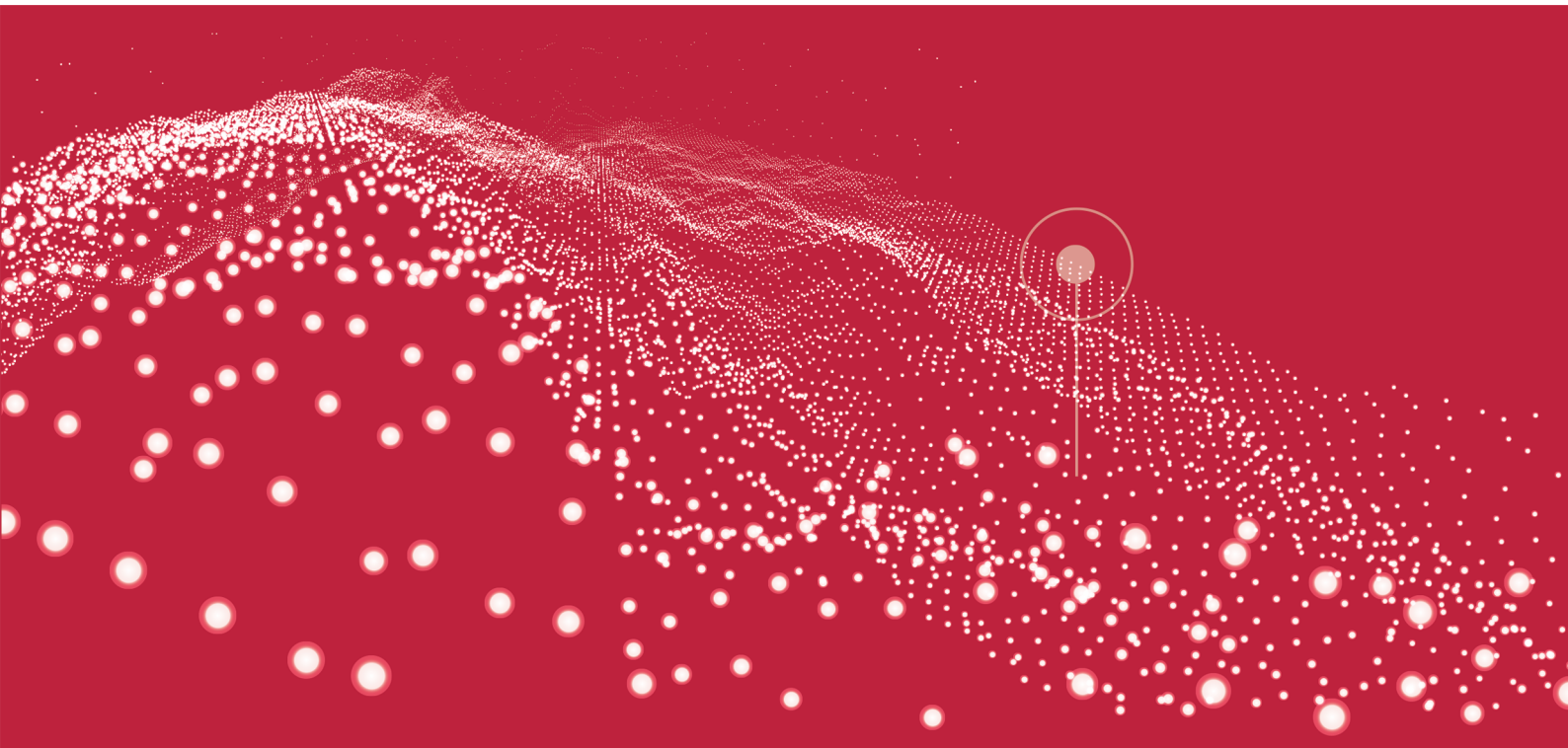




Republic of Moldova

# STATE OF THE COUNTRY REPORT

2022



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## STATE OF THE COUNTRY REPORT

With the  
support of:



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Chisinau, 2022

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# Abbreviations

<b>CSM</b>	SUPREME COUNCIL OF MAGISTRACY
<b>CSP</b>	SUPERIOR COUNCIL OF PROSECUTORS
<b>EBRD</b>	EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT
<b>ENTSO-E</b>	EUROPEAN ELECTRICITY TRANSMISSION NETWORKS
<b>EU</b>	EUROPEAN UNION
<b>FACEM</b>	FUND FOR ENTREPRENEURSHIP AND ECONOMIC GROWTH OF MOLDOVA
<b>FATF</b>	FINANCIAL ACTION TASK FORCE
<b>FES</b>	FRIEDRICH-EBERT-STIFTUNG
<b>HORECA</b>	HOTELS, RESTAURANTS AND CAFES
<b>LCR</b>	LIQUIDITY COVERAGE RATIO
<b>LGBTQ</b>	LESBIAN, GAY, BISEXUAL, TRANSGENDER, AND QUEER
<b>GDP</b>	GROSS DOMESTIC PRODUCT
<b>MDL</b>	MOLDOVAN LEU
<b>NBM</b>	NATIONAL BANK OF MOLDOVA
<b>NBS</b>	NATIONAL BUREAU OF STATISTICS
<b>ODA</b>	ORGANIZATION FOR ENTREPRENEURSHIP DEVELOPMENT
<b>ODIMM</b>	ORGANIZATION FOR DEVELOPING SMALL AND MEDIUM ENTERPRISES
<b>OSCE</b>	ORGANIZATION FOR SECURITY AND COOPERATION IN EUROPE
<b>PAS</b>	ACTION AND SOLIDARITY PARTY
<b>PPRR</b>	PREVENTION, PREPARATION, RESPONSE AND RECOVERY
<b>PSRM</b>	SOCIALIST PARTY OF MOLDOVA
<b>ROE</b>	RETURN ON EQUITY
<b>ROA</b>	RETURN ON ASSETS
<b>SME</b>	SMALL AND MEDIUM ENTERPRISE
<b>Q1</b>	QUARTER 1
<b>USD</b>	US DOLLAR
<b>UTA</b>	TERRITORIAL-ADMINISTRATIVE UNIT
<b>Y-O-Y</b>	YEAR-ON-YEAR

**Moldova's experience in the years 2021-2022 has demonstrated a contrast between a relatively adequate functioning of democratic mechanisms in parallel with weakly functioning state institutions and systems.**

It is important to note the substantial and peaceful change of power that took place in 2021, based on a democratic vote that resulted in the installation of a pro-European, pro-reform, and anti-corruption government. The latter won not only the popular vote but also the support of the West and other development partners, which was manifested in an increase in external financial, technical, and political assistance, as well as in the Republic of Moldova obtaining candidate country status in regard to joining the European Union (EU). However, these democratic and external successes have not been fully translated into tangible domestic achievements. A series of systemic reforms have either been postponed (e.g. administrative-territorial reform, local public administration reform, pension system reform), or are proceeding at a slow pace (e.g. justice reform, public administration reform, wage policy reform in the public sector, public finance management reform, digitization/reform of state enterprises). In the first case, the fault lies with the numerous shocks, crises, and emergencies that have "captured" the Government's agenda (e.g. the energy crisis, the war in Ukraine, infla-

tion, and drought), which, combined with the limited capacities of public institutions, have prevented allocating time, energy, and resources to systemic reforms. However, another cause, no less important, relates to the system's resistance to reforms and its non-adaptation to democratic transformations. This takes the form of sabotaging, directly or indirectly, change initiatives and/or hijacking the reform agenda. This problem is also aggravated by the limited experience the majority of heads of state institutions have of working in public institutions, since most were appointed during the period analysed by this report. The system's resistance to reforms is not a new phenomenon for the Republic of Moldova, but against the background of the pro-reform rhetoric of the ruling party, and the electoral promises made by its exponents, the problem has become even more visible. This contrast between the democratic transformations taking place and the rigidity of the system also explains the political volatility and frequent changes of governments in the country, which occur against a background of slow progress on systemic and structural reforms – phenomena that have been particularly evident since 2009.

**The political alignment of the different branches of power in Moldova has created both advantages and disadvantages as regards governance. On the one hand, it ensures stability, continuity, and predictability. On the other, it generates risks of non-compliance with the principle of separation of powers.**

The takeover of the government by a single party with reformist and pro-European intentions has partially improved the decision-making process. However, in the attempt to increase the speed of reforms, governance has sometimes overlooked the principles of transparency and inclusiveness, with reforms in some sectors (e.g. justice system reform, local public administration reform) being highly politicized, subordinated to the political calendar of the ruling party, and

communicated to stakeholders in an inconsistent way. The government has also tried to surround itself with a protective circle of people in what is still an unreformed system. The recruitment policy chosen by the ruling party has sought to attract those who are compatible with its (geo-) political aspirations, and who have the necessary training and integrity to carry out the planned reforms in the manner proposed by the current leadership of the country.

**Moldova's candidate country status in regard to membership of the EU gives an entirely new strategic and practical significance to the European integration process for the country.**

From now on, the national reform agenda must be combined with European integration priorities in order to produce effects in both directions. Moldova's EU candidate country status maximizes the requirements of the EU and, at the same time increases Moldova's political com-

mitment in a policy context that is no longer reduced to the technical implementation of the Association Agreement. Thus, progress in the pre-accession process will depend on the authorities' ability to integrate the EU's political requirements into the national reform agenda.

**Overcoming structural difficulties on the way to progress in (pre-) accession negotiations depends not only on the political will of the authorities, but also on the capacity of the government apparatus in terms of European integration.**

The relatively limited knowledge of EU policies among figures in the Moldovan government was not a problem due to the constrained ambitions of both parties (Moldova and the EU) during the previous implementation of the Association Agreement. Moldova's EU candidate country

status implies a need for radical change in approach. Moldova must identify and employ human capital with knowledge and practical experience in the field. This means, on the one hand, training existing staff, and, on the other, attracting individuals from the diaspora.

**In the period analysed in this report it became very clear that the main factor that can, even in the face of the system's resistance, ensure the effective promotion of reforms – especially unpopular ones – is external pressure.**

On the one hand, this can take the form of negative pressure, such as exogenous crises/shocks that dictate urgent structural changes internally, along the lines of the energy crisis which has been induced by external factors. Indeed, the reality now confronting the country has determined, for the first time in the last 30 years, a true security, diversification, and

energy efficiency agenda. On the other hand, it can take the form of positive pressure exerted by development partners, by establishing conditionalities for providing their support. The most recent case of such pressure is the list of reforms that the European Commission highlighted when it granted Moldova EU candidate country status.

**Exogenous crises have, on the one hand, exposed the state's vulnerabilities, and, on the other, tested the government's capabilities.**

Since taking power in August 2021, the Action and Solidarity Party (PAS) has had to respond to a series of crises, which were amplified by the aggression by the Russian Federation against Ukraine, launched in February 2022. Two of these crises – the COVID-19 pandemic and the energy crisis – continued from 2021. The other crises – the refugee crisis and the security crisis – arose due to Russia's war and the secondary implications of Western sanctions against Russia. Moldova's ability to manage these crises, and to mitigate

their negative consequences, has largely been due to the external assistance it has received from the EU, other Western partners, and international organizations. Nevertheless, Moldova remains vulnerable to exogenous crises, both as a result of its interdependence in relation to external factors (energy, trade, transport, etc.), and because of the country's weak institutions, which are further undermined by kleptocratic groups of Moldovans that have obtained refuge abroad (e.g. in Israel and the United Kingdom, etc.).

**In addition to the slow pace of reforms, coupled with the rapid increase in prices, the national economy is also expected to be affected by other shocks going forward. The Moldovan economy will go through a phase of stagflation in 2022, followed by a slow recovery in 2023.**

The biggest challenge for the economy is the escalation of security risks in the region, due to the Russian invasion of Ukraine. In addition to the fact that trade with the Russian Federation, Belarus, and Ukraine has been compromised, uncertainty has also increased, which has significantly reduced the investment appetite of economic agents both inside and outside of Moldova. At the same time,

the tightening of monetary policy has increased the cost of finance for business, while unfavourable weather conditions have affected agricultural production. In this context, the economic outlook for 2022 is pessimistic: in addition to an average annual inflation rate close to 30 percent, mainly determined by the increase in import prices, economic stagnation is also anticipated.

**The perpetuation of the various shocks facing the country reduces the growth potential of the national economy. This will constrain gross domestic product (GDP) growth and will impact household incomes in coming years.**

While GDP grew at an average annual rate of 4–5 percent between 2016 and 2019, and while in 2021 Moldova recorded its highest economic growth in its history (13.9 percent), the long-term economic dynamics are now slowing. Thus, potential GDP growth rates have decreased from 3.5 percent in 2016 to 2.2 percent in 2022. This trend will

continue in the coming years and will impose constant constraints on both household income and the State Budget. In this context, one of the main preconditions for boosting economic growth is the promotion of reforms and the establishment of good governance in public institutions and state-owned companies/enterprises.

**Ensuring the rule of law and the effective implementation of the regulatory framework remain the main ways of ensuring a favourable business climate.**

In the 2022 edition of the Economic Freedom Index, produced by the Heritage Foundation, the Republic of Moldova<sup>1</sup> scored 61.3, ranking 78 at the international level and coming 39th out of the 45 states in the European region. Over the past five years, economic freedom has continued to expand slowly, so that Moldova remains in the “moderately free” category for the third consecutive year.<sup>2</sup> Of the 12 indicators that make up the Economic Freedom Index, Moldova’s worst performance is on judicial effectiveness and government integrity. It also has a lot of room for improvement on the indicators related to investment freedom, financial freedom and property rights. At the same time, Moldova is in a favourable competitive position in terms of the indicators relating to fiscal burden and fiscal resilience, as well as monetary and trade freedom.

In the same context, the latest assessment of the investment climate carried out by the US State Department is relevant.<sup>3</sup> Although this assessment finds that during the activity of the current government, which is perceived as pro-reform, Moldova is making progress in terms of economic reforms and strengthening democratic institutions, it also identifies challenges to the business climate in the country. These relate to the lack of effective and fair implementation of laws and regulations, as well as arbitrary and non-transparent decisions by government officials, which give domestic producers in certain fields an advantage over foreign competitors. Another aspect highlighted is that the government is free to invoke, in a relatively discretionary way, public security or the general social welfare as reasons for intervening in the economy, a fact that often contravenes the principles of the free market.

**The business environment remains resilient against the backdrop of the current crises.**

Despite the numerous crises facing the country, important structural changes in

the field of entrepreneurship have been observed: while in the period 2017–2020

<sup>1</sup> [https://www.heritage.org/index/pdf/2022/countries/2022\\_IndexofEconomicFreedom-Moldova.pdf](https://www.heritage.org/index/pdf/2022/countries/2022_IndexofEconomicFreedom-Moldova.pdf)

<sup>2</sup> The 2022 edition is based on data collected in the second part of 2020 and the first part of 2021

<sup>3</sup> <https://www.state.gov/report/custom/a72af03f87-3/>



the number of established businesses was constantly lower than the number of closed ones, in the period 2021–2022 a reversal of the situation is observed, with registered companies beginning to outnumber closed ones. In the context of economic, inflationary, energy and security crises, such a structural change means an improvement of the business

environment and creates a solid basis for economic recovery. This trend may be the result of the new support programmes in the field of entrepreneurship, launched by the Organization for Development of Entrepreneurship, but it may also be a result of a qualitative change of perception on the part of the business world regarding the business environment in the country.

