



# **FREEDOM BAROMETER**

Europe Edition 2016





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## **WELCOME TO FREEDOM BAROMETER EDITION OF 2016!**

Presenting a Barometer can be exciting especially when it measures the extent of freedom in the fields of politics, rule of law and economy! The figures and thus the comments by our distinguished experts show however a general tendency towards decline. Freedom is in retreat. Why? Our barometer shows tendencies and encourages you to embark on the quest to find possible answers.

Is our European World which we fathom as an island of democracy and freedom really so unique? Truth is that most of UN's states are non-democracies but autocracies or dictatorships. Truth is as well that we observe in EU countries a tendency towards a more centralized state, the monopoly of one party to set the agenda and further undermine weak democratic structures. So yes, in some parts of Europe we seem to live on a blessed island. These islands combine the highest degree of freedom for their citizens with a strong economy and an open society. But these islands are not perfect, which our Freedom Barometer shows.

Thirty scrutinised countries ranging from Belgium to Tajikistan may give you a mosaic of successful approaches and failures in old and new democracies. But this fourth Barometer edition since 2013 shows how non-action of politics and civil society alike might confirm stagnation as in the case of Bosnia-Herzegovina, might lead to the erosion of democratic standards such as in Hungary and Poland or to further alienation between the citizen and the state as in many Western European Countries. Who but not for the Liberals are able to counteract such developments? Much is at stake. If our voice doesn't get stronger in politics and civil society, if we decline to comment and protest on developments which undermine the very fundament of the democratic compromise and leave the ground to Populists and Nationalists then no one does. Currently we are on the best way to infringe on these freedoms and abolish the very principles of freedom. The failure of TTIP and most likely CETA are outstanding examples of a particularism which seems to grow in old and new Europe. Our barometer illustrates such trends.

But let me finally draw your attention to a new tool, which was as well developed in-house: I'm extremely pleased to introduce the newly created Human Rights Index. It's founding fathers Dusan Gamser and Mihailo Gajic are FB's distinguished authors. It lives up to scientific standards, is transparent and

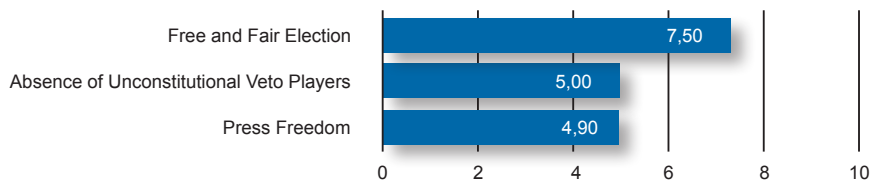
able to document declines as well as success stories. Our third author Ivan Despotovic ventured to look deep into the abyss of media freedom, unconstitutional veto players as well as free and fair elections. For all these political criteria human rights stood at the core of his insightful comments. Thus this barometer has the potential to provide its distinguished reader with facts, figures and arguments to speak up for Freedom.



# ALBANIA

GDP in 2015: EUR 10,683 million		
annual growth rate: 2.8%	per capita: 3,700 EUR	by sector:
		agriculture 21.9%
		industry 14.9%
		services 63.3%
Population: 2,889 thousand	Human Development Index	Government position in 2015
Unemployment rate: 17.1%	HDI: 0.733 (rank 86)	-4.05% of GDP

## A. POLITICAL FREEDOM



### Free and Fair Elections

Albania continues to provide, generally, free and fair electoral process for its citizens and political parties, although there are more than few violations that use to repeat throughout every election cycle, which still need to be eradicated. Local elections were held in June 2015 and were marked by monitors as peacefully and professionally conducted process, but they reiterated that activities like abuse of power and state resources, or vote buying and manipulations with voter lists, threatened to undermine the process. Reform of the voting districts, which was adopted in 2014, had its first implementation at these elections. The tradition of having two dominant political parties continued at this election as well. Their coalitions won 60 out of 61 Mayorships. Ruling Alliance for a European Albania (ASHE) led by Prime Minister Edi Rama confirmed its dominant position with 45 mayoral seats. Involvement of 50% gender quota requirements led to more women Mayors. From less than 2% their number rose to more than 14%.

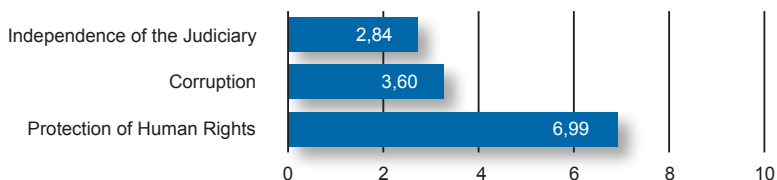
## **Absence of Unconstitutional Veto Players**

By taking control over some areas that refused state authority in the past - and were known for criminal activities - elected government got effective power to govern on the entire territory. However, other threats to government independence, such as organized crime, conflict of interest, or influential power of the country's wealthiest businessmen on politics, remained intact. Government did some actions in order to deal with pervasive corruption in Albania, but it broke down mostly on low level officials. A decriminalization law was adopted in the parliament, which aims to prevent criminals from taking public office. Also, new anticorruption portal was launched for taking charges of corruption by the citizens. Corruption within judiciary, a lack of resources and know-how and fear of retribution are still in place to prevent efficient prosecution and punishment process by the authorities.

## **Press Freedom**

Although more pluralistic and diverse – while reporting from different angles on the developments in the country - media outlets in Albania are considered to be partly free and relatively independent. Political and economic pressure on independent journalism caused self-censorship among some reporters. Owners, even if not directly involved in politics, often use their influence to broker lucrative business deals with the government, thus pressurizing journalists to show, in return, a more positive attitude towards ruling officials. There were several cases of harassment and physical violence against journalists. Some private outlets reported on corruptive behavior of public officials no matter that defamation was punishable by large fines.

## B. THE RULE OF LAW



### Independence of the Judiciary

Political or other pressure and influence on judiciary, including through corruption, are a huge problem. Albania is struggling to establish the trust of its citizens in the judiciary. EU is also pressurizing it to push reforms through. Among the first steps in the implementation of the judicial reform strategy until 2020, a constitutional reform was initiated in 2015. By mid-2016, following a long debate, the amendments to the Constitution were about to be carried. They envisaged the change of the way High Council of Justice is selected. The composition and function of the High and Constitutional Courts will also change. General Prosecutor will get more responsibilities regarding corruption-related investigations. All those will expectedly decrease political influences on the judiciary as well as help fighting corruption in it.

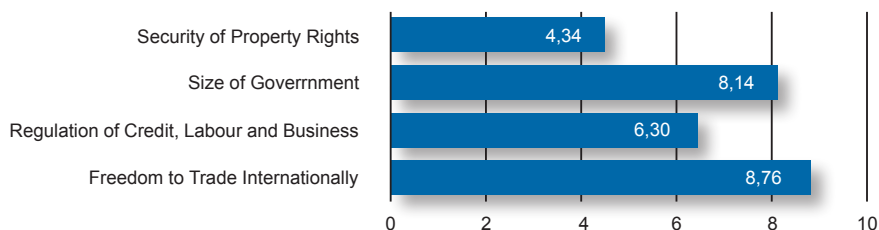
### Corruption

Transparency International signaled positive developments in its Corruption Perception Index 2015, where Albania rose to the score of 36, placing it together with 6 other countries as 88 (of 168), as compared to places 110 (of 175) and 116 (of 177) in the CPIs as of 2014 and 2013 respectively. Yet this result does not befit a candidate for EU membership. A number of activities were carried throughout 2015. As the European Commission noticed in its Progress Report 2015, Albania considerably improved the quantitative performance of its body for preventing conflict of interest (HIDAACI), while better targeting of the high risk areas is still to be achieved. The law on protection of whistleblowers (whose lack the EC warned of in the Report) was adopted in June 2016.

## Protection of Human Rights

Progress has been made continuously during the past few years. The legislation regarding human rights is to a high degree in line with European standards, although implementation is improving slower. The main objections of the European Commission in 2015 were a delay in enforcement of property rights (registering, restitution and compensation), the enduring problem of exclusion or discrimination of Roma and Egyptians (amid the acceptable situation of other ethnic minorities) and the rights of children (especially regarding the juvenile justice system). In 2010, during its fact finding mission to Albania, FNF witnessed a huge gap between the laws on protection of LGBT people and their implementation. The then total exclusion of the community from society is now gradually becoming history, with improved laws and by-laws and more sincere implementation. The community itself is becoming more self-confident and visible. Its NGOs regularly organize public events such as festivals of diversity or “gay motor/bike rides”. Homophobia is still strong, including in the institutions, but the changes in just half a decade are remarkable.

## C. ECONOMIC FREEDOM



### Security of Property Rights

Private property in Albania is not adequately protected. Main problems lie with the low judicial independence from powerful political and business interest groups. Enforcing contracts is another weak point of the legal system – with long procedures, high costs and corruption within the judiciary. In order to circumvent the local courts, foreign investors often use international arbitration tools for dispute settlements. However, in 2016 the government ignored rulings regarding a high level investment project, thus bringing new uncertainty to the legal system. Also, there are no specialized commercial courts. Courts do not use automated procedures. The cadastre service remains incomplete, diminishing certainties of real estate purchase, even though the introduction of public

notary service has somewhat improved the situation. Private property expropriation carries a significant risk to property holders, because of the low compensation offered by the state, usually significantly lower than the perceived market value. Agricultural land possession is restricted only to domestic nationals, but foreigners can lease it for up to 99 years. This regulation can be circumvented by registering a legal entity in foreign ownership. Commercial property may be purchased only with a guarantee of threefold investment against the value of the land. Foreign ownership is also restricted to minority equity in several sectors, such as air transportation, electric power transmission and television broadcasting.

## **Size of Government**

Size of government is more limited in Albania than in most European countries, with low levels of government expenditures, reaching only 30.3% of GDP in 2015. However, even in this situation public revenues are scarcer than government programs, giving rise to high budget deficits, which strongly elevated the public debt, to a substantial level of 73.3% of GDP in 2015. Still, the deficit in 2015 reached 4% of GDP and a substantial fiscal package had to be introduced under the auspices of the IMF in order to curb debt growth. There are relatively high government arrears, concentrated at the local level. Companies in the electric sector, KESH and OShEE, pose a significant risk for public finances, due to their inefficient management and operational policies, relying on government for financial transfers. Their restructuring has yet to be fully completed. SOEs are active in several important industries, most notably energy generation and transmission, water supply, transport (ports and railways), insurance and postal services. The state of business performance of those companies varies. Government also holds minority equity in fixed telephony communications company. There are allegations of favoritism and corruption in their procurement procedures. Low public consumption makes room for low taxes: since 2014, personal income tax has been slightly progressive, with 13% and 23% rates, with a non-taxed threshold (standing at approximately 20% of average wage), while corporate tax is flat and set at 15%. Relatively low social security contributions lead to one of the lowest labour tax wedges in Europe, below 30%.

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

Regulation is generally not too favourable to private enterprise in Albania, hence many improvements are necessary to create a truly business-friendly environment. Starting a business is relatively easy regarding procedures, but it is tied to high administrative fees. Getting electricity is a very expensive process, and issuance of construction permits came almost to a halt in 2015, making Albania a country with the worst practice in this domain. Corruption remains a phenomenon that is widespread among public officials, undermining actual implementation of many regulations. Tax regulation is overly complicated, with high number of payments and burdensome procedures. Labour market regulations are a mix of flexible and inflexible traits. There are no limits on maximum length of fixed term contracts, while redundancy rules are not stringent. However, working hours are not very flexible, with low number of weekly working days. Notice periods are long and severance pay for redundancy workers are high, and are even higher with more years in tenure, protecting more seasoned workers. The minimum wage is relatively high as compared to the average one. Collective bargaining is not imposing high costs since it is mostly concentrated in the public sector, and is prevalent in just some of the industries.

## **Freedom to Trade Internationally**

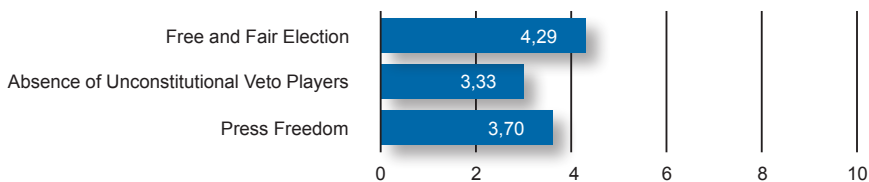
Freedom of international trade is generally respected in Albania. Tariffs are low, with the average applied rate of 3.8%, majority of which is concentrated in the agricultural sector. Product standardization, however, serves as a non-tariff barrier to free trade, incurring high costs to importers. Custom procedures (border and documentary procedures) also pose difficulties. Furthermore, very poor transport infrastructure, especially the railroad, increases freight costs and impedes international trade. Main Albanian trade partners are EU member countries (most notably Germany and Italy), followed by China and Turkey. Therefore, Albanian trade is mostly conducted under the Stabilization and Association Agreement (SAA) for the EU countries, signed in 2009, and for the countries from the region under the Central Europe Free Trade Agreement (CEFTA). However, prospects of a stronger regional economic integration are not exploited due to poor transportation and too few previous contacts, so prospects of CEFTA are underutilized as well. Albania has been a World Trade Organization (WTO) member country since 2000 and trade with coun-

tries outside Europe is conducted under WTO rules. Albania also ratified the Trade Facilitation Agreement (TFA) in 2016, which is expected to further liberalize foreign trade. Controls on short term capital flows by the National Bank are still maintained, which is mainly connected to the exchange rate policy. Work permit issuance process is streamlined, but there is a restriction stipulating that foreign workers cannot encompass more than 10% of the total workforce of a company.

# ARMENIA

GDP in 2015: EUR 9,866 million		
annual growth rate: 3.0%	per capita: 3,300 EUR	by sector:
		agriculture 19.4%
		industry 28.7%
		services 51.9%
Population: 2,999 thousand	Human Development Index	Government position in 2015
Unemployment rate: 17.8%	HDI: 0.733 (rank 87)	-4.85% of GDP

## POLITICAL FREEDOM



### Free and Fair Elections

Political parties in Armenia are free to organize, to some extent operate and participate in elections. However, elections are ranked as partly free and fair because President Serzh Sargsyan and Armenian government often practice intimidation, abuse of state resources and fraudulent activities in order to remain in power. Announced transformation of the electoral system fuelled discussion throughout the 2015 and it was put to voting on referendum in December. Constitutional reforms that referred to the shift from presidential democracy to a parliamentary republic, reducing power of the president and empowering parliament and prime minister, were adopted and should be implemented during the second half of 2016. Although opposition had proposed similar reforms few years earlier, they were extremely critical on this proposal, accusing government for tendency to abuse the weak political system and tighten its power in Armenia. Observers of the December constitutional refer-



endum noticed, among others violations, vote buying, ballot box stuffing, intimidation of voters and abuse of authorities.

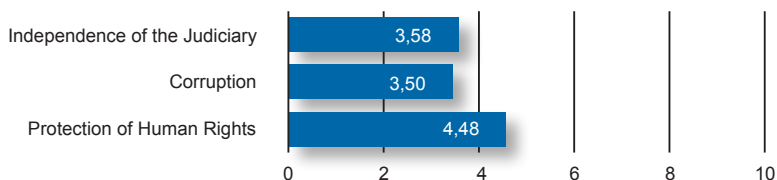
## **Absence of Unconstitutional Veto Players**

Dominant executive power in Armenia is concentrated in the hands of democratically elected president and some of the wealthiest businesspeople and war veterans, who are also part of the government. They have full control over the country, so there are no veto players which could question their decision making. However, they are constantly abusing their position and therefore they are also the biggest threat to democratic process in Armenia. The Armenian Apostolic Church is one of the most trusted institutions in the country and therefore has certain influence on public opinion. They involve in politics from time to time, not to criticize decisions made by the government but to support them on some key societal issues. Anticorruption measures achieved some progress in 2015, as several important officials were arrested.

## **Press Freedom**

Printed, television and radio media outlets are considered as not free. Armenian media scene is pluralistic, but it lacks independence and diversity of opinion. Outlets almost always report in line with political affiliations of their owners and financiers who have tight connections with the government. Besides pressure on independence of journalist reporting, acts of violence against them occurred several times during the year. In June, police attacked and arrested 13 journalists while covering a protest in Yerevan against the proposed electricity price hike. Charges against an editor of the news portal Ilur.am, Kristine Khanumyan, who refused to disclose her source - of a report on abuse of power by the chief of regional police - were dropped. Several months later, constitutional court ruled that media outlets didn't need to disclose their sources, unless protection of individual was at stake, or over another issue of great importance.

## RULE OF LAW



### Independence of Judiciary

As Freedom House remarked in 2015, “the functioning of the justice system is one of the weakest links of Armenian governance”. In 2016, the assessment did not differ. Citizens’ trust in the system is low indeed. Of all areas of life, they perceive judiciary as the most corrupt. Political control is also widely present. The new Constitution, adopted at the referendum in December 2015, might bring considerable improvements if implemented in good faith. Much more independence and immovability of judges is stipulated. The role of the Parliament in appointing judges (by three-fifths majority) will increase. As for Constitutional Court, the Parliament will elect it upon proposals (one third of the composition each) by the President, The Government and the General Assembly of Judges. Supreme Judicial Council will be in charge of dismissing judges. Prosecutor General shall also be appointed by the Parliament (by qualified majority), no more than for two terms.

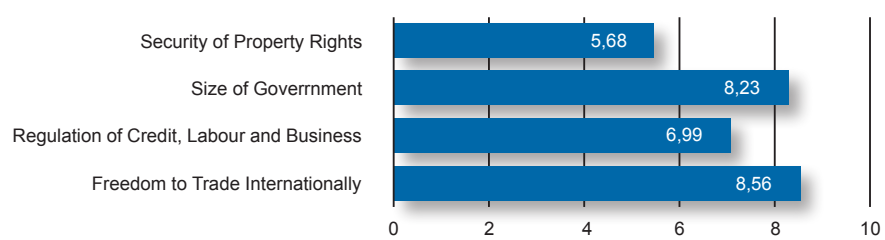
### Corruption

After advancing in 2012-2014, Armenia fell in the Transparency International’s Corruption Perception Index 2015, now ranking as 95 of 168 countries, with the score 35, equal to ones of Mali, Mexico and Philippines. Relatively recent government anti-graft strategies mainly dealt with petty corruption (such as in police, education or health care), but failed to properly address corruption in judiciary, big business’s ties to politics, major custom and revenue fraud or other high level illegalities. As Freedom House noticed, anti-bribery measures brought some fruit in easing the illicit administrative burden on businesses and decreasing the direct bribery. But, much bigger problem rests with crony businessmen who hold informal import quotas and thereby enjoy tax breaks. Some of those are still MPs. According to World Bank, some improvements in functioning of custom services and regarding construction permits were notable during 2015-2016.

# Protection of Human Rights

The awareness of Armenian ruling politicians on the importance of the respect for human rights is low. In many respect their attitude, even though not the final results, is similar to the one in Russia. Throughout 2015, there were mass protests on various occasions and the police several times used excessive force. Police officers enjoy de facto impunity in cases of torture, despite initial investigation. Opposition or civil society activists are attacked by rival groups with no subsequent legal conclusion. Despite this, civil society, including Internet-based groups, is still lively. The position of women is burdened by traditional societal norms and stereotypes on their role in family, which especially hurts women with disabilities. Measures against sex trafficking are insufficient. In the IPU world classification, regarding participation of women in lower hoses of parliaments, Armenia (with just 10.7%) is placed as 151 of 193 countries of the world. Of all 30 countries included in the Freedom Barometer, only Hungary is worse. There is no anti-discrimination shield for LGBT persons.

# ECONOMIC FREEDOM



# Security of Property Rights

Property rights in Armenia are not sufficiently well protected. Courts are neither efficient nor independent from strong outside groups that can sway their verdicts. Corruptive practices make up another major problem within the judiciary. Necessary court expertise in some cases postpones litigation for unusually long time. Slow court procedures lead to property rights uncertainty. Besides, out-of-court settlement mechanisms such as mediation or arbitration are not well established. One of the problems in judiciary is the fact that there are no special courts dealing with commercial activities, but these cases are litigated in courts of general jurisdiction. These courts are usually over-

whelmed by the number of cases. Enforcement of contracts is ineffective, due to long procedures. Insolvency procedures are long, and lead to low recovery rates. Registration of property is easy, fast and inexpensive. A new law stipulating that court cases should be assigned to judges randomly is in implementation, leading to a higher level of accountability in court management. Armenia joined the 2012 version of WTO's Government Procurement Agreement (GPA) in June 2015, eliminating privileges that domestic companies had over the foreign ones in the field of public procurement.

## **Size of Government**

Government consumption is low in international comparison, standing at 26.4% of GDP in 2015. Economic growth is moderate, in spite of worsening external conditions, such as decrease in remittances and consequent lower demand, as well as dim growth prospects among the main trade partners from CIS. Continuing and high public deficits have tripled public debt levels since 2008, which is expected to stand at 50% of GDP in 2016. Fiscal consolidation therefore remains one of the key issues in order to make public finances sustainable. Overall low government consumption has led to low level of taxation: corporate profit tax is 20%, as well as the VAT. Income tax is progressive, with rather high rates of 24,4%, 26% and 36% above the set threshold. The privatization process has limited the scope and influence of the government in the economy. State-owned enterprises are still active in some specific areas, mostly utilities and infrastructure. These companies do not operate efficiently, and pose a significant fiscal risk to the government. High dollarization of the financial system remains an obstacle to a more effective monetary policy, due to the hyperinflation background of the national currency. A new tax code, that would increase public revenues through elimination of different exemptions, is discussed.

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

Regulation in the country is mostly business friendly. However, major areas of Armenian economy are controlled by business people who are well connected to the ruling elite, enjoying government protected market position, as evident in accruing rents through restriction of competition. Unfair tender procedures and preferential treatment of certain companies remain present. On the other hand, starting a business is easy and cheap, and there is no requirement for minimum paid-in capital. Connecting to electricity grid is a lengthy procedure

incurring high costs, mostly due to inefficiencies within the company of Electrical Networks of Armenia. Obtaining a construction permit involves unnecessarily high number of procedures, but it is inexpensive. The process is eased through exemption of lower-risk projects from the need of having approval of architectural drawing by an independent expert. Furthermore, compliance with tax procedures, although not burdened with a high number of annual payments, still is among the most visible problems in the economy. Labour regulation is mostly flexible, with little restrictions in working hours and low costs of worker dismissal. However, almost half of the working force works without contracts, or in the informal economy. Centralized collective bargaining is mostly focused to public sector, while trade unions are closely connected to the government. Long mandatory military service proves to be burdensome for individuals and private enterprises alike. Labour code amendments as of October 2015 clarified procedures of making changes in labour contracts, including the requirement to reflect information on vacation leave and probation period. These changes also regulated child labour in line with international standards.

## **Freedom to Trade Internationally**

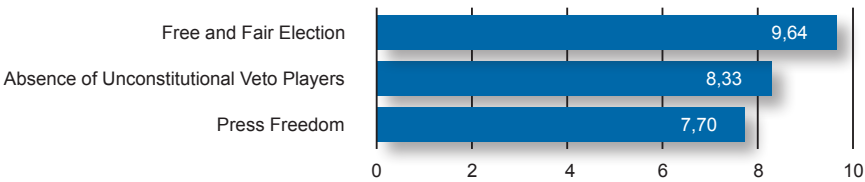
Freedom of international trade is generally respected in Armenia. The country has been a member of the World Trade Organization (WTO) since 2003. There are no major trade disputes under that mechanism. Overall, tariffs are low, standing at 3,7% on average – however, tariff rates might be significant in the field of agriculture products, covering a wide range of products. Non-trade barriers still pose an obstacle to free trade. Recently, there have been improvements in the work of customs office and reduction in the use of reference prices during custom clearance. However, custom procedures are not transparent and corruption remains as a problem. Documentary compliance costs for both export and import are unnecessarily elevated. Since 2015, Armenia has been a member of the Eurasian Economic Union (EEU). This led to easier access of Armenian goods to EEU markets and vice versa. However, this also entailed changes in trade policy, by increases in tariff rates and new regulatory requirements for imported goods. Other member countries include the Russian Federation, Kazakhstan, Belarus and the Kyrgyz Republic. However, Armenian membership secured continued supply of imported oil and gas from the Russian Federation at preferential prices, as well as more fiscal revenues from the common EEU customs pool. Armenian foreign workers in other EEU countries face preferential treatment as compared to other CIS nationals. Main

problem in increasing Armenian inclusion into the global market are geographical and political. Due to the mountainous terrain, there are just a limited number of routes that could be used for transportation and most of them are closed because of the political confrontation with Azerbaijan and Turkey, while open borders with Iran or Georgia lack good infrastructure. Furthermore, some Georgian routes towards Russia are also closed (via South Ossetia and Abkhazia), which significantly burdens international trade, imposing high freight costs.

# AUSTRIA

GDP in 2015: EUR 350,682 million		
annual growth rate: 0.9%	per capita: 40,680 EUR	by sector:
		agriculture 1.3%
		industry 28.3%
		services 70.4%
Population: 8,621 thousand	Human Development Index	Government position in 2015
Unemployment rate: 5.7%	HDI: 0.885 (rank 23)	-1.2% of GDP

## POLITICAL FREEDOM



### Free and Fair Elections

Austria retained the same score, regarding elections, as in the Freedom Barometer 2015 issue. However, it will expectedly decline in the next year`s edition, due to the fact that the second round of presidential elections, held in May 2015, was annulled by the Austrian highest court. The decision was made on the grounds of broken rules that could have had influenced the result, albeit without a proof that it had influenced the final count. Aside of this, Austria generally maintains free and fair elections. It was demonstrated during a couple of state or local elections in 2015. The country`s bicameral parliament consists of the National Council (the lower house) and the Federal Council (the upper house). It shares constitutional power with the President of Austria.

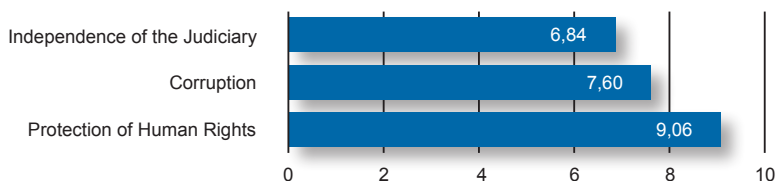
## Absence of Unconstitutional Veto Players

Austria doesn't have unconstitutional veto players, but allegedly some influential people from politics and businesses can interfere in government decisions. Corruption is not that common in Austria. However, some cases which included high ranking politicians do occur, and prosecution processes can be very slow. Transparency International ranked Austria on a high 16th place in their 2015 Corruption Perception Index.

## Press Freedom

Press is free in Austria. Broadcast, print, radio and online media outlets enjoy high level of freedom and independence. Government aims to ensure sustainability of printed media by increasing subsidies to all newspapers. It started discussion on the topic in 2015. More importantly, in 2015 discussion on a new freedom of information law has started. According to Freedom House, journalists had criticized parts of the first draft, such as, among other things, the restricted definition of "information", or the lack of independent oversight body. Austria is known for its very bad access to information mechanisms. Defamation remains punishable by the criminal code.

## RULE OF LAW



## Independence of Judiciary

The judiciary in Austria is to a large degree independent of the influences of the executive power or corruption. Citizens maintain huge trust in it. The average mark citizens gave it regarding its integrity, on the scale between 1 (best) and 5 (worst), was 2.5, according to Transparency International. Of other fields of public life, just education (2.3), NGOs (2.3) and military (2.5) could match it. In mid-2016, the Constitutional Court demonstrated its autonomy by annulling and ordering a re-run of the second round of presidential elections (held on 22 May), due to relatively small irregularities regarding postal ballots and eligi-



bility for voting. Both candidates and all major political parties have nevertheless accepted the decision without further comments.

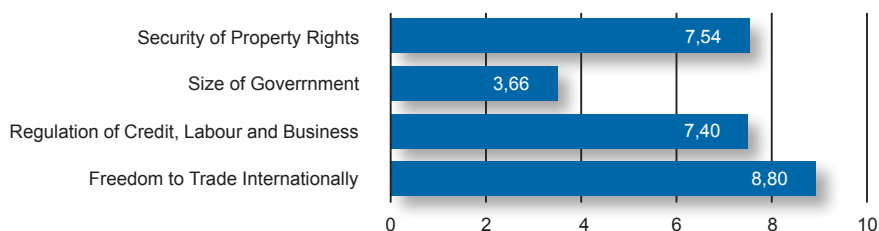
## **Corruption**

Corruption is a non-neglect problem, even though the country is better than the EU average. Transparency International's Corruption Perception Index 2015 is placing it, together with the USA, as 16 (out of 168 countries). Austria's situation and CPI score are improving ever since 2013. Citizens perceive business and political parties as areas most affected by corruption. In August 2015, a civil employee and a media owner were convicted for misuse of state advertising funds. Favoritism towards friendly companies or individuals in public procurement, fraud or bribery, especially at the regional or local level, remain as Austria's competitive disadvantage vis-a-vis other advanced parts of the EU. Employment in local administration, or job advancement, might be dependent on the adherence to the rules of political correctness as set by the specific political parties that govern the place.

## **Protection of Human Rights**

Level of protection of human rights is high. Academic freedoms, as well as freedom of religion, are hardly disputable. The sole limitations to freedom of speech - those regarding a ban on neo-Nazi or anti-Semitic propaganda - might be explained by history. Equality under the law as a principle is enshrined in legislation and public discourse. Alas, recent refugee crisis reintroduced some discriminatory practices – and derogatory speech - against immigrants or foreigners. Austria did not build walls to control the flows of migrants, yet since 2015 it has de facto suspended free movement of people across some of its borders within the Schengen Area. In its efforts to cope with the enormous number of refugees or asylum seekers, Austria has had varying success, as elaborated in the annual report by Amnesty International for 2015/2016. Treatment of same-sex couples is improving - registered partnerships were recently granted additional adoption or reproductive rights. Women are well represented in politics and employment, although overall there is still a gender pay gap.

# ECONOMIC FREEDOM



## Security of Property Rights

Property rights in Austria are well secured. Expropriation of property in Austria is extremely rare. It happens only in cases when public interest is at stake. It can proceed only on the basis of legal justification as well as on the condition that the owner receives a just compensation. Judiciary is independent from the executive government and other out-of-the-court interests, securing the overall high legal system's integrity. However, sensitive cases must be reported to the Ministry of Justice, which could then issue instructions. Effective bankruptcy procedures allow for high recovery rate. Enforcing contracts could be more expeditious. High remuneration for attorneys and a long procedure of enforcement of judgment elevate costs. Court efficiency could be increased by introduction of adjournment regulation, limiting them to exceptional circumstances and limiting their maximum number. Furthermore, transferring real property could also be lengthy, depending on the performance of district courts and respective land registry, with significant incurring costs due to registration fees and transfer tax. Reliability of the police is high, making business costs of crime low.

## Size of Government

Government in Austria is excessive, with high public expenditures, reaching 51.7% of GDP in 2015. Such high level of consumption is mostly due to high social transfers due to redistributive schemes, especially in the field of retirement plans and healthcare. These costs are projected to continue to grow substantially due to demographic changes. Pension system is already unsustainable, due to high dependency ratio, coupled with high substitution levels and an activity level in the labour market that is much lower than in comparative countries. Austria has been recording sluggish economic growth recently, but

it is expected to pick up due to acceleration in partner countries and increase in exports, as well as due to the implemented tax reform. Although measures of fiscal austerity delivered results in containing the deficit, public debt is at an elevated level of 86% of GDP in 2015, asking for further prolonged efforts to comply with the Maastricht criteria. High taxation level is needed to sustain excessive government consumption in Austria. Austria has introduced significant changes in its taxation system, effective since January 2016, moving away from taxing labour and somewhat lowering progression of the personal income tax. The lowest income (above 11 000 euro per annum) is now taxed by 25% instead of 36,5%; higher tax rate of 50% is now applied on a much higher threshold than before. And, a new rate of 55% was introduced for the highest earners. At the same time, a new VAT rate of 13% was introduced for certain goods and services, alongside the already existing 10% and 20% rates. Corporate income tax remains 25%. Social security contributions still remain high, divided between the employer (21.7%) and the employee (18.2%), which, coupled with the income tax, keeps the tax wedge high. State-owned enterprises (SOE) are mostly concentrated in the utility and infrastructure sector, but the government holding OBIB holds minority stocks in many other companies where government presence is unnecessary. SOEs abide by the same rules in the market as private companies, not distorting competition except in areas considered as government monopolies.

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

Business regulation in Austria is generally considered to be business friendly. Starting a business is not well organized, with long procedures at local courts. There is a high paid-in minimum capital. Getting electricity is relatively expensive, but it is fairly easy and quick. Obtaining a construction permit is not just lengthy but also a costly procedure. Tax procedures are not overly burdensome, with low annual number of tax payments and widespread use of electronic payment. Labour regulation is a mixture of flexible and restrictive practices. Working hours are flexible and there are no limitations to fixed term contracts, thus lowering difficulties in hiring. Low severance pay and short notice periods also bring flexibility to the labour market, but this is often offset by priority redundancy rules and reemployment obligations. Trade unions in the country have a strong role and social dialogue is widespread in many industries. There is no general minimum wage but industry-specific rules of employment, among which minimum remuneration is determined through social dialogue.

Vast majority of work-force is covered with some kind of collective bargaining. Obligatory military conscription lasts for six months.

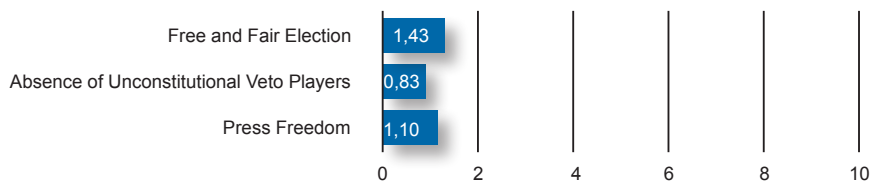
## **Freedom to Trade Internationally**

Freedom of trade is generally respected in Austria. Taken the open small economy, foreign trade is very important for Austria, encouraging specialization in production. Being one of the EU members, Austria implements the common European trade policy with overall low tariff rates. However, some non-trade barriers regarding product standardization and certificates pose obstacles to free trade. Customs service is professional and very efficient, being at the efficiency frontier regarding the number of border compliance hours. Trade is facilitated by good public transport infrastructure, which considerably reduces freight costs, but port infrastructure quality is lagging behind railways and roads. The railway sector is controlled by the government, i.e. by the public-owned enterprise which is relying on public subsidies, reducing competition and stifling innovation. Main Austrian trade partners are its advanced neighbouring EU countries, Germany and Italy, as well as Switzerland. Since Switzerland is neither an EU nor European Economic Area member-state, trade relations with it are maintained via series of bilateral treaties. Austria is one of the few countries within the EU that has prolonged restrictions regarding access of Croatian citizens to its national labour market, in the sense of work permits, which are unnecessary only for some professions. Furthermore, foreign nationals face restrictions in some professional areas, such as diploma nostrification.

# AZERBAIJAN

GDP in 2015: EUR 50,643 million		
annual growth rate: 1.1%	per capita: 5,380 EUR	by sector:
		agriculture 6.0%
		industry 59.1%
		services 34.9%
Population: 9,417 thousand	Human Development Index	Government position in 2015
Unemployment rate: 6.0%	HDI: 0.751 (rank 79)	-6.76% of GDP

## POLITICAL FREEDOM



### Free and Fair Elections

Azerbaijan held parliamentary elections in November 2015, which were once again neither free nor fair. OSCE/ODIHR canceled its observation mission after Azerbaijan government refused to accept minimum number of observers needed to make this process feasible and successful. According to Freedom House report, elections were conducted in the environment of intensified crackdown on all critical and dissent voices, which started at the half of 2015. Opposition parties have almost no media coverage. They are not allowed to organize rallies in public space. The ruling party uses all means to intimidate and harass activists who confront the president Ilham Aliyev and his power. Because of that, main opposition parties decided to boycott the elections. After tabulation of votes, Yeni Azerbaijan Party won 71 seats and independent

individuals with tight connections to the ruling party 41 seat. Opposition is not present in the parliament since 2010.

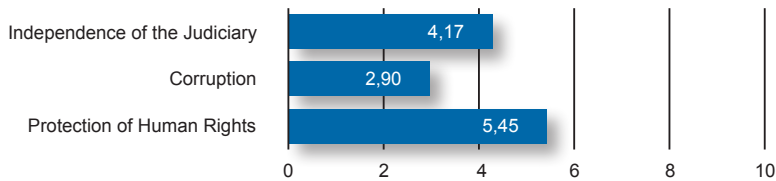
## Absence of Unconstitutional Veto Players

Azerbaijan score declined, from 1,67 in 2015, in this section of the Freedom Barometer Report. Due to dysfunctional system of checks and balances in practice in Azerbaijan, executive branch holds complete power in the country and president Aliyev is the most powerful person. However, his authority to govern is limited by the power of wealthy oligarchs and other high ranking officials in the government. Corruption remains one of the major problems in the country, especially among high ranking officials who often engage in corrupt practices with impunity.

## Press Freedom

Freedom of the press is getting worse in Azerbaijan. In order to tackle criticism, government uses violence, or large fines and imprisonment against journalists, especially around important events in the country, such as European Games or parliamentary elections in 2015. Khadija Ismayilova, known for her investigative reports on corruption among high ranking officials including president and his family, was sentenced in 2015 to seven and a half years in prison. By the end of the year, eight journalists remained in prison. Traditional media outlets are almost completely under control of the ruling YAP and business elites, or if not, they aim to censor those media through controlled advertisement market, raids or defamation suits. Defamation is a criminal offense which was in 2013 extended to online media.

## RULE OF LAW



## Independence of Judiciary

The level of judicial autonomy continued decreasing. Corruption, as well as

governmental influence on courts in the politically relevant trials (in areas of criminal as well as civil law), is gradually destroying independent judiciary. The country is – of course, under different banners - returning to the Soviet-style vertical organization of power regarding the last part of the state organization (judiciary) that used to show some autonomy. The number of political prisoners is rising together with a decrease in political and media freedom. As Freedom House noted, the right on fair trial is seriously endangered, arbitrary arrest and detention are common and pre-trial detention is long. As Amnesty International noted, “torture and other ill-treatment continued to be committed with impunity for the perpetrators”. Conditions in prisons are very bad and in sharp contrast with the relative richness of the country. Besides torture, overcrowding and poor medical protection are the worst problems in prisons.

## **Corruption**

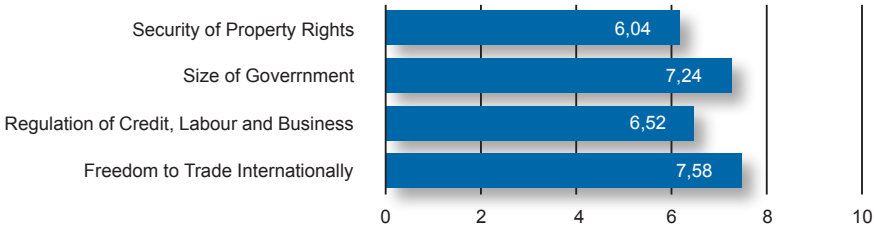
Azerbaijan is overwhelmed by corruption. The situation is far worse than in nearby Georgia, Armenia or Turkey. Corruption starts at the top of the government, where the President’s clan is enjoying privileges and amassing enormous wealth, springing down to numerous ordinary public servants who expect, demand and receive bribes. Government anti-bribery measures are superficial and limited in scope. Pressure on media and limited public access to information further diminish opportunities to discover concrete cases of corruption. There was no improvement during the past year. Transparency International has put Azerbaijan, in the Corruption Perception Index 2015 ranking, to the place 119 of 168, with the score remaining 29, as in 2014.

## **Protection of Human Rights**

The year 2015 saw an all-out attack on many human rights and civil liberties. NGOs or media outlets were routinely shut down via seizure of property or other indirect actions of government, while foreign ones were leaving. Black listed dissidents were denied passports. Religious freedom was limited, while members of the non-registered faith communities or of non-official Islam cults were prosecuted, often on charges of extremism or other anti-constitutional activity. Freedom of opinion and expression is on a low level indeed. There is no legal protection of LGBT people - Azerbaijan even did not join the United Nations’ declarations on protection of people from discrimination due to sexual orientation. Women are under-represented in politics and many other professions, suffer domestic violence and are poorly protected against traf-

ficking. However, in a surprising serial of presidential or judicial pardons in May 2016 some political prisoners were released or acquitted. Whether it was due to the foreign policy reasons, i.e. the President`s planned visit to the USA, or to the genuine shift in policies, yet remains to be seen.

## ECONOMIC FREEDOM



### Security of Property Rights

Private property is not well respected in Azerbaijan. Judicial process is not reliable, mainly due to the influence of political elite over the judiciary. Legal proceedings could thus fail to be impartial. Out-of-the-court procedures, such as arbitration or mediation are not developed. An area of concern is implementation of the law on expropriation, which can be used for private economic gains, by unnecessary appropriation or low compensation, although the law stipulates compensation that is 20% higher than the market value. However, contract enforcement is mostly effective, not taking into account slow legal procedures. Land ownership is restricted to domestic nationals, but foreign nationals can lease land for long periods of time. There are also broad restrictions on foreign ownership in different industries: foreign holdings in media outlets are limited to 33%, while in insurance companies to 10%. Besides, the state must possess majority of equity in companies dealing with oil and natural gas. Privatization process is not transparent and is prone to political dealings and corruption.

### Size of Government

Government spending in Azerbaijan stood at 38,5% of GDP in 2015, in line with other Commonwealth of Independent States (CIS) countries. Economic prospects are not positive, with slow growth in previous years and envisaged recession in 2016, due to historically low oil and gas prices, Azerbaijan`s main export



commodities. These non-tax revenues allowed for a high degree of public investment and large-scale welfare programs, leading to high social transfers. Reforming the state pension system due to occurring deficits of the Social Fund is a necessary measure in order to make the fiscal position more sustainable amid high public deficits. Public debt is expected to be more than doubled in 2016, as compared to 2014. It will be standing at 40% of GDP. Numerous state owned enterprises (SOE) are present in the economy, not just in the oil or utility sector. These SOEs often include quasi-governmental ones of near-monopoly status, with unclear separation between regulatory bodies and SOE corporate interests. An ambitious plan for privatization of public-owned companies has been drafted at the beginning of 2016, but its implementation is lagging. The overall level of subsidies and social transfers is high. 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% (22% paid by the employer and 3% by the employee) of the gross wage, thus bringing the tax wedge to a high 38%, on the average salary.

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

Business environment in Azerbaijan suffers the lack of enforceability of the existing regulatory requirements and adjacent problems. Many areas of business regulation continue to be in need of reforms that would encourage private enterprise. Azerbaijan was even named the top reformer on the Doing Business list by the World Bank in 2007/2008. Some further reforms took place, but at a much slower pace. Administrative requirements coupled with bureaucracy cost are high. Getting construction permits or connecting to electricity grid proves to be a lengthy process, to it very expensive. Introduction of one stop shop for construction permits is envisaged so as to decrease administrative burden, as all documentation could be obtained at just one state agency, instead of at – say - six. Corruption, enabled by such bureaucratic environment, is one of the major problems. On the other hand, starting a business is quick and inexpensive. There are few licensing restrictions, which was further improved by abolishment of the mandatory use of a corporate seal. Tax compliance is easier than in many neighboring countries - total number of payments is low but the actual compliance is not easy. Minimum wage is low as compared to the average wage in the country, but high social security contributions make the labour expensive, contributing to shadow economy. Labour regulations are mostly flexible: notice periods and severance pay for

redundancy workers do not increase with their years in tenure. Working hours` regulation also does not pose a significant burden, apart from more stringent working hours for female employees. 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.

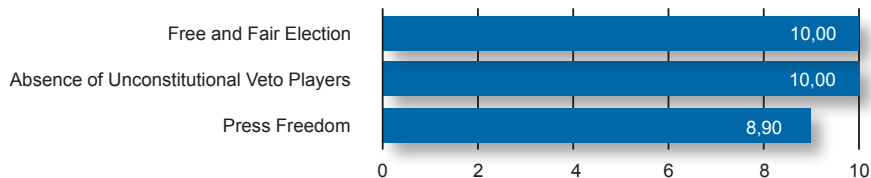
## **Freedom to Trade Internationally**

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), therefore its international trade is conducted under General Agreement on Trade and Tariffs (GATT), or bilateral agreements. WTO accession negotiation has been ongoing since 1997, but with little advance. However, the economic situation in the country calls for further involvement of Azerbaijan into global markets so as to encourage structural changes in the economy. There has been some encouragement for this stance in official government statements. Tariffs remain high, especially for agriculture products. Border compliance costs are high. Infrastructure poses yet another burden to trade. Custom administration might have a partial stance in dealings with enterprises and corruption is widespread. Standardization procedures, which are still not in line with best international practices, serve as non-tariff barriers to trade. Due to depleting of foreign currency reserves, the National Bank of Azerbaijan had to introduce new floating regime of the national currency manat, which faced strong pressures to devalue, losing approximately 48% of its value against the USD.

