification (CVM) established in 2006. Moreover, it was warned for failure to engage in improvements thereby suggested by the CVM. The vicious circle of meager capacity of judiciary to fight corruption (especially in high level cases) and corruptive influences on judiciary is the main impediment to the rule of law in the country.

CORRUPTION

Besides independence of judiciary, corruption is another aspect of rule of law in Romania that has been monitored by the EU through the special Mechanism for Cooperation and Verification (CVM). Initially assuring, and having had been better than in the similar neighboring EU-2007 member Bulgaria, the results have recently worsened. Bodies established to fight corruption, such as DNA, have suffered political pressure, which culminated in the removal of the head of DNA Laura Codruta Kövesi in July 2018 and subsequently also of the Prosecutor General Augustin Lazar. EU has later embraced Kövesi and appointed her as the European Public Prosecutor. Legal changes in Romania in 2018 have weakened safeguards against corruption and led to violent anti-graft demonstrations. Generally, the public and civil society have been, ever since 2015, extremely sensitive to issues of corruption, whereby political elite (or parts thereof) increasingly failed to meet those public expectations and demands. Meanwhile, Romania’s score in the Transparency International’s Corruption Perception Index fell in 2018, to 47, sharing places 61-63 of 180 countries of the world.

PROTECTION OF HUMAN RIGHTS

Academic freedom in Romania is well respected, despite occasional cases of corruption or of politically biased or crony allocation of the education funds. Similar holds for the freedom of expression. But public gathering rights have been constrained in 2018, by a ban on spontaneous gatherings. Ethnic (except Roma) and religious minorities (except some small or new cults) enjoy support and are mainly well integrated into society, to a degree that current President is a member of an ethnic, linguistic and religious minority. Women are under-represented in politics, while domestic violence is still a serious problem. Human trafficking, for forced labour or begging or prostitution, persists despite efforts to curb it, to a huge degree due to excessive corruption. Equality of LGBT persons (and in particular their unions) is still to be sought for. Positive developments were in that same-sex unions concluded abroad were recognized, while the efforts by the ad-hoc alliance of left-wing and conservative „pro-family“ associations to constitutionally ban same-sex marriage failed, lacking necessary majority at a referendum.

C. ECONOMIC FREEDOM



SECURITY OF PROPERTY RIGHTS

Property rights in Romania are relatively secure. But the judiciary faces many challenges. The courts are generally perceived as fair, but there are signs of strong external, mostly political influence over their work in important cases. Corruption among the judiciary officials is also still present. Contract enforcement is very slow, lasting almost 1.5 years on average, and it incurs high costs. There is also the problem of inconsistency of court verdicts, which creates a lack of predictability, since verdicts can significantly differ in similar cases. This may be connected to the fact that there are no specialized commercial courts, and local courts can often lack specialized expertise in commercial matters. Enforcement of property rights through judicial process could be lengthy, costly and difficult, and even challenged by public administration. Not all restitution claims have yet been fully addressed, which increases the uncertainty of property rights. The Bucharest International Arbitration Court was established in late 2016 in order to provide a faster track for dispute resolution, but mediation remains underutilized. The new civil procedure code has recently transferred some enforcement responsibilities from courts to bailiffs in order to make contract enforcement easier, but these expectations have not yet been fulfilled. Insolvency procedures are very slow, with cases lasting longer than 3 years on average, and with a low recovery rate of 35% of the claim, brought to by piecemeal sale. Most statutory deadlines in these cases cannot be complied with in practice due to the high number of cases and delaying tactics used by the debtors. Property rights might prove as ill-defined, as in the case of real estate property land ownership and the right to use the land, which are divided, resulting in uncertain or unclear property rights. Registering property is an efficient process that uses online procedure at the cadastre and notaries, whereby most urban land has a clear title. The situation is, however, less favorable in the rural areas and smaller towns, since the National Cadaster Agency estimates that approximately one third of the existing real estate assets (lands and buildings) were registered in the cadaster registry in early 2019; the deadline for full registration is 2023. Non-EU foreign nationals face restrictions in ownership of agricultural land, but they might either lease or obtain the ownership via setting up a company in Romania.

SIZE OF GOVERNMENT

Size of government in Romania is modest, when compared to other European countries, with general government expenditures reaching 32% of GDP in 2018. The high rise in public sector wages and the pension benefits due to the new pension law have led to a significant rise in current expenditures. Current fiscal policy is pro-cycle, with high budget deficits of 2.8% of GDP in the last two years, and the latest rectification of the state budget made by the new government operates at the end of the 2019 with a high deficit estimated at 4.3% of GDP. The economy is growing strongly, even above the potential, by 4.1% in 2018, on the basis of growing consumption and exports. Unemployment has plummeted, falling below 4.2% in 2018, while

public debt has been on a downward path since 2014, standing at 37% in 2018. There are approximately 1200 state owned enterprises in Romania, including those subordinated to the central and local authorities. The management of SOEs is prone to political influence through appointments of managing and administration boards. The 2016 corporate governance law, that was introduced to increase the quality of SOE management, was not yet fully implemented, since some SOEs were exempt from it in 2017. Many companies are still managed by the interim boards, which is a recurring practice, often with board members without a significant business experience but with good political connections. After several successful rounds of SOE privatization in previous years, further privatization of big SOEs has been put on hold. The SOE continue to play a notable role in the economy, especially in the infrastructure, energy and transportation sector. While the government currently owns just 2 smaller banks, there are plans for establishing a new state development bank that would invest in SMEs and infrastructure, and a sovereign wealth fund that would govern a portfolio including profitable SOEs and government minority stakes in privatized energy companies. After strong revisions of tax rates that took place in 2015 and 2016, general VAT rate now stands at 19% - the same level before its increase during the fiscal consolidation program. Preferential VAT rate remains 9%, and even 5% for certain products. Both personal and corporate income tax rates are flat. In 2019 the corporate tax remained 16%, with a special treatment of micro companies with 1-3% tax rate. The income tax is currently 10%, down from 16% the previous year. On the other hand, special energy taxes imposed in 2013, that were supposed to be temporary (firstly envisaged to be terminated already in 2015) are still in place; and they were complemented by the new taxes on banking and telecommunications in December 2018. The bank tax was later decreased in March 2019, but others remained. This showed a significant problem of business environment unpredictability due to government policy. Another important example of this is the increase in the “clawback tax” that was done retroactively in February 2018 for pharmaceuticals sale in 2017. Due to the high social contributions for health and pension insurance, total labour tax wedge in Romania is high, approximately 41% on the average wage, which is the highest in the SEE region.

REGULATION OF CREDIT, LABOUR AND BUSINESS

Regulation in Romania is mostly business friendly. However, as in other countries in the region, the quality of regulation is of secondary importance, when compared to its full and impartial implementation in practice, due to low administrative capacities and political influence over it, coupled with corruption. Regulation could also be unclear and ambivalent, which creates possibilities for misconduct. Regulatory unpredictability, stemming from frequent government changes in recent years or profound changes in government policies, also poses a significant burden on businesses. Although starting a new business is relatively easy and inexpensive, with low minimum capital requirements, this process was altered by introduction of a voluntary VAT registration. The latter is less time consuming than the mandatory one, but the introduction of fiscal risk assessment criteria increased the time for this process. Securing necessary zoning permits, environmental approvals and construction permits are often time consuming, while getting an electricity connection is very expensive. Labour market regulations are mostly flexible, since the maximum duration of a single fixed term contract is 36 months and it can be extended to 60. On the other hand, regulation of the maximum work hours stipulates a 5-day workweek which is restrictive, with priority rules for redundancies and reemployment, but notice periods and severance pay are neither high nor they increase with years in tenure. Minimum wage has more than tripled since 2012, which could have strong negative effects on employment of older workers and people with low qualifications, since this rise was significantly above productivity growth. Furthermore, in December 2018, a differentiated minimum wage for workers with 15 years of tenure or a university degree was introduced, which is almost 15% higher.

FREEDOM TO TRADE INTERNATIONALLY

Freedom to trade internationally in Romania is mostly respected. As an EU member country since 2007, Romania has been implementing the common EU trade policy with the overall low tariffs on imported goods. The applied MFN tariff rate is 5.2%, but it can be much higher for agriculture goods. However, necessary product standardization and certification procedures pose a significant non-tariff burden, increasing import costs. Transportation infrastructure quality is another problem, especially the roads and railroads, since it impedes the flow of goods and increases freight costs. Romania has no expressway from its biggest harbor at the Black Sea in Constanta to its western borders. In addition, the average speed of freight trains in 2018 was just 17 km/h. Although significant EE funds are allocated to this area, Romania faces a low absorption rate due to low administrative capacities, further exacerbated by the low SOE investments from the transport sector. Romanian economy is well connected with the EU market: its main partners are Germany and Italy, but also Turkey. Its geographical position – especially the Danube transport corridor and the Black Sea – make Romania an important hub for transit trade. Although EU national can work and reside in the country with no restrictions, obtaining a work permit for non-EU nationals can be a slow and bureaucratic procedure. The number of allotted work permits is set each year, and has been increasing in recent years from 5 500 in 2017 to 7 500 in 2018 (but increased mid-year to 15 000), and again to 20 000 in 2019. Recent legislative changes in this area also substantially decreased the cost of employing non-EU citizens, by lifting the requirement for employers to pay a minimum salary equivalent to the gross average wage. The minimum wage also applies here, and skilled non-EU nationals must receive at least twice the gross minimum wage. There are no mandatory local employment requirements, apart from the offshore companies, whose 25% of personnel need to be Romanian nationals.

Russian Federation

GDP in 2018: USD 1 657,290 million

annual growth rate: 2.3%

per capita: 28,800 USD PPP

by sector:

agriculture 4.7%

industry 32.4%

services 62.3%

Population: 146,800 thousand

Human Development Index

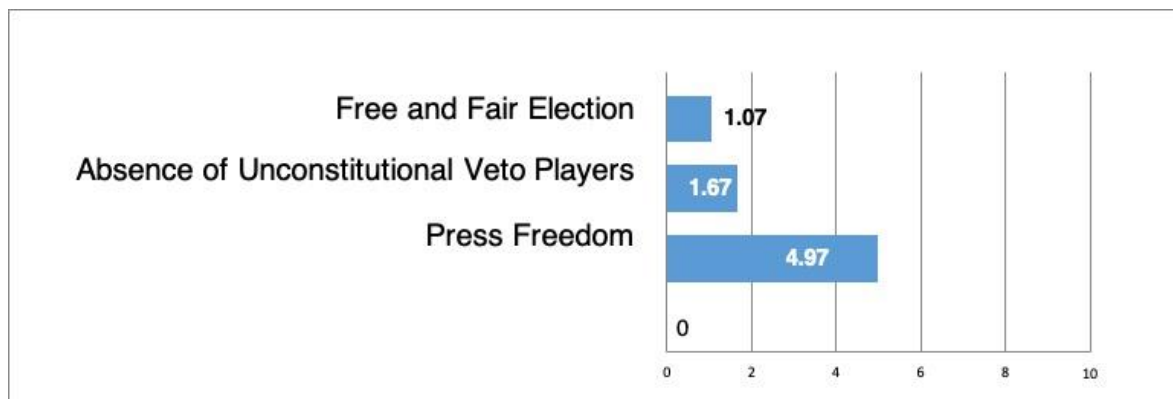
Government position in 2018

Unemployment rate: 4.8%

HDI: 0.824 (rank 49)

+2.9% of GDP

A. POLITICAL FREEDOM



FREE AND FAIR ELECTIONS

Elections in Russia are neither free nor fair. Electoral system is designed so as to favor the ruling party United Russia and president of the country Vladimir Putin. Russia has a long history of fraudulent elections which abound with crackdown on opposition politicians, their imprisonment, abuse of power to prevent opposition candidates from participating at elections, abuse of state resources, lack of distinction between governmental and party activities, restricted access to media, or election-day violations such as ballot stuffing. International observers are prevented from full assessment missions, while work of domestic observers is hampered with harassment and pressure from state institutions. Although law allows for registration of political parties, this process is rather under strict control by the state. Alexei Navalny, main opposition leader who was prevented from participating in the March 2018 Russia presidential elections on the basis of corruption charges, also tried to officially register his political party for the fifth time but once again his request was rejected. These moves were perceived and widely criticized as politically motivated. Such environment makes it almost impossible to seriously challenge the ruling political elite. Recent local and regional elections saw some increase of the seats in the parliaments for opposition politicians. However, they also often face harassment, violence and imprisonment. All the independent candidates who had tried to participate in Moscow City Council elections were arrested on several occasions as an administrative punishment for taking part in protests, with intention to prevent them to anyhow influence the process.

