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This edition is based on inputs from: Igor Botan, Corneliu Gurin, Elena Prohnitchi, Iurie Gotisan

I. ACTIVITY OF PUBLIC INSTITUTIONS

PARLIAMENT

1. Legislative acts

Law on modification of some legislative policies (concerning the status of member of the Parliament). The law was adopted to execute the Constitutional Court Decision which outlawed the cumulating of public functions by deputies. Under amendments, the previous law on status of members of the Parliament is reintroduced to allow deputies to run other offices, too, if the legislature assigns them for temporary missions.

Legislative acts on ratification (adherence to) international regulations:

- Memorandum of Understanding on the future of the South-Eastern Europe Health Network in the framework of the South East European Cooperation Process;
- Convention on the recognition of divorces and legal separations;
- Convention on the conflicts of laws relating to the form of testamentary dispositions;
- Funding agreements between the Republic of Moldova and the International Fund for Agricultural Development aimed to implement the Rural Finance Services and Agricultural Business Development Project.

2. Statements

PLDM Deputy Ghenadie Ciobanu presented a statement in connection with the World Culture Day celebrated on May 21.

PDM Deputy Valeriu Guma released a statement concerning respect for the rights of veterans of the war for independence and territorial integrity of the Republic of Moldova.

PLDM Deputy Maria Ciobanu read a statement condemning the refusal of the PCRM to participate in the parliamentary sitting.

GOVERNMENT

1. Events of major importance

Justice Reform Council

The prime minister has held a briefing on establishment under a presidential decree of the council for the coordination of the justice reform and law enforcement bodies. Vlad Filat said that the decree was issued though it was known that the Government was preparing a decision to set up the council concerned. Filat noted that the council announced by Marian Lupu was publicly launched and then consultations on composition and functioning started, so that the public opinion felt a vanity in connection with the way the state institutions tackle the justice reform. The premier stressed that he decided together with justice minister not to establish the council on justice reform expected to advise the Government, and keep so the only consultative body publicly announced by the interim president. Filat said that he has assigned the justice minister to table a set of recommendations aimed to improve and clarify the activity of the council, at the first sitting of the national council on reformation of law enforcement organs.

Sitting of Holy Synod

The prime minister attended a sitting of the Holy Synod of the Metropolitan Church of Chisinau and All Moldova, which discussed the problem of registration of the League of Moslems by the Ministry of Justice. Bishop of Chisinau and All Moldova Vladimir said that the registration of the Moslem religion troubled the clergy and the flock, and recommended authorities to cancel this decision. Premier Vlad Filat stated that the problem occurred because of the lack of communication between institutions concerned, but assured that the Government cooperated well with the Orthodox Church until now. He noted that the problem of registration of the League of Moslems in Moldova is to be considered by the Ministry of Justice and the State Chancellery, and asked the Metropolitan Church of Chisinau and All Moldova to delegate representatives to monitor the process. Finally, Bishop Vladimir said that the Orthodox Church in Moldova will keep praying for the acting leadership of the country and peace of the flock.

2. Decisions

Decision on setting up the joint stock society “Loteria Nationala a Moldovei”. The Government gave green light to an initiative by the Ministry of Finance to set up the joint stock society “Loteria Nationala a Moldovei” JSC and invested the society to function in the gambling sector which is a state monopoly – “the lottery which takes place in the territory of four or more local public administrations.”

Decision approving the action plan on celebration of the 20th anniversary of independence of the Republic of Moldova. Ministries, other central administrative authorities, competent institutions and organisations, as well as local public administration authorities will work out and implement own action plans, while the Ministry for Foreign Affairs and European Integration will cooperate with Moldovan diplomatic missions abroad to celebrate the 20th anniversary of independence of the Republic of Moldova. The actions will be funded in the limits of allocations for 2011 foreseen for central public authorities in charge with executing them, including from special means, while local public administration authorities are recommended to find the means needed to implement the action plan, as well as own action programmes on celebration of the 20th anniversary of independence of the Republic of Moldova.

Decision approving the draft law on application of taxes for temporarily introduced cars. Under the draft approved by the Government, the legislative regulations on taxes will be enforced starting January 1, 2012 for cars temporarily introduced in Moldova before April 4, 2011. This way, the Government seeks more time before enforcing the law, particularly for citizens who unwillingly interpreted the goals of this law as negative and need more time to respect the April 4, 2011 legislative amendments and drive back their cars to origin countries.

