

"Governance and Democracy in Moldova" is a bi-weekly journal produced by the Association for Participatory Democracy ADEPT, which tackles the quality of governance and reflects the evolution of political and democratic processes in the Republic of Moldova. The publication is issued with financial support from the Ministry of Foreign Affairs of the United Kingdom of the Netherlands, in framework of the project "Promoting Good Governance through Monitoring". Opinions expressed in the published articles do not necessarily represent also the point of view of the sponsor. The responsibility for the veracity of statements rests solely with the articles' authors.

CONTENTS

I. ACTIVITY OF PUBLIC INSTITUTIONS	2
GOVERNMENT	2
1. Nominations. Dismissals	2
2. Decisions	2
3. Orders	3
4. Sitzings. Decisions.....	3
II. ECONOMIC POLICIES	5
1. Macroeconomy	5
<i>Economy is on a „rise wave”.....</i>	5
2. Public funds	5
<i>Budget – „in the homestretch”.....</i>	5
<i>Risk of entering 2012 without a budget.....</i>	6
<i>Practice of distributing expenses on political criteria.....</i>	6
3. Prices and inflation.....	6
<i>Temporary price fall brought deflation in August.....</i>	6
4. Banking system.....	7
<i>Share of non-performing credits falls down – a recovery of the system.....</i>	7
5. Foreign trade.....	7
<i>Exports seem to be main engine of economic growth.....</i>	7
III. TRANSNISTRIA.....	8
<i>Transnistria gets ready for elections.....</i>	8
<i>Meeting between Premier Vlad Filat and Transnistrian leader Igor Smirnov.....</i>	8
<i>Resumption of official “5+2”negotiations</i>	9
IV. EXTERNAL RELATIONS	10
1. European integration.....	10
<i>First plenary session of the Euronest Parliamentary Assembly.....</i>	10
<i>European Parliament Resolution on the negotiations between the EU and the Republic of Moldova on the Association Agreement.....</i>	10
<i>First progress report on implementation of Visa Liberalisation Action Plan.....</i>	11
<i>Sittings of working groups in charge with coordinating processes during Moldova-EU dialogue</i>	11
<i>Second Eastern Partnership Summit.....</i>	11
2. Bilateral cooperation	12
<i>Republic of Moldova – Finland, Sweden and Norway</i>	12
<i>Republic of Moldova – Poland.....</i>	13
<i>Republic of Moldova – Czech Republic.....</i>	13
3. Multilateral cooperation.....	13
<i>Republic of Moldova – GUAM</i>	13
<i>Republic of Moldova – Council of Europe.....</i>	14
<i>Republic of Moldova – UN</i>	14
<i>Republic of Moldova – CIS</i>	14
V. COMMENTS	15
Who is afraid of early elections?	15
Performance of banking system and non-performing loans	17

This issue is based on inputs from: Igor Botan, Elena Prohnitchi, Iurie Gotisan

I. ACTIVITY OF PUBLIC INSTITUTIONS

GOVERNMENT

1. Nominations. Dismissals

The Government approved a draft decree concerning the dismissal of Iurie Dominic as chief of staff. The decision is a response to a request by interim president, senior commander of armed forces.

2. Decisions

Decision approving the country reintegration action programme for 2011. The document foresees the allocation of about 9 million lei for development and modernisation of education institutions, renovation of roads, buildings and water pipes, protection of the elderly and disabled people.

Decisions concerning e-governance aspects. The Government approved:

- The strategic programme on technological modernisation of governance (e-Transformation);
- Measures in the area of Governance e-Transformation;
- The technological governance e-transformation strategy;
- The action plan concerning the implementation of the concept of the automatic information system called register of criminalist and criminological information and e-services for 2011-2012.

Decision concerning the approval of the list of legislative and normative acts to be monitored by competent central organs of public administration in the 2nd half of 2011. The document includes 27 legislative and normative documents to be monitored, including:

- The code of motor transports;
- The law concerning the aeronautic security;
- The law concerning the domestic trade;
- The law concerning the entrepreneur's patent;
- The law concerning the state-guaranteed legal assistance;
- The law concerning the authorisation of building works;
- The law concerning the electronic communications;
- The law concerning the functioning of languages spoken in Moldova.

Decision concerning the establishment of the governmental commission for youth policies. The commission will be made of 20 members on parity principles between representatives of central public administration organs and representatives of nongovernmental youth organisations. Representatives of civil society will be selected by the Ministry of Youth and Sport on basis of a contest. The key tasks of the commission will be to coordinate the drafting, implementation and monitoring of youth policies, to develop intersectoral cooperation and to initiate national youth programmes. As well, the commission will monitor the implementation of the national youth strategy.

Decisions approving some regulations:

- The regulation concerning the conduct of the contest for selection of residents and investment projects for industrial park, as well as of the model report concerning operations within the industrial park;

- The regulation concerning the activity of the Moldovan delegation to the Joint Control Commission;
- The framework regulation concerning the organisation and functioning of the social service Mobile Team and minimum quality standards.

Decisions approving some draft laws:

- Concerning the approval of the justice reformation strategy for 2011-2015;
- Concerning the special investigative activity;
- Concerning the modification of some legislative acts (protection of functionaries who denounce corruption).

Decisions concerning the allocation of funds:

- More than 815,000 lei is allocated with the purpose to install and perform the configuration of equipment needed by diplomatic missions and consulates of our country to take off biometrical data and issue biometrical passports to Moldovan citizens from other countries;
- An amount of 175,000 lei is allocated to cover spending related to organisation of a reception by interim president of Moldova on the 20th anniversary of independence;
- More than 113,000 lei is allocated to manufacture medals for nominees of the National Prize;
- An amount of 100,000 lei is allocated to produce features about lives and works of director Emil Loteanu and actor Grigore Grigoriu.