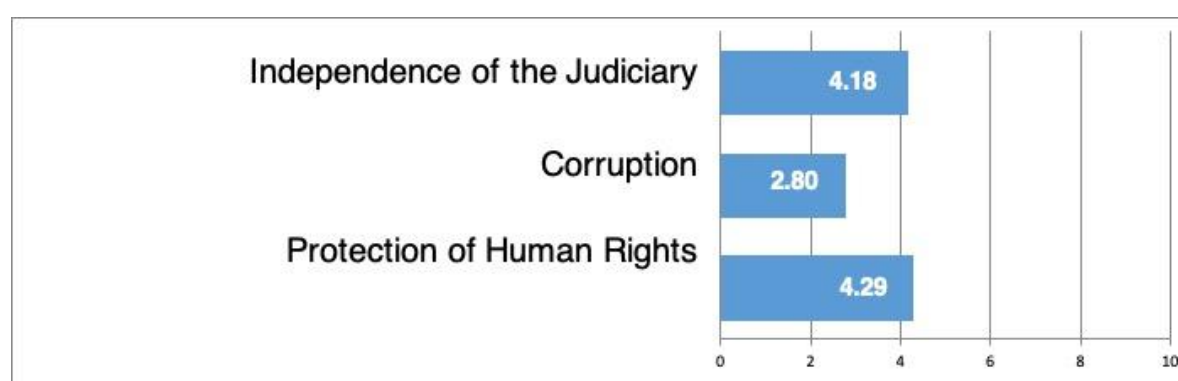
ABSENCE OF UNCONSTITUTIONAL VETO PLAYERS

There are no unconstitutional veto players who are able to undermine political decision-making processes in Russian presidential system except those who are elected to the office. President Vladimir Putin, with the closed circle of his allies, holds complete control over politics in Russia, keeping it subordinate to their personal economic and political gain. With tight control over all three branches of power, there are no institutions able to hold them accountable for their actions, thus the proclaimed “vertical of power” is the most important factor undermining democracy. Through this vertical control of the system they are able to sustain various interests of other influential players, such as oligarchs, clergy or the security apparatus. However, they are all rather actors who are seeking benefits in line with president and current regime than those who could independently interfere into Kremlin’s decisions. Russian Orthodox Church wields significant influence over public opinion in the country, but it also reflects governmental position on the most important topics – ensuring this close tie between them serves for the mutual interest. Corruption is pervasive among high ranking state officials.

PRESS FREEDOM

Media environment is highly restricted in Russia. There is a wide range of broadcast, print and online media outlets which are placed under extensive legal and extralegal pressure so as to prevent critical reporting on the government activities. Public broadcasters are directly controlled by the state, while reporting of the private media sector is shaped through close ties of the business and political elites in the country. Laws are set to prevent foreign ownership over media outlets, thus additionally limiting possibility for objective reporting. Independent media are very rare, but those which exist are placed online or hosted from abroad. The parliament had adopted a law at the end of 2017, allowing authorities to label media outlets as “foreign agents”, which was used to put pressure on those critical of Kremlin. Also, aiming at preventing critical reporting of widespread switching to online channels, government put a notable effort to censor internet, by passing amendments which allowed authorities to filter and block the online content. Through partisan reporting by state-owned media outlets, which are favoring the regime, citizens are generally provided with a controlled and one-sided point of view. Journalists work in an environment of fear, maintained by physical and verbal violence, imprisonment, censorship, economic and political pressure. One investigative journalist has died in 2018 under suspicious circumstances. Having in mind everything previously said, self-censorship is common practice among Russian journalists. Country is ranked on 149th place on the Reporters Without Borders 2019 World Press Freedom Index.

B. RULE OF LAW



INDEPENDENCE OF THE JUDICIARY

Huge problems in most areas of rule of law stem from the ruling ideological, political and even religious concept according to which the very idea of rule of law is “alien” to Russian tradition, national identity and desired way of life. A blend of Soviet and pre-Soviet authoritarian, negative attitudes towards the principle of division of powers has prevented independence of judiciary of taking any firm roots in the post-USSR Russia. While the Constitution guarantees its autonomy, judiciary in Russia is in reality dependent on the interests of political, economic and sometimes criminal elite. Thereby, corruption also plays a considerable role. Right to fair trial is far from secured. Detention in criminal cases might be too long while decision making in administrative ones is often swift and based solely on police reports. Torture in custody is widespread. Majority of such complaints are filed in the capital Moscow (as NGOs claim, mainly due to higher awareness of the public), while human rights monitors label Chechnya as the worst place reading torture. In the occupied and annexed Crimea region, the transition from Ukrainian to Russian legal system has been marred by numerous illegalities and injustices.

CORRUPTION

In Russia, corruption has not been in retreat during the last decade, while in 2018 it even worsened as compared to previous few years. The country has fallen to places 138-143 among 180 countries of the world, with the score 28/100. Of the countries monitored by Freedom Barometer, only Azerbaijan and Tajikistan were worse. Both grand, which is sucking out considerable parts of national wealth, and petty, corruption is so widespread and persistent that it changes the very fabric of society, dividing it to several hundred new „barons“ who enjoy enormous wealth mainly due to their connections to the political top of the country and their control over the extraction industries, and a silenced majority which lacks opportunities to develop all its creative and economic potential. Its deep causes rest in a reversal of the post-communist transition process, lack of democratic culture and political freedom, and subsequent state re-capture by the transformed yet unseated political, economic, military and intelligence oligarchy from Soviet times. Various attempts to limit it were mainly used for internal struggle among various factions of the oligarchy. Recently adopted regulation even eased the pressure of the anti-corruption bodies on corrupt public officials, especially as regards conflicts of interest.

PROTECTION OF HUMAN RIGHTS

Respect of human rights is at a very low level, among the worst in Europe. In the way it mistreats political opposition, CSO-based critics, or undesirable worldviews or ways of life, Russia is perceived by many as a role model for illiberal, anti-individualistic, authoritarian regimes or political movements across and beyond Europe. Freedom of thought and expression is limited to a small number of online portals that are not banned or censored. Even though education and access to it is still a brighter side of the state of human rights in Russia, there are limits, such as in academia, where research or approach which contradicts the government-imposed norms of patriotism or morality can be subject to censorship and/or prosecution, especially in history science. Freedom of association is especially curtailed by no less than 11 laws that directly - and additional 35 that indirectly - limit various aspects of NGOs` work (financing, advocacy, public gathering, publishing, etc.). Social networks are controlled, and banned if they avoided control. Or they are manipulated by the government-sponsored “fake news factories” (acting both nationally and internationally). In spite of that, civil society in Russia proved as stubborn and remained an important societal factor. Public gathering is restricted. The Russian Orthodox Church (along with - to a degree - also other “traditional” religious communities) enjoys privileges, whereby the secular character of the state is endangered. Small or new cults, such as Jehova`s Witnesses, are subject to bans and/or prosecution for an imagined (or in some cases

real) extremism. Too little is done to fight domestic violence against women and children. Women are under-represented in the legislative and executive branches of government. Public display of belonging to sexual minorities is de facto outlawed in Russia. In Chechnya, an autonomous republic within the Russian Federation, provincial authorities in 2018 continued their 2017's campaign against the entire LGBT community, by summary arresting, torturing, blacklisting or even killing them, as well as intimidating and collectively punishing their families. In December 2018, OSCE published a report on those violations of human rights and opened the possibility of filing it to the International Criminal Court.

C. ECONOMIC FREEDOM



SECURITY OF PROPERTY RIGHTS

Private property in the Russian Federation is not well secured. While improper government influence and corruption in the judiciary are perceived as high, the bigger problem lies in the significant sway over the judiciary that strong vested interest groups and their political allies can have. Judiciary is systematically biased in favour of state entities, be it state administration or SOEs when their interests coincide with those of private companies. Court decisions in similar cases can substantially differ, giving advantage to the party with political connections, which leads to unpredictability of verdicts. There are strong indications that authorities often transform civil cases into criminal cases, in order to substantially increase potential penalties. Unfounded lawsuits or arbitrary enforcement of dubious court verdicts are still present. Private property could be seized by the state, and compensation offered is often perceived below the real value; there is also a history of informal means to expropriate companies, such as through regulatory influence or intimidation. On the other hand legal enforcement of contracts seems efficient, incurring low costs as compared to the value of the claim, and it is settled within a calendar year. There are specialized commercial courts, but they are often overburdened with small and simple cases, since there are no fast track procedures for small claims cases. Adjournment procedures are not put in place, and courts do not use automated processes. Insolvency processes are long, lasting two years on average, and are mostly terminated via piecemeal sale, contributing to a relatively low recovery rate of slightly above 40% of the claim. The July 2017 amendments to these rules expanded the list of persons who might be held liable for debts of the bankrupt company. Registering property is not lengthy, involving few procedures and incurring low costs, but land coverage by clear land titles outside the major cities is not guaranteed. Ownership of agricultural land is reserved for local nationals, but foreign entities (natural persons and legal entities with more than 50% of foreign ownership) can lease land for the duration of up to 49 years; non-agriculture land ownership is also restricted in border or other sensitive areas. Government approval through Strategic Investment Commission is necessary for obtaining a majority stake in companies in 46 specific areas and industries that are considered as having strategic importance; while July 2017 amendments to the law restricted access of companies registered in off shore

jurisdictions, in May 2018 this was made more investor friendly by restricting access only to companies who do not disclose information on their controlling persons and beneficiaries.

SIZE OF GOVERNMENT

Public expenditures in Russia are moderate in international comparison, reaching 33% of GDP in 2018, creating a high budget surplus of 3%. After the prolonged recession due to the fall in oil prices, the Russian economy started to expand again in 2017. Recent growth was supported by rise in exports and domestic consumption yet remains low and fragile. The rise of inflation was mostly due to one-off effects such as the ruble depreciation and the rise in the VAT rate, whereas it is expected that these inflationary effects would calm down. Due to the weak institutional environment, overbearing government regulation and deficiencies in the rule of law, as well as low oil prices, the economic growth will remain below other countries of Eastern Europe. Public debt remains very low, below 15% of GDP in 2018, providing substantial fiscal space if necessary, but the government decided rather to implement tax hikes and pension reform in order to finance its infrastructure development plan than to borrow resources. Numerous state-owned enterprises (SOE) dominate the economy, including more than 64 000 joint stock companies and 21 000 unitary companies in 2018. SOEs are active in many industries, not just in those that are regarded as being natural monopolies or being of strategic importance, such as public utilities, mining, energy or production of military equipment, but also those in agriculture and financial services. According to some estimates, the government sector generates 60 – 70% of GDP, significantly higher than in other transition economies. Numerous SOEs enjoy large direct subsidies such as cash payments, or indirect ones such as tax waivers, accumulation of arrears, preferential treatment in procurement processes etc., which poses a significant drain on the federal budget. Also, more than half of the banking sector is in the hands of the state-owned banks. Although there has been an ambitious 2017-2019 privatization plan by the government, which included full or partial privatization in some of the biggest state companies, none of these were sold, citing unfavourable market conditions as the reason. In February 2018, Russia combined its previous two independent wealth sovereign funds, the Reserve Fund and the National Wealth Fund, into a single entity. Taxation system uses flat rates, with minor progressive methods in determining the level of social contributions: personal income flat tax is set at 13%, while corporate tax varies from 15.5% to 20% due to regional tax deductions. The VAT was recently increased from 18% to 20%, in order to provide additional resources for the budget. Due to the existing deductions, the total labour tax wedge is slightly regressive, with above-average earners paying a bit less than those on the average wage, but the total wedge is in line with average of the OECD countries.