**In addition to its dramatic social implications, the pronounced inflation of 2022 has highlighted some fundamental shortcomings of the Moldovan economy, especially those related to reduced competitiveness and the poor quality of the competitive framework.**

It is certainly true that the main inflationary factors are external, being mainly determined by the increase in global prices, especially for energy and food resources. These phenomena have led either to a direct increase in the prices of consumer products, or to an increase in production costs. However, the increase in prices is also the result of a number of internal shortages. Compared to previous years, a new phenomenon has emerged: according to data from the first seven months of the current year, there is a major discrepancy between industrial prices for the local market

(+32 percent) and those for export, which increased at a rate more than three times lower (+9). This phenomenon has several explanations: i) the existence of a series of industrial products that are sold only on the local market; ii) the need for exporters to honour previously concluded contracts; iii) the pressure of competitiveness, in order to keep customers even at the limit of the break-even point; or, iv) the possibility of operating with lower margins due to the higher volumes sold. At the same time, it reveals the shortcomings of the competitive framework in Moldova.

**The numerous crises in the 2020–2022 period have revealed, in addition to the limited presence of business support resources, the fact that the tools available for intervention are extremely rudimentary.**

These crises, which started with the COVID-19 pandemic, have also brought to the fore the fact that the insufficiency of financial resources is not the only challenge in regard to the state providing support to the business environment. The lack of support mechanisms for systemic interventions has led to a situation where even the somewhat modest amounts provided, planned in the Budget, could not be assimilated, against a background of institutional and administrative barriers, and the establishment of some types of ad hoc support. In this context, the effort made in the last year by the government to develop forms of support that have a sustainable character and that can be used by the state in the future, whenever the need arises, is welcome. Several such measures can

be mentioned: i) allowances amounting to 50 percent of their basic salary for employees who are technically unemployed, if the activities of the economic agent are suspended; ii) the reduced activity regime (of the “Kurzarbeit” type), which provides for granting an allowance of a maximum of 50 percent of the amount of the average salary for the economy forecasted for employees with a reduced activity regime; iii) the reorganization of ODIMM within the Organization for Development of Entrepreneurship, facilitating small and medium-sized enterprises’ access to the programmes of support; and, iv) the establishment of the Fund for Entrepreneurship and Economic Growth of Moldova (FACEM), which is a low-cost state financing tool for investment projects initiated by entrepreneurs.

**Against the backdrop of difficult economic and social realities, the stability of public finances has been maintained mainly thanks to external financial support.**

According to the latest budget correction, the Republic of Moldova will have an estimated State Budget deficit for this year of 6.2 percent of GDP or MDL 17.2 billion. Most

of the expansion of public spending has been directed towards the social sectors, largely to protect the incomes of the most vulnerable groups, which have been se-

verely eroded by inflation. For this year, the budget deficit has been covered exclusively from external resources. Given the large deficits accumulated in 2020–2022, and the likelihood of an equally significant budget deficit for 2023, to mitigate the effects of the concurrent crises, there

is uncertainty and fear among the business community about the prospects for an increase in the fiscal burden in the next period. However, it is obvious that, in the medium and long-term, the Republic of Moldova cannot afford to sustain enormous deficits without adjusting its tax rates.

**Based on the above-mentioned constraints, the report formulates the following strategic priorities for the coming years:**

- *Promoting public administration reform. The success of other reforms depends on this and it must aim to promote an attractive, competitive and performance-based wage policy in the public sector. There is also a need for flexibility in regard to firing inefficient officials, and for new hires, in parallel with the depoliticization and professionalization of the public administration, as well as flexibility in the procedures for reorganizing public institutions, in addition to their full digitization.*
- *Increasing capacity to assimilate foreign assistance. In the context of increasing external financial and technical support, the issue of the capacity to absorb this support has become even more relevant. Accordingly, the public administration reform must also aim to strengthen the institutional capacities of the public authorities, especially the State Chancellery and the Ministry of Finance, in order to be able to coordinate external assistance. It is also necessary to implement donor requirements regarding public procurement, to improve policy and budget planning, and to strengthen inter-institutional cooperation.*
- *Reviewing the legal and institutional constraints that prevent reforms from moving forward. It is necessary to evaluate the appropriateness of establishing effective sanctions for cases of sabotage within public institutions. It is also necessary to review the procedures by which legal bodies can open criminal cases against high-level public officials, including reducing discretion, which carries a risk of abuse, as well as to ensure legal protection for public officials, modelled on the principles of independence applied to central banks.*
- *Making public communication on the reform agenda more efficient. Communication must be frequent, well-targeted and relevant, to explain to the population/electorate the need for reforms, the rationale for certain actions/policies, and to prevent/combat populism and misinformation.*
- *Increasing the level of accountability of parliamentarians. The presidency, civil society, parliamentary and extra-parliamentary political parties, as well as the development partner community, must draw more attention to the decision-making process within parliament. This is necessary because it perpetuates some old deficiencies related to transparency, inclusiveness, and even risks of lobbying by various obscure interests. At the same time, there still exist cases of draft laws being promoted without tangible evidence, or of the legislature skipping certain important steps in the decision-making process, especially when it comes to analysing the impact of regulations. There is thus a need for permanent and thorough monitoring of the parliamentary agenda, and the way decisions are made in the supreme legislative forum.*
- *Strengthening energy security. The Republic of Moldova must fully capitalize on the unique historical opportunity currently available to restructure its energy complex. This can be achieved through external pressure, coupled with full support, from development partners, by reducing energy dependence on the Russian Federation, increasing energy efficiency, and developing renewable energy sources.*
- *Anchoring and aligning promoted public policies to the strategic framework. With the approval of the “European Moldova 2030” national development strategy, whose priority directions are clearly assigned to the expenditure programmes of the Medium-Term Budget Framework, it is important that this exercise be extended to all strategic planning documents. The adoption of strategies and programmes whose targets, from the start, are not feasible in relation to the actual possibilities undermines the effective implementation of public policies.*
- *Ensuring a transparent, inclusive and dynamic European integration process. The implementation of the pre-accession and EU accession agendas must be well-communicated internally and must involve all interested parties as fully as possible. Only in this way will it be possible to consolidate, at both the national and local levels, a sense of ownership over the respective agenda – the main element in ensuring its sustainability and irreversibility. Both the particularities of the European integration process and the benefits for the population must be part of a clear and evidence-based communication strategy.*

# Executive summary

## Special issue:

### the Republic of Moldova and EU candidate country status – the “Europeanization” of reforms

In the context of the collapse of regional security and numerous overlapping crises associated with the Russian military aggression against Ukraine, launched in February 2022, the Republic of Moldova has managed not only to avoid destabilization but also to obtain the definitive validation of its European ambitions by the EU. This materialized in June of this year when Moldova was granted candidate country status by the EU. In strategic terms, Moldova has been incorporated into the European Enlargement Policy,

which differentiates it from other participants of the Eastern Partnership. With the EU’s geopolitical borders moving to Ukraine’s border with the Russian Federation, the Republic of Moldova has the opportunity to align itself more effectively with the liberal value system. At the same time, EU candidate country status increases the degree of solidarity and political attention given to Moldova by the EU. In other words, Moldova is no longer being treated as part of the grey area that previously separated Russia from the EU.

## Companies

Despite the ongoing crises, the business sentiment remains resilient. Moreover, since the second half of the year, a trend reversal has been observed, whereby the number of newly established businesses now exceeds the number of closed enterprises. In the real sector, agriculture continues to be severely affected by climatic phenomena, and after a record harvest in 2021 a decline of around 15 percent year on year (y-o-y) is expected this year. Industry has entered a negative period, being pulled down by the energy and automotive sectors. In services, the dynamic of retail trade is being eroded by inflation, while freight transport and logistics are capitalizing on the new situation which has arisen as a result of the Russian invasion of Ukraine. Local private capital remained investment-oriented both in 2020, during the height of the COVID-19 pandemic, and in the current year, being the most reliable source of investment financing for the economy. The transparent and well-capitalized banking sector has now become part of the solution to crises and

not a generator of them. The high demand for financing from firms is keeping lending afloat, even in conditions of persistent inflation.

Ensuring the rule of law and the effective implementation of the regulatory framework remain the main vulnerabilities in regard to ensuring a conducive business climate. The numerous crises in the period 2020–2022, against a background of limited business support resources, have also revealed the fact that the state’s intervention tools are extremely rudimentary. Thanks to external support, this year the government did not increase fiscal pressure, but the business sector is worried about a possible increase in tax rates in the future, as a result of the expansion of social expenditure. The policy recommendations include, in the current inflationary context, the expansion of loan guarantee schemes, combined with preferential interest rates, in order to maintain a high degree of confidence in the private sector, but also the prioritization of public

investments in infrastructure, in order to reduce the pressure arising from Russia's invasion of Ukraine. At the same time, actions to reduce the administrative pressure for companies are also recommended, in the form of reforming the control institutions

and building a simplified activity regime for micro businesses. In the foreground are recommendations to increase the economic resilience of local producers, as well as to conduct a sectoral evaluation of the competitive framework.

## People

The National Bank of Moldova (NBM) anticipates that in 2022 average annual inflation will reach 29.5 percent. The main factor that has determined this increase in inflation is an increase in import prices. In fact, importing inflation is one of the main channels through which external shocks – the increase in international prices and the Russian military invasion of Ukraine – have impacted the economy. In addition to the rapid rise in prices, the increased economic uncertainty caused by the war in the neighbouring country has caused a reduction in investment activity. This investment setback is also conditioned by the measures taken by the NBM, which tightened monetary policy in order to stabilize price dynamics.

Another shock relates to the dry weather conditions that have affected the agricultural sector. In this context, the Moldovan economy will most likely shrink by 1–2 percent in 2022. In January–June 2022, the high level of inflation led to a reduction in

real labour earnings (-8.2 percent y-o-y) and remittances (-20.6 percent y-o-y). However, the real pension rose (5.1 percent increase y-o-y). The increase in the real value of pensions indicates that the actions of the government aimed at maintaining household incomes had a positive effect, and, consequently, it was possible to maintain household consumption. In the short-term, under conditions of high inflation, the government increases social spending, in order to support the population's income. However, in order to ensure the efficiency of spending, the assistance from the state must be well-targeted, so that the most vulnerable social categories are supported. Also, in order to support these policy interventions, the government needs external financial support, mainly in the form of grants. Such an approach can prevent the growing burden of social expenditure being translated into an increase in public debt to an unsustainable level, which, in the medium-term, represents a premise for promoting a stimulatory fiscal-budgetary policy.

## Governance

The main developments in the field of governance helped to lay the foundations for a series of favourable transformations in the field of domestic and foreign policy in the period 2021–2022. The democratic change of government, and the election of pro-reform forces, advanced the dialogue with the EU and other Western partners. The credibility of the government and its geopolitical synchronization with the Western political agenda facilitated access to vital resources, which have been used to ensure more effective management of crises. External circumstances have become the major source of insecurity for the country (in particular, Russia's military aggression against Ukraine), having a significant impact on socio-economic and political stability. Consequently, the governance process has had to re-prioritize its objectives, putting state resilience

in the foreground, alongside physical interconnection and political alignment with the West.

The construction of an integral and functional rule of law is treated by the ruling elites, further, both as a way of strengthening public institutions and as serving the imperative of fulfilling the EU's requirements. However, the government shows insufficient political will to fully ensure the separation of powers in the state and inclusive decision-making procedures in relation to the opposition, critical voices from civil society, as well as representatives of the local public administration (Territorial-Administrative Unit (UTA) Gagauzia). Serious deficiencies in governance have also been seen in the area of strategic communication regarding the reforms and decisions adopted within the framework of crisis management.

Special topic:

## Republic of Moldova and EU candidate country status – the “Europeanization” of reforms

In the context of the collapse of regional security and the numerous overlapping crises associated with the Russian military aggression against Ukraine, launched in February 2022, the Republic of Moldova has managed not only to avoid destabilization but also to obtain the definitive validation of its European ambitions by the EU. Some 17 years after the initiation of the EU–Moldova Action Plan, followed by the Association Agreement with the EU in 2014, on 23 June 2022 the European institutions recognized Moldova’s European perspective. The decision to grant

Moldova (and Ukraine) EU candidate country status happened quickly, within only four months (March–June), unlike the bloc’s previous approach vis-à-vis the Western Balkans. The fact that there are pro-European political forces in government, who are treated with trust by the EU institutions and states, was beneficial for Moldova’s European integration process. The political support of Ukraine, and the technical contribution of civil society and diaspora representatives, in solidarity with the government, created a “virtuous circle” around Moldova’s cause.

### The transformation of the European integration process: between more exigency from the EU side and better verified reforms at home

Having obtained candidate country status, the Republic of Moldova has now entered another stage of the European integration process, which is based on a more rigorous mechanism of external verification and internal reporting.

The processes triggered by obtaining EU candidate country status generate a new type of European integration for Moldova. More precisely, the obligations imposed on Moldova with regard to required reforms exceed those under the Association Agreement with the EU, according to which the Moldovan authorities had a relatively high degree of flexibility. The instruments used to implement the Association Agreement will be adjusted in order to meet the conditions required by the EU, before deciding on the accession negotiations. The calendar for these ne-

gotiations is unknown and depends on the external and internal political predisposition, but also on how political perceptions are influenced by the quality of the progress achieved by the Moldovan authorities.

Moldova’s EU candidate country status can play a major transformative role for Moldova as it: (1) increases political accountability for deviations from reforms or democratic norms; and, (2) results in the allocation of external (European) resources to drive internal change.

- 1) **Tightening the “rules of the game”.** As a result of its inclusion in the EU enlargement package, the Republic of Moldova will be subject to comprehensive, intrusive and punctual monitoring by the EU, instead of the rather descriptive and superficial evaluation formats used in the past. Moldovan political actors and public institutions will need to report progress in implementing reforms, as failures will have high political costs. Therefore, the room for political manoeuvre in the decision-making process will be considerably reduced. Additionally, Moldova’s political actors will face greater responsibility in regard to mimicking, postponing or interrupting reforms, as well as in regard to non-democratic deviations.
- 2) **Increasing resources for the national reform process.** Its candidate country status integrates Moldova’s needs into the EU’s multiannual financial planning process, which will involve a series of national and European political negotiations and decisions. As a result, the Republic of Moldova could receive access to additional financial resources that it has not had at its disposal during the entire post-Soviet period. This could favour the development of genuine processes of political, economic and social transition towards a Western development model. In addition to establishing a strategic development direction, EU candidate country status offers the conditions for making sustainable investments in strengthening state resilience, with an emphasis on the prevention and management of internal and external crises.

## EU conditionalities and Moldova's "roadmap"

EU conditionalities, based on the progress and quality of the reforms implemented by the Moldovan side, will dictate the dynamics of the (pre-) accession negotiations.

The starting point in the pre-accession dialogue was set by the EU Council Conclusions of 23 June 2022,<sup>4</sup> when the Republic of Moldova received EU candidate country status. The process now depends on the requirements indicated in the European Commission Opinion,<sup>5</sup> made public on June 17, being fulfilled. According to the enlargement logic, candidate countries must meet political criteria (viable democratic

institutions), economic criteria (an adequate degree of economic competitiveness), and criteria related to the capacity to fulfil member state obligations (alignment with European legislation). In addition to the evaluation of these three criteria, the Commission's Opinion establishes a list of requirements that the Moldovan authorities must transpose in full in order to proceed further in the pre-accession process.

The requirements set by the EU represent the minimum necessary requirements that Moldova must fulfil in order to advance.

Nine blocks of requirements are indicated in the Commission's Opinion, with 13 measures in total. These relate to five major areas: *justice, anti-corruption policies, the fight against organized crime, local public administration, and human rights and civil society*. Such areas of intervention are highlighted in the pre-accession dialogue that the EU is conducting with Ukraine and the Western Balkans

states. Broadly speaking, European requirements cover the spectrum of major structural problems faced by the Republic of Moldova. The requirements can be analysed through the lens of the following criteria: the specificity of the measures, the duration of implementation, and the degree of involvement of the national authorities. These are discussed below.