3. Orders

Effects of drought

Prime minister urged competent institutions to prevent effects of the drought faced by Moldova starting August.

Giurgiulesti Port

Premier instructed the Ministry of Transportation and Road Infrastructure to provide detailed data regarding the cargo and passenger transportation at the Giurgiulesti Port, and asked the Ministry of Economy to make public the additional agreement concerning the attraction of investments in the Free International Port Giurgiulesti. Moldsilva Agency was asked to clarify the status of land fields there, including forests.

Quality of mobile telephony services

The Ministry of Information Technology and Communications is asked to check the quality of services provided by mobile telephony operators, especially in territory, and to take the actions needed to improve them.

Quality of education in motor schools

Prime minister indicated a faulty education of motor drivers, and instructed the Interior Ministry, Ministry of Transportation and Road Infrastructure and Ministry of Education to report a consolidated position concerning this issue.

4. Sitzings. Decisions.

Visit to S.A. „Tracom”

Prime minister visited the tractor manufacturer „Tracom” S.A. and collected facts regarding the state of things and privatisation plans concerning this plant, visited resident manufacturers, as well as stationing halls. He convoked a working sitting with the plant administration at the end of the visit, and indicated the patrimony of the enterprise, especially large quantities of used metal. Vlad Filat noted that intentions of so-called

investors to raise profits only from sale of old lathes and equipment as scrap iron should be taken into account during privatisation. He stressed that the privatisation process will be ceased, in a move to adjust the infrastructure to exigencies of potential investors, and production surfaces will be occupied by residents willing to manufacture while intermediary residents will be removed.

Sitting with Interior Ministry staff

Prime minister greeted employees of the Interior Ministry for the way they reacted to a crime in a garden in Chisinau downtown, but noted that there are many problems related to human rights and freedoms. Filat stated that the whole world faces tragic situations, but more efforts are needed to prevent crimes. In this respect, he instructed the ministry to consider the necessity of modifying laws on bearing of arms, with the purpose to introduce bitterer sanctions for holders of illegal arms.

Sitting of Council of Social Investment Fund (FISM)

A sitting of the national council of FISM, attended by prime minister, approved a list of 117 infrastructure projects to be implemented in rural areas, as well as a list of 150 district schools to be funded in priority. The funds needed to implement the projects, about 10 million US dollars, came from foreign sources. The sitting also discussed the efficient use of free social facilities in rural areas, with the premier demanding a list of free social institutions which could be used to open community centres, domestic assistance or child assistance facilities.

II. ECONOMIC POLICIES

1. Macroeconomy

Economy is on a „rise wave”...

Data provided by the Ministry of Economy for the first half of 2011 indicate an economic growth of about 7.5 percent, so that almost all sectors of domestic economy made progresses. The industrial production increased by more than 9 percent in January-June 2011 (compared with the similar period of 2010). The rise of production was due to the growth of extractive industry by more than 20 percent and processing industry by over 11 percent. On the other hand, the energy sector regressed by more than 3 percent.

Investments turned over 4,809 billion lei (about 424 million dollars), and increased by about 32 percent compared with the similar period of last year. The investment activity reveals an orientation towards business development objectives, in particular, towards acquisition of modern equipment and hardware, and this fact indicates the modernisation of economic system in general. Even more, the external trade advanced well enough. Exports of goods increased by about 65 percent in the first half-year compared with the similar period of last year. At the same time, the exports developed more than the imports compared with the similar period of last year. Therefore, the economy could grow by more than 7 percent in 2011, if it keeps the current trends.

However, the consumption troubles the accounts, the way the IMF representative in Chisinau has also noted, and all know that our economic growth model is built on an abundant consumption, rather than on production. Indeed, this is something normal. One cannot change in two years a model developed in tens of years. The risk of such an economic model is the very fragile instability and non-sustainability, or this is not lasting. On the other hand, statistics reveal that the economic growth for the first half-year was higher than expected – more than 7 percent. Services, exports and private consumption reported the highest rises.

Services along with the trade have the lion's share in terms of contribution to GDP, with more than 65 percent. As a rule, these economic sectors are tabulated as most capable to integrate business. Therefore, our country has most of small and medium service providing and trade businesses. In addition, these sectors do not require massive investments to develop. Even more, such investments are recovered the easiest way. Or, most of investors including domestic prefer this area of activity. In order to develop a production activity, one needs long-term credits for low interest rates and stable rules of game. So far, Moldova cannot bluster in this regard. Or, foreign investors hold funds, compared with domestic businesses, but economic and political instability and biased juridical system trouble them.

Finally, all these are volatile components of the growth, which depend on what happens outside, respectively on available current return for consumption. Did one expect this economic growth recorded years in a row (except for 2009) to improve living standards as well? Unfortunately, it does not happen so. Even more, the real salary decreased, while the too large spending of over 60 percent for foodstuffs and housekeeping in consumer basket is an additional proof that the population of our country is poor since much earning covers basic needs.¹

2. Public funds

Budget – „in the homestretch”...

¹ <http://www.statistica.md/newsview.php?l=ro&idc=168&id=3537&parent=0>

According to the law, the state budget and its other components should be submitted to the Parliament by October 1. However, they were not delivered yet. Both the state budget and the budgetary-fiscal policy are to be debated by Government. Unquestionably, the voting of the budget for 2012, including the budgetary-fiscal policy which will fuel debates is directly proportional with the evolution of political situation. Not all AIE components agree with the budgetary-fiscal policy and hot discussions are expected between AIE-ruled ministries. Indeed, the non-voting of the budget is in connection with the non-election of president. Or, in legal terms, the Parliament will be dissolved, though almost none of political forces wish such a conjuncture, except for the Party of Communists. Altogether, the budget law is an important annual document which guides all policies and activity of governmental institutions and others, so that the approval of the budget before the end of the fiscal year is more than indispensable.