# BELGIUM

GDP in 2015: EUR 425,668 million		
<i>annual growth rate: 1.4%</i>	<i>per capita: 37,980 EUR</i>	<i>by sector:</i>
		agriculture 1.3%
		industry 18.6%
		services 80.1%
<i>Population: 11,209 thousand</i>	<i>Human Development Index</i>	<i>Government position in 2015</i>
Unemployment rate: 8.5%	HDI: 0.890 (rank 21)	-2.60% of GDP

## POLITICAL FREEDOM



### Free and Fair Elections

A right to choose representatives in a free and fair election is granted by Belgian constitution and fully respected in practice. Additionally, voting in all elections is mandatory, and thus refusing to do so is punishable by small fines. Belgium is a constitutional monarchy with a bicameral federal parliament consisting of the 150-member Chamber of Representatives and the 60-member Senate. Political parties are able to operate freely in the country. Complicated state structure, legal obstacles and strict linguistic lines allow parties to operate and run only in their own linguistic regions. After long negotiations, the New Flemish Alliance, the Movement for Reform, the Christian Democratic and Flemish party and the Open Flemish Liberals and Democrats managed to reach consensus on the division of governmental positions and future route of Belgium.

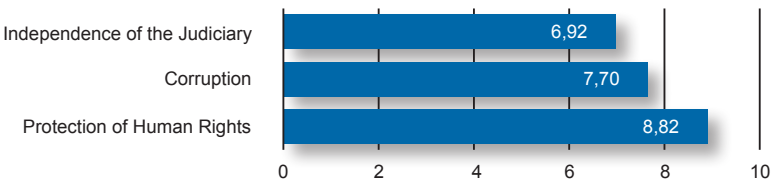
# Absence of Unconstitutional Veto Players

The power of the elected authorities to govern the country is not challenged by any unconstitutional veto player. However, security and safety of the country and its residents are threatened by terrorist cells and their activities in the country. In March 2015, a deadly terrorist attack occurred, killing 32 people and injuring more than 300 on Brussels airport and metro station. ISIS claimed responsibility for the attack. Strict penal code along with good government mechanisms to track down corruption led to very rare situations in which officials practice corrupt activities.

## Freedom of Press

A wide variety of views is freely expressed in both, traditional and online Belgium media outlets. Trend of media ownership concentration didn't bypass this country, and with that this became one of major media problems. Still, according to Reporters Without Borders, the biggest challenge remains the Belgian constitution. "While the law prohibits censorship, the constitution limits the definition of the "press" to the print media. Radio, TV and websites are not protected.", wrote their report. It is positive that defamation, incitement to hatred and Holocaust denial remain punishable by imprisonment and financial fines.

# RULE OF LAW



## Independence of the Judiciary

Independence of judiciary from the executive is a principle developed in Belgium since its independence, first as unwritten rule and later as part of the Constitution. The principle is highly respected. As Belgium had been gradually transformed into a compound federation of three linguistic communities and three regions, the role of judiciary, especially Constitutional Court, has become vital in resolving conflicts of interest between the constituents of the

federation, in preventing discrimination and in securing peaceful resolution of disputes. Besides, yet another judicial body, Council of State, as the highest administrative court in the country, plays an important role in the peaceful settlement of inter-regional or inter-communal disputes. It also deals with a number of laws or by-laws affecting human rights, freedom of commerce or other interaction between state bodies on one and private actors on the other side.

## **Corruption**

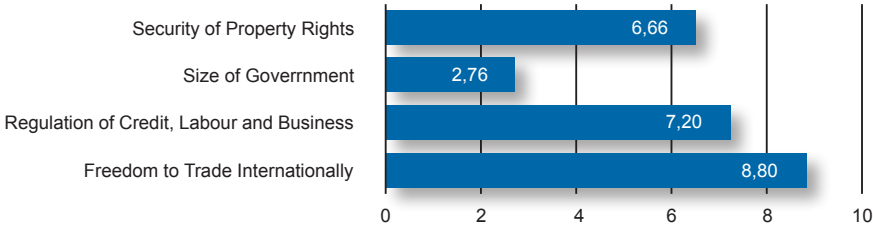
During the past year Belgium has not advanced as much as the neighboring Netherlands in eradicating corruption, mainly because of the lack of action against illegal bribery abroad. In Transparency International's Corruption Perception Index 2015 it ended up as 15th, same as in 2014, with its score slightly up - from 76 to 77. Social market economy, long experience in building anti-corruption mechanisms, trained administration and a highly developed citizens' awareness have narrowed the ground for, and led to relative rareness of corruption. That puts Belgium high among countries of the world and of the EU. Proven or suspected cases usually included just indirect responsibility of politicians, e.g. regarding EU-funded or other infrastructure contracts where tenders were won by companies favored by decision makers while not all procedures were properly implemented. Local, media-based corruption monitors claim that the number of such cases has shrunk over the last five years. They increasingly concentrate on the small scale corruption, which is estimated to be still worth 4 billion euro in total annually. The GAN portal thereby finds procurement as the most vulnerable area. A recent major corruption scandal involving the Mayor of Charleroi ended in May 2016 by his acquittal on all six charges.

## **Protection of Human Rights**

In many fields the human rights' situation in Belgium might be described as excellent, while in others there is still room for improvement. In spite of terrorism there is still a high level of personal security and safety. However, anti-terror struggle raised concerns about the protection of human rights amid some government's measures (such as prolonged police detention, electronic surveillance, databases of citizens travelling to certain countries, extraditing to countries that tolerated torture, etc). Some of those were dealt with by the country's highest judicial bodies. Along with Netherlands and some

other countries, Belgium started treating extremist propaganda as recruitment for terrorism. Very high respect is paid to women`s and girls` rights, with additional attempts by regional governments, as of summer 2015, to fight domestic violence and the adoption of the federal plan of combating gender-based violence, as of December 2015. The treatment of migrant workers, as well as of the refugees and asylum seekers, could improve. For instance, slow administrative procedure is leaving a number of them without any support. On the other hand citizens of migrant background are well represented in highest political bodies, e.g. in Parliament. Linguistic rights of the people living in areas where their mother-tongue is in minority should be implemented alongside active state and societal support to multilingualism. The discrimination of LGB persons is almost eradicated (including the recognition of same-sex marriages), but trans-persons still face inhumane or degrading demands as precondition for the legal recognition of their gender.

## ECONOMIC FREEDOM



### Security of Property Rights

Property rights in Belgium are overall well protected by law. Judiciary is independent from out-of-court influences and its proceedings are respected. However, Belgian courts are under increasing backlogs, resulting in delay and slow proceedings. Due to the fact that court system is regionalized, duration of local dispute resolving can significantly vary. The delays are usually attributed to the lack of judicial staff. Courts management is not a strong point - with lack of automation in legal processes and strict adjournments rules. In some particular cases, free change of real property ownership is somewhat restricted, calling for third party authorization (such as the right of preemption of local authorities in the case of agricultural land, social or residential housing). Registering a property, a first step in ensuring any property rights,

is a very expensive procedure, both due to high local registration fees and notary fees. Introduction of e-notariat system for electronic property registration made transferring property easier. Private property expropriation by the government is rare, only for public infrastructure projects, and always followed by adequate market remuneration. The police forces are reliable and crime does not impose significant costs to businesses.

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

Total government consumption is among the highest in Europe, due to generous welfare and redistribution programs, reaching almost 54% of GDP in 2015. Continuous public deficits have substantially increased the levels of public debt, to 106% of GDP. The ongoing fiscal consolidation gave some results in curbing public expenditures growth, and fiscal deficits are now in compliance with the Maastricht criteria. Public sector in Belgium is both extensive and expensive, and almost a quarter of the overall population is employed in the public sector. State owned enterprises (SOE) are mainly concentrated in the fields considered as natural monopolies or utilities, such as railway and postal systems, as well as telecommunications, which are even now market leaders in their respective industries. However, SOE management quality is dubious, compared to best international practice (for example, the railway system is divided into two regional enterprises, which incurs higher cost). The company tax rate is among the highest in Europe, standing at 33,99%. Income tax has very progressive rates: 25% being the minimum, and even 50% being the maximum. VAT is set at two lower rates of 6% and 12%, while the ordinary rate is 21%. Very high tax wedge which stood at 55.6% on average wage (the highest among OECD countries) due to high social security contributions and personal income tax was identified as one of the problems in line with fostering job creation. Therefore, in October social security numbers paid by the employers were reduced from 33% to 25%. The European Commission has recently concluded that tax incentives provided by the Belgian government to 36 mostly big European companies since 2005 were illegal, breaching EU state aid regulations.

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

Business regulation in Belgium is overall business friendly however bureaucracy costs could be high. Setting up a new business enterprise is easy, but includes costs due to high notary fees and relatively high minimum capital.

Tax administration is professional, with electronic services, decreasing time and cost in regulatory compliance. However, there are various expenses in dealing with construction permit and getting electricity, mostly due to high utility fees. Municipalities often lack enough capacities to access some of those processes in a good quality manner. Some fiscal regulations, such as transaction tax on purchase of private property instead of recurring annual property tax, have a negative impact on the already low labour mobility. Mandatory licensing in areas such as network industries and regulated professions decrease competition, accruing rents to insiders. Labour code law is not restrictive in the regulation of working hours or hiring section. However, firing regulations impose significant costs, mostly due to very long redundancy notice periods, which increase with the longevity of the tenure, reaching up to 7,5 months. This measure provides more job security, especially to seasoned workers, but also makes their future employment less likely due to associated risk. Tripartite negotiation via centralized collective bargaining is prevalent in certain industries and could impose constraints to businesses due to increased wage bills. The minimum wage in Belgium is very high compared to the average wage, which is yet another reason for low activity rates among the young and low skilled immigrants.

## **Freedom to Trade Internationally**

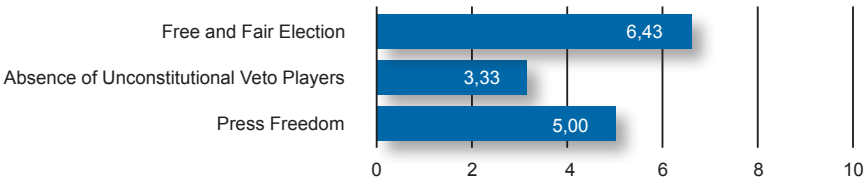
As a small and open economy, Belgium has always been open to international trade. Historically, Belgium has been one of the founding nation members of the EU. It heavily relies on the EU common market, especially on the market of the neighboring industrial countries. Belgium implements the common EU trade policy, therefore, tariffs for imported goods are low. Non-tariff and other regulatory trade barriers, such as accreditation and standardizations of import items are not prevalent. Belgium has very efficient customs and border and documentary compliance are very expeditious. In fact, it has posted an efficiency frontier in this regard. On the other hand, international freight is one of areas in which competition is not fierce, due to regulation restrictions, burdening international trade, increasing transportation costs. This is mostly also evident in areas where SOEs operate, such as railways. Public transport infrastructure is of high quality, which coupled with geographical location diminishes cost arising from international trade. Obtaining a working permit for workers that are not EU nationals is a burdensome administrative procedure. There are still some controls on movement of short term capital.



# BOSNIA AND HERZEGOVINA

GDP in 2015: EUR 14,987 million		
annual growth rate: 3.2%	per capita: 3,880 EUR	by sector:
		agriculture 7.9%
		industry 26.5%
		services 65.6%
Population: 3,863 thousand	Human Development Index	Government position in 2015
Unemployment rate: 27.7%	HDI: 0.733 (rank 88)	-0.25% of GDP

## POLITICAL FREEDOM



### Free and Fair Elections

During the observed period there were no major elections in Bosnia and Herzegovina (BiH). All political parties were preparing for local elections, which would take place in October 2016. While after 2014 parliamentary elections the government in Republika Srpska entity was relatively quickly built, it took months for parties to form a government in the country's second entity, Federation of BiH. Coalition was made in March, but it didn't last long, since reshuffle took place in October, when dominating Party of Democratic Action (SDA) and - till recently their strongest opponent - Alliance for Better Future, had reached an agreement. Generally, BiH is characterized, in the eyes of relevant international institutions, as a country with good mechanisms in place to conduct free and competitive elections. However, many irregularities, such as vote buying and abuse of state resources, occurred during the campaign or on the election-day, questioning the integrity of the process. The biggest problem

with electoral process is the discriminatory constitutional provision which denies the right to ethnic minorities – i.e. all people except Croats, Serbs or Bosniaks – to run for the Presidency or for the House of Peoples. Although European Court for Human Rights ruled that this provision should be changed, no further progress has been made so far.

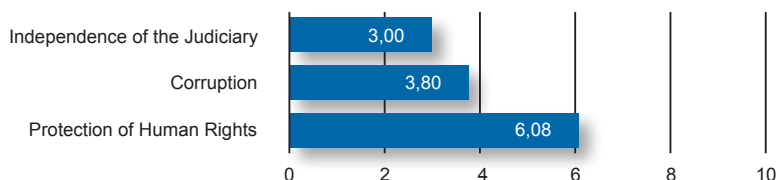
## **Absence of Unconstitutional Veto Players**

Bosnia and Herzegovina has veto players in the traditional sense of the term. The Office of the High Representative is set to oversee the implementation of the Dayton Peace Agreement and ensure representation of Croats, Serbs and Bosniaks, therefore it is empowered with the right to veto any legislation. According to the Dayton Agreement, representatives of each of the three ethnic groups have also right to put veto on legislation in order to protect interests of their ethnicity. However, that power is often abused to prevent decision making process, amid the lack of will of some or all of three sides to find common ground on country's key issues. Very complex administrative system, with a lot of gaps and weak legislative framework, created a huge space for corruption among public officials. Therefore, it is widespread in BiH. Influence of all three official religions – Islamic, Catholic and Serbian Orthodox - on the public opinion is significant and often used for indirect interference in political decisions.

## **Press Freedom**

There is a wide range of broadcast, print and online media outlets in Bosnia and Herzegovina that are partly free to express their opinion. Lack of media independence is mostly due to political pressure. Therefore, their reporting is often alongside ethnic and/or political lines. Traditionally, state companies are the biggest advertisers, often using their economic power to influence the media content. Political influence is even more obvious in public broadcasting, especially on the Radio Television of Republika Srpska, which is perceived as direct mouthpiece of the entity's government. Intimidation and harassment of journalists critical towards authorities is common in both the Federation of BiH and the Republika Srpska. Rate of convictions for such a behavior remains very low.

## RULE OF LAW



### Independence of Judiciary

Amid rising dysfunction of government, especially at the central level, judiciary is trying to keep its autonomy and its control function vis-a-vis executive at various tiers. It is fragmented to four systems, with responsibilities that are not clearly divided. It is under increasing pressure by politicians, undermining its previously achieved degree of independence. The outside pressure hinders efficiency as well - the backlog of cases is diminishing slower than expected. Prisons are overcrowded, while prisoners' rights are often violated. The political pressure is especially strong regarding high corruption cases, where numerous investigations were blocked, or regarding cases of vote buying. Besides, there is a demand from the BiH's entity RS to change the composition of the Constitutional Court by dismissing the last remaining foreign judges. On two occasions, in 2011 and 2015, the RS leader Milorad Dodik threatened with a referendum to delegitimize the authority of BiH's courts or prosecutors in RS, but he receded. Other eventual controversial referenda initiatives are not to be excluded.

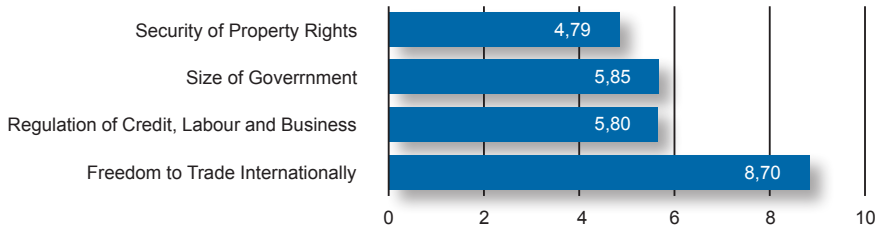
### Corruption

Partitocracy at all (of the six) tiers of government, huge public sector, high spending, and unclear division of responsibilities along with poor coordination between anti-corruption actors are the main factors that nurture a very high level of corruption in BiH, placing it behind all its neighbors. In its Corruption Perception Index 2015, Transparency International has put BiH, with the score 38, to the place 76 (of 168 countries), which was yet another decline from the scores 42 and 39 in 2013 and 2014 respectively. In its 2015 Report on BiH, European Commission recommended better funding of and coordination between anti-corruption bodies, improvement of legislative framework - including in the area of political party funding - and to heighten the effect of deterrence via tougher penalties for corruption.

# Protection of Human Rights

Although there is, throughout BiH, less denial of war crimes as such, the denial of genocidal nature of the crime in Srebrenica is still a norm in the RS, considerably hindering reconciliation while heightening tensions. Ethnocentrism with elements of hate speech dominates curricula in ethnically segregated BiH's schools. Similar case is with many other institutions, where ethnicity as criteria for employment or advance in work comes first, political affiliation second and nepotism or corruption follow the way. ECHR ruling as of 2009, on the equal access to the highest political positions by non-members of any of the three "constituent" ethnicities, is not implemented so far. Citizens in a minority position are discriminated in many local environments. Romany are especially endangered. Gender equality is all too slowly getting through. Reported domestic violence is often not responded by police in rural areas. Human trafficking remains as a huge problem. Homophobia is stronger than in any of the neighboring countries. In both entities there have recently been pressures on the NGOs, while in RS there are also attempts to limit the Internet freedom (namely social networking) for the sake of keeping "public order" (in reality, for preventing the citizens to self-organize for large-scale anti-government protests).

# ECONOMIC FREEDOM



# Security of Property Rights

Private property rights are not adequately protected in Bosnia and Herzegovina. One of the most important problems in the country remains to be weakness of the judiciary: courts are partial in their decisions and can be influenced by external factors, politicians or powerful private interests. Corruptive practices within the judiciary are also present. The judiciary system has many backlogged cases, leading to prolonged legal processes. Judicial process, as

well as enforcement of legal contracts, is slow and inefficient. Courts do not uphold time standards, and the number of adjournments is not prescribed. Many judges in commercial cases also do not possess knowledge or experience for cases that require specialization. Furthermore, commercial cases are often not regarded as those to which priority should be given. Bankruptcy procedures do not put sufficient emphasis on rehabilitation or reorganization of companies, and furthermore insolvency procedures are met with very low recovery rates. Registering property is a very long but also expensive procedure, due to very high property transfer tax. Great proportion of land does not have a clear title, due to restitution process. Different entities' real property cadastre services, as well as the role of municipality courts in land registry, further complicate the situation. The issue of property rights of internally displaced persons and refugees remains open, due to inefficient proceedings of the Commission for Real Property Claims of Displaced Persons and Refugees.

## **Size of Government**

Size of government in Bosnia and Herzegovina is huge. High social spending is one of the reasons for the situation, while direct government involvement in the economy is another. Government consumption is high, reaching 44% of GDP in 2015, but in line with many other European countries. Government bureaucracy is overwhelming, and with a blatant wage bill, as a direct legacy of the war with many different tiers of government competing for authority and resources. Although wide-scale privatization process was conducted, there are many state-owned enterprises (SOE), in many different fields that are usually left to open markets in other countries. Many of those SOEs are inefficient, heavily relying on government indirect or direct subsidies, and with high arrears. Some SOEs are divided alongside entity lines, disabling them of using economy of scale and of increasing their efficiency, for instance in the railway sector. Economic growth has recently picked up to 3% of GDP, but continuous budget deficits have increased the public debt to almost 45% of GDP in 2015. In May 2016, an International Monetary Fund mission in Bosnia and Herzegovina came to an agreement with the government regarding a 3-year program of Extended Fund Facility. The program is conditional, should the government implement a set of various measures (unofficially called the reform agenda) aiming at increasing the productivity of public sector, improving the business environment, decreasing the level of public debt through moderate fiscal

austerity measures and safeguarding financial sector stability. Corporate and personal income tax are flat and both are set at 10%. VAT is low for European standards – only 17%, without a preferential rate. However, social security contributions are very high (with different rates in the two entities), leading to a high labour tax wedge.

## **Regulation of Credit, Labor and Business**

Regulation of entrepreneurial activities in Bosnia and Herzegovina is not too business-friendly, with excessive red tape and prevalent corruptive activities. Most burdensome factors for doing business in Bosnia and Herzegovina come from the realm of politics: inefficient government bureaucracy, policy and government instability as well as corruption. Starting a business is a very slow procedure, burdened with bureaucracy and includes not only notaries but also municipal courts and various other bodies; it also incurs high costs not only due to high fees but also due to a high minimum capital requirements. Obtaining a construction permit and getting electricity are similar, in bureaucratic requirements, long processes and high costs. Compliance with tax regulation involves a high number of payments, with complicated and inconsistent procedures, of which the area of parafiscal surcharges is a clear example. Recent introduction of labour codes in both entities reflected the need to streamline the complicated procedures in hiring and firing and to introduce more flexibility. Those procedures are, however, still burdensome, with fixed contract duration of only 24 months and severance pay that is increasing with years in tenure, protecting more seasoned workers. Minimum wage is high relative to the average wage, and was recently increased in the Federation of BiH entity by 10%.

## **Freedom to Trade Internationally**

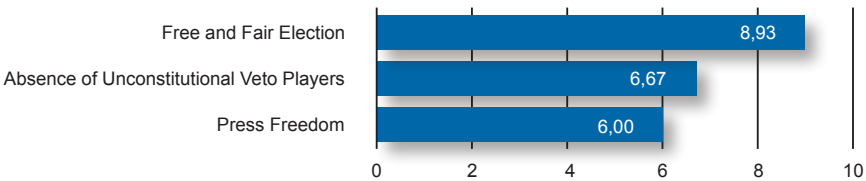
Freedom to trade internationally is generally respected in Bosnia and Herzegovina. Tariffs are mostly low, but somewhat higher than in the European Union, with the average applied tariff rate of 6.4%. Bosnia and Herzegovina is the only country alongside Serbia, from the South East Europe region, that is not a member of the World Trade Organization (WTO). The accession process came to a halt with the last session of the accession working group held in 2013. Main Bosnian trade partners are the European Union (especially Croatia and Germany) and countries from the region (Serbia and Montenegro). Therefore, majority of trade is conducted under the Stabilization and Association Agree-

ment (SAA) and Central European Free Trade Agreement (CEFTA). Croatian accession to the EU led to a change in custom treatment of Croatian agricultural products, with imposed higher tariffs. Regulatory trade barriers in the field of certification and quality standardization pose significant obstacles to free trade. Furthermore, custom service is not well organized, with inefficient or complicated procedures, while corruption and partial treatment are still present in the sector. Further EU accession process is envisaged to lower non-trade barriers and further liberalize international trade. But the process is progressing slowly and Bosnia is still only a potential but not yet an official candidate-country. The lack of political will within the country to conduct necessary reforms puts Bosnia in a gridlock. Trade liberalization would also be achieved through the long awaited WTO accession. The Law on Internal Trade stipulates a discriminatory measure that 50% of all items in retail chains must be of domestic origin.

# BULGARIA

GDP in 2015: EUR 45,869 million		
<i>annual growth rate: 3.0%</i>	<i>per capita: 6,410 EUR</i>	<i>by sector:</i>
		agriculture 5.1%
		industry 27.6%
		services 67.2%
<i>Population: 7,154 thousand</i>	<i>Human Development Index</i>	<i>Government position in 2015</i>
Unemployment rate: 9.2%	HDI: 0.782 (rank 60)	-2.87% of GDP

## POLITICAL FREEDOM



### Free and Fair Elections

The government remained stable throughout the observed period, aside from some oscillations in coalition relations, e.g. when the most dominant Citizens for European Development of Bulgaria (GERB) party looked for the parliamentary majority for certain law proposals among the opposition parties. GERB confirmed its current domination, with Boyko Borisov as prime minister, at local elections in October 2015, by getting seats and Mayors in almost all local governments. Elections were relatively free and fair, but vote buying, controlled voting and other violations marred the process, questioning its fairness. The President of Bulgaria, Rosen Plevneliev, submitted once again a motion on a change of electoral system at a referendum. This time the parliament approved the referendum, but cut out from his proposal everything else except the introduction of electronic vote. The referendum wasn't successful due to insufficient turnout, which remained under the 20% threshold. Electoral law still



prohibits campaigning in other languages than Bulgarian, limiting electoral participation by the minority groups, which mostly serve as sources of electoral fraud and vote buying practices. The regular changes in the legal framework for conduct of elections undermine the credibility of the electoral process and has been largely criticized by domestic and international observers.

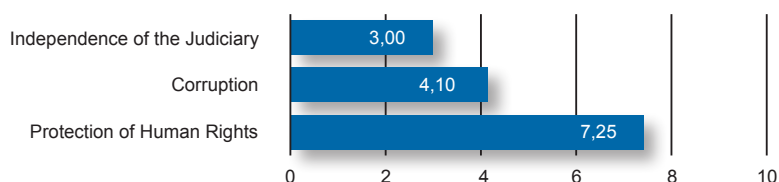
## **Absence of Unconstitutional Veto Players**

There are no traditional unconstitutional veto players in Bulgaria which can interfere into government decision making process. However, high criminal rate and strong link between ruling political elite and wealthy oligarchs with their business interests are seen as a threat to democratic procedures in the country. Law proposal for fighting high level corruption entered into parliament in September, but some coalition partners voted against it and law didn't pass. This could have a negative effect onto government efforts to tackle this burning issue, by showing that there is no unity between political actors on how to do it.

## **Freedom of Press**

Freedom of the press is granted by the constitution in Bulgaria, but in practice this freedom declines rapidly. Huge political and editorial pressure on journalist reporting, high polarization of media and concentration of non-transparent ownership made the damage to the image of the press in the country. The Financial Supervision Commission was accused by many outlets to censor media freedom by imposing the large fines. It is the last of all European Union countries on the Reporters without Borders 2016 World Press Freedom Index, capturing a very low 113th place out of 180 countries. Bulgaria has wide range of traditional and online media outlets which are expressing diverse opinions. However, informing from various media sources is recommended for having a complete picture on a topic. In this grayness, a joint declaration by major political parties that they will not to use online sphere for "dirty" campaign activities can be seen as the only positive act.

## RULE OF LAW



### Independence of the Judiciary

Judiciary in Bulgaria is still implementing the most basic EU standards. In Global Corruption Barometer 2013 it was perceived as the most corrupt part of public life. Since then, there were some small improvements. But political influences are still multiple, rather in high than in local judiciary. Backlog of cases and their allocation, itself suspected to be politically motivated, are also often a matter of dispute. There is a public mistrust in ombudsman bodies. Situation in prisons is bad. Long-debated judicial reform was partially implemented in December 2015. New constitutional amendments divided the Supreme Judicial Council to two entities, overseeing judges and prosecutors. But, the additional package of judicial reform, expected to reduce political influence on courts, was rejected by the Parliament, amid sharp disputes within the ruling coalition.

### Corruption

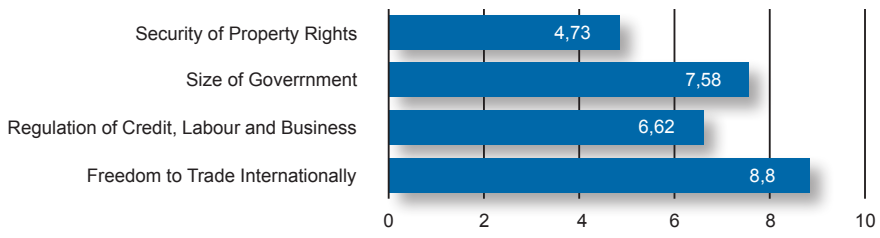
Since 2007, Bulgaria regressed in fighting corruption, at least in relative terms. According to Transparency International's Corruption Perception Index 2015, it stagnated as compared to 2014, with the score 41, placing her as 69 (of 168). During the past nine years, in spite of EU-compatible laws, the state remained captured by the alliance of political and corporate oligarchy, organized crime, partially reformed secret services and biased traditional media. As a participant in corruption, foreign authoritarian regimes are also present, through special intelligence operations or facade companies. A glimpse of hope might be found in local politics. The integrity of local authorities in Bulgaria is perceived as higher than of those at the national level. Transparency International-Bulgaria conducted a research into integrity in local governance and created the LISI index. Overall, the mark (1-5, between worst and best), that citizens gave to segments of local government or administration, varied as follows: municipal administration (3.81), local councils (3.69), Mayors (3.57),

local courts (3.17), CSOs (3.04), police (2.85), media (2.69), political parties (2.68) and businesses (2.44). Geographically, the highest trust in the integrity of local authorities is in Sofia and Burgas (3.59 each), while the lowest is in Haskovo (2.75) and Varna (2.83).

### Protection of Human Rights

Treatment of ethno-linguistic minorities is dubious – even though they generally enjoy their rights in education and media, use of minority languages is limited in some areas of public life, such as politics. Hate speech against minorities – Turks, Romany, Jews, Slavic Muslims, or “new” ones such as refugees – is present in broad public as well as in media according to Amnesty International with certain politicians using highly nationalistic and xenophobic rhetoric. Vigilantism against illegal border crossing and torturing the captured migrants by the self-proclaimed “defenders of citizens” was even praised on some local TVs, although police has subsequently arrested and processed the perpetrators. The building of a wall along the southern border with Turkey has been largely criticized by human rights organisations. Discrimination affects Romany (in employment, education, health care and housing), women (in political institutions, regarding equal pay and in protection against domestic violence) and LGBTs (whereby they are somewhat protected as individuals from the widespread homophobic bias, but their partnerships still lack any recognition) according to Freedom House. Trafficking of women and children for forced labor, or prostitution, or begging, is a huge problem, with Romany as the most vulnerable group due to their extremely low income basis and education. Positive side includes academic freedom, huge operational space for NGOs, and freedoms of speech, assembly and movement.

### ECONOMIC FREEDOM



## **Security of Property Rights**

Private property rights are not firmly protected in Bulgaria. As in other countries of the region, main problems arise from the weakness of the judicial system – strong out-of-court vested interest groups can strongly influence legal proceedings. Judiciary is one of the least trusted institutions in society. Constitutional amendments enacted in December 2015, aiming at promotion of judicial independence and transparency in selection process, are yet to be implemented and give results. Inefficient legal processes result in a significant backlog of cases, limiting the right to a legal proceeding in a reasonable timeframe. Enforcement of contracts is slow and inefficient, and comes at high costs. Resolving insolvency is even more so, with a very low recovery rate. Property registration is burdened with many unnecessary procedures and high notary fees. There are no prevalent restrictions on foreign ownership, apart from certain ones regarding companies registered in offshore jurisdictions, in 28 areas and industries. Even this law is lax, because it does not apply to offshore companies whose owners are Bulgarian citizens or whose parent company is publicly traded. Private property can be expropriated by the Cabinet of Ministers or local governors, but at a market price, and court litigation against these acts is possible.

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

Government expenditures in Bulgaria are much smaller in comparison to other European countries, reaching only 38.7% of GDP in 2015. Although economic growth has picked up and unemployment is falling, Bulgaria still remains one of the poorest countries in the EU, with slow income convergence. Fiscal stance has recently been improved - the deficit was reduced to 2.9% of GDP in 2015. It is expected to decrease further due to accelerated growth and stronger tax performance. Public debt is low by European standards, reaching 26.3% of GDP in 2015, although still well above the pre-crisis level. However, weak performance of the banking sector as well as malfunctioning of major state-owned enterprises still poses a fiscal threat. Furthermore, indirect government subsidies to inefficient SOEs remain high. Apart from public utilities, SOEs are present in various industries, but are most notable in energy sector and transportation. Privatization of the Bulgarian freight railroad company was cancelled because there were no interested parties to it. Apart from privatization, public private partnerships (PPP) are also considered, especially for national airports. Relatively low level of public spending leaves room for lower

taxes: both personal income and corporate tax are flat and are set at 10%. VAT stands at the standard rate of 20% and the preferential one of 9%. However, high social contributions make labour tax wedge significant. Shadow economy is widespread, creating up to one third of the GDP.

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

Bulgarian regulatory framework is mostly business-friendly, but there are many problems. Corruption of public servants, inefficient government bureaucracy and policy instability are considered as the problems affecting further improvements of business environment the most. Inconsistent application of laws, e.g. fostering favouritism by state officials, is another negative feature. Starting a new business is inexpensive but not very expedient - this procedure has recently been made easier by lowering registration fees. There is no minimum paid in capital. Obtaining electricity connection is very expensive due to high fees to the utility company. Tax regulations are overly complicated and burdensome, requiring long hours to comply, but overall number of payments is not high. Labour regulation in Bulgaria is flexible. Collective bargaining is mostly limited to public sector employees, through the tripartite social dialogue, and is quite rarely present in private sector. The minimum wage is not considerably high, relatively, i.e. as compared to the average salary. It saw a small increase in July 2015, to 380 levs. Furthermore, hiring and firing procedures, and above all working hours, are also flexible, with temporary contracts limited to 36 months, and redundancy notification period and severance pay staying flat, while not increasing with the number of years in tenure. The government has created a list of 85 different reform policy measures in order to further improve business environment. However, their implementation is yet to materialize.

## **Freedom to Trade Internationally**

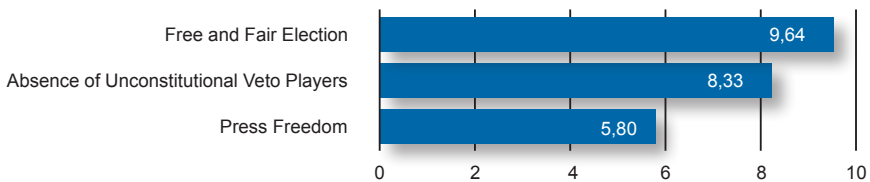
Freedom of international trade is upheld in Bulgaria. Being an EU member state, it implements the EU common trade policy, which is mostly liberal, with overall low tariffs. Average applied tariff rate stands at 5.3%. However, agricultural products are on average more protected than the industrial ones. Thus, Bulgarian foreign trade is generally liberalized, but complicated and expensive standardization requirements for imported goods often create regulatory non-tariff barriers to trade. Customs office documentation compliance procedures are quick and inexpensive. However, corruption in the department remains

an issue. Inadequate transportation infrastructure - both railways and roads - increases freight costs, thus burdening international trade. Bulgaria's main export markets are fellow EU member countries (Germany, Italy, Romania, France and Belgium), followed by Turkey, with similar patterns in imports (hereby with a more prominent role of Russian Federation as the main energy supplier). Bulgaria, alongside Romania, Croatia, Ireland, Cyprus and United Kingdom, is still not a part of the Schengen area. Controls on capital inflows and outflows implemented by the Bulgarian National Bank are still prevalent.

# CROATIA

GDP in 2015: EUR 45,772 million		
annual growth rate: 1.6%	per capita: 10,840 EUR	by sector:
		agriculture 4.3%
		industry 26.2%
		services 69.5%
Population: 4,221 thousand	Human Development Index	Government position in 2015
Unemployment rate: 16.9%	HDI: 0.818 (rank 47)	-3.20% of GDP

## POLITICAL FREEDOM



### Free and Fair Elections

Croatia had a very intense electoral year. Presidential elections and electing of Kolinda Grabar Kitarović for President, showed a continued domination by two major political parties, namely Social Democratic Party (SDP) and Croatian Democratic Union (HDZ), and indicated possible trend of public support for political parties at November parliamentary elections, respectively. Elections were free and fair. The process was professionally and effectively carried out. HDZ won elections by a narrow margin once again, gaining 59 seats, while SDP gained 56. The third party was the newly created MOST, which benefited from social dissatisfaction with politics in Croatia. None of the parties had enough seats to form the government and MOST had a decisive power. After lengthy negotiations they formed a government with HDZ. However, elected government didn't last long, due to corruption scandals. It was voted no confidence in June 2016. Since nobody was able to rebuild a majority, President scheduled

new parliamentary elections for September. Minorities are represented in the parliament, with three reserved seats for Serb ethnic minority and five seats for all others.

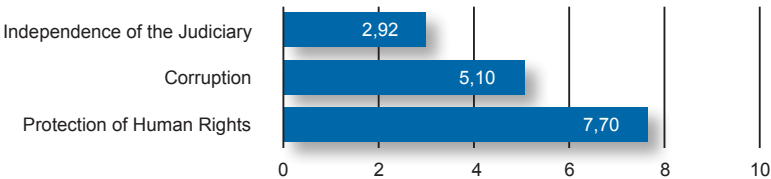
### Absence of Unconstitutional Veto Players

Power of the Croatian authorities to independently make decisions and govern the country isn't endangered by any interest group or individual. It's rather that corruption and strong business interest by politicians can undermine democratic procedures. Recent overturn of conviction of former HDZ Prime Minister Ivo Sanader, as well as an easy release from the pretrial detention by some other high ranking officials, questioned independence of judiciary from political influence, and thus the effectiveness of the system of checks and balances in the country. Although it is not veto power in the country, the Catholic Church in Croatia has significant impact on public opinion and doesn't hesitate to express opinion on domestic political issues either directly or via proxy organizations. Also, war veterans that make up the ninth of the population can indirectly influence some political processes.

### Press Freedom

Freedom of the press in Croatia is granted by the Constitution. However, in practice wide variety of media outlets are only partly free to independently express their views. Due to the struggle for economic survival and poor job conditions most of the journalists, while reporting, are taking into account owners` preferences, their political interests or preferences of the advertisers. Defamation is punishable by the law with large fines and up to three years in prison. Transparency of media ownerships remained blurred throughout the observed period. Several cases of harassment and attacks on journalists happened. They often went by with impunity.

### RULE OF LAW





## **Independence of Judiciary**

Improvements in the independence and professionalism of the judiciary mostly owe to the reforms carried immediately prior to Croatia's accession to the EU in 2013. As compared to any neighboring country, the situation is now either similar or better. Judicial efficiency and efficacy are, however, still a problem. There is a considerable backlog of cases. In a litmus-test case, against former PM Ivo Sanader, for alleged grand-scale corruption, the Constitutional Court overturned the initial guilty-verdict and ordered re-trial, while the Supreme Court ordered his release on bail. War crimes' justice is still selective, but at least staged trials are matter of the past. The currently most important trial in the field - against a well known Serb rebel commander as of 1991/1992 - is so far running lege artis. Except for the (EU-mandated) "Perković Case", nothing is done to abolish the de facto impunity for the pre-1990 political terror against dissidents by communist secret services.

## **Corruption**

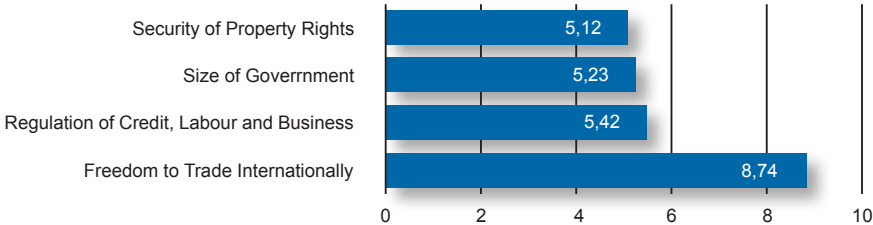
In political as well as everyday life, the beneficial effects of the reforms implemented immediately prior to Croatia's 2013 accession to the EU are increasingly felt. Political party financing has been under better scrutiny of the anti-corruption authorities, civil society and media. Petty corruption has regressed or became less open and visible. Court procedures for high level corruption (such as against former PM Ivo Sanader) are dragging on, but at least societal pressure against politicians who disobey the rules is much stronger. Thus, in June 2016, the coalition HDZ-Most government fell, new elections were called and the leader of the biggest party HDZ (himself a vice-premier) Tomislav Karmarko resigned due to his obvious conflict of interest and possible corruption. In the Transparency International's Corruption Perception Index 2015, Croatia improved as compared to 2014. It was ranked as 50<sup>th</sup> (of 168). Its score rose from 48 to 51.

## **Protection of Human Rights**

Some of the human rights in Croatia (notably minority rights) are hostage to ideological disputes and political strife between the centre-left (former communists) and the centre-right (former hard line nationalists). Denial of one or another set of war or other state-facilitated crimes, be it during the WW2, or in

the communist period, or during the Homeland War, is - selectively - practiced by almost every political party. Recently, human rights advocates had reasons to fear. In two election campaigns, as of 2015 and 2016, the main players revisited and revised history, practiced or tolerated hate speech, or polarized society over issues that should normally be a matter of widely accepted human rights (minorities, LGBTs, women`s rights). However, the change on the top of HDZ and the likely change on the top of the SDP are promising a halt to this hate-speech contest. Some analysts reckon that Croatia has avoided its own “Orbanization”. The position of women is better than in neighboring Slovenia or Hungary. The attempt to introduce almost full marriage equality fell at a referendum, but, instead, same-sex partnerships were legalized, albeit against the enduring opposition of the religious Right. Anti-abortion vigilantism is tolerated by authorities at various levels, whereby vast majority of public prefers the (pro-choice) status quo. Secularism is endangered in education, where sex-ed - but other curricula as well - are under pressure from religionist lobbies. Concerning rights and treatment of refugees, according to Freedom House, “Croatian authorities generally complied with international standards”. Refugees were the occasion but not the cause of the two-days` long trade-and-customs “war” between Croatia and Serbia in September 2015, whereby the EU successfully facilitated reconciliation.

## ECONOMIC FREEDOM



## Security of Property rights

Private property rights are overall adequately protected in Croatia. However, inefficiency within the judiciary system creates problems very similar to the ones prominent in other countries in the region: judicial independence is not guaranteed and there is partiality in court proceedings. Legal enforcement of contracts is very slow and incurs high costs, although judicial processes

are well established. There is still a significant backlog of unresolved cases, which further fuels duration of legal processes. However, redistribution of non-disputed cases to public notaries was a positive step in alleviating this problem. Another positive step was introduction of an electronic system for sales of movable assets. Procedures for resolving insolvency are also very slow, with low recovery rates. The process of cadastre service improvement is underway, in order to make the situation regarding proprietorship of objects clearer and strengthening property rights. Registering property is burdened not only by inefficient Land Registry Courts, but also by a very high property transfer tax. Property rights over land and over buildings are separated, which could create complex situations. Acquisition of agricultural land for foreign nationals is restricted, but it can be leased or obtained via legal entity registered in Croatia. There are also restrictions on foreign ownership or control in several areas in Croatia, most notably in transport and freight sectors, as well as in publishing and broadcasting.

## **Size of Government**

Size of government in Croatia is very broad, and general government consumption reached 47% of GDP in 2015. Croatia is one of the countries that experienced several recession waves during past couple of years, finally registering economic growth in 2015. Still, the growth rate is sluggish, fuelled mostly by a moderate growth of exports and tourism. High public deficits during previous years accumulated a high growth rate reaching 86.7% of GDP in 2015. Deficits led Croatia to enter the Excessive Deficit Procedure of the European Commission in 2014, aiming to curb the deficit below the Maastricht criteria. Very good public finance performance, which decreased the deficit from more than 5.5% to 3.2% of GDP in the previous year, is attributed to higher revenue due to growth, lower investment of public-owned enterprises and some fiscal adjustments, thus making room for Croatia to leave the EDP soon. The privatization program in Croatia is not yet completed, since there are still many government enterprises active, in many sectors, not confined just to public utilities or transportation. Some of those companies operate inefficiently and pose a heavy drain on public finances. Corporate income tax in Croatia stands at 20%, while personal income tax has progressive rates of 12%, 25% and even 40% for the highest earners. VAT is also at a very high level of 25% (the highest level allowed within the EU), with lower rates for certain products, of 13% and 5%.

High social contributions, coupled with the income tax, lead to a high labour tax wedge of 41%, much higher than the OECD average.

## **Regulation of Credit, Labor and Business**

Market regulation in Croatia does not provide a business environment conducive to entrepreneurial activities. Inefficient government bureaucracy and policy instability remain the biggest obstacles, coupled with high tax rates. Starting a business takes some time, but also includes high paid in minimum capital. Getting electricity also incurs high cost due to high utility fees, although it is a streamlined procedure. Obtaining a construction permit is both slow and expensive, with as many as 19 necessary different procedures. Tax regulations are also complicated and difficult to implement in practice, with a high number of annual payments. Prevalence of corruption among public officials remains among the problems, allowing for biased treatment of economic actors. Para-fiscal surcharges are widespread and high, while licensing restrictions pose barriers to entry to many professions. Labour code has been amended several times now, aiming to increase flexibility in the labour market, but some of the rigidities remain. Major changes in 2014 introduced flexible working hours, eliminated maximum duration of fixed-term contracts and redundancy obligations. Duration of notice periods and severance pay package increase with the years in tenure, providing security for more seasoned workers, but also imposing cost on their employment.