Four out of 13 measures are specific and easy to monitor; the rest of the actions are general, which could give rise to subjectivity on the part of the EU when it measures Moldova's progress and formulates potential objections to the Moldovan side. The effort required from Moldova is similar to that required of Ukraine.<sup>6</sup> In the case of the latter, however, 70 percent of the European requirements are specific, as compared to 30 percent in the case of Moldova.<sup>7</sup>

### Specificity

Two out of 13 actions involve highly complex reforms that will require substantial time and resources to produce tangible effects in the near future that are in line with the EU expectations. These measures mainly relate to reform of local public administration.

### Implementation duration

According to the Action Plan developed by the government,<sup>8</sup> and adopted on 4 August 2022, four out of 13 actions can be completed by the end of 2022; the others are expected to be implemented by mid-2023. Furthermore, six out of 13 actions require the implementation of more than five measures to achieve the European requirements, and eight out of 13 actions involve the coordination of actions by a maximum of two state institutions, which might simplify and make more efficient the achievement of the objectives that have been set.

### The degree of involvement of the authorities

<sup>4</sup> EU: <https://www.consilium.europa.eu/en/press/press-releases/2022/06/23/european-council-conclusions-on-ukraine-the-membership-applications-of-ukraine-the-republic-of-moldova-and-georgia-western-balkans-and-external-relations-23-june-2022/>

<sup>5</sup> The European Commission published the Opinion on the candidacy of the Republic of Moldova on 17 June 2022, based on the data collected through the questionnaires sent to the authorities in Chisinau on 11 and 19 April of this year. The completed questionnaires were sent to Brussels on 22 April and 12 May, respectively. The evaluation process in respect of Moldova's candidacy started as a result of the submission of the EU accession application, on 3 March, in parallel with that of Georgia, and as a reaction to the similar approach of Ukraine made public on 28 February 2022. [https://ec.europa.eu/commission/presscorner/detail/en/ip\\_22\\_3790](https://ec.europa.eu/commission/presscorner/detail/en/ip_22_3790)

<sup>6</sup> The requirements in the case of Ukraine make up seven blocks of 11 measures each, while in the case of Georgia there are 12 blocks with 18 actions.

<sup>7</sup> Denis Cenuşa, "The EU membership for Ukraine, Moldova and Georgia: Enlargement from the Western Balkans to the Eastern Partnership", August 2022, EESC, <https://www.eesc.it/en/2022/08/30/the-eu-membership-for-ukraine-moldova-and-georgia-enlargement-from-the-western-balkans-to-the-eastern-partnership/>

<sup>8</sup> Unlike the authorities in Ukraine and Georgia, the Moldovan authorities have developed a public document regarding the fulfilment of the European requirements and have held public consultations on that document. However, the results of the consultations have not been made public, and the authorities have not reported whether they have taken into account critical recommendations from civil society representatives regarding the form and content of the Action Plan.

**Table 1.**

The content of the EU requirements and of the Action Plan for meeting the conditions of the European Commission

EUROPEAN REQUIREMENTS	ACTIONS OF THE REPUBLIC OF MOLDOVA (Number of actions, implementation period, number of responsible institutions)
<b>JUSTICE</b>	
1. Essential steps in justice reform	Five actions/ December 2022/ one institution
2. Filling vacancies within the Supreme Council of Magistracy and its specialized bodies	Two actions/ December 2022/ one institution
3. Resolving deficiencies identified in the Organization for Security and Cooperation in Europe/ Office for Democratic Institutions and Human Rights and Venice Commission recommendations	One action/ October 2022/ one institution
<b>ANTI-CORRUPTION</b>	
4. Fighting corruption	Eight actions/ October 2022–June 2023/ three institutions
5. Increasing the degree of acceptance of the recommendations of the National Anti-corruption Centre	One action/ permanently/ one institution
<b>COMBATTING ORGANIZED CRIME</b>	
6. Deoligarchization	10 actions/ November 2022–June 2023/ seven institutions
7. Combatting organized crime	Nine actions/ December 2022/ four institutions
8. Introducing an asset recovery mechanism	Three actions/ December 2022–June 2023/ two institutions
9. Anti-money laundering legislation in accordance with the Financial Action Task Force (FATF) standards	Two actions/ December 2022–June 2023/ two institutions
<b>LOCAL PUBLIC ADMINISTRATION</b>	
10. Intensification of public administration reform	Four actions/ December 2022–June 2023/two institutions
11. Completion of the public finance management reform	Three actions/ September 2022–June 2023/one institution
<b>MASS MEDIA, HUMAN RIGHTS AND CIVIL SOCIETY</b>	
12. Increasing the involvement of civil society in the decision-making process	Five actions/ November 2022–June 2023/ three institutions
13. Strengthening the protection of human rights and the rights of vulnerable groups, including strengthening gender equality	Eight actions/ December 2022–May 2023/ three institutions

Source: Authors' analysis, with reference to documents published on [www.ec.europa.eu](http://www.ec.europa.eu) and [www.mfa.gov.md](http://www.mfa.gov.md)

## Moldova's ambitions with regard to meeting the EU conditionalities seem rather moderate.

According to the planning framework adopted by the Moldovan authorities, summarized in the table above, it appears that the authorities are treating with a certain moderation the ambitions related to the implementation of the EU requirements. Thus, only 30 percent of the actions (four out of 13) are planned for completion by the end of 2022, when the EU is to publish the first progress evaluation report. Among the priority areas are the justice sector reforms, which, although they were on the government's political agenda as early as 2021, have encountered difficulties related to the integrity of judges and the functionality of self-administration bodies (the Superior Council of Magistracy). At the same time, the planning framework demonstrates a substantial interest in deoligarchization, the fight against

organized crime, and human rights. In order to put these EU requirements into action, Moldovan state institutions have committed to deploying between eight and 10 measures per requirement by mid-2023. Given the somewhat unplanned accession to EU candidate country status, the central authorities currently lack civil servants who are qualified in this area. Therefore, in order to prepare for the pre-accession process, the government has signalled the need to supplement the central administration apparatus by attracting personnel with skills in the field of European integration.<sup>9</sup> The demand for a larger government will now increase, with the establishment of 35 sectoral groups, which are necessary in the next stage of the dialogue with the EU, during the accession negotiations.

## The principle of conditionality remains, but is not linked to the allocation of financial assistance.

On the one hand, the implementation of the requirements set by the EU has certain similarities with the principle of applying the conditionality mechanism used when allocating macro-financial assistance. On the other, the fulfilment of the 13 pre-accession requirements is not conditional on the mandatory allocation of certain European funds. As in the case of the other candidate states, the EU has undertaken to monitor and evaluate Moldova's progress, applying the criteria of objectivity and meritocracy. After presenting the first results of its assessment, in December 2022, the European side can then request additional measures or offer political validation of the steps taken by Moldova. Starting in 2023, the EU will publish country reports,

which will contain an evaluation of the implementation of three aspects: (1) the 13 pre-accession requirements; (2) political and economic criteria and criteria related to member state obligations; and, (3) the developments in the fields evaluated through the questionnaires sent by the Moldovan side before the EU granted candidate country status (in April–May 2022). The reports published by the EU after 2022 will describe the dynamics of reforms in 35 areas, the contents of which coincide with the 35 chapters of the accession negotiations.<sup>10</sup> These reports will also reflect on the level of implementation of the Association Agreement, which is still in force and represents the primary legal basis for bilateral relations between Moldova and the EU.

## The opportunities presented by Moldova's EU candidate country status

### Moldova's EU candidate country status gives an entirely new strategic and practical significance to the process of European integration for the Republic of Moldova.

From now on, the national reform agenda must be combined with European integration priorities, to produce effects in both directions. Previously, the Association Agenda and the National Action Plan for the Implementation of the Association Agreement had political goals that were limited to making minimal progress in the political and technical sectors. As a rule, positive advancements along the

political dimension could be made through the conditionality mechanism of the EU's macro-financial assistance or following the (volatile) goodwill of the Moldovan side. Moldova's new candidacy status in regard to joining the community space maximizes the EU's requirements, and thus, respectively, Moldova's political commitment in a policy context that is no longer static and reduced to the techni-

<sup>9</sup> On 14 September 2022, the Ministry of Foreign Affairs and European Integration announced its willingness to hire up to 20 civil servants with skills in the field of integration, which will increase to 30 the number of civil servants in charge of the European integration within the institution.

<sup>10</sup> The country report on Albania reflects exactly the reporting method that the EU will use in the case of the Republic of Moldova starting in 2023: Albania 2022 Report, [https://neighbourhood-enlargement.ec.europa.eu/albania-report-2020\\_en](https://neighbourhood-enlargement.ec.europa.eu/albania-report-2020_en)



cal implementation of the Association Agreement. Progress in the pre-accession process will depend on the authorities' ability to integrate the EU's political demands into the national reform agenda.

*In strategic terms*, the country has already been incorporated into the European Enlargement Policy, which helps it to differentiate itself from other participants of the Eastern Partnership. With the EU's geopolitical borders now moving to Ukraine's border with Russia, the Republic of Moldova has the opportunity to align itself more effectively with the system of liberal values. At the same time, Moldova's EU candidate country status increases the degree of solidarity and political attention given to Moldova by the EU. In other words, Moldova will no longer be treated as part of the grey area that previously separated Russia from the EU.

*From a practical point of view*, Moldovan decision-makers will receive easier access to decision-making processes at the European level, although, for now, more in the capacity of an observer and implementer than a co-author. At the same time, the degree of compliance with European decisions will depend on the political composition and geopolitical orientation of the Moldovan government. Moreover, Moldova is now eligible to participate in several agencies,<sup>11</sup> European programmes and funds,<sup>12</sup> including accessing pre-accession funding (pre-accession assistance),<sup>13</sup> alongside the Western Balkan states and Turkey. However, as with Serbia and Albania,<sup>14</sup> which received EU candidate country status (in 2012 and 2014, respectively) after the adoption of the Multiannual Financial Frame-

work from 2007 to 2013, funding for Moldova (and Ukraine) will be more limited.

Thus, at least until the end of 2027, there is a risk that financing related to development, connectivity and competitiveness, which includes agriculture, will not be accessible. In any case, candidate country status favours diversification of financial assistance and an increase in non-reimbursable funds from the general basket of financial aid allocated by the EU, in addition to the traditional mechanisms of macro-financial assistance and other types of annual aid, including of the ad hoc type, from which Moldova still benefits. Likewise, the areas of harmonization with the EU can be deepened and expanded, which represents an essential aspect of preparing the country for the subsequent opening of accession negotiations.<sup>15</sup> Consequently, the Republic of Moldova has undertaken to adjust its national reform agenda in response to, and connect it with, the obligations that all member states have in relation to the EU. Last but not least, together with the EU and other states in the eastern neighbourhood, Moldova will need to develop a strategic vision regarding its involvement in the Eastern Partnership. As it stands, the Partnership is currently fragmented and needs revision. However, this will not be easy: Belarus facilitated the Russian aggression against Ukraine and suspended its participation in the Partnership; the conflict between Armenia and Azerbaijan is going through a new phase of escalation; Georgia is facing an image crisis due to the interference of the oligarchic factor; while only Moldova and Ukraine currently benefit from an enormously positive image in the eyes of the EU.

## Risks and obstacles in the pre-accession process

**Based on its strategic and practical aspects, Moldova's EU candidate country status does not generate risks per se, but, on the contrary, lays the foundations for legislative, institutional and financial grounds for solving the chronic problems the country still faces.**

With the materialization of the European perspective, structural reforms can be accelerated and made more efficient, given that the country's political, economic and societal actors are now exposed to unprecedented external examination, changes and stimulation, to the benefit of the national interest. However, internal

and external risks can be anticipated that might prevent the smooth development and advancement of the pre-accession process, such as fragmented internal legitimacy, limited administrative capacities, a mechanical approach to reform, limited European funding and inconsistent external support.

<sup>11</sup> The EU has 46 agencies. Until now, Moldova has been able to benefit from access to 20 agencies and 19 programmes, of which it already cooperates with 11 agencies and four programmes. <https://3dcftas.eu/publications/deepening-eu-moldovan-relations-updating-and-upgrading-in-the-shadow-of-covid-19-third-edition>

<sup>12</sup> EU, [https://ec.europa.eu/info/funding-tenders/find-funding/eu-funding-programmes\\_en](https://ec.europa.eu/info/funding-tenders/find-funding/eu-funding-programmes_en)

<sup>13</sup> According to the Multiannual Financial Framework for 2021–2027, the budget of the Pre-accession Assistance Instrument is up to 14 billion euro (2014–2020 – 11.7 billion euro), calculated for expenses on five blocks of domains (rule of law, good governance, green agenda, competitiveness and cross-border cooperation) for four Balkan states (Albania, North Macedonia, Montenegro and Serbia) and Turkey. According to previous pre-accession assistance, Balkan states with a European perspective (Bosnia and Herzegovina and Kosovo) have been able to access less funds, especially those related to institution-building and cross-border cooperation.

<sup>14</sup> EU, [https://ec.europa.eu/regional\\_policy/en/funding/ipa/how/](https://ec.europa.eu/regional_policy/en/funding/ipa/how/)

<sup>15</sup> The promises made by the EU regarding the opportunities for Ukraine's integration into the Single Market and access to the preferential roaming tariff regime (Euro tariff) valid for the Single Economic Space (EU, Norway, Iceland and Lichtenstein) are clear signals that Moldova is also eligible for a similar opening from the EU.

Although more than 60 percent of public opinion supports joining the EU, some regions of the country (such as UTA Gagauzia) have requested greater inclusiveness and transparency in the European integration process. This must be ensured, in order to strengthen the legitimacy of the European orientation. A similar principle must be applied in relation to the Transnistrian region, in parallel with the general process of settling this “frozen conflict”. The involvement in the European integration processes of electoral segments that advocate for other geopolitical options is essential to generate social cohesion. In this way it will be possible to prevent accession to the EU being attributed to the political wishes of pro-European parties, and rather for it to be promoted as a national project.

## **Fragmented internal legitimacy**

Without a sufficient number of employees with knowledge of European affairs, the central public administration and, even more seriously, local administrations could encounter difficulties in ensuring the uniform and effective transposition and application of European legislation. If the country's administrative apparatus is not adjusted to act in accordance with the obligations of a member state, Moldova will not be able to make a qualitative leap in the pre-accession negotiations.

## **Limited administrative capabilities**

There is a need to avoid scenarios in which the reforms inspired by Moldova's EU candidacy status are suspected of not respecting the country's national sovereignty, otherwise they may be boycotted or fulfilled in a suboptimal way. To this end, the urgent needs of the population must be reflected in the European agenda of the central and local authorities. The explanation, justification and popularization of the Europeanized reforms should be part of the pre-accession process, which will involve a set of actions of transparent, clear and, at the same time, critical information, coupled with the fight against anti-European disinformation. A lack of connection between the public and the European agenda may compromise popular support for the EU in favour of local Eurosceptic elites, who advocate reorientation towards Russia.

## **A mechanical approach to reform**

In order to prevent exaggerated expectations during the pre-accession process, the EU and the national authorities should communicate about the European financial resources available for Moldova's adaptation to European standards. For the time being, until the adoption of the new EU Multiannual Financial Framework for the next seven-year period after 2027 (2028–2034), access to European funds will be limited to predominantly macro-financial assistance, ad hoc aid, and previously agreed annual programmes, including bilateral assistance from EU states.