Risk of entering 2012 without a budget...

If early elections take place, the budget will unlikely be voted. This is the most pessimistic scenario indeed. However, if one remembers, the budget and the budgetary-fiscal policy for 2011 were approved in March 2011, and this fact did not produce serious problems to lose control on situation. But operating with an estimate of expenses and incomes for a past year is inappropriate, as the country has other financial requirements, another rate of investments, etc. In addition, those from outside, such as IMF, WB, EC, would not like the absence of a compromise. However, the [opinion](#) of some economists that the approval of the budget would be an "honour issue" for the Ministry of Finance and Government, especially after the late approval of the budget for 2011 is right.

Practice of distributing expenses on political criteria...

The state budget is first a political and then an economic document, so that expenses will be distributed on political criteria as long as they are allotted on group or party interests. Or, according to a head of the specialised parliamentary commission, the Parliament is first of all a political organ which discusses and settles political dissensions, and then other issues. However, the weight of political component in allotting expenses and capital investments is now less visible than during the communist rule. Anyway, it is pretty important so far on background of a heavy political polarisation.

The fiscal policy will be the apple of discord like last year. This will happen after multiple rises of taxes and fees introduced by law following potential price rises. Fiscal policy measures will not please for sure, since they come in an unfavourable economic condition, while the productive sector did not recover yet from economic crisis. If considering just the budget collection chapter, one may observe that the share of indirect taxes VAT, excises, customs fees in state budget incomes is expected to grow by about 20 percent, up to over 16 billion lei. Thus, more than 78 percent of budget collections will come from indirect fiscal taxes: customs fees, excises, VAT, etc. This is one more proof that the economy is preponderantly consuming. Or, these taxes do not exceed 40 percent of overall budget revenues in a functional market economy.

3. Prices and inflation

Temporary price fall brought deflation in August...

[Statistics](#) reveal that the Consumer Price Index (CPI) in August was 99.9 percent compared with July 2011, and 109.2 percent compared with August 2009. Consumer prices rose by 4.8 percent this year (in August 2011 compared with December 2010). Therefore, a deflation of 0.1 percent was recorded for August. Medium consumer prices dropped in August compared with July because food prices decreased by 0.8 percent, while prices of manufactured goods and tariffs for public services increased by 0.4 percent

and 0.2 percent respectively. Prices of fruits and vegetables decreased much in August, while prices of meat and sausages, as well as cheese increased.

Prices of most of manufactured goods and tariffs for public services were constant in the period concerned. However, prices of fuels rose by 2.3 percent (including bottled gas by 10.3 percent), tobacco by 2 percent, building materials and jewels by 1.3 percent each. Given the beginning of a new academic year, tariffs for education in institutions of higher learning increased by 4.3 percent, home rent by 1.1 percent and interstate railway passenger transportation services by 4.6 percent.

4. Banking system

Share of non-performing credits falls down – a recovery of the system...

According to NBM accounts, the share of non-performing credits in the total of credits on banking system was about 9 percent in early September, by 8.5 percent less than in the similar period of last year. It is worth to note that the share of non-performing credits doubled in 2009, up to 16.4 percent on system, and increased up to 17.4 percent in the first half of 2010. Their share further decreased in the second half-year, down to 13.33 percent in late 2010.

Many bank officials described the stabilisation of the non-performing credit portfolio as the No.1 accomplishment of the banking system in 2010. As well, NBM governor said that banks will need some years to reach the level of non-performing credit portfolio recorded before the economic crisis. According to the Association of Moldovan Banks, the share of unfavourable credits in the total of loans is maximum 5.5 percent in European countries. It notes that consumer and mortgage credits are an important source of unfavourable credits, and these loans had a fulminating dynamic the last years. As of August 31, 2011, the share of consumer credits in the total of credits was 8.5 percent, while real estate, building and development loans accounted for 12 percent.

5. Foreign trade

Exports seem to be main engine of economic growth...

As well, [official statistics](#) reveal that Moldovan **exports** turned over 181 million dollars in July 2011, by about 5 percent more than the precedent month and by over 54 percent more than in July 2010. Exports of goods to the European Union (EU-27) turned over 588.5 million dollars (by over 64 percent more than in January-July 2010), covering about half of all exports (49.5 percent in January-July 2010). CIS member states absorbed nearly 40 percent of Moldova's exports (38.7 percent in January-July 2010), which is equivalent to about 468 million dollars. Exports of goods to this area rose by 67 percent, compared with January-July 2010.

Imports in July 2011 turned over about 415 million dollars, by 0.7 percent less than in June 2011, and by over 32 percent more than in July 2010. Imports in January-July 2010 turned over more than 2.79 billion dollars, by 40 percent more than in the similar period of the precedent year. Imports from the European Union (EU-27) amounted to about 1,256 billion dollars (by over 40 percent more than in January-July 2010), covering 45 percent of all imports (almost same share as for January-July 2010). Imports from CIS accounted for 895 million dollars (by over 42 percent more than in January-July 2010), and covered 32 percent of all imports (31.5 percent in January-July 2010). The trade balance deficit for the period concerned accounted for about 1,609 billion dollars.

III. TRANSNISTRIA

Transnistria gets ready for elections

Although presidential elections in Transnistria are scheduled for December 11, 2011, the key protagonists have been identified long ago: Igor Smirnov, who has plans to run for the fifth mandate; Yevgeni Shevchyuk, former chairman of the Supreme Soviet and major party Obnovlenye; Anatoliy Kaminskiy, head of the Supreme Soviet and Obnovlenye leader.