## **Freedom to Trade Internationally**

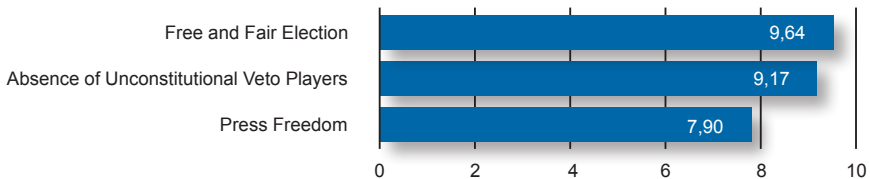
Trade freedom in Croatia is mostly respected. Croatia has been a member of the World Trade Organization since 2000 and a member of the European Union since 2013. Therefore, it has been implementing the common EU trade policy, with overall low tariffs (average applied tariff rate is 5.3%), which are more pronounced only for agricultural products. However, non-tariff trade barriers in the form of regulations and standardization of imported goods continue to pose obstacles to free trade. Efficient customs office does not burden import and export process with complicated procedures, thus promoting trade. While the quality of road and port infrastructure is satisfactory, bad condition of railroads poses significant bottlenecks, hindering trade and elevating freight costs. Trade with other countries of the region, with whom Croatia had established the Central Europe Free Trade Area (CEFTA) prior to its EU succession, has subsequently been implemented under respective Stabilization and Acces-

sion Agreements. Main trade partners of Croatia are other EU member states of geographical proximity, or CEFTA countries from the region: Italy, Germany, Slovenia, Serbia and Bosnia and Herzegovina. Controls on inflow of short-term capital remain in action by the National Bank, which is mostly connected to the exchange rate policy of the national currency, the kuna. In September 2015 there was an incident in which Croatian - Serbian border was closed down due to political issues, but after an intervention from Brussels it came to a quick conclusion.

# CZECHIA

GDP in 2015: EUR 173,491 million		
<i>annual growth rate: 4.5%</i>	<i>per capita: 16,460 EUR</i>	<i>by sector:</i>
		agriculture 2.5%
		industry 37.3%
		services 60.2%
<i>Population: 10,538 thousand</i>	<i>Human Development Index</i>	<i>Government position in 2015</i>
Unemployment rate: 5.0%	HDI: 0.870 (rank 28)	-0.41% of GDP

## POLITICAL FREEDOM



### Free and Fair Elections

All recent elections in Czech Republic were considered as free and fair. Government elected in 2013 was stable throughout the observed period, although some disagreements between them did occur. The biggest challenge to government stability was the call for no confidence vote by the opposition in the parliament. It was about the conflict of interest by Andrej Babiš, Minister of Finance and wealthy businessman. However, it wasn't successful. In order to increase transparency of the electoral process, the government proposed a bill to establish institutions which would among other tasks oversee party funding prior to and during the campaigns. Czech Republic is a bicameral parliamentary democracy – the parliament consists of the Chamber of Deputies and the Senate.

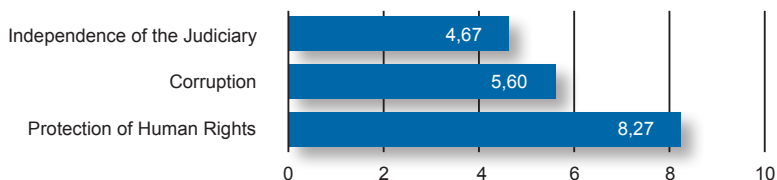
### Absence of Unconstitutional Veto Players

Czech Republic doesn't have unconstitutional veto players in the country. Democratically elected government officials have effective power to govern and system of checks and balances is in place. However, frequent confrontations between President Zeman and the Government blocked the legislative branch for several months each, throughout the 2015. Government has effective mechanisms in place for dealing with corruption, which is not that present as in other Central European countries. In July, an amendment was adopted in the parliament that aimed to raise transparency over politicians' assets. Still, some cases of high profile corruption happen from time to time.

## Press Freedom

An independent media and effective system of checks and balances are set to ensure freedom of the press in Czech Republic. Media outlets are expressing wide variety of views. Till recently, most of the ownership belonged to the foreign investors, but the trend started changing when Czech media groups bought some prominent media outlets. This process of concentration of media ownership is in particular present in printed media sector. Current Minister of Finance, Andrej Babiš, played an active role in this process as his companies bought the second largest media holding in the country MAFRA in 2013. Investigative journalism is highly developed in this country as well. It's been mostly present in new media outlets, established by journalists who had left out media houses owned by Babiš.

## RULE OF LAW



## Independence of Judiciary

Czech judiciary has reached a high degree of independence from politics or other outside influence. Corruption is therein not easy to detect. In the Transparency International's Global Corruption Barometer 2013, 52% of the citizens thought judiciary was to some degree corrupt (but less than other two branches of government). In its Freedom in the World 2016 report, Freedom

House quoted the country's counter-intelligence agency finding that "very sophisticated" corruption was actually present in judiciary. It is estimated that law enforcement agencies are more often under political pressure or corrupted, while the courts by and large obey the rule of law in civil or criminal matters.

## **Corruption**

In Czech Republic, corruption is the biggest stain on the otherwise advancing rule of law. Because of the latter, Czechia has been a lighthouse for many transition countries and a desirable destination for foreign investors ever since 1989. Regarding corruption, the situation is worse than in - comparable - Poland, while better than in the formerly compatriot Slovakia. In the Transparency International's Corruption Perception Index 2015, Czechia is ranked 37 of 168 (with South Korea and Malta). Corruption is present in high politics. Well connected business people are favored in public procurement. In the anti-graft struggle, government does not hesitate to let its own important people down – in July 2015, former MP and regional governor from the ruling ČSSD party was sentenced to eight and half years for bribery (the case is still opened). Citizens perceive political parties and public services as the worst affected areas. Tax evasion by SMEs at the local level is often accompanied with petty-corruption.

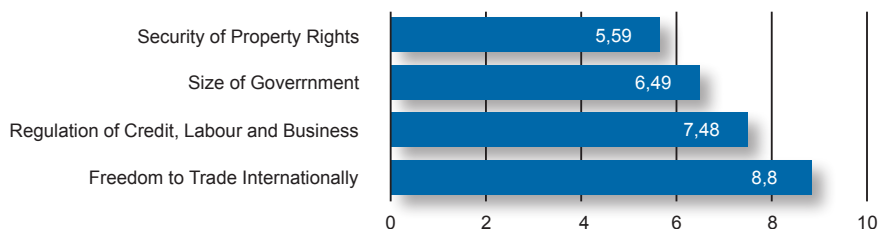
## **Protection of Human Rights**

Post-communist lustration in Czechia was conducted thoroughly, during the early stages of transition, thus diminishing the danger of accusing the wrong people. Since 1989, the human rights' situation has seen improvements for which other European countries needed many times over. Regarding personal safety, or access to education and academic freedom, or freedom of speech, assembly or movement, most Czech citizens do not need to envy their most advanced EU neighbors. As for some groups, though, situation is far worse than elsewhere in the region. Romany are still discriminated in education, employment and housing. Forced sterilization of Romany women, that went on 1966-2012, is still matter of lawsuits and unmet demands for compensation. Romany-phobia is very strong nonetheless, whereby hate speech is a normal part of everyday street communication. Hate speech is normalcy also when targeting refugees, even by highest ranking politicians such as President. Czechia refused to participate in the inner-EU quotas for the settlement of refugees and asylum seekers. LGBTs are somewhat better protected of discrimination or hate-speech (besides, same-sex partnerships are regulated),



but adoption rights and identity rights of trans-persons are seriously restricted. Women are under-represented in politics or high echelons of business, while harassment at work, as well as human trafficking of women and children for the purpose of sexual exploitation, still pose a serious problem.

## ECONOMIC FREEDOM



### Security of Property Rights

Property rights in the Czech Republic are mostly protected. Expropriation of private property is possible only in cases of public interest and with suitable monetary compensation; this measure is rarely used. However, judiciary is still prone to many problems, some of which are the perceived low judicial independence and partiality in court dealings. Although judiciary is clearly separated from the executive power, there are informal ways of influencing some court proceedings. Court decisions may vary from court to court, which could also be attributed to adoption of the new Penal and Civil Code, alas, without a new procedural law which would clarify their implementation. Very slow enforcement of contracts is a big problem, both in trial and judgment and enforcement of judgment. The procedure is also very expensive, up to one third of the claim. Slow pace is in some instances connected with the lack of familiarity with commercial cases among judges. There are no special commercial courts but only general courts. Re-solvency procedures are also long, but with high recovery rates. Registering property involves high fees and procedure, due to inefficient cadastre office. Foreign nationals - since 2012 - have got the right to acquire real estate or even agricultural land. There are certain industries with limitations or registration restrictions of foreign ownership, most notably in banking, insurance and media.

## **Size of Government**

Size of government in Czech Republic is not excessive as compared to other European countries, but in line with most post-transitional countries of the region. Public expenditure reached 41.8% of GDP in 2015, almost leveling the revenues. At the same time, public deficits are minute, only 0.4% of GDP, allowing for the decrease of moderate public deficit, that stood at 40% of GDP. Growth has been stable, supported by surge in exports and better absorption of EU cohesion funds for infrastructure. State-owned enterprises (SOEs) are present in several sectors considered as strategic: energy, postal service, information and communication, and transport, but they are not numerous and do not dominate the economy. The state also has equity in two small banks and an insurance house. SOEs follow the same rules as private companies and are not in a privileged position on competitive markets. However, there are accusations that big SOEs (same as their private counterparts) use their political connections to gain unfair advantage and privileges. Corporate tax in Czech Republic is 19%, while personal income tax is basically flat at 15% (there is an additional 7% rate for high earners but with a threshold so high that it is barely applied). VAT stands with one standard rate of 21% and two preferential rates of 15% and 10%. Social contributions are high, leading to an overall high labour tax wedge, above the OECD average, and among post-transition countries second only to Hungary.

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

Regulation of business activities is mostly conducive to entrepreneurial activities. Starting a business is generally not expensive and with no minimum capital requirements. Though recently reduced, it still takes more time than necessary. Getting electricity is also inexpensive, but obtaining a construction permit is burdened with as much as 21 procedures. It can last long. Although there are just few annual tax payments, tax procedures are so complicated that they require long hours to comply with. Apart from corruption and inefficient government bureaucracy, complexity of tax regulation and restrictive labour regulations are often cited as obstacles to a better business environment. National Reform Program 2016 suggests further decrease in administrative burden and deregulation of licensed professions. Labour regulation is by and large flexible, but there are also some stringent rules, especially in the hiring and firing area. Duration of fixed contracts is set at only 36 months. Severance pay is relatively high. It is increasing with years in tenure. Although

working hours are flexible, with maximum 6 working days a week, total amount of overtime working hours is restricted to 150 a year. The minimum wage was increased by ca. 10% in 2016.

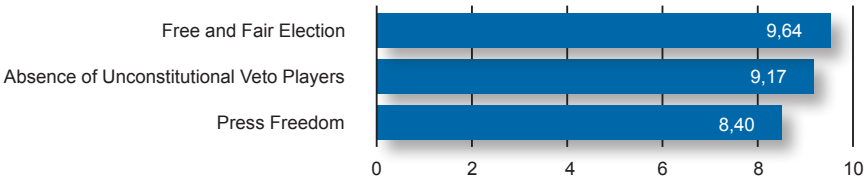
## **Freedom to Trade Internationally**

Freedom to trade is mostly upheld in the Czech Republic. Since 2004, it has been a member of the EU, hence it applied the common trade policy. Therefore, tariffs for imported goods are low and mostly concentrated in the field of agricultural products, with the overall applied mean tariff rate of 5.3%. But non-tariff barriers in form of necessary certifications or standards remain present, undermining free trade. Efficient customs` procedures, with documentary and border compliance, support free trade. Good transport infrastructure provides another catalyst for international trade. Czech economy is very outward oriented, with high exports, reaching approximately 80% of GDP, second only to the Slovak Republic among post-transition countries. The Czech Republic is not a Euro-zone member state. National currency, the koruna, is in sort of managed floating regime towards euro, with the aim of the National Bank not to exceed the limit of 27 units per euro. There are capital controls put, so as to maintain exchange stability. Although the country fulfilled four out of five existing Maastricht criteria for the adoption of the euro, the government decided in late 2015 not to enter the ERM II, which is a prerequisite for euro adoption. Recently, certain measures were introduced to encourage skilled migrants to move to the country, with streamlining visa processes and introduction of a pilot program for Ukrainian citizens.

# ESTONIA

GDP in 2015: EUR 21,274 million		
annual growth rate: 1.1%	per capita: 16,200 EUR	by sector:
		agriculture 3.5%
		industry 27.7%
		services 68.8%
Population: 1,313 thousand	Human Development Index	Government position in 2015
Unemployment rate: 6.1%	HDI: 0.861 (rank 30)	0.41% of GDP

## POLITICAL FREEDOM



### Free and Fair Elections

Estonia is a constitutional democracy with a 101-seat unicameral parliament. Freedom and fairness of elections in this country is always respected in practice. Last parliamentary elections, held in March 2015, were another proof of that. As a significant improvement at the last elections, 30% of participating voters used opportunity to cast the ballot electronically. Elected government, consisted of the most dominant Reform Party, Social Democratic Party and Union of Pro Patria and Res Publica, held certain disputes at the beginning of the term, which even led Social Democrats (SD) to question their participation in the coalition. After they decided to continue, all ministers from SD were replaced. Non-citizen residents are not allowed to organize or join political parties and do not vote at national elections. This means that ethnic Russian residents whose citizenship is still undetermined - around 7% of the population - can't participate in the political life at the national level.

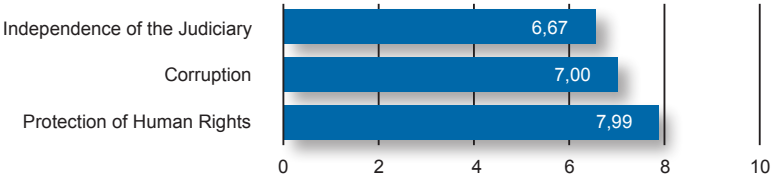
# Absence of Unconstitutional Veto Players

There are no unconstitutional veto players in Estonia, thus nobody could interfere into decision making process. Elected government held effective power to govern the country. Although Estonia almost doesn't have a problem with corruption, two cases that happened during 2015 took this high position into question. First, executives of the state owned Port of Tallinn were arrested on bribery charges, and soon afterwards a leader of the main opposition Center Party has been accused and investigated for taking bribes. Estonian security forces are under civilian control.

# Press Freedom

Estonian media landscape, including both traditional and online media outlets, is free and pluralistic, expressing diverse opinions on all questions. Public Broadcasting Council is generally unbiased and professional, although consisting only of people named by the parliament, 4 representatives of the governing parties and 4 experts. Ownership structure of the media outlets is transparent, but a trend of ownership concentration that engulfed Estonia posed a possible threat to press independence. Large Russian minority population finally got a television channel in Russian language, but many accused government that it launched the channel just to counterbalance the propaganda of the Russia-based TV stations.

# RULE OF LAW



# Independence of Judiciary

Amid high levels of political stability, Estonia has, since independence, tremendously advanced in changing the Soviet-era system of full adherence of judiciary to the executive towards the one of judicial independence from daily politics. Recent reforms since 2014 have further improved the performance of courts, accelerated law enforcement and eased the problem of overcrowded

prisons. Simplified regulation and reliance on self-regulation of the economy and civil society enabled judiciary to better deal with the tasks necessary for maintenance of the rule of law. In nomination of judges, checks and balances are kept between President, Parliament and judicial bodies. Constitutional Court has proven its independence and non-bias - roughly half of the government measures it deals with are rejected.

## **Corruption**

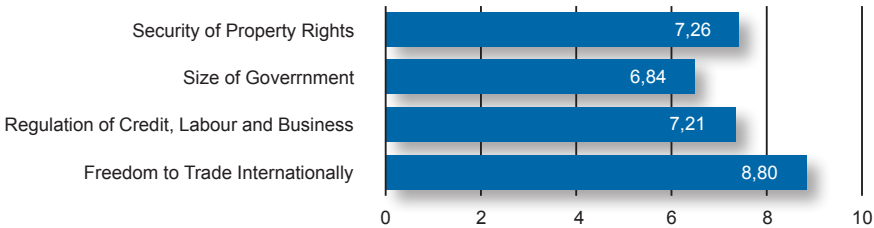
Estonia is advancing towards the status of a country where corruption is a lesser problem. In 2015, it arrived to the place 23 of 168 countries in the Transparency International Corruption Perception Index, following a rise in previous years. Its score again rose, to 70. It is the least corrupt of all transition countries in Europe. Extensive liberalization of the economy, as well as simplification of administrative procedures by introduction of e-government (even "e-citizenship"), have both largely contributed to this success, on top of the classic institutional anti-corruption mechanisms or of raising the awareness in society. However, in 2015, a large scandal erupted in the city hall of Tallin. The Mayor was suspended by a court. An investigation was opened against him on the charges of bribery, illicit party financing and trans-border money laundering. His political party nevertheless supported him. By spring 2016 the trial was in preparation.

## **Protection of Human Rights**

Estonia maintains high standards regarding human rights. It is ahead of other Baltic countries but still below Scandinavia. Freedom of thought and expression, of the media, or of religion or art or academic research, is well respected. The entire relationship between the citizen and the state is ever more built on democratic and liberal principles. Serious attempts are made to keep security forces checked by society and to protect the privacy of citizens along with their right to access to information. Sexual minorities enjoy better protection than elsewhere in Baltic - among other measures, the Civil Cohabitation Act has been carried. Civil society organizations play a crucial role in shaping and safeguarding the system. In some of the remaining disputable fields, such as identity politics, the policies are changing. Estonian government has agreed to inner-EU quotas for refugees and asylum seekers, despite the negative public opinion, itself increasingly subject to right-wing hate-speech. As Amnesty International noted, in early September 2015 there was an arson attack

against the only country`s reception center for asylum seekers. Government-funded TV programs in the minority Russian language struggle for their share of the market, itself until recently - due to previous neglect - monopolized by the propaganda coming from Russia. Holocaust denial and Anti-Semitism are actively opposed by the government officials. The official narrative on WW2 history seems to be switching from a complaisance for Nazi collaborators towards the story of “two [subsequent] occupations” and the affirmation of the (however weak) pro-democracy and pro-independence anti-Nazi resistance.

## ECONOMIC FREEDOM



### Security of Property Rights

Property rights are well respected in Estonia. The state has the right of expropriation in certain cases in the public interest (mostly for building public infrastructure), but this right is seldom exercised and the property is exchanged for a market-price compensation. The judiciary is independent from the government influence and integrity of the legal system is not undermined. However, courts are overburdened, leading to prolonged processes of trial, which on average last for 425 days. The courts also unnecessarily deal with enforcement of contracts. Court automation is streamlining paperwork and is ensuring impartiality in court dealings. Arbitration is used in many cases, as cheaper and less time consuming. The police are mostly reliable and business costs of crime are low. Although foreign nationals (outside of the EU) can purchase and own land, there are certain restrictions in this regard - such as permission of the local authorities or even county governor, and bans on acquiring land on small islands or alongside the border with Russia.

## **Size of Government**

Estonia has a government limited in scope. Government expenditures stood at 39% of GDP in 2015, lower than in most EU countries. Public debt is among the lowest in the world, below 10% of GDP, mostly due to a strong fiscal consolidation package implemented in 2009 to eliminate government borrowing. Public finances have been recording minor budget surpluses in recent years. Robust economic growth and a sharp fall of the unemployment rate that followed these reforms came to a still. Current sluggish growth is mostly the result of a slowdown among Estonia's main economic partners, but growth rates are expected to pick up. Estonia was the first country in Eastern Europe to adopt flat tax system, but minor progressive characteristics such as non-taxable exemption of 2040 EMU make Estonian tax system stand in between proportional and progressive. Personal income tax has been steadily decreasing during the previous decade, from 26% in 2004 to 20% in 2015. The overall tax wedge is slightly above the OECD average, due to high social security contributions for pensions and healthcare (standing at 33%). Estonian privatization program is now considered as completed, with only a small number of companies in state ownership, such as the lottery, power plants, the main port and the national air carrier. Subsidies are very low, below the EU average. However, the debate on the national air company has exposed the state aid provided it by the government after 2010, which was illegal according to the EU rules. Instead of repaying the sum, Estonian Air went bankrupt and was replaced with Nordica air company, also owned by the government.

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

Estonia has created and maintained an overall business-friendly environment, attracting high amounts of foreign direct investment, as well as enabling domestic entrepreneurial spirit, thus having one of the highest numbers of entrepreneurs per capita. Starting a business is easy and cheap. Estonia continued cutting bureaucracy by allowing for the minimum capital required to be deposited at the time of company registration. Tax regulation is simplified and considered to be among the most efficient in the world, with simple procedures and high usage of electronic tax filing. Obtaining construction permits and getting electricity is quick, although the latter could be expensive. There are few administrative requirements and licensing in conducting daily business, which helped bring corruption to a low level, which is also to do with



widespread usage of ICT among public institutions. Electronic residency is one of the ways of exporting Estonian business-friendly environment abroad: entrepreneurs that are foreign nationals residing abroad can easily register and run a company under Estonian laws. Labour regulation is characterized by flexible and stringent regulation of the work place, with little requirements and costs for redundancy workers, but with notice periods that increase with the duration of worker`s tenure (one to three months), and low severance pay. Maximum work week is set at 5 days but with prolonged workweeks in case of workload increase. There are restrictions on night work. Mandatory military service lasts between 8 and 11 months. Monthly minimum wage is high, being increased for more than 10 percentage points, from 390 to 440 euro. This hike is just another in the series of minimum wage increases. Since 2012, the minimum wage has been increased for approximately one half.

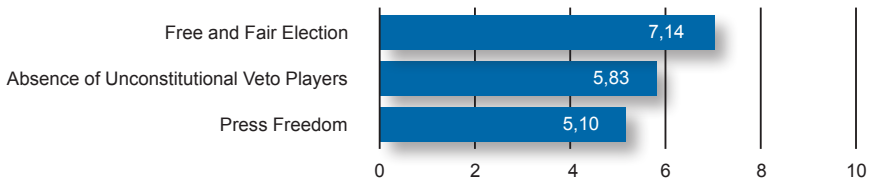
## **Freedom to Trade Internationally**

Estonia, as a small economy, has been oriented to foreign trade more than many other European countries, since international trade allows for production specialization. Estonia has therefore pursued a very open foreign trade policy since the beginning of the economic and political liberalization, eliminating almost all tariffs and other free trade restrictions. Estonia was the only country who had to increase the tariffs for the sake of harmonization with the common European trade policy prior to EU accession, not to decrease them as was the case of all other CEE countries. A strong contributor to fostering trade links and free trade is transport infrastructure, which is significantly decreasing costs. Quick and easy administration allows for goods to be imported or exported with great efficiency, due to the minimum paperwork and costs. Estonia, alongside France and Germany, set a performance efficiency frontier for border compliance for international trade, both in time required and monetary costs. Estonian main trade partners are its Nordic and Baltic neighbors, as well as Germany and the Russian Federation. Due to shortages in labour, mostly by demographic developments as well as net emmigration to other EU countries, Estonia has streamlined its immigration procedures in order to allow for easier hiring of qualified immigrant workers.

# GEORGIA

GDP in 2015: EUR 13,088 million		
<i>annual growth rate: 2.8%</i>	<i>per capita: 3,520 EUR</i>	<i>by sector:</i>
		agriculture 9.2%
		industry 22.1%
		services 68.7%
<i>Population: 3,720 thousand</i>	<i>Human Development Index</i>	<i>Government position in 2015</i>
Unemployment rate: 12.0%	HDI: 0.754 (rank 77)	-1.20% of GDP

## POLITICAL FREEDOM



### Free and Fair Elections

Georgia continues to improve the environment for political activities in the country. Since the first democratic transfer of power, that took place in 2012, all elections have been considered as free, fair and competitive, according to international election observers. However, the biggest challenge for the country has been inconsistency of the government. Irakli Gharibashvili resigned from the position of prime minister in December 2015 and was replaced by a former foreign minister Giorgi Kvirikashvili, who became the third post-2012 prime minister. After Constitutional Court had ruled, in May 2015, that current electoral system was violating the principle of equality and after numerous political parties and NGOs signed a petition for a change of the system, the ruling coalition Georgian Dream (GD) proposed some minor changes for 2016 parliamentary elections, with a promise of completely new electoral system afterwards. In order to improve equality at the upcoming elections, GD proposed

to redraw electoral district boundaries. Due to that, opposition accused GD of alleged gerrymandering.

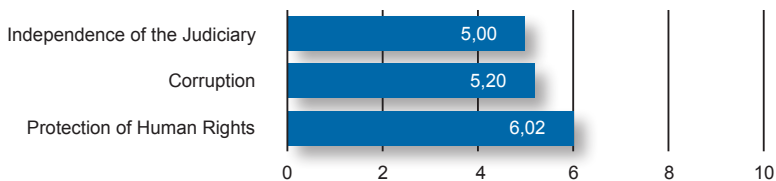
### Absence of Unconstitutional Veto Players

Government in Georgia has the effective power to run the country, thus there are no unconstitutional veto players. Still, the Georgian Orthodox Church (GOC) and businessman Bidzina Ivanishvili are seen as important influencers on the country`s politics. GOC is the most trusted institution in the country and many politicians avoid open confrontation with them. Also, Ivanishvili is often accused, mainly by opposition or by President Margvelashvili, to be the one who pulls the strings behind the curtain, since both the successor prime ministers were earlier on in the executive board of his bank. Although anti-corruption struggle successfully dealt with low-level bribe, there was less result, and allegedly more selectivity, in dealing with it at higher levels. Especially it made a difference if the defendants were from the United National Movement party.

### Press Freedom

Freedom of the press in Georgia is only partly upheld in practice. Media landscape is pluralistic and expresses diverse political opinions. Changes during previous years, such as increased transparency of media ownership and decrease of harassment and intimidation of journalists, are encouraging. However, problems of partisan reporting and alleged governmental pressure on media prior to 2016 parliamentary elections, fuelled discussion throughout the year. Government was often accused for interference into the dispute on ownership of the main opposition television channel Rustavi 2, and also for pressuring for cancelation of certain political talk shows.

## RULE OF LAW



## **Independence of Judiciary**

During 2015 and early 2016, suspicions were raised about a misuse of judiciary by the government for the showdown with political opponents (i.e. members of the previous government and/or opposition leaders). The case of the former Mayor of Tbilisi Gigi Ugulava (from the now opposition party UNM) has been indicative. He was arrested in 2013, sentenced to nine years (suspended to four and a half) on corruption charges, released by the Constitutional Court in September 2015 on procedural grounds and then promptly rearrested and sentenced. Council of Europe accused Georgia of using the long pre-trial detentions as a political tool. Politically relevant cases aside, Georgian judiciary has improved after 2012. As Freedom House assessed in its Nations in Transit 2016, the reforms helped increase the acquittal rate (which was initially just 1%), made changes to the plea bargain system and have generally improved the independence of judiciary.

## **Corruption**

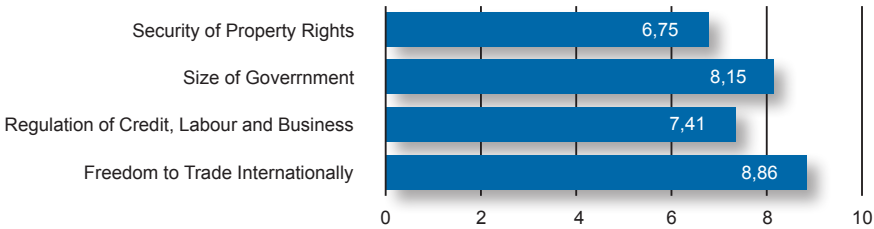
Between the “Rose Revolution” as of 2003 and the last change of government in 2012, Georgia made giant steps in suppression of corruption. Robust economic liberalization coupled with bold measures to clean the most vulnerable parts of the public sector (such as police forces) has created a sound basis upon which various sophisticated anti-corruption strategies were implemented in cooperation with relatively free media, developed civil society and the EU or international institutions. Petty corruption was minimized. Georgia became the least corrupt country in the region of Caucasus and Black Sea. It has been ahead of seven EU member countries. But both the former UNM-led and the post-2012 “Georgia Dream” government were selective in dealing with the high level corruption, often using it just for the purpose of political showdown with opponents or with unreliable coalition partners. Thus, public procurement as well as hiring in public sector is still in need of thorough, strategic anti-corruption and anti-nepotism measures. In the Transparency International’s Corruption Perception Index 2015, Georgia was ranked as 48<sup>th</sup> (together with Saudi Arabia). Its score remained 52, the same as in 2014.

## **Protection of Human Rights**

The human rights` situation in Georgia is better than in neighboring countries. Freedom of thought, assembly and association is reasonably well main-

tained. Since 2014 there has been some progress regarding ethnic minority rights, notably in education. Children are well protected against forced labor. In as much as economic freedom affects human rights, citizens and CSOs are provided with additional opportunities for defense. However, the government's attitude towards independent media is not unequivocally liberal. Political pressure on a TV station in autumn 2015 cast shadow on the otherwise transparency-seeking media policies. A lot needs to be done for more gender equality, e.g. against domestic violence or discrimination at work. Intolerance is generally in the rise, affecting ethnic and religious minorities, LGBTs, and even some life-style minorities (as demonstrated by the violent attack on a vegan cafe by an ultranationalist group in May 2016).

## ECONOMIC FREEDOM



### Security of Property Rights

Property rights in Georgia are mostly secured. However, there are still many deficiencies within the judicial system that limit their full protection. Court proceedings might be biased in favor of the side with good political connections. The military is an important part of political life and is connected to broader social structures. The process of registering property is very efficient and inexpensive. Expropriation disputes are uncommon, but there have been cases of illegal land appropriation in newly created tourist zones, or illegal seizure of property in Tbilisi at unfairly low prices, connected to Tbilisi Railway Bypass project. Weaknesses of the land cadastre, which provides clear titles for only 25% of land, stay in the way of property protection. Acquisition and possession of agricultural land is restricted for foreign nationals and private entities registered by a foreign national, to 20 and 200 hectares respectively. Property rights in two separatist regions of Abkhazia and South Ossetia, of the persons internally displaced after the conflict, generally are not upheld.

Furthermore, although trial and judgments are usually done within a reasonable timeframe, enforcing contracts is lengthy and expensive. This problem has been partly answered with the introduction of electronic filing system for court users.

## **Size of Government**

Government size in Georgia, standing at 29.4% of GDP, is low as compared to most European countries, but it is in line with most other Commonwealth of Independent States (CIS) countries. The country has been recording growth rates since 2009, although faced with weakening of foreign demand due to economic downturn among trading partners and lower remittances. Growth reached 2,8% of GDP in 2015 and is expected to strengthen. Public deficits are still present, reaching 3,8% of GDP in 2015, but are rather sustainable in an environment of economic growth and relatively low public debt, itself reaching 41,5% of GDP in 2016. Low public expenditure allows for moderate tax rates. Taxation system relies on flat taxes: 20% for income tax and 15% for corporate tax, whereas VAT is set at 18%. Social pensions to the retirees make the bulk of social transfers. After previous large scale privatizations, major remaining government-owned companies operate mostly in utility services and transport. There are other companies in different sectors, but they are insignificant. The most important government companies (railways, oil and gas corporation and electro system) were combined to a Partnership Fund in order to improve asset management. It is envisaged to be subsequently transformed into two Sovereign Wealth Funds (SWFs) - the SWF for asset management and the SWF for investments. Georgia has constitutional breaks on public expenditures and introduction of new taxes, for which a popular vote is necessary. The financing obstacles facing small and medium size (SME) enterprises in obtaining bank loans made government devise plans for establishment of a development financial institution, but the plan was postponed.

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

Business environment in Georgia is positively oriented towards entrepreneurial activities. Georgia has been twice designated as the Reformer of the Year by the World Bank. Positive developments in business environment and low taxes were key to rapid economic development. Starting a business is quick and inexpensive. Obtaining a construction permit is also a well streamlined procedure, which was recently improved by reducing the time needed for issuing

building permits. On the other hand, getting electricity is very expensive due to high fees set by the electrical distribution company. Although electronic payment usage is on the rise, tax procedures are overly complex, leading to high bureaucracy requirements. Administrative requirements and associated bureaucracy costs, coupled with still present corruption, pose burden on businesses. Inadequate supply of key infrastructure, especially outside the capital Tbilisi, also poses a significant burden on businesses. Labour regulation is overall flexible. The minimum wage is very low, since its level hasn't increased for almost two decades. It is not really applied in practice, but there is also a different and much higher minimum wage for public sector employees. Severance payments are low and equal for all workers regardless of their years of tenure, while collective bargaining is applied mostly in public sector. However, long mandatory military conscription of 18 months poses significant burden, on businesses and citizens alike.

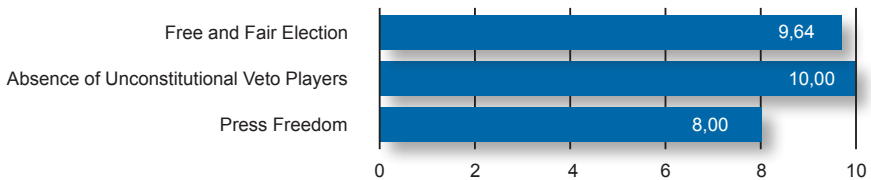
## **Freedom to Trade Internationally**

Freedom to trade is well respected in Georgia. Import tariffs are among the lowest in the world - 0% for most products, while 5% or 12% for some agriculture and construction products, with the average ones standing at 2%. Although regulatory trade barriers in the area of standardization of imported goods have been eased, they still pose obstacles to trade in some sectors. Border and documentary compliance, however, incur high costs and long procedures. In January 2016, Georgia ratified Trade Facilitation Agreement (TFA), which is expected to further ease custom clearances and border controls, allowing for further trade liberalization. Trade relations with Russia are now mostly normalized, and booming, after a previous Russian trade embargo. This is also important for goods in transit, since Georgia remains an important transit country, due to its geographical location but also to political conditions in the Caucasus region. Georgia remains as one of the most visa free countries for foreign nationals to visit, encouraging cultural and economic ties, as well as the booming local tourism industry. Main Georgian trade partners are CIS countries from the region, such as Azerbaijan, Armenia and Ukraine, followed by the EU countries and Turkey. Economic relations with the EU are conducted via Association Agreement and the following Deep and Comprehensive Free Trade Area (DCFTA), whose full implementation commenced at the beginning of July 2016.

# GERMANY

GDP in 2015: EUR 3 153 276,730 million		
annual growth rate: 1.5%	per capita: 38,370 EUR	by sector:
		agriculture 0.6%
		industry 30.4%
		services 69.1%
Population: 82.176 thousand	Human Development Index	Government position in 2015
Unemployment rate: 4.6%	HDI: 0.916 (rank 6)	0.75% of GDP

## POLITICAL FREEDOM



### Free and Fair Elections

Political parties in Germany can operate freely and elections are conducted in a free and fair manner. An exception is in that the authorities may restrict political parties if they pose threat to the constitution. Migration crisis highly influences the shaping of everyday politics. On one hand it brought instability in the Grand Coalition, between Christian Democratic Union (CDU) and Social Democratic Party (SPD), while on the other hand it brought a huge rise of a nationalistic, right-wing Alternative for Germany (AfD), which is out of the current parliament. Germany has a bicameral parliament which consists of the lower house – Bundestag, and the upper house – Bundesrat. The latter represents the country's 16 federal states. Each state has significant authorities over some very important areas, such as education. During 2015, state elections in Bremen and Hamburg took place. They were free and fair.

### Absence of Unconstitutional Veto Players

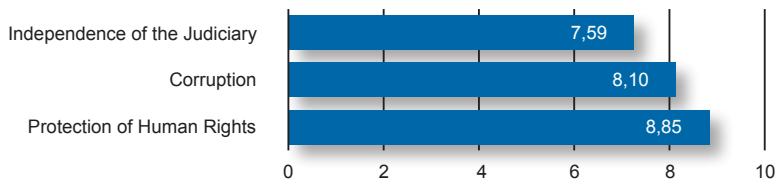


There are no unconstitutional veto players in Germany and government holds effective control over its territory. Due to migration crisis, violence and right-wing extremism increased throughout the observed period. Also, it was noted that number of anti-Semitic acts is in raise. Civilian authorities maintain effective control over security forces and corruption in Germany is very rare.

## Press Freedom

Press in Germany is free and it expresses a broad variety of views. Country declined by 4 places in the Reporters without Borders 2016 World Press Freedom Index and now holds the 16th position out of 180 countries. Prosecution of two journalists in July 2015, on the base that they committed treason by publishing classified information, was seen as a threat to media freedom and was often criticized. In August, Office of the Federal Prosecutor closed the case, stating that the announced documents were not a state secret. Acts of violence and intimidation toward journalists rose alongside tensions in society. Those who cover stories on radical movements such as neo-Nazi are often targeted by those groups.

## RULE OF LAW



## Independence of Judiciary

Judiciary in Germany is truly an independent third branch of power. There are just few countries in the world where the Constitutional Court plays such a huge role in limiting (thus to a degree also shaping) political decisions by the Parliament or Government. German relations to the EU, various issues of monetary politics, application of modern technology and a plethora of human rights` issues (most notably protection of privacy and personal data) are among those dealt with by this body. Rulings sometimes considerably hinder the government`s plans. At the federal states` or local level, judicial intervention into government`s almost natural tendency towards omnipotence is not

that brilliant or spectacular, even though citizens enjoy high level of protection over there as well.

## **Corruption**

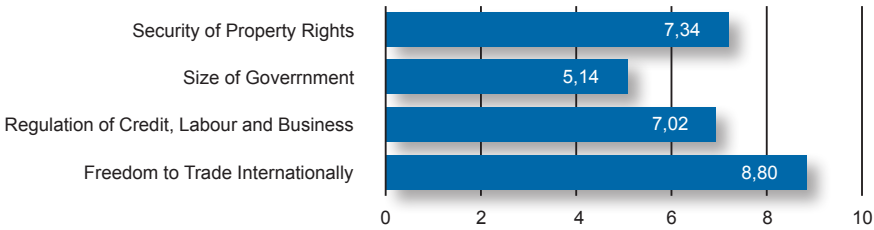
Due to the persistent, decades-long development of the “social market economy”, with little or no escapades into the excessively interventionist policies, nor into hasty deregulation, Germany has considerably narrowed the ground for corruption. The second pillar of anti-corruption immunity is in developed institutions and rule of law as a part of national identity. Finally, civil society is strong, sensitive to any early sign of misuse of power and ready to react. Yet there are fields of public life that still need more scrutiny, such as the biggest infrastructure projects and, generally, the activities of the biggest companies. Scandals, including those during the construction of the Airport Berlin Brandenburg (and adjacent death of a whistle blower), as well as multi-billion eco-fraud by a huge car manufacturer, proved that public procurement, lobbying and a few other fields needed more public attention and smarter regulation. In the Transparency International’s Corruption Perception Index 2015, Germany was very highly ranked – sharing place 10 (of 168 countries) with Luxembourg and United Kingdom. The score 81 says it is more than four-fifths corruption-clean.

## **Protection of Human Rights**

Human rights in Germany are protected according to the highest international and EU standards. Those “old” ones such as life, security, safety, property, movement, education, information, association, etc, are entrenched in society and political culture. They enjoy multiple protection against breaches (from early non-authoritarian upbringing, democratic education of the young and subsequent “Stiftung” network that facilitates democratic and civic education of adults, to constitutional, legal, judicial, political, media or other protection). Newly emerging challenges to individual human rights and freedom (such as dilemmas regarding security vs. privacy) are promptly dealt with by academics, media, legislators and courts. In some areas Germany has recently emerged as a “conscience of the EU”, such as in its treatment of refugees. Not least that it opened the gates for the victims of wars or dictatorships, but it has put considerable efforts and resources into integration. However, there is also opposition to such openness. There were attacks on asylum seekers in several towns, and there is also (however in “Aesopian language”) hate speech

against them. Another modern-day challenge – the equality and integration of the LGBT people into society – is dealt in Germany via “middle-of-the-road” solutions: same-sex partnerships are guaranteed many rights of the married couples, while marriage as such is still reserved for mixed-sex couples. The latter have some privileges (such as in adoption) that LGBT unions do not. The focus of attention by human rights` advocates, in case of Germany and of some other most advanced EU countries, shifts towards consistent international practicing of principles that are professed back home. Thus, Germany is sometimes criticized for selling arms to the regimes that systematically breach human rights, such as to Saudi Arabia. Similar scrutiny is dedicated to activities of German companies or banks abroad.

## ECONOMIC FREEDOM



### Security of Property Rights

Property rights are well protected in Germany. Judiciary is an efficient and functioning system, independent from out-of-court influence and of executive power. Court dealings are both predictable and reliable. Germany has specialized courts in different legal areas. Bankruptcy regulation provides legal environment that enables very high recovery rates, within a reasonable timeframe. However, property registration, a major prerequisite for protection of property, requires a complicated and lengthy procedure, incurring high cost due to notary fees and very high transfer tax. Property transfer can also be hurdled by preemptive rights of local municipalities. Obligatory public notary services, although inflating costs, increase security of the dealings. Police force is reliable, making business costs of crime very low. Out-of-court mechanisms, such as mediation or arbitration, exist and are commonly used. Court procedures could be upgraded via more automation in the process.

## **Size of Government**

Government expenditure in Germany is stable, standing at 44.5% of GDP in 2015, nearing the European average. Unlike most European countries, Germany has been recording low budget surpluses since 2012. Public debt is still higher than the envisaged Maastricht criteria, standing at 71% of GDP at the end of 2015, but is falling steadily, due to economic growth as well as frugal fiscal policy. Unemployment is under 5%, almost half the level of euro-zone, and growth, although modest, is sustainable, being based on increased domestic demand instead of weakened demand for exports. German government, apart of its regulatory role, is not active in the economy. State-owned enterprises (SOE) are restricted mostly to public utilities and transportation, but the government also has minority stakes in other companies, some of which operate in competitive markets. However, the SOEs comply to the same rules as the private companies, but the German government's rail company, Deutsches Bahn, has been several times under investigation by the European Commission or by the Federal Cartel Office for possible market power abuse. Overall, high tax rates are necessary to sustain the overall high tax consumption. Corporate income tax is 15%, while VAT is set at 19%, with the reduced rate of 7%. Income tax is progressive, with rates from 14% to 45%. There is also a "solidarity tax" of 5.5%. Coupled with high social contributions, this leads to the overall high labour tax wedge - only Belgium and Hungary among the OECD countries have higher tax wedge than Germany.

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

Regulation in Germany is overall business friendly. Starting a new business is not burdensome, nor expensive, but requires unnecessary procedures, while the minimum paid-in capital is very high. Recently, more notary involvement and possibility of electronic filing made this procedure less costly and more efficient. On the other hand, getting electricity is very efficient, and inexpensive, the same as obtaining a construction permit. Corruption or favouritism of government officials in Germany is very rare. All regulations are generally upheld. Although there is a rather small number of annual payments, taxation regulation proves to be very complex and burdensome for businesses. Labour regulations pose another area in which there are serious constraints on private entities. Hours' regulation is flexible, but other areas are not: maximum length of fixed contracts is limited to only 24 months while redundancy regu-

lations are very stringent. Notice periods for redundancy staff and their severance pay increase with their tenure, leading to a higher protection of more seasoned workers. The role of trade unions and especially of the workers' councils is very prominent in these procedures. Social dialogue is very developed in Germany, with strong industry specific collective bargaining. Germany has introduced in 2015 for the first time a new general minimum wage, abandoning prior industry-specific minimum wages determined through collective bargaining. Service sector is burdened with many licensing procedures that create effective barriers to entry, limiting competition and increasing prices for the customers.

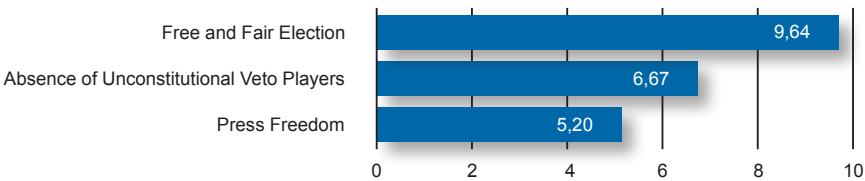
## **Freedom to Trade Internationally**

Freedom of trade is generally respected in Germany. As one of the founding members of the European Union, Germany implements the common European trade policy with low tariff rates, which remain significant only for some agricultural products. However, non-tariff barriers remain, in the shape of different standards and certifications. Customs administration is very efficient, keeping cost of border and document compliance low. Good public transportation infrastructure successfully lowers freight costs, allowing for higher volume of trade. However, railway transportation is still under dominant influence of SOEs. Thereby, competition is low. International trade is very important for the German economy, whose strong exports, led by manufacturing goods, account for the high current account surplus of 8,5% of GDP. Main trade partners of Germany are other European countries, such as France, Belgium, the UK and the Netherlands. After the UK referendum on leaving the EU, future political and economical, and especially trade arrangements between these two entities will have a profound influence on German trade. The prolonged trade sanctions implemented by the Russian Federation on goods from the EU did not severely affect the German economy, since agricultural products that were mainly affected by the trade ban comprise only an insignificant amount of German exports.