## **Limited funding**

Progress in the pre-accession process depends on the atmosphere inside the EU and its member states. Without unanimity among the 27 member states, Moldova's accession process will stagnate. Thus, in addition to meeting the EU's technical conditions and making progress during the pre-accession process, it will be necessary to conduct pro-active diplomacy in European capitals, in order to maintain and expand political alliances. It is recommended to create sustainable mechanisms for interacting with the institutions of member states, with the aim of ensuring continuity in the event of a change in the government in power. These mechanisms should be complementary to the platforms offered by the EU. In this way, any tendency to personalize Moldova's bilateral relations with the EU and its member states will be prevented.

## **Inconsistent external support**

# Recommendations

## Promoting a pro-European policy based on a critical assessment of the progress, limitations and costs of the accession process.

Fragmented internal legitimacy is a reality in Moldova, and the geopolitical division among certain segments of society can be improved only through pragmatic strategic communication with the public, taking into account local linguistic specificities. Discussions about European integration must avoid propagandistic speeches in favour of the EU and must focus on local issues and how they can

be resolved through the accession negotiations. The population must be convinced that European integration is the most viable solution, with potential economic and social benefits. Avoiding dialogue with critical voices would create a fertile ground for anti-European disinformation and reluctance on the part of sceptical segments of society to support accession to the EU.

## Advancing in alignment with European legislation and practices will require competent specialists in European affairs.

The current limited administrative capacities constitute one of the structural shortcomings of the national administrative apparatus. The relatively limited knowledge of EU policies among figures in the Moldovan government was not a problem due to the limited ambitions of both parties (Moldova and the EU) during the implementation of the Association Agreement. However, Moldova's candidacy for EU membership implies a need for a radical change in approach. Moldova must identify and employ human capital with knowledge and practical experience in the field. This means, on the one hand, the training of existing staff, and, on the other, attracting individuals from the diaspora.

In the case of the Moldovan administrative appara-

tus, the EU could reproduce the experience of the European Diplomatic Academy<sup>16</sup> across a range of sectors, using the facilities of the Natolin College of Europe (Poland), to train Moldovan civil servants in a hybrid format (through both a physical and an online presence). The Ukrainian experience in this regard can serve as an example. In order to motivate the diaspora, the Chisinau authorities should create special salary funds, which correspond to the remuneration paid by European institutions and agencies, which is where young Moldovans educated in the EU will want to work. An alternative solution could be for the European institutions to cover the expenses (fully or partially) for paid internships (traineeships, internships) in the countries of origin of candidates from Moldova, Ukraine and Georgia.

## Involving non-governmental actors and the political commitment of the authorities to promote pluralism and inclusion in the European reform process.

A mechanical approach to reform can only be avoided if the authorities manage to involve, in the process of consultation and the reforms' implementation, critical voices from the non-governmental sector, as well as other actors in society (the opposition, local public administrations, the business environment, unions, etc). If divergent opin-

ions are not taken into account, there is a risk of artificiality and formalism in the decision-making process (checking boxes, selectivity in taking critical approaches, etc.). European integration can be sustainable only if it increases inclusion, in order to overcome obstacles generated by the lack of consensus in the political and societal environment.

## Early access to accession funds is an objective necessity in order to accelerate reforms.

The currently limited European funding can be compensated for by identifying ways to supplement the current EU accession fund, designed for

the Western Balkan states and Turkey, for the time being (i.e. until the end of 2027). The Republic of Moldova benefits from European assistance, but

this is oriented towards crisis management and less towards carrying out certain sectoral reforms. Even if the EU was not previously prepared, from the point of view of the European Strategic Financing Framework, for granting candidate status to Moldova and Ukraine, the European institutions

nevertheless need to find viable solutions in order to promote reforms in the candidate countries in the Eastern neighbourhood. Reallocation from other budgetary sources (in the form of grants, not credits) or compensation through member state assistance can help.

**The creation of political alliances within the EU should remain a priority for the Moldovan authorities.**

Support within the EU will be beneficial both at later stages in the (pre-) accession process, as well as in the case of decisions regarding financing within the European budget, etc. In this sense, Chisinau must further develop the potential of the Support Platform for Moldova, which should also integrate other formats, such as Moldova's Group of Friends among the EU states. Last but not least, participation in the European Political Community<sup>17</sup> (initiat-

ed by French President Emmanuel Macron) must be capitalized on in order to strengthen and diversify political contacts as much as possible, and to create friendships at the level of countries, while avoiding the personalization of inter-state relations. However, it should be borne in mind that Moldova needs sustainable intra-European friendships, which do not depend on the political circumstances at home.

<sup>17</sup> UE, Meeting of the European Political Community, October 2022, <https://www.consilium.europa.eu/en/meetings/international-summit/2022/10/06/>

*The state of any country is determined by the level of development and competitiveness of companies, the well-being of the population, and the efficiency and quality of governance. These three defining elements of a state are closely interconnected and are analysed in this State of the Country Report. This chapter focuses on the first of the three elements: it reviews the dynamics of the private sector in the Republic of Moldova, identifying the most important trends during the period 2020-2022. Increased attention is paid to the developments in the economic sectors in the context of the multiple crises facing the country, and the challenges and structural changes that have occurred are presented. The analysis reveals that ensuring the supremacy of the law and the effective implementation of the regulatory framework remain the main vulnerabilities in regard to creating a favourable business climate, and that the crises of the last two years have also highlighted the fact that the intervention tools available to the government, which are needed to support business, are quite rudimentary. Thanks to external support, this year the government has not increased fiscal pressure, but business is worried about possible increases in the tax rate in the future, as a result of the expansion of social expenditure. The policy recommendations formulated in this chapter advocate, in the current inflationary context, expanding credit guarantee schemes, combined with financing at preferential interest rates, to maintain a high sense of confidence in the private sector, as well as prioritizing public investment in infrastructure, in order to alleviate the economic pressure caused by Russia's invasion of Ukraine. At the same time, actions to reduce the administrative pressure on companies are also recommended, in the form of reforming the control institutions and building a simplified activity regime for micro businesses. Recommendations are also made to increase the economic resilience of domestic producers, as well as the sectoral evaluation of the competitive framework.*

## Analysis of the main trends and developments in the real sector

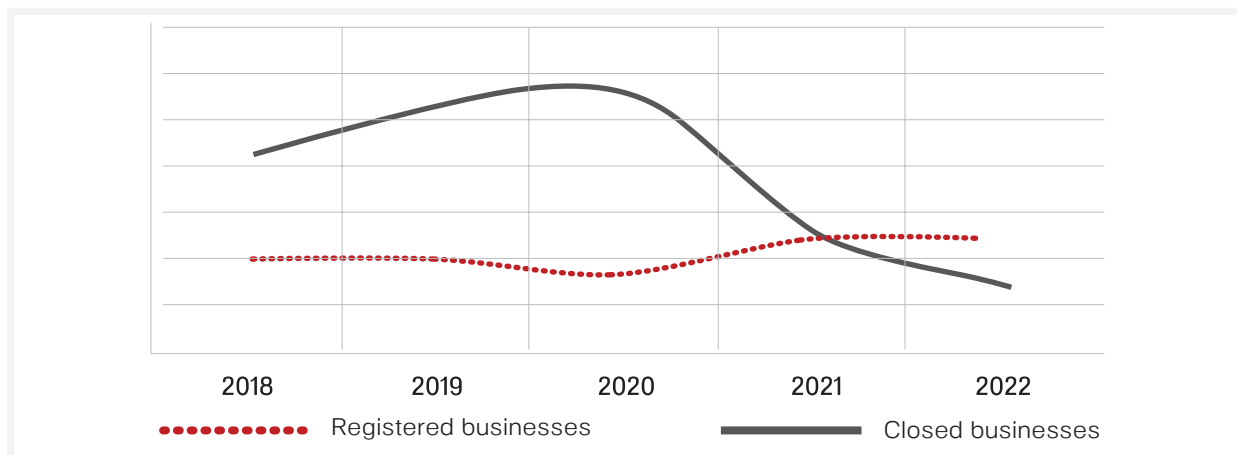
**Surprisingly, despite the many ongoing crises, the general sentiment of the business sector remains resilient.**

Compared to the period 2017–2020, when the rate of closed businesses significantly exceeded that of newly created ones, the years 2021–2022 seem to have brought about a trend reversal, with a positive increase in the number of new businesses. Thus, the number of newly created enterprises (6,800) in 2021 slightly exceeded the number of closed ones (6,600), while the results for the first eight months of the current year indicate that this trend has continued. Thus, the positive increase in the number of newly created companies versus closed ones was 1,000 units, with the number of closed companies decreasing by a quarter and the number of newly registered ones remaining at the same level compared with the previous year. After a 4 percent decrease in 2020, last year the corporate sector recorded a 27.8 percent increase in turnover, accompanied by a 3.9 percent increase in the number of enterpris-

es. At the same time, the average number of employees recorded an increase of only 1.1 percent in 2021, the indicator in question being below the level it had been at before the pandemic, by 3.6 percent (-19,600 employees). The year 2021 also saw the best returns in the last five-year period, with an average return on assets (ROA) of 7.4 percent and a return on equity (ROE) of 16.5 percent. Another feature of the last two years has been an increase in the share of company stocks in total current assets, from 32.9 percent in 2019 to 41.6 percent in 2021. Although this could also mean an inability to fully convert production into sales, resulting from the robust increase in turnover, such a situation is more likely to signify the re-evaluation on the part of businesses vis-à-vis their stock policy, against the background of the disruption of supply chains and inflationary expectations, but also the record harvest in 2021.

**Figure 1.**

Dynamics of the number of newly created and closed enterprises, January–August 2022



Source: Public Service Agency

**In the past two years, agriculture has swung from the biggest decline to the biggest annual increase in production since independence.**

After a record decrease of 27.2 percent in 2020, against a background of severe drought, Moldovan agriculture saw a record harvest in 2021, with an increase in the agricultural production index of 57.9 percent y-o-y. For 2022, the persistence of hydrological drought has compromised a proportion of the crops, and the dynamics of the expected agricultural production suggest a production decrease of around 15–20 percent. The analysis by category of farmers indicates the formation of a class of farmers that are becoming increasingly competitive. This trend is confirmed by the growing discrepancy in productivity between agricultural enterprises and households that manage areas of more than 10 hectares (ha), on the one hand, and households, as well as agricultural

households, managing areas of up to 10 ha, on the other hand. Thus, while in the case of agricultural enterprises the production value in 2021 exceeded that in 2017 by 72 percent, in the case of the individual sector, in the same period of time a 10 percent reduction occurred. At the same time, the growing trend of a discrepancy between the vegetable and livestock sectors has been maintained. Thus, if the value of crop production in 2021 exceeded the indicator of five years ago by 42 percent, a reduction of 16 percent occurred in the case of livestock production. Annual crops are dominated by those with low added value – corn, sunflower and wheat – which accounted for 82.3 percent of the total sown areas as at 1 January 2022.

**This trend indicates continued improper exploitation and soil exhaustion, with the rotation of annual crops not respected.**

At the same time, the evolution of the livestock sector in recent years appears to suggest it may be dying a slow death, given the constant decrease in the production base. As of 1 January 2022, the quantity of cattle, sheep and goats, mostly concentrated among households, continued to fall to historical lows, while

the quantity of pigs recorded a y-o-y increase at the expense of agricultural enterprises, which have a bigger presence in the sector. An important event that is aimed at stopping the drift in the livestock sector is the introduction of direct payments per head of animal into the subsidy framework.

**Industry performance is dragged down by the energy and automotive sectors.**

After a decrease of 5.5 percent in 2020, amid drought and the COVID-19 pandemic, and a jump of 12.1 percent in 2021 due to the good agricultural year that was experienced, as well as the post-pandemic recovery, in 2022 Moldovan industry will return to the red under the pressure of rising energy prices and external demand. The most important areas of industrial growth in 2021 were the fields of “Furniture manufacturing” (+74.4 percent), “Repair, maintenance and installation of machines and equipment” (+58.8 percent), “Wood processing” (+42.8 percent) and “Metallurgical industry” (+41.1 percent). At the opposite end of the spectrum is the “Manufacturing of motor vehicles, trailers and semi-trailers” sector, with a share of 7.7 percent of

total industrial production, for which the production level has decreased by 24.4 percent. This follows a reduction in production of about one-third in 2020. For the current year, according to the results after seven months, the volume index of industrial production has already entered a negative direction (-1.4 percent). The strongest decrease is seen in the field of “Manufacturing of electrical equipment” (-60.2 percent) and “Manufacturing of motor vehicles, trailers and semi-trailers” (-41 percent). The causes of this trend relate to the reduction of external demand against the background of the Russian invasion of Ukraine, the crisis in the supply of chips and semiconductors, and also the disruption to logistics chains following lockdowns in China.

A decrease of almost one-third has also been recorded in the production of furniture, caused by the large comparison base and the stagnation of the real estate market.

The metallurgical industry (-29.7 percent y-o-y), as well as that metal construction (-15.1 percent), is also facing a significant decrease in production, this being the direct result of the decrease in the volume of works in construction, but also the increase in the

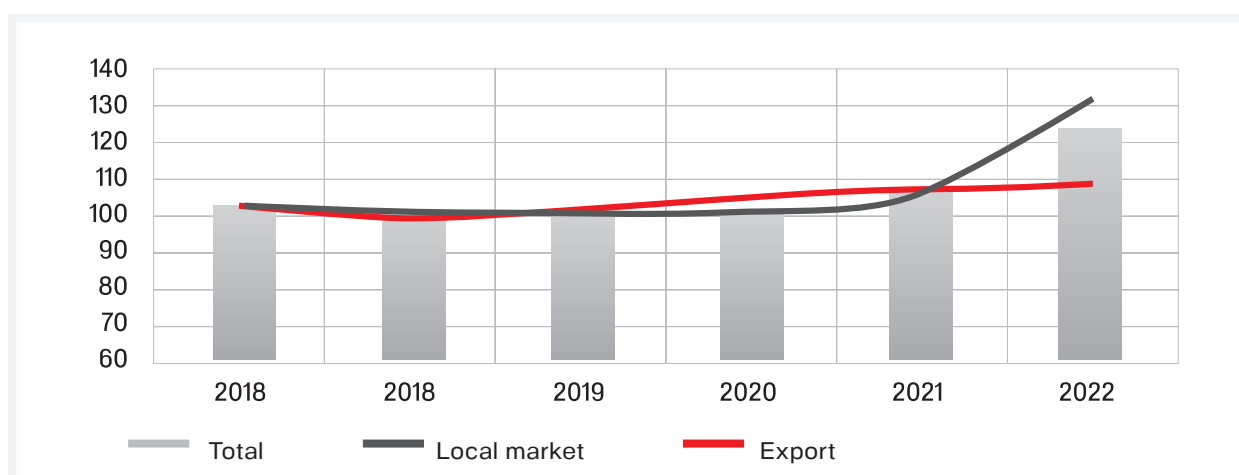
cost of energy. At the same time, the main support for industry, which has mitigated the decline, is the food industry -with an increase by +38.6 percent y-o-y in the first seven months of the year, this being a direct result of the record harvest in 2021.

The pressure of rising production costs is affecting the prospects in the industrial sector, given that in the first seven months of the current year the Industrial Production Price Index increased by 24 percent y-o-y.

Compared to previous years, a new phenomenon has emerged, which, according to data from the first seven months of 2022, denotes a major discrepancy between industrial prices for the local market (+32 percent) and export prices, which increased at a rate that was three times lower (+9). This phenomenon has several objective explanations: i) the existence of a series of industrial products that are sold only on the local market; ii) the need of exporters to

honour previously concluded contracts; iii) the pressure of competitiveness, in order to keep customers even at the limit of the break-even point; and, iv) the possibility of operating with lower margins due to the higher volumes sold. However, this situation nevertheless reveals the shortcomings of the competitive framework in the Republic of Moldova, as well as the inflationary expectations within the private sector.