REGULATION OF CREDIT, LABOUR AND BUSINESS

Business environment in Russia is not overly business friendly. Administrative burden stemming from numerous government procedures is high, and government bureaucracy often lacks professionalism, knowledge or resources to deal with its domain seriously. The perceived level of corruption is high, fueled by often vague or contradictory regulation. In 2018, Russia implemented several reforms that increased its score in World Bank's Doing Business ranking, mostly by making the process of obtaining a building permit faster by reducing the time needed to obtain construction and occupancy permits. Getting electricity was made faster by imposing new deadlines for connection procedures and by upgrading the utility's single window, and cheaper by reducing the costs to obtain a connection to the electric network. Also, the process of starting a new business is both easy and inexpensive, without minimum paid-in capital requirement; since January 2019, however, the registration fee is waived for online registration procedures. The number of annual tax payments is low and most procedures are online, but the tax rules are still considered overly complicated. The 1C software for tax and payroll preparation

was improved, and the review period of tax authorities for VAT refunds were recently reduced. On the other hand, foreign electronic service providers were included in VAT obligation procedures, such as VAT registration with the tax authorities and VAT reporting. Labour regulation is mostly flexible. Although fixed term contracts are prohibited for permanent tasks, their duration is limited to a long period of 60 months, and working hours face little restrictions. On the other hand, there are redundancy rules but severance pay and notice periods are not stringent and do not increase with years in tenure. Collective bargaining is not well organized and is mostly concentrated within the public sector. After the federal minimum wage was substantially increased in May 2018, it was now increased only slightly in January 2019; but there are regional differences in the minimum wage since government territorial units can have special minimum wage regulations. A significant burden is the mandatory 12 months' military service.

FREEDOM TO TRADE INTERNATIONALLY

Free trade in Russia is mostly respected, but many obstacles to international trade remain present, including political use of trade embargo that has been a characteristic of the Russian trade policy, previously applied against Georgia, Moldova and Belarus, while currently being applied against Ukraine and the EU. Russia is a recent newcomer to the World Trade Organization (WTO), becoming a member in 2012. The tariffs are moderate, with the average MFN applied tariff rate of 6.8% but tariffs on agriculture products can be much higher. Technical barriers to trade (TBT) were not fully disclosed to the WTO, and thus mostly remain non-transparent and a burden to trade; product testing and certification is a prerequisite for putting to commercial use of many products but obtaining product approvals is often difficult due to complicated, expensive and lengthy domestic procedures, while the role of certification bodies outside of Russia is limited. Establishment of the Eurasian Economic Union (EEU) in 2015, that aligned several CIS countries around Russia did not significantly boost trade between member countries, due to lack of complementarity of economies included and low inclusion of these countries into the global value chain system. Sanitary and phytosanitary standards between countries are not yet fully aligned, creating barriers to trade in agriculture goods. A free trade deal between the EAEU and Iran has been signed, and in effect since recently, while negotiations with India are conducted through a joint study group. Two thirds of Russian exports are fuels and minerals. Bad quality of transport infrastructure outside big cities and major transport routes poses a significant burden on the transport of goods. Since 2015, the Russian government has run an import substitution program, with incentives for foreign investors through the Special Investment Contract mechanism (SPIC), with offered tax breaks and preferential treatment in government contracts. In August 2019, the SPIC was significantly amended in order to make it available to projects that introduced new technology to Russia. Recent labour regulations significantly restricted prospects for foreign migrant workers - inclusion of mandatory language and culture test, and, most importantly, very high license fees, have proved as a significant barrier to labour coming from countries outside the EAEU area. There are some important localization rules: for example, in banking, at least half of the management should be Russian nationals, as well as three quarters of workers in a foreign bank's subsidiary. Local content requirements for industries involved in government procurement is even more pronounced, such as pharmaceuticals; this is enabled by Russia not being a signatory of the Government Procurement Agreement of the WTO. Currency controls are considered overly stringent, since they are applied not only to imports, but also to exports and certain loans. Since March 2018, the central bank does not require anymore the transaction passport for concluding import and export contracts, and the total number of documents necessary for a bank authorization was reduced. In 2016, the rules on cash currency exchange were tightened, since above 15 000 rubles the customer had to provide a series of personal information. This threshold was increased to above 40 000 rubles. Russia made trading across borders easier in 2018 by prioritizing online customs clearance and introducing shortened time limits for its automated completion.

Serbia

GDP in 2018: USD 50,509 million

annual growth rate: 4.3%

per capita: 17,550 USD PPP

by sector:

agriculture 9.8%

industry 41.1%

services 49.1%

Population: 6,993 thousand

Human Development Index

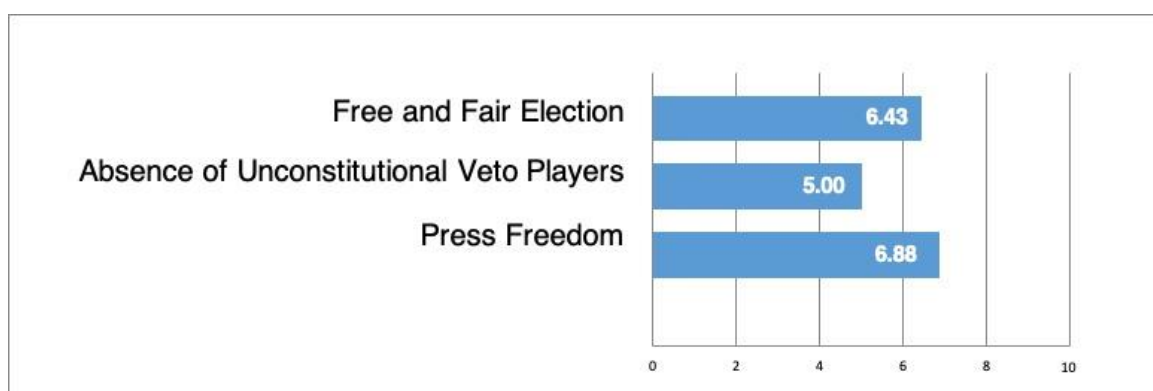
Government position in 2018

Unemployment rate: 13.8%

HDI: 0.799 (rank 63)

+0.8% of GDP

A. POLITICAL FREEDOM



FREE AND FAIR ELECTIONS

Serbia has continued its worrisome trend of deterioration of freedom and fairness of electoral process, for the fifth consecutive year according to Freedom Barometer Index. Elections are undermined by the abuse of power and state resources by the ruling party, their tight grip over private and public media, capture of institutions, climate of fear of retribution widespread among citizens and critics of government, and many irregularities and violations on election days. Despite that there were no elections during the observed period, political landscape was marked by deep societal division along political lines and massive protests against government extensive pressure on democratic institutions, opposition politicians and independent media, keeping citizens in the atmosphere of constant tension and expectation of possible snap elections. Government holds tight control over media, thus electoral campaigns abound with biased media coverage in favor of the ruling party and uneven access by opposition politicians to public outlets. Lack of balanced representation in media and public is even more emphasized with blurred separation between official state activities by the ruling politicians and their political party campaigning. Hostile climate against opposition politicians, critical journalists and civic activists is embodied in several physical and verbal attacks throughout the year. Public servants are often subject to pressure of voting for the ruling parties and participating in their activities, or else they could face downgrading or losing their job. Election days continuously abound with cases of voter intimidation, tabulation of votes and vote buying. All those are used to shape the outcome of the electoral process in favor of ruling parties, making political playing field largely uneven. Street protests that meanwhile occurred in Serbia served as a consolidation point for certain

opposition parties. However, due to their disagreement over whether or not to have participated at the upcoming 2020 parliamentary elections, unclear political agenda and smear discreditation campaign of opposition politicians run by pro-government media, they still lack seriousness and power to challenge the ruling party.

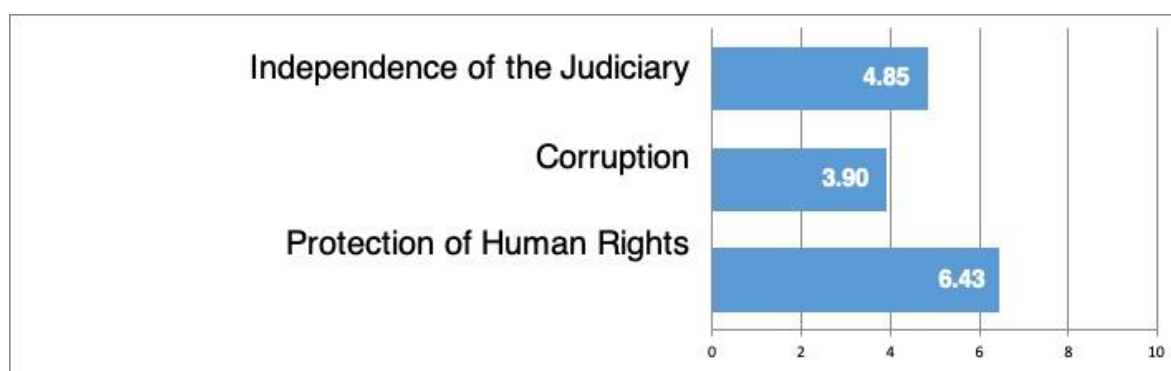
ABSENCE OF UNCONSTITUTIONAL VETO PLAYERS

Elected state officials in Serbia have effective control over governance in the country, without serious interference from unconstitutional veto players. However, concentration of power in the constitutionally ceremonial role of the President and weak system of checks and balances hinder democratic institutions and rule of law. President Aleksandar Vučić continued to exercise almost complete control in the country, as a chairman of Serbian Progressive Party which has a majority of seats in the National Assembly of Serbia, dominating over both the legislative and the executive branch of power. Using parliamentary majority, ruling parties are putting much effort to further shrink the space for political debate and dialogue in Serbia, by submitting vast number of, often irrelevant, amendments (up to few hundred) to the laws, biased use of the disciplinary measures and adopting laws in emergency procedures. Such environment led many of opposition political parties to boycott parliamentary sessions. Judicial branch of power is under strong political influence, thus its oversight function over the system is poorly implemented. High level corruption in Serbia is pervasive. Close ties between ruling politicians and wealthy businesses are often used for their personal political and financial gain, undermining democratic institutions. Secret service and organized crime are considered to have significant influence on politicians and country's politics, while influence of the Serbian Orthodox Church on public opinion is weak, despite their efforts to intervene on issues such as relations between Serbia and Kosovo.