Decisions approving some draft laws:

- Concerning the authorisation-based regulation on entrepreneurship;
- Concerning the implementation of the single desk for entrepreneurial operations;
- Concerning the safety of water-providing facilities.

Decision approving the programme on distribution of the traffic fund means for 2011. The programme stipulates the allocation of 787,984 million lei for:

- Road maintenance – 463,984 million lei;
- Road building and rebuilding – 184 million lei;
- Projecting works – 20 million lei;
- Purchase of machines, special engines and equipment to maintain and administrate roads – 120 million lei.

3. Orders

Prime minister issued orders and instructions concerning:

- Approval of the action plan on commemoration of 70 years since the first wave of massive deportations in the Republic of Moldova (June 13, 1941);
- Allocation of subsidies to agricultural producers;
- Examination of the problem of cars introduced in Moldova and deleted from former records, as well as cars of people who own dual citizenship;
- Revision of building permits;
- Annual compensations from net profit for boards of state-owned trade societies etc.

4. Sitzings. Statements

Meeting with trade unions

The prime minister has met representatives of the National Confederation of Moldovan Trade Unions (CNSM) and discussed the social-economic condition and actions needed to improve lives of citizens. CNSM representatives indicated the need to adopt a law on minimum consumer basket; to establish a minimum salary on country at the level of minimum consumer basket and a new minimum guaranteed wage in real sector of economy; to better regulate prices and tariffs; to increase expenses for spa treatments for salary-earners and adopt a new regulation on awarding of cure tickets; plans of employers to recommend the revision of the Labour Code, and others. Premier Vlad Filat instructed the Ministry of Finance to urgently work out an ample analysis of financial resources needed to adopt a law on minimum consumer basket, to set a minimum salary on country at the level of the minimum consumer basket and a new minimum guaranteed wage in real sector of economy.

Cooperation agreement with Sweden

The prime minister attended a ceremony of signing of the Agreement on Development Cooperation Strategy between the Republic of Moldova and Sweden for 2011-2014, which stipulates a 13-million-euro annual support for Moldova for next four years to promote democracy, human rights and gender equality, develop infrastructure and market. The

assistance will aim to better develop the public administration, boost transparency and reduce corruption, increase people's trust in Government, gender equality and promote women to politics and business.

Results of visit to Germany

Vlad Filat has held a briefing to present the results of his visit to Germany during May 17-20, 2011. While on visit, the Moldovan delegation met German Federal Chancellor Angela Merkel, Federal Interior Minister Hans-Peter Friedrich, Senator Frank Horch, minister for economy, transportation and innovation of Hamburg, and civil society representatives. As well, Moldova's representatives attended the Moldovan-German economic forum along with world businesses.

Sitting of governmental commission for Country's Reintegration

The sitting convoked by prime minister brought together heads of central public authorities and agreed that governmental institutions along with civil society will work out a development strategy for localities from the Security Zone and an action plan in this respect. As well, it discussed the necessity of directing internal funding and financing from donors to implement policies on country reintegration and approaching of the two banks of Nistru River. The prime minister ordered conditions to allow all citizens to exercise their rights to vote.

II. ECONOMIC POLICIES

1. Banking sector

Non-performing credits of banks continue to decline ...

According to NBM data, the share of disadvantageous credits in overall loans on banking system of Moldova was 10.55 percent, which is by about 7 percent less than in the similar period of last year. The non-performing credits doubled in 2009, up to 16.4 percent on system and continued to increase up to 17.4 percent in the first half of 2010. Their share decreased in the second semester, down to 13.33 percent in late 2010. Bank representatives described the stabilisation of the non-performing credit portfolio as the most important accomplishment of the system in 2010. However, they fear that Moldova will need a couple of years to make the non-performing credit portfolio go down to the level registered before the economic crisis. According to experts from the [Association of Moldovan Banks](#), the share of disadvantageous credits in overall loans is maximum 5.5 percent in European countries. Consumer and mortgage credits are an important source of disadvantageous loans. As for May 1, 2011, consumer credits count for more than 8 percent of overall loans, while credits for real estate, construction and development count for 11.8 percent.

2. Public funds

Fiscal policy revolution for 2012...