# GREECE

GDP in 2015: EUR 183,015 million		
annual growth rate: -0.23%	per capita: 16,860 EUR	by sector:
		agriculture 12.6%
		industry 15.0%
		services 72.4%
Population: 10,858 thousand	Human Development Index	Government position in 2015
Unemployment rate: 25.0%	HDI: 0.865 (rank 29)	-3.08% of GDP

## POLITICAL FREEDOM



### Free and Fair Elections

The reviewed period saw turbulence in Greek political life. After parliamentary elections as of January 2015, the new Prime Minister Alexis Tsipras was faced with complex negotiations regarding Greek debt crisis. Being under huge pressure, he called a referendum on the acceptance of the deal offered by international creditors. Although voters rejected the deal, Tsipras agreed to accept the terms. Disturbances within a ruling Coalition of the Radical Left (SYRIZA) after accepting the deal led to a new parliamentary elections in September. However, they didn't change much regarding government's structure, thus the new-old government was formed by SYRIZA and the Independent Greeks (ANEL) party. During both elections and referendum, the spirit of free and fair elections was preserved. There were no disruptions of the electoral process worth mentioning. Discussion on the Greek "enhanced" proportional electoral system, which adds 50 more seats for the leading party in the parliament, has

heated throughout the year. Government stated that it will soon start drafting a new electoral bill. Voting is mandatory in Greece.

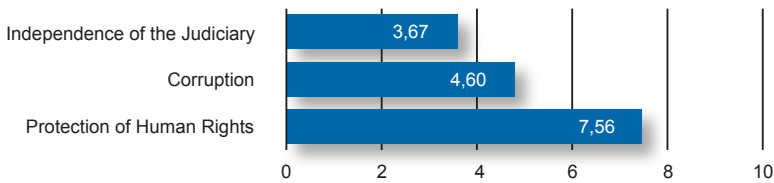
### Absence of Unconstitutional Veto Players

There are no unconstitutional veto players in Greece who could question the authority of the elected representatives, in a traditional sense of the term. However, the role of the Greek Orthodox Church in society mustn't be neglected. Church exercises significant political and social influence and ability to shape public opinion in Greece. Tax evasion remains an important issue in the country, which still waits to be resolved. Government put some efforts to tackle the problem, but it generally failed to prosecute tax evasion by the country's richest class.

### Freedom of Press

Media situation in Greece started slightly improving at the end of 2015 and throughout the first half of 2016, but the country is still behind the developed democracies regarding this issue. Wide range of diverse media outlets operate in a partly free environment, often pressured by the interests of politicians and financial uncertainties. Several physical attacks on journalists happened in 2015. Defamation charges, which are punishable by the law, are brought against them on regular basis. A broadcasting regulatory body was often criticized as being politically biased. Government adopted a bill which, among other things, included improved licensing process. It also reopened Greek's public broadcaster, the Hellenic Broadcasting Corporation, which had been closed in 2013 as a part of austerity measures.

## RULE OF LAW



### Independence of the Judiciary

In the Freedom House's Freedom of the World report for 2015, Greek judiciary was described as "independent". Same was the case in the 2016 report.

However, other findings show that Greece is still below EU standards in the field. Fraser's Economic Freedom of the World report actually shows decline after 2000. FNF's extensive interviews with Greek researchers, held between 2014-2016, showed that there was a lot of - mainly indirect - political, business or other outside influence on courts. Corruption is a serious problem. Backlog of cases and - sometimes deliberately – prolonged trials undermine citizens' trust in the judiciary. According to European Commission's research "The 2016 EU Justice Scoreboard", less than 50% of Greek citizens and less than 40% of companies perceived judiciary as independent (of politics or of special interests). The situation is only slowly improving.

## **Corruption**

Greece is better than the world average in fighting corruption. But, taken its full membership in the EU since 1981, it is far below its citizens' expectations. In the Transparency International's Corruption Perceptions Index 2015, together with Romania, it shares the place 58 of 168 (score: 46). It is the fourth most corrupt among the developed countries. Oligopolies, professional licenses or otherwise closed markets, crony business activities, furnished public procurement, tax evasion or numerous other manifestations of inequality at the market are in the core of the problem. Previous governments had dealt with all those superficially, while the far left Syriza government that took office in 2015, in spite of its egalitarian rhetoric, actually continued the same way, just for the benefit of different interest groups. Only upon the failure of their anti-austerity crusade and their agreement with creditors as of mid-2015 on the new reform packages some opportunities opened for diminishing corruption or other irrationalities, e.g. via reducing tax deductions or exemptions. In a recent take on high corruption, in August 2015, the Parliament stripped immunity of its member, a former regional governor, to have answered the corruption charges. Meanwhile, according to Greek investigation news portals, the government continued with political interference in the work of tax administration, amid suspicions that two government ministers were in conflict of interest.

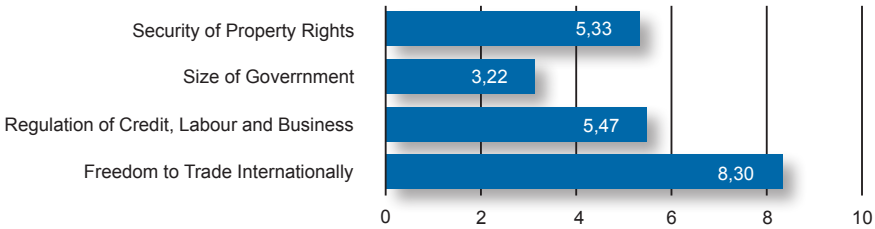
## **Protection of Human Rights**

Freedom of academic research and debate is among the best preserved ones in Greece, while universities and adjacent think tank NGOs are the true places of innovative scientific and social thinking. Some among them are rare places in Greece where calling someone a liberal is not an insult. Media freedom is



also upheld, with diversity preserved in spite of financial crisis and austerity measures. Freedom of religion is guaranteed, but in reality Greek Orthodox Church is favored. Small or other minority religious communities face legal obstacles, e.g. in building mosques. As Amnesty International noted, Roma children face segregation and expulsion from education in many parts of Greece. Women are still unequal, discriminated at the workplace and under-represented in politics, while the left-wing government did little to change that. Sex trafficking persists. Homophobia is widespread, yet in December 2015 the regulation of same sex unions was carried, on top of the antidiscrimination legislation as of 2014. The treatment of migrants raised numerous controversies. Amid colossal numbers, Greek authorities did not avoid cases of ineffective reception, neglect, abuse or ill-treatment, or excessive or unnecessary use of force by the riot police.

## ECONOMIC FREEDOM



### Security of Property Rights

Private property is not sufficiently respected in Greece. Weak institutions remain at the core of the problem of property rights. There are numerous reports on judicial partiality in court proceedings. Corruptive practices within judiciary are still present. Enforcement of contracts is extremely difficult due to the very long court procedures, themselves rather defeating than nurturing the notion of using court system to defend one's own rights. Adjournment rules, although present, are often disregarded. There are no specialized commercial courts. Recent introduction of electronic filing system in courts is expected to somewhat alleviate this problem, but still there are no major breakthroughs. Obtaining real property in Greece for non-nationals is a complicated and expensive process. Even for nationals it is burdened with different fees and a high transfer tax. In certain areas, a prerequisite for obtaining real property is

permission by 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. Furthermore, there are restrictions on foreign equity ownership in many more sector industries than in other OECD countries, most notably in public utilities and energy.

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

Size of government in Greece is still substantial, although many spending cuts were made, with the general government expenditure reaching 51% of GDP in 2015. Political turmoil prevented further economic growth on top of the one recorded during the previous year. Public deficits are still recorded, but they are now near the Maastricht criteria. Greece now records a small primary surplus, but high debt interest payments lead to deficits. Public debt is enormous, standing at 177% of GDP in 2015. It is most likely still unsustainable, even upon already implemented debt haircuts and austerity and privatization measures. High government consumption requires high level of taxation. Personal income tax is progressive, with rates of 22, 32 and 42%. Corporate tax is high, at 29% in 2016. High social security contributions lead to the overall high labour tax wedge, reaching one half of the gross wage, although they were somewhat decreased. VAT is set at 6%, 13% and 23%. Public transfers remain at a very high level: even with the implemented downsizing, public sector in Greece is oversized, with dubious efficiency, while pension system is not sustainable. State-owned enterprises (SOE) are present in the country, especially in industries considered to be of strategic importance. Some of them enjoy privileged or quasi-monopoly status. Broad privatization program that was designed in accordance with international community as a prerequisite for public finance bailout is progressing very slowly. Further deregulation and privatization in the electricity market is met with strong opposition from the government and broader public such as trade unions, especially regarding the plans for Public Power Corporation (PPC). The new government initially opposed any further privatizations, but under pressure from abroad and inability to finance domestic public needs, it followed further down the path.

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

Regulation environment cannot be characterized as exactly business-friendly. Starting a new business is easy and inexpensive, without minimum paid-in capital, but still administrative requirements are extensive in scope, incurring

costs both in time and money. Inefficient government bureaucracy, alongside policy instability, is depicted as being among the most important problems for the development of a business-friendly environment. Rules and regulations are complicated and sometime competing, creating surroundings prone to corruptive activities of public officials. Tax procedure is also a weak point: although there is a low number of annual payments, compliance with regulation is burdensome. Severance pay increases with the rise of years in tenure, protecting more seasoned workers, on the top of strict redundancy rules. Fixed term contracts are restricted to just 36 months. Minimum wage is relatively high as compared to the average wage. Centralized collective bargaining is dominant in the public sector. But it exists only in some private industries – those with strong history of trade unions.

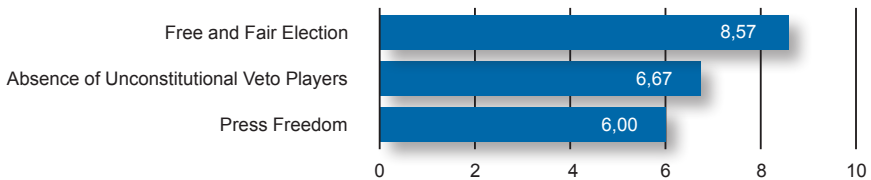
## **Freedom to Trade Internationally**

Freedom to trade is generally respected in Greece. Being an EU member state, Greece implements the common EU trade policy, with overall low trade tariffs for manufactured goods. However, tariffs on agriculture products might be substantially higher, while non-tariff regulatory trade barriers remain present mostly due to the complicated process of imported-goods` standardization. Customs service is inefficient, with expensive procedures, further hindering free trade. Working permit for non-EU nationals is difficult to obtain, but the new law, regulating non-EU immigrant workers, was recently enacted, making rights and obligations clearer. Furthermore, it somewhat liberalized the situation, by lowering the number of years needed by undocumented workers for a residency application, from 10 to 7. Capital controls on the capital outflow from the country are still present. Heightened during the crisis in June 2015, some of them were decreased after August 2015 agreement with the European Stability Mechanism (ESM), but a range of them is still applied. Capital controls on stock exchange transactions were lifted in December 2015. High freight costs are partially attributed to the deteriorating public transport infrastructure, which owes to the strain on public funds hence the lack of resources for the maintenance and resolving the bottlenecks in transport. Railroad infrastructure is especially affected. 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.

# HUNGARY

GDP in 2015: EUR 113,039 million		
annual growth rate: 2.9%	per capita: 11,470 EUR	by sector:
		agriculture 7.1%
		industry 29.7%
		services 63.2%
Population: 9,856 thousand	Human Development Index	Government position in 2015
Unemployment rate: 6.8%	HDI: 0.828 (rank 44)	-2.02% of GDP

## POLITICAL FREEDOM



### Free and Fair Elections

Elections in Hungary are considered as free and fair. However, a few unresolved issues during the last couple of years undermined fairness of the electoral process and political life in the country. Most important are: division of electoral districts allegedly in favor of the ruling Viktor Orban's Alliance of Young Democrats – Hungarian Civic Union (Fidesz) party; the fact that expatriated native citizens don't have equal voting rights as the ones who have never lived in the country but have the citizenship; and, the unequal access to media. Paid advertisements by political parties are forbidden in private media since 2013, and the only place for competition are public media outlets, where Orbán and his associates, as office holders, always have had far more presence during the campaign. Question of refugees dominated Hungarian political sphere and shaped increasing nationalistic attitude by the largest political parties. Two by-elections took place in 2015. Fidezs party representatives won in neither

of the two. With these, Fidesz party and its coalition partners lost their 2/3 majority in the parliament.

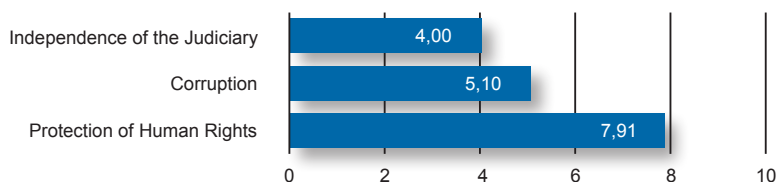
## **Absence of Unconstitutional Veto Players**

Hungary doesn't have unconstitutional organizations or individuals who have veto power, thus elected authorities hold effective control over the country. System of checks and balances exists on paper, but 2/3 majority in parliament that Fidesz and the Christian Democratic People's party coalition had till recent by-elections (see section Free and Fair Elections) was often used for domination of executive over the judicial branch. Anticorruption measures targeted mostly low- and mid-level corruption but corruption on higher level of authority, especially in the public procurement, is a big problem. Companies of many people close to Viktor Orbán, including his son-in-law Istvan Tiborcz and a wealthy businessman Lorinc Meszaros, were awarded with large contracts from the state.

## **Press Freedom**

Wide range of "tools" is used to limit freedom of the media in Hungary. Press is partly free due to large political pressure, partisan allocation of state advertising and concentration of media ownership. Main regulatory body, the National Media and Info-communications Authority (NMHH), is often criticized, for being biased in favor of the ruling parties, which appoint members of the NMHH, as well as for failing to ensure independence of the public broadcasters. A dispute between Viktor Orbán and an oligarch Lajos Simicska, owner of several media outlets, changed two things. First, the reporting by Simicska's outlets became critical of government after years of pro-government reporting, and secondly, it forced the ruling party to increase ownership share in private media outlets, thus their control over media. The law on progressive media advertising tax targeted only one broadcaster - RTL Klub - which was the only outlet that fell into highest taxation bracket. Finally, it all ended up with compromise. Flat tax for broadcast media outlets was established, while RTL Klub executive was replaced.

## RULE OF LAW



### Independence of Judiciary

Constitutional Court, out of whose current 14 members 11 were appointed by the ruling party Fidesz's parliamentary majority, is further on upholding numerous contentious laws as constitutional. A study as of March 2015 by three CSOs - Eötvös Károly Institute, Hungarian Helsinki Committee and Hungarian Civil Liberties Union – found out that the number of laws approved by the CC in high profile cases rose considerably upon the establishment of pro-Fidesz majority in it. CC is anyway prevented of assessing financial or taxation laws. In June 2016, in "András Baka case", ECHR in Strasbourg ruled that the replacement (with adjacent events) of the President of Supreme Court as of late-2011 was a violation of the right to access to a court and of the freedom of expression. According to Freedom House, the main problems in Hungarian prisons are overcrowding, inadequate medical care, poor sanitation and inadequate mechanisms of legal remedy in cases of abuse.

### Corruption

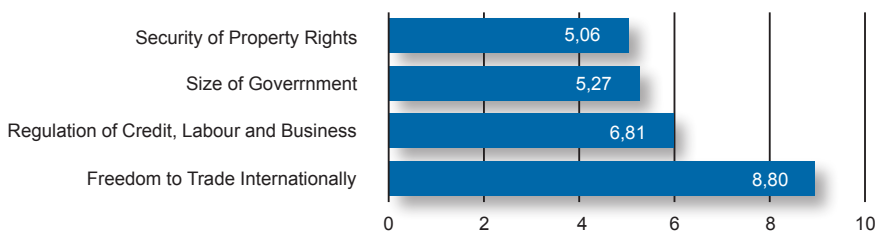
The more stable Fidesz is in government, the more disturbing are changes to the democratic fabric of Hungarian society. High level corruption has taken firm roots. It is more often initiated by political factors than by business-people. Tax evasion by big companies linked to the ruling elite is tolerated by financial authorities. Illicit lobbying by domestic or foreign companies - e.g. as seen through a "Bunge case" as of spring 2016 - is far reaching. Transparency of public procurement transactions and infrastructural investments is decreasing due to obstructed or legally limited public access to information. Hungary fell in the Transparency International's Corruption Perception Index 2015, sharing (with 3 other) the place 50 of 168 countries, while its score fell from 54 to 51 – near the point where corruption would become an additional obstacle for some of the (anyway worried) foreign investors. The European

Commission has suspended some of the payments towards Hungary, while USA introduced travel bans to a few of its officials. Petty corruption, such as in the health care sector, is endemic, to the degree that limiting rather than eliminating it is really at stake. Citizens are outraged by corruption in all its forms. To its part, civil society has been increasingly well motivated and organized to uncover and report corruption.

## Protection of Human Rights

The treatment of asylum seekers and Syrian or other war refugees has indeed become a dark spot, following police brutality against refugees, and construction of a multiple barbed-wire fence and a “transit zone” at the Hungarian southern border. Hungary is at the lead of central European countries which refuse to accept the inner-EU quotas for reception of refugees. The anti-immigrant rhetoric of the Prime Minister resembles hate-speech. Verbal abuse of refugees, foreign companies, NGOs, women, Romany, various religious communities, etc, is anyway widespread and not condemned as anti-social behavior. In December 2015, the government officials took part in a “culture war” over a sexist remark by a celebrity, protecting the abuser and adding additional discriminatory remarks. As ECHR rulings showed, even violent racist attacks against Romany went uninvestigated, such as in the “Balasz vs. Hungary” case. The presence of women in the Parliament barely changed after the elections of 2014 and is now around 10%. Legislation on the LGBT-related issues is no worse than in neighboring countries (regulated partnerships, anti-discrimination laws, protection of gender identity rights, etc), yet the implementation is poorer, whereby there is, according to the Freedom House, harassment by the police or government officials.

## ECONOMIC FREEDOM



## Security of Property Rights

Property rights are largely protected in Hungary, but they are not always adequately secured. While the country's legal system still was ranking high in that area in 1990 (7.25), it has suffered a huge decline since then (2015: 6.10). Executive power can influence court proceedings to benefit the political elite or connected third parties, resulting in low judicial independence. Examples of this are the acquisition of private pensions from citizens of Hungary (although with compensation in the shape of public social security pensions), as well as it is the introduction of industry-specific special taxes. Their retro-active implementation poses a significant threat to the rule of law and property rights. These moves were clear violations of private property. However, the EU regulation represents at least some kind of protection from such measures. Government policies on increasing share of domestically owned enterprises in certain industries can also be regarded as property-rights` violation, due to strong informal pressures. Furthermore, legal enforcement of contracts is burdened by a high number of procedures, and therefore it is slow, which diminishes the possibility to manage private property effectively. Acquisition of agricultural land by foreign natural persons is largely restricted, but the land can be leased. Even the EU nationals face restrictions in this regard, having to meet the criteria of residing in Hungary for at least three years and of an experience or education in the field of agriculture.

## Size of Government

The size of government in Hungary is exuberant, reaching 50% of GDP in 2015. As one famous Hungarian economist put it, Hungary is a premature welfare state - providing numerous services to its citizens, but without economic foundations for that. Large public sector stifles growth with high taxes necessary to finance it: the VAT level is set at 27% (the highest in the EU and higher than the maximum level approved by the European Commission, 25%), while the total tax wedge on labour is standing at 49% (with only Belgium, Germany and Austria having higher rates). Personal income tax is flat, but accompanied with high social contributions. Corporate tax rate is set at 19% (10% for small companies). Fiscal deficits that accumulated high public debt of 75,5% of GDP have been put under control, in accordance with the Maastricht criteria of 3% GDP. Government renationalization programs increased the role of the state in the economy in certain industries – foreign bank subsidiaries and energy



companies; and, large scale public works were introduced with the intention to curb unemployment. The government has acquired the Budapest Bank and thus increased its role in the banking sector, as well as minority equity in the branch of Erste Bank in Hungary. However, MKB bank was sold to a group of institutional investors. In the energy market, expectedly just the state-owned company Fogaz will continue operation. These SOEs are sometimes preferentially treated.

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

Business regulation is overall favourable to conducting business. However, the biggest problems of the Hungarian business environment include policy instability, inefficient government bureaucracy and, in the field of taxation, both tax regulation and tax rates. Starting a business is inexpensive and quick, but with high minimum capital requirements. Obtaining a construction permit involves many procedures, but is inexpensive. Getting electricity is a long process due to inefficiency of the utility company. There are regulations which are purposefully written in a way to provide rents to private companies with ties to influential politicians (e.g. legislation limiting working hours of retail shops). Some administrative procedures include legal services from lawyers, which are very expensive, although they are not necessary - for example, in opening a new business. However, the use of notaries was made optional, and standardized articles were introduced, which is expected to alleviate this problem. Multinational or foreign companies are often put into a less competitive position regarding public tenders due to favouritism of the government and government-related companies. Non-transparent business practices of the Hungarian government raise questions of high level corruption and favouritism - the government tried to classify for 30 years the documents related to a power plant expansion project won by a Russian state company, as well as contracts and financial statements of some state-owned companies. Tax procedures are complicated and burdensome to businesses. On the other hand, labour market regulations are mostly flexible, but notice periods and redundancy costs increase with the years of tenure, protecting more seasoned workers. Low maximum of 5 working days creates obstacles in a situation of seasonally or cyclically increased workload. The minimum wage is high, which could lead to labour market distortions.

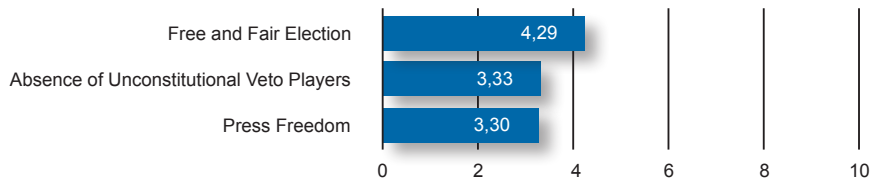
## **Freedom to Trade Internationally**

Freedom of trade is generally upheld in Hungary, which has been an EU member state for more than a decade and as such applies its common trade policy. Tariffs are overall low, excluding the agricultural sector where they can be significant for some products. Non-tariff barriers in trade are more important, with complicated and expensive certification and standardization. Geographical features, as well as high quality public transport infrastructure, significantly lower freight cost, positively influencing trade. Hungary has actually set an efficiency frontier in dealing with necessary export / import documentation. Main trade partners of Hungary are found on the EU internal market. Its most important partner is Germany. The Russian Federation is another important partner due to Hungary's reliance on imported energy, especially natural gas. Hungary still keeps a number of capital controls on short term transactions.

# KYRGYZ REPUBLIC

GDP in 2015: EUR 6,231 million		
annual growth rate: 3.5%	per capita: 1040 EUR	by sector:
		agriculture 17.7%
		industry 26.0%
		services 56.3%
Population: 5,976 thousand	Human Development Index	Government position in 2015
Unemployment rate: 7.5%	HDI: 0.655 (rank 122)	-1.17% of GDP

## POLITICAL FREEDOM



### Free and Fair Elections

A change of constitution in 2010 which included measures to improve the electoral process, delivered their first results at the parliamentary elections held in October 2015. According to the OSCE ODIHR, this election demonstrated higher level of fairness and political pluralism than it before, thus it was declared as fair and competitive. However, many irregularities, such as biased media coverage, claims of bribing voters and abuse of power, did occur throughout the campaign and on the election-day. A new system of biometric registration, which was meant to stop fraud that happened during the last elections, was criticized by many NGOs or political activists, on the basis that it violated protection of the assigning the right to vote. The result was that numerous people who lived outside Kyrgyzstan failed to register. After the elections, the new parliament convocation consists of 6 political parties, out of which 4 have built the government, led by Prime Minister Temir Sarieyev.

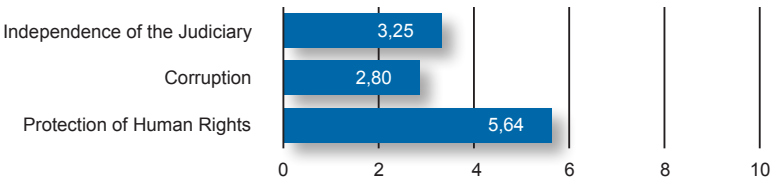
## Absence of Unconstitutional Veto Players

Although elected government in Kyrgyzstan has a power to govern, strong influence of some veto players on the decision making processes in the country didn't fade throughout the year. Political parties in the country are rather groups of people with strong personal business interests than groups guided by political platforms. Because of that, strong relations between major political players and businesses remain a threat to the democratic procedures. Corruption is widespread in Kyrgyz society. President Almazbek Atambayev created the Anti-Corruption Service within the State Committee of National Security in 2012, in order to tackle the issue. The unit made some progress by prosecuting corrupt officials from almost all political parties, but not from his own Social Democratic Party of Kyrgyzstan. One deviation from this pattern was made in August 2015, when Atambayev's Chief of Staff was accused of extortion.

## Freedom of Press

Kyrgyzstan has a wide range of traditional media outlets - more than 200. However , that doesn't make the whole picture of media any brighter. Press is not free and diverse opinion in this wide range of media outlets is still hard to find. Self-censorship by journalists is very common, due to continued pressure by politicians in power and by editors to report – at least on sensitive topics - in a more favorable way for the government while to avoid writing in a negative way about some officials. Passing of “False accusation” amendments in 2014 could be seen as recriminalizing libel. It raised fear of imprisonment or of large fines among journalists. Therefore it directly hurt freedom of independent and investigative journalism.

## RULE OF LAW



## **Independence of the Judiciary**

Lack of independent and professional judiciary has been the biggest obstacle to reforms in other fields of public life. Political or criminal influence, corruption, nepotism, ethnic bias (especially against Uzbeks) and arbitrariness are still characteristics of the judiciary in Kyrgyzstan. Situation is either stagnant or in some aspects increasingly worrisome. Amnesty International in its 2015 report quotes local NGOs which reported on 79 cases of torture or ill treatment of detainees just during the first six months. The number of torture cases investigated is less than half the number of reported, while only handful of the latter lead to a verdict, only after several years. As Freedom House noted, “defendants’ rights, including the presumption of innocence, are not always respected.” Constitutional Chamber of the Supreme Court, which became operative in 2013, faced a few challenges. According to local portals, its senior member was, in July 2015, excluded from decision making in a case because she allegedly voiced her attitude (different from the one of the government) prior to the vote in the court. In autumn, the Venice Commission put a number of remarks to the Rules of Procedure of the Constitutional Chamber.

## **Corruption**

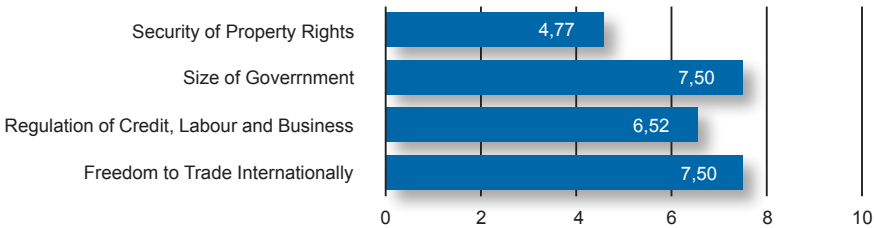
Corruption is widespread. In 2012, the Anti-Corruption Service within the State Committee of National Security was created in order to tackle the issue. The unit made some progress by prosecuting corrupt officials from almost all political parties (e.g. Mayor of Osh, who was convicted in absentia in July 2015), except from the ruling Social Democratic Party of Kyrgyzstan. An exception was made in August 2015 with the investigation against the President’s Chief of Staff, on charges of extortion. Overall, the very bad situation has improved a little bit during the past year. In the ranking by the Transparency International’s Corruption Perception Index, Kyrgyzstan is moving upwards. In 2014, its score was 27 (in 2013 it was 24), which put it to the place 136. In 2015, Kyrgyzstan was ranked, together with Kazakhstan and 5 other countries, as 123rd of 168, with the score 28, ahead of the comparable Tajikistan (26), Uzbekistan (19) and Turkmenistan (18).

## **Protection of Human Rights**

The situation is mottled. Academic freedom is not restricted, whereby some of the think-tanks are renowned region-wide. Freedom of trans-border move-

ment is secured, amid restrictions to economic migrations within the country. Human-rights` NGOs still operate with relatively little intimidation, whereby in May 2016 a draft law “against foreign agents” (shaped upon the one in Russia) was rejected in parliament. Another law modeled over Russian practice was the “anti-propaganda law”, i.e. restrictions to publications or other public appearance of the LGBT organizations. The latter law passed the second reading in parliament in June 2015, but was later rejected, only to be reintroduced into procedure in May 2016. LGBT people have no constitutional, legal or police protection against violence and discrimination, either individual or organized (by ultranationalist groups). Women are insufficiently protected against rape, bride abductions, or trafficking for forced prostitution. Initial steps are taken in fighting domestic violence. Some women have held high positions in the state, yet their overall participation in politics is still meager. Their participation in various walks of business, culture or sports sharply varies from one field to another. Inter-ethnic relations are burdened by the lack of proper investigation (or even political misuse thereof) into the Kyrgyz-Uzbek clashes as of 2010. There are restrictions to religious practice, which include raiding private homes to prevent the unregistered cults or orders from worshipping.

## ECONOMIC FREEDOM



### Security of Property Rights

Private property is not adequately secured in Kyrgyzstan. The courts are neither partial nor independent in their dealings, with corruptive practices being present. Political influence of government and their associate groups can make courts serve as executors of political will. Legal processes are long, costly and ineffective, especially in the appealing process. Long procedures, even when unblemished, can considerably damage property rights. The political elite can use government prerogatives in appropriation for their own personal political

or economic gains, which creates strong uncertainty. Although private owners are reimbursed, the sum offered usually substantially differs from perceived fair market price. There are no official limits on foreign control, but in certain specific areas regulation stipulate a high percentage of local workforce or a minimum number of board seats for local nationals. Privatization procedures are not transparent and pose a serious possibility for high level corruption and political dealings. As an illustration, the biggest investment in mining sector, at Kumtor mine, has already been renegotiated three times, and further resolution is pending. Land possession is limited, excluding foreign nationals from owning any agricultural land.

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

Government consumption in Kyrgyzstan is reaching 40% of GDP, comparable to many more developed transitional countries in Europe, or even higher. Government expenditures have risen in the wake of the crisis from the pre-crisis level of 29%. Weak tax base which have also been eroded by government action (for example, VAT exemption for some foodstuff) coupled with increased spending have led to considerable growth of public debt which stood at 68% of GDP in 2015 and continues to climb. The situation calls for an urgent fiscal consolidation, which will put deficit under control and curb public debt. Economic growth prospects are sluggish due to recession in main partner economies (mainly the Russian Federation), which significantly limited inflow of remittances. The ambitious public infrastructure investment plan needs to be revised in order to include only the most profitable and necessary public investments in infrastructure. State owned enterprises (SOEs) in the country are numerous, the most important of which operate in the field of banking, mining, electricity, natural gas and transportation. These companies are mostly inefficient and operate with financial losses which are covered by the government via subsidies or taking over of their debts, and they continue to pose a risk for public finances. Some of these SOEs are envisaged to be privatized, such as the national telecommunications operator MegaCom. Energy is heavily subsidized by the government, making these subsidies a fiscal burden, and an inefficient social measure because it is not targeted only towards the poor.

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

The business environment in the country is more business oriented than in some countries in the region, but overall many improvements are necessary.

Starting a business are easy, quick and cheap, but administrative requirements, especially in the SME sector, are perceived as a significant burden. Registering a property is one of strong sides of the regulatory framework, Kyrgyz Republic being one of global leaders. The process of licensing and providing permits is not transparent and is can be easily manipulated. The biggest problems for private enterprise are located in the field of corruption, which is omnipresent, as well as policy instability and inefficient bureaucracy, which is complicated, and plagued with inconsistent regulations. Dealing with construction permits is cheap but lengthy. However, getting electricity is inefficiently slow and expensive, mostly due to Severelektro public company. Tax regulations pose a problem, with high number of payments, and complicated procedures. Their actual implementation are also problematic, due to low quality of the tax authorities. Banking regulation is not in line with international standards, and the central bank is perceived not to be independent from the government. Labour regulations are mostly flexible: fixed term contract are not allowed for permanent tasks, but maximum level of fixed term contract is relatively long. The mandated minimum wage is relatively low. Envisaged Labour Code reforms that would introduce further liberalization were put aside due to public dissatisfaction.

## **Freedom to Trade Internationally**

The Kyrgyz Republic remains the most open and trade friendly country in the region. Kyrgyzstan was the first Commonwealth of Independent States (CIS) to join the World Trade Organization (WTO) in 1998, which substantially lowered tariffs which remain low compared to other countries in the region, standing at 3,9 for trade weighted average. However, obtaining customs certificates for import or export operations remain a lengthy and complicated procedure. Kyrgyz Republic has been involved in the negotiations under the WTO framework for accession to Government Procurement Agreement (GPA), which is envisaged to liberalize procurement procedures and open them to more competition from international actors. Standardization requirements prove to be complicated and expensive due to underdeveloped or incomplete technical regulation. Inconsistent enforcement and interpretation of regulations and weak enforcement of rules in the custom bodies create room for corruption in order to obtain necessary documents. The poor state of transportation infrastructure further aggravates the situation, considerably inflating costs and serving as an impediment to international trade. Accession of Kyrgyz Republic

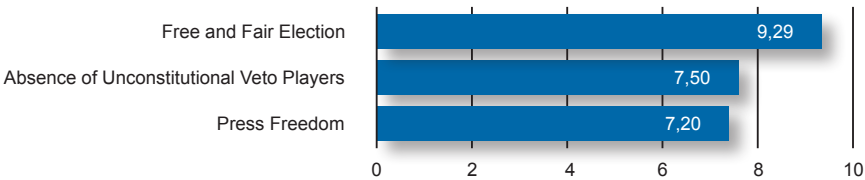


to Eurasian Economic Union (EEU) in 2015 (consisting of the Russian Federation, Kazakhstan, Tajikistan, Belarus and Armenia) is expected to further facilitate trade with EEU countries. However, this has also led to new increased regulatory burden Kyrgyz entrepreneurs have to adopt.

# LATVIA

GDP in 2015: EUR 25,258 million		
annual growth rate: 2.7%	per capita: 12,720 EUR	by sector:
		agriculture 3.3%
		industry 23.0%
		services 73.8%
Population: 1,986 thousand	Human Development Index	Government position in 2015
Unemployment rate: 9.9%	HDI: 0.819 (rank 46)	-1.82% of GDP

## POLITICAL FREEDOM



### Free and Fair Elections

Latvia has free and fair elections and political parties enjoy significant freedom and independence in their everyday operating and competing. Some cases of vote buying occurred during the last 2014 parliamentary elections, but according to the court it couldn't seriously influence the final score. In December 2015, prime minister of Latvia Laimdota Straujuma, resigned from office due to disagreement between coalition partners on international policy issues and to lack of support within her own Unity Party. She was replaced at the beginning of 2016 by Maris Kucinskis, representative of the other coalition partner, the Union of Greens and Farmers (ZZS). Previously, at mid-year, a new President Raimonds Vejonis was elected by the Parliament (nominated by ZZS as well). Right to vote or to be elected remains restricted to the non-citizens, and they can organize political parties only with participation of at least equal number of Latvian citizens.

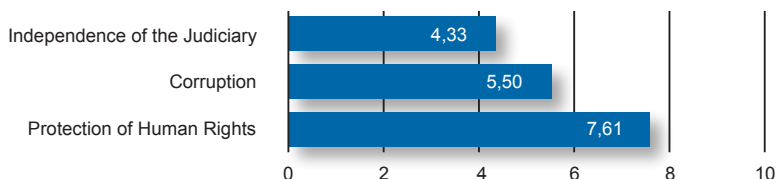
## Absence of Unconstitutional Veto Players

Latvia doesn't have unconstitutional veto players who could undermine decision making process by the authorities. Wealthy oligarchs do exist in the country, but their influence continues to weaken over the years. Corruption is still very important issue in the Latvian society. Although KNAB – Corruption Prevention and Combating Bureau, made some efforts and opened many cases in 2015, confrontations between director of KNAB and his deputy badly damaged reputation of Bureau and decreased trust in its effectiveness.

## Press Freedom

Freedom of the press is largely upheld in practice in Latvia and media enjoy high degree of independence. Traditional media outlets are still major sources of information for Latvia's citizens, however the popularity of online outlets increased quickly with access to the Internet by 92% of the population. In the past, National Electronic Mass Media Council (NEMMC) was often accused of being politicized. That has deepened as the head of the NEMMC was fired. Possibilities for further development in the realm of media rest in a still very underdeveloped investigative journalism. Latvia has progressed four places in the Reporters without Borders 2016 World Press Freedom Index and now occupies the 24th position.

## RULE OF LAW



## Independence of Judiciary

Judicial independence is only partially respected in Latvia. There is occasional exercise of political influence on courts, including in appointment of judges by the Parliament. Thus, an apparently under-qualified judge of the Constitutional Court had to be replaced in June 2014. Impartiality of courts is disputable, amid existence of corruption. Trials are lengthy (especially pre-trial detention,

as well as entire trials in high level corruption cases), which undermines public trust in the judicial system. A small acceleration of court procedures is notable since 2013, but a lot more is needed. Changing some laws and adding others during 2015 (e.g. on mediation and arbitration) might, on the middle-run, ease the burden put on courts. Conditions in overcrowded prisons are bad.

## **Corruption**

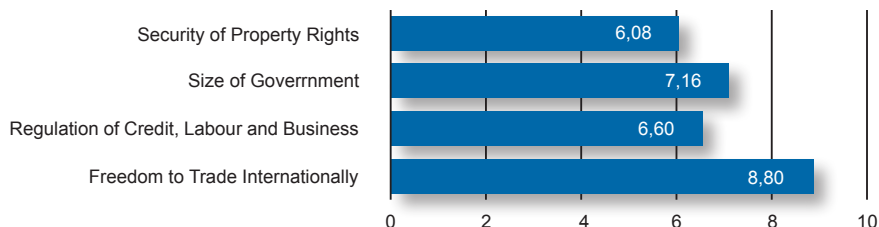
Between 2014 and 2015, Latvia stagnated regarding corruption, while its neighbors Lithuania and Estonia advanced. Latvia is now clearly behind them. Situation with petty corruption has improved since 2013. High level corruption and the failure of judicial system to prosecute it even when discovered, is now the main problem. Illicit ties between big businesses and those in power are at the root of it. The biggest corruption scandal in 2015 involved the head of the state-owned railways. In its report BTI 2016, Bertelsmann concluded: "While anti corruption authorities have been largely successful in tackling administrative corruption, they have been largely unsuccessful in tackling high level political corruption". In the Transparency International's Corruption Perception Index 2015, Latvia, with 61 points, shared the place 40 with Cape Verde, Costa Rica and Seychelles.

## **Protection of Human Rights**

In many fields, human rights in Latvia are well protected. For instance, freedom of religion is kept up to the highest EU standards. Gender gap has generally been smaller than in comparable countries. However, problems remain in the identity politics. The right balance between the established European values of anti-communism and anti-fascism, especially needed in case of Baltic countries due to the history of invasions from both east and west, is still not found in Latvia – in March 2016, former Waffen SS veterans again paraded in Riga. Secondly, nationalism and homophobia go hand in hand. In 2014, a government minister admitted he was gay, but generally government did little to ease the tensions in society, as demonstrated though the slogan "The more gays - the less Latvians". Unlike Estonia, there is no regulation of same-sex unions. Parliament has even amended the education law with LGBTI-discriminatory elements. However, LGBT's EuroPride 2015 march was peacefully held in Riga. To their part, the rights of the Russian-speaking minority (ca. 30% of the population) are also challenged, especially in the education system. Skin-color

acism and Islamophobia are rare in Latvia, yet recently there has been a rise of anti-immigrant hate-speech in the blogosphere.

## ECONOMIC FREEDOM



### Security of Property Rights

Private property in Latvia is overall secure. Expropriation of private property is limited only to extraordinary cases of public interest, and even in that case market-value compensation is determined, which can be challenged in court. Bankruptcy procedures are considered prone to corruption and inefficient. Judicial independence is not always held, undermining integrity of the entire legal system. Court partiality further aggravates the situation. Legal procedures are usually long, in violation of the standard of reasonable time for court proceedings. They can vary significantly between different regional courts. They are also very costly, with low recovery rates in bankruptcy procedures. Police reliability is not properly guaranteed and is not in line with the rest of legal system. There are no major restrictions on possession of property for foreign nationals, as Latvia was among the first ex-USSR nations to let foreign legal entities and natural persons own land. The latter can be leased for a 99 years` period. Property registration is quick and inexpensive. It became more expedient by introducing a new application form for transfers. New efforts at restructuring the courts and introducing laws regulating domestic arbitration and voluntary mediation are envisaged to strengthen the legal regulatory framework and improve the rule of law.

### Size of Government

Government presence is not prevalent in the economy, same as in other Baltic countries. Total government expenditure stands at 38% of GDP in 2015. The budget is still experiencing deficits, but the fiscal stance is broadly in line with

the Euro-zone rules, with the government debt resting stable at 35% of GDP. Weak external position, due to a slowdown among trade partners, as well as prevailing geopolitical tensions, led to a decrease in economic growth, which was recorded at 2,7% of GDP in 2015. Legally, there are six joint companies that cannot be privatized, in sectors of energy and mining, transportation, postal services and forestry. Furthermore, the state still holds possession of two telecom companies and the air carrier. However, 20% of stocks of the Air Baltic were sold to investors, but the introduction of a strategic investor was not successful. Private companies are able to compete with SOEs on the same terms and conditions in the market. The government has reviewed and rejected plan by the Privatization Agency for Liepavasmetalurgs steel plant that has been facing challenges since KVV acquired it in 2014. Possible further government involvement in this case is a pressing issue. Social transfers and government subsidies remain high. Lower government consumption than the EU average allows for lower level of taxation. Corporate income tax is set at 15%, while the standard and preferential rates of VAT are 21% and 12% respectively. However, the overall tax wedge on labour is high (44%), due to high social contributions (10,5% of the gross wage on behalf of the employee, and 23,59% on behalf of the employer) and flat personal income tax of 23%.

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

Regulatory environment in Latvia is overall business friendly. Starting a new business is easy and inexpensive. Getting electricity and obtaining a construction permit are also short and efficient procedures, incurring low cost. However, there were also negative developments regarding construction permits: although the process was streamlined by having the permit issued together with the architectural planning conditions, the time frame for these activities was expanded. The tax compliance, on the other hand, is complicated, although with a low number of annual payments. An electronic system for corporate income tax filing is put into place in order to streamline the practice, and tax deduction for bad debt was eliminated. Partisan treatment by government officials and corruption still remain an obstacle to a better business environment. Labour regulations are mostly flexible, but with retraining or reassignment obligation of the employer for the workers prior to redundancy. Severance pay is increased with the years in tenure, making jobs more secure for seasoned workers, but also making them less employable. The minimum wage is set very high (and even recently raised, although by a small fraction),

relative to the average wage, and its steep rise since 2013 threatens international competitiveness.

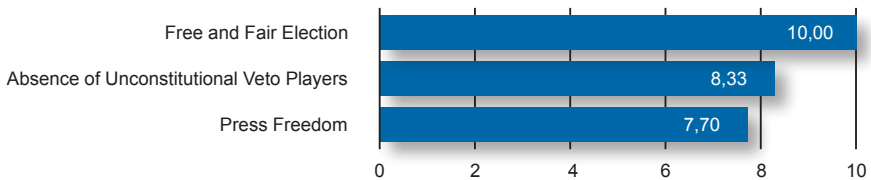
## **Freedom to Trade Internationally**

Freedom of international trade is generally respected in Latvia. As an EU member state, it imposes tariffs in accordance with the common EU trade policy. They are overall low, and mainly focused on agriculture. Border and documentary compliance is efficient, posing little burden on trade. Recent introduction of the euro as the national currency also enhances trade by eliminating exchange costs. However, non-tariff trade barriers still remain an obstacle to imports, mostly in the field of certifications and quality standards. Good public transportation infrastructure enhances international trade, by lowering freight costs. While ports and road network are well developed, rail-road is not, and Latvia is connected by rail only with its neighboring ex-Soviet countries. Furthermore, procedures in obtaining working permits and residence permits for non-residents, since the EU citizens have the same rights on the labour market as nationals, is a burdensome bureaucratic procedure.

# LITHUANIA

GDP in 2015: EUR 38,597 million		
<i>annual growth rate: 1.6%</i>	<i>per capita: 13,290 EUR</i>	<i>by sector:</i>
		agriculture 3.2%
		industry 30.2%
		services 66.6%
<i>Population: 2,905 thousand</i>	<i>Human Development Index</i>	<i>Government position in 2015</i>
Unemployment rate: 9.1%	HDI: 0.839 (rank 37)	-0.21% of GDP

## POLITICAL FREEDOM



### Free and Fair Elections

Lithuania's score clearly points at a high level of freedom and fairness of the electoral process. Political parties are free to operate and compete with one another. However, only the Communist Party remains restricted. Local elections in Lithuania were held in March 2015 and voters had for the first time an opportunity to directly elect Mayors, thus strengthening democracy at the local level. They demonstrated professionalism, although some violations such as vote buying did occur, while elections in 3 municipalities were annulled by the election commission. A change of the electoral districts took place in December 2015, following the ruling of the Constitutional Court that voter allocation per district violated Constitution. Recommendations of the OSCE were accepted, and deviation was within 10%.