**Figure 2.**  
Industrial production price index in January–July, y-o-y, percent



Source: Authors' calculations based on National Bureau of Statistics (NBS) data

Retail trade has been eroded by inflation, while freight transport is among the few branches of the economy that has been able to capitalize on the current environment.

The results for the first seven months of the current year reveal a strong recovery in HoReCa, and recreation and leisure activities, which were among those most affected by the pandemic but for which turnover in real terms has increased by more than 40 percent and 60 percent y-o-y, respectively. Retail trade, which in January–July 2022 was close to last year's level in comparable prices, will record a decline by the end of the year, even despite the increase in the consumer base due to the presence of Ukrainian refugees. The high demand for national infrastructure, as a result of the Russian invasion of Ukraine, has led to a nominal increase in turnover in the field of transport and storage by about 50 percent, while the length of transported goods increased by about one-quarter in the first half of the year. This allowed, in particular, for the

reanimation of railway transport. After five consecutive years of growth, the volume of construction work decreased by 11.6 percent in the first half of the year, amid reduced demand in the residential sector and slower progress in public works, due to price volatility, which complicates procurement procedures. At the same time, the IT sector remains on an upward trajectory. After a 35 percent increase in exports in 2021, up to US dollars (USD) 350 million, there is evidence that the trend will be maintained in this year as well, with an expansion in the number of residents of Moldova IT Park. Thus, it is expected that the transport and logistics, IT, and HoReCa sectors will make a positive contribution to the formation of GDP for 2022, which can help to mitigate the expected economic decline.

## Local private capital remained investment-oriented both in 2020 (during the COVID-19 pandemic) and in the current year, being the most reliable source of investment financing for the economy.

2020 saw a reduction in investments in fixed assets by 3.1 percent (in comparable prices), mainly due to a decrease in foreign capital, and in the case of investment objects - on account of non-residential buildings and machines and equipment. The recovery of economic activity in 2021 was accompanied by an increase in investment in real terms of 9.8 percent, largely driven by private capital and investment in machinery and equipment. One aspect that is worth noting is that local private capital showed a level of solid resilience, both in 2020, when it maintained investment at the previous year's level, and in 2021, when it reported its highest growth rate, of 19.8 percent. Inflationary pressures, as well as the increase in production costs and the cost of money in the economy, presage for the current year a reduction in comparable prices in the volume of investments. The results for the first half of

2022 reveal a decrease by 7.7 percent y-o-y. The evolution of funding sources shows a 0.8 percent y.o.y increase in investments from own resources and 28.7 percent from internal credits and loans, which confirms the predisposition of economic agents to automate and retrofit their businesses. At the same time, investments financed by external credits and loans have decreased - in January-June 2022 they halved in real terms. This has affected, in particular, infrastructure works, with a 26.4 percent decrease in investments in engineering construction (roads, railways, bridges, stadiums, etc.) recorded during the same period. For the second part of the year, it is expected that, with the entry into the implementation phase of the projects within the "European Village" national programme, public investments will make a more consistent positive contribution to mitigating the decrease in investment activity.

## Analysis of the main trends and developments in the financial sector

### Moldova's transparent and well-capitalized banking sector has now become part of the solution to crises and not a generator of them.

The bank fraud episode of 2014-2015 sharply focussed the banking sector's attention in recent years on the process of cleansing bank shareholding of toxic owners, and the transposition of the Basel III principles to banking regulations. After this process was completed, in the last two years the domestic banking sector has become more focussed on increasing operational efficiency, expanding the customer base, and introducing innovations, especially in the form of digitalization. According to the situation as of 31 August 2022, the ratio of own funds in the banking sector accounted for 29.5 percent, increasing by 3.6 percentage points since the beginning of the year. This increase reflected the 2021 profits and the maintenance of the NBM's recommendation that banks refrain from paying dividends, as well as being a result of the establishment of an additional capital buffer on exposures to physical entities, though this remains well above the minimum limit of 10 percent provided for in the legislation. As at the same date the liquidity coverage ratio (LCR)<sup>18</sup> exceeded 183 percent, given that the minimum value of the indicator is fixed at 100 percent. At the same time, there is evidence of an increase in financial intermediation, so that the loans/deposits ratio increased from 0.57 in 2020 to 0.67 in August 2022.

Despite these positive trends, the level of intermediation remains below the country's potential, even compared to the historical level of 0.81, recorded in 2013, though sights should be set even higher than this. At the same time, keeping this ratio at such a low level does help to ensure the stability and liquidity of the banking system, aspects that are extremely important in the conditions of the current crises. 2021 was also marked by a continuation of the reduction of the share of non-performing loans, by 1.24 percentage points, up to the value of 6.14 percent. In August 2022 this increased insignificantly (up to 6.76 percent), this situation being natural in the worsening economic situation, but also due to the increase in the price of money and, respectively, the increase in monthly loan servicing rates for debtors. The tightening of monetary policy in the context of the need to mitigate inflationary pressures, through the gradual increase by the NBM of the base rate - from the historic low of 2.65 percent in June 2021 to 21.5 percent in August 2022 - and of the required minimum reserves rate by 11 percentage points, up to 37 percent, has limited lending potential. Under these conditions, the competition between banks to attract deposits has increased significantly in order to meet financing needs.

### Strong corporate funding demand is keeping lending afloat, even in the face of persistent inflation.

After a decrease of 2 percent y-o-y in the volume of new loans granted in 2020, as a result of the pandem-

ic, 2021 brought an increase of 35.8 percent, mainly supported by the record increase in disbursements

<sup>18</sup> Calculated as the ratio of liquidity buffer/ratio net liquidity outflows during a 30-day crisis period.



to individuals (by 73.5 percent), but also to legal entities (by 22.2 percent). The restrictive monetary policy seen so far this year, which aims to restrict consumption, is having an effect on the lending process, with a decrease of 24.4 percent y-o-y in January–August 2022 in new loans granted to natural persons. Even so, the total value of new loans granted in the first eight months of the current year in the banking sector increased by 12.2 percent y-o-y, due to an increase in lending to legal entities of 31 percent y-o-y. The

constraints on lending in the national currency dictated by the significant increase in its cost, but also by the more limited accessibility due to the need to maintain higher mandatory reserves, has oriented the banks towards the foreign currency lending segment. This phenomenon has also been stimulated by the stable exchange rate. Thus, in January–August 2022, new loans granted in the national currency remained at the level of last year, while new loans in foreign currency increased by 44.3 percent y-o-y.

## Analysis of the main trends and developments in the business environment

**Ensuring the rule of law and the effective implementation of the regulatory framework remain the main vulnerabilities in regard to creating a favourable business climate.**

In the 2022 edition of the Economic Freedom Index produced by the Heritage Foundation, the score of the Republic of Moldova<sup>19</sup> is 61.3, ranking 78th worldwide. At the same time, Moldova comes 39th out of the 45 states in the European region included in the report. Over the past five years, economic freedom has continued to expand slowly, so that Moldova remains in the “moderately free” category for the third consecutive year.<sup>20</sup> Of the 12 indicators that make up the Economic Freedom Index, Moldova’s worst performance is on judicial effectiveness and government integrity. It also has room for improvement on the indicators related to investment freedom, financial freedom and property rights. At the same time, Moldova is in a favourable competitive position in terms of the indicators relating to both the fiscal burden and fiscal resilience, as well as monetary and trade freedom.

In the same context, the latest assessment of the investment climate carried out by the US State Department is relevant.<sup>21</sup> Thus, although that assessment finds that during the term of the current government, which is perceived as pro-reform, Moldova is making progress in terms of economic reforms and the strengthening of democratic institutions, it also lists the main challenges to the business climate in the country. These relate to the lack of effective and fair implementation of laws and regulations, as well as arbitrary and non-transparent decisions by government officials that seek to give domestic producers in certain fields an advantage over foreign competitors. Another finding is that the government is free to invoke, in a relatively discretionary way, public safety or the general social welfare as reasons for intervening in the economy, which often runs contrary to free market principles.

**The numerous crises in the 2020–2022 period have revealed, in addition to the limited business support resources in the country, the fact that the government’s tools for intervention are extremely rudimentary.**

These crises, which started with the COVID-19 pandemic, have also brought to the fore the fact that insufficient financial resources is not the only challenge in regard to the state providing support to the business environment. The lack of support mechanisms for systemic interventions means that even the somewhat modest amounts planned in the Budget cannot be absorbed, against a back-

ground of institutional and administrative barriers, and has led to the establishment of some types of ad hoc support. In this context, the efforts made in the last year by the government to develop forms of support that have a sustainable character, and that can be used by the state in the future, whenever the need arises, are welcome: i) allowances amounting to 50 percent of the basic salary for em-

<sup>19</sup> [https://www.heritage.org/index/pdf/2022/countries/2022\\_IndexofEconomicFreedom-Moldova.pdf](https://www.heritage.org/index/pdf/2022/countries/2022_IndexofEconomicFreedom-Moldova.pdf)

<sup>20</sup> The 2022 edition is based on data collected from the second part of 2020 and the first part of 2021.

<sup>21</sup> <https://www.state.gov/report/custom/a72af03f87-3/>

employees who are technically unemployed, where the enterprise's activities have been suspended; ii) the short working time mechanism (of the "Kurzarbeit" type), with an allowance of a maximum of 50 percent of the average salary provided for the economy forecasted for employees with a short working time; iii) the reorganization of SME de-

velopment organization (ODIMM) in the Entrepreneurship Development Organization (ODA), which facilitates the access of SMEs to support programmes; and, iv) the establishment of the Fund for Entrepreneurship and Economic Growth of Moldova (FACEM), a low-cost state financing tool for investment projects initiated by entrepreneurs.

**Thanks to external support, this year the government has not increased fiscal pressure, but business faces uncertainty regarding possible developments in this field, given the expansion of social spending against the background of a high budget deficit.**

According to the latest budget correction, this year the Republic of Moldova will have an estimated State Budget deficit of 6.2 percent of GDP, or MDL 17.2 billion. Most of the expansion in public spending is directed towards the social sectors, mainly to protect the incomes of the most vulnerable, which have been strongly eroded by inflation. The business environment also benefits indirectly from this policy, as it mitigates the decrease in consumer purchasing power. This fact is also confirmed by the GDP data for the first six months, where the gross added value of the health and social assistance sector increased in real terms by 13.1 percent, contributing positively to economic growth by 0.7 percentage points. However, the direct support for companies planned in the 2022 Budget is not negligible, as compared to past periods. The most important new items of such expenditure are the following: i) support measures for employers and employees (for technical unemployment, short working hours, employees with children, ensuring the

safety and protection of the life and health of the population) – MDL 100 million; ii) partial compensation for the excise tax on diesel for farmers – MDL 250 million; iii) an increase in allocations for SME support programmes (including new programmes) – from MDL 140 to 340 million (+MDL 200 million); iv) compensation for the price difference in natural gas supplies for non-household consumers – MDL 120 million; and, v) compensation for the increase in interest rates for SMEs – MDL 200 million. The budget deficit for this year is covered exclusively from external resources. Given the large deficits accumulated in the period 2020–2022 and the prospect of an equally significant budget deficit for 2023, which would mitigate the amalgam of concurrent crises, there is uncertainty and fear among the business community regarding the prospects of an increasing fiscal burden in the next period. However, it is obvious that, in the long term, the Republic of Moldova cannot afford to sustain enormous deficits without increasing tax rates.

## Recommendations

**Expansion of loan guarantee schemes, combined with preferential interest rates.**

The data for the last two years clearly suggest an orientation and concern of local business for investments, in order to increase the efficiency and competitiveness of businesses. However, most investments are still made from businesses' own capital, with companies not taking sufficient advantage of financial leverage. The findings from the World Bank Enterprise Survey are informative here: only about 14 percent of companies use loans for investments – half as many as the average across Europe and Central Asia. Also, the share of businesses that consider access to financing to be a major constraint (29.4 percent) is twice as high as the regional average. These figures justify the launch of FACEM. The capitalization of FACEM and the Loan Guarantee Fund (LGF) – both from the State Budget and by attracting concessional external financing – side-by-side with ensuring appropriate governance, should be a priority for facilitating access to financ-

ing. The swift implementation of these measures can maintain, in the current conditions of inflation and multiple uncertainties, companies' confidence in the economy. In addition to this, a thorough analysis of the banking regulatory framework should be conducted, in order to eliminate excessive prudential provisions. The latter were necessary after the bank fraud episode of 2014–2015; however, with the strengthening of institutional integrity at the NBM level, and among other institutions, it is necessary to return to the logic of development, in order to ensure the presence of as many bankable businesses as possible.

### **Reforming the control institutions, applying an operating model that focuses primarily on consulting with companies and not on sanctioning them.**

Administrative pressure on the business environment continues to be a problem. Certain changes in the regulatory framework in the last year have been positive in the sense of de-bureaucratization and de-regulation of the business environment. These include: eliminating the obligation to produce a tax invoice when paying by bank card; the increase from MDL 1,000 to 5,000 of the threshold of admitted violations that are considered insignificant (for violations up to MDL 5,000 only warnings will be applied, not fines); and, the implementation of the digitization package. However, in order to see tangible and sustainable results, it is also necessary to reform the control institutions, including by implementing controls that are based on risk criteria (similar to the Tax Office), and by training and remunerating employees accordingly. At the same time, it is necessary to establish an ombudsman for companies, as well as to conduct a thorough sectoral analysis to eliminate existing constraints and unnecessary provisions relating to conducting business.

### **Establishing a simplified tax and labour regime for micro and family businesses.**

The development of a simplified activity regime for micro and family businesses is justified both by the high share of companies that perceive the tax administration system as complicated, and by the lack of dedicated personnel in this area within companies, to which is also added the low level of entrepreneurial culture and education. This means that relations with the Tax Office and other relevant authorities are perceived as difficult. Moreover, the need for a simplified tax regime is also confirmed by the income tax data for 2021,<sup>22</sup> which show that in 2021, the number of companies that submitted the SIMM20 declaration, which implies a tax on income from operational activity of 4 percent, reached 35,500, almost as many as the number of companies that submitted the general declaration VEN12 (38,600). Moreover, there are many cases of entrepreneurs preferring to open new companies to report under this tax regime (within the limits of the revenue figure of MDL 1.2 million), instead of further developing activities within their existing business. This provides an additional argument for the establishment of a simplified regime.

### **Prioritizing public investments in infrastructure.**

As a result of the Russian invasion of Ukraine, Moldovan infrastructure is under enormous pressure. This situation has also increased the infrastructure deficit, while transport and logistics costs faced by producers have increased substantially, by as much as two to three times. In this context, efforts should be focused on improving infrastructure, especially since this is also an imperative for state intervention in times of recession. Priorities include accelerating existing interconnection projects with Romania, across all dimensions, examining the possibility of building more floating bridges on the Prut, and making the necessary investments in the railway sector. Also, there is a

need for better planning and implementation of public investments. The data for 2021 reveals a level of execution of capital expenditures from the State Budget of only 77.2 percent, which is a vulnerable situation, particularly in the case of projects with external financing. Even if for the current year the planned level of capital expenditures (7.5 MDL billion) is double that executed last year, the problem of resource assimilation persists and the actual value at the end of the year will again be below the targeted level.

### **Supporting economic resilience by adapting to climate change and reducing energy dependence.**

With the increasing incidence of drought, efforts need to be made to adapt to climate change and not just to compensate for its consequences through the use of public money. Some examples of necessary measures in this area include adopting and implementing the country's afforestation programme, supporting research in agriculture, and introducing controls on annual crop rotation within the subsidy framework. Regarding the energy field, the financing of energy efficiency measures and the stimulation of investments in renewable energy resources must remain a priority. The recent legislative changes made to simplify and speed up the procedure for connecting, installing and operating photovoltaic panels for domestic consumers is a good example in this regard.