Preliminary objectives of the fiscal policy of MTSF (Medium-Term Spending Framework) for 2012-2014 worked out by the Ministry of Finance stipulate the reintroduction of the 12-percent income tax for businesses in 2012. As well, all general and individual fiscal facilities, including the zero tax for reinvested profit will be cancelled. Even more, the Ministry of Finance has plans to introduce an 18-percent income tax for banks in 2012. As well, the goals seek the modification and unification of the income tax regime for professional activities of notaries, lawyers, legal executors, mediators. Professionals who practice entrepreneurial activities such as taxi transportation, washing, bars, hairdressing, sale of flowers, vending devices, will pay a simplified income tax. The income held under the shape of dividends is expected to decrease from 15 percent down to 6 percent and a final holding mechanism for this tax will be introduced. Starting 2012, the income tax for non-residents will be lowered from 15 down to 12 percent, at the same extent as the income tax for economic agents, except for the income under the shape of dividends (6 percent).

3. Home building and mortgage market

There are many but expensive apartments ...

[Official statics](#) reveal that building developers inaugurated 627 apartments covering 73,300 square metres overall in the 1st quarter of 2011 on account of all funding sources, which was about 159 percent compared with the similar period of 2010. The apartments were built by private businesses, counting for 100 percent of all inaugurated residential buildings. As many as 361 private homes covering 57,300 square metres were inaugurated in January-March 2011 on account of own means of population, which is over 75 percent of all residences inaugurated on country, and by 73 percent more than in January-March 2010. The distribution on residential areas shows that 498 apartments covering 56,400 square metres overall or about 74 percent of all residences and 150.8 percent compared with January-March 2010 were inaugurated in urban areas. The share

of residences inaugurated in urban areas decreased by nearly 4 percent, compared with January-March 2010.

Apartments inaugurated in January-March 2011 on development regions

	Inauguration					
	Of apartments, units	Overall surface				
		Thousand square metres	in % compared with:		January-March 2010 in % compared with:	
			January-March 2010	total	January-March 2009	total
Total	627	76.3	158.6	100.0	62.5	100.0
Of which:						
Chisinau municipality	452	56.7	179.4	74.3	68.7	65.7
North	67	7.3	76.0	9.5	56.5	20.0
Centre	74	8.2	2.8 fold	10.7	34.2	6.0
South	24	3.1	182.4	4.1	59.7	3.5
ATU Gagauzia	10	1.1	47.8	1.4	88.9	4.8

Source: www.statistica.md

The regional distribution reveals that most of apartments were built in Chisinau municipality, where 452 apartments covering 56,700 square metres overall (more than 74 percent of all residences inaugurated on country) were inaugurated, by over 79 percent more than in the similar period of the precedent year.

Republic of Moldova is one of most expensive countries in terms of mortgage credits...

According to a [rating](#) worked out by the Russian Real Estate Agency *Penny Lane Realty*, Moldova is part of the most expensive countries in terms of mortgage credits, being ranked the 50th place among 60 countries. The [average rate](#) on mortgage credits in Moldova is 13.2 percent and the monthly payment is 1,184 euros, the supplementary amount accordingly to the interest rate is 161,936 euros, and the total cost of credit is 284,186 euros (232 percent). According to the rating, Denmark provides the cheapest mortgage credits, with an average rate of 1.36 percent, a monthly payment of 566 euros, a supplementary amount of 16,684 euros, and a cost of 138,935 euros (114 percent). Switzerland provides credits for an average rate of 2.23 percent, a monthly payment of 596 euros, an additional amount of 20,733 euros and a cost of 142,983 euros (117 percent). Spain was ranked the 3rd place, as the average rate on mortgage credits there is 2.44 percent, the monthly payment is 628 euros, additional amount worth 28,584 euros and a cost of 150,834 euros (123 percent). Turkmen, Argentina and Azerbaijan provide the most expensive credits with an average rate of 16-18 percent, a monthly payment of 1,373-1,429 euros, an additional amount of over 200,000 euros, and a cost of up to 281 percent. The *Penny Lane Realty* took into account the average rate on mortgage credits, taxes and fees for credit service.

4. Labour market

Unemployment rate is on the rise despite some increasing indicators ...

Same [official statistics](#) show that Moldova had 1,137,700 economically active people (employed population and jobseekers) in the 1st quarter of 2011, by 1.2 percent (13,000

people) more than in the 1st quarter of 2010. The structure of active population has changed as follows: the share of employed population decreased from 90.9 percent down to 90.6 percent and the share of jobseekers increased from 9.1 percent up to 9.4 percent. No important disparities on genders and areas were observed for economically active people: the share of men (51 percent) exceeded the share of women (49 percent), and the share of economically active population in rural areas was lower than in urban areas (48.4 percent and 51.6 percent respectively).