### Absence of Unconstitutional Veto Players

Lithuania doesn't have unconstitutional veto players. Security forces are

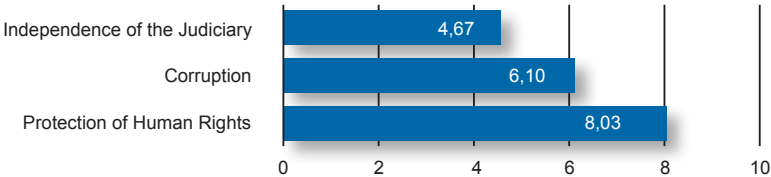


under effective civilian control, the church doesn't interfere into country's politics, influence of wealthy oligarchs is weak, and therefore authorities have unchallenged legal power to govern the country. Corruption is a big challenge for authorities in Lithuania, especially at the local level. In order to tackle this issue, government adopted new anti-corruption strategy in March 2015.

### Press Freedom

A wide variety of independent media outlets, which are expressing diverse opinions on the most important questions, can operate and report freely in Lithuania. Still, many issues remained unresolved throughout the year. Concentration of media ownership is not restricted, so this phenomenon is a common for press in this country. Although insult is expelled from the list of criminal activities punishable by the law, libel remains criminalized. Local media are faced with huge economic pressure, making them prone to the political influence and being dependent on state resources. Biased reporting by the two Russia-based TV stations, RTR Planeta and Ren TV Baltic, on the conflict in Ukraine, led to their restricting for three months in 2015. RTR Planeta was at the end of the year prohibited to be a part of the standardized television packages.

### RULE OF LAW



### Independence of Judiciary

Rule of law in Lithuania still stumbles on judiciary. The situation is roughly the same as in neighboring Poland, while worse than in Estonia. Impartiality of the courts and prosecutors is dubious. Political influence on them is worrisome. During 2015, President and Parliament were in a row over the nomination of the new Prosecutor General (following the dismissal of his predecessor). Transparency International's earlier research indicated at a high level of perceived corruption in courts. However, according to Freedom House, a public opinion research conducted in 2015 for the first time showed that there was slightly

more trust than distrust in the court system. Overcrowding of prisons (among the worst in Europe) still remains as a problem. Constitutional Court was active. One of its notable rulings was passed in October 2015, on the allocation of single-member constituencies for election of 71 of 141 MPs. It diminished maximum deviation (from 20% to 10%), thus making gerrymandering or other election inequality harder to implement. There is an ongoing investigation on the alleged secret detention centers during the “war on terror”.

## **Corruption**

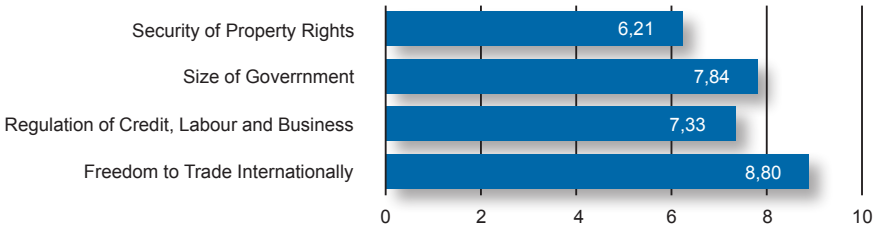
Year and again, Lithuania is improving its record in curbing corruption. In the Transparency International’s Corruption Perception Index 2015 it went up to the place 32 of 168 (together with Cyprus and Israel), with the score 61/100. Only five years ago it was 46th of 178, with the score 5.0/10.0. Getting rid of Soviet heritage in economy (liberalization and overall modernization), building anti-corruption and other state institutions and inclusion of civil society into anti-corruption struggle have delivered results. Recent corruption scandals, as reported by TI-Lithuania, shift a focus of attention to corruption and party capture in local government and public procurement, as well as to nepotism and conflict of interest. Petty corruption and tax evasion seem to be gradually retreating. Meanwhile, the Parliament has adopted the National Anti-corruption Programme 2015-2025. Among numerous objectives there are more efficient and transparent management in public sector, reducing the administrative burden on economy, ensuring fair competition in public procurement, eliminating corruption in health care and promoting zero tolerance approach to corruption.

## **Protection of Human Rights**

In the main human-rights` related inner-EU dispute in 2015-2016 - over migration issues - Lithuania, along with other two Baltic countries, supported Germany’s open and inclusive approach to war refugees. Still non-numerous refugees in the country are participating in the (well developed) civil society initiatives to further dispel xenophobia. The protection of ethnic minorities is still a serious issue. Whereby the position of Russian minority regarding use of language has improved in some areas (e.g. media), Polish minority faces obstacles (regarding personal documents, or in education). The protection of LGBT population is scarce. The law on protection of minors against “inappropriate content” in media (as of 2011) is occasionally misused to censor public

advocacy of LGBTI equality. In October 2015, Parliament rejected the proposed regulation of same-sex partnerships (marriages are anyway constitutionally banned). Despite anti-discrimination laws, homophobic hate-speech is widespread. On the bright side, NGOs are getting ever more space. It is estimated that half of the population is taking part in at least one non-governmental initiative. Women are increasingly well protected against exclusion, discrimination or violence. Academic freedom and freedom on the Internet are well protected. As for religious freedom, the nine existing communities are equally treated, albeit there are problems with the construction of a mosque in Vilnius. Since June 2016, mandatory military service is re-introduced in Lithuania – up to 3.000 randomly selected conscripts will be drafted to accompany volunteers in military service.

## ECONOMIC FREEDOM



### Security of Property Rights

Private property is relatively secure and respected in Lithuania. However, judicial independence and court impartiality remain areas of concern within the legal system, and political influence can still be exercised in some court rulings. There are no courts specialized in commercial cases only. Legal enforcement of contracts is inefficient, although court proceedings are usually terminated within a reasonable time frame, while filing procedures is a weak spot. An electronic filing system introduced to courts is envisaged to significantly alleviate the problem. Commercial Court of Arbitration is an increasingly popular independent institution for legal resolution of conflicts, due to faster proceeding track. Resolving insolvency is a process with relatively low recovery rates and longer procedures, in comparison to other EU countries. High quality land-administration system, coupled with professional notary services, provides the basis for efficient and inexpensive private property registration. Reliability of the police is not satisfactory, albeit business costs of crime are low.

## **Size of Government**

Government size in Lithuania is very moderate by European standards, with government expenditures reaching 34,6% of GDP in 2015. The strong fiscal austerity package, put in place after the 2009 recession spillover to Lithuania, with its significant cuts in public expenditures, contained high public deficits and finally led to a balanced structural fiscal position in 2015. However, this newly acquired fiscal space should not be taken for granted, due to necessities to build potential fiscal buffers and tackle future liabilities due to demographic changes. Economic growth which slowed down in 2015, due to weak external position caused by a downturn among major trade partners, is expected to pick up next year. Public debt, although highly elevated as compared to pre-crisis times, remained within the Maastricht criteria, at 42,8% of GDP in 2015. The moderate level of government spending is a result of low government involvement in the economy and relatively low social transfers, allowing for more favourable taxation levels. Lithuanian tax system is flat, with some minor progressive characteristics – personal and corporate income tax are set at 15%. VAT has a standard rate of 21%, and the reduced rate of 9% and 5% for certain products, while the excise duties on tobacco, alcohol and energy are among the lowest in the EU. However, tax wedge on labour is still significant due to high rates of social contributions. The Lithuanian state has largely exited the market, and most of the state-owned enterprises were privatized. The government remains involved in the economy mostly by public utility companies, and through enterprises in the transportation sector: the railway company, the postal service and 3 international airports. Apart from companies that are in monopoly status, private companies do not face restrictions in their competition and dealings with SOEs. Management of these state-owned companies is not fulfilling high professional standards and is sometimes politicized.

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

Regulatory framework of business activities is overall business friendly. Starting a business is fairly quick and inexpensive. Efficiency of the process was further mitigated by the introduction of online VAT registration. Obtaining a construction permit includes many procedures, but they are streamlined and not time consuming. Getting electricity is also an efficient procedure, which was improved by introduction of time limits on connection works by the utility company. Tax procedures are characterized by a low number of annual

payments, however tax compliance is complicated and time consuming, especially regarding social contributions paid by the employer. Labour regulations are rigid in hiring and firing section and working hours, with a very low number of maximum weekly working days. Redundancy regulations are also burdensome, with severance pay costs increasing with the number of years in tenure, with long notice periods, and redundancy priority rules. Furthermore, the minimum wage is considerably high in comparison to the average wage, encouraging shadow employment and increasing unemployment level among older workers with lower qualifications. Some low level or petty corruption and favouritism are still present in the country, mostly in the areas of awarding government contracts and granting licenses. Major regulatory constraints on business are identified in the field of labour code, inefficient government bureaucracy and policy transparency.

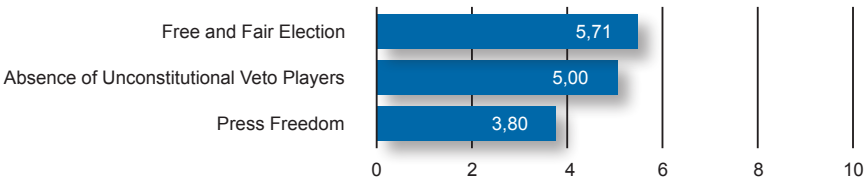
## **Freedom to Trade Internationally**

Lithuania is one of the countries that are very open to international trade. As a member of the EU, Lithuania implements the EU common trade policy with overall low tariffs. Border and documentation compliance for exports and imports do not pose a burden to trade, and electronic filing system is frequently used. Good transportation infrastructure significantly lowers importing or exporting cost associated with international freight. However, as elsewhere in the Baltic region, railroads are far less developed than other forms of transport. There is a clear lack of good quality railroad connections with the rest of Europe. Lithuanian accession to the Euro-zone has further facilitated trade, eliminating many currency exchange costs. Short-term capital flows still face certain restrictions, but most of the capital transactions are not under stringent control. EU citizens have the same legal rights and obligations in the labour market as nationals, but the procedure of obtaining working permits for third party nationals might be very complicated and uncertain.

# MACEDONIA

GDP in 2015: EUR 9,453 million		
annual growth rate: 3.7%	per capita: 4,560 EUR	by sector:
		agriculture 11.2%
		industry 26.1%
		services 62.7%
Population: 2,071 thousand	Human Development Index	Government position in 2015
Unemployment rate: 26.1%	HDI: 0.747 (rank 82)	-3.47% of GDP

## POLITICAL FREEDOM



### Free and Fair Elections

Freedom and fairness of political processes in Macedonia deteriorated further in 2015. The year was marked by political polarization, an opposition boycott of the parliament, demonstrations, a wiretap scandal, transitional government and preparations for a new parliamentary election at the end of 2016. After last elections, the biggest opposition party Social Democratic Union of Macedonia (SDSM), accused ruling coalition for electoral fraud and boycotted parliament session. Political situation became even worse when SDSM released wiretapped recordings by the government which indicated abuse of power, numerous electoral frauds and other manipulative violations in the campaigns by the government and ruling party officials. It led to massive demonstrations of opposition in May, followed by counter demonstrations of government supporters, bringing political polarization in the country to its peak. European Union jumped in as mediator to try to bring stability in the country and recon-

cile these two ends. The result of the negotiating process was a comeback of SDSM and its coalition partners in the parliament and establishment of transitional government in order to make preparations for free and fair 2016 national elections. In the light of that, in November parliament adopted some electoral changes regarding auditing of the voter list, formation of new Electoral Commission among others. Twice in the first half of 2016 the opposition block boycotted the scheduled early elections due to the lack of legislative amendments guaranteeing the necessary conditions for free and fair elections.

## **Absence of Unconstitutional Veto Players**

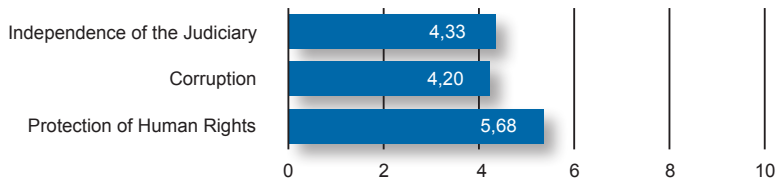
Although unconstitutional veto powers don't exist in Macedonia, the elected government wasn't able to function effectively during the observed period. Work and decision-making process by the government were undermined by the opposition's boycott of the parliament, justified by alleged electoral fraud, which all finally led to the formation of a new, provisional government. That ruling party officials are the biggest threat to democratic processes, it became obvious after publishing the wiretapped material which clearly pointed out at the huge network of corruption that existed among the highest ranking country's politicians. Besides that, it also indicated that government didn't hesitate to abuse its power and espionage their citizens on an unlawful ground. On the other hand, ethnic conflicts between Albanians and Macedonians posed a threat to country's security. Alleged paramilitary Albanians attacked state border police in April, causing a raid by security forces in Albanian ethnic quarter of Kumanovo, a month later, leaving several people killed on both sides.

## **Freedom of Press**

Press is not free in Macedonia. Deep political polarization during the last few years had reflected on media outlets in this country, therefore most of them are extremely biased toward either side of political spectrum. Poor job conditions for journalists, followed by a pressure to create content in line with owners' political affiliations or business interests, led to a high rate of self-censorship. Wiretap scandal that shocked Macedonian society revealed not only that over 100 journalist were supervised by the government, but also that their developed connections to media owners, as well as the owners' power to influence the contents of both public and private media outlets. Free access to public information is preserved only for pro-government outlets. Same goes for advertisements of the state-owned companies. Verbal and physical attacks on jour-

nalists are common. They, among other violent acts, included death threats, destruction of property and beating.

## RULE OF LAW



### Independence of the Judiciary

Independence of judiciary witnessed further deterioration during last year. Political pressures, especially in the most important high profile cases, have been reinstated. The most important investigation, upon which the peaceful future development of Macedonia crucially depends, is the one regarding secret tapes released between February and June 2015, the high corruption which they unmasked and adjacent conduct of secret services. For that purpose, Special Prosecutor was named in September 2015, as agreed by all major political parties. Meanwhile, her work was questioned from the constitutionalist point of view and sabotaged in many other ways by the major ruling party VMRO. In spring 2016, President of Macedonia pardoned all participants in the “tape bombs” scandal against whom there were evidences for involvement in corruption practices and political pressure, but he revoked the decision after renewed mass street protests and international critics.

### Corruption

The tapes that Macedonia`s opposition released in spring 2015 alleged that the highest officials of the government and of the ruling party VMRO-DPMNE, including the Prime Minister Nikola Gruevski, were involved in high level corruption – taking cuts of the major infrastructural projects or of procurement for the security sector, fixing tenders, bribing journalists, extorting donations to the party from companies, illicit favoring of party activists regarding employment in public sector, etc. Since then, mass protest anti-government movement is in the streets, whereby the country has been severely polarized. Subsequent attempts to find a peaceful end to crisis included the resignation

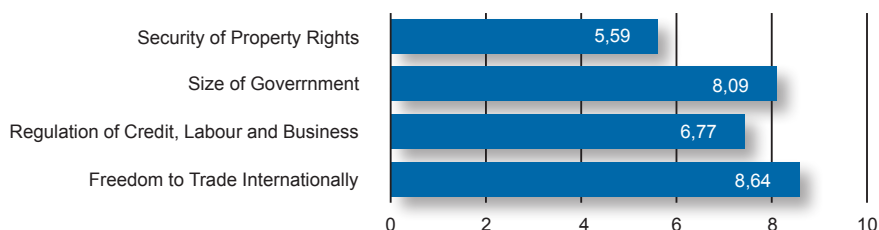


of the PM and installation of the interim Government until new elections. As for other corruption-vulnerable areas, local politics has also proved as affected to a high degree. Macedonia's economy, not least the public sector but also parts of the private sector is, at least indirectly, controlled by political parties. Petty corruption is also pervasive. The Law on Protection of Whistle Blowers became effective in March 2016, but its implementation (by-laws, staff, etc) was so shallow that its amending might prove as necessary. Macedonia fell on the Transparency International's Corruption Perception Index 2015 list – with 42 points, together with Sao Tome & Principe and Turkey, it was ranked 66 (of 168).

## **Protection of Human Rights**

Throughout 2015 and much of 2016, the street protests were rather daily than occasional. Many of them were to do with the ongoing of the “tape bomb” corruption scandal. Some of them were ignited by the discovery of a police murder of a detainee in 2011. Some were against the new, restrictive Law on High Education or other government measures. Some were pro-government, whereby public resources were used to bring pro-government rally participants to the capital. But all of them were marked by the polarization of the country into two belligerent political blocks. Many shortcomings in other areas of protection of human rights have thereby been overshadowed. Arbitrary arrests by the police are anyway in the rise. Islamophobia and hate speech are spreading. The position of the LGBT people is worsening, making Macedonia the most LGBT-unfriendly place in Balkans, with no anti-discrimination mechanisms at hand. New legislation is trying to re-traditionalize gender roles and family relations. Besides, the treatment of refugees was often violent – at the Greek border, on several occasions between autumn 2015 and April 2016, Macedonian police used teargas, rubber bullets and/or shock-bombs to discipline the protesting refugees, asylum seekers or other migrants. Those of them who were given temporary stay are not allowed to leave the refugee camps and are de facto locked in there (however provided all basic necessities), until they could legally leave to another country.

## ECONOMIC FREEDOM



### Security of Property Rights

Private property rights are mostly protected in Macedonia, but there are many deficiencies within the judiciary which strongly undermine its performance. Courts are not impartial in their dealings, and pressure from political groups might influence them. Furthermore, judicial processes are costly and very slow, which also applies to enforcement of court judgments. Administrative courts often fail to deliver verdicts in accordance to judicial precedents, therefore requiring parties in the process to appeal to appellate courts, increasing their workload substantially and prolonging legal processes. Similar problems plague insolvency procedures, which leads to very low recovery rates. A new legislation in effect since February 2016 requires obligatory mediation for all disputes up to 15 000 euro of value as a precondition for going to court. This measure, which was introduced to promote mediation procedures in order to decrease workload pressures on the judiciary, has in fact led to imposition of an additional cost in pecuniary and time measures for businesses. Private property registration is a long process due to inefficient tax office procedures.

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

Size of government in Macedonia is relatively smaller as compared to other countries of the region, with public expenditure reaching only 32.2% of the GDP in 2015. Economic growth remains sluggish, facing certain deceleration due to the constrained external demand. Fiscal stimulus, that was used for capital investments in infrastructure in order to foster growth, delivered mixed results. However, budget deficits, used as an instrument of fiscal policy, have accumulated a substantial increase in public debt, which is expected to reach the 40%-of-GDP threshold at the end of 2016. Since government deficits are

expected to remain elevated, mostly due to rising pension system deficits, it calls for a substantive fiscal program in order to contain public debt increase. Full scale privatization programs strongly decreased the level of influence the state exercises over the economy through state-owned enterprises (SOE). SOEs are active mostly in the field of public utilities, but also in energy, banking and transportation. Their business performance is not high - appointments are connected to political influence. Also, they are rather considered as guardians of social peace than as profit-generating entities. The two biggest public-owned companies, themselves operating in road infrastructure (PESR) and electricity (ELEM), pose a significant financial challenge for the public finance, due to their rising level of debt. Low government spending resulted in a relatively lower tax burden, with VAT rates set at 5% for preferential and 18% for standard rate, while personal income and corporate taxes are set at the low 10%. However, high social security contribution of 27% of the gross wage, sets the overall labour tax wedge to 37%, slightly above the OECD average.

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

Regulatory environment in Macedonia is mostly favourable to entrepreneurial activities. However, the problem is not whether regulation exists or not or even what is its quality, but more in the field of its actual implementation in leveling the playing field for all contestants. Regulatory changes are frequent, often without proper consultative mechanism with the public, and they are retroactively applied. Macedonia has scored well in the Doing Business report of the World Bank, due to many reforms it had introduced during previous years, at times being at the top of the SEE countries. Starting a business is among the most efficient processes - without cost or paid in minimum capital - and fast, due to the introduction of the compulsory electronic online registration. Compliance with tax procedures is not burdensome, due to widespread electronic filing system. Obtaining a construction permit and getting electricity are very expensive, due to high fees of public entities in charge. On the other hand, labour regulation is mostly flexible - due to flexible working hours and because collective bargaining does not incur high costs to businesses, since it is mostly concentrated in the public sector. Also, duration of fixed term contracts is long, reaching 60 months. Introduction of the new law on misdemeanors will harmonize fines and link the gravity of the offense to financial resources of the company, alleviating the situation for the SME sector, since they were, due to their size, discriminated by the previous flat system. But the

minimum wage is relatively high as compared to the average monthly salary. Firing workers could be costly due to prescribed levels of severance pay that are rising with years in tenure, protecting more seasoned workers. Macedonia has recently levied the obligation of paying social contribution for persons on professional contracts, if they are not employed in the entity.

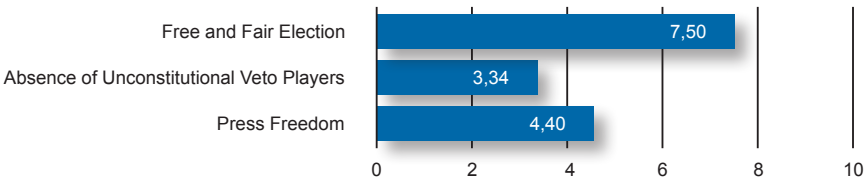
## **Freedom to Trade Internationally**

Free trade is mostly respected in Macedonia. Same as in all small, open economies, free trade fosters production specialization and rise in productivity, thus enhancing economic development. Since 2003, Macedonia has been a member of the World Trade Organization (WTO), which liberalized foreign trade. Trade tariffs are not high, with the average applied tariff rate of 6.9%, with the exception of agriculture products, where tariffs could be significant. Regulatory trade barriers still remain, incurring cost on imported goods, due to the complicated product-standardization procedures. Customs' bureaucracy procedures hinder free movement of goods, especially in the border compliance section. There are also challenges posed by poor state of the transportation infrastructure, most notably by the quality of roads and railways, which increases freight costs. Capital controls on short-term capital inflow in order to limit the impact on the national currency exchange rate are still maintained. Vast majority of the trade is facilitated through Stability and Accession Agreement (SAA) with the European Union, signed in 2001, and Central European Free Trade Area (CEFTA) agreement as of 2006. These two free trade agreements connect Macedonian economy to its main trade partners: Germany, Italy, Greece, Bulgaria, Serbia and Kosovo. During October 2015, Macedonia ratified the WTO Trade Facilitation Agreement (TFA) which is expected to further liberalize trade flows, and is an observer to the Government Procurement Agreement (GPA). There are some obstacles in issuance of work and residence permits for foreign nationals, since the process could be very slow.

# MOLDOVA

GDP in 2015: EUR 6,067 million		
annual growth rate: -0.5%	per capita: 1,710 EUR	by sector:
		agriculture 14.4%
		industry 21.1%
		services 64.5%
Population: 3,554 thousand	Human Development Index	Government position in 2015
Unemployment rate: 4.9%	HDI: 0.693 (rank 109)	-2.32% of GDP

## POLITICAL FREEDOM



### Free and Fair Elections

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

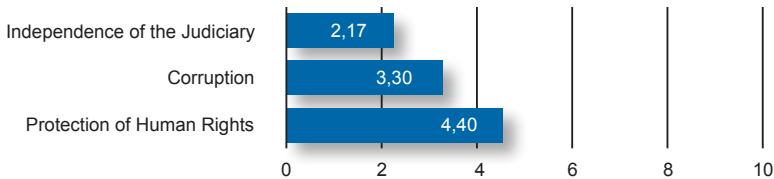
## Absence of Unconstitutional Veto Players

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

## Freedom of Press

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

## RULE OF LAW



## **Independence of the Judiciary**

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

## **Corruption**

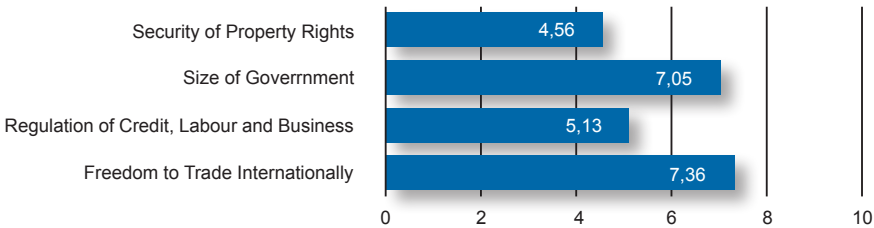
Together with the Dominican Republic, Ethiopia and Kosovo, Moldova is, with the score 33, sharing the rank 103 on the Transparency International's CPI 2015 list of 168 countries - a relative fall as compared to previous years. Kosovo and Moldova are the worst corrupt members of CEFTA. Corruption is widespread, especially in judiciary, among public servants, in health care and even in education. Media ownership is not regulated whereby control is in hands of corrupt oligarchy. Still widespread public ownership facilitates grand corruption, especially in banking sector. Anti-corruption and integrity-enhancing independent bodies are weak, with no political will to strengthen them. In the eastern Trans-Dniester region, similar as in other territories of unclear jurisdiction, corruption, contraband and money laundering additionally flourish despite the attempts at economic integration with the rest of the country.

## **Protection of Human Rights**

Child labor and human trafficking hamper personal security and prevent equality of opportunities for many. Ambiguous attitude of authorities towards freedom of speech, media and association reflects on the position of CSOs. Anti-discrimination protection of LGBTs, especially transgender, is inadequate. Amnesty International warned that hate crimes are not properly addressed.

Hate speech goes unpunished. Pride march needed heavy police protection. Small religious communities are often denied registration or harassed, while the main church is favored and sometimes aggressive. Positive developments include, according to UN reports, increasing participation of women in politics. In the rebel region of Trans-Dniester, human rights` situation is worse than in the mainland, especially regarding personal security, education and minority rights.

## ECONOMIC FREEDOM



### Security of Property Rights

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



eliminated economic and commercial courts, so all the cases are litigated at general courts.

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

The size of government in Moldova is at the average of Eastern Europe, with public expenditures reaching 38% of GDP in 2015. Moldova has recorded another, yet mild, recession in 2015, after years of growth. Public debt can still be considered as moderate, reaching 41% of GDP in 2015, but fiscal position of the public sector is increasingly unsustainable, exacerbated by an increase in the already high pension transfers. A stand-by arrangement with the IMF is expected to support another fiscal consolidation program. High recorded inflation is expected to be substantially decreased. SOEs are still present in many areas and hold monopoly status in some. Major government-controlled companies are public utilities and electrical distribution, but also the largest tobacco company, air carrier, railway company and telecom operator. In 2014 and 2015, privatization was mostly done as a part of private-public partnerships. Since early 2016, the government is considering new plans for privatization of state companies. Although private companies are not legally discriminated against, these SOEs sometimes obtain preferential treatment in the market. Income tax is progressive, with tax rates of 7% and 18%, while corporate income tax is set at a low 12%. Regular VAT rate is 20%, while a limited number of products is taxed by the reduced rate of 8%. High social security contributions coupled with income tax lead to an overall high labour tax wedge.

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

Business regulation in Moldova poses many problems to free conduct of entrepreneurial activities. Starting a business is easy and inexpensive. Tax-compliance red tape is not excessive. The procedure has been made even easier by abolishing an inspection by the Territorial State Fiscal Inspectorate. On the other hand, getting electricity is a lengthy and expensive procedure, and obtaining a construction permit is also a long process due to inefficiently high number of procedures. An environment with many bureaucratic procedures leads to high levels of corruption and extortions from public administration. A widespread corruption, as well as policy instability, are perceived as the most important deterrents to a business environment that would be conducive to growth. Labour code is mostly inflexible. Regulation of working hours takes both flexible and inflexible characteristics, allowing for longer working periods

in case of increased workload, with a 6-day work a week as a possibility, but also restricting work during the night or on public holidays. Another rigidity is a very short probation period, up to two weeks. Firing regulations are burdened with trade union notifications in case of redundancies and with retraining or reassignment rules. Redundancy rules protect more seasoned workers, with severance pay increasing with the years in tenure. Another significant burden is the 12-month obligatory military conscription.

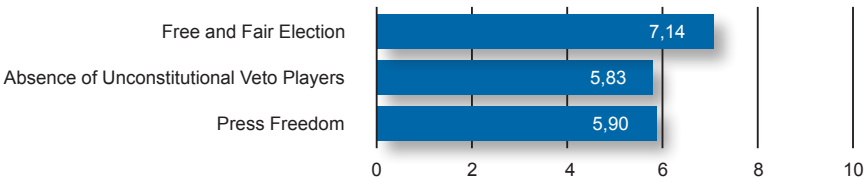
## **Freedom to Trade Internationally**

Freedom of trade is generally protected in Moldova, but there are many problems in this field. Tariffs are low, standing at 4.6%, but regulatory non-tariff trade barriers are burdening imports. Custom documentation could be a lengthy procedure, especially with exports. Corruption remains present within the customs department. Although - legally - national treatment is secured for foreign companies, public officials might favour domestic companies through regulation, a clear example of which being the environmental tax on imported bottles, while this tax isn't levied on bottles produced in Moldova. Freight cost elevated by poor transport infrastructure also hinder international trade. Moldovan main trade partners are Commonwealth of Independent States (CIS) countries, most notably the Ukraine and the Russian Federation, followed by the EU countries (Romania, Italy and Germany). Moldova has been a World Trade Organization (WTO) member since 2001 and of the Central Europe Free Trade Agreement (CEFTA) since 2007, and also has a number of bilateral trade agreements. The Association Agreement (AA) between the EU and Moldova, signed in 2014, is now in implementation, since its full ratification by all parties concerned. Moldova has ratified WTO Trade Facilitation Agreement (TFA). Once implemented, it is expected to further lower trade barriers in customs clearance. Furthermore, Moldova has also joined the Government Procurement Agreement (GPA), which will provide the level playing field for domestic and foreign companies and goods in the area of public procurements.

# MONTENEGRO

GDP in 2015: EUR 3,738 million		
annual growth rate: 3.2%	per capita: 6,010 EUR	by sector:
		agriculture 8.3%
		industry 21.2%
		services 70.5%
Population: 0,622 thousand	Human Development Index	Government position in 2015
Unemployment rate: 17.6%	HDI: 0.802 (rank 49)	-7.46% of GDP

## POLITICAL FREEDOM



### Free and Fair Elections

Observed period passed without any elections in Montenegro where citizens usually had a right to cast their vote freely. However it didn't lack turbulent political events. Internal disagreements on the way of doing politics among several political parties have led to their splitting and formation of four new parties. Similar pattern occurred in relations between coalition partners, Democratic Party of Socialists of Montenegro (DPS) led by Prime Minister Milo Djukanović and Social Democratic Party of Montenegro (SDP). In September 2015, opposition Democratic Front started protests against the government, accusing them of violations and unfair elections. Djukanović called for a no-confidence vote in December in order to bring stability to the government and in January members of the parliament pleaded support for him and his governing coalition. Accusations of electoral fraud were even louder and political pressure higher, making Djukanović propose the creation of a new caretaker government, which would involve opposition members in it. Proposal aimed to create

government which would ensure free and fair elections by the end of the year and it was adopted in May 2016.

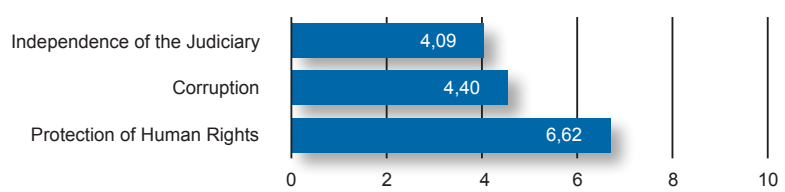
**Absence of Unconstitutional Veto Players**

Milo Djukanović, Prime Minister of Montenegro, the leader of the DPS party and a person which is more than 20 years in power in Montenegro, together with his ruling coalition holds complete control over country’s decision making processes. Many players in the country try to exert some influence, such as church, which is constantly expressing opinion on some political issues, or businessmen with their interests, but none of them have veto power. It all depends on the authorities. Though, concentration of power in the hands of few, coupled with a weak system of checks and balances, pose a threat to democracy in Montenegro. In terms of national security, Montenegro fulfilled all conditions to join NATO, which is expected to happen during 2017.

**Press Freedom**

Freedom of the press in Montenegro is exerted to certain extent. Media environment is both pluralistic and diverse, but politically polarized, requiring information from various sources in order to complete the picture. Public broadcast media outlets tend to favor government. With weak control mechanisms over state advertising, political influence on the content of the private outlets is big as well. Political and economic pressure on one hand and on the other harassment and destruction of journalists` property, made them practice self-censorship in order to keep their jobs or avoid physical attacks. Violence towards journalists escalated during opposition protests in October 2015, as a few of them were arrested and the property of media outlets vandalized. Prosecution of perpetrators against journalists remained inefficient. Montenegro is ranked on a low 106th place, on the Reporters without Borders 2016 World Press Freedom Index.

**RULE OF LAW**



## **Independence of Judiciary**

In 2015, the European Commission has noticed yet another year of progress on judiciary reforms. But a lot has yet to be done to improve its independence, not to mention efficiency. Legal proceedings are still lengthy, in spite of some progress. Prison conditions require improvement. On the other hand, in mid-2016, the laws on court experts, on notaries, on the internship in courts or prosecutors' offices and on bar exams were carried, as a continuation of the 2015's package on the territorial and functional organization of the court system. At least in one very high level case, Montenegrin courts proved they might prosecute without hesitation – the corruption scandal and subsequent investigation and arrests in the coastal town Budva soon involved not just members of his family or clan but former Mayor and former President of Serbia and Montenegro Svetozar Marović himself. Although some (still unclear) political, inner-DPS-party vendetta might be in the background, this arrest might become a strong anti-corruption deterrent.

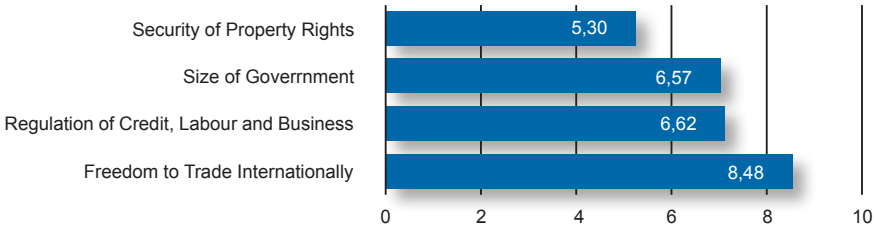
## **Corruption**

Within the CEFTA area, Montenegro is the country with least corruption. Situation has improved during 2015/2016. It is ranked, together with Italy, Lesotho, Senegal and South Africa, as 61st on the list of 168 countries of the Transparency International's Corruption Perception Index 2015. Its score rose from 42 to 44. Areas most affected by corruption are public procurement, political party financing, public sector employment and health care. There is still a lot of high level corruption, involving high ranking politicians and/or organized crime groups. Mayors of two cities, Bar and Budva, as well as the former President of Serbia and Montenegro, were arrested on corruption charges. Some of their accomplices have already been sentenced. Trading in influence is also common. The new independent body, as suggested by the EU - the Agency for Prevention of Corruption - was established by the Parliament. It started work in January 2016. It will manage asset declarations by public officials, monitor conflicts of interest, protect whistle blowers and perform numerous other activities, including implementation of the laws on lobbying, monitoring it, issuing licenses for - and maintaining a register of - lobbyists.

# Protection of Human Rights

Divergent trends regarding human rights in Montenegro could be noted once again in 2015/2016. Some freedoms are still highly valued, such as academic, or religious (aside of the row between two Orthodox churches), or of ethnic minorities (although more has to be done for Romany), or of movement. The first verdict regarding the abduction and murder of a newspaper editor in 2004 became effective in late 2015, but the background is still unexplained. Some NGOs received compensation for mistreatment by the government. At the same time other NGOs or investigation journalists are further on intimidated. As Amnesty International claimed, police did use excessive force while suppressing the violent anti-government demonstrations in October 2015. On the other hand, open parade of other, also anti-government organizations, themselves visibly organized and outfit as paramilitary, is ignored by authorities. Both US State Department and Freedom House noticed an improvement in fighting human trafficking in as far as more is done to support the victims, especially children. Women are still vastly under-represented in parliament and politics in general, and have to struggle their way hard into equal employment opportunities. After a number of bans or other disruptions in several towns, LGBT rally was peacefully held in the capital Podgorica in December 2015. Realistically, further steps in this area could include re-regulation of gender identity (e.g. of trans-gender persons) and individual rights to adopt children by LBGs.

# ECONOMIC FREEDOM



# Protection of Property Rights

Private property in Montenegro is mostly secure. However, there are many problems within the legal system caused by performance of judiciary. As in many

transition countries, legal framework is mostly well established but its implementation is often under question. There is a strong connection between the political elite and the judiciary, undermining judiciary independence. Corruptive practices among the judiciary pose another significant difficulty to judiciary processes, making the overall integrity of the legal system uncertain. Judicial processes are slow, and many cases are backlogged. Lack of capacity or knowledge among judges involved in specialized cases is also evident. Enforcing contracts is a very long lasting process, incurring high costs, while court decisions are not always clearly and consistently reasoned or enforced. Automation of court processes remains as a weak point of the system. The process of property restitution is slow, due to administrative constraints and lack of political will, and processes are long lasting. Bulks of appeals are there against the government of Montenegro in front of the European Court of Human Rights, regarding long legal procedures which diminish the right to a trial within a reasonable time frame. Registering private property is also a slow process, due to inefficient dealings of the Real Estate Agency.

## **Size of Government**

Government size in Montenegro is substantial, rather in line with some more developed European countries than with its transition peers, with government total expenditures standing at 48,5% of GDP in 2015. However, these figures are expected to soar in line with large infrastructure projects, most notably the Bar - Boljare highway, whose first section Podgorica - Kolašin is under construction. This infrastructure project alone will account for the majority of the public deficit, itself reaching 7.5% of GDP in 2015, since project costs are estimated at 25% of GDP. However, increases in public wage bill and social spending will raise public consumption as well. Public debt is expected to get to a very elevated level of 75% this year, leading to further fiscal imbalances. Although a large scale privatization was conducted, there are still many state-owned companies in the country, not just public utilities, but also in sectors considered as strategic, such as energy, transport, tourism or even agriculture. Further privatization plan is under way, but it is lagging behind the proposed time frame. The tax system consists of flat corporate tax set at 9%, while VAT levels are 0% (only for medicine), 7% and 19%. Personal income tax used to be also flat, with 9% tax rate. But then came the introduction of a temporary "solidarity" progressive rate, which was recently decreased from 13% to 11%, for the income of over 720 euro of monthly gross wage. However, high social

contributions, reaching approximately one third of the gross wage, lead to high overall labour tax wedge, thus encouraging shadow employment.

## **Regulation of Credit, Labor and Business**

Business regulation in Montenegro is mostly liberal. However, inconsistent implementation followed by partiality of government officials pose obstacles to a better business environment. Starting a business is relatively easy and without cost or paid in minimum capital. However, obtaining a construction permit or getting electricity is much more complicated, with long procedures and very high costs, due to inefficiencies within municipalities and the public-owned electric company EPCG. Tax procedures are overly complicated, mostly due to VAT compliance rules, although with a relatively low number of annual payments. Although electronic system of payments for labour taxes was introduced, it is still expected to provide its full benefits. Corruption among government officials is also present. Poor state of infrastructure as well as policy instability are cited as the most important obstacles to a better business environment. Rigidities within the labour code further exacerbate this situation: maximum length of fixed term contracts is set to just 24 months and severance pay is increasing with years in tenure, favouring more seasoned workers. However, working hours are mostly flexible. Centralized collective bargaining, although prevalent in some industries, is mostly restricted to public sector.

## **Freedom to trade internationally**

Free trade is mostly upheld in Montenegro. For such a small economy, international cooperation and specialization is very important for development and growth. Montenegro has been a member of the World Trade Organization (WTO) since 2012, leading to a more favourable trade arrangements. It is a member of CEFTA since 2007, which facilitates trade arrangements with its Balkan neighbours, while trade relations with the EU are outlined by the Stabilization and Accession Agreement that came to force in 2010. Tariffs are low, with the mean applied rate of 4.3%. The most important trade partners are the EU countries and countries of the region - most notably Serbia, Bosnia and Croatia. Montenegro, although it is neither an EU member state nor a Eurozone member, unilaterally adopted the euro, which enhances international trade by eliminating exchange rate risks and other currency exchange costs. However, bureaucracy procedures and compliance with border documents are very expensive, serving as non-tariff trade barriers. Bad transpor-

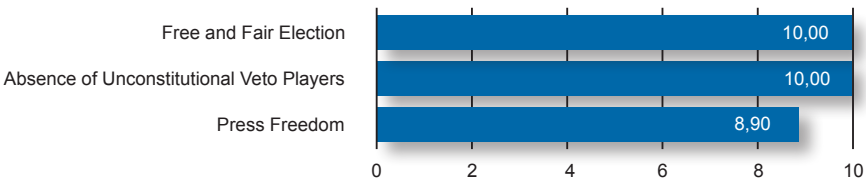


tation infrastructure - including roads, ports and especially railroads - hinders free trade, increasing costs of both imports and exports. Recently, the procedures for hiring foreign workers have been simplified, but direct quotas for foreign workers were introduced by the new Law on Employment of Nonresidents (15000 ordinary worker permits and 3000 for capital projects) which strongly affected the tourism industry that was relying on foreign workers.

# NETHERLANDS

GDP in 2015: EUR 703,402 million		
annual growth rate: 2.0%	per capita: 41,530 EUR	by sector:
		agriculture 1.6%
		industry 18.0%
		services 70.2%
Population: 16,937 thousand	Human Development Index	Government position in 2015
Unemployment rate: 6.9%	HDI: 0.922 (rank 5)	-1.88% of GDP

## POLITICAL FREEDOM



### Free and Fair Elections

Elections in Netherlands are free and fair. Political landscape is pluralistic and diverse. Political parties can operate freely throughout the country. Government, which was formed by the coalition between People’s Party for Freedom and Democracy and Labor Party, enters into the last year of the term prior to 2017 parliamentary elections. Small disruption in their coalition relations occurred when the Council of Europe confirmed that country did not meet its obligations towards asylum seekers and thus violated the European Social Charter. However, soon they managed to put the ball down and find a common solution and thereby to recover stability in their relations. Netherlands is a constitutional monarchy. Its bicameral parliament is consisting of The First Chamber, whose members are elected by the country’s 12 provincial councils, and The Second Chamber, whose members are elected by a popular vote.

### Absence of Unconstitutional Veto Players

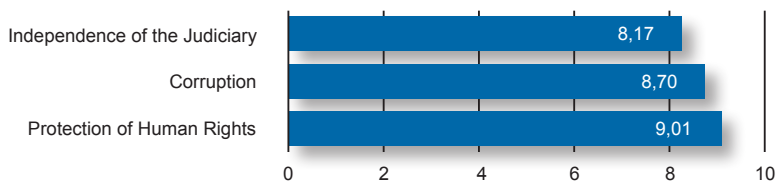
Democratically elected government has effective power to govern the country.

There are no unconstitutional veto players who could influence the decision making process at any level. Cases of corruption are extremely rare in the country. Corrupt activities by citizens and companies which are doing business abroad used to be a problem, but even in this field authorities made some progress.

## Press Freedom

Independence and freedom of the media in Netherlands are largely upheld in practice. Country hits very top of the Reporters without Borders 2016 World Press Freedom Index, holding 2nd position out of 180 analyzed countries. Some degree of self-censorship is practiced by journalists, but only on some sensitive topics in society. Like in neighboring Belgium, concentration of media ownership in the hands of few media houses calls for precaution.

## RULE OF LAW



## Independence of Judiciary

Judiciary in Netherlands is fully independent from the executive. Overall performance is even better than in neighboring countries. Judges are irremovable except for malfeasance or incapacity. The supreme judiciary body is the Hoge Raad (Supreme Court) of Netherlands. It does not determine the constitutionality of laws, yet some of its decisions have political implications. Constitutionality of laws is checked only in advance, when drafted by the government - not least by parliamentary committees but even before, by the Council of State, a body appointed (and occasionally presided) by the monarch, who thereby has an advisory role. There are initiatives in Netherlands to separate this body from the Crown. On the performance of courts in Netherlands in 2015 in general, Freedom House noted just this: "The judiciary is independent, and the rule of law prevails in civil and criminal matters. The right to a fair trial is in place and is enforced effectively. The police are under civilian control, and prison conditions meet international standards."