The registration of candidates opened on September 11 and other more or less known candidates will be registered for sure. The main intrigue of elections rests with preferences of Russian governmental circles for a certain candidate. So far, there are signs that Moscow supports Anatoliy Kaminskiy. He received a greeting message from his "counterpart", the head of the Russian State Duma, Boris Gryzlov, on the 21st anniversary of independence of Transnistria. As well, Kaminskiy is the invitee of the Russian ruling party Yedinaya Rossya at the 12th congress set for September 23-24 in Moscow.

The leader of the public movement Vozrozhdenye, Evgeni Shevchyuk, member of the Supreme Soviet of Transnistria, was the No. 1 rival of Igor Smirnov some years ago and an alternative character for decision-making circles from Moscow, but he faced pressures and had to give up both the lead of the Supreme Soviet and of Obnovlenye. So far, surveys credit Shevchyuk with a relatively high rating. During the ongoing electoral campaign Shevchyuk focuses on social problems: reaching decent living standards; protecting interests of vulnerable people; combating corruption, etc. In his turn, Smirnov did not join the electoral race yet but hinted that he will focus as usually on ensuring "the constitutional system of Transnistria as a sovereign and independent state."

The Central Electoral Commission (CEC) of Transnistria will have a budget of about 0.77 million dollars to hold the elections. The start of electoral campaign brought queries related to the rise of the number of electors by approximately 5,300 persons, while the number of population decreased by about 4,000 people last year. According to CEC, there are approximately 406,000 electors in Transnistria.

Meeting between Premier Vlad Filat and Transnistrian leader Igor Smirnov

A conference dedicated to trust-building measures in the Transnistrian settlement process took place in Bad Reichenhall, Germany, on September 8-9, 2011. It took place under the OSCE aegis and brought together Moldovan Premier Vlad Filat and Transnistrian leader Igor Smirnov as protagonists. According to Premier Filat, "the meeting was preceded by a discussion with the state secretary of the German Foreign Ministry, Emily Haber, with the participation of Lithuanian Foreign Minister Audronius Azubalis, OSCE chairman-in-office, and other representatives of the 5+2 negotiation format." The conference brought together the OSCE Chairmanship's special representative for protracted conflicts, Giedrius Cekuolis, the head of the OSCE Mission to Moldova, Philip Remler, Russia's representative Sergei Gubarev, Ukraine's special representative in the Transnistrian settlement process, Igor Kharchenko, the Ukrainian ambassador to Moldova, Sergei Pirozhkov, the EU representative in the Transnistrian settlement process, Miroslav Lajcak, the head of the EU Delegation to Moldova, Ambassador Dirk Shuebel, U.S. Deputy Assistant Secretary of State Daniel Russel, U.S. participant in the Transnistrian settlement process. Participants in the talks agreed on the need to unlock the circulation of cargo and passenger trains in the Transnistrian section of railways; to settle problems in communication sector (wire, mobile telephony, and post services); to sign a common regulation on functioning of expert groups in charge with trust-building measures. The resumption of the 5+2 negotiation process was a distinct component of the meeting. The Transnistrian leader sought the removal of barriers to external commercial operations of

Transnistria. As well, Smirnov noted that the Transnistrian side will seek an equal footing for the conflicting parties, when official 5+2 negotiations will restart.

The meeting between Premier Vlad Filat and Transnistrian leader Igor Smirnov challenged controversial reactions in Moldovan political circles. While Premier Filat assures that this meeting is “an important step forwards the Transnistrian settlement,” Moldova’s interim President Marian Lupu describes it as “a controversial meeting.” In reply, Filat asked interim President Marian Lupu at a news conference to be more prudent in his statements, fearing that his sayings could affect the Transnistrian settlement process and hurt organisers of the German conference. Previously, representatives of the Party of Communists of the Republic of Moldova (PCRM) criticised bitterly the plans of Premier Filat to meet the Transnistrian leader. At the same time, the meeting in Bad Reichenhall was appreciated by Catherine Ashton, high representative of the European Union for foreign affairs and security policy, who believes that it will help reaching a consensus between the two banks of the Dniester: „The EU hopes that the parties will agree to resume the official negotiations at the end of this month in Moscow. In this framework, the efficient implementation of trust-building measures and the continuation of bilateral political contacts are essential elements for a successful settlement of the Transnistrian conflict.”

Resumption of official “5+2” negotiations

On September 22, participants in the Moscow consultations agreed on resumption of the „5+2” negotiations. Next „5+2” meeting, when it will be set, will focus on principles and ways to hold negotiations, as well as on working agenda of the Transnistrian settlement process. The Moldovan Government welcomed this decision, indicating “the priority character of the territorial reintegration process” and reaffirming its “commitment to keep doing its best to find a peaceful and lasting solution for the definitive resolution of this conflict.” According to a communication released by the Government, the resumption of negotiations “is the logical result of efforts made by all participants in the process in the last two years.” In this regard, it stressed the efforts of mediators and observers on behalf of the Russian Federation, Ukraine, OSCE, EU and U.S. As well, the communication indicated the effects of some actions contested by the PCRM opposition and interim President Marian Lupu regarding the so-called football diplomacy, meaning the meetings between Premier Vlad Filat and Transnistrian leader Igor Smirnov, as well as the conference on strengthening confidence-building measures in the Transnistrian settlement process, held in early September under the OSCE aegis, with the support of the German Government. The decision to resume the negotiations was welcomed by OSCE Chairman-in-Office Audronius Azubalis, foreign minister of Lithuania, and Catherine Ashton, high representative of the European Union for foreign affairs and security policy. On the other hand, Transnistrian leader Igor Smirnov was sceptical with the event, saying that the resumption of the official „5+2” negotiations is not a practical progress.