The *employment rate* for population aged 15 years old and over (the share of active population of 15 years old and over in the total population of 15 years old and over) was 38.2 percent, and increased compared with the 1st quarter of the precedent year (37.9 percent). This indicator was higher for male population – 41.3 percent - than for female population – 35.5 percent. Following was the employment rate on areas: 46.6 percent in urban areas and 32.1 percent in rural areas. This indicator was 28.5 percent in the age category of 15-29 years old, and 42.7 percent in the age category of 15-64 years old (labour age in the European Union accordingly to Eurostat methodology), increasing by 0.2 percent.

The employment rate for population of labour age (16-56 years for women and 16-61 years for men) was 45.3 percent. The employed population count for 1,030,500 people and increased by 0.8 percent, compared with the 1st quarter of 2010. The employment rate for people aged 15 years old and over (*the rate of employees aged 15 years old and over compared with the total population in this age category*) was 34.6 percent, and increased by 0.2 percent compared with the 1st quarter of 2010. The share of men was higher (36.4 percent) compared with the rate of women – 33.0 percent. The occupation rate on residential areas was 41.9 percent in urban areas and 29.3 percent in rural areas.

The employment rate for population of labour age (16- 56/61 years) was 40.8 percent, of population aged 15-64 years old was 38.6 percent, and of people aged 15-29 years old was 23.8 percent. The distribution on *activities in national economy* reveals that 211,200 people (20.5 percent of employed people) worked in *agriculture*. The number of employees in agriculture has increased by 12,400 people or 5.6 percent, compared with the 1st quarter of 2010. As many as 819,400 people worked in non-agricultural sectors, which is by 20,300 people or 2.5 percent more than in the 1st quarter of 2010. The share of employees in *industry* was 14.3 percent (14.2 percent in 2010) and 4.2 percent (5.0 percent in 2010) in *building sector*. The number of employees in industry increased by 1 percent, while of those working in building sector decreased by 14.1 percent, compared with the precedent year. Sixty-one percent of all employed people worked in *service sector*, by 2.1 percent more than in the 1st quarter of 2010, while the absolute number of employees in service sector increased by 26,000 persons. The *informal sector* count for 10.3 percent of all employees in economy, and 24.4 percent had *informal jobs*. Salary-earners count for 27.7 percent of all informal employees, and 8.8 percent of all salary-earners had informal jobs.

Underemployed people (who had jobs but worked less than 40 hours a week, but wanted and were ready to work more) count for 95,400 people, or 9.3 percent of all employed persons (this is the unemployment rate). This category increased by about 10 percent, compared with the 1st quarter of 2010. The unemployment hit more men – 64.3 percent – in the total number of jobseekers, and people from rural areas – 54.7 percent. The national unemployment rate (*the rate of jobseekers in active population*) was 9.4 percent and increased compared with the 1st quarter of 2010 (9.1 percent). The unemployment rate for men and women was the following: 11.9 percent and 6.9 percent. Important disparities were observed between the unemployment rate in urban areas – 10 percent, and rural areas – 8.8 percent. The unemployment rate among young people (15-24 years old) was 19.2 percent. This indicator in the age category of 15-29 years old was 16.5 percent.

III. TRANSNISTRIA

Efforts to resume 5+2 negotiations

While visiting Germany on May 17-20, 2011, Premier Vlad Filat discussed the Transnistrian settlement issue with Chancellor Angela Merkel. The key problem relates to the resumption of the 5+2 official negotiations, a decision that could be made during the June 21-scheduled consultations in Moscow. The German chancellor was confident that the negotiations will restart, given the consent of mediators and observers of the Transnistrian settlement process, particularly after Russian President Dmitri Medvedev has called for the acceleration of efforts aimed to find a solution capable to reintegrate the Republic of Moldova. According to Angela Merkel, the solution shall ensure a better life to citizens of the reunited state. On the other hand, the special envoy of the Russian Foreign Ministry, Sergei Gubarev, has met Transnistria's foreign minister Vladimir Yastrebchak in Moscow in the same period. The working meeting focussed on issues related to "normalisation of relations between Russia and Transnistria," including preparations for the 5+2 consultations set to take place in Moscow on June 21. Ukrainian Foreign Minister, Konstantin Grishchenko expressed optimism that progress will be made in June 2011 forward resumption of the 5+2 official negotiations, which provide an optimal framework for the conflict settlement. In this framework, the viewpoint expressed by Minister for Foreign Affairs and European Integration Iurie Leanca brings precaution regarding expectations related to resumption of the 5+2 official negotiations. According to Minister Leanca, the situation is uncertain so far, though there were many signals a month ago that the 5+2 official negotiations on Transnistrian settlement could restart and resolution principles should be set. Anyway, Minister Leanca considers that the Transnistrian settlement will be possible just in the European integration framework, as "now we are in a new geopolitical framework, we are neighbours of EU, and Europe wants the settlement of this conflict. The Transnistrian conflict was even part of the agenda of talks of the recent Kaliningrad meeting of foreign ministers of Germany, Poland and Russia. This is a proof that we are not a marginal topic any longer, but raise interest outside. Such an approach may help us find a solution."