### **Supporting local producers and promoting the brand identity and quality of local products.**

Even against a background of an exceptional agricultural year (2021), there are some areas where Moldova has not been able to fully meet internal consumption with its own production. This applies, above all, to products of animal origin: butter (48 percent of domestic consumption supplied by Moldovan producers), milk (66 percent of domestic consumption), meat (74 percent of domestic consumption) – but also to vegetables (80 percent of domestic consumption). In this sense, it is necessary to continue the series of incentives contained in the subsidy framework for the creation of livestock farms, but also for the cultivation of field vegetables. At the same time, there is still a low level of awareness of local products among the population, and their importance is not sufficiently recognized. Several actions are needed here: i) implementing an efficient management system in the promotion of agri-food products; ii) improving the quality policies, and the valorisation, of Moldovan agri-food products; and, iii) strengthening agricultural producers' associations.

### **Detailed sector analysis of the competitive framework.**

Market transparency continues to remain a major challenge for the Moldovan economy, across a variety of sectors. There are concerns about abuse of dominant positions, cartel agreements, and other forms of unfair competition, which often translate into exaggerated prices for consumers. For example, the dynamics of the industrial production price index in the present year, which has seen a major discrepancy between the local and export markets, calls for further analysis to understand to what extent this is explained by objective factors and to what extent these are market failures.

**Table 2.**

Principali indicatori monitorizați privind economia Republicii Moldova

	2020	2021	2022 estimate
Agricultural production, y-o-y, %	-27,2	57,9	-15
Industrial production, increase y-o-y, %	-5,5	12,1	-3
Turnover in retail trade, growth y-o-y, %	4,6	12,2	-2
Turnover for services provided to the population, growth y-o-y, %	-15,7	71,3	8
Volume of construction, increase y-o-y, %	11,8	4,7	-10
Gross fixed capital formation, increase y-o-y, %	5,6	15,5	-5
FDI inflow, increase y-o-y, %	-69	36,9	n.a.
Consumer price index, increase y-o-y, %	3,8	5,1	27
New loans granted, increase y-o-y, %	-2	35,8	12
New deposits, increase y-o-y, %	-16,8	18,1	24
Equity ratio, %	27,3	25,9	29
Share of non-performing loans in total loans, %	7,4	6,1	8
Current liquidity, %	50,6	48,6	n.a.
Long-term liquidity, %	0,71	0,74	n.a.
Share of innovative enterprises, %	12,6	n.a.	n.a.
Export of goods and services, increase y-o-y, %	-11,2	27,5	38
Import of goods and services, increase y-o-y, %	-7,3	32,5	22
Economic Freedom Index, score	87	85	78
Share of renewable sources in total final energy consumption, %	23,9	21,2	n.a.

Source: Authors' calculations based on data taken from: <http://statistica.gov.md>, <http://www.bnm.md>, <https://www.heritage.org/index/>

*This chapter analyses aspects related to the standard of living of the population. 2022 was marked by a rapid increase in prices at the international level as a result of the impact of the Russian invasion of Ukraine. The unfavourable external conditions also affected the Republic of Moldova, which will enter a phase of stagflation this year: the average annual inflation could reach 30 percent, while GDP could contract. This economic context has also affected the population's income in a negative way. However, the state, through a considerable increase in social expenditure, has partially offset the harmful effect of price increases on Moldovan households. These developments are described in detail in this chapter, and the chapter ends with a set of proposals that aim to reduce the negative impact of various shocks on household income.*

## Analysis of the main trends and developments

The world economy had been on the rise in 2021 but in 2022 the economic growth has been negatively impacted by the rapid increase in prices and uncertainties caused by the Russian invasion of Ukraine.

In 2021 the international market witnessed a galloping increase in the prices of raw materials (+49.3 percent according to IMF data). An important contribution to this increase was the rise in energy prices, which increased by 86.4 percent. The factors that determined these developments were the following: (1) a rapid global economic recovery in the context of the promotion of stimulatory economic policies and the relaxation of anti-COVID measures in several states; (2) the appearance of problems related to the operation of logistics chains; and, (3) severe domestic weather conditions (the 2020–2021 winter season was long and cold). The war waged against Ukraine by the Russian Federation, which led to additional disruption to international logistics chains and jeopardised

the distribution of agri-food goods globally, as well as the reduction of gas supplies from Russia to the EU, caused a continuation of the upward trend in prices which had started in 2021. Thus, in January–July 2022, international prices for goods increased by 47.5 percent y-o-y, and the price of energy products increased by 96.6 percent y-o-y. As a result, there has been a jump in inflation rates at the international level. For example, in January–August 2022, inflation was 8.2 percent y-o-y in the EU and in a number of EU states, such as Bulgaria, Estonia, Latvia, Lithuania, Poland, Romania, Slovakia and the Netherlands, with prices increasing by more than 10 percent y-o-y. At the same time, the increase in prices, in particular for energy resources, is affecting the economic growth in the EU.

In the context of external developments, the inflationary wave has also hit the economy of the Republic of Moldova.

In January–August 2022, prices rose by 26.7 percent y-o-y, and average annual inflation is expected to reach 29.5 percent. The main factor behind the increase in inflation is an increase in import prices. Thus, in January–June 2022, the unit value of imports increased by 22.2 percent y-o-y. This increase in the unit value was mainly determined by the increase in the price of energy products: in January–June 2022, the highest increase in the unit value (approximately 2.4 times y-o-y) was recorded for the import of mineral products (this group includes gas, coal, oil, and diesel). Another

factor that caused the increase in prices is the increase in logistics costs as a result of the blockade – due to Russia's war in Ukraine – of the trade routes passing through Ukraine. At the same time, high international prices for agri-food products have led Moldovan exporters to expand their deliveries abroad, thereby reducing domestic supply and creating additional pressure on prices. Thus, in January–June 2022, the physical volume of exports of vegetable products increased by 2.8 times y-o-y, while that of fats and oils of animal or vegetable origin increased by 3.8 times y-o-y.

In addition to the rapid increase in prices, the national economy is also being affected by other shocks and, as a result, the economy of the Republic of Moldova in 2022 will go through a phase of stagflation.

The biggest challenge for the Moldovan economy is the escalation of security risks in the region, due to the Russian invasion of Ukraine. In addition to the fact that trade with the Russian Federation, Belarus and Ukraine has been compromised, there is a general feeling of uncertainty, which has significantly reduced the investment appetite of Moldovan economic agents.

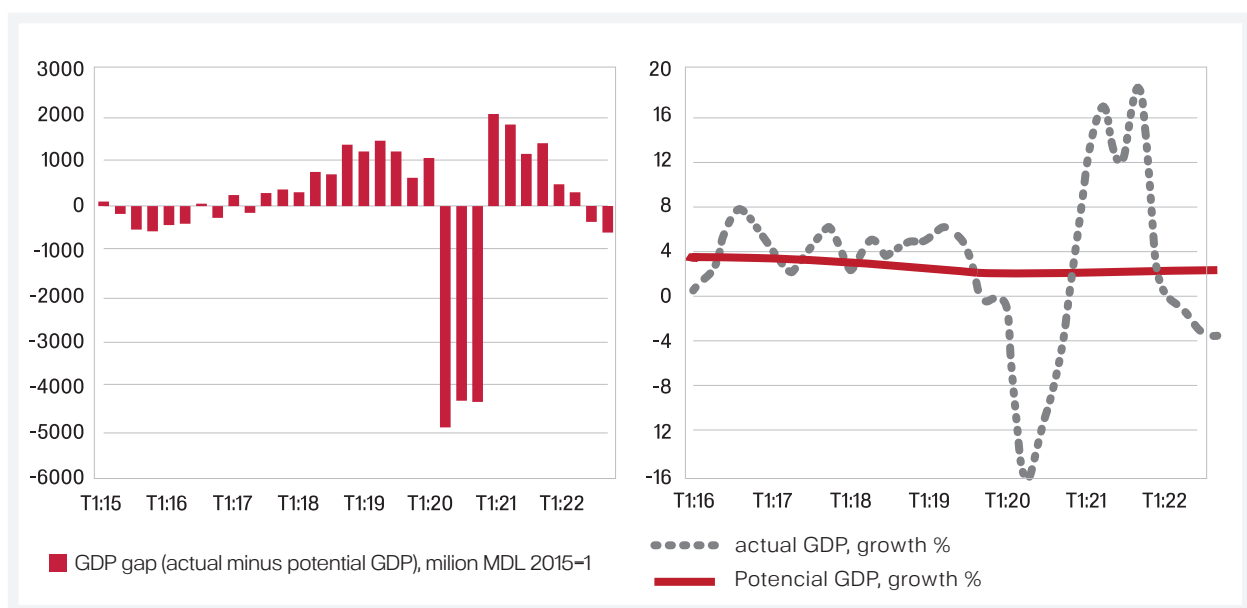
At the same time, the tightening of monetary policy has increased financing costs for business, and the adverse weather conditions have affected agricultural production. In this context, the economic outlook for 2022 is pessimistic: in addition to an average annual inflation close to 30 percent, a reduction in GDP of 1–2 percent is also anticipated.

The perpetuation of shocks has reduced the productive possibilities of the national economy, a development that will constrain GDP growth rates and affect the population's income in the coming years.

In the period 2015–2022, the Republic of Moldova experienced three economic crises. In addition to the 2022 crisis, the economy contracted in 2015 and again in 2020. In 2015, an amalgam of factors led to the reduction in GDP: the economic crisis in Russia and Ukraine, the decline of the agricultural sector, and the de-capitalization of the banking sector. In 2020 the economy was hit by both the COVID-19 pandemic and the dry climatic conditions. Despite the fact that between 2016 and 2019 GDP grew at an average annual rate of 4–5 percent, and in 2021 the country recorded its highest economic growth (13.9 percent), the economic dynamics in the long-term are slowing down. Thus, the potential GDP growth rate decreased from 3.5 percent in 2016 to

2.2 percent in 2022 (Figure 3). The two main factors that contributed to the almost 14 percent rise in GDP in 2021 were: (1) the increase in household consumption (+15.5 percent), which was also determined by the “materialisation” effect of deferred consumption (in 2020, overall, households made fewer purchases of goods and services due to the measures imposed in the context of the spread of COVID-19); and, (2) the spectacular growth in agriculture (+49.9 percent), after the compression in the sector in 2020 (-27.2 percent), due to dry weather conditions. The rapid growth in agriculture in 2021 led to an increase in inventories, with the “change in inventories” component contributing 5.3 percentage points to GDP growth.

**Figure 3.**  
Business cycle



Source: Authors' calculations based on NBS data.

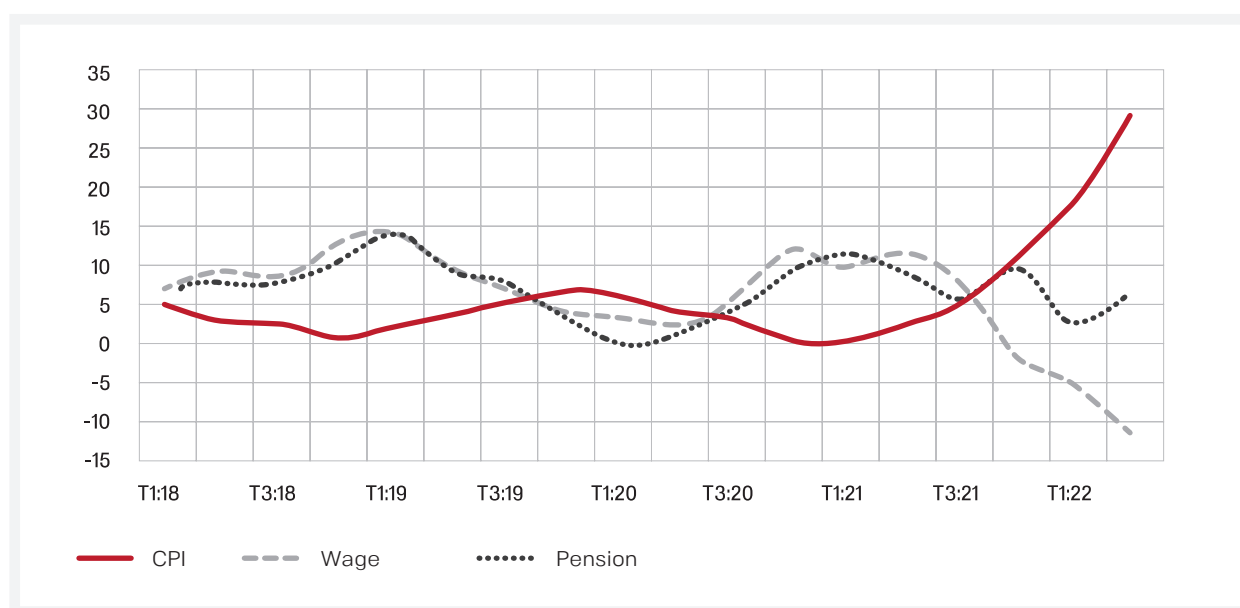
The high level of inflation has reduced the purchasing power of labour earnings and remittances, but the real pension has increased.

The acceleration of inflation has reduced income for some categories. Thus, while in 2021 real labour earnings increased by 7.1 percent, in January–June 2022 there was a decrease of 8.2 percent y-o-y. In the first half of 2022, the real sector saw a slower decline in real earnings compared to the public sector: 7.6 percent y-o-y versus 10.6 percent y-o-y. Households receiving transfers from abroad are also in a precarious situation. While in 2021 there was an increase in remittances both in nominal terms (+13.8 percent) and in real terms (+10.6

percent), in 2022 the opposite has been seen. In January–June 2022, a reduction in transfers from abroad by 5.8 percent y-o-y, together with the increase in prices by 24.1 percent y-o-y, exceeded the effects of the depreciation of the Moldovan leu. Consequently, in January–June 2022 the inflow of remittances, expressed in real terms, decreased by 20.6 percent y-o-y. In the case of pensions, a positive trend was recorded. The 9.4 percent increase in 2021 was followed by a 5.1 percent y-o-y increase in January–June 2022 (Figure 4).

Figure 4.

Consumer prices index and real incomes, growth y-o-y, %



Source: Authors' calculations based on NBS data.

The rapid increase in prices is the main risk factor for household living standards. However, there is also "inequality" in the distribution of the effects of inflation on households: thus, those most affected will be people with low and medium incomes in urban areas.

According to estimates,<sup>23</sup> if in 2022 average annual inflation reaches 29.5 percent, and if other influencing factors remain constant, the number of people living on less than USD 5.5 a day (in 2011 prices, at purchasing power parity) or MDL 53.6 (in current prices), would increase by 19.7 percent compared to the level recorded in 2021. If we take into account the share of food and energy consumption in household consumption, as well as the share of income in kind in total income, we find that inflation affects households in urban areas more strongly (Table 3). In rural

areas, a large part of household income comes from natural products (food or firewood), which have a low sensitivity to price fluctuations. Thus, rural households from quintiles I-IV have high shares of food and energy consumption, but have higher income in-kind, which allows them to cover a greater part of their expenses. At the same time, although households in quintiles I-IV in urban areas have a lower share of food and energy expenditure than households in rural areas, they have less income in-kind to cover their consumption.