PRESS FREEDOM

Freedom and independence of media in Serbia is declining, with many problems remained unaddressed, if not worsened. Small audience market is oversaturated with numerous broadcast, print and online media outlets, whose reporting is rather biased in favor of ruling party, thus lacking diversity in reporting. Concentration of media ownership remains high, with several important outlets which haven't publicly disclosed in full their ownership structure. Public funding is the main source of revenue for most outlets, often used by government to shape media narrative and silence those critical of their activities. State is also the biggest advertiser on the market, favoring government friendly outlets. Both these processes unfold in non-transparent manner. This extensive economic pressure exercised toward media outlets in Serbia transformed them into government propaganda mouthpiece. Ruling elite does not hesitate to abuse legal - or use extralegal - tools to confront with those who are critical of the government and/or of the president Aleksandar Vučić. Journalists are working in a climate of fear, shaped by increased number of physical and verbal attacks on them, intimidation and harassment, editorial censorship and poor economic conditions. Such atmosphere led to a decrease of quality of journalism in Serbia, with objective and independent reporting mostly done online or through several investigative outlets and NGOs. Investigative journalism, which is mostly NGO driven, plays an important role in providing checks to the regime, however their work is often targeted by physical and verbal harassment campaigns. One journalist had his own house burned down due to his investigative work on corruption. The country deteriorated by 14 positions on the Reporters without Borders 2019 World Press Freedom Index and currently holds 90th position.

B. RULE OF LAW



INDEPENDENCE OF THE JUDICIARY

Judicial system in Serbia is far from being independent from the executive branch of power or of other outside influences. As European Commission report as of May 2019 reads, „some progress was achieved during the reporting period“, while „last year`s recommendations have only been partially addressed“. In reality it means that almost no improvements were made that would considerably advance independence of judiciary. True, backlog of cases stopped amounting, and especially new cases were in 2018 resolved more efficiently than in 2017. Court practices have been harmonized. Situation in the prison system is better. But, constitutional reforms, which should lay a solid ground for a durable, sustainable and substantial reform of judiciary are still stalled, while all the draft amendments that were discussed fell below the expectations of the public or ideas that came from civil society. Both the EC and Freedom House warn at a scope of political influence on courts, the latter especially pointing out at judicial appointments and at the practice of commenting ongoing court cases by the top politicians. In such a climate, sort of „self-censorship“ is widespread among prosecutors and judges, leading to de facto impunity of the most important public officials. On the top of it, there are also problems of non-political external influences on court decisions, through corruption and/or by criminal, business or other interest groups. Judges who publicly expressed dissatisfaction with the state of affairs often encountered smearing campaigns against themselves in pro-government media.

CORRUPTION

Corruption is steadily re-gaining ground in Serbia after the anti-graft frenzy, unrealistic expectations and some real-life improvements as of the mid-2010s. The country`s rating at the Transparency International`s CPI list has been falling for a few years now - in 2018 arriving to 39/100 and placing Serbia as 87-88 out of 180 countries. Growing authoritarianism in politics, shrinking media freedom and capture of independent regulatory bodies (including the main anti-corruption agency) by the ruling parties have all contributed to fall in transparency and accountability of government, both at central and local level. Starting from elections, misuse of public resources for the benefit of the SNS or other ruling parties, already having had become usual, has now, at the local level, been coupled with the misuse of supposedly independent humanitarian or other NGOs, such as Red Cross, to gain advantage for election contestants – either strategically or tactically - favoured by the central government. When it comes to infrastructure projects, most of the major ones are implemented through inter-governmental agreements, thus circumventing usual tender procedures. On the brighter side, the number of investigations and convictions for petty corruption have risen, although even in that segment there was a backlash in that „small gifts“ to medical staff were de facto legalized. Also on the

bright side, serious improvement has been made in fighting international money laundering, while the first steps (in the form of new law) were taken to seriously tackle the issue of lobbying.

PROTECTION OF HUMAN RIGHTS

Besides corruption, human rights is another field of rule of law in Serbia where the growing authoritarianism and state capture by the ruling SNS have started taking toll, in an anyway mottled environment. Position of some ethnic minorities, especially Roma, worsened after post-2000 gradual improvements. Ethnic distance thereto is increasing (and is now bigger than towards migrants, or towards ethnic Albanians), discrimination again goes with impunity, while affirmative action programs stagger. There are entire municipalities, including a few boroughs in Belgrade, where not a single Roma child was admitted to kindergarten in 2018. Government plays the blame game, even though Roma National Minority Council is controlled by pro-government loyalists. Position of LGBT people improved after 2009, and again after 2014, with Pride rallies now freely held, and with less hate speech or discrimination in society, but the appointment of an out-ed lesbian as the PM in 2017 did not move an inch forward the unresolved issue of same-sex unions. The role of government in running schools and universities has increased since 2017. Fake diplomas and plagiarism among politicians are turned a blind eye at by the ruling parties, thus seriously harming academic integrity. Student associations and Belgrade University, however, took a few meaningful steps to expose some of the worst perpetrators. Genocide denial, and minimization of the war crimes of the 1990s in general, continue to burden Serbia's own social climate and its relations to neighbors, whereby convicted war criminals who had served their terms continued to enjoy a number of state privileges and public honour. Special UN envoy has, in early 2019, complained about cases of torture or police brutality in custody. On the bright side, among Balkan countries there are perhaps least problems in Serbia with the treatment of migrants, however that one might also further improve in some areas.

C. ECONOMIC FREEDOM



SECURITY OF PROPERTY RIGHTS

Private property in Serbia is not adequately protected. The main challenges lie in the strong influence of political actors over the judiciary and the Prosecutor's Office, which severely limits their independence. A judicial reform that would alleviate some of the problems stemming from a constitutionally significant role of the government through its parliamentary majority in appointment of judges and prosecutors was presented in the form of constitutional amendments. However, these were widely criticized since the process was non-transparent and the proposed solution would not loosen the grip of the government over the judiciary. The Savamala affair as of 2016, which showed to what extent government agencies were compromised to serve particular private interests, remains unsolved due to the lack of political will. Corruptive practices

within public institutions, including courts, land register or inspectorate, remain present. Political influence over the nominally independent state bodies and regulatory agencies is also attested. Legal enforcement of contracts is an inefficient process, due to time consuming and expensive legal procedures, lasting almost 2 years on average and costing 40% of the claim. Judicial rulings are often inconsistent across different courts and judges. First instance courts also often lack sufficient knowledge and expertise to assess more complicated issues, and there after numerous cases are automatically transferred to appealation courts. Bankruptcy procedures are also long, with low recovery rate of only one third of the claim. Ownership of agricultural land is restricted to Serbian nationals only, or to EU nationals that meet certain highly restrictive conditions. These restrictions are easily circumvented by registering a domestic legal entity owned by a foreign national. Coverage of the land register is restricted mostly to bigger cities, while the performance of its local branches varies significantly, whereby many titles are not clear. The process of legalization of more than 2 million objects, half of which residential, built without a permit, is still ongoing, but very slowly and with many allegations of corruptive practices. Although this process is envisaged to end by 2023, less than 10% of cases have been resolved by legalization so far. The process of restitution of property nationalized during the socialist regime has not yet been finalized: in many cases where property restitution is possible, the government decided to offer bonds, with restrictive clauses which will result in a received amount that is below the perceived value of the property. Issuance of these bonds was again postponed, with new legislative amendments, to 2022.

SIZE OF GOVERNMENT

Size of government in Serbia, with overall government spending reaching 40% of GDP in 2018, is mostly in line with other European countries, but significantly above that of other transition countries on the similar level of development. The three-year long IMF stand-by arrangement that supported the fiscal austerity program was finalized in 2018, and the government signed the newly organized Policy Coordination Instrument, which provides for IMF technical support. Public debt is on a downward spiral, from its peak of 76% of GDP to 50% in 2018. Capital spending on infrastructure is rising, and the adoption of the Swiss formula for pension benefits indexation was also a positive move. However, the wage bill expenses are rising significantly above the economic means of the country. The growth rate of the economy is slower (approximately 3.3% in 2019) than in comparable countries, due to infrastructural and administrative bottlenecks, corruption and low level of rule of law. Further pressure on the public spending is expected from the unsustainable pension system, bloated and unreformed public wage bill and rising healthcare expenditures. Even after the several privatization rounds, the SOEs still dominate significant sectors of the economy, such as the energy, transportation, utilities, mining and infrastructure, while the state still has a visible share in banking, insurance and telecommunications. According to the official statistics, there are more than 700 SOEs in the country, with 250 000 workers, which is more than 15% of the total employment outside the purely public sector. Additionally, there are approximately 30 000 employees in 90 companies in restructuring, that are planned to be privatized. But, the process of their privatization has been developing slowly since 2015. Recent important privatization cases included Belgrade airport concession to the French company Vinci, RTB Bor mining company sold to the Chinese Zijin Mining, and the agricultural corporation PKB sold to the UAE-based Al Dahra. However, all those privatization cases are widely considered to be non-transparent, with the buyer known in advance. Taxes are mostly in line with other European countries: the standard VAT rate is 20%, while the preferential one is 10%. Both corporate tax and personal income tax are flat, set at 15% and 10% respectively. However, mandatory social security contributions are high, leading to the total labour tax wedge of 38% on average wage which - coupled with a weak institutional setting (tax authorities and labour inspectorate) - fosters widespread shadow-economy activities and

employment. Recent tax reforms provided a small tax relief, with a 0.5% reduction in security contribution paid by the employer, and a streamlined list of para-fiscal charges and fees.

REGULATION OF CREDIT, LABOUR AND BUSINESS

Business environment in Serbia is mostly open to entrepreneurial activities. The biggest challenges stem from the low level of rule of law, partial or biased regulatory implementation and corruption. Due to the increased centralization of political power, Serbia exhibits some characteristics of a captured state in which for full application of rules a good political connection is a precondition. This situation is more difficult for the SMEs, since they lack resources to reach higher echelons of decision making and overrule administrative decision in first instances. Big international companies however can take advantage of this situation due to the political support they can receive from their respective country of origin, but also from other local stakeholders. Business regulations are often complicated and non-aligned with one another, and petty corruption is also present. Government administrative capacities are constrained, not only due to the freeze in hiring that has been in place since 2014, but also to political appointments and low professional standards in practice. Recent reforms of the business environment were mostly incremental, with further strengthening of online tools of communication with the state administration, which is mostly visible in the case of construction permits. The VAT refund arrears, which had been piling up in the last two years due to slow administrative procedures and increased tax inspections, have been slowly decreasing through newly appointed internal time limits within the tax service. Starting a business is an efficient process, being fast, inexpensive and without paid-in minimum capital requirements, and is done within a week. But, this procedure was made more difficult by filing for a final beneficiary registry as a separate procedure. Obtaining a construction permit has in recent years been made more business friendly, by significantly lowering the number of procedures and time limits, opening of one stop shops for investors and using electronic tools. It is now done within 3 months and with low associated fees. Getting connection to the electricity grid involves high costs, due to the high fees of the inefficient public-owned energy-distribution company. Compliance with tax procedures is also burdensome, with complicated and sometimes contradictory regulations, exacerbated by the high number of annual payments and lack of expertise or resources by the public tax authority service. Labour market regulation has got both flexible and inflexible characteristics. Fixed-term contracts are prohibited for permanent tasks. Their maximum duration is limited to just 24 months. Working hours regulation is not overly stringent. Severance pay increases in accordance with years in tenure, protecting the more seasoned workers, but notice periods do not. The firing section due to redundancy and misdemeanor is overly protective towards the workers, contributing to shadow employment and the high number of people employed through short term and non-standard labour contracts. The minimum wage is high as compared to the average wage, reaching almost 50% of the latter, as was increased for additional 8% in 2019 after the 10% rise in 2018.