Development strategy for localities from Security Zone

Premier Vlad Filat chaired a sitting of the governmental commission for Country's Reintegration on May 24, 2011. The sitting decided that governmental institutions along with civil society will work out a development strategy for localities from the Security Zone and an action plan in this respect. Localities concerned should enjoy a financial support both from internal and foreign sources, while the strategy shall aim to strengthen relations between the two banks of Nistru and reintegrate the country. According to Premier Filat, the country reintegration policies require a complex approach, a more active participation of public institutions, so that an ample analysis of ways to fulfil the declared goals and prevent the tensioning of situation in the area will be worked out. In this respect, Premier Filat underlined the necessity of implementing education, economic, healthcare and social programmes for citizens from eastern districts of the country, instructing managers of public institutions to be more open towards residents from the Transnistrian region and ensure a better communication with Transnistria-based businesses, as well as to implement infrastructure development projects in adjacent localities. The prime minister ordered necessary conditions for the Bender-based Police Commissariat, fight against commodity smuggling via Transnistrian region, a better regulation of migration inflow.

Amendment of Transnistria's constitution voted in second reading

On May 26, 2011, the Supreme Soviet of Transnistria voted amendments to the constitution of the separatist region in the second reading. It voted by articles and amendments refer to the mechanism of approval of prime minister by legislature, possibility for the president to dissolve the legislature, and the mechanism of cancellation by president of normative policies issued by executive, if they contravene to constitution. The final voting in the third reading is further expected, and eventual technical mistakes will be removed then.

IV. FOREIGN RELATIONS

1. European integration

New EU vision on relations with neighbours

On May 25, 2011, the European Commission released “A New Response to a Changing Neighbourhood” Communication which revitalises the Neighbourhood Policy to respond to political relations with close neighbours. The European Commission admits that the EU approach towards neighbouring states was little flexible and did not often respond to their current needs. Therefore, despite efforts to sustain political and economic reforms in neighbouring countries, few of them proved a lasting progress. The Commission says that the new approach must be based on mutual accountability and a shared commitment to the universal values of human rights, democracy and the rule of law.

The new approach of the European Commission aims to:

- Provide greater support to partners engaged in building deep democracy and respect for human and civil rights;
- Support inclusive economic and social development of partner states;
- Strengthen the two regional dimensions: the Eastern Partnership and the Southern Mediterranean;
- Provide instruments and mechanisms fit to deliver the new ENP objectives.

A functioning democracy, respect for human rights and the rule of law are fundamental pillars of the EU partnership with its neighbours. The progress will be assessed on basis of the following indicators:

- Free and fair elections;
- Freedom of association, expression and assembly and a free press and media;
- The rule of law administered by an independent judiciary and right to a fair trial;
- Fighting against corruption;
- Security and law enforcement sector reform and the establishment of democratic control over armed and security forces.

The European Commission awards a special role to civil society in implementing the revitalised ENP. In order to develop and support capacities of NGOs from partner countries, the Commission will establish a mechanism called Civil Society Facility.

As well, a European Endowment for Democracy will be established to support, in particular, NGOs, parties, trade unions and other social partners unregistered for political reasons.

ENP Country Progress Report 2010 on Moldova

The day when it made public the revitalised ENP, the European Commission released progress reports on partner states in the European Neighbourhood Policy framework. According to the European Commission, notwithstanding the unresolved political stalemate over the election of the next President of Moldova, the latter made good progress overall in most areas of the Action Plan with the European Union, both in the legislative field and at the reform implementation level.