23 To determine the impact of inflation on poverty levels, the method described by Alexandru Fala was used. See Fala (2022) "Inflation in the Republic of Moldova: causes, vulnerable groups, and policy recommendations" (available at [https://www.expert-grup.org/media/k2/attachments/Cauzele\\_si\\_efectele\\_inflatiei\\_analiza.pdf](https://www.expert-grup.org/media/k2/attachments/Cauzele_si_efectele_inflatiei_analiza.pdf)).



**Table 3.**

Exposure of households to rising food and energy prices

Level of exposure	Quintile	Share of income in-kind in household income, %	Share of food and energy consumption in household expenses, %	Share of food and energy consumption that cannot be covered by in-kind income, %
Higher exposure ↑	Quintile I, urban area	6,5	68,1	<b>59,7</b>
	Quintile II, urban area	4,8	64,8	<b>58,9</b>
	Quintile III, urban area	3,9	61	<b>56,7</b>
	Quintile IV, urban area	3,9	55,4	<b>51,1</b>
Lower exposure ↓	Quintile I, rural area	15,8	70,7	<b>50,8</b>
	Quintile II, rural area	12,8	65,8	<b>50,2</b>
	Quintile III, rural area	10,5	62,5	<b>49,9</b>
	Quintile IV, rural area	8,9	57,7	<b>47,7</b>
	Quintile V, rural area	5,9	50,4	<b>44,4</b>
	Quintile V, rural area	6,5	42,3	<b>40,2</b>

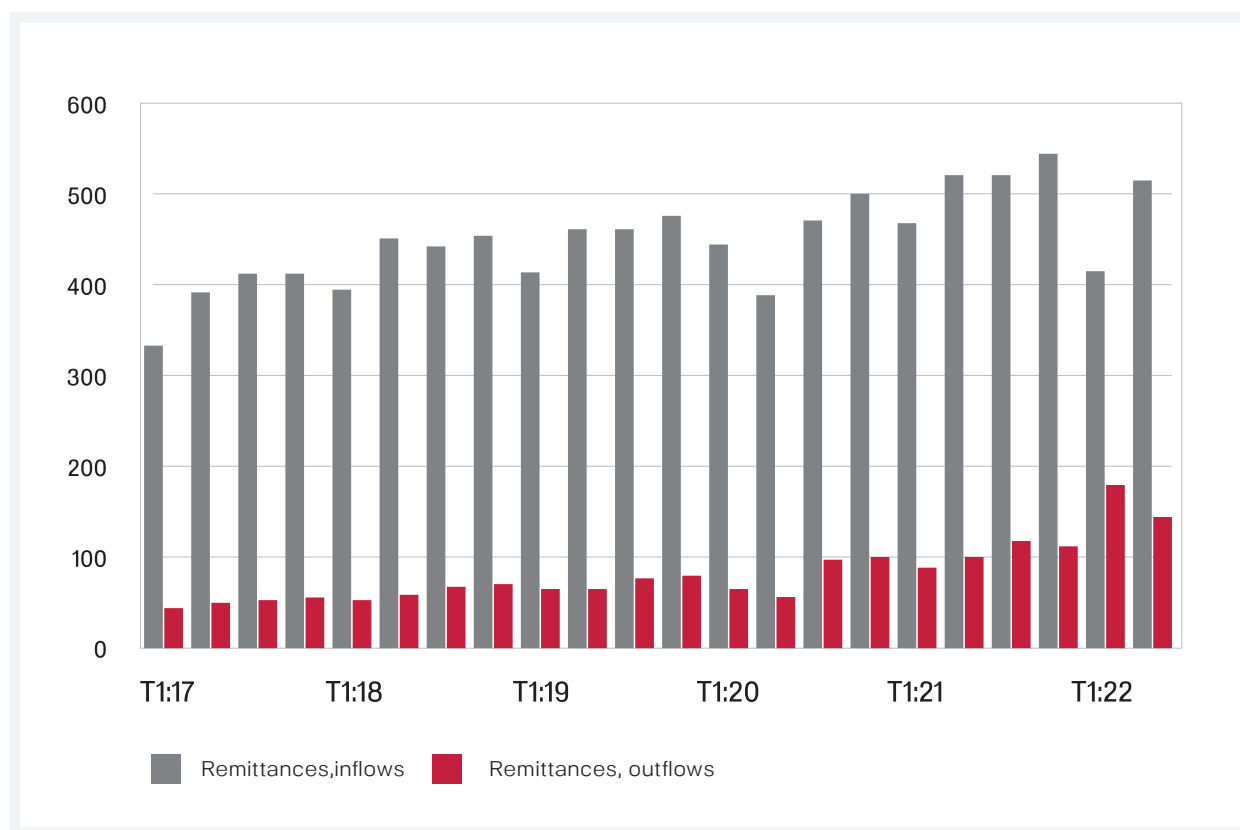
Source: "Inflation in the Republic of Moldova: causes, vulnerable groups, and policy recommendations", developed by Alexandru Fala (2022), available at: [https://www.expert-grup.org/media/k2/attachments/Cauzele\\_si\\_efectele\\_inflatiei\\_analiza.pdf](https://www.expert-grup.org/media/k2/attachments/Cauzele_si_efectele_inflatiei_analiza.pdf)

**Given the economic shocks experienced in 2022, transfers from abroad will most likely not have a solid stabilising effect.**

While during the crisis of 2020 the inflow of remittances decreased by only -0.4 percent, the developments in 2022 have been unfavourable in this regard: in January–June 2022 there was already a decrease of 5.8 percent y-o-y. Taking into account the forecasts regarding the anaemic dynamic of the world economy, it is possible that in the rest of the year the inflow of remittances will register a further decrease. At the same time, in recent years, the volume of remittances transferred from the Republic of Moldova has increased (Figure 5). Thus, while in 2017 the remittance outflows accounted for USD 211.9 million (13.6 percent of the inflow of remittances), in 2021 they accounted for USD 427.7 million (21.1 percent of the inflow of remittances). Although this phenomenon has not yet been studied in depth, some explanations can be posited. For example, part of the remittance outflows could represent transfers from households to

cover some expenses of young Moldovans studying abroad. Another cause could be the transfer of savings obtained in Moldova to more financially secure destinations. This last cause seems to best explain the “exponential” increase in remittances transferred abroad in the first half of 2022 (+68.7 percent y-o-y). With the increased uncertainties caused by Russia’s attack on Ukraine, it is likely that more Moldovan citizens have transferred their savings to jurisdictions with a more secure financial situation. In general, due to the positive dynamics of remittance inflows, the increase in remittance outflows from the country does not influence the net volume of the former. The developments in January–June 2022 are, rather, a deviation from this trend. One of the main effects of the increase in remittance outflows in the first half of 2021 has been additional depreciation pressure on the Moldovan leu.

**Figure 5.**  
Evolution of remittances, million USD



Source: NBM

**The government's actions to support household income have been adequate and have had some effect.**

The authorities have significantly increased social spending. For example, social benefits increased by 12.7 percent in nominal terms in 2021 and by 30.2 percent y-o-y in January–August 2022. Thanks to these measures, it was possible to increase the minimum pension to MDL 2,000, from 01 October 2021. Likewise, the pension indexation formula was changed in 2022 to include the price increase in December of the current year as compared to December in the previous year, to which was added an amount that reflects half of the previous year's economic growth. This made it possible to index the pension by 13.9 percent and to offer an additional payment of MDL

171.71. As a result, in January–June 2022, pensioners' real income increased, while the purchasing power of wages and remittances decreased. Also, the increase from 01 January 2022 in the guaranteed minimum wage in the public sector, up to MDL 3,100, and, from 01 May 2022, up to MDL 3,500, as well as the provision of compensation to cover energy payments in the cold season from 2021 to 2022, have increased, to a certain extent, the protection of household income against price fluctuations. Thanks to these measures, it was possible to maintain household consumption (in January–June 2022 an increase of only 0.1 percent y-o-y was recorded).

**The increase in the frequency of climate shocks represents a major risk for the economic dynamics and, implicitly, for the household income.**

Since 2010 there have been four years with major droughts in the Republic of Moldova: 2012, 2015, 2020 and 2022. The increasing trend in regard to the frequency and intensity of extreme weather conditions – in particular drought – directly affects the agricultural sector and has a significant

impact on the evolution of the entire economy. This is because agriculture remains an important sector of the national economy, producing more than 10 percent of the gross added value and employing a little more than a fifth of the population.

## Despite economic stagnation, the labour market is experiencing a positive evolution.

While in January–June 2022 GDP did not change (0 percent y-o-y growth), the employed population increased by 4.1 percent y-o-y. Employment growth was recorded in most sectors of the economy, with a decrease of approximately 1 percent being recorded only in public administration, education, health and social assistance. This “counter-intuitive development” can be explained by several factors. Although in Q1:22 and Q2:22 there was already a downward trend in

economic activity, an intensification of the negative dynamics is anticipated in the second half of the year. At the same time, there is a certain delay between the economic evolution and the dynamics of the labour market. Also, the positive dynamics of the labour market may also indicate some pressures due to the labour shortage. Thus, in a context where labour demand is not “covered” by supply, companies do not resort to layoffs and even try to increase their staff.

## Developments in 2020 and 2022 indicate the vulnerability of the informally employed to economic shocks.

Thus, during the 2020 crisis, the informally employed population decreased by 7.5 percent, while formal employment decreased by only 3.5 percent. In the conditions of the modest economic dynamics in the months of January–June 2022, positive developments in the labour market were ensured, for the most part, by the expansion of formal employment. Thus, in January–June 2022, the formally employed population increased by about 5 percent y-o-y, and informal employment expanded by

only 0.8 percent y-o-y. These developments can be explained by the fact that, in weak economic conditions, businesses in the informal sector find it much more difficult to maintain their activity than those in the formal sector. Companies in the formal sector have access to more opportunities than companies operating informally. For example, they can contract bank loans or access different financing instruments offered by the state, such as subsidies or programmes implemented by the ODA.

## A reform of tertiary education is necessary to ensure the labour market has sufficient qualitative human capital.

However, the implementation of tertiary education reform in 2022 has had some shortcomings, particularly in regard to communication. From 2017/18 to 2021/22 the number of students decreased by 9 percent (from 65,543 to 59,647). In addition to negative demographic trends, this decline has also been caused by the departure of young people to study abroad. Although there is no exact data, it seems that the number of Moldovan students studying abroad is increasing. This partly reflects the fact that Moldovan universities are losing out in the competition with universities from other coun-

tries. One of the necessary conditions for increasing the competitiveness of Moldovan universities is to increase the resources available to them. In this context, merging universities is an appropriate solution, for which the reduction in the number of students is an additional argument in its favour. However, carrying out such a sensitive reform also requires a good communications and promotion strategy. So far, the Ministry of Education and Research has acted in a defective manner in this regard. The reform has been promoted quickly, with little transparency and communication.

## Recommendations

**In unfavourable economic conditions, particularly in the context of high inflation, the government has to promote policies that protect living standards.**

The current inflationary wave will further aggravate social pressures, which will need to be alleviated by stronger welfare policies to help the most vulnerable. It should be noted that the government's interventions both in the second half of 2021 and in the first two quarters of 2022 have represented an adequate response to the challenges generated by inflation. Although the increase in social payments does not fully protect against the harmful effects of price increases, these measures represent an important pillar in ensuring social resilience. At the same time, by expanding social spending, the executive has contributed to maintaining household consumption, a factor that has had a positive impact on economic growth. It should also be mentioned that the government is in the process of implementing some mechanisms that would make the granting of social benefits more efficient, so that vulnerable people benefit from compensation to a greater extent. Thus, the executive has approved and submitted to the parliament the draft law on the "Energy Vulnerability Reduction Fund". From this fund, depending on the degree of energy vulnerability of household consumers, assistance will be granted for energy consumption. When determining the level of vulnerability, several parameters will be taken into account, such as household income, the number of family members, the share of energy expenditure in household consumption, and the type of heating system used.

**In order to maintain a high level of social spending in the short-term (in particular, during the 2022–2023 cold season), the government also needs external financial support, mainly in the form of grants.**

In the current conditions of stagflation, the Cabinet of Ministers has decided to promote an anti-cyclical budgetary policy, based on increasing social expenditures. In order to finance the increase in spending, the state has several possibilities: 1) raising taxes; 2) accessing loans; and, 3) privatisations. Given that the Republic of Moldova has a low level of public debt (33.8 percent of GDP in 2021), the government has decided that the increase in spending should be financed from loans (mainly external credit, which is cheaper than domestic financial resources), and that the level of taxation should remain relatively stable. This approach leads to an increase in the budget deficit and makes it difficult to simultaneously promote a relaxed fiscal policy. Moreover, against the background of the increase in financing needs, in particular to support social expenditure, in the next few years public debt could exceed the maximum threshold of 45 percent of GDP agreed with the International Monetary Fund. Under these conditions, at least in the short-term, it will be opportune to review the external financial assistance mechanisms available to Moldova, by increasing the weight of grants and reducing the share of loans. These measures would reduce the burden on the Budget and ensure fiscal space for economic recovery.<sup>24</sup>

<sup>24</sup> Lupușor, A. "Republic of Moldova needs substantial financial support to address rising poverty risks. Public appeal to the international community ahead of the donors' conference in Bucharest", Independent Analytical Centre "Expert-Grup"/Institute for Strategic Initiatives/Soros Foundation Moldova, Chisinau, 2022. Available at: [https://www.expert-grup.org/media/k2/attachments/Public\\_appeal\\_to\\_international\\_donor\\_community\\_2.pdf](https://www.expert-grup.org/media/k2/attachments/Public_appeal_to_international_donor_community_2.pdf)

## Although the current reform of university education can help to increase the competitiveness of tertiary education in Moldova, it does not have a fundamental character.

In order to increase the attractiveness of Moldovan universities, it will be necessary to improve the quality of teaching and to ensure a better match between market demand and the educational offer. To this end, the following actions are recommended:

- *Facilitating attracting “practitioners” to the sector by removing barriers (e.g. related to lack of teaching experience or scientific titles) that make it difficult to hire as teachers people who work in the real sector but who do not have a teaching or scientific degree.*
- *Employing foreign teachers in Moldovan universities.*
- *Encouraging the opening of branches of foreign universities in the Republic of Moldova.*

## The Republic of Moldova can no longer overlook environmental problems and must take urgent measures to increase its adaptability to climate change.<sup>25</sup>

The effect of neglecting environmental objectives is increasingly impacting growth, affecting the population’s standard of living. In fact, Moldova has an “adaptation deficit” in regard to climate change, and the environmental components that could ensure a certain degree of resilience are in a precarious state. Water is a scarce resource for the Republic of Moldova,<sup>26</sup> while forests represent a little over 11 percent of the country’s territory – a level that is below the minimum threshold of 15 percent necessary to ensure ecological balance.<sup>27</sup> In order to increase the country’s level of adaptability to climate change, it is necessary, at least, to maintain the existing water resources. This is largely a diplomatic matter: the Republic of Moldova should negotiate with Ukraine to ensure the neighbouring state guarantees a sufficient level of water discharge in the Dniester area, which is below the Dnestrovsk hydropower complex. However, in order to maintain, or even increase, its water resources, the Republic of Moldova should also take actions inside the country, in two directions: increasing the level of afforestation (at least until a forest coverage rate of 15 percent of the country is reached); and, expanding the sewage network. The expansion of public water supply networks has not been accompanied by an adequate “widening” of public sewerage networks. Thus, between 2010 and 2020, the length of water supply networks increased by 81.3 percent, while the length of sewage networks increased by only 14.8 percent.<sup>28</sup> This discrepancy means that only part of the captured water that is used for human needs is returned to the natural circuit, in the form of purified water, which creates additional pressure on water resources.