FREEDOM TO TRADE INTERNATIONALLY

Freedom to trade internationally is generally upheld in Serbia. Tariffs are mostly low; with the average MFN applied rate of 7.4% but most of tariff protection is dedicated to agricultural products (MFN tariff rate of 13.9%). But non-tariff trade barriers are also in place, with complicated standardization and licensing procedures. Although legislation in those sectors has been reformed so as to harmonize the existing regulatory framework with that of the EU, improvements in practice are partial due to low administrative capacities. This reform will expectedly advance with further Serbia's EU accession. Serbia is one of the few European countries which isn't a member of the World Trade Organization (WTO). The WTO accession talks started in 2005, but since 2013 this process has practically been put on hold. The main

obstacles to Serbian accession are to be found in local regulation, e.g. regarding the total ban on sales of GMO products, while excise duties on alcohol products are levied by the type of beverage and not their alcohol content. Since the bulk of Serbian trade is conducted through multilateral and bilateral free trade agreements, the WTO accession is not high on the reform agenda. Main Serbian trade partners are the EU countries, followed by the Western Balkan countries, members of CEFTA. Other important partners are Russia and China, the latter being the only important partner with whom Serbia does not have a signed trade deal. While the Stabilization and Association Agreement (SAA) functions smoothly, CEFTA does not, since its dispute settlement procedures have not yet been established, which encourages frequent protectionist trade policies, then settled through bilateral negotiations that are slow and unreliable. The most notable one are the 100% ad valorem tariffs imposed by Kosovo for goods from Serbia and Bosnia. Serbia has recently signed an FTA treaty with the Eurasian Economic Union, which in practice broadened the base of the FTA agreement with Russia to the new EAEU members, Armenia and Kyrgyzstan. Serbian government also announced a deeper economic integration with Albania and North Macedonia, but this actual plan yet remains to be presented. Customs agency is considered as inefficient, with complicated regulation, and with obsolete computer equipment, so online tools are underutilized. The customs office is also prone to corruption and political influence which is used by people with good political connections to gain advantage over their competition in case of selling imported goods. Due to its favourable geographical position, Serbia is an important regional trade hub, and the use of the New Computerized Transit System significantly reduced transit burden, making border controls more expeditious. However, low quality of transport infrastructure, especially the railroads and the river ports, still imposes problems through increasing freight cost. The reform of the state-owned Railroad Company was mostly implemented during the previous several years, alleviating some of these problems through higher investment. The international E10 corridor was finally completed, with significant delays and higher costs due to inefficient state project companies and weak oversight. New infrastructure initiatives that would increase connectivity in the region have also been planned (highways to Sarajevo and Prishtina, fast track railroad to Budapest) but their financial viability is dubious, which may prove very costly in the future. The National Bank of Serbia still maintains a significant number of capital controls, as compared to other countries in the region, but mostly on short-term capital, while long-term capital flows are liberalized. The new Law on Foreign Exchange Operations lifted some of these restrictions, so locals can now buy foreign short-term securities issued in the EU or by the international financial organizations, while foreigners can buy Serbian short-term securities. Capital markets are not fully liberalized for individuals, since Serbian citizens are not allowed to maintain currency accounts abroad, short of a few exceptional situations.

Turkey

GDP in 2018: USD 711,274 million

annual growth rate: 2.8%

per capita: 28,040 USD PPP

by sector:

agriculture 6.8%

industry 32.3%

services 60.7%

Population: 82,004 thousand

Human Development Index

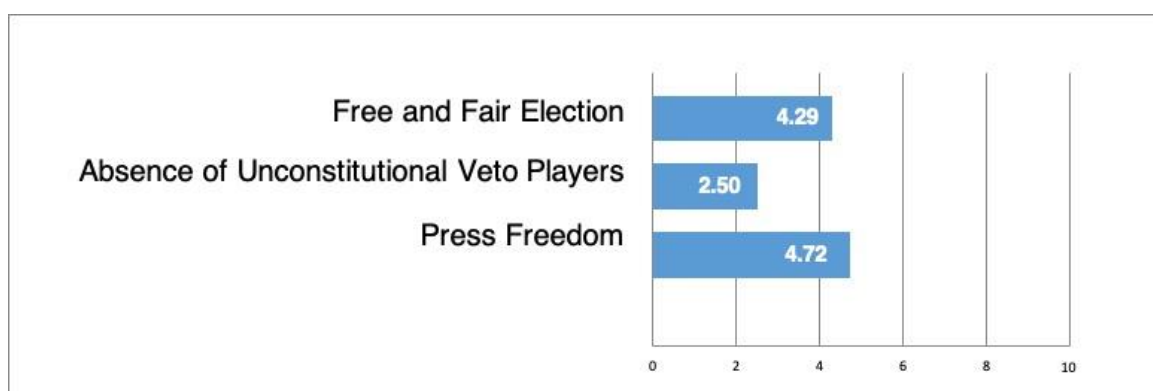
Government position in 2018

Unemployment rate: 11.0%

HDI: 0.806 (rank 59)

-3.1% of GDP

A. POLITICAL FREEDOM



FREE AND FAIR ELECTIONS

The political freedom score of Turkey has fallen for the 9th consecutive year in 2019 since the beginning of the index. To this day, the election day and the ballot box have largely been regarded as intact by most international observers. However, the local elections in March 2019 have created a different precedent. Supreme Election Council (SEC), the highest judicial authority over the election process in Turkey, ordered a rerun of the local elections in Istanbul through a highly contested decision over the ruling AK Party's fraud allegations. This decision came after AK Party lost the mayorship of the country's largest city for the first time in the last 17 years. Country's renowned legal experts criticized the decision due to unsubstantiated fraud claims. Although the opposition has won with a larger margin in the rerun elections, SEC's inability to stand against government claims has been seen as a new low in the country's already failing political competitiveness indicator. The electoral race still remains as the biggest problem between the political actors. During the campaign process, the state capacity has been widely utilized by the governing party despite the clear electoral laws against it. Visibility and coverage of different political contesters was highly disproportionate and extremely favorable towards the government specifically in the mainstream TV channels and newspapers due to a very homogenized and suppressed media environment. Other key developments in this subsection are the ongoing imprisonment of a major opposition leader, Mr. Selahattin Demirtaş, despite several court decisions for his release. In the meanwhile, following the local elections in Turkey, government removed the mayors of several districts and 3 metropolitan municipalities in mostly

Kurdish-populated Southeastern Turkey, replacing them with government appointed trustees, which made meaningful participation of Kurds to the political process increasingly difficult.

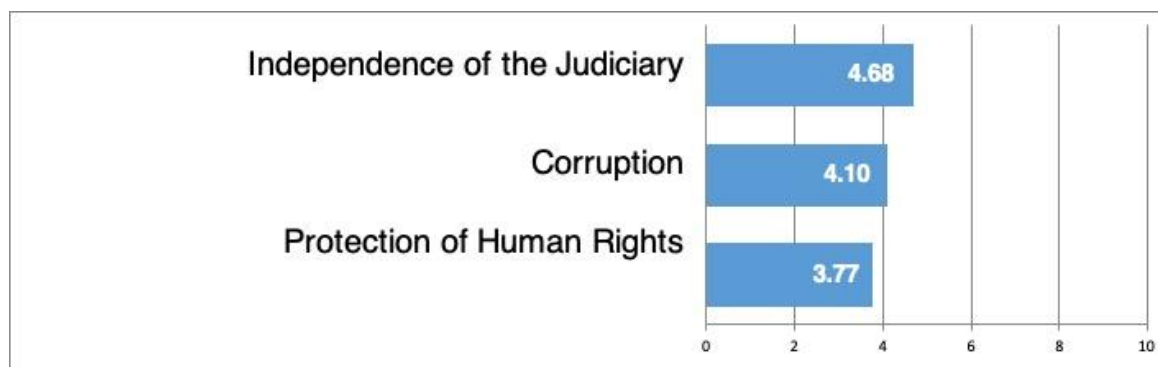
ABSENCE OF UNCONSTITUTIONAL VETO PLAYERS

The military's long-standing impact on civilian politics has largely vanished according to most commentators. Instead, the criticism centers around government's increasingly long arm in the bureaucracy. Following the failed coup attempt in 2016, the government purged tens of thousands of bureaucrats, judicial and military officials, replacing them with new personnel through contested processes which involved closed-door, no-record interviews. This process has drawn a lot of criticism about a lot of favoritism in the government recruitment processes. This large scale replacement operation without any due process makes the distinction between the state and the party increasingly blurry.

PRESS FREEDOM

Despite no-change in the global ranking, Turkey's freedom of press score has seen a slight improvement in the Reporters Without Border's 2019 Press Freedom Index. The major threats stated by all domestic and international media stakeholders are a) the absence of a pluralist media and opinion environment, b) severe threat of prosecution for the critics, as well as c) the conglomeration of mainstream media companies in few hands. On the other hand, digital is, to a large extent, still unregulated and many sacked journalists are creating their own individual digital outlets. Certain critical journals are able to operate online. However, the threat of prosecution for disclosing (critical) opinions is persistent and applies evenly to all fields.

B. RULE OF LAW



INDEPENDENCE OF THE JUDICIARY

Turkey's ranking in the area of the rule of law continued to deteriorate in 2019. The crisis of rule of law in Turkey, whose score and ranking have fallen drastically in the last five years, is best portrayed by the World Justice Project's Rule of Law Index. The most drastic decrease was in the sub-category of "no improper government influence" in the category of criminal justice, from 0.25 points in 2014 to 0.06 points in 2019, which is the lowest of all subcategories. This finding of the World Justice Project clearly shows that there is a widespread perception among both lawyers and ordinary citizens that the government has improper influence over the criminal processes. Independence of the judiciary has seriously been curtailed by the entry into force of 2017 constitutional amendments which re-structured the Judicial Council and brought it under the control of the President effectively. The executive influence over the judiciary can be observed in all politically sensitive cases. Most remarkably, the High Election Board canceled the results of 31 March mayoral election in İstanbul on the grounds of unsubstantiated reasons upon

the request of ruling AKP after opposition candidate had won the race. This shows that even the highest judicial organs cannot resist pressure from the government. Anti-terror legislation is effectively used to silence any dissent and criminal justice system and criminal courts play a crucial role in this harassment. Just in 2018, 446.275 new investigations were opened, and 123.207 indictments were prepared relating to crimes against constitutional order including membership to a terrorist organization or ruling a terrorist organization. Another 46.220 criminal investigations were commenced relating crimes such as terrorist propaganda. These figures show how judges and prosecutors were influenced by government policies. Following the dismissal of more than 4200 judges and prosecutors under the state of emergency rule, no progress has been made and new dismissals are possible under the Law no 7145 which extended the power of Council of Judges and Prosecutors for three years to dismiss judges and prosecutors on the suspicion of connection with terrorist organizations. As noted by the European Commission "these dismissals had a chilling effect on the judiciary as a whole and risk widespread self-censorship among judges and prosecutors." Following dismissals, approximately 10.000 new judges and prosecutors, nearly half of the whole judges and prosecutors, have been appointed. There are allegations that most of the new appointments were affiliated with the ruling party or supporting religious groups. These inexperienced judges and prosecutors also have a detrimental effect on the quality of the judiciary. As a result, the Turkish judiciary has strong resistance to apply case-laws of the Turkish Constitutional Court and the European Court of Human Rights.