Efforts were initiated to address the administrative capacity problems underlined in previous Progress Reports. The Republic of Moldova ratified, without territorial reservations, the Rome Statute of the International Criminal Court. Thanks to a dynamic and constructive political dialogue and cooperation with the EU, the Republic of Moldova was able to secure an unprecedented level of assistance from its international partners for the coming years.

At the same time, the European Commission notes that the underlying political uncertainty and resource constraints prevented large-scale reform. Efforts to improve the functioning of market economy and business environment did not produce great results. More sustained efforts are needed in 2011 to prevent violation of human rights and fundamental freedoms, improve functioning of market economy and business and investment climate, reform the judiciary, prosecution and police, ensure the rule of law, ensure neutrality of public mass media, combat trafficking in human beings, and improve the adjustment of labour force demand to qualification perfecting process.

2. Bilateral cooperation

Republic of Moldova - Romania

Two events marked the dynamic evolution of Moldovan-Romanian relations in the second half of May. The Romanian consulate in Ungheni opened on May 26 and the first Romania-Moldova Cross-Border Agricultural Forum took place on May 27.

Taking part in opening of the consulate were foreign ministers of the two countries. Later, Romanian Foreign Minister Teodor Baconschi had a working meeting with Moldovan Minister for Foreign Affairs and European Integration Iurie Leanca in Chisinau and discussed preparations for a common sitting of governments of the two states, areas in which Romania could sustain Moldova's European integration efforts, and launching of cross-border projects.

Baconschi said after the meeting that one part of the 100-million-euro grant offered by Romania to Moldova will be directed to scope projects, of which the first could be the construction of the Drochia-Ungheni-Iasi gas interconnector. This line will be able to carry gas from the Russian monopoly Gazprom to Romania, and will link Moldova to the Margineni-based gas store, where Moldova could store its strategic gas reserve. At the same time, the Romanian foreign minister called for the signing of a European integration treaty between Moldova and Romania, not of a basic treaty which he described as out-of-date. The two countries will work out in the near future an intergovernmental action plan to implement the declaration on strategic European integration partnership between Romania and Republic of Moldova signed on April 27, 2010 by the then interim president of Moldova, Mihai Ghimpu, and Romanian President Traian Basescu. The action plan could be discussed at the common sitting of governments of the two states in July 2011.

The Romania-Moldova Cross-Border Agricultural Forum held in Cahul aimed to activate bilateral economic relations, particularly in agriculture sector, by boosting confidence between producers/farmers and processors, improve business climate, and encourage exchange of experience and good practices. The forum brought together more than 200 representatives from Moldova and Romania.

Republic of Moldova - Ukraine

Despite official press releases which say that Moldovan-Ukrainian relations are redressing, developments in late May signal that they are as problematical as they were before. First, the director of the Information Policy Department of the Ukrainian Foreign Ministry, Oleg Voloshin, released a [declaration](#) on May 20 to inform that Ukraine will stop demarking the border with Moldova as long as the latter does not officially deliver the section of the Odessa-Reni highway near the Palanca village to Ukraine. According to the Ukrainian official, any other problematical issues from Moldovan-Ukrainian agenda will not be considered before the resolution of this problem, and Ukraine is ready to introduce bitterer measures if its national interests are harmed. The response of Moldova's Foreign Ministry given indirectly during a [news conference](#) by Deputy Foreign Minister Andrei Popov was that ministries of the two countries are close to an agreement on demarcation of the common border, which will be completed at the next sitting of the joint commission

in charge with demarcation of the state border between Moldova and Ukraine. The agreement will also cover the problematic sections near Palanca, Giurgiulesti and Novodnestrovsk.

The second problem which maintains the status-quo in Moldovan-Ukrainian relations is the decision of Moldova to veto the establishment of an expert group in the World Trade Organisation (WTO), which would settle the commercial dispute between Ukraine and Moldova (concerning the ecological tax imposed by Moldova for products imported in plastic packing and tetra-pack). Ukraine submitted a demand in this regard to the WTO on February 17, 2011. Ukraine will be able to repeat the same demand until June 6, 2011 and its application would be accepted automatically. The Moldovan side explains its decision by the wish to go on with bilateral consultations, with the draft decision on amendment of the law on ecological tax being expected to be delivered to the Moldovan Parliament in the near future in order to be adopted.