## **Corruption**

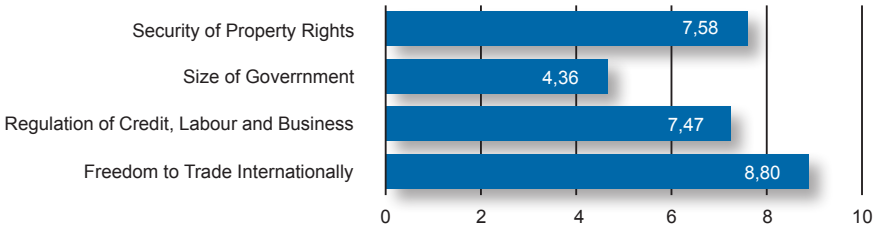
Netherlands is one of the corruption-cleanest places on the globe. Both in 2013 and 2014, with 83 points (out of 100) it took the place 8 in the Transparency International's Corruption Perception Index, on the list of 177 resp. 175 countries of the world. In 2015, it jumped to the place 5, of 168 countries, with the score 87 (same as Norway). The leap is to be explained by the country's successful efforts to discourage corruption in one of its last hideouts – activities of Dutch companies abroad and subsequent attempts to secure tax deductions back home for the bribes spent. Petty corruption hardly exists. Not least that taking bribes is strictly forbidden, but receiving any gift from anyone is seriously restricted to public officials. Market economy with a lean public sector, highly sophisticated anti-corruption procedures and awareness of the broad population of the social perils of corruption, together make it extremely hard for politicians to even remotely take illicit personal advantage of their policies or decisions. As an almost corruption-clean country, a true role model, Netherlands has been helping many countries all around the world, through development cooperation or other channels, to increase transparency in the public sector, suppress corruption and thus improve governance.

## **Protection of Human Rights**

Netherlands is famous for its liberal approach to human rights. One of the most important liberal principles - that limitations to individual freedom should be put only in as much as required to protect other members of society - is enshrined in all aspects of public life. Freedom to associate, in public or in private, to speak and express various views, beliefs, theories, or art, is widely practiced. Police are carefully trained to act in a professional manner and respect human rights. Alas, there is a problem of ethnic profiling during stop-and-search operations. Also, there are occasional cases of arbitrary arrest. Women widely participate in politics and are well protected against violence and discrimination, although the highest possible standards of their equality are not yet met. A lot more has to be done against human, including sex trafficking. But treatment of sexual minorities is a role model. All marriages and civil unions are equal in rights and duties. LGBT community is well integrated into society. Pride rallies in Dutch towns are a popular festivity often visited by top politicians and a celebration of the results of the struggle that is almost over in Netherlands, while in some other countries it is under way or even has

just begun. Some other minorities in Netherlands still await more protection. Linguistic minorities often complain. Refugees or other migrants are an object of hate speech by politicians of the far right, as an alleged anti-social element or a threat to security. A lot is being done to protect individual rights and freedom against challenges brought about by new technologies, yet Amnesty International noticed that intelligence and security services are not effectively prevented of intercepting or hacking personal communication without proper judicial orders.

## ECONOMIC FREEDOM



### Security of Property Rights

Private property in the Netherlands is well protected. Registering property, as a major prerequisite for its legal protection, is functioning well and quick in the Netherlands due to the service of professional public notaries and online procedures. Dutch Cadastre, Land Register and Mapping Agency are efficient and transparent public services. However, very high transfer tax of 6,1% poses a significant burden. There is a temporary tax break to 50 000 euro for monetary gifts, in order to encourage home ownership among the young people. Judicial independence is ensured, leading to impartial court dealings. However, the enforcement of contracts could be subject to long case trial periods. Case management at courts and their automation are at a low level and could be improved. On the other hand, bankruptcy procedures are very effective, with very high recovery rates. Expropriation of corporate assets or private property is very rare and only used in special cases, for which a special act of parliament is necessary.

## **Size of Government**

Netherlands remains one of the most competitive advanced economies, with a regulatory framework that is overall a friendly environment for entrepreneurial activities. Starting a new business is quick and inexpensive, with no minimum required capital. Obtaining a construction permit is burdensome, due to a high number of procedures, some of which are time consuming. Compliance with tax procedures is not burdensome, due to low number of annual payments and widespread use of electronic filing. However, there are still administrative requirements that pose hindrance to business activities. However, high tax rates and restrictive labour regulation pose significant cost on businesses. Labour code could be considered as restrictive, especially regarding firing regulations, providing high employment protection for workers, which led to overly high number of workers being self-employed through independent or one-person company (ZZP). Severance pay is low, but the role of third parties (workers council, trade unions and the employment office) in redundancy process is excessive, with long redundancy notice periods increasing with years in tenure, protecting more seasoned workers. New labour regulations introduced in 2015 brought more inflexibility, limiting the duration of fixed contracts to two years, eliminating automatic expiration of fixed term contracts and introducing consideration period for workers after mutually agreed termination of contract.

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

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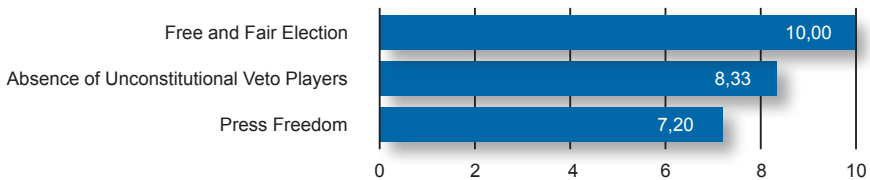
## **Freedom to Trade Internationally**

Netherlands favours free trade. Its port Rotterdam is the biggest one in Europe. Due to its strategic location, geographical conditions and excellent transport and communication infrastructure, the country serves as a major European trade hub. As a small open economy, international trade has always been important for Dutch economic development. Being one of the founding countries of the European Union, the Netherlands implements the common European trade policy, with its overall low tariff rate. However there are non-tariff trade barriers, in the field of standardization and certification. Very efficient border and custom administration led to the Netherlands establishing an efficiency trade frontier, with almost no monetary and time cost in documentary and border compliance. The trade is further enhanced by very low freight costs partly due to public transport infrastructure. Main trade partners of the country are other EU members, such as Germany, Belgium and France. Another significant trade partner is the United Kingdom, so further EU - UK relations would be very important to the Netherlands. On the other hand, although EU nationals are considered to have the same rights as domestic ones, non-EU nationals face a complicated procedure of acquiring a residence permit. However, a one-year residence permit for entrepreneurs was introduced, and the costs associated with gaining a residence permit for members of families who are not Dutch citizens have been substantially decreased via court proceedings. The Netherlands is one only 5 EU countries that decided to keep restriction on free movement of workers of Croatian citizenship, requiring them work permits.

# POLAND

GDP in 2015: EUR 444,864 million		
annual growth rate: 3.7%	per capita: 11,700 EUR	by sector:
		agriculture 3.3%
		industry 41.4%
		services 55.6%
Population: 38,006 thousand	Human Development Index	Government position in 2015
Unemployment rate: 7.5%	HDI: 0.843 (rank 36)	-2.61% of GDP

## POLITICAL FREEDOM



### Free and Fair Elections

During 2015, citizens had opportunity twice to exercise their right to elect the authorities at free and fair elections, and political parties to compete freely for their votes. Firstly in May, Poland had presidential elections, and then in October the elections for the bicameral Polish parliament. Andrzej Duda, representative of the Law and Justice (PiS) political party became President after the runoff, thus making a stepping stone for the change of political power in the country. This process was completed with a huge victory of a conservative PiS party, itself winning enough seats in the Sejm - the lower house of parliament - to govern alone for the first time in post-communist history of Poland. Voters had one more opportunity in 2015 to go to the polling stations. Government organized a referendum prior to October elections, in order to change some aspects of the electoral law. However, this opportunity was unattractive to the most of the population and thus the turnout was extremely low - only 7,8%.



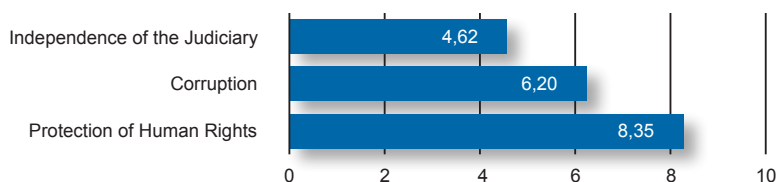
## Absence of Unconstitutional Veto Players

Decision making process of all elected authorities in Poland is free from interference by unconstitutional veto players. With the affiliation of around 90% of population, The Roman Catholic Church exercise certain influence in the society and on everyday politics. According to Freedom House 2016 Nations in Transit report, another actor who can affect decisions by some officials, especially now when PiS is in power, is Jaroslaw Kaczynski – chairman of the PiS party and the person who has overwhelming influence on the current President and the Prime Minister. Polish problem of corruption among officials came again on surface in June 2015, when documents on Waitergate scandal leaked from the Prosecutor`s office. Immediately afterwards, three ministers resigned.

## Press Freedom

Broadcast, printed, radio and online media outlets in Poland enjoy certain degree of freedom. Media scene is highly pluralistic, expressing diverse opinions, but outlets are often politically biased. Large fines for defamation, which are brought against journalists on regular basis, led to higher presence of self-censorship, especially among local media which traditionally have fewer available funds. In June 2015, a journalist was beaten to death. However, police didn't find a proof of the connection between his work and the attack. The alleged act of de-politicization by the newly elected government, to switch control over public media from the National Broadcasting Council to Ministry of Treasury, was seen as a threat to the freedom of the press in Poland. In protest to that act, directors of all public media outlets resigned.

## RULE OF LAW



## **Independence of Judiciary**

Instead of badly needed reform of judiciary, itself the least reformed part of the system of power in Poland - characterized through dysfunctional regional organization, backlog of cases and political pressures on courts - the new right-wing government which had taken power in autumn 2015 has soon driven the country's entire constitutional order into crisis. President refused to swear in the judges of the Constitutional Court nominated immediately prior to elections, while the new Parliament elected their replacements. The Parliament and Senate later, in December, passed a new law on organization of the CC, which made it easier for CC judges to be dismissed and envisaged a higher decision-making quorum than required by the Constitution. When the CC proclaimed the law as unconstitutional, government refused to officially publish the ruling. The system of checks and balances was thus paralyzed. The row over CC has polarized the country, divided the opposition and caused serious concerns in the EU about the true intentions of the Polish government regarding democracy and rule of law. Putting CC under political control has often proved, e.g. in Hungary, as a fast lane to authoritarian governance, itself freed from constitutionalist scruples. Even international credit rating agencies have lowered Poland's rating, fearing uncertainty about the future protection of the rule of law in it.

## **Corruption**

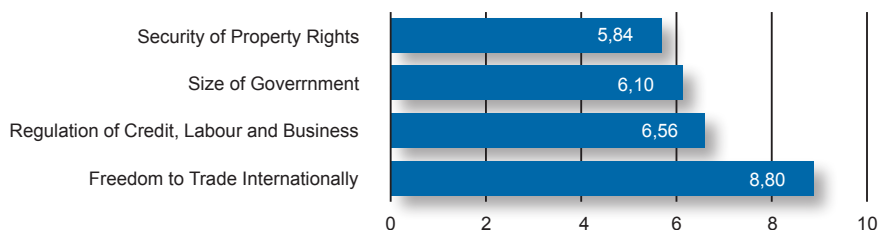
Poland somewhat improved in fighting corruption between 2014 and 2015. In the Transparency International's Corruption Perception Index 2015 it was ranked as 30th of 168 countries (together with Taiwan). It scored 62. As Freedom House noted, "anticorruption laws are not always effectively implemented, and corruption within the government remains a problem, particularly in public procurement." Completed corruption cases during the past few years were mainly targeting local politicians, while national ones seemingly enjoyed impunity, even though some of them resigned upon disturbing revelations by the press. Accusations of corruption, alongside purely political motives, led to the change on the top of the country during 2015, whereby both the President and the government majority in the Parliament have come from the previously opposition PiS party. Instead of re-energizing the anti-corruption struggle, the new President of Poland Andrzej Duda fully pardoned, in November 2015, a former head of the Anti-Corruption Bureau CBA Mariusz Kamiński (himself

found guilty in March 2015 and sentenced to 3 years in prison and 10 years of ban of public service).

## Protection of Human Rights

On the top of policies that jeopardized the independence of the judiciary, pardoned a proven corruption offender from the ranks of anti-corruption apparatus and caused rows with and within the EU, there were serious human rights` setbacks by the new PiS government. They refused the previously agreed inner-EU quota of (5.000) refugees or asylum seekers. They tightened media laws and exercised pressure on media. They withdrew state support to a theater because of the contents of one show. Finally, in April 2016, an initiative was launched to totally ban abortion (atop the anyway very restrictive legislation as of 1993 and the tolerated extra-legal obstacles to it), which soon became a draft bill. That sparked protests by civil society organizations, which would most probably topple the proposal. Such mobilization of the civil society in Poland was possible because of its large size and long traditions, as well as legal changes as of 2014 which had made NGOs` financing more stable, transparent and free of administrative red-tape. In some other areas of human rights and civil liberties, e.g. in protection of LGBT people against discrimination, Poland also lags behind the most advanced EU countries. Same sex partnerships are not regulated at all. Likewise, their adoption rights are very much restricted. Anti-discrimination protection is generally inadequate.

## ECONOMIC FREEDOM



### Security of Property Rights

Property rights are overall secure in Poland, but there are many shortcomings within the system. Court impartiality and low judicial independence remain serious obstacles. Enforcing contracts is a long process due to high number of

procedures involved. Resolving insolvency is better organized, providing high recovery rates. Overall, slow and overburdened court procedures are among the negative characteristics of the Polish legal system. Furthermore, there is a significant variation of court-procedure length in different parts of the country. New legislation, which is envisaged to strengthen bankruptcy rules and increase efficiency in the procedures - Bankruptcy Law and Restructuring Law - became effective in early 2016. Civil Procedures Code amendment provides arbitration-friendly standards, by introducing internationally recognized standards. Foreign ownership is limited in certain sectors: air transport, radio and broadcasting, airport and seaport management, where it is confined only to minority ownership. The restriction does not apply to EU citizens. Since May 2016, all restrictions on acquisition of agricultural land by the EU nationals were lifted. However, newly adopted legislation has imposed new bans and restrictions on the acquisition of agricultural property for foreigners, calling even for an EU enquiry.

## **Size of Government**

Size of government in Poland is not excessive, with total government spending reaching 41.5% of GDP in 2015, a much lower level than in many EU countries. Although Poland was one of few countries in Europe which did not experience recession during the financial and fiscal crisis, and has recorded solid growth rates - 3.7% in 2015 - high annual deficits have accumulated a substantial amount of public debt, reaching 51.3% of GDP in 2015. Fiscal austerity measures that were implemented have lowered the deficit in order to enable Poland to exit from Excessive Deficit Procedure of the EU in 2015, one year in advance than previously envisaged, but there are warnings that further actions need to be taken, since public expenditures are being expanded and privatization plans have been stalled. Government still owns and operates numerous enterprises in various sectors of the economy, even though a thorough privatization process took place in the 1990s. Some of these companies do not operate inefficiently, relying on direct funding from the state for their operations via subsidies. The current government has suspended the privatization plan of the previous government, regarding most of the remaining SOEs. As much as 50 SOEs are recognized as being of strategic importance and therefore they are to remain in the government portfolio, while the government has announced strong improvements in their corporative practices and management. Income tax is progressive, with lower rate at 18% and higher at 32%,

applied above a moderate threshold. VAT level is set at 23%, with privileged rates of 5% and 0% on some products. High social security contributions have led to a high share of non-fixed temporary working contracts ("junk contracts") among the working population, because of lower social contributions scheme applied to them.

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

Business regulation in Poland is mostly positively oriented towards entrepreneurial activities. Although starting a business does not require many procedures, it takes a substantial amount of time and incurs high cost, both in necessary fees and minimum paid-in capital. Obtaining a construction permit and getting electricity on the other hand are not expensive, but are burdened with many long procedures. The latter was made more efficient by decreasing delays in application processing. Licensing restrictions in certain service professions are present, lowering competition by providing barriers to entry. Compliance with complicated tax procedures is burdensome, incurring administrative costs. Tax regulations complexity and labour-code rigidity are cited as the two most problematic factors in doing business in the country. Labour code regulates working hours flexibly, with possible longer workweek in case of increased workload, although the maximum number of workdays is set relatively low. Notice periods and severance pay increase with years in tenure, making more seasoned workers more secure in their workplace, but also harder to be employed once back to the labour market. Firing regulations, mostly in the area of redundancy process, and reassignment or retraining obligation and priority rules of employment, make the process of firing complicated, which leads to a number of people working on civil contracts instead of on regular labour ones. New rules in the labour code are now implemented, meaning that employees might be on short term contracts up to the period of 33 months, instead of indefinitely. The role of trade unions is significant only in certain professions, such as mining and ship building.

## **Freedom to Trade Internationally**

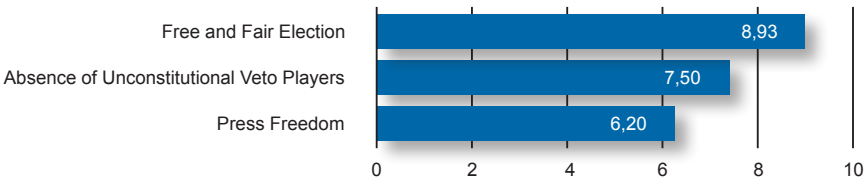
Freedom of trade is mostly respected. As one of the EU member states, Poland applies its common trade policy. Therefore, overall tariffs are low (simple average tariff is set at 5.47%) and majority of tariffs apply only to agricultural products. Border compliance and documentation are not burdensome due to efficient customs office. However, the process of standardization and certi-

fication of the imported goods from non-EU countries is complicated and it incurs costs, posing obstacles to international trade. Good public infrastructure in transportation as well as its geographical location fosters international trade by decreasing freight costs. However, railroad quality is lagging behind roads and ports. Major Polish trade partners are other EU countries, most notably Germany. Imposed restrictions on imports of agricultural products by the Russian government due to political tensions in the Ukraine and EU sanctions have damaged Polish agriculture export, while improvement of the political situation would expectedly alleviate these problems. The National Bank of Poland imposes a wide array of capital controls in order to manage the flow of short-term capital, which is mostly connected to the exchange rate regime of the national currency, which is in free floating.

# ROMANIA

GDP in 2015: EUR 166,745 million		
<i>annual growth rate: 3.8%</i>	<i>per capita: 8,390 EUR</i>	<i>by sector:</i>
		agriculture 4.8%
		industry 41.3%
		services 53.9%
<i>Population: 19,871 thousand</i>	<i>Human Development Index</i>	<i>Government position in 2015</i>
Unemployment rate: 6.8%	HDI: 0.793 (rank 54)	-1.45% of GDP

## POLITICAL FREEDOM



### Free and Fair Elections

A very turbulent electoral year in Romania was marked by two no-confidence votes against government and the PM Victor Ponta, by his resignation in November 2015 and by a formation of a first technocratic parliament. Independent Prime Minister Dacian Ciolos, former EU commissioner for agriculture, was nominated by the President and had a large support in the Parliament, although some MPs often protested that technocratic government drastically reduced importance of Parliament and the institution of “political responsibility”. According to president Johannis, this government gives parties the necessary time to reform and clean themselves from corruption. Romania has a tradition of by and large free and fair elections, however certain irregularities arise during each and every electoral process. Political parties are free to organize, operate and compete with each other in fairly manner. In 2015, a new electoral law was enacted, including reduced number of seats in the bicameral

parliament, reintroduction of the proportional representation system which was abolished in 2008, and introduction of a threshold for coalitions of two or more parties, at 8% and 10% respectively. Serious discussion was going on about government aspirations to curtail voting by 15% estimated Romanian citizens living abroad. New law allows them to cast the vote by mail. However this registration system is so difficult that only 10.000 out of 3 Million Romanians living abroad registered to vote in parliamentary elections 2016.

## **Absence of Unconstitutional Veto Players**

For a long period of time, corruption and strong relationship between influential businessmen, media owners and politicians were pervasive in Romania, interfering into democratic processes to protect their individual interests. However, this situation is fading in recent years. A better level of government independence in decision making is ensured. Problem of corruption does exist in the country and it is very important topic for Romanian citizens. Government has made some efforts and its National Anticorruption Directorate launched numerous investigations against high ranking officials for corruptive practices. Case which attracted most public attention were charges against Prime Minister Ponta in July, who was accused for money laundering, tax frauds and conflict of interest prior to his time in office .

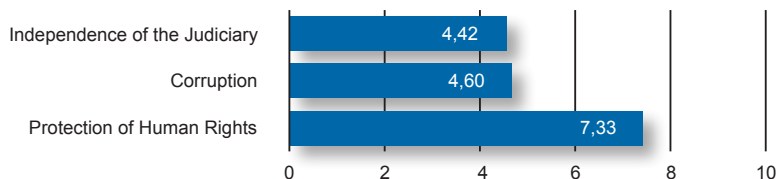
## **Press Freedom**

Unlike in neighboring Bulgaria, situation regarding freedom of the media is slightly improving in Romania. Its Freedom Barometer "Press Freedom" score increased from the 5,80 as of 2015. However, there is a lot more to be done in this field, because media landscape is far from ideal. Political influence on media reporting and media ties to businessmen that control the sector remain the biggest obstacles to freedom of the press. Situations in which government officials verbally insulted and humiliated journalists that had been critical of them were not rare. A proposed law for sanctioning social defamatory behavior on various bases is still under discussion in Romania. Many media outlets and institutions opposed this law, stating that it could do more harm than good. That included politicians as a protected social group, thus endangering freedom to be critical of political parties. Financing mechanisms of the Romanian media outlets are marked by corruption and non-transparency. Ruling parties often try to put public media under political control. The last attempt was a proposal of the Social Democratic Party to eliminate the



mandatory fees for public radio and TV and finance them directly through the state budget.

## RULE OF LAW



### Independence of Judiciary

Romania's judiciary became more independent since the country became a full member of the EU in 2007. But, as Freedom House reiterates in its Freedom of the World 2016 report, "courts and law enforcement authorities continue to suffer from chronic problems including corruption, political influence, staffing shortages, and inefficient resource allocation". Many officials stay in their positions or receive special pensions despite criminal convictions. That problem started to be resolved after 2014. Constitutional Court decisions still reflect partisan approach. The lustration and trials for pre-1989 state-sponsored crimes have started only recently, during 2014-2015. Conditions in prisons are poor, even though there is less crowding than a few years ago. There is still insufficient legal protection against torture or other ill treatment in custody. Access to justice by some vulnerable groups, such as Romany, is hindered.

### Corruption

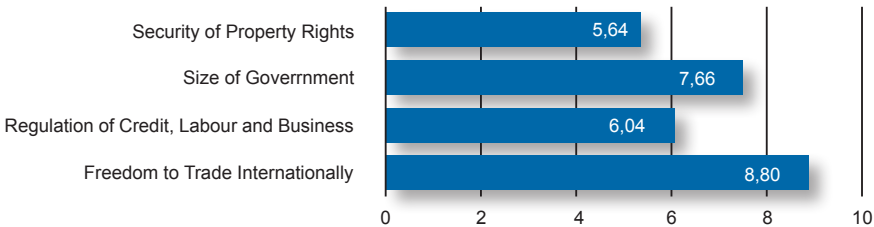
Prior to 2007, widespread corruption was often used to oppose Romania's EU accession. Since the entry, plenty of domestic and EU effort was put into the anti-corruption struggle. The situation has been improving, albeit slower than expected. Romania has left the very bottom among EU members and, with Greece, shared the rank 58 on the world-wide list Corruption Perception Index 2015, ahead of Italy and Bulgaria. Following a fire accident in a night club in Bucharest, in October 2015, which killed 64 people, a nation-wide safety-enhancing campaign under the motto "Corruption kills" was launched. Nearly all places of public accommodation were double-checked. Numerous premises - even football stadiums - were closed. Soon it was clear that corruption

was at the root of fake safety licenses or of the disregard for safety procedures. A number of Mayors, local councilors or civil servants were arrested or investigated. Finally, in November, the Government led by Victor Ponta fell. However, the initially amazing mobilization of entire society against corruption and negligence did not endure. In June 2016, at the local elections, many of those under investigation on corruption charges were elected into the new local councils. For example the mayor of Baia Mare was elected while being in detention for bribery charges with over 70% of the votes.

### Protection of Human Rights

Romania is worse in the field of human rights than the neighboring Bulgaria. While ordinary street police forces are ever better trained in professional treatment of citizens, ill treatment in custody or jail is still present, with few opportunities to reach compensation. The worst reformed among security forces are secret services, which occasionally break laws, infiltrate and misuse other state institutions and avoid full democratic civil control. The issue of secret detention centers during the “war or terror” is still unresolved. Human trafficking is a huge problem. Homophobia and Romany-phobia also are. However, ethnic minorities experience also positive discrimination by state aid programs to preserve their values and culture. Romany have free access and scholarships to high level education. The state provides schools in mother tongue for Hungarians, Ukrainians, Germans and Romany. Romany often face discrimination or exclusion. Together with several other Central European countries, Romania refused quotas for the relocation of refugees and asylum seekers within the EU. On the bright side of its human rights` record, freedom of assembly, association or expression is fairly well respected, in contrast with the memories of the brutal treatment of dissidents until 1989.

### ECONOMIC FREEDOM



## **Security of Property Rights**

Property rights in Romania are relatively secure. However, problems arising from judiciary system deficiencies are undermining the situation. Out-of-the-court influences on judiciary are present, resulting in low level of judicial independence, and corruptive practices within the legal system are observable. Enforcement of property rights through judicial process can be lengthy, costly and difficult. Furthermore, there are information that local courts often lack expertise in many important areas. Not all restitution claims have been fully addressed, increasing uncertainty of property rights. Some restitution cases are now subject for investigation of high level fraud and corruption. Due to all of these problems, mediation is slowly becoming more popular in the country. It is expected for the new civil procedure code to improve current court procedures. Transfer of some enforcement responsibilities from courts to bailiffs is expected to make contract enforcement easier. Non-EU Foreign nationals face restrictions in the right of agricultural land ownership, but they can either lease it or obtain ownership via setting up a domestic company in Romania. Property rights can be 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. Furthermore, a significant proportion of agricultural land is not covered by land titles. Registering property is also a process that includes many procedures and is unnecessarily long.

## **Size of Government**

Size of government in Romania is modest, compared to other European countries, with total public expenditures reaching 34% in 2015. A strong fiscal austerity program under the auspices of the IMF is under revision, with the implementation of a fiscal stimulus with tax cuts and increased spending via public sector wage bill and other current spending. The rising government deficit (expected to rise from 1,5% to 2,9% of GDP in 2016) will leave public debt on a rising slope, although at moderate level of 39,3% of GDP in 2015. Economic growth rates are robust, but fiscal policy is procyclical. State owned enterprises remain one of the weak points of the Romanian economy: they are numerous and hold a notable role within the economy, especially within the infrastructure sector. SOE corporate governance is weak, with low performance and profitability, relying on different government transfers and subsidies for needed investments, or in some cases, even day to day operations.

This situation is one of the reasons behind under investment in public infrastructure. After several successful rounds of SOE privatization in previous years, further privatization plans of big SOEs in energy sector have been delayed, due to restructuring and insolvency proceedings. There were substantial revisions of different tax rates, in order to provide more space for private consumption: excise duties and healthcare contributions were decreased with the new Fiscal Code from 2016, as well as the standard VAT rate from 24% to 20%. On the other hand, unexpected additional taxes on natural gas and electricity, that were instituted in 2013 and expected to expire until the end of 2015, were prolonged until the end of 2016. Personal and corporate income tax in Romania remain flat, set at 16%. In 2016 the tax for dividends was lowered from 16% to 5%. Labour tax wedge in Romania is high, approximately 42% which is much higher than in OECD countries as a whole.

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

Business regulation in Romania is mostly favourable to business activities. However, many aspects of legislation are complicated and burdensome to entrepreneurial activities, and sometimes their implementation is partial, favouring certain market participants. Starting a new business is easy and inexpensive, with very low fees and minimum capital. However, obtaining a construction permit and getting electricity are very lengthy processes with many procedures, and with high fees. Furthermore, compliance with tax procedures is unnecessarily burdensome, incurring costs partially due to the high number of annual payments. Corruption and open favouritism by public officials are still present, although there has recently been improvements in fight against corruption. Labour market regulations are mostly flexible. Firing regulations can impose difficulties through retraining, reassignment or reemployment obligations of the employer towards the redundancy workers, but with low severance payments. The minimum wage ratio to average wage in Romania is much higher than in many neighbouring countries. The steep rise in the national minimum wage of approximately 20% in this year is very high, and may not be in line with productivity growth, hindering further employment. On the other hand employees are paid officially with the minimum wage but earn more due to the tax evasion of the employers.

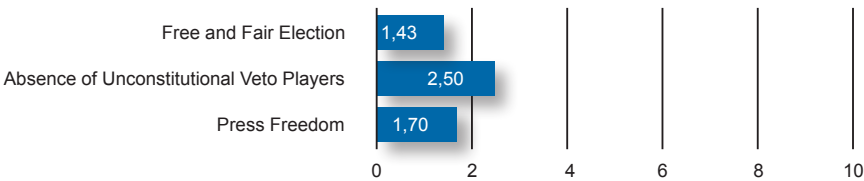
## Freedom to Trade Internationally

Freedom to trade internationally is mostly respected in Romania. Since it became one of the EU member countries in 2007, Romania has been implementing the EU common trade policy. Therefore, tariffs are low, with applied mean tariff rate standing at 5.30%. While industrial goods are mostly tariff free, agricultural products in imports usually face higher tariffs. However, real regulatory trade barriers lie in the field of necessary product standardization and certifications, which burdens trade by incurring higher import costs. Low quality of public transport infrastructure, most notably highways and high speed railroads, serve as another impediment to free trade, resulting in high transportation costs which limit trade volume. However, this situation is important also in other areas of business environment, and is often cited as one of the burdens on doing business in the country. Further private involvement in the railroad freight system via privatization of public freight companies would boost current performance, but in order to attract investors those companies need to be restructured. Increased efficiency in EU funds absorption could also alleviate some problems, especially now when the European Commission has been commending Romania for its improvements in fight against corruption. Romania is mostly oriented to the EU common market and its main trade partners are Germany and Italy, followed by other EU countries, with Turkey being the only EU outsider on the list of important trade partners. Danube transport corridor and the Black Sea serve as an important trade hub in the region, connecting east and west.

# RUSSIA

GDP in 2015: EUR 1 242 480,740 million		
annual growth rate: -3.7%	per capita: 8,660 EUR	by sector:
		agriculture 4.6%
		industry 32.6%
		services 62.1%
Population: 143,457 thousand	Human Development Index	Government position in 2015
Unemployment rate: 5.6%	HDI: 0.798 (rank 52)	-3.48% of GDP

## POLITICAL FREEDOM



### Free and Fair Elections

Political environment in Russia is far from democratic, and elections in this country are far from being free and fair. Spark with violent incidents and irregularities and frauds such as carousel voting, vote buying and inflated number of voters are abundant. The situation in political life in Russia became even darker after opposition leader Boris Nemtsov was killed in Moscow, in February 2015. Ruslan Mukhudinov, a member of battalion formed by Ramzan Kadyrov – the head of the Chechen Republic - was accused to be behind the assassination. The practice of preventing opposition parties and candidates to run at elections remained throughout the year. At local, regional and gubernatorial elections held in September 2015, registration was denied to opposition, which led to victory by the Vladimir Putin's United Russia at 19 out of 21 gubernatorial elections. Alexei Navalny, who became the most important opposition figure and whose brother is kept in jail due to the former's political activity,

managed to enter the ballot in rural Kostroma region under an already registered party Parnas, however with no success.

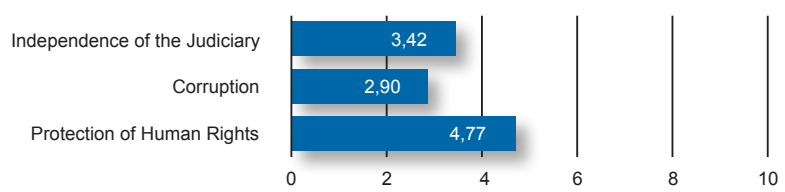
## Absence of Unconstitutional Veto Players

The biggest threat to democracy in Russia doesn't come from potential veto players like oligarchs or the Russian Orthodox Church, whose influence, however, can't be neglected. It comes from the elected and appointed officials, associates and former secret service colleagues of President Putin, who run state corporations and abuse their position for personal benefits. In such environment, corruption prevails among the high ranking officials. Navalny's Anti-corruption Foundation presented evidence that the son of the Prosecutor General Yuri Chaika and the wife of his deputy are deeply embedded in corruption. Lawsuits against Chaika were rejected at the court.

## Freedom of Press

Press is not free in Russia. All the most important traditional media outlets are firmly controlled by the government or their allies from business sector, using them to broadcast pro-government propaganda and highly influence public opinion. Additionally, opposition outlets and journalist who have been critical towards political and business elites operated in hostile surroundings, whereby physical attacks and imprisonment were often used to silence them. According to a Freedom House resource, in 2015 there were 70 attacks on journalists reported. Popular independent television channel TV-2 became available only online, after their contract was canceled and license revoked by the state-controlled bodies. Due to a law adopted in 2014, which prohibited foreign companies of holding more than 20% of shares in Russian media, the reshaping of media ownership took place throughout the year 2015. Some important media outlets were sold to Russian media groups. It led to reduction or redirection of their content.

## RULE OF LAW



## **Independence of the Judiciary**

Ruling ideologies and political and religious elites of Russia openly reject the concept of rule of law as allegedly “alien” and replace it with less clear “justice”. Yet another liberal principle, the separation of power, openly rejected in Soviet era while reinstated by the 1993 Constitution, has been under threat during the last 16 years of autocratic rule of Vladimir Putin. The autonomy of the judiciary is shrinking. In numerous civic or criminal cases in 2015-2016, Russian courts acted as mere instrument of political showdown. On the top of it, Constitutional Court of Russia decided in July 2015 that it could selectively over-rule the decisions of the Council of Europe’s European Court of Human Rights, where after an important part of the international law was de facto suspended in Russia. The decision was reiterated in December 2015 by the law which enabled government to propose such exemptions to the CC.

## **Corruption**

There was a small improvement in an otherwise murky situation in Russia. Transparency International’s Corruption Perception Index 2015 showed a rise by 2 points, to 29, and to the place 119 of 168 countries (shared with Azerbaijan, Guyana and Sierra Leone). A few new anti-corruption laws started being implemented, less selectively than before, thus affecting not just politically disloyal public officers but also those who truly lacked integrity on a large scale. Yet the degree of merger of political and economic oligarchies, as well as political influence on state bodies or courts, is so high that only tips of the corruption iceberg are dealt with. Ideological reservations towards the very idea of the rule of law, over-regulation of the economy and serious limitations to civil society activities all hinder the anti-corruption struggle. On the other hand, financial crisis requires the government to not only score propaganda points, but to seriously limit the amounts circulated through bribery on all levels (from the highest to petty), which are in total so huge that they change the social fabric and create grand scale social inequalities.

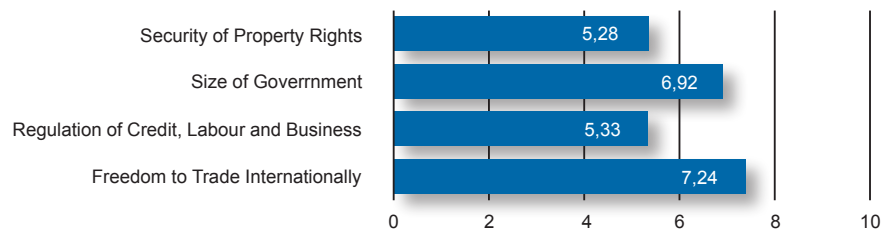
## **Protection of Human Rights**

Human rights` situation in Russia is worse than in any other European country. Arbitrary detentions, kidnappings (including of foreign nationals), torture in custody or extradition to countries that use to torture, and lack of civilian democratic control over security sector, create a climate of fear. Most of the



suspicious cases of assassinations of opposition politicians, journalists, NGO activists, dissident businesspeople, disobedient public officials or other perceived opponents of the regime, which had occurred during the last 16 years, were not explained and prosecuted. Numerous people have been arrested (and some convicted) for expressing their views on the Internet, on the political situation in the country, or on the military engagement abroad (in Ukraine or Syria), or on world-view issues (such as for expressing atheism). Regarding death penalty, Russia is merely de facto abolitionist. Women are under-represented in politics. According to the latest Inter-Parliamentary Union's world classification, Russia was ranked as 135th of 193 countries, with just 13.6% of women in the lower house of parliament. Aside of mere decriminalization of homosexuality as such, LGBT people enjoy almost no other protection against societal pressure or frivolous application of "anti-gay laws". Russia did not join UN declarations on the protection of discrimination due to sexual orientation. Human rights` situation is even more alarming in the occupied and annexed Crimea, where local Tatars or other minorities are discriminated by the new Russian authorities, while civil liberties for all are more restricted than elsewhere in Russia. In Northern Caucasus, under the pretext of fighting terrorism, usual NGO activities are halted, human rights` monitors and reporters attacked and overall situation even hard to assess.

**ECONOMIC FREEDOM**



**Security of Property Rights**

Private property is not well secured in Russia. Vested interest groups connected to political factors wield strong influence over the judiciary. Courts are not impartial, and their decisions in similar cases differ, giving advantage to the party with political connections. Judicial system is biased in favor of the state, which is important if a legal dispute is between a government and

a private entity. Courts do not use automated processes. Several new laws enacted in 2015 have led to an increase in power of the Constitutional Court to disregard foreign arbitral decisions. Private property can be seized by the state with the level compensation not deemed fair. Extortions committed by state officials, as well as corruption, remain present. On the other side, legal enforcement of contracts incurs low costs compared to the value of the claim. The insolvency process leads to relatively high recovery rate. Foreign nationals still face restrictions regarding the possession of real estate, especially agriculture land. Furthermore, government's approval is a prerequisite for investments in areas deemed as strategic. For state projects, there is often a requirement that equipment is made in Russia.

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

Government consumption in Russia reached 36,4% of GDP in 2015. Historically low oil and gas prices, which account for two thirds of Russian exports and approximately half of the government revenues, accompanied by the EU trade sanctions, led to economy slowdown and open recession in 2015, envisaged to continue in 2016. High budget deficits are recorded - 3.5% of GDP in 2015 but very low public debt provides fiscal space. However, a fiscal austerity commitment is necessary to ensure stability of public finance without increasing debt. Inflation remains high. Taxation system uses flat rates, with minor progressive methods in determining the level of social contributions: personal income tax is 13%, VAT 18% and corporate tax varies from 15.5 to 20% due to regional tax deductions. Social contributions consist of 30% of the gross wage paid by the employer. Government activity through state-owned enterprises (SOE) is present in many sectors, and not only in those that are legally considered of strategic importance such as public utilities, mining, energy and military equipment. Many of these SOEs enjoy large direct or indirect subsidies to maintain their operation. They are usually inefficient. Subsidies are a protection from international competition on the domestic market. Government procurements are a tool to provide this support. There were considerable plans for privatization of SOEs, in order to boost productivity and spur economic growth, as well as to decrease the amount of subsidies. However, these plans have not yet been materialized: many enterprises were not privatized due to lower asset price than envisaged, but there were also political pressures.

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

The Russian business environment is plagued with unnecessary administrative procedures and inefficient government bureaucracy. This situation provides a suitable place for thriving corruption, further exacerbated by vague and ill-defined regulation. Starting a business is both easy and inexpensive, and has been made even more efficient by reducing the number of days necessary to open a corporate bank account. However, obtaining a construction permit and getting the electricity connection remain burdensome procedures. Getting electricity is lengthy in part due to inefficiency of the SOE MOESK in charge of it, but the situation was recently simplified. The number of tax payments annually is low, but tax rules are still complicated. Flexible working hours and low redundancy costs that are not increasing with the number of years in tenure make strong points in labour regulations. On the other hand, firing regulations are complicated due to obligatory trade union (third party) notifications, redundancy rules and reassignment / retraining obligation. Centralized collective bargaining is mostly encompassing public sector employees, while the minimum wage is low as compared to international standards, set at approximately 20% of the average wage. A significant burden is the mandatory 12 months` military service.

## **Freedom to Trade Internationally**

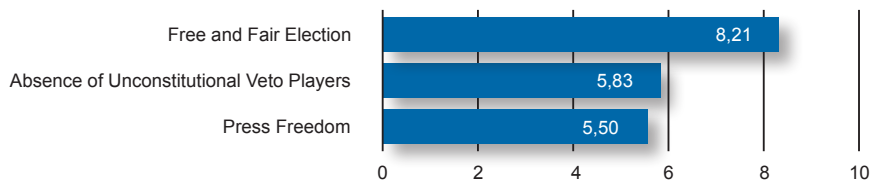
Free trade is not placed high on the Russian economic policy agenda. For Russia, economic sanctions have been one of the main foreign policy tools in dealing with its neighboring states - with economic conflicts that took place with Georgia, Moldova, or even Belarus, and now with the EU and Ukraine. Russian World Trade Organization (WTO) accession in 2012 liberalized trade, but overall tariffs remained elevated, especially in the agriculture. Technical barriers to trade (TBT), as well as sanitary and phyto-sanitary measures (SPS), further burden trade. Establishment of the Eurasian Economic Union (EEU) in 2015 did not boost trade, due to non-complementarity of the included economies. Introduction of new labour regulations significantly restricted prospects for foreign migrant workers - inclusion of mandatory language and culture test, and most importantly, very high license fees prove to be a significant barrier to their inclusion into the labour market. Strong devaluation of the national currency led to a sharp drop in imports, for almost a quarter in 2015. The Russia still holds its sanctions against the EU food producers, followed by restrictions

for transit of Ukrainian goods over its territory. Self-reliance and autarky have become one of the policy goals of the Russian government since the Ukrainian conflict and international sanctions that followed it. They are pursued by policies of increasing trade barriers, providing assistance for uncompetitive local producers (for example, via procurement restrictions) and diversion of trade, encouraging imports from "friendly" countries.

# SERBIA

GDP in 2015: EUR 34,213 million		
annual growth rate: 0.7%	per capita: 4,800 EUR	by sector:
		agriculture 9.5%
		industry 41.9%
		services 48.6%
Population: 7,132 thousand	Human Development Index	Government position in 2015
Unemployment rate: 18.5%	HDI: 0.771 (rank 67)	-3.67% of GDP

## POLITICAL FREEDOM



### Free and Fair Elections

Serbia held second consecutive snap parliamentary elections in April 2016, together with regular, time wisely, regional and local elections. Serbian Progressive Party (SNS), which called the elections in order to strengthen its position rather than to increase government efficiency, confirmed its current dominance by taking 131 seats in the parliament by their electoral fusion ticket. Although Serbia witnessed improving freedom and fairness of elections since the fall of the Milošević regime, these elections abound with irregularities. Serbia's score will expectedly deteriorate in the 2017 Freedom Barometer publication. Abuse of authority and state resources for campaign activities, bribes and voter intimidation were an integral part of the electoral process, but the biggest problem were unfair media coverage and vote counting process. Biased reporting in favor of the ruling party could be seen at the most broadcast media with national frequencies and in many printed media. All the oppo-

sition parties, despite all their differences, united on the ground of opposing the electoral fraud during the counting process. They held a rally in Belgrade, demanding a demise of the president of the National Election Committee and a recounting at all suspicious polling stations. Elections were repeated at 15 electoral booths. Once again, SNS formed a government together with the Socialist Party of Serbia (SPS), but this time they will have more, and to it more diverse, opposition parties in the parliament, which could hold them more accountable for their actions.

## **Absence of Unconstitutional Veto Players**

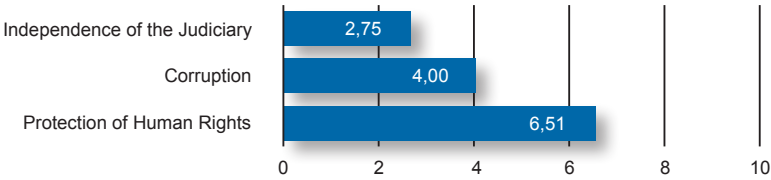
There are no unconstitutional veto players in Serbia, and therefore decision making process is completely in the hands of the authorities. Executive branch dominates over judiciary and legislation in practice, thus undermines democratic procedures and system of checks and balances. Consequently, abuse of power and corruption among high ranking officials is common. Most actors are not held accountable for their actions. A case which brought the largest media attention was unlawful destruction of several private objects in the neighborhood called Savamala, where the Belgrade Waterfront project should continue to spread. While a lot of evidence emerged on the inadequate and suspicious reactions by relevant institutions, nobody was prosecuted or suspended up to date. Several scandals during recent years drastically blurred influence of the Serbian Orthodox Church, which has serious history of interfering into politics.

## **Press Freedom**

Serbia is among countries in which freedom of the press had the biggest decline in 2015, according to the Freedom House's Freedom of the Press report. This is mainly due to intensification of political pressure on editors and journalists, and crackdown on investigative journalism. Following an article on the corruption in procurement, series of verbal attacks from the government, including by Prime Minister Aleksandar Vučić, and by the state-controlled media, was launched against the three major investigative journalism outlets, accusing them of being funded by the West in order to take down the government and destabilize the country. Many journalists have been fired and many political and investigative broadcast programs were canceled, mainly due to their critical note in reporting on the ruling elite. Non-transparent process of issuing broadcast licenses, dimly ownership of media outlets and biased

funding remain very important obstacles to media freedom. All of the above mentioned, followed by the large number of physical and verbal attacks and poor job conditions, have enhanced the practice of self-censorship among journalists. The privatization process of government-owned media outlets ended in December, with 34 out of 73 having been bought by private investors.