CORRUPTION

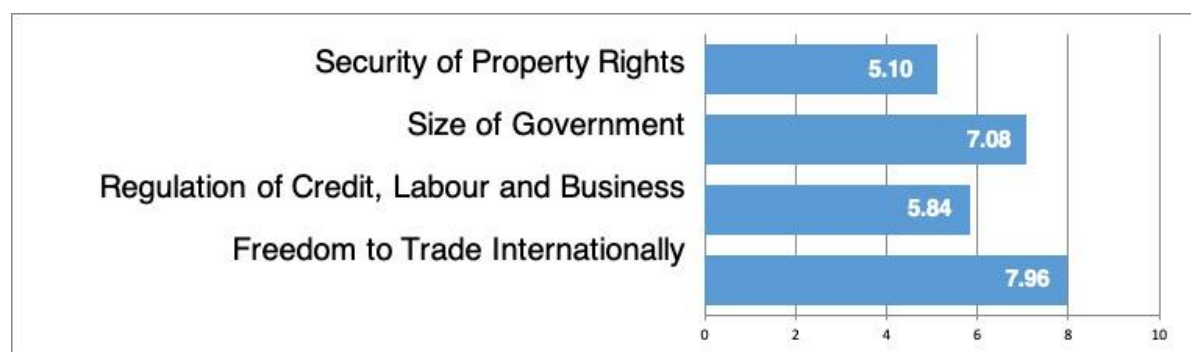
Especially after the enactment of the 2017 constitutional amendments, formal control mechanisms effectively lost their independence and entered under the control of the President. The parliament has lost most of its power to control government expenditures. At the moment, effective judicial, administrative, political and media scrutiny of public procurements and public expenditure is almost impossible. Too many exceptions have been introduced to the Law on Public Procurements in recent years. According to Transparency International's 2018 Corruption Perceptions Index, Turkey's score (41 points out of 100) in 2018, represents a dramatic decrease from 50 points in 2013. In tandem with democratic decay, the perception of corruption increased simultaneously. Almost all big assets and public enterprises of Turkey have been transferred to the Wealth Fund and the parliament cannot control the budget and transactions of the Fund. The president's discretionary spending budget has been increased in the last years enormously. The amount of discretionary funds allocated to the executive branch increased 17.5 times between 2003 and 2018 while the national income increased 7.3 times in the same period. The president has almost a monopoly over the appointments to the public services. There are allegations of nepotism in public recruitments.

PROTECTION OF HUMAN RIGHTS

One of the biggest human rights problems in Turkey is the situation of public officials who were purged after the coup attempt, by Legislative Decrees. Although the state of emergency has been lifted in July 2018, dismissals are still continuing. There is no effective judicial control over these dismissals. The purged officers have not only been banned from public services for life but also they are effectively prohibited to work in certain private sectors as well. Their passports have not been returned either. The children and relatives of the purged people have also been effectively prohibited to enter into the public services through the security checks. Freedom of expression has been seriously curtailed in Turkey in recent years especially after the coup attempt. Freedom House classified Turkey as a 'not free' country for the first time in 2018. In the recent Freedom in The World 2019 Report, Turkey's total score was 31 out of 100 points and continued to be in the "not free" category. The country report indicated that "the government has cracked down on NGOs since the coup attempt, summarily shutting down at least 1,500 foundations and

associations and seizing their assets. The targeted groups worked on issues including torture, domestic violence, and aid to refugees and internally displaced persons (IDPs). NGO leaders also face routine harassment, arrests, and prosecutions for carrying out their activities.” Using anti-terror legislation to silence dissidents became a daily routine and initiation of a criminal investigation or even arrest and detention for social media postings are not exceptional in Turkey. Recently some journalists were taken into custody for publications criticizing military operation in northern Syria and too many investigations were commenced in the same vein including some MPs. Internet blockings are very common and more than 400.000 websites including news portals and Wikipedia are blocked in Turkey. There are some allegations of serious human rights violations such as forced disappearances and torture. Human Rights Centre of Ankara Bar received some complaints and prepared reports in this regard. Prison overcrowding is a severe problem. It is reported that the number of inmates of the existing 389 prisons has increased to 213.000 from normally 111.000 persons through rearrangements. Nevertheless, the number of inmates has exceeded 300.000. Babies living in the prisons with their mothers, sick detainees, and holding detained people in remote cities far away from their families are among the problems relating to prisons.

C. ECONOMIC FREEDOM



SECURITY OF PROPERTY RIGHTS

State of emergency was terminated in July 2018 all over Turkey. However, unfortunately, no positive developments were observed in this period regarding the properties and companies seized through the decrees issued during the state of emergency. During this process, only a very small portion of the dismissed public officials was returned to their posts. These developments shook legal security and directly put pressure on property rights. Besides, for those residing in Turkey, with some exceptions, decisions were taken not to allow business, real estate, or car rental contracts to be in a foreign currency or to be indexed to one. This means limiting the absolute rights of owners to their property. In addition, the increasing frequency of the audits of government bodies on opposing companies and organizations are mentioned. The fact that financial controls are turned into a punishment tool in the hands of the government and the lack of an effective mechanism by the judiciary takes the violation of the property rights of the citizens to another level.

SIZE OF GOVERNMENT

Turkey continues to have one of the world's most unstable tax regimes. While the proportion of indirect taxes in OECD countries has been around 30 percent, for many years this ratio did not fall below 60 percent in Turkey. The main reason is in that the government prefers consumption-based taxes, which is the easiest tax type that the government can collect to finance government expenditures quickly. According to the 3-year Medium-Term Program (rebranded by Ministry of

Treasury and Finance as the New Economy Program) prepared in 2019, the budget deficit of the public sector is expected to be around 3 percent, but the year-end budget deficit expectations are generally above this rate due to the overspending in the government budget within the year. In 2018, the government made a revaluation of around 23 percent in taxes, fees, and penalties. In November 2019, this rate is expected to be at least 25 percent. In addition to the increase in indirect taxes, there are also increases in direct taxes. According to a new regulation, the government increases the upper limit of income tax from 35 percent to 40 percent. The reason for this is that the government has accelerated public expenditures to reduce the effects of the economic crisis. Turkey's EU-Defined General Government Debt Stock to GDP ratio will be around 32 percent as of 2019 which is not expected to fall in the subsequent years.

REGULATION OF CREDIT, LABOUR AND BUSINESS

Although Turkey shows certain improvements in terms of the ease of doing business, regulations on this issue have not yet reached the desired level. In 2018, around 900 firms declared concordat while this year's figures were not announced. According to market findings, this figure is expected to be around 1000 in 2019. The fact that only government-selected statistics, which do not reveal much of the details, are being published, leads to increased distrust in the labor market. When we look from the viewpoint of the credit institutions, there are no relatively negative developments in regulations. The public-owned banks, which are technically independent by law, suffered from significant duty losses as a result of the government's pressure to provide low-interest loans. The announcement of a publicly traded public bank's top manager stating that "they are not working for profit this year" stands as a proof that the government has used these banks as a tool for crisis management. Such statements of the executives of a bank whose shares are traded in the stock exchange are subject to investigation and penalty. However, courts' inertia to take any actions continues to undermine the confidence in the markets.

FREEDOM TO TRADE INTERNATIONALLY

Turkey's commitment and openness to the foreign markets continue in a positive direction. In 2019, the ratio of exports to imports is expected to be around 75 percent. Imports to GDP ratio is not expected to increase much as compared to the last year, as the effect of the increases in foreign exchange is still felt and is expected to be around 28 percent. Alongside all those, according to the new tax package, for companies doing business in Turkey via internet a "digital service tax" is planned to be applied, up to 7.5 percent to their Turkey turnover. We see that this type of tax is applied in some other OECD members, but their average tax rate is 3 percent. This may be an obstacle to trade freedom for digital players.

Ukraine

GDP in 2018: USD 130,857 million

annual growth rate: 3.3%

per capita: 9,290 USD PPP

by sector:

agriculture 12.2%

industry 28.6%

services 60.0%

Population: 42,037 thousand

Human Development Index

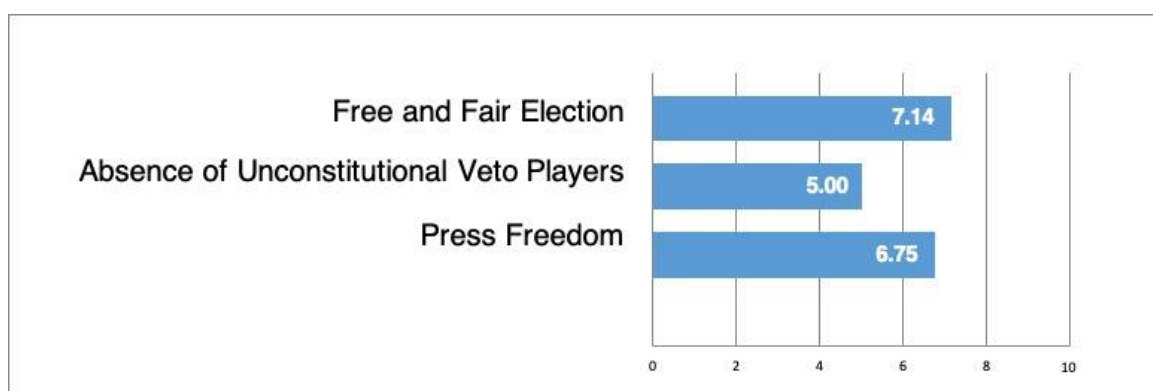
Government position in 2018

Unemployment rate: 9.0%

HDI: 0.750 (rank 88)

-2.2% of GDP

A. POLITICAL FREEDOM



FREE AND FAIR ELECTIONS

In 2019 Ukraine has gone through both presidential and parliamentary elections, which were followed by a peaceful transition of power and have dramatically reshaped the country's political landscape. The Presidential elections, which took place on March 31st followed by a runoff on April 21st, were generally labeled free and fair, albeit with minor issues which did not ultimately influence the outcome. It could be however argued that the outcome of the elections was influenced by media coverage and access of the candidates to television. Instances of misuse of state resources and vote-buying were also reported by the international observers. The parliamentary elections, which were held on July 21st, have also been deemed free and fair with minor incidents. These elections were conducted under a mixed electoral system with one half of the members of parliament chosen through proportional representation and the other half via single-candidate constituencies. Many observers have reported that the single-candidate contests were subject to much more irregularities and malpractices than the nationwide one, among them vote-buying, self-nominated candidates pretending to run under the brand of a party they did not represent. Still, the parliamentary elections of 2019 have shown a significant change in the traditional voting patterns in Ukraine, with many incumbents and locally well-known SMD candidates with a history of election victories losing to the largely unknown representatives of the "Servant of the People" party. The parliamentary election has thus resulted in a first single-party majority in the history of Ukraine, with the presidential "Servant of the People" party securing 254 of the total 450 seats. The traditional mixed electoral system has been criticized many times for its perceived susceptibility to manipulation and vote-buying. In July 2019 the parliament has

adopted a new electoral code providing for open-list proportional representation at the future parliamentary elections. However, in September 2019 the adopted legislation has been vetoed by the president which leaves the expected electoral reform in uncertainty.