Republic of Moldova - Russia

Moldovan officials meet Russian counterparts in the second half of May and discussed the Transnistrian settlement issue in particular. On May 28, a group of PCRM deputies led by the PCRM candidate running for the seat of mayor-general of Chisinau municipality, Igor Dodon, was on a working visit to Moscow and had [meetings](#) with the head of the Russian presidential administration, Sergei Narishkin, and Moscow Mayor Sergei Sobyanin. According to press reports, the talks focussed on extension of Moldova-Russia cooperation, existing problems related to cooperation between capitals of the two countries and possibility to take over Moscow's experience in implementing investment and infrastructure projects. Journalists and political commentators interpreted the visit as an indirect political support of Russia for the PCRM candidate running for the seat of Chisinau mayor at the June 5, 2011 local elections.

Republic of Moldova - Germany

A Moldovan governmental delegation led by Prime Minister Vlad Filat was on a working visit to Germany during May 17-20. While on visit, Premier Filat met Federal Chancellor Angela Merkel. According to a [communication](#) by the governmental press service, the interlocutors tackled issues relating to the current level of Moldovan-German relations, the European course of Moldova and short and medium-term development prospects. The talks particularly focussed on the Transnistrian issue and latest developments. The sides stressed the necessity of unconditionally resuming the 5+2 negotiations. Angela Merkel stated that while discussing with Russian President Dmitri Medvedev, the latter called for the acceleration of efforts aimed to find a solution which would reintegrate the Republic of Moldova. As well, the German chancellor noted that the European Union is in charge with finding a solution to the Transnistrian conflict. The Moldovan delegation attended the Moldovan-German economic forum.

3. Multilateral cooperation

Republic of Moldova – Council of Europe

ECHR judgments

The ECHR has pronounced decisions regarding the fair remedy of the following [four cases](#): *Megadat. Com SRL vs. Moldova*, *Ganea vs. Moldova*, *Bisir and Tulus vs. Moldova*, and *Mocanu vs. Moldova*.

The Court established violation of the protection of property rights in the case *Megadat. Com SRL vs. Moldova*. The Government pledged to pay 120,000 euros to the applicant as fair remedy and 10,000 euros in costs and expenses.

The Court established violation of the right to freedom and security and the right to an appropriate appeal in the case *Ganea vs. Moldova* and granted 6,000 euros to the applicant as compensations.

The Court established violation of the right not to be subject to torture and ill-treatments, and the right to private life and family in the case *Bisir and Tulus vs. Moldova*. The Court obliged the Government to grant 17,400 euros to applicants in non-pecuniary damages and 1,200 euros in costs and expenses.

The Court established violation of the rights to a fair trial and protection of property in the case *Mocanu vs. Moldova*.

V. COMMENTS

Negotiations with IMF and Moldova's external debt

By Iurie Gotisan

A working mission from the International Monetary Fund (IMF) visited Moldova in May. The results of the government's negotiations with the IMF mission may be generally described as useful, and most of recommendations by IMF experts are relevant. Fiscal measures such as the introduction of a 4-percent single tax for small and medium-sized businesses, as well as the reintroduction of the corporate profit tax like the single tax for enterprises but of 12 percent, not of 18 percent as in force until 2007 seem to be actions capable to compensate the income deficit of the state treasury (for more details, see the chapter *Economic Policies* of the current issue). In fact, these are some common measures, since both IMF and authorities indicate an economic recovery, as for statistics, and many sectors of economy report growths. So, most of them are even welcome.

On the other hand, though official statistics are optimistic (particularly regarding the industry),¹ one should not forget that the productive sector is flying so far, with many companies facing difficulties to recover after the crisis. Even more, the industry covers about 12 percent of GDP, while some sectors reported a decline yet in the 1st quarter. One should acknowledge that Moldova is facing relatively serious difficulties to attenuate the shocks (in particular, those coming from outside in terms of effects of some crises, etc.). But for the most of part, these difficulties have origins in the development level, too, structural and institutional features which are incompatible with the current market rules. The large share of foodstuffs in the consumer's basket (more than 35 percent) explains why the depreciation of leu fuels the inflation quickly. The relatively large share of foreign trade in domestic economy was a trump for its capacity to resist to the impact of the international crisis.