## RULE OF LAW



### Independence of Judiciary

The situation in judiciary is not improving. It remains the most important stumbling block for the rule of law, while the lack of the latter is the most important obstacle to freedom in Serbia. Courts are slow, inefficient, unpredictable and often under pressure or corrupted. Thereby, political pressure on courts (rather not to do than to do something) is merely a tip of an iceberg. Outside influence on police and prosecutors is even stronger. Their willingness to react and their efficiency highly depend on the hints which they get from the executive branch of power. The most drastic among such cases is the Savamala incident as of 25 April 2016. The (still unnamed) perpetrators of the illegal night-time vigilante demolition of the (allegedly illegally built) buildings in this neighborhood in central Belgrade were, by all accounts, inspired by the Mayor and/or by his close aides, and were (passively) assisted by communal and national police. Yet no visible legal action to prosecute anybody has been made so far. The new Minister of Justice, who emerged from the snap general elections as of 24 April 2016, has promised a brand new reform of the judiciary. While she is coming from within the Ministry, it is to be expected that recently drafted strategies in the field will not be simply brushed away and rewritten but critically evaluated and then implemented.

### Corruption

Current popularity of the PM Aleksandar Vučić still owes much to the hopes

for a corruption-free country, which he awoke in 2012. But since then, Serbia has de facto stagnated in its fight against corruption. Compared to the-then score in the Corruption Perception Index (39), it roughly stayed where it had been – e.g. in 2015, CPI score was 40 and the ranking 71 of 168. Government goals meanwhile became more realistic, acknowledging that the anti-corruption struggle will be long, expectedly resulting in putting corruption under control and seriously limiting it. Some of the meanwhile adopted laws, such as on the maximum deadlines for issuing construction permits, or on the protection of the whistleblowers, have started producing results – for instance, there was a landmark case of a whistleblower returned to work after initially being fired for reporting corruption. But the anti-corruption struggle lacks strategic approach. Transparency Serbia noted that only 14% of the government's strategic anti-corruption activities scheduled for 2015 were implemented. The strong political control over the entire public sector, including public-owned companies, is the biggest catalyst of high corruption. As for petty corruption, Transparency International's Global Corruption Barometer 2016 showed that traffic police, health services and officers issuing official documentation were affected by corruption more than others. For instance, 31% of all those citizens who had dealt with the traffic police during the previous 12 months reported giving bribes. Only 1% of the estimated annual total of 375.000 cases of bribing in Serbia are ever reported.

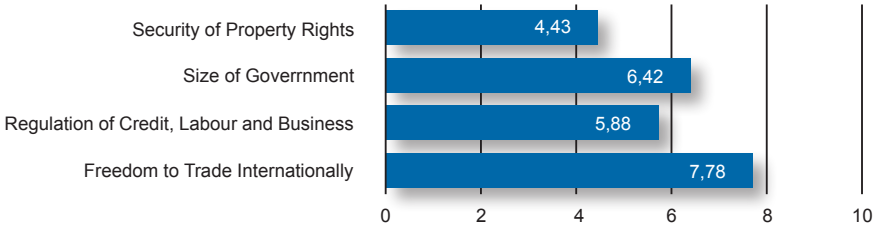
## **Protection of Human Rights**

In their report Nations in Transit 2016, Freedom House noted that Serbia's democracy continued along its "modestly negative trajectory observed in 2014". Meanwhile, the state of human rights varied from one aspect to the other. Domestic violence is still an important challenge to personal safety, in spite of the government and NGO activities to curb it, or of increased societal stigma against beating women or children. Secular principles are often breached, primarily to the advantage of the biggest church SPC, or occasionally of other "traditional" religious communities. Two separated Islamic communities are still on the road to reunion, following their government-sponsored split as of 2007. Bosniak and Hungarian ethnic minorities have obtained a strong leverage for the promotion of their rights through participation in government at various tiers. But Romany also saw some small improvements, especially regarding inclusion. The LGBT community is witnessing the biggest improvement, seen through less hate speech in public, regular annual Pride marches



in Belgrade and, in summer 2016, having for the first time a “come-out” lesbian (and former reputable NGO activist) as the new Minister (of Public Administration and Local Governance). The treatment of refugees and other migrants in transit has further on been near-exemplary, whereby the Government, together with CSOs, has done a lot to channel the public opinion away from occasional xenophobia towards humane, tolerant, rational and attentive attitude. The biggest downturn is felt in the fields of protection of privacy, freedom of expression and political equality. Civil democratic control over security sector is insufficient, with serious consequences on human rights. Verbal harassment or defamatory or denigration attitude towards the independent regulatory bodies, opposition political parties and their activists, human rights defenders, independent journalists, or other critics of government is practiced - rather as a norm than as an exception - not least by pro-government media but also by the Prime Minister or members of his team.

## ECONOMIC FREEDOM



## Protection of Property Rights

Private property is not adequately protected in Serbia. There are strong out-of-the-court influences on the judiciary, including also on the Prosecutor Office, which lie at the core of the problem. A good depiction of this was the recent Savamala affair. Corruptive practices are widespread within public institutions, including the judiciary and Land Register. Due to slow, and expensive legal processes which sometimes have uncertain outcome, legal enforcement of contracts is a painful process. First level courts are lacking sufficient knowledge and expertise to assess more complicated issues, so many cases are automatically transferred to appellation courts. There have been improvements in the process of restructuring of state-owned enterprises (SOE). They are no more legally exempted from collections from their creditors, which

strengthens property rights. Since May 2016, this applies even to the 17 of the biggest companies which enjoyed government protection. Ownership of agricultural land is restricted to Serbian nationals only, but this restriction is circumvented by registering a domestic legal entity owned by a foreign national, so this regulation affects only foreign natural persons. Inefficient Land Register office leads to long registration processes for the acquired land. The law on conversion of the right of usage of land to land proprietorship has been under implementation in order to clarify property rights, but very high fees are a troublesome issue, since proprietors basically have to pay twice for the same land.

## **Size of Government**

Size of government in Serbia is excessive, with the government consumption reaching 44.7% of GDP in 2015. Accumulated high public deficits have led to a strong increase of public debt, which peaked at 77.4% of GDP in 2015. Bad shape of public finances has increasingly required a fiscal austerity program, which finally was, albeit partially, introduced. It curbed very high public deficit to a more modest level of 3.7% of GDP in 2015, and it is expected to decrease further. However, those measures should not be abolished, because the level of debt remains very high. The unsustainable pension system and bloated public wage bill remain at the core of public finance problems. Furthermore, direct or indirect subsidies to inefficient state-owned enterprises (SOE) are still very high. The process of privatization or liquidation of SOEs in restructuring is under way, but much slower than projected, while at the same time many of those deals are non-transparent, fuelling concerns of corruptive activities, such as for instance in the privatization of the renationalized steel mill that occurred in spring 2016. There are still numerous SOEs that are not envisaged for privatization, most notably in sectors such as mining, telecommunications, energy and transportation. Corporate tax is set at 15%, while personal income tax is at 10%. High social security contributions, however, lead to a high labour tax wedge of 38.9% which, coupled with a weak institutional setting (tax authorities and labour inspectorate), fosters widespread shadow-economy activities and employment.

## **Regulation of Credit, Labor and Business**

Although several reform agendas have been fully or partially introduced, Serbia still does not pose a very much business-friendly environment. Starting a business is an efficient process, being fast, inexpensive and without paid in

minimum capital requirements. However, there are many other areas where bureaucracy procedures are burdensome. Registering property is a lengthy procedure due to inefficient land registry, which still does not cover all land titles. Obtaining a construction permit is another clear example, although the new Law on Construction has significantly streamlined the process while the land development tax was abolished and incorporated into the property tax. Getting connection to the electricity grid imposes very high costs, due to inefficient public-owned energy-distribution company and its high fees. Compliance with tax procedures is also burdensome, with complicated and sometimes contradictory regulation, exacerbated by the high number of annual payments and lack of expertise or resources by the public tax authority service. The process of licensing is widespread in certain industries and professions, limiting competition and creating rents for license holders. Labour market regulation rigidities were somewhat alleviated with the adoption of the new labour code - working hours' regulation is flexible, but duration of fixed-term contracts is still low. Severance pay increases in accordance with years in tenure, protecting the seasoned workers. The minimum wage is very high, approximately 50% of the average wage in the country, fostering activities in the shadow economy, especially among older or people with lower education attainment.

## **Freedom to Trade Internationally**

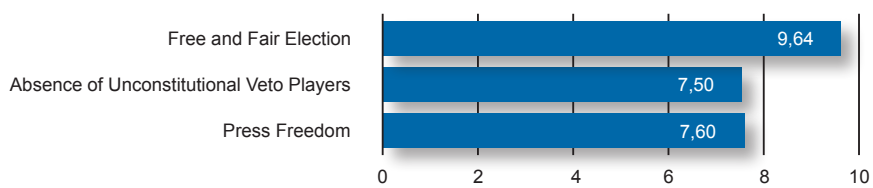
International trade is generally free in Serbia, but there are weak points that need improvements. The inefficient customs agency burdens trade with its complicated procedures. Foreign currency regulations for companies are restrictive, leading to malfunctioning of Internet payment services such as Pay Pal. However, the introduction of the New Computerized Transit System (NCTS) in February 2016 is envisaged to eliminate hurdles and make transit of goods more expeditious. Serbia is, alongside Bosnia and Herzegovina, rare among European countries for not being a member of the World Trade Organization (WTO). Majority of the trade is conducted under the current Stabilization and Association Agreement (SAA) with the EU and Central Europe Free Trade Agreement (CEFTA), as well as bilateral preferential trade agreement with the Russian Federation. Political tension in the wake of the migrant crisis led to the closure of the Serbian - Croatian border for freight transport, but this was quickly resolved upon a political pressure from the EU. Several disputes due to protectionist measures in Macedonia were settled under CEFTA mech-

anisms. Low quality of infrastructure, especially the railroads, leads to high freight cost, hampering trade. Political uncertainty regarding Kosovo hampers trade with this entity, but the ongoing dialogue process facilitated by the EU has improved the situation. Tariffs are mostly low, but certain agriculture products are protected from import competition by substantial tariffs. Variable tariffs on dairy product imports, that had been supposed to be temporary, have been again prolonged.

# SLOVAK REPUBLIC

GDP in 2015: EUR 81,171 million		
annual growth rate: 3.6%	per capita: 14,970 EUR	by sector:
		agriculture 3.7%
		industry 31.1%
		services 65.3%
Population: 5,421 thousand	Human Development Index	Government position in 2015
Unemployment rate: 11.5%	HDI: 0.844 (rank 35)	-2.97% of GDP

## POLITICAL FREEDOM



### Free and Fair Elections

Citizens in Slovakia enjoy their right to elect government and other representatives at free and fair elections, based on equal suffrage. After a while, the year 2015 went by without any elections, except the referendum on same sex marriage which wasn't successful. But there were some changes in the electoral process. Since July 2015 political parties are faced with a new regulation on campaign spending, fines for violation of the process and prohibition of any political activity for two days before the election. Parliamentary elections in Slovakia took place in March 2016. After single party governance from 2012 the ruling party Smer-SD didn't manage to repeat the election result, but still has been a driving political force in the country. During the same month Robert Fico, Smer-SD leader, formed the government with three other parties, serving his third term as prime minister.

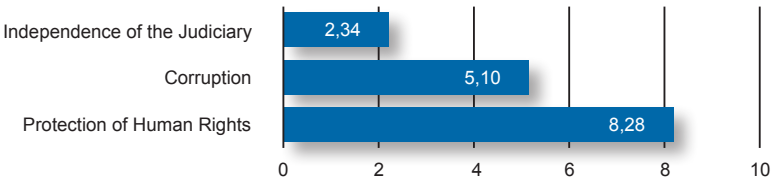
## Absence of Unconstitutional Veto Players

There are no unconstitutional veto players in Slovakia. Tycoons and oligarchs do exist, but they don't exercise veto power. System of checks and balances, however, was put in question prior to the 2016 parliamentary elections, because power was concentrated in the hands of the ruling Smer-SD party. During that time, judiciary operated cautiously and with limited efficiency. The law in Slovakia does provide criminal charges against corrupt officials, but its implementation isn't as efficient as it should be. Major corruption scandal from 2011, the so called Gorilla case, when leaked material had implicated at big-business influence on politicians, has still not been resolved. Nevertheless, in 2015, for the first time it was confirmed that the tape was authentic.

## Press Freedom

Freedom of the press is granted by the constitution. Both traditional and online media outlets are free to operate without government interference, expressing diverse range of opinions. Recently, growing concentration of media ownership is seen as a potential threat to this freedom. Only several business oligarchs and companies control the majority of traditional media outlets. Defamation is punishable by the law, with huge fines. Charges were often brought against journalists by public officials, thus raising chances of increased self-censorship among the journalists.

## RULE OF LAW



## Independence of Judiciary

Judiciary in Slovakia suffers from corruption (perceived by citizens as the most corrupt part of the public sector) and inefficiency (there is a huge backlog of cases). Cronyism and special interests have an effect on the selection of judges. Political pressure grows. As Freedom House noted, background eligibility tests including security checks of the candidates for judges carry huge

potential of misuse for political influence onto them. Those were introduced in 2014. President appoints judges of the Constitutional Court and 3 out of 18 members of the Judicial Council. The Constitutional Court is seated in the eastern town Košice, far away from the country's capital Bratislava.

## **Corruption**

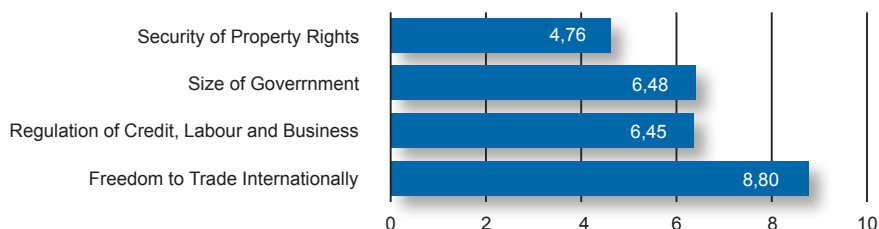
For years now Slovakia has been gradually improving its score and ranking in the Transparency International's Corruption Perception Index. With the score 51, in 2015 it arrived to the place 50 (of 168), sharing it with Bahrain, Hungary and Croatia, whereby in 2014 and 2013 it took places 54 (of 175) and 61 (of 177) respectively. It is now a desirable destination for many investors, unlike the closed and utterly corrupt country one witnessed during mid-1990s, "the black hole of Europe" as described by the US Secretary of State. The progress in fighting corruption is largely due to liberalization and deregulation of the economy and to improvements in governance generally. However, many challenges lie ahead, e.g. diminishing the role of clientele networks in public procurement or other business fields, or further curbing petty corruption. The latter is, according to Global Corruption Barometer 2013, especially persistent in judiciary, health care, police and among civil servants. As Freedom House noted, there still exist some obsolete laws from the communist Czechoslovakian era. They need smart and not hasty, single-case-motivated changes.

## **Protection of Human Rights**

Freedom of association, including for NGOs and trade unions, is well respected. There were improvements in the position of Romany, as compared to early 2000s and the-then cases of forced sterilization. In 2012, the first Romany was elected to Parliament, thus opening a new era of overcoming the widespread phobia and discrimination. Hungarian minority claims it is discriminated, especially regarding public use of language (stipulated by the law as of 2009), or redistricting of the country (thus affecting local governance). Equality between religions is proclaimed albeit, because of the 20.000 members' threshold, small religious communities (including Muslims) cannot properly register and enjoy tax benefits or government subsidies. There are prejudices against both Muslims and Jews. Extremism and hate-speech affect refugees. Slovakia is among countries which refused inner-EU quotas for the settlement of refugees and asylum seekers. Same-sex marriages or adoptions are constitution-

ally banned, while partnerships are not regulated. Discrimination of LGBTs is stronger than in neighboring Austria, Hungary or Czechia.

## ECONOMIC FREEDOM



### Security of Property Rights

Property rights are mostly respected in Slovakia. However, judicial independence and impartiality in dealing justice are questionable. It is possible for some judges to manipulate case assignment system. Court verdicts are often poorly written and justified. Judge selection system is plagued by nepotism, lowering general public trust in courts. There are no specific courts for commercial cases, but only general courts. Enforcement of contracts, with its slow and inefficient procedures, remains one of the most important problems in the judiciary. Changes in bankruptcy legislation, in effect since January 2015, improved creditors' rights and simplified procedures. There are some restrictions for foreign ownership in certain industries - for example, in air transport, where foreign non-EU equity is restricted to 49%. Expropriation of private ownership is possible, but only in public interest. It is seldom used. In such cases adequate compensation - in the form of the market value and foregone profits - is expected. A new law regulating this matter is to take place in the second half of 2016, since the previous one was considered unconstitutional. Since 2011, disclosure of all contracts made by public administration or by SOEs had been a pre-condition for them to become valid. That has considerably undermined corruptive practices.

### Size of Government

Government in Slovakia is not prevalent in economic activities. It is in line with many other European economies. Total government expenditures stood at 46.5% of GDP in 2015. Moderate public deficits, below 3%, stayed within the



Maastricht criteria. Public debt is also moderate, reaching 52.9% of GDP in 2015. It is easily financed. However, this level is very close to the legal public debt brake and could prove to be hard to maintain in future without further reforms. Slovakia has been recently recording robust growth, spurred by rising investments due to higher EU fund absorption, FDIs and rising private demand due to decreased unemployment. However, increased government restrictions and meddling in the private pension funds and private healthcare is a worrisome sign, maybe anticipating more alarming measures, such as those in the neighbouring Hungary. State-owned enterprises (SOE) are present in the economy and play a very important role in sectors considered to be national monopolies, most notably transport and energy. Privatization program was continued in 2015 with government minority stake in Slovak Telekom sold to its majority shareholder Deutsche Telekom. However, direct sale instead of an initial public offering on the stock exchange was heavily criticized, as a way of privatization that favoured the buyer. In early 2016, the government declared that privatization of SOEs of strategic importance will be stopped, but there are no specifications which companies would be affected. Management of SOEs is considered not as efficient as of their counterparts in the private sector. Taxes are moderate for European standards: corporate tax is set at 22%, and income tax is moderately progressive at 19% and 25%, upon a relatively high threshold.

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

Business regulation is mostly favourable to entrepreneurial activities. Starting a business is easy and inexpensive, but with a high rate of minimum paid-in capital. This procedure was recently improved by introducing court registration at the one stop shop. Obtaining a construction permit is a long process, but it incurs very few actual monetary costs, while getting electricity could be more expedient. Compliance with tax rules is burdensome, requiring long working hours. However, recent introduction of electronic filing for VAT is expected to alleviate some of the problems. Inefficient government bureaucracy, corruption and restrictive labour regulations are cited as the biggest obstacles to a better business regulatory environment. Labour regulation has lately been under revision. Major changes were made in 2015, with last amendments put in force at the beginning of 2016. Changes from the previous year are concerning work through an employment agency, posing restrictions on some of the current practices. The latest changes put forward an indexa-

tion measure for the minimum wages, which now have to follow the level of wages in the economy. Although labor regulation is mostly flexible, there is still much rigidity. Fixed term contracts are restricted to the duration of only 24 months. Working hours are flexible, with the maximum number of work days a week being 6, but the total number of overtime hours is limited to 400 a year. Reassignment obligations in case of redundancy, as well as trade union notifications, pose obstacles in case of firing of redundancy workers. Notice periods, as well as severance pay, rise with the years in tenure, favouring more seasoned workers, but anyway they are not significantly long or high.

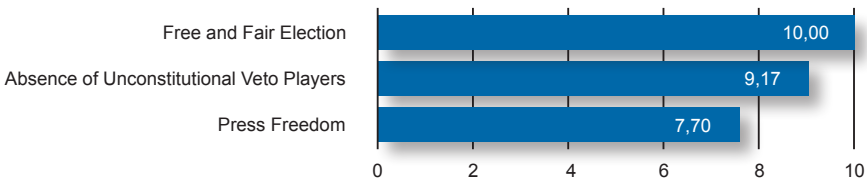
## **Freedom to Trade Internationally**

Freedom to trade is mostly respected in Slovakia. As for all small and open economies, international trade is very important, connecting Slovakia with the rest of the world via production specialization. Slovakia is the most open-to-trade country among the new post-2004 EU members, with the highest share of exports in its GDP. As an EU member state, Slovakia implements the EU common trade policy. Therefore, tariffs are low, with the average mean tariff rate of 5.3%. Tariffs are mostly focusing on the agricultural sector. However, non-trade barriers remain, such as in the field of necessary product certification and standardization. Geographical location of Slovakia is on several major trade routes, so it is an important transit country. Good quality of public transport infrastructure is important to free trade, allowing for time- and cost-efficient transport. However, port facilities on the Danube and overall infrastructure in eastern parts of the country are not satisfactory. Obtaining residence and work permits, although with procedure similar to other EU countries, is often considered as burdensome and time consuming, but this does not apply to EU nationals.

# SLOVENIA

GDP in 2015: EUR 40,102 million		
<i>annual growth rate: 2.3%</i>	<i>per capita: 19,440 EUR</i>	<i>by sector:</i>
		agriculture 2.3%
		industry 33.5%
		services 64.2%
<i>Population: 2,063 thousand</i>	<i>Human Development Index</i>	<i>Government position in 2015</i>
Unemployment rate: 9.0%	HDI: 0.880 (rank 25)	-3.34% of GDP

## POLITICAL FREEDOM



### Free and Fair Elections

Political landscape in Slovenia is pluralistic. Parties compete with each other in a free and fair manner. Since independence of the country only one claim was made that elections were irregular, and it referred to judgment against the Slovene Democratic Party leader Janez Janša for taking bribes while serving as a prime minister, which was according to them politically motivated. Government in this country has a huge problem with public trust following the resignations of a number of ministers due to their corrupt history. According to OECD, only 18% of citizens have trust in government. Slovenia held a referendum on December 2015 on the previously adopted bill that allowed equal rights to same sex marriages. However, 63,61% of voters were against the law, out of the 36,49% of the population who exercised their right to vote.

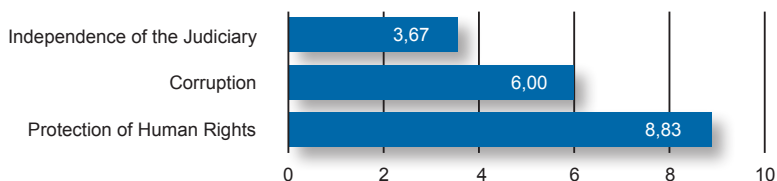
## Absence of Unconstitutional Veto Players

Slovenia doesn't have unconstitutional veto players who could put in question the ability of the elected representatives to govern the country. System of checks and balances is well functioning. Security forces are under effective control by civilian authorities. There are good mechanisms in place to deal with the corruption in Slovenia, but still this phenomenon is not that rare. Several prominent political figures were accused of corruption recently. Most important one was the case against former Prime Minister Janez Janša for taking payments from a Finnish company while in office. He spent 2 years in prison. He was released after Constitutional Court ruled that he didn't get a fair trial and that the deadlines for solving the case have expired.

## Press Freedom

Media scene in Slovenia is free, pluralistic and diverse. Political elites do not directly interfere into media reporting, keeping independence of the Slovenian press at a relatively high level. Still, state advertising represents an important source of income for most media outlets, so the practice of "easing of attitude" toward governmental policy is happening. Concerns rose when newspaper Delo, one of the major in Slovenia, was sold out to the company which doesn't have enough media experience, owned by Stojan Petrič, himself allegedly well connected to the political establishment.

## RULE OF LAW



## Independence of Judiciary

During the 25 years of transition, the judiciary in Slovenia has transformed and gained a degree of independence from the executive power, interest groups or direct corruption. Constitutional Court proved its relative independence from both the government and from the public opinion. However, several recent high level corruption cases ended up in failure after long procedure. There were

numerous cases of negligence, such as of the several hundred sealed letters of last will that were not implemented by the courts. In summer 2015, the Slovenian member of the arbitrary court for Slovenia-Croatia border dispute had to resign because of illicit contacts with politicians. Freedom House noticed that, in the perception of public, Slovenia's judicial independence was declining and was among the lowest in the EU.

## **Corruption**

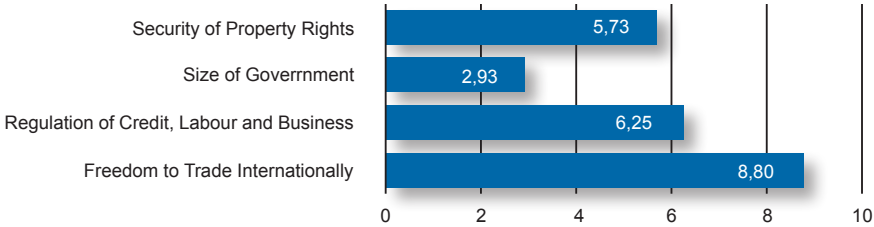
As compared to neighbors, corruption in Slovenia is worse than in Austria but less present than in Croatia, Hungary or Italy. Slovenia took place 35 (of 168 countries) in the Transparency International's Corruption Perception Index 2015 (scoring 60). According to Global Corruption Barometer 2013, citizens found political parties (78%) and legislature (67%) as the most corrupt. Experts disagree on whether just political reforms are thereby needed or the situation also owes to the "unfinished transition" from the old socialist ex-Yugoslav socio-economic system to market economy, which left too much space for the influence of politics onto the economy. The privatization of a number of state-owned companies or banks is still debated and delayed, amid huge losses caused by political mismanagement.

## **Protection of Human Rights**

Restitution of private property seized during communist times was by and large completed long ago. Alas, refunding of the "old bank deposits" to non-Slovenian ex-Yugoslavs is subject to onerous implementation of the law carried in June 2015. Most civil liberties in Slovenia are guaranteed and freely enjoyed. For instance, freedom of speech, association, or religion, is highly respected. While members of some minorities are obviously equal, such as citizens of immigrant background (as is demonstrated by several elected Mayors - of Serb, or Ghana origin), others still struggle to overcome discrimination, such as Romany. Protection of LGBTs - as individuals - against discrimination is well secured by laws, but implementation varies throughout the country. Especially but not limited to this, there is a sharp split to parochial, rural Slovenia and super-permissive and tolerant urban one. At a referendum in late 2015, citizens overthrew the law on full marriage equality, while the government subsequently established almost equal rights for same- and opposite-sex partnerships. The latter law is still disputed. Women are under-represented in politics and occasionally discriminated at work. Prostitution is legalized, yet

measures against trafficking of women (for forced prostitution) or children (for begging) are still insufficient. Faced with migration challenges, Slovenia acted similar as Hungary, in that it (partially) covered its border to Croatia with wire fences.

## ECONOMIC FREEDOM



### Security of Property Rights

Property rights in Slovenia are mostly respected. Government holds the right to expropriate private property in case of public interest, but it is seldom exercised, whereby monetary compensation must be in line with the perceived market value. However, there are problems within the judiciary which limit the system's efficiency. There are reports on out-of-the-court influences, by the political elite, on the judiciary. The judiciary is not considered impartial, because people that are well connected to political groups might be privileged. However, the biggest problem is very low efficiency of courts, resulting in long legal procedures - enforcement of a contract could consume almost four years on average. Adjournments rules are weak, without declaring a maximum number, and they are not well respected in practice. On the other hand, resolving insolvency is streamlined, with relatively quick procedures and with very high recovery rates. Registering a property is unnecessarily long procedure - albeit inexpensive - due to long data entry at the Land Register. There are certain restrictions and limitations to foreign ownership in several sectors, mostly in financial services and banking, gaming and air and maritime transport. Police reliability is high and business costs of crime are low.

### Size of Government

Government expenditures in Slovenia are in line with most European countries, reaching 44% of GDP in 2015. Bulk of expenditure consists of social trans-

fers, aimed at income redistribution through welfare programs. The austerity programs initiated after the fiscal crisis hit Slovenia, curbed public deficit to approximately 3% of GDP in 2015, in line with Maastricht criteria. Public debt is high, standing at 83% of GDP in 2015. Announced loosening of the fiscal position, via increase in wage bill and other current expenditures, will lead to deficit increase. Slovenia recorded a moderate growth, reaching 2.3% in 2015, fuelled by strong export performance towards its EU economic partners. There was never a large scale privatization program in Slovenia, and therefore state-owned enterprises (SOE) are present in many areas of the economy, especially in banking and insurance, energy and transport. In those SOEs government is either a majority or a minority equity stakeholder. In 2015, government prepared an asset management strategy for companies in state ownership. The strategy divided SOEs in three distinctive groups: strategic, important and portfolio, and state approach to an individual SOE will depend on its classification: majority equity, controlling equity or non-mandatory equity. Management efficiency of many SOEs is under question mark, especially in the banking sector. Corporate tax is relatively low, set at 17%, while VAT is at 22.5% (standard) and 9.5% (the reduced rate). Personal income tax is highly progressive, with rates of 16%, 27%, 41% and 50%. Social contributions paid by the employee and employer are also high, leading to overall high tax wedge, above the OECD average.

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

Regulation is overall positively oriented towards business activities. However, there are many complicated or unnecessary procedures that are fuelling bureaucracy costs. Starting a business is easy and does not incur any costs in fees, but this is negated by a very high minimum paid in capital. Getting electricity is also a streamlined procedure, without high fees. However, obtaining a construction permit is a very long task, due to a high number of procedures, but also due to inefficient land registry. Corruption and favouritism among civil servants are still present, although not prevalent. Tax compliance is complicated, incurring a high number of hours for regulatory compliance, and is perceived as one of the major obstacles to a better business environment. Inefficient government bureaucracy and restrictive labour regulations are also often cited as areas that need reforms. Working hours are by and large flexible. Problems lie in hiring and firing sections of legislation. Maximum length of a fixed contract is 24 months, which is low by European standards. More seasoned workers enjoy a higher level of job protection and other perks, with a

higher number of paid annual-leave days, along with notice-period and severance-pay increase according to years in tenure. Minimum wage is very high in comparison to the average wage - in 2015, it was among the highest in Europe. In November 2015, the new regulation exempted different wage bonuses from the minimum wage, forcing employers to pay them separately, which is expected to further increase the minimum wage.

## **Freedom to Trade Internationally**

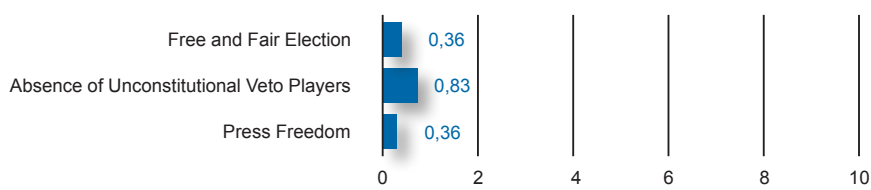
Slovenia is a country where freedom to trade is usually protected. Being a small open economy, the importance of free trade is even more emphasized in the Slovenian case, for production specialization and for integration into the world economy. As a member of the EU since 2004, Slovenia implements the common EU trade policy, with overall low tariffs, with simple average tariff of 5.3%. Tariffs are more pronounced for agricultural than for industrial products. However, non-tariff trade barriers in the form of mandatory and costly product standardization remain as an obstacle to trade. Customs office procedures are efficient and inexpensive, not posing impediments to free flow of trade. Good public transportation infrastructure also provides a strong point for free movement of goods, lowering freight costs. However, the railroads are in a significantly less favourable condition than roads or ports. Slovenia was the first post-transition country that entered the Eurozone by adoption the euro in 2007; this move further facilitated trade by abolishing currency conversion costs. Slovenia continues to implement significant capital controls, which is mostly related to its exchange rate regime. Obtaining work and residence permits for non-EU nationals is complicated and costly procedure. Furthermore, work permits are also necessary for Croatian citizens, since Slovenia was among the few EU countries that prolonged free access to their labour market for Croatian citizens (alongside the United Kingdom, the Netherlands, Austria and Malta).



# TAJIKISTAN

GDP in 2015: EUR 7,324 million		
annual growth rate: 6.0%	per capita: 860 EUR	by sector:
		agriculture 29.5%
		industry 21.2%
		services 49.3%
Population: 8,477 thousand	Human Development Index	Government position in 2015
Unemployment rate: 2.5%	HDI: 0.624 (rank 131)	-2.33% of GDP

## POLITICAL FREEDOM



### Free and Fair Elections

Tajikistan “Free and Fair Elections” score deteriorated further and it’s the lowest among all analyzed countries in 2016 edition of Freedom Barometer, due to massive crackdown on opposition political parties and individuals in 2015. Dominant president Emomali Rahmon, who is in power since 1994, and his ruling elite don’t hesitate to use all means to silent critics and suppress political pluralism. Period before March 2015 parliamentary elections, during the campaign and the elections day, and after it abounded with violations, irregularities, media restrictions, frauds, physical attacks and intimidation by the government. One rebellion attack led by former deputy defense minister of Tajikistan, Abduhalim Nazarzoda, ended with a huge violence outbreak in which 20 people lost their lives, including Nazarzoda. Government accused the Islamic Renaissance Party (IRPT), main opposition party, for alleged plotting of the event without viable proofs. Court proclaimed IRPT as a terrorist organization in September and arrested around 200 IRPT members. Also, leader of

the other opposition party called Group 24 was assassinated in March 2015 in Istanbul and opposition accused government for this murder.

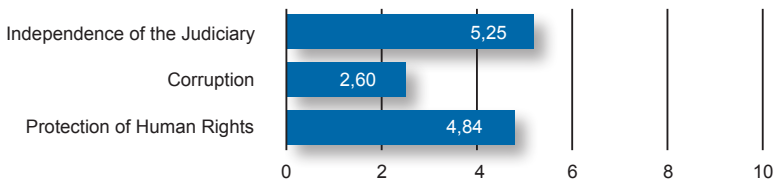
### Absence of Unconstitutional Veto Players

President and close circle of people around him have unchallenged power to rule the country. Executive branch in authoritative Tajikistan, represented by the president, dominates over other two branches and keeps them under strict control. However, when making decisions, president needs to think about interests of certain influencers, like wealthy businessmen and high ranking military officials. Few families around president, including his own, control the majority of the state and privately owned enterprises. Corruption is pervasive among them, however authorities brought cases of corruption only to deal with the opposition.

### Freedom of Press

Press is not free in Tajikistan. Country's media landscape is highly restricted and regulated. Journalists often face harassment, intimidation, arrests, and therefore self-censorship is at the extremely high level. Critics of the government can rarely be found. But whoever dared to criticize and accuse the President or his family of corruption, would face serious charges and attacks. Opposition parties don't have access to state owned media outlets, which are on the other hand often abused for campaigns against them. Media regulatory bodies are controlled by the government and serve as efficient tools to limitate the independence of journalism in Tajikistan.

## RULE OF LAW



### Independence of the Judiciary

Tajikistani judiciary has faced setbacks regarding both its independence and quality for a few years. The President nominates, with the approval of Parlia-

ment, members of the most important courts (Constitutional, Supreme and Supreme Economic Court) as well as the prosecutor general. Judges on the ground are often inexperienced, poorly trained, or corrupt. Arbitrary arrests and frivolous application of laws are common. Prisons are dangerously overcrowded. Torture (such as beating to death of a student in September 2015), extortions and corruption are frequent during custody. Following the ban of the main opposition party in 2015, lawyers were also arrested, or they received death threats. Along with deterioration of political freedom and of the respect for human rights, additional – in reality political - limits were introduced to practicing law. Everyone in legal profession will have to re-certify each 5 years with the Ministry of Justice.

## **Corruption**

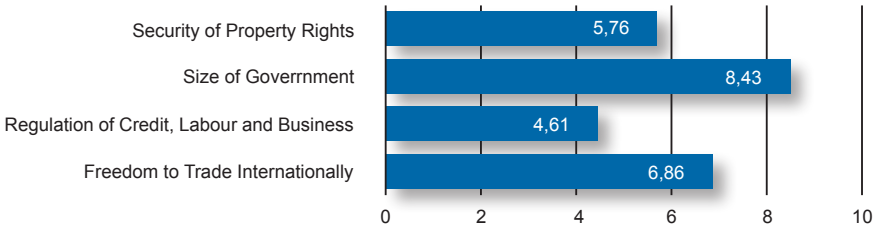
The catastrophic situation regarding corruption has just minimally improved. Most investigated high level corruption cases are due to political vendetta or to power struggle and not to genuine attempts to increase transparency. With the score 26, in the Transparency International's Corruption Perceptions Index 2015, Tajikistan was ranked 136 of 168 countries, together with Comoros and Nigeria. Among CIS countries, only Uzbekistan and Turkmenistan are worse. As Freedom House noted, "nepotism, cronyism, extortion and bribe-seeking by government officials pervade all levels of Tajik society". President Rahmon's family members hold important government posts and own the largest bank, the railroad and the main TV station. Other members of his clan own or control most of the country's lucrative production facilities, e.g. aluminium plants. It is estimated that a couple of billion dollars have been so far siphoned out of the country via offshore accounts. Taken that half of the country depends on the remittances by expatriates and that cotton makes another 20% of the GDP, the level of corruption in Tajikistan could be described as grand.

## **Protection of Human Rights**

Unlike stagnating in 2014, human rights` situation in Tajikistan has, according to several observer organizations - including Freedom House and Human Right Watch - dramatically worsened in the second half of 2015. Following the ban on the main opposition party, in August, on the grounds of "extremism", a number of IRPT activists were arrested, alongside with several journalists or lawyers. New cases of severe torture or other ill treatment in custody were reported. Political purges are implemented in cooperation with Russian

authorities, who use to readily extradite Tajikistani dissidents. The pressure on NGOs increased as the new restrictive legislation on “foreign agents” as of June 2015 was applied. Those among them who alarmed at torture of political prisoners were themselves summoned. The obligation to maintain a government-prescribed personal outlook while in public affects both men (ban on non-traditional beards) and women (ban on wearing hijabs or other non-traditional scarves). It is exercised through societal as well as, increasingly, via police pressure. Restrictions on practicing religion were also severed. Serious restrictions affecting the freedom on Internet remained in place. Meanwhile, recently carried legislation on prevention of domestic violence is still awaiting implementation.

## ECONOMIC FREEDOM



### Security of Property Rights

Private property is not adequately secured in Tajikistan. Judiciary lacks independence from strong influences of government officials and groups politically connected to them. Court rulings also suffer from inconsistencies in application of laws. Big state-owned companies are sometimes protected by refusal to enforce court dealings, as in the case of TALCO, one of the biggest aluminum companies in the world. In several cases, government regulatory agencies have been used to pressure businesses into ceding properties and business assets. Nepotism, favoritism and corruption among public officials are omnipresent. Court procedures can be lengthy and bear significant costs - most notably, of the legal enforcement of court decisions - which impedes access to justice. Out of court settlement has not been systematically developed, since the role of Third Party Arbitration Courts was brought to minimum. All land is by law in state ownership, but first and second tier land use rights are leased - to Tajik natural persons and companies indefinitely, while to

foreign entities up to 50 years. Weak performance of the land registry diminishes security of property rights in the agricultural sector.

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

The size of government in Tajikistan with total public revenues lower than 30% of GDP is considerably smaller in comparison with developed European countries, leaving a fiscal room for lower taxes but together with it also for lower level of government services. Low level of economic growth recorded in 2015, if compared to the previous period, is mainly owing to slowdown among its main economic partners, mainly the Russian Federation. The level of remittances has been strongly affected, with repercussion on imports and consumption. High levels of inflation pose a significant problem. Accumulated public debt is envisaged to reach 50% of GDP in 2016, almost doubling its 2014 level. Shadow economy in the country is very much developed. The role of the state in the economy is still considerable, via numerous big state-owned companies active in many fields, even in those where state interference is obviously unnecessary. The most important SOEs are industrial facilities such as the largest company in the country, the aluminum company Talco. Private companies cannot compete with SOEs, unless being favored by political connections, whereby SOEs take over a large share of government procurements. They are also favored by banks in financing, due to political influence and government support. Many of these SOEs have reported high financial losses during previous years, which burden public finances. SOEs are badly managed, with strong political influences from the government, incurring losses, but also being at the forefront of corruption.

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

Labour Code in Tajikistan is characterized by both flexible and rigid components: coping with hiring and firing regulations is not expensive, but working hours` regulation is inflexible. Centralized collective bargaining is not widespread. The minimum wage is rather low in comparison to the average wage, not bringing too much distortion in the economy. Notice period for redundancy workers is limited to 8.7 weeks. There is a legal requirement that at least 70% of the workforce must be domestic, and if the CEO is a foreign national then this limit is as high as 75%, but this figure is set at 80% and even 90% for projects signed by the Tajikistani government. Business regulation is complicated, with lengthy and costly procedures. Tax administration procedures

are among areas that incur the highest regulation compliance costs. Governmental company for standardization has a weak record of performance, with the lack of expertise and necessary equipment. Starting a business has been improved by enabling the Statistics Agency to provide statistical code at the time of registration, but new companies still have to follow several steps in order to finish all the paperwork. In getting electricity and obtaining construction permits, Tajikistan is at the bottom of the world economies – on average it takes more than 8 months to get a construction permit. This regulatory framework, with many procedures and long timetables, is an environment prone to corruption, which has become endemic in the country, while the bribe is considered as a necessary business cost.

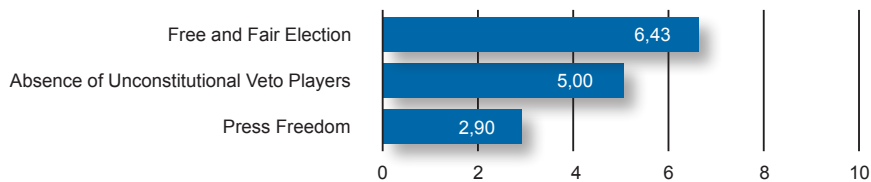
## **Freedom to Trade Internationally**

Tajikistan has since 2013 been a full member of the World Trade Organization (WTO), which led to lower tariffs or other artificial barriers to trade. However, the average tariff rate is still high, standing at 8.1% (and being higher for agricultural than for manufacturing products). Further trade liberalization is expected, as action plan for full implementation of Tajikistani obligations towards the WTO has been devised and adopted. Free Economic Zones within the country facilitated trade and investments. Geographical position and bad transportation infrastructure further impede international trade, making exports and imports expensive and lengthy. Furthermore, custom procedures necessary for import or export are burdensome. However, submitting customs declarations can now be done electronically, thus lowering trade barriers. Obstacles in movement of goods are augmented by capital controls, in order to maintain the exchange rate regime. Procedures for obtaining residence permit for foreign nationals are burdensome and provide for only up to one year of residence.

# TURKEY

GDP in 2015: EUR 672,702 million		
annual growth rate: 4.0%	per capita: 8,600 EUR	by sector:
		agriculture 8.7%
		industry 27.0%
		services 67.8%
Population: 78,152 thousand	Human Development Index	Government deficit in 2015
Unemployment rate: 10.3%	HDI: 0.761 (rank 73)	-1.00% of GDP

## POLITICAL FREEDOM



### Free and Fair Elections

2016 - As compared to last year, there is a drop in Turkey's rank in terms of free and fair elections. Turkey is known to have free elections under the observation of different independent actors from various international organizations, including the EU. There had been two nationwide parliamentary elections in 2015, on June 7th and November 1st. Despite the critics, there is no credible indicator that they were rigged. However, government's control over a large array of media companies in the country bring shades on the fairness of the election process, as criticism spikes over President Erdogan's explicit ties with his former party, as Mr. Erdogan currently has a supposedly ceremonial, non-political and impartial function.

A certain problem that remains unsolved is the nationwide 10 % electoral threshold. The pro-Kurdish HDP has the 4th largest popular support. For the first time in history, HDP joined both elections as a party, instead of a group

of independents, and won 80 seats on June 7th . However, neither of the political parties could come to a coalition agreement and Turkey went into a spiral of violence as the ceasefire between the government and PKK (pro-Kurdish terrorist organization) collapsed. Elections were renewed on November 1st and HDP's support dropped from 13.1% to 10.8% within 5 months as the ruling AKP's hiked to 49.5% from 40.9%, gaining back the absolute majority to form the government.

In 2016, concerns and criticism over the political participation increased. The entire 316 MPs of the ruling AKP (with an exception of one) moved a motion to lift the immunity of the parliament members for once who have pending investigations in the judiciary. This apparently impacted the HDP most, as the 61% of the files were related to 50 out of 59 MPs of HDP, which constitutes 9% of the parliament. The trials proceed as of October 2016.

Turkey has seen a failed coup attempt on July 15th, 2016. The following measures taken by the government included an outright announcement of a nationwide State of Emergency (SoE). More than 2,100 institutions were shut down by government decrees, as more than 93,000 public employees were suspended and 60,000 people were expelled from public service. As of October 16th, the SoE was prolonged for another three months amid criticism that investigations turned to a purge against the opposition.

## **Absence of unconstitutional veto players**

2016 - As the July 15th coup attempt failed, the government's claims of an existing deep state organization connected to the US-based cleric Fethullah Gülen deemed well-grounded and found support within Turkish society.

It is no secret that Turkish Army has a long history of coup d'états and intrusive relationship with civilian governments. However, the influence of military politics was thought to be reduced and contained thanks to a series of EU reforms enacted by Mr. Erdogan and his governments. The recent coup attempt proved this view has partly underestimated current state of affairs.