ABSENCE OF UNCONSTITUTIONAL VETO PLAYERS

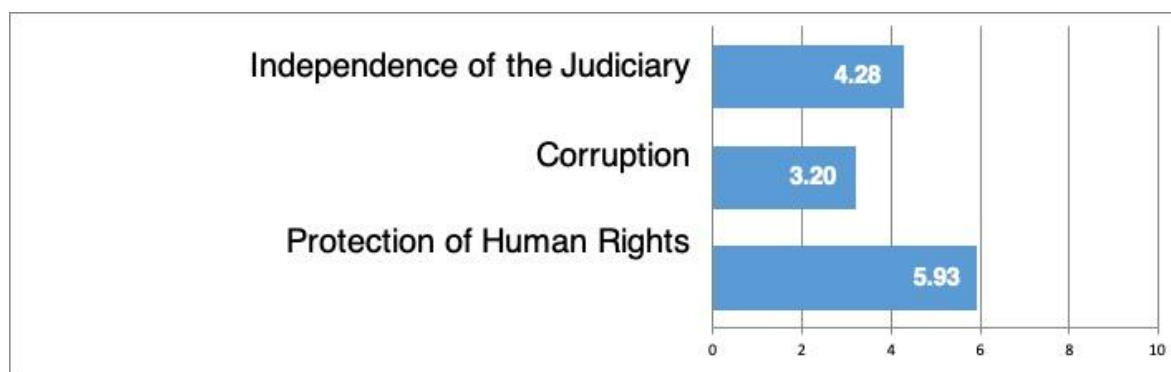
Ukraine is governed by its democratically elected authorities, who have effective power to govern the country. Still, threats remain to the country's sovereignty, rule of law and democracy. Firstly, the democratically elected authorities still do not have control over the Russian-occupied Crimea and the occupied territories in Donetsk and Luhansk regions. Secondly, Ukraine's oligarchs and powerful business groups who control most of the country's media and have ties to some of the country's officials are believed to be able to influence the decision-making process. The election of a political outsider Volodymyr Zelensky to the country's presidency and the overwhelming victory of his party at the parliamentary elections has sparked fears of the concentration of power in the hands of oligarch Ihor Kolomoisky due to the allegations of close ties between him and Zelensky. The validity of these claims, albeit supported by the overwhelmingly positive coverage of Volodymyr Zelensky and his "Servant of the People" party, remains to be tested. Despite the fact that the executive authority is shared between the President and the Prime Minister, President Zelensky and his administration enjoy significant influence over the executive and legislative branches. It was namely reported that many MPs of the ruling majority did not know the names of the government members they were going to appoint until shortly before the vote itself. The President has also not shied from openly setting the Cabinet's agenda at its first session, seen giving assignments to the Prime Minister and the Cabinet members on camera. This makes the country's political system akin to that of a presidential republic, even though it is stated otherwise in the Constitution. Corruption among public officials is widespread and remains one of the most serious problems in the Ukrainian society.

PRESS FREEDOM

Freedom of the press is guaranteed by the Ukrainian Constitution and Laws of Ukraine, but in fact this freedom is only partially upheld. There is a variety of different media in Ukraine which are diverse and free to present different views and opinions, including criticism of government which is featured there very often. However, the majority of Ukrainian media outlets are owned by oligarchs and representatives of business interest groups who are known to exert influence on their content. This makes media diversity in Ukraine mostly a representation of diverse interests of different oligarchs and business groups. Another threat to the objectivity of the media is that journalists tend to report about sensitive issues in a way that is seen as "patriotic". This includes but is not limited to the benevolent or neutral portrayal of some far-right or even neo-Nazi groups, that are often not referred to as such in the media. In August 2019 a Kyiv court has ordered a Ukrainian online media outlet Hromadske.TV to pay a fine to a far-right organization C14 and retract its earlier statement referring to C14 as a "neo-Nazi" group. This decision has sparked further concerns about the freedom of expression and the ability of the Ukrainian media to report on far-right violence. Due to the conflict with Russia, most Russian TV channels are banned from broadcasting in Ukraine. Several Russian social media outlets and search engines have also been banned. After the transition of power in 2019 concerns have arisen about the relationship between the new presidential administration and the press, which has been often described as disrespectful and manipulative. Since the election of Volodymyr Zelensky to the presidency there has been a number of alarming signals which has led many to question the new administration's openness to the media. Such incidents include, among other things, the claim of Andriy Bohdan, the influential chief of staff to the President, that the Head of State's team "does not need journalists to talk to the people" and the behavior of the President's press secretary Yuliia Mendel in regard to certain journalists which has been described as "rude" and "unethical".

However, President Volodymyr Zelensky's 14-hour press conference in October 2019 that allowed the representatives of diverse media outlets to ask questions and get answers might be a sign of the President's wish to mend his relationship with the media. Press freedom in the occupied parts of Donbas ranks low, with journalists facing severe violations of freedom of expression including censorship by the de-facto authorities.

B. RULE OF LAW



INDEPENDENCE OF THE JUDICIARY

The lack of the rule of law is an issue that has continued to plague Ukraine for yet another year. Bribery and corruption are widespread in the judicial system, in courts and in the prosecutor's offices. Judges often proceed to make questionable decisions that come under criticism by watchdog organizations. The decision of the Baryshyvskyi District Court to suspend the license of a local low-cost airline is an example of such disputable rulings, as the issue in this case falls out of the Court's jurisdiction. This court decision has since been overruled by the Court of Appeal. In 2016, a comprehensive reform of the judiciary system has been launched. It has since come under heavy criticism by the NGOs who criticized the lack of transparency in the selection of candidates for the Supreme Court, as well as the quality of the qualification assessment procedure which was supposed to evaluate professionalism and integrity of sitting judges. The reform has, however, led to a successful creation of the new High Anti-Corruption Court which has officially started its work in September 2019. In October 2019 the Ukrainian Parliament has adopted the law aimed at fixing the flaws of the original reform of the judiciary of 2016. Nevertheless, it has become a subject of controversy with some of its measures praised, others heavily criticized. Experts have mostly approved of the reboot of the High Qualification Commission of Judges with new members selected on a competitive basis and the creation of an Integrity and Ethics Commission under the High Council of Justice. The legal measure to decrease the number of the Supreme Court judges from 200 to 100 without a definitely outlined procedure and the subordination of the yet to be rebooted High Qualification Commission of Judges to the High Council of Justice have, however, come under criticism from the NGOs and the expert community. The ambassadors of Canada, the UK, Germany and the EU, have authored a joint appeal to the Chairman of the Ukrainian Parliament, urging the ruling majority to review the questionable articles of the law and inviting its members to discuss alternative solutions. In September 2019, the Parliament has passed a law aimed at reforming the prosecution bodies in Ukraine. The Prosecutor General's Office has since launched a large scale re-attestation campaign for the prosecutors who wished to continue their work in the future reformed prosecution system. The positions that would be left vacant after the completion of the attestation process are supposed to be filled by new employees through a selection procedure on a competitive basis. The law also provides for a substantial expansion of powers of the

Prosecutor General, a position currently held by Ruslan Riaboshapka, for the interim period, which gives him personal responsibility for the outcome of the reform.

CORRUPTION

Corruption has been pervasive in Ukraine and the situation has only seen minor changes over the past few years. In 2018 Ukraine has kept the title of the most corrupt in Europe after Russia, being on the 120th place out of the 180 countries, together with Liberia, Malawi and Mali. Politicians and citizens continue to recognize corruption as one of the most important problems in Ukraine. The newly elected President Volodymyr Zelensky had also run for office on a platform of combatting corruption and his party has been able to secure a majority in the Parliament this year, but it remains to be seen whether the political will to deliver on that promise is there. In September 2019 the long-awaited High Anti-Corruption court has finally officially launched its work, marking the completion of Ukraine's new infrastructure aimed at battling high corruption. Shortly after, the Verkhovna Rada has passed amendments to the Law of Ukraine "On the High Anti-Corruption Court", which narrows the specter of cases falling under the new Court's jurisdiction, saving it from being overloaded and allowing it to start its operation smoothly. Shortly after the newly elected Parliament started its work a few other anti-corruption initiatives have been adopted. One of them is a law which allows the National Anti-Corruption Bureau (NABU) to conduct wiretapping on its own without involvement of the Security Service Ukraine (SBU). The former reliance of the NABU on the SBU to intercept telecom networks has long been recognized as an impediment to the Bureau's independence. Another one is a "reboot" of the National Agency for Corruption Prevention (NACP), an agency the independence and effectiveness of which was questionable from the very beginning, with all of its members being dismissed and a temporary acting Head appointed by the government. The amendments the Parliament has passed in regard to the NACP pose both risks and opportunities, whereby much will depend on how the selection of new members is conducted.

PROTECTION OF HUMAN RIGHTS

The respect for and awareness of human rights is a field that has improved the most since the success of the Maidan protests. A strong civil society has developed since then, with NGOs being able to successfully influence decision-making in the government. The repeatedly criticized 2017 law that increased monitoring of anti-corruption NGOs has been deemed unconstitutional and annulled by the Constitutional Court of Ukraine in June 2019. In general, the right to free speech is upheld in Ukraine. However the ongoing armed conflict in the Eastern regions of Donetsk and Luhansk has contributed to the polarization of opinions in the society, which has made it somewhat more difficult to publicly express pro-Russian opinions due to the possible societal pressure. The right to free speech is being constantly violated in the Russian-controlled Crimea and the occupied parts of the Donbas. The Ukrainians are free to practice their religious beliefs. Tensions between members of the different Orthodox Churches of Ukraine that have increased since the beginning of the conflict in the Donbas have carried on after the Kyiv Patriarchy and the Autocephalous Church as well as some parishes of the Moscow Patriarchy have been unified in the new Orthodox Church of Ukraine. The unified Orthodox Church of Ukraine and the Ukrainian Orthodox Church of Moscow Patriarchy do not recognize the legitimacy of each other on the official level. Religious freedom is constantly violated in Crimea and the occupied parts of the Donbas. The Russian authorities that currently control Crimea and the de-facto authorities in the occupied parts of the Donbas continue to put pressure on the Orthodox Church of Ukraine and the Greek Catholic Church. There are reports that the de-facto authorities in the occupied parts of the Donbas have also been persecuting members of the protestant church. The right to assembly is generally upheld in Ukraine and the government does not restrict it. Still, some public manifestations and rallies, such as pro-LGBT demonstrations, are

subject to violence from non-state actors, often from the extreme right. The annual Kyiv Pride is well-protected by the police and usually goes without interruptions, although threats and attempts of physical violence remain. Independent journalists and civic activists, especially those who investigate and expose corruption remain vulnerable to physical violence.

C. ECONOMIC FREEDOM



SECURITY OF PROPERTY RIGHTS

Private property rights in Ukraine are still not protected sufficiently due to the persistence of corruption in the judiciary system. In addition to that, high costs of going to court hinder the enforcement of contracts. The inefficient land cadaster and complicated valuation rules make registering a property a very long and expensive process. The temporary ban on the sale of agricultural land remains in force since 2001 which interferes with the right to dispose of property making it impossible for land owners to sell or give away their land. The new government has promised to lift this ban while preserving some restrictions such as limiting land ownership to citizens of Ukraine and companies registered in Ukraine (even if their beneficiary owners are foreign nationals). Prime Minister Oleksiy Honcharuk has proposed to start a dialogue with the stakeholders to determine the modalities and details of how the new open agricultural land market would function. Up until now the privatization process has not been transparent and fair, and it remains to be seen whether or not the new privatization wave announced by President Volodymyr Zelensky and Minister of Economic Development Tymofiy Mylovanov will be carried out differently. Russian companies are banned from participating in the privatization process because of concerns over Russian influence in the country. In the occupied parts of the Donbas private enterprises have been “nationalized” by the de-facto authorities. The Index of Economic Freedom gives Ukraine a grade of 52.3 out of 100 in 2018, thereby falling under the category “mostly unfree”.