IV. EXTERNAL RELATIONS

1. European integration

First plenary session of the Euronest Parliamentary Assembly

The first plenary session of the Euronest Parliamentary Assembly (Euronest PA) officially established in Brussels on May 3, 2011 took place in Strasbourg on September 14-15, 2011. Moldova was represented by Deputies Igor Corman, Dumitru Diacov (PLDM), Veaceslav Ionita, Tudor Deliu (PLDM), and Boris Vieru (PL). Although the [delegation](#) from the Parliament of Moldova to Euronest is made of 10 deputies, including 4 on behalf of PCRM, none of them attended the Euronest PA session. The plenary session was preceded by meetings of the 4 parliamentary committees of Euronest: the Committee on Economic Integration, Legal Approximation and Convergence with EU Policies; the Committee on Energy Security; the Committee on Political Affairs, Human Rights and Democracy; the Committee on Social Affairs, Education, Culture and Civil Society. The ordinary session was marked by animosities between delegations of Armenia, Georgia and Azerbaijan, so that no consensus regarding the adoption of declarations on Belarus and the resolution containing recommendations for the Eastern Partnership Summit included into the preliminary agenda of the session was finally reached. This fact made [experts](#) who attended the session describe the Euronest project, designed to be a forum capable to encourage parliamentary, multilateral dialogue, as failure of the European Parliament.

European Parliament Resolution on the negotiations between the EU and the Republic of Moldova on the Association Agreement

The European Parliament approved a [Resolution](#) on the negotiations between the EU and the Republic of Moldova on the Association Agreement on September 15, 2011. The Resolution addresses a number of recommendations to the Council, Commission and European External Action Service (EEAS) on the content of the future Association Agreement RM-EU, but also on the attitude the European institutions should take in the political dialogue with Moldova about the key subjects for bringing Moldova closer to the EU, such as Transnistrian conflict, respect for human rights, fighting corruption, judicial reform etc.

Out of more than 45 recommendations to the European institutions, the following 10 worth mentioning:

- to base the EU engagement and ongoing negotiations with the Republic of Moldova on the assertion that the EU perspective, including Article 49 of the Treaty on the European Union, which should go hand in hand with the implementation of structural reforms, is both a valuable lever in the implementation of reforms and necessary catalyst for public support for these reforms;
- to maintain strong pressure on the Moldovan authorities, coupled with support, to consolidate reforms and achieve tangible progress in the fight against corruption, reform of judicial, prosecution and police services to the benefit of the people;
- to include standard conditionality clauses on protection and promotion of human rights reflecting the highest international and European standards, and to encourage the Moldovan authorities to promote the rights of persons belonging to national minorities, in compliance with the Council of Europe Framework Convention on National Minorities and of the Charter of Fundamental Rights of the EU;
- to assist the Moldovan authorities so that they can make concrete progress in the eradication of ill-treatment and torture by law-enforcement bodies;
- to encourage the Moldovan authorities to adopt comprehensive and effective anti-discrimination legislation, such legislation should include provisions against discrimination based on sexual orientation;

- to ensure that the promotion of the values of free media remain a priority in the ongoing negotiations with the Republic of Moldova and to encourage the Moldovan authorities to strengthen and support independent media, to ensure the neutrality of the public media and promote a pluralistic media environment which will increase the transparency of the decision-making process; to encourage the Moldovan authorities to ensure that all responsible agencies in the field of the media comply with EU standards on media freedom and pluralism;
- to emphasize to the Moldovan authorities the need to liberalise air traffic services;
- to encourage the Moldovan authorities to demonstrate greater commitment to the transparent management of public finances and the improvement of public procurement legislation;
- to ensure that negotiations on a Deep and Comprehensive Free Trade Area begin by the end of 2011 and at the same time to assess the impact of the DCFTA on the Moldovan economy, as well as its social and environmental repercussions;
- to redouble efforts to find a sustainable solution to the Transnistrian conflict and, to that end, to envisage a more robust and direct involvement in the political settlement of the Transnistrian conflict, as well as to adopt confidence-building measures;

First progress report on implementation of Visa Liberalisation Action Plan

The European Commission published the [First progress report of the implementation by the Republic of Moldova of the Action Plan on Visa Liberalisation](#) (hereafter APVL) on September 19. The report ascertains progress in adopting legislation in 3 out of 4 blocks of APVL: a) irregular immigration, including readmission¹; b) public order and security; c) external relations and fundamental rights. As regards the block on document security, including biometrics, the European Commission states that although there is a legislative framework in place, a number of actions planned in APVL were not implemented. Nevertheless, the European Commission concludes that Action Plan on Visa Liberalisation is an important tool in advancing reforms in the justice and home affairs area and beyond. The report reflects the state of play until 8 July 2011. The next progress report will be developed by the end of 2011.

Sittings of working groups in charge with coordinating processes during Moldova-EU dialogue

Working groups in charge with coordinating cooperation during Moldova-EU dialogue convened in several sittings in Chisinau in September. The working group in charge with coordinating cooperation with the European Union in the area of Common Security and Defense Policy (CSDP) held a sitting on September 16 and considered Moldova's capacities to participate in EU CSDP missions and set prospects of cooperation with EU in the area concerned.

A [sitting of the working group in charge with the visa liberalisation](#) with EU took place on September 21, with the participation of law enforcement and security institutions. The meeting reviewed progresses made in the first round of adjustment of national laws on justice and interior affairs of the Action Plan and set priorities for October-November 2011.