The Government immediately declared a state of emergency and started taking grave measures against people who might have any relation to the coup-plotters.

It is obvious that the lack of institutionalization and highly centralized policy-making processes still give space for non-political and/or unconstitutional



actors to find ways and means to interfere into politics, force public officials and policy makers to take certain positions and initiate a large scale coup d'etat attempt.

## Freedom of the press

The freedom of press in Turkey undoubtedly took the biggest hit after July 15th coup attempt. As of October 12th , 2016, there are 92 journalists under arrest in Turkey. The government is highly criticized for extending the crack-down on many different parties including opposition.

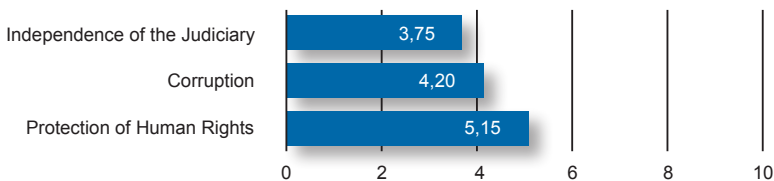
By the effect of the decree on July 22nd, the government closed down 35 hospitals, 1043 private educational institutions and dorms, 1229 foundations and associations, 19 unions, federations and confederations and 15 private universities. The number of sealed media organizations, newspapers, radios and TV companies exceeded 150 by October 15th.

All of these developments will be shown in next year's index and will most likely appear in other indexes measuring freedom of press all around the world.

Various studies have shown that state or public related companies, when advertising, do not pick the media outlets according to the daily circulation and/or ratings; instead, they choose with political motivations.

Government's control over a large cluster of media companies and organizations was documented and severely criticized. As the latest e-mail leaks indicated, even the seemingly most mainstream and impartial media conglomerate, Dogan Media Group, is regularly reporting to the President's Office by the topmost manager. These are the main reasons for the drop of ranking and indicators of a downward trend in the overall category of political freedom.

## RULE OF LAW



## **Independence of the judiciary**

The control and influence of the executive over the judiciary has increased as parallel to the de facto rise of the political power of the President. The administrative body of judiciary, the High Council of Judges and Prosecutors (HSYK) is under the control of the government and especially of the President. The Ministry of Interior filed a complaint to the HSYK against many administrative judges as they decided against the decisions of the ministry. HSYK, accordingly, opened an investigation against more than fifty administrative judges. Within the last couple of months, thousands of judges and prosecutors were appointed to other courts or other locations against their will because of their decisions.

Following the failed coup attempt of July, 15th 2016, one fourth of all the judges and prosecutors (approximately 3.500), including two members of the Constitutional Court, five members of the HSYK and many members of the Court of Cassation and the Council of State, have been dismissed from their office on charges of being member of a terrorist organization. It is argued that, prior to their dismissal, there had been no proper administrative investigations and the accused was not given any opportunity to defend themselves. Most of those judges and prosecutors have been arrested and detained just after the failed coup attempt.

Although the number of the members of the Court of Cassation and the Council of State has been increased by law twice during the last four years, a new law adopted in 2016 decreased the number of the chambers and the members in both high courts. All the memberships to both courts were ended by entry into force of the relevant law. Later, some of the members were reappointed, but remaining members were appointed as ordinary judges, although they had a constitutionally guaranteed secure tenure as a high court judge.

The oldest and one of the biggest associations of the judges and prosecutors, the Union of Judges and Prosecutors (YARSAV), has been closed by an emergency decree without any prior investigation and its assets have been confiscated. Later on, its president and some of the members of the directory board have been dismissed from their office as a judge; they were arrested and taken into custody.

## **Corruption**

Investigation of corruption allegations is a very risky business for the police and for public prosecutors in Turkey. They may easily be accused of being members of a terrorist organization or of spying against the interests of the state and they may face dismissal and trial. Parliamentary control of the governmental expenditure is very weak since most of the questions of the opposition MPs are not taken seriously by the government. Motions of the opposition are rejected by the ruling party majority in the parliamentary commissions and in the general assembly.

Transparency and fairness of the public procurement is very problematic in the absence of independent media scrutiny and judicial control. The Court of Auditors' oversight of the expenditures of public administration is ineffective and virtually lifted.

## **Protection of human rights**

Following the June 2015 General Elections, Turkey entered into a phase of terror and conflict. As a result of terror attacks in major cities, hundreds of civilians were killed. Kurdish separatist organizations declared autonomy in some South Eastern Anatolian towns and ditched explosive traps around them. The government declared curfew to take control of those towns. Security forces intervened with heavy weapons. Allegedly some civilian people were caught in cross-fire having difficulty in reaching basic human needs such as food, clean water, electricity and medicine. As a result of long curfews, hundreds of thousands citizens were displaced.

On July, 15th, 2016 Turkey witnessed a failed coup attempt by a military junta. 240 people were killed during the civilian revolt against the coup. The Parliament and some other official buildings were bombarded by fighter jets during the coup attempt. The government declared that the power behind the junta was the Gülen movement, once a close ally of the governing AKP. As soon as the coup was quashed, the government declared the state of emergency, a situation where the government suspends certain basic rights and freedoms. The government also notified the Council of Europe that it derogated its obligations under the European Convention on Human Rights during the state of emergency. Since then, Turkey has been governed through emergency decrees which are not subject to constitutionality control by the Constitutional Court. The maximum period of police custody was extended from four days to thirty

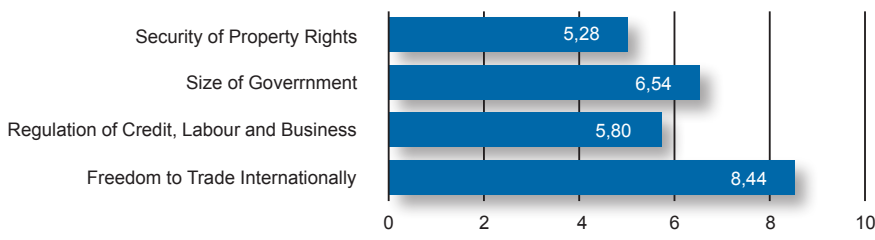
days during the state of emergency, which increases the risk of abuse and ill treatment.

The government started purging of alleged Gülenists and supporters of the PKK from civil service. Up to now, 93,000 public employees were suspended and 60,000 people were expelled from public service. In this regard, also 4,246 entities, including 129 foundations, 1,125 associations, 15 universities, 19 trade unions, 23 radio stations, 45 newspapers and 29 publishing houses were closed and seized without any prior official investigation. Most of these administrative measures were taken by legislative decrees to prevent judicial control. The magnitude of the numbers subject to purging suggests that the purpose is the cleansing of a certain segment of society carried out on the basis of assumption and political discretion rather than purge of a putschist group within the state.

There is severe criticism from both inside and outside of the country about the method of this purging which seems to be turned into a witch hunt of the opponents of the government. Prominent academics, writers and journalists, who are critical about government policies, have been detained for the allegations of terrorist propaganda. More than 50,000 people were arrested and 32,000 of them were detained pre-trial. Recently, the Commissioner for Human Rights of the Council of Europe invited the government to respect for the rule of law. Amnesty International also warned about allegations of ill treatment under police custody and in detention. There are complaints about the disproportionate use of preventive measures, such as detention and freezing of assets. Many small and big companies were seized on the suspicion of abetting terrorism without final conviction.

The above mentioned control of judiciary by the executive seems to have made judicial protection useless for human rights.

**ECONOMIC FREEDOM**



## **Security of property rights**

In Turkey, the already inadequate protection of property rights has been exacerbated by developments after the failed military coup attempt on 15 July 2016. Although the fact that the coup attempt failed can be interpreted as a victory of democracy, at least in the sense of majority rule, the post-coup crackdown has turned into a very difficult and unpleasant experience for the country's human rights record. Not only basic human rights violations, but also violations of property rights have increased.

With the help of new powers the government gained after the declaration of the State of Emergency on 20 July 2016, huge amounts of property owned by members of the Gülen community have been confiscated. The state has taken over companies, schools and nongovernmental organizations which were either controlled by Gülenists or had suspected links with them. Furthermore, thousands of prosecutors and judges have been suspended or detained, which obviously made the remaining incumbent prosecutors and judges more susceptible to government influence and pressure. The level of independence from the executive power and the effectiveness of the judicial system have decreased because of the increased legal and administrative control of the government over the judiciary. It is not unusual to see courts deciding differently for similar cases, giving advantage to those who are close to the government.

Not only Gülenist media and capital groups, but also others, which support the opposition, are targeted by arbitrary legal investigations and lawsuits. With the current state of affairs in the legal system, court procedures involving enforcement of contracts continue to be lengthy and costly. Therefore, the riskiness of doing business in Turkey remains higher than it would be otherwise, which naturally reduces the number of potential entrepreneurs in the economy. Also, the low reliability of the police force continues to be a chronic problem.

## **Size of government**

Although government expenditures and tax rates are lower than European averages, they are still higher than world averages. In 2015, both total government expenditures and total government revenues were about 41% of the GDP. Public gross domestic and external debt stocks were about 24% and 13% of GDP, respectively. Most of the total tax revenue (68%) continues to come from

indirect taxes. Direct taxes make up only about 28% of the total tax revenue. In most cases, value added tax is 18%, but for some others it is either 8 or 1%. The top corporate tax rate is 20%, the top income tax rate is 35%. The level of transfer expenditures, which was around 45-46% of total government expenditures in recent years, continues to remain high. Given the fact that Turkey hosts about 2.7 Mil. Syrian refugees, it is highly unlikely that the ratio of transfer expenditures to the GDP will decline in the near future.

## **Regulation of credit, labour, and business**

In general, business regulation is not unfavorable towards entrepreneurial activity. Nevertheless, administrative requirements, bureaucratic costs, market regulations and ineffective enforcement of regulations hamper business activities. Although Turkey has a vibrant business sector, besides regulations, low skilled labour force and high labour costs, which are reflected in the high level of the minimum wage, foster the informal sector. Licensing restrictions are not widespread and tax compliance costs are not very high. Although starting and registering a business is not difficult, some labour market regulations, such as high severance pay based on the employee's seniority at the work place, might be quite disadvantageous for business activities.

Turkey continues to apply compulsory military service to its male citizens. The duration of the military service depends on the conscript's education; those without a 4-year university degree serve one year as privates while those with a 4-year university (and higher) degree either serve one year as reserve officers or six months as short-term privates. In any case, compulsory military service disrupts careers of almost every male citizen of Turkey in one way or another.

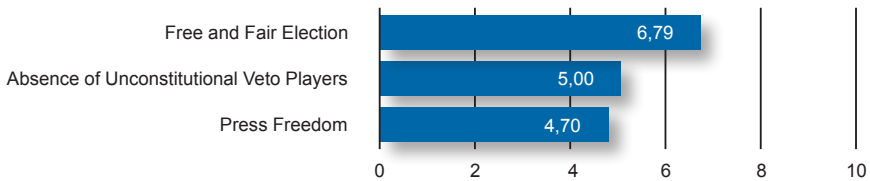
## **Trade freedom**

It is not surprising that Turkey's average tariff rate is quite low, only 2.8%, considering the fact that Turkey is a member of the World Trade Organization and has a customs union with the European Union since 1995. Nevertheless, because of the fact that the agricultural sector is not part of this customs union, tariff rates for some agricultural products can be very high. F. ex., for red meat imports tariff rates are generally kept very high - they can be as high as 225% - and they are only lowered when exorbitantly high prices cause public outrage. Also, certain restrictions on free movement of capital and labour prevent further advancement of international trade. F. ex., obtaining a residence permit might involve complicated and long procedures for foreigners.

# UKRAINE

GDP in 2015: EUR 84,821 million		
annual growth rate: -9.9%	per capita: 1,990 EUR	by sector:
		agriculture 14.1%
		industry 26.4%
		services 60.0%
Population: 42,591 thousand	Human Development Index	Government position in 2015
Unemployment rate: 9.1%	HDI: 0.747 (rank 83)	-1.17% of GDP

## POLITICAL FREEDOM



### Free and fair elections

In July 2016, a **by-election to the Verkhovna Rada/Supreme Council** was held in seven constituencies to replace deputies who changed into executive bodies after the coalition reshuffle of April 2016. Elected were: Two representatives of *Bakivshchyna* (Yulia Tymoshenko), two of *UKROP* (close to the oligarch Kolo-myoskyy and designed for a 'patriotic' electorate), two candidates who ran as independent, but are connected to the Solidarity party/*Bloc Petro Poroshenko* (BPP), and one member of *Nash Kray* (Our Land), a party-project close to the presidential administration aimed at former Party-of-Regions voters. The election demonstrated the main defects of the majoritarian system of (mis-)using "administrative resources" and influence by business groups as well as voter bribing. In October 2015, **nation-wide local elections** were held for more than 10,000 heads of communal councils and 155,970 local, district and regional councillors, with 132 political parties participating. The voter turnout was 46.6%. The OSCE described the influence of business groups as a concern, in

spite of generally competitive and well-organised elections. The electoral laws did not allow for IDPs to vote outside their homes, so many were unable to vote at all. The electoral law was changed last minute, allowing only political parties to appoint candidates except for village and urban village local councils in the aim to keep out former activists turned politicians and enable parties to withdraw their councillors at their discretion. National **election campaigns** still are amongst the most costly in the world with financing coming to a large part from the shadow economy. Since 2014 all parties elected to the *Rada* promised to change the electoral law and abolish the majoritarian component, but this turned out to be lip-service. The current coalition parties (BPP and People's Front) cling to the majoritarian component because of their falling popularity.

**Local elections are continuing** as a result of administrative and territorial reform. Small communities are being merged to "United Territorial Communities" (UTC) for reasons of efficiency. By mid-2016 there were over 200 UTCs all over the country, where elections of the UTC-heads and community councils already took place or are forthcoming. Usually, self-nominated candidates run on that level, not necessarily connected to a political party. The **Central Election Commission (CEC)** attempted to interfere to avoid more amalgamated communities who become new organs of local self-governance. The CEC is a problem in itself, because the powers of the chairman and eleven more out of a total of fifteen members ended over two years ago. However, neither the President nor the *Rada* rotate them. Of the currently over 200 UTCs, the CEC originally set the elections for only 41. There are claims that the CEC is preserving the Soviet system of state governance. After protests, the CEC revised its decision and blocks the elections in only 24 UTCs now.

## **Absence of unconstitutional veto-players**

the *Rada* is still dominated by **representatives of oligarchs** who represent vested interests. Oligarchs still aim to control state enterprises; some do even use unofficial military forces. In March 2015, Ihor Kolomoisky barricaded the office of oil company "Ukrnafta" after the Law on Joint Stock Companies No. 2273N was amended so that the rules for forming a quorum changed to his disadvantage. **Real opposition parties** do not yet play a key role in the politic landscape. Political campaigning is still an uneven playing field due to large amounts of money spent, coming from the shadow industry. The *Rada* introduced state



financing of political parties (Law No. 731-19), but due to last minute amendments the overwhelming amount for now goes to the large party-projects. Opposition parties that have the potential to become serious contenders will *not* get any statutory financing unless they manage to gain two percent of votes in the next parliamentary elections. **Trade unions** function in the country, but strikes and worker protests have a tradition of being instrumentalised. The Federation of Trade Unions is controlled by oligarchs. Employers are still able to pressure their workers to vote according to their preferences. So-called **volunteer battalions** are scattered and uncoordinated. They are mostly involved in different conflicts regarding raider attacks (mostly sponsored by single oligarchs). During a protest organised by the non-parliamentary right-wing *Svoboda* party in August 2015 on constitutional reform, four National Guard officers were killed by a grenade outside Parliament. Several activists were arrested; investigations are on-going and criminal cases pending. In September 2015, **activists opposed to the Russian occupation of Crimea** halted the overland delivery of goods from mainland Ukraine. In November, four electric power lines providing over 70% of electricity to Crimea, were blown up. Repair teams dispatched by the Ukrainian authorities to restore the lines were blocked by activists. In December, the blockade was lifted and power lines were fully operational again at the end of 2015.

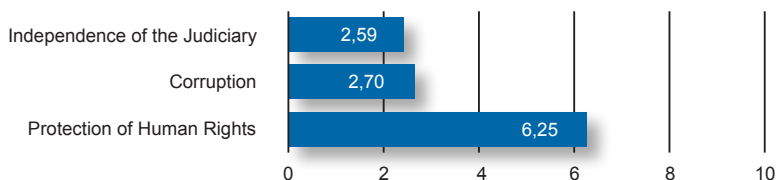
## Freedom of the press

**Media pluralism** is still based on a variety of vested interests. Most of the non-state media are being controlled by oligarchs, including President Poroshenko's "5th Channel". Business moguls own and influence TV with the highest audience rating. The few state-controlled media are on the local level and neither independent as they select e.g. talk show guests according to political preference. TV is still the most popular media and moreover crucial during election campaigns and in political struggle. **Non-oligarchic media** do not have comparable reach. The former state TV channel "Pershyi UA" is being turned into a public broadcasting TV with international financial and technical assistance. The FM radio station "Hromadske Radio" and the TV channel "Hromadske TV" are supported by international donors and fundraising/crowdfunding. Both aim to be quality products. Further threats to media freedom are caused by the **war in the Donbas**. A new challenge is "**loyalty journalism**", a behaviour that covers events one-sidedly and refrains from criticising Ukrainian civilian and military leaders, even concealing information and causing journalists'

self-censorship. Occasionally, it is supported by “administrative resources”. There are black listings and bans of certain journalists. In September 2015, the President, based on a decision of the National Security and Defense Council, banned 44 international journalists and media from entering Ukraine, citing security reasons. After a critical response of journalist organisations six journalists were taken from the list. **Russian TV channels** have been banned by the National Council of Television and Radio Broadcasting for their “subversive contents”. In the separatist-controlled areas access and travel is severely restricted and/or dangerous. Furthermore, observers working there face criticism for “fraternising” with the enemy. The **publishing of personal data of journalists** by the Ukrainian internet site “Mirotvorets” caused a scandal. The site is regarded to be close to the Minister of the Interior Avakov. This direct violation of the Ukrainian law on personal data protection lead to a wave of hate attacks against the concerned journalists. The **Ministry of Information Policy** did not succeed in its self-proclaimed goal of renewing Ukrainian broadcasting in the occupied areas. Its main aim is counteracting Russian propaganda, but the public is largely doubtful of its usefulness. As a body of civic control of media there is the **Commission on Journalistic Ethics**. It has been undergoing an internal crisis because of questionable activities of its Secretary (breach of contract of foreign grants).

**Political debates on TV** are popular. Usually they are aired on smaller channels with lower coverage (via satellite, internet, cable TV) of about 30-40%, while big channels cover about 95% of the public and can be received with a simple antenna. It is not uncommon that politicians pay for air time. In September 2015, TV-Channel “1+1” suspended a talk show just before broadcasting. Then, the State Employment Service withdrew the job permission of the disgraced moderator **Shuster**, undone later after civic society and lawyers’ protests. Meanwhile, the Fiscal Service began tax evasion investigations against the TV-company “Savic Shuster Studio” that for the time-being is continuing broadcasting on its own Channel (3s.tv) with smaller outreach.

## RULE OF LAW



### Independence of the judiciary

Little progress was made in bringing to justice law enforcement officials responsible for the excessive use of force on **Euromaidan**. There is no court decision regarding high-ranking officials from the *Berkut* police. Criminal proceedings are instigated against 270 individuals. In December 2015, a Kyiv district court sentenced two students to four years imprisonment and four years of probation respectively for beating, kidnapping and threatening to kill a protester on 21 January 2014. The Ukrainian Parliament failed to ratify the Rome Statute.

Ukraine did not make significant progress on **judicial reform**. Society highly distrusts especially the courts (more than 80%, a level close to the Russian media, the General Prosecutor's Office (GPO), political parties and the *Rada*). The *Rada* adopted the **new Law on Judicature and the Status of Judges** in June 2016. It mostly focuses on practical implementation of the last changes to the Constitution. They shall take effect as of September 2016 and include first steps for judicial independence and changing the hierarchy of courts. Remuneration of judges will be increased in average up to six times. Immunity of judges will be limited and it will be easier to bring judges to liability. One more innovation is the competitive selection of candidates to the position of judges, which besides of the Supreme Qualification Commission will also be conducted by representatives of civil society through the Civic Integrity Council that will be a part of the oversight under the courts and judicial system in general. A separate block of innovations are the mechanisms of corruption prevention. Judges will be obliged to prove the legitimacy not only of their own income, but also of their family members. Existing specialized courts (Higher Economic Court of Ukraine and Higher Administrative Court of Ukraine) shall be abolished and an Anti-corruption Court (which will deal with the cases investigated

by National Anti-corruption Bureau of Ukraine) and a Patent Court established. The selection to the Anti-corruption and Constitutional Court will be conducted according to a special competitive procedure. A modernised Supreme Court will perform the functions of the liquidated special courts. There are also suggestions or first initiatives for transition solutions in the forms of special (additional) mechanisms, i.e. ombuds-institutions (a business ombudsman is established and working).

## Corruption

Ukraine is still the most corruption-struck country in Europe. 2016 marked the temporary peak of a battle between old and new organs – the GPO and the State Security Service (which as a rule are under the control of the President) on the one side and on the other the new independent institutions **National Anticorruption Bureau of Ukraine (NABU)** and the **Special Anticorruption Prosecutor (SAP)**. The creation of the named new organs as well as of the e-declaration system is one of Ukraine's obligations in relation to the EU–Ukraine visa liberalisation process and the IMF Extended Fund Facility. The NABU and SAP are mainly independent, because their heads were elected in a transparent contest with civic activists' monitoring and participation. Members of the contest commission were selected for their good reputation (including international experts). As of March 2016, NABU investigated more than 80 proceedings related to illegal enrichment of public servants and the first cases were submitted to the courts. The NABU web-site reports about arrested officials and top-managers of state-owned companies every week. Nevertheless, corruption is still common practice since risk to be sentenced is small in comparison to possible "profits". The adoption of a law creating a **State Investigation Bureau** was a welcome step towards creating an effective mechanism for investigating abuses by law enforcement. It shall be functioning by 2017. Its task is to investigate criminal proceedings in which feature police, judges and top officials. The Bureau shall moreover take on pre-trial (preliminary) investigation from the GPO. The **National Agency for Prevention of Corruption (NAPC)** was created in 2016. The sincerity of intentions of its elected head is questioned, as there are indications of sabotage and imitation. Here, the contest commission represented less persons with long-standing reputations and no international experts. One of the pre-requisites for the work of the anti-corruption structures, an **electronic system for asset and income declaration** for high-ranking officials, is being undermined since spring 2016.

Among the several actions against the system are amendments to the law, since deputies fear transparency of their financial situation to influence their popularity within the electorate.

**Lustration** is an ongoing process that has however been marred by reinstatements via the corrupt judicial system.

## Protection of human rights

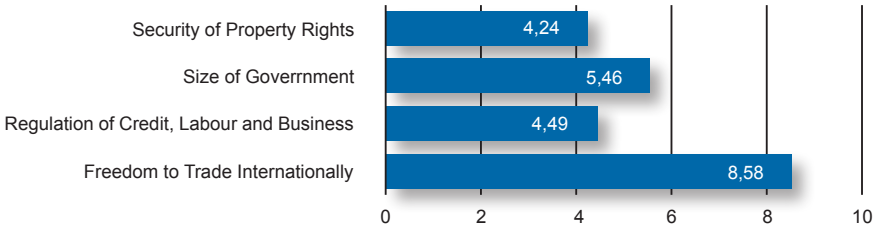
Freedoms of expression, assembly and association continued to be curtailed in **Crimea**. The Ministry of Justice of the Russian Federation in April 2016 banned the Crimean Tatar *Mejlis* as an extremist organisation. Crimean anti-occupation activists **Oleg Sentsov** and **Alexander Kolchenko** were tried in the city of Rostov-on-Don under Russian law in a military court and sentenced to 20 and 10 years imprisonment respectively under terrorism charges. Their trials were unfair and based on testimony allegedly extracted under torture. The decision was upheld by the Supreme Court of the Russian Federation on 24 November 2015. More than twenty Ukrainians are still **hostages in Russian prisons**, many of them Crimean Tatars. Five prisoners were set free (incl. **Nadiya Savchenko**, Ukrainian air force pilot turned MP). In the **self-proclaimed People's Republics of Donetsk and Luhansk** living conditions continued to deteriorate, with restrictions on the movement of people and goods. 120-300 Ukrainians are still held captive. Independent activists (as journalists) are unable to operate freely. **Over 2.5 million people were displaced**. In Ukraine, IDPs have been gradually better cared for, mostly due to the efforts of civil society. Problems with registering prevail. Social security, administrative services and labour relations are further challenges.

In November 2015, amendments to labour laws were introduced that prohibit discrimination against **LGBTI** people. While in June 2015 a LGBTI Pride in Kyiv was marred by violence, in June 2016 the „Kyiv Pride” did take place, though under massive police protection. The constitution and a 1991 law define religious rights in Ukraine, and **freedom of belief** is generally respected. However, the war has increased friction between rival branches of the Orthodox Church. Separatist forces have reportedly persecuted Protestant and other non-Russian Orthodox denominations, forcing them to flee or operate underground churches. The phenomenon of **domestic violence** has a high degree of latency. In only 10-20 percent of cases victims turn to the police. During 2015 there were 103.101 appeals regarding domestic violence, among them 88.551 from

women. Ukraine did not ratify the Istanbul Convention by the Council of Europe “To prevent violence against women and domestic violence”. A draft law “On the prevention of domestic violence” was prepared. It involves the establishment of specialised institutions for victims and the operation of free twenty-four hour “hotlines”. The **trafficking of women** domestically and abroad for the purpose of prostitution remains a challenge. The displaced population is especially vulnerable to exploitation for sex trafficking and forced labor. Separatist forces have reportedly recruited children as soldiers and informants.

In 2015 there were **1.443 new refugees/migrants (in 2014 1.173)** from five main countries of origin: Afghanistan (40%), Syria (10%), Somalia (8%), Russia (7%) and Iraq (5%). Good facilities and services for refugees’ accommodation remain a challenge, which however faded into the background given the high number of IPDs from Crimea and Donbas.

## ECONOMIC FREEDOM



### Security of property rights

Ukraine made significant steps in **property rights enforcement** by opening real estate, property rights, legal and individual private entrepreneurs registers for the public. Now it is transparent who the owner of a specific property item is. At the same time the level of quality and security of the registers is still low. The major part of property rights for land use is still not registered in the Ministry of Justice due to the inability of two agencies to share the data. Moreover, the media report many cases where people lose property due to shadow transactions of third parties or (illegal) judicial decisions. In October 2016 the *Rada* adopted the draft law no. 5123-1 “On Continuation of the Moratorium of Land Sales of Agricultural Significance till 1 January 2018”. This extension will keep land relations in the shadows. The state will not be able to get the funds from land of agricultural significance turnover, while business cannot

accumulate “conflictless” land banks, the owners of the land plots are not able to expropriate them or use them, for instance as a guarantee for the execution of civil and legal obligations (security). The continuation of the moratorium is advantageous for oligarchs as well as the not fully functioning State Land Cadaster. The latter does not contain the information on status and cost of land plots or their natural properties. Therefore, it is being used only partially. Cases of **corporate raiding** have been renewed. Now, they mostly concern small and medium-sized enterprises, in particular as manipulations with corporate rights or involving dishonest notaries to certify illegal transactions or manipulations with the state registers of real estate or other property rights. The *Rada* reacted with draft laws that propose to renew previously cancelled or initiate new administrative burdens with regard to the registration of new businesses, transfer of corporate and property rights or disclosure of information of state registers.

The annually calculated Index of Property Rights for Ukraine in 2016 was kept at the level of 3,9 points (from 10 possible). However, in the world rating Ukraine sank to a level of 115 from 128 (in the last year Ukraine ranked 109 from 129). This Index is based on ten indicators while at the same time researchers registered small growth based on most indicators, including “protection of intellectual property rights” (+0,7 points) and “corruption control” (+0,2). However, a significant decline was registered in terms of “political stability” (-2,4), which leads to the fact that the overall indicator has not been changed.

## Size of government

Public expenditures remain high and ineffective management in the public sector common. The State remains the biggest provider of services for citizens and legal entities (medical, educational, social and administrative). There are a significant number of state and communal enterprises. An important step was made in terms of fair tenders for public procurement: the pilot **ProZorro system**, which started operating in February 2015, led to the saving of 13% of purchases of an amount of 2,2 billion UAH. In 2016 a step-by-step transfer to electronic purchases began: (1) integration of the opened state registers; (2) development of the public monitoring system; (3) active promotion of electronic public purchases; (4) introduction of professional education in the purchases sphere. It allows to save almost 3 billion UAH of public funds by the end of June 2016; almost 7.000 ordering customers and 24.000 vendors

joined the system. Obligatory and full-scale ProZorro shall start operating on 1<sup>st</sup> August 2016.

The governments' efforts to **privatize state and communal enterprises** are the source of corrupt practices (currently there are more than 1.800 state enterprises, of which more than 70% belong to the energy sector, and more than 4.000 communal enterprises). In the Ministry for Economic Affairs and Development a separate project team (Reload Team) prepares the basis for privatising the largest state companies. This process did not succeed by mid-2016 although preparatory efforts were made. Only in a few big state companies (i.e. in state transportation company "Ukrzaliznytsya" and state enterprise of communication and traditional mail "Ukrposhta") management was replaced based on an open competition and wages were increased for the top management staff. The **State Property Fund of Ukraine** elaborated a complex approach to privatization including the involvement of international investment banks and professional advisers, the creation of a Privatization Code, and the adoption of State Property Appraisal Methodics by the government based on a regulation by the Cabinet of Ministers. In spring 2016 a most ambitious privatization plan was submitted to the *Rada*, but not voted for. There are at least two more draft laws in the *Rada*, which envision the establishment of transparent registers of state and communal property as well as the expanded access to the correspondent information.

**Tax reform** has been proceeding. The rates of the main taxes will not change, i.e. value added tax (VAT) remains at 20% and corporate profit tax at 18%. Personal income tax (PIT) rates were changed – instead of 15% for citizens making less than ten minimum wages and 20% for the rest as of 2016 all Ukrainians pay the unified rate of 18%. The main changes affected the unified social contribution (USC), which decreased from 36 to 49% to under 22%. This might lead to growth of wages for those employed in the private sector and thus to business development and growth. At the same time the decrease of the tax pressure could negatively impact on the pension fund deficit, which depends on USC (and in spite of the small pensions remains in deficit and gets grants from other state budget funds). Military tax has been preserved at 1,5%.

## **Regulation of credit, labour and business**

Business regulation is still not simplified enough to create a favorable business environment despite the fact that the government declares "deregulation" as the main part of its SME policy. A Governmental Deregulation Plan was adopted



this year (as a year before) with specific measures directed to ensure justified but not burdensome regulation of business activity. Provisions for deregulation concern law and secondary legislation (decrees of the Government, Ministries and other governmental bodies). The Government Plan for 2015 has been fulfilled for 47-82%, which gives certain optimism. The Government Plan for 2016 is even more ambitious. The methodology followed by this plan and the plan itself were previously considered and approved by the National Council of Reform under the President. According to the State Regulation Service, the Plan allows business to save 10 billion UAH. It envisions the reductions of licenses and approval procedures and elimination of corresponding administrative obstacles – corresponding draft laws are under review in the *Rada*. Significant activity is observed in the system of administrative services – many new Centers of Administrative Services were established and shall work as „one stop shops“ providing a wide spectrum of services for citizens and business. However, a lot of their activities remains unregulated or not finalized on the procedural and logistical level. The list of administrative services provided by different government structures is not defined and determined and the issue of paying/free of charge services is not yet regulated. Also, the list of basic administrative services to be provided electronically is not yet defined.

Certain elements of e-government have been introduced. Along with the start of ProZorro and the opening of state e-registers, it is possible to register a business and to get administrative services set off through the government portal of e-administrative services. Attempts to introduce e-government exist also in tax reporting and administration. However, service provision is not working stable yet due to technical problems as well as to not well regulated mechanisms and procedures on the legislative level.

## **Freedom to trade internationally**

Traditionally, metallurgy, agriculture, machine building and chemicals are the main goods exported, services much less. Strict bureaucratic export barriers are still in operation and hinder full advantage of the Association Agreement (AA) with the EU (temporary condition). The main reasons of low export remain: unfavourable economic situation in Ukraine, absence of EU-partners, difficulty of internal export procedures and absence of funding, bureaucratic burdens in particular in foreign trade agreements, complicated licensing procedures to buy foreign currency, forced sale of part of currency earnings, complicated

form of foreign trade agreements, products certification and conformity to the technical requirements, and custom clearance. The outdated tools of licensing and quotation of international trade for different groups of goods, which have not been changed in spite of the fact that Ukraine has obligations due to the WTO and harmonization with the EU standards, worsen the situation with products exports. Export operation requires 11 documents, in total the process lasts 127 hours and costs 667 USD. In the rating Doing Business 2016 Ukraine rose four positions compared to 2015 (now 83 out of 189 positions; Poland – 25, German – 15). The bureaucratic burdens most influence SMEs. Their share is 14,5% from the total volume of goods delivery from Ukraine, which is twice lower than EU countries' average and the second last position in Europe.

Positive changes in deregulation of international trade can be observed in proposed changes to the current legislation. A draft law on the abolishment of licensing regarding export and import of alcohol was registered in the *Rada*, and a draft law on the decrease of bureaucratic burdens in the export of services should significantly ease the life of Ukrainian IT-companies as well as freelancers. Custom reform is one of the main tasks declared by the Government. Further reform ideas are the participation of international companies in customs management, transformation of the custom service from a fiscal to a service-oriented body, and the driving of e-services from custom clearance of export and import of goods and other foreign trade operations for business.

# 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, and obviously very important for liberals (the term liberal here is used in its European meaning which is close to its historical roots in classical liberalism, distinguished from its contemporary meaning in the America where it depicts more social democrats). However, beside its intrinsic value, liberty also has an instrumental one: societies with more economic freedom are more affluent providing their citizens with higher standard of living; freedom of speech and media fosters dialogue and social consensus on what are the most important contemporary problems and how to solve them, etc. Of course, as Cicero noted (*sub lege 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 lies 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 Election; Absence of Unconstitutional Veto Players; Press Freedom)
- Rule of Law (Independence of the Judiciary; 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 2016, mostly represents the state from the previous year. Therefore, texts following the Freedom Barometer data can serve as a useful tool to further elaborate findings of 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 2016 illustrates the situation from July 2015 to June 2016.

Data sources used to compute Freedom Barometer are *Freedom in the World*, *Freedom of the Press* (Freedom House), *Index of Economic Freedom* (Heritage

Foundation and Wall Street Journal), Global Competitiveness Report (World Economic Forum), *Corruption Perception Index* (Transparency International) and *Human Rights Index* (Friedrich Naumann Stiftung).

## **What is new in the methodology section of Freedom Barometer 2016?**

There was a major methodology revision of the Freedom Barometer 2016 edition, with which two major issues were tackled.

First of all, there was an inconsistency in the time lag - Fraser Institute's *Economic Freedom in the World* lagged two years behind the present date while all other data sources were lagging only one year. In order to tackle this issue a solution was found to introduce a different data source that had a closer time frame - in line with other data sources. Therefore, *Index of Economic Freedom* of the Heritage Foundation and the Wall Street Journal was used for subsections Size of Government; Regulation of Credit, Labour and Business; and Freedom to Trade Internationally.

For the subsection Security of Property Rights, the data from the *Index of Economic Freedom* were not considered appropriate, since the appropriation of points in this case was done by Heritage Foundation, without any external data sources that could be scrutinized. Therefore, alternative measures were considered. The *Rule of Law Index* by the World Justice Project was a likely candidate but unfortunately it did not include all countries within the Freedom Barometer focus. Finally, it was chosen to use primary sources from the World Economic Forum *Global Competitiveness Report* and the World Bank's *Doing Business Report* which were also used by the *Economic Freedom in the World*, but one year in advance of it since the data were allowing that. Therefore, Security of Property Rights was calculated from primary data with the same methodology used by the *Economic Freedom in the World*, one year ahead of it. With one simple change - since the project team decided to use only the data that were in public access, in order to be able to be held accountable by wider public which could use the same data, some parts were omitted and therefore it is not possible to completely compare data from Freedom Barometer Security of Property Rights section with their counterparts from *Economic Freedom in the World*.

Independence of judiciary was calculated in the same way, but with primary data from *Global Competitiveness Report* in order to eliminate the time lag. However, these data should be completely comparable to the ones in the *Economic Freedom of the World*.

*Human Risk Atlas* that was used as a source for calculation on the level of respect of human rights in respective countries could not be used anymore due to the fact that its data and methodology were not in free public use, and therefore could not be contested, supported or dismissed. In order to overcome this obstacle, the project team has compiled its own measure of human rights from a liberal perspective, called the *Human Rights Index*. This new methodological tool was used to replace the previous *Human Risk Atlas* data.

## **Detailed summary of changes in methodology and data sources is as follows:**

### **Economic Freedom**

1) *Fraser Institute, Economic Freedom in the World*, Size of Government → Heritage Foundation, *Index of Economic Freedom*, Government Spending and Fiscal Freedom

2) *Fraser Institute, Economic Freedom in the World*, Regulation of Credit, Labour and Business → Heritage Foundation, *Index of Economic Freedom*, Financial Freedom, Business Freedom and Labour Freedom

3) *Fraser Institute, Economic Freedom in the World*, Freedom to Trade Internationally → Heritage Foundation, *Index of Economic Freedom*, Trade Freedom

### **Security of Property Rights**

4) *Fraser Institute, Economic Freedom in the World*, Security of Property Rights → World Economic Forum, *Global Competitiveness Report* World Bank, *Doing Business Report*

*Global Competitiveness Report*, Judicial Independence Question 1.06 → *Global Competitiveness Report*, Judicial Independence Question 1.06

*Global Competitiveness Report*, Impartial Courts Question 1.10 → *Global Competitiveness Report*, Impartial Courts Question 1.10

*Global Competitiveness Report*, Protection of Property Rights Question 1.01  
→ *Global Competitiveness Report*, Protection of Property Rights Question 1.01

*Global Competitiveness Report*, Business Cost of Crime Question 1.14 → *Global Competitiveness Report*, Business Cost of Crime Question 1.14

*Global Competitiveness Report*, Reliability of Police Question 1.16 → *Global Competitiveness Report* Reliability of Police Question 1.16

*Doing Business Report*, Legal enforcement of contracts → *Doing Business Report*, Legal enforcement of contracts

*Doing Business Report*, Regulatory restrictions on sale of real property → *Doing Business Report*, Regulatory restrictions on sale of real property

*International Risk Guide*, Military Interference with the rule of Law and Politics  
→ omitted

*International Country Risk Guide*, Integrity of the Legal System → omitted

## **Independence of the Judiciary**

5) Fraser Institute, *Economic Freedom in the World*, Judicial Independence and Impartial Courts → *Global Competitiveness Report*, Judicial Independence and Impartial Courts

## **Human Rights**

6) *Maplecroft*, Human Risk Atlas → *Fridrich Naumann Stiftung*, Human Rights Index

## 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*

- Scores from Freedom House *Freedom of the Press*: final score

$$10 - \text{final score} / 10$$

## Rule of Law Subcategories:

### *Independence of the Judiciary*

- Scores from World Economic Forum's *Global Competitiveness Report*, Question 1.06 Judicial Independence (A) and 1.10 Impartial Courts (B)

$$((A-1)/6*10 + (B-1)/6*10) / 2$$



### *Corruption*

- Final score from Transparency International's *Corruption Perception Index*

Final score / 10

### *Protection of Human Rights*

- Score from 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):  $(A-1)/6*10$

Impartial Courts (B):  $(B-1)/6*10$

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

Business Costs of Crime (D):  $(D-1)/6*10$

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

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

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

Final score:  $A + B + C + D + E + F + G / 7$

### *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)

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

### *Freedom to Trade Internationally*

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

$$A/10$$

## **Friedrich Naumann Stiftung's Human Rights Index**

Friedrich Naumann Stiftung's Human Rights Index is a new composite index created by the Freedom Barometer project team in order to provide data for the subcategory of Human Rights within the category of Rule of Law in the Freedom Barometer, or to serve as independent measure of the level of protection of human rights in various countries of Europe, Caucasus and Central Asia. It is consisted of four sections, with subsections in brackets, as follows:

- Personal safety (with 2 subsections: Societal safety and security; Human trafficking),
- Education (with 3 subsections: Primary school enrollment; Gender parity in school enrollment; Inequality in attainment of education),
- Tolerance and inclusion (with 3 subsections: Group grievances; LGBT rights; Equality of women),
- Personal rights and choice (with 4 subcategories: Reproductive rights; Freedom of religion; Freedom of speech; Freedom of assembly).

Each of the four sections of the Human Rights Index weighs 25% of the total of (maximum) 10 points awarded for the best performance of countries in the field of protection of human rights.

Each of the three subsections of the section Tolerance and inclusion weighs one third of the total score for that section.

Each of the three subsections of the section Education weighs one third of the total score for that section, except in the case of several countries where the data for the subsection Gender parity in school enrollment was not available and thus the total score for the section Education is consisted: by one half out of the score for subsection Primary school enrollment, while by another half out of the score for subsection Inequality of attainment of education.

The total score for the section Personal safety is consisted by 80% of the score for the subsection Societal safety and security and by 20% of the score for the subsection Human trafficking.

The total score of the section Personal rights and choice is shaped as the average score of its four subsections.

The sources and formulas for determination of the scores for the subsections is as follows:

- The score for the subsection Societal safety and security is determined

according to the *Global Peace Index* of the Institute for Economics and Peace, by subtracting it from 10.

- The score for the subsection Human trafficking is determined according to the *Trafficking in persons report* of the US Department of State, whereby countries in Tier 1 got 10 points, countries in Tier 2 got 6.66 points, countries in Tier 2wl got 3.33 points, while countries in Tier 3 got 0 points.
- The score for the subsection Primary school enrollment is determined according to the UNESCO database on the topic, whereby the original value (taken that 90, for 90%, is the minimum, and 100, for 100%, is the maximum) is divided by 10.
- The score for the subsection Gender parity in school enrollment is determined according to the UNESCO database on the topic, whereby the original value is multiplied by 10.
- The score for the subsection Inequality in attainment of education is determined according to the original value in the UNDP database on the topic, by the application of the following formula:  $[(\text{MaxV}-V)/(\text{MaxV}-\text{MinV})] \times 10$ , whereby  $\text{MaxV}=40$ ,  $\text{MinV}=1.4$  and  $V$  stands for the original value given by the UNDP for the country.
- The score for the subsection Group grievances is determined according to the value in the *Global Peace Index* of the Institute for Economics and Peace, by subtracting it from 10.
- The score for the subsection LGBT rights is entirely a product of the Freedom Barometer project team. It is based on the qualitative analysis of the legal documents on the topic. It is determined through the formula  $(V/14) \times 10$ , whereby  $V$  is a value between 0 and 14.  $V$  is composed of: 1 for decriminalization of homosexuality, 1 for adherence to the United Nations documents on protection of discrimination on the basis of sexual orientation, 2 for legal regulation of same-sex partnerships (0 for lack thereof), 2 for legalization of same-sex marriages (0 for lack thereof), 2 for full child adoption rights by same-sex couples (1 for partial rights thereof), 2 for the right of LGBT persons to access to military service and profession (1 for partial rights thereof), 2 for the national anti-discrimination laws protecting LGBTs

(1 for a partial legal protection thereof), and 2 for the full legal acceptance of gender identity change (1 for partial, or conditioned, such as by changing sex).

- The score for the subsection Equality of women is determined according to the original value in the *Gender Equality HDI* of the UNDP HDI Report, by the application of the following formula:  $[(\text{MaxV}-V)/(\text{MaxV}-\text{MinV})]\times 10$ , whereby  $\text{MaxV}=0.66$ ,  $\text{MinV}=0.016$  and  $V$  stands for the original value given by the UNDP for the country.
- The score for the subsection Reproductive rights is determined according to the original value in the UN Population Division report on contraception, by the application of the following formula:  $[(\text{MinV}-V)/(\text{MinV}-\text{MaxV})]\times 10$ , whereby  $\text{MaxV}=7.3$ ,  $\text{MinV}=22.1$  and  $V$  stands for the original value given by the UN Population Division for the country.
- The score for the subsection Freedom of religion equals the value assigned to the country regarding the *Bertelsmann Transformation Index*, Question 1.3, for that year. For several countries which are not included into the *Bertelsmann Transformation Index*, the score was determined by the Freedom Barometer project team, following a methodology as similar to Bertelsmann's as possible.
- The score for the subsection Freedom of speech equals the value assigned to the country regarding the *Bertelsmann Transformation Index*, Question 2.4, for that year. For several countries which are not included into the *Bertelsmann Transformation Index*, the score was determined by the Freedom Barometer project team, following a methodology as similar to Bertelsmann's as possible.
- The score for the subsection Freedom of assembly equals the value assigned to the country regarding the *Bertelsmann Transformation Index*, Question 2.3, for that year. For several countries which are not included into the *Bertelsmann Transformation Index*, the score was determined by the Freedom Barometer project team following a methodology as similar to Bertelsmann's as possible.