The recovery of production accompanied by larger budgetary collections pushed the Government and IMF to increase the economic growth forecast. However, vulnerabilities are pretty serious when a growth model is based on consumption (fuelled by remittances and filled by imports) and a quick-rise crediting, foreign loans and often speculative investments. By updating some economic indicators, IMF experts are expecting lower spending for certain sectors, particularly after the crisis, worrying but warning the Government that some problems related to budgetary-fiscal adjustment could occur. A relatively high growth speed was observed the last years, but the fiscal consolidation has to make serious steps so far. One should not forget the small budgetary collections of Moldova which count for about 38-40 percent. State-run companies are very inefficient.

The situation summoned the Government to reduce the spending in some areas. For example, the reduction of subsidies in agriculture revolted many farmers. Of course, the budget is poor, but the country has a huge fiscal evasion as well, which is formally estimated at 15 percent of GDP, and these funds, if collected at least half of them, could go to diverse activities including the agriculture. This is a proof that state institutions fail their missions or are very corrupt. One should not forget the regional development, Moldovan villages which are in a deplorable condition.

The Moldovan economic policy does not control these factors and this hardens the structural and institutional reformation, so that it would be very hard to achieve the desired

¹ <http://www.statistica.md/newsview.php?l=ro&idc=168&id=3420&parent=0>

results without radical actions. These measures are bitter on a short term and have undesired social effects, but they could bring amazing results on a medium and long term.

Nevertheless, the IMF expects a recovery of Moldovan economy and a positive evolution of macroeconomic indicators, even compared with the previous forecasts. In addition, Moldova as an emergent economy has competitive advantages of being close to eastern markets, including Russia, as well as to the European common market. Concomitantly, Moldova is enjoying an increased attention from donors, who direct important financial resources to help implementing reforms, particularly in the framework of European bids of the country.

External debt and its consequences ...

One should admit that the crisis hit Moldova in a wrong moment, particularly because fiscal collections are very small (38-40 percent) compared with GDP, and external disequilibrium, trade deficit, current account deficit, external debt seem "to break out" of acceptable limits. However, it seems that they do not scare authorities very much, especially compared with neighbouring countries. If Moldova succeeds the fiscal consolidation, improves the allocation of resources through investments in sectors dealing with exports and replaces the imports successfully, its rating will grow, and thus the foreign funding costs will decrease.

The overall foreign debt, which includes the public debt administrated by Government, of monetary units (banks, financial institutions) and of nongovernmental and private sector, amounted to 4,778,000,000 dollars in early 2011. Thus, the overall foreign debt counts for about 82 percent of GDP, given Moldova's GDP of 5.8 billion dollars in 2010. It seems to be pretty satisfactory, despite speculations on this issue and a relative rise in 2009 and 2010.

Statistics reveal that the overall foreign debt increased by more than 10 percent in 2010 alone. However, one should not forget that Moldova got in 2010 the largest financial inflows, grants, foreign credits from donors such as the IMF, the World Bank, the European Commission etc. Thereby, the rise is something normal. Elsewhere, the solvency of a state is measured by the size of the foreign public debt (of Government) compared with GDP, rather than of the overall external debt, and it increased by more than 40 percent in one year, but amounts to 1,116,000,000 dollars or nearly 20 percent of GDP. This rate is more than acceptable if compared with the public debt of Greece, Ireland, Portugal (EU member states which face serious troubles), which counts for 120-140 percent of GDP, or Romania's public debt of 40 percent of GDP, with this country being carefully monitored by key international financial institutions in general and IMF in particular.

Therefore, speculations that not even our grandchildren will be able to pay off our debts are senseless. Even more, the current overall external debt is comparable to the one recorded in late 2009. It is even smaller. In addition, foreign debt payments in the period concerned were fully reimbursed to external creditors. Hence, this issue should not raise so much concern. It was earlier noted that the external debt has increased particularly due to some agreements and crediting from financial institutions, etc.

In 2010 we were just witnesses of an unprecedented opening of international creditors, and this fact is excellent since it provides more credibility to foreign investors willing to place their funds. Or, the former government did not enjoy such an attitude from foreign funders. On the other hand, this accumulation of debts is likely a world phenomenon, which spread after the international economic or financial crisis. Countries facing now

problems related to the external debt and budgetary pressures to serve these debts owe more than 100 percent of GDP, compared with Moldova's debt.

Finally, the external debt is not the most relevant indicator with direct tangencies with the external competitiveness of the country. Some countries have much larger debts compared with GDP than Moldova does. There should be some critical limits for the external debt to challenge a potential economic recession and hit the external competitiveness of the country. Or, in the current conjuncture, Moldova is capable to return these funds, without being obliged "to tighten its belt" too much.