An [enlarged meeting](#) of the working group in charge with the visa liberalization with EU (with participation of representatives of international organizations and NGOs) took place on September 23 and discussed last evolutions in implementing the Visa Liberalization Action Plan and possible indicators to assess the migration impact of liberalized visas for Moldovan citizens on EU.

Second Eastern Partnership Summit

The Second Eastern Partnership Summit took place in Warsaw, Poland, on September 29-30, 2011. The summit was initially scheduled for May 2011, when Hungary chaired the EU Council, but was further postponed for September 2011, because other important international events were set for the same period.

After two years since the launching of the Eastern Partnership the Warsaw summit reviewed the achievements of EaP partner states to respect European norms, standards and values. However, the absence of representatives of Belarus at the summit, as well as many accusations of human rights violations brought against Belarus and Ukraine during the summit proved that the European initiative aimed to promote democracy, good governance and stability in close EU neighbourhood is far away from reaching its purposes.

The summit was attended by 32 delegations from EaP partners and EU member states led by heads of states or governments. The participants adopted a [joint summit declaration](#), revising commitments towards the EaP's goals and agreeing that the EaP must be significantly strengthened, and committing to stepping up its implementation, with the purpose of building a common area of democracy, prosperity, stability and increased interactions and exchanges.

The declaration describes progresses made by the six EaP partner countries the last two years and sets priorities in the following three areas for the next years: 1) a deeper engagement: political association, socio-economic integration and stability; 2) participation in EU programmes and agencies and enhanced sector cooperation; 3) strengthening of multilateral cooperation. As expected, the declaration does not contain any express reference to the future accession of partner states to the European Union, which is so expected by Moldovan and Ukrainian authorities. Instead, it recognises that EaP partners have different aspirations, necessities and capacities, and notes that the political association and economic integration with EU, as well as the size of European assistance will be conditioned with countries' results in implementing internal reforms.

The declaration rates Moldova and Ukraine as countries which made the greatest progresses in negotiating Association Agreements. Both countries are already implementing Visa Liberalisation Action Plans. Ukraine has plans to sign a Deep and Comprehensive Free Trade Agreement (DCFTA) with the EU by December 2011, while Moldova intends to begin negotiations by the end of this year. At the same time, both countries joined the Energy Community Treaty and are negotiating the Common Aviation Area Agreement. According to the declaration, Association Agendas will be set in the EaP framework with the purpose to facilitate the implementation of Association Agreements. They will focus on key cooperation areas and will include reference indicators to monitor the progress of countries.

The EU heads of states and governments signed a special declaration during the summit and condemned violations of human rights in Belarus. The five EaP partner states did not want to sign the declaration or to openly criticise Belarus.

Following the EaP summit, the EaP Business Forum was launched in Sopot, Poland, on September 30 to assist the negotiation of Association Agreements and DCFTA and build competitive and inclusive economies in EaP partner states.

2. Bilateral cooperation

Republic of Moldova – Finland, Sweden and Norway

A governmental and business delegation headed by Moldovan Premier Vlad Filat was on an official visit to Finland, Sweden and Norway during September 11-14. While on visit, the prime minister met his counterparts and attended bilateral economic forums in the three countries.

According to a [communication by the Ministry for Foreign Affairs and European Integration](#), Minister of Foreign Affairs and European Integration Iurie Leanca and Norwegian Foreign Minister Jonas Gahr Store signed a visa facilitation agreement between Moldova and Norway on September 14. Under the agreement, some categories of citizens such as schoolchildren, students, journalists, civil society representatives, long-route drivers, athletes will enjoy a facilitated visa regime for a 90-day stay.

Republic of Moldova – Poland

Being a founder of the Eastern Partnership (EaP), Poland as chair of the EU Council tried to promote on its agenda the development of bilateral cooperation and with EU with eastern states. As a result, a large Moldovan delegation made of officials, NGO representatives and businesspersons attended an Economic Forum in Krynica on September 7-8. Premier Vlad Filat was nominated “The Man of The Year” during the forum, a nomination awarded every year for outstanding accomplishments which had a great influence in Central and Eastern Europe. Filat had bilateral meetings with Polish Premier Donal Tusk, European Budget Commissioner Janusz Lewandowski, Georgian President Mikhail Saakashvili, the World Bank director for Ukraine, Belarus and Moldova, Martin Raiser, and the chairman of the Krynica Economic Forum, Zygmunt Berdychowski. Talks with European Budget Commissioner Janusz Lewandowski focussed on the European perspective of Moldova, evolution of the Moldova-EU dialogue, and budgetary policy of Moldova.

Also in September, Chisinau hosted the first meeting of the Moldova-Poland Parliamentary Assembly’s Bureau, co-chaired by Igor Corman, chairman of the Moldovan parliamentary commission for foreign policy and European integration, and Andrzej Halicki, chairman of the commission for foreign affairs of the Polish Sejm. The meeting discussed issues relating to inter-parliamentary cooperation in the framework of European integration of Moldova, preparations for the Eastern Partnership Summit, social-political condition in both countries, and agenda of the next meeting.

Republic of Moldova – Czech Republic

The deputy foreign minister of the Czech Republic, Tomas Dub, was on a working visit to Chisinau on September 28 and introduced to his Moldovan counterpart Natalia Gherman provisions of the Development Cooperation Programme for 2011-2017, through which the Czech Government intends to implement a series of sector projects in Moldova in several areas: social infrastructures and services, drinking water supply and sanitary services, agriculture, protection of environment, education development, transformation of state administration and strengthening of civil society. [According to MFAEI](#), officials considered the possibility to support Moldova in the Visegrad Group, which the Czech Republic chairs since July 1, 2011.