SIZE OF GOVERNMENT

Over the past three years government spending in Ukraine has reached around 42.1% of GDP, which is comparable to other European countries. Ukraine’s public-debt to GDP ratio has decreased as compared to the previous year for the second time in a row, falling from 81% in 2016 to 71.8% in 2017, and to 62.7% in 2018. Ukraine’s inflation rate was 9.0 in July 2019, which puts Ukraine on the 22-24th place in the world. Corruption remains as a critical problem and causes huge losses to the country’s GDP. Ukraine has a large number of state-owned companies, many of which are costly and ineffective. In October 2019 the Parliament has abolished the list of state-run enterprises that are not subject to privatization, which opens the door for a new large-scale privatization process. According to the Minister of Economic Development Tymofiy Mylovanov, government has already approved privatization of 800 state-owned companies. The privatization process has been slow and largely unfair, and it remains to be seen whether or not it

would change under the new government. The top individual income tax rate is 20% while the top corporate tax rate is 18%. The overall tax burden is 33,1% of the total domestic income.

REGULATION OF CREDIT, LABOUR AND BUSINESS

In 2017 Ukraine was ranked 61st out of 190 in “doing business”. In two years, Ukraine’s position went up 15 places but there is still room for improvement. The ranking has gone up due to the multitude of economic reforms the country has conducted over the last few years. According to a World Bank report, Ukraine adopted improvement measures in six areas. The government eased the construction permit process by eliminating the need for an external supervisor and by introducing an online notification system, as well as made the contribution fee for a construction permit cheaper. It also became easier to get electricity, thanks to the implementation of a geographic information system. The transparency of the land administration system has also been increased. New public credit registry was established in the National Bank, which helped improve access to credit information. Apart from that, the time to import has been reduced due to the simplification of conformity certification requirements for auto parts. In April 2019 then-President Petro Poroshenko signed the new bankruptcy code into law, which is believed to ease resolving insolvency. The new government has also expressed its intention to continue its work to ease doing business in the country. One of the new regulations announced by the Cabinet of Ministers is the legalization of gambling. The draft law has already been prepared by the Cabinet and is yet to be voted on in the Parliament. The new Verkhovna Rada has already passed a number of measures which are thought to boost Ukraine’s next-year ranking in “Doing Business”, among them the introduction of a single account for paying taxes, the simplification of customs procedures and a law on increased protection of property rights. However, there have been setbacks too, as the Parliament adopted laws which strengthened the oversight of the tax office over private entrepreneurs, obliging most of them to either use a cash register or an app designed for the same purpose. Still, after these initiatives led some entrepreneurs to protest, President Volodymyr Zelensky initiated a two-year moratorium on the fiscal inspection of most individual entrepreneurs with the exception of the listed “high-risk” sectors.

FREEDOM TO TRADE INTERNATIONALLY

Freedom to trade internationally is largely being upheld in Ukraine. The country has been a member of the World Trade Organization since 2008. Since 2016, Ukraine has been a part of a Deep and Comprehensive Free Trade Area with the European Union. Ukraine’s main export partners are the EU, China, Russia and Turkey. The imports of the country come primarily from the EU, China, Russia and Belarus. Ukraine’s exports have been declining before 2014 already, but the outbreak of war in 2014 has worsened the trend. The Ukrainian export slightly increased in 2017, but decreased again by the end of the year. Since 2014 there has also been a decline in direct foreign investment, leading to negative growth. However, in 2017 there was a slight recovery of investment activity. Most of the investor countries belong to the European Union: the Netherlands, Germany, France, Austria, Luxembourg, the United Kingdom. Among the main factors that limit foreign investment in Ukraine are the ongoing military actions in Donbas, lack of trust towards the judicial system, lack of free circulation of land and inhibition of large privatization. The new Ukrainian government has so far publicly pledged to resolve some of these issues, namely to open the agricultural land market, conduct a large scale privatization and implement a new reform of the judiciary. Over the past five years the importance of the EU market for Ukraine’s trade has risen significantly. In 2018 the EU’s share in the structure of both exports and imports of goods in Ukraine amounted to 43%. The PrivatBank litigation remains one of the biggest threats to the Ukrainian economy. The stalling of talks on the new loan program between the International Monetary Fund and the Ukrainian government has been attributed to the IMF’s concerns over government’s commitment to transparency and

independence of the banking sector. If Ukraine's dispute with the PrivatBank's former owners ends in the victory of the latter, it could seriously harm the country's economy and would likely spell the end to the cooperation with the IMF.

METHODOLOGY OF FREEDOM BAROMETER:

Measuring Freedom

I often say that when you can measure what you are speaking about, and express it in numbers, you know something about it; but when you cannot measure it, when you cannot express it in numbers, your knowledge is of a meagre and unsatisfactory kind; it may be the beginning of knowledge, but you have scarcely in your thoughts advanced to the state of Science, whatever the matter may be.

Lord Kelvin, Electrical Units of Measurement, 1883.

Why measure liberty?

Liberty, in the sense of freedom to live one's life according to their own preferences as long as it does not infringe freedom of others, is an important normative category, obviously very important to liberals (the term "liberal" hereby used in its European meaning, which is close to its historical roots in classical liberalism, while distinguished from its contemporary meaning in America where it rather depicts social democrats). However, besides its intrinsic value, liberty also has an instrumental one: societies with more economic freedom are more affluent, providing their citizens with higher standards of living; freedom of speech and media fosters dialogue and social consensus on what the most important contemporary problems are, and how to solve them, etc. Of course, as Cicero noted (*sub leges libertas*), freedom has its meaning only when coupled with the rule of law: fair, independent and impartial courts which deal justice efficiently, and where citizens can protect their rights. All this shows that liberty is at the core of modern political polities, and that more freedom is beneficial for both social and economic progress of a society. Therefore, it is important to measure current status of the level of freedom in different countries, thus allowing for external country to country comparison or regional analysis, but also internal scrutiny by identification of areas where improvements have been made or are lagging.

How to measure liberty?

Freedom Barometer is a composite index, which means it consists of data from secondary sources, namely other indices that measure specific aspects of freedom. Freedom Barometer measures freedom in 3 wide areas:

- Political Freedom (Free and Fair Elections; Absence of Unconstitutional Veto Players; Press Freedom)
- Rule of Law (Rule of Law; Corruption; Protection of Human Rights)
- Economic Freedom (Security of Property Rights; Size of Government; Regulation of Credit, Labour and Business; Freedom to Trade Internationally)

These 3 broad categories are further divided into 10 subcategories, measuring more specifically different levels of freedom. The subcategories used in creating the Index are weighted in such a manner that each has a maximum of 10 points, and therefore the overall total score is measured on a scale with the maximum of 100 points, where more points indicate higher degree of freedom.

Data sources and period covered

Bearing in mind that Freedom Barometer is a composite index, it uses other freely available indices to calculate its components. These indices have been long established and are considered to have passed the test of time and are widely used both by academics and policy makers. These indices have a built-in time lag, which influences the final time lag by Freedom Barometer. The latest publicly available index is used to compute Freedom Barometer, so the existing temporal lag is minimized, but still present. This basically means that time coverage of Freedom Barometer, although published in 2019, mostly represents state of affairs in the previous year. Therefore, the texts following the Freedom Barometer data could serve as a useful tool to further elaborate findings on respective countries. The texts cover the first half of the year in which Freedom Barometer is published, and the second half of the previous year. For example, Freedom Barometer 2019 illustrates situation from July 2018 to June 2019.

Data sources used to compute Freedom Barometer are *Freedom in the World*, *Press Freedom Index* (Reporters without Borders), *Index of Economic Freedom* (Heritage Foundation and Wall Street Journal), *Global Competitiveness Report* (World Economic Forum), *Corruption Perception Index* (Transparency International), World Governance Indicators (World Bank) and the *Human Rights Index* (Friedrich Naumann Stiftung für die Freiheit).

Political Freedom Subcategories:

Free and Fair Elections

- Scores from Freedom House *Freedom in the World*: (A) Electoral Process and (B) Political Pluralism and Participation

$$(A+B / (\max A + \max B)) * 10$$

Absence of Unconstitutional Veto Players

- Scores from Freedom House *Freedom in the World*: (C) Functioning Government

$$(C / 12) * 10$$

Press Freedom

- Score from the Press Freedom Index of the *Reporters Without Borders* (A)

$$(100 - \text{final score}) / 10$$

Rule of Law Subcategories:

Rule of Law

- Scores from World Bank's World Governance Indicators (WGI), section Rule of Law (A).

5 + A

Corruption

- Transparency International's *Corruption Perception Index*

Final score / 10

Protection of Human Rights

- Score from the Friedrich Naumann Stiftung's *Human Rights Index*

Economic Freedom Subcategories:

Security of Property Rights

- Data from World Economic Forum *Global Competitiveness Report* and World Bank *Doing Business Report*

Judicial Independence (A): $(A-1)/6*10$

Intellectual Property Protection (B): $(B-1)/6*10$

Protection of Property Rights (C): $(C-1)/6*10$

Reliability of Police (D): $(D-1)/6*10$

Legal Enforcement of Contracts (E): $((725-\text{score time})/(725-62)*10)+((0,823-\text{score costs})/(0,823-0)*10) / 2$

Regulatory Costs on Sale of Real Property (F): $((265-\text{score time})/(265-0))*(10+(0,15-\text{score cost})/(0,15-0)*10) / 2$

Final score: $A + B + C + D + E + F / 6$

Size of Government

- Heritage Foundation, *Index of Economic Freedom*, Government Spending (A) and Fiscal Freedom (B)

$(A/10+B/10)/2$

Regulation of Credit, Labour and Business

- Heritage Foundation, *Index of Economic Freedom*, Financial Freedom (A), Business Freedom (B) and Labour Freedom (C)

$(A/10+B/10+C/10)/3$

- Heritage Foundation, *Index of Economic Freedom*, Trade Freedom (A)

A/10

Data changes in the 2019 edition

Due to the fact that some of the previous data sources which we had used in the previous editions of the Freedom Barometer meanwhile stopped being published, we had to make changes to our methodology. The biggest changes could be found in the Global Competitiveness Index, which had stopped publishing data on Impartial Courts and Business Costs of Crime, thus impacting both the Independence of the Judiciary and Security of Property Rights segments of the Freedom Barometer. Therefore, we decided to broaden the segment of Security of Property Rights by including one more variable (Intellectual Property Rights, Global Competitiveness Report) and supplant the previous Independence of Judiciary segment with a broader Rule of Law indicator (World Governance Indicators, World Bank). Since the Freedom of the Press also stopped being published in recent years, we had to exchange it with the Press Freedom Index (Reporters without Borders). In order to enable comparisons through years, we recalculated all the data from 2010 onwards through the new methodology.

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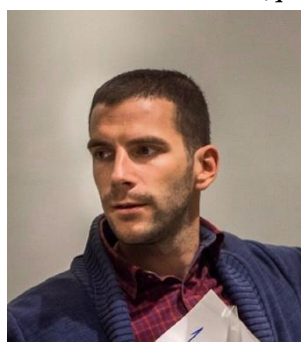
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Ivan Despotović (1989) is the analyst of political freedom within the Freedom Barometer team and the author of the Finding Freedom podcast of the Friedrich Naumann Foundation for Freedom. Although graduated from the Faculty of Transport and Traffic Engineering, he considers himself rather as a “social engineer”. He has been active in politics since early age as a member of the Liberal Democratic Party in Serbia, acting as the president of Youth of LDP and being a member of party presidency in 2015 – 2018. He works with the CSO Libero as a project manager experienced in development and management of the projects on protection and advance of human and citizen rights, as well as on embedding democratic values among young people in Serbia and in the SEE region. Ivan is the author of several manuals for youth activism and for empowering CSOs through the use of digital technologies. As a co-founder of the Smart City Education Initiative, he advocates

cooperation between political and private sector (start-ups) on developing technological solutions for inciting city development and implementation of innovative local governance practices. He is a Program director of the Smart City Festival in Belgrade – an annual event gathering 2000+ guests, speakers and experts world-wide. Also, he works as strategic communication consultant and trainer in the field.