3. Multilateral cooperation

Republic of Moldova – GUAM

The Minister of Foreign Affairs and European Integration, Iurie Leanca chaired, on September 29, the meeting of GUAM Council of Foreign Ministers, whose chairmanship is presently held by the Republic of Moldova. [According to a MFAIE statements](#), the participants tried to find new prospects for cooperation within GUAM, in economic, commercial areas, transport and energy infrastructure, fighting organized crime, tourism, prevention of exceptional situations. At the same time, the participants stressed that the deepening and developing cooperation with the European Union remains a priority for GUAM states. G As an outcome of the meeting the [GUAM CMFA Warsaw Statement on](#)

[the prospects for cooperation and European integration](#) was signed, Plan of Action of sectoral cooperation facilitation was endorsed.

Republic of Moldova – Council of Europe

ECHR judgments

The European Court of Human Rights (ECHR) passed decisions on following [applications](#) in September: Ion Ghetan vs. Moldova, Galina Topa vs. Moldova, Victoria Gatlan vs. Moldova, Gheorghe Tricolici vs. Moldova, Petru Savcenko vs. Moldova, Vladimir Dragan vs. Moldova, and Carnex S.R.L. vs. Moldova. The Moldovan Government agreed on an amicable resolution of all these applications, pledging to pay an overall amount of 13,984 Euros.

Republic of Moldova – UN

From 1 to 8 September 2011, Heiner Bielefeldt, the United Nations Special Rapporteur on freedom of religion or belief, undertook a country visit to the Republic of Moldova, including its Transnistrian region. The purpose of this visit was to identify good practices, as well as existing or emerging obstacles to the full enjoyment of freedom of religion or belief. During the visit, the UN Special Rapporteur met with high-ranking officials of Moldovan Government, MPs, representatives of the judicial system, the Parliamentary Advocates (Ombudsman institution), local authorities, and representatives of religious communities, journalists and NGOs.

In the [preliminary report](#) on his visit, Heiner Bielefeldt state that although the situation of freedom of religion or belief has improved in recent years, „there are still important challenges ahead to ensure the full enjoyment of human rights for all on the basis of non-discrimination and equality”. The following list of specific issues with regard to freedom of religion or belief was presented by the UN Special Rapporteur on freedom of religion or belief:

- lack of comprehensive anti-discrimination law;
- overly predominant position of the Orthodox Church which enjoys a privileged status at variance with the constitutional provision of a secular state, thus affecting the respect of freedom of religion or belief of the religious minorities;
- manifestations of intolerance, cases of incitement to hatred, incidents of intimidation or vandalism towards members of religious and sexual minorities;
- restrictions on registering of religious denominations imposed by the Transnistrian administration;
- lack of alternative military service in Transnistrian region, base on **conscientious objection**.

The findings presented in this preliminary report will be further elaborated before submitting the country report to the United Nations Human Rights Council in March 2012.

Note by ADEPT: The conclusions of the United Nations Special Rapporteur on freedom of religion or belief generated negative reactions from the representatives of Orthodox Church of Moldova, that claimed that the purpose of the visit was to promote the anti-discrimination law and the insertion of the „sexual orientation” term into the legislation, and less to identify the issues of freedom of religion.

Republic of Moldova – CIS

The acting president of Republic of Moldova, Marian Lupu, participated at the CIS Heads of States meeting, held at Dushanbe, Tajikistan on 2-3 September. Participants at the summit reviewed the results achieved within CIS and its future objectives and signed a Statement over the 20th anniversary of the Community of Independent States. During the summit, Marian Lupu met with the Ukrainian president, Victor Ianukovici, Russian president, Dmitri Medvedev, Kazakh president, Nursultan Nazarbaiev.

V. COMMENTS

Who is afraid of early elections?

By Igor Boțan

Moldova will mark on September 11, 2011 two years since it has no elected chief of state and one year on September 28, 2011 since the Parliament was dissolved, so that no obstacles and grounded justifications could postpone now the procedure of election of the chief of state. The Party of Communists of the Republic of Moldova (PCRM) and the Liberal Democratic Party of Moldova (PLDM) contest the expectations of the Democratic Party of Moldova (PDM) and the Liberal Party (PL) that the September 20 bill of the Constitutional Court will give green light to the elaboration of a simplified procedure, with derogation from express provisions of the Constitution which require a qualified majority of at least 3/5 votes of elected deputies. Therefore, the autumn political season could be very hot, but it is not clear what scenario is credited with best chances to succeed.

It is certain so far that AIE member parties do not want the eventual launching of the president election procedure to fail and challenge early parliamentary elections. Premier and PLDM leader Vlad Filat reiterated at a news conference on August 26 that “the chief of state will be elected this autumn,” and “early elections would be a catastrophe for the Republic of Moldova.” Premier Filat’s statements that “things are wrong” and Moldova runs the risk of “mafiotisation” explain why he fears that eventual early parliamentary elections would be “a catastrophe for the Republic of Moldova.” Indeed, they would be a catastrophe for AIE, which persuaded the public opinion that intestinal dissensions obstruct it to rule the country.

It is worth to note in this context that Premier Filat’s conviction that “the chief of state will be elected this autumn” was followed by an immediate reaction by PCRM leader Vladimir Voronin, who informed that Zinaida Greceanii will run for presidential elections on behalf of his party. Since AIE is not capable any longer to nominate a candidate to run for the post of chief of state, it is logical for PCRM to take over the initiative and impose its own candidate, turning down any formerly announced possibility of compromise such as the consent to choose a candidate. PCRM does not need any longer to boycott the election of president, since there is no risk now that AIE could convert several PCRM deputies to elect the consolidated candidate of AIE. On the contrary, PCRM is interested to give a death blow to AIE.

By promoting an own candidate to the office of chief of state, PCRM breaks out of suspicions that it would like to maintain the political instability or challenge early parliamentary elections. The political instability is fuelled by tensions and disputes inside of AIE. Even more, PDM and PL leaders have constantly disliked the idea of reaching a compromise to choose an “apolitical” candidate. That’s why the PCRM is ready to act accordingly to approaches by PDM and PL. By promoting an own candidate, the PCRM imposes AIE components either to elect it, or to be blamed for eventual early parliamentary elections.

The first case deals with the so-called broad coalition, which the PCRM would gradually reduce to the convenient formula needed to take over control on executive authority, by eliminating “nationalist extremists” and “mafia” elements. If early parliamentary elections take place, the PCRM can build upon an absolute victory, as the recent local elections proved a very high rating of the party. Anyway, the PCRM has almost certain chances to become the key centre of coagulation for a coalition. It is worth to note that the PCRM will

hold the best and most persuasive campaign in case of eventual early parliamentary elections, and it would just have to use in its electoral clips excerpts from statements of AIE leaders about each other and “crimes” they committed. In addition, the ethnic-linguistic fragmentation of society preserved with efforts of PCRM on one hand and of PL on the other hand makes preferences of electors very rigid and implies the improvement of electoral sector of PCRM and perhaps of PL in an almost guaranteed manner. Of course, this would be done on account of “pragmatic” parties PDM and PLDM, whose leaders are key producers of irreconcilable conflicts inside of AIE.

In both cases described above the PCRM would enjoy the largest field of manoeuvre between PLDM or PDM, which would probably compete for the honour to be subordinated partners of PCRM. For these reasons, it could happen that Premier Vlad Filat hurried up to assure that “the chief of state will be elected this autumn.” He could need more time to meditate on eventual scenarios. So, he could have to make a choice between becoming a subordinated partner of PCRM and keeping a firm hold on the CC bill along with PDM and PL, so that to save time and hope that parties are still able “to mend matters”. But there could also be original solutions that the public opinion has no idea about.

Performance of banking system and non-performing loans

By Iurie Gotisan

The banking system is definitely regarded as the most stable of all sectors of domestic economy, a fact which is often underlined by financial assessment agencies, international funders and foreign investors. However, interest rates (both on interests and on loans) are pretty high so far, as often signalled by economic agents and population in general. A comparison with regional systems would prove that interest rates are reasonable enough, given the risks and the massive exposure of economy to the exterior. The nominal interest rates dropped down to the historical minimum of 16 percent. However, the real interest rates reached the level of before the crisis. This trend continued in the first half of 2011, with the nominal rate of credits reaching 14.2 percent, while the real rate was 6.5 percent.²

On the one hand, its integrity (*penetration*) level in the economic system is relatively modest. For example, the share of loans in GDP is about 34 percent. Well, their share was 40 percent in 2007, but the share of loans in GDP dropped in 2008-2010, following the regional crisis which hit the domestic market. On the other hand, perhaps, the more or less restrictive policy of the central bank advantaged commercial banks and economy in general to avoid a system crisis, on background of participation of banks in different risky projects, including mortgage-related. This fact strongly fuelled non-performing loans.

If one remembers, the share of bad loans on system was high enough two years ago, around 20 percent of all credits. Commercial banks credited at large at a certain period, without imposing any conditions, particularly consumption and mortgage projects for developers. It was a consumption boom, as consumption credits were fancy and could be easily contracted. Even more, many banks launched into mortgage projects without assessing judiciously the risks and consequences, so that many of them face difficulties today to get back their money (one of them even went bankrupt) or many of these credits were declared as non-performing.

Even more, IMF experts raised concern while on the recent assessment mission during September 13-21 with the delay in adopting a package of legislative amendments needed to facilitate bank mortgage restructuring, collateral execution, and resolution of debtor insolvency, a reform outstanding from 2010. According to IMF representatives, „a swift Government approval of the drafted amendments and their speedy consideration by Parliament would greatly facilitate a reduction in banks' bad loans and a concomitant increase in new lending. Similarly, parliamentary passage of the draft package of laws to resolve the difficult situation in Banca de Economii stemming from its involvement in the resolution of the failed Investprivatbank should proceed without further delay.

However, the share of bad loans in all credits on banking system was more than 9 percent in late August, or it was over 13 percent early this year. Thus, following the crisis occurred in 2009, the system or banks became more reticent with credit release, introducing stricter conditions and severe requirements for companies, as well as for population. This attitude developed despite the fact that the liquidity rate is one of highest in the region, but banks are very cautious while providing credits. It is harder now to get consumption credits than 2-3 years ago.

A high indicator definitely influences the crediting policy of banks, too, as they increase interest rates, introduce additional/collateral or management costs, etc. As a rule, bad loans or their share in all credits granted by banks are invoked by banks as a key cause of the high interest rate. At the same time, the more expensive the credits are, the higher the

² A. Lupusor, A. Babin, Expert-Grup research „A Diagnostic analysis of the Moldovan banking system in the context of signing a Deep and Comprehensive Free Trade Agreement with EU”, Chisinau, 2011.

risk of rise in bad loans is. Or, by using high interest rates, banks are trying to ensure their profitability, or to reduce their losses in the worst of cases.

The crediting-related risk is high enough in the current post-crisis conditions. For this reason, high interest rates on credits are justified by the so-called risk premiums, which increased exponentially. However, banks should be more distinctive while crediting businesses and population, as their crediting situation is not the same. The position of some firms or companies is not so bad despite the crisis. Notwithstanding, the very high interest rates may deteriorate the financial condition of banks, and they are not interested in such a possibility. Therefore, banks should estimate well their crediting-related risk, should be more select and accept lower rates for safer credits. Otherwise, the high share of non-performing loans could persist for a long time.