25 Fala, A. “How we ensure the resilience of agriculture to climate change through environmental policies”, Independent Analytical Center “Expert-Grup”/Friedrich-Ebert-Stiftung Moldova, Chisinau, 2020, p. 11. Available at [https://www.expert-grup.org/media/k2/attachments/FES-Rezilienta\\_agriculturii-ROM.pdf](https://www.expert-grup.org/media/k2/attachments/FES-Rezilienta_agriculturii-ROM.pdf)

26 *Ibidem*, p. 7.

27 *Ibidem*, p. 7.

28 Fala, A., Baltag, D., Rusu, E., Soloviova, M., Madan, S., Olar, V., Monitorul Asistenței Externe nr. 2, Analiza principalelor proiecte de asistență externă din ultima perioadă (External Assistance Monitor no. 2, Analysis of the main external assistance projects in the last period), Independent Analytical Center “Expert-Grup”/Institute for Strategic Initiatives/Soros Foundation Moldova, Chisinau, 2022, p. 20. Available on [https://www.expert-grup.org/media/k2/attachments/Monitorul\\_Asistentei\\_Externe\\_editia\\_2\\_f.pdf](https://www.expert-grup.org/media/k2/attachments/Monitorul_Asistentei_Externe_editia_2_f.pdf)

**Table 4.**

Main indicators for the welfare of the population

	2020	2021	2022 estimate
<b>The impact of economic growth on the well-being of the population</b>			
GDP (% y-o-y)	-8,3	13,9	-1,8
GDP per capita (% of the EU Central and Eastern Europe countries average)	27	28,2	28
Population's perceptions of welfare (Public Opinion Barometer). Share of those who are very and quite satisfied with their standard of living, %	28,6	25,4	-
<b>Access to economic opportunities and income</b>			
Employment rate, %	38,8	39,8	39,5
Unemployment rate, %	3,8	3,2	3
Absolute poverty rate, %	26,8	24,5	27
Wage increase in real terms, % y-o-y	6,2	7,1	-10
Remittances to physical entities, % y-o-y, on a net basis	21,6	8,4	5
Gini coefficient, %	32,3	33,2	34
Household consumption, % y-o-y	-7,9	15,5	-1
<b>Access to public services and infrastructure</b>			
Human Development Index	0,766	0,767	0,766
Share of education expenditure (% of GDP)	6,3	5,5	4,8
Share of health expenditure (% of GDP)	5,0	5,6	4,3
Early school leaving rate, primary education, %	0,8	0,8	0,8
Share of the population with access to managed drinking water services, %	85,3	86	87
Share of households with access to improved sewerage, %	40,4	41	43

Source: Authors' calculations based on NBS, UNDP, World Bank and Public Opinion Barometer data.

# Governance

*This chapter describes the main developments in the field of governance, which have laid the foundations for a series of favourable transformations in domestic and foreign policy in the period 2021–2022. The democratic change of government, and the coming to power of pro-reform forces, have advanced the dialogue with the EU and other Western partners. The credibility of the government, and its geopolitical synchronization with the Western political agenda, has facilitated access to vital resources that have been used to manage crisis situations more effectively. External circumstances have become the major source of insecurity for the country (in particular, the military aggression by the Russian Federation against Ukraine), having a significant impact on socio-economic and political stability. Consequently, the government had to re-prioritize its objectives, putting state resilience in the foreground, alongside physical interconnection and political alignment with the West. The construction of an integral and functional rule of law is treated by the ruling elites, furthermore, both as a way of strengthening state institutions and as an imperative for fulfilling the EU's requirements.*

## Analysis of the main trends and developments

The political alignment of the branches of power creates a series of advantages, but also shortcomings, in regard to governance: on the one hand, it ensures stability, continuity and predictability; on the other, it generates a risk of non-compliance with the principle of the separation of powers.

Following the early elections in July 2021, PAS obtained an absolute majority of 63 seats, while the opposition formed by the Bloc of Communists and Socialists and the Shor Party entered parliament with 32 and six deputies, respectively. Thus, for the first time after the two consecutive governments of the Communist Party (2001–2009), the political process in the country is dominated by a single party. The positive aspects of the PAS's political dominance reside in the profile and intentions of this party. In its first year in power, PAS's integrity against corruption was intact and the party received appreciation both in-country and among external partners. This is due to the massive transfer of image from President Maia Sandu (2020–2024), to which is added the attempt to promote a pro-reform agenda. These circumstances have led to a calming of the political scene to a kind of unification of governance after a decade of destabilization, transactional division of state institutions and their weakening, produced during the period of oligarchic coalition

governments (Alliance for European Integration, 2009–2015) and subsequently that of the "captured state" (2015–2019).

Political control over parliament and government, combined with political support from the presidential institution led by Maia Sandu, the informal PAS leader, has improved – though only partially – the decision-making process. Yet in its tendency to accelerate the speed of reforms, the current government has sometimes overlooked the principles of transparency and inclusiveness, while the reforms in some sectors have been strongly politicized, subordinated to the political calendar of the ruling party and communicated to targeted actors and groups in a precarious way (e.g. the justice reform, the reform of local public administration). This has been criticized by the opposition and international institutions, as in the case of the adoption of the Law on the Prosecutor's Office (in August 2021),<sup>29</sup> which resulted in triggering the suspension of Pros-

<sup>29</sup> <https://moldova.europalibera.org/a/comisia-vene%C8%9Bia-critic%C4%83-legea-procuraturii-opozi%C8%9Bia-cere-demisia-ministrului-just%C8%9Biei/31609061.html>; <https://paranteze.md/news/breaking-news-stoianoglo-va-ataca-la-curtea-constitucionala-legea-adoptata-astazi-privind-procuratura-general>

ector General Alexandr Stoianoglo, due to an unsatisfactory evaluation by the Superior Council of Prosecutors.<sup>30</sup> However, the uncertainties related to that case led President Maia Sandu to postpone Stoianoglo's dismissal.<sup>31</sup>

The most recent case in which insufficient transparency and/or partial inclusiveness was in evidence related to the completion of the questionnaires with

respect to the application for EU membership. This was criticized by the opposition, including members of the legislative body from UTA Gagauzia.<sup>32</sup> In another case, civil society representatives condemned the formality adopted by the authorities in the development and adoption of the plan for meeting the EU's requirements.<sup>33</sup> In both situations, the authorities justified the speed of the processes by reference to the need for urgent decisions.

## Recruitment based on competence, but also loyalty or political compatibility.

The government has tried to surround itself with a protective circle of people in what is still an unreformed system. The recruitment policy chosen by the ruling party has sought to attract persons compatible with its (geo-) political aspirations and who have the necessary training and integrity to carry out reforms in the manner proposed by PAS. Well-known people from civil society and the diaspora were thus recruited. The emphasis was placed on non-discrimination, applying such criteria as gender inclusiveness and the inclusion of groups subject to discrimination (LGBTQ, for example).<sup>34</sup> These people have been appointed to positions in ministries and other institutions responsible for public property administration, anti-corruption policies (the Anti-Corruption Centre, the Anti-Corruption Prosecutor's Office), the electoral process (the Central Electoral Commission) and others. In some cases, the government has accepted that those who previously worked under previous governments remain in office (e.g. some of those within the Court of Accounts, the Energy Regulatory Agency, the NBM, etc.) or that they be rehired for the administration of state enterprises (as in the case of the railway).<sup>35</sup> In other words, the government has preferred to hire peo-

ple who are perceived to be competent, but also loyal or politically compatible (as a minimum requirement), to lead institutions. Criticism of the Parliament-Government-Presidency line has been rather absent. However, certain people have been forced to leave their positions: for example, the former Ombudsman, Natalia Molosag was coerced to leave because of dubious recruitment policies,<sup>36</sup> while the former Minister of Environment, Iuliana Cantaragiu, left voluntarily, due to certain episodes of poor performance during the energy crisis.<sup>37</sup> In some situations, suspicions of corruption were not taken into account in the recruitment process, as in the case of the former Acting Prosecutor Dumitru Robu.<sup>38</sup> In addition to this issue of integrity, a structural problem in the recruitment process has been the low financial attractiveness of public sector positions, compared to the level of responsibility involved. The flow of departures from the system is high,<sup>39</sup> which undermines the building of robust institutions and may be a major obstacle to carrying out the institutional transformation necessary in the (pre-) accession negotiations with the EU. The inflationary crisis has further aggravated the hiring of new staff and the retention of those already in position.

30 <https://anticoruptie.md/ro/stiri/evidenta-alexandr-stoianoglo-despre-deciza-maiei-sandu-cu-privire-la-demiterea-sa>

31 <https://anticoruptie.md/ro/dosare-de-coruptie/maia-sandu-nu-va-semna-decretul-de-demitere-a-lui-stoianoglo-chiar-daca-instanta-i-a-permis-sa-o-faca>

32 <https://adevarul.ro/stiri-externe/europa/parlamentul-gagauziei-pregateste-o-declaratie-in-2175259.html>

33 <https://stire.md/declaratia-comitetului-pentru-unitate-si-bunastare-cu-privire-la-conditionalitati-si-europenizare-in-r-moldova/>

34 The new ambassador to the USA, Viorel Ursu, is simultaneously part of the LGBT community and the diaspora, <https://sinteza.org/2022/05/19/comunitatea-lgbt-este-multumita-ca-la-functia-de-ambasador-al-moldovei-in-sua-a-fost-ales-un-homosexual/>

35 The Railway State Enterprise is managed by Oleg Tofilat, who was an adviser in the Ion Chicu Government (November 2019–August 2021), which was supported in parliament by PSRM.

36 <https://noi.md/md/politica/maia-sandu-a-comentat-scandalul-cu-implicarea-avocatei-poporului>

37 Iuliana Cantaragiu voluntarily resigned on 8 September 2022; government representatives affirmed their appreciation of the minister's contribution to the process of improving environmental management. <https://replicamedia.md/ro/article/wAwGOLBqz/mesajul-nataliei-gavrilita-dupa-demisia-iulianei-cantaragiu-i-am-multumit-pentru-munca-si-dedicatia-ei-in-acest-an.html>

38 According to certain sources, in the period 2016–2018, Dumitru Robu repeatedly received donations of over 20,000 euros, attributed to relatives; one of his relatives is Prosecutor Vera Chiranda, who was investigated in 2018 in relation to corrupting judges <https://noi.md/md/societate/surse-noul-procuror-general-interimar-a-primit-donatii-de-mii-de-euro?prev=1>

39 The Minister of Finance, Dumitru Budianschi, has stated that employees of the ministry are quitting, and others cannot be hired easily, even though they are offered salaries of around MDL 16,000 per month (around 830 euros). <https://tv6.md/ro/2022/09/11/budianschi-avem-plecari-din-minister-practic-in-fiecare-saptamana-am-lansat-de-cateva-ori-concursuri-nu-a-venit-nimeni-nici-la-salarii-de-16-mii/>



The attention given to justice reform has facilitated the fight against illegal financing in the political space, which helps prevent the erosion of the integrity of state institutions in favour of kleptocratic or hostile foreign interests.

Western sanctions imposed in response to the Russian aggression against Ukraine, the tightening of control over the financing of political parties and the arrest and investigation of the former President Igor Dodon<sup>40</sup> in relation to illicit financing, have made it more difficult for the Socialist Party of Moldova (PSRM) to finance itself from Russian sources. The limitation on the PSRM's financial capabilities has been demonstrated by the party's inability to maintain control over the "Primul în Moldova" and "Accent TV" TV channels, which, following obscure transactions, came into the possession of persons affiliated with Ilan Shor.<sup>41</sup> In this less favourable context for pro-Russian forces, kleptocratic groups nevertheless have the resources to invest in protests. The authorities have so far been unable to put an end to the impunity of people involved in political corruption. Furthermore, informal groups are more agile than the institutions controlled by the current government in regard to setting the public agenda and undermining public order. Although the Shor Party and its leaders (e.g. Marina Tauber)<sup>42</sup> are under investigation for illegal financing,<sup>43</sup> the party continues to cover the costs for travelling to protests of vulnerable citizens from rural regions of the country,<sup>44</sup> as well as the costs of food and remuneration for those who participate in what are permanent protests.

Although the country's political destabilization represents a real threat to national security, which would suit, above all, Russian geopolitical interests, the authorities must adopt a balanced approach, so as not to prejudice the fundamental right of citizens to protest. The positive experience of the June 2022 LGBTQ community march<sup>45</sup> has demonstrat-

ed that the government is able to effectively ensure public order during large-scale public events. At the same time, the prevention and reaction capacities of the law enforcement and judicial bodies will be compromised if potential acts of sabotage are not prevented. Such incidents have already resulted in the discrediting of Igor Dodon's detention, which was carried out exactly on President Maia Sandu's birthday. At the same time, following the sabotage in the form of an information leak, seven members of the Shor Party under investigation in the case of illegal financing managed to flee the country before being detained, in July 2022.<sup>46</sup>

In order to further strengthen efforts to fight high-level corruption, it is imperative to carry out an evaluation process for judges and prosecutors. Although the legislation on such evaluations (pre-vetting) was adopted in March 2022, its introduction has not yet occurred due to the impossibility of filling the vacancies in the self-administration bodies of the justice system (Supreme Council of Magistracy and Superior Council of Prosecutors) with honest judges and prosecutors. Another legislative innovation is the Law on Extended Confiscation, which simplifies the process of asset confiscation in the event that its legal origin cannot be proven, in the absence of the accused and in relation to transfers of illegally obtained money to third parties. Confiscation can help recover money lost by the state as a result of the "theft of a billion". Also, these tools can help in fighting corruption in the public and judicial sectors, and can help to remedy the effects of crimes committed in the process of public property administration over (at least) the last decade.

40 Former President Igor Dodon (2016 –2020) was detained for 72 hours on 24 May 2022. During the criminal investigation, MDL 2 million (104,000 euros) was seized, more than 50 percent of this money being found at the home of Igor Dodon's mother: <https://anticoruptie.md/ro/dosare-de-coruptie/igor-dodon-mai-sarac-cu-pestea-doua-milioane-de-lei>. After being released from detention, Dodon was placed under house arrest. This measure was extended in June by 30 days, and in August until 21 September. On 19 September the courts decided on an extension for another 20 days. <https://tv8.md/2022/19/09/igor-dodon-va-sta-inca-20-de-zile-in-arest-la-domiciliu-procurorii-si-avocatii-vor-contesta-decizia-magistratilor/210677>

41 <https://newsmaker.md/rus/novosti/shor-beret-pod-kontrol-telekanaly-sotsialistov-primul-in-moldova-i-accent-tv-menyayut-hozayina/>

42 The co-leader of the Shor Party, Marina Tauber, was stripped of her parliamentary immunity in July 2022, after which she was detained and then transferred to house arrest in September for 20 days. She is being investigated for accepting funding from criminal groups and falsifying party financial reports.

43 The Shor Party is suspected of illegal financing both with regard to expenses for public events and for the financing of party personnel: 1) the party spent 600,000 euros, but reported only 2 percent of this amount (MDL 228,000); 2) the monthly salaries paid to the party staff amounted to 100,000 euros; 3) expenses for the transportation of protest participants amounted to about 182,000 euros (MDL 3.5 million). More than 97 locations associated with the Shor Party were searched. <https://stiri.md/article/social/perchezitii-cna-partidul-sor-vizat-intr-un-dosar-de-finantare-ilegala>

44 <https://newsmaker.md/rus/novosti/shor-zayavil-cto-gotov-oplatit-protestuyuschim-proezd-v-kishinev-on-pobeschal-kupit-im-butylku-vody-i-buterbrod/>

45 <https://newsmaker.md/ro/live-inconjurati-de-politie-membrii-comunitatii-lgbt-au-inceput-marsul-din-chisinau/>

46 <https://www.jurnal.md/ro/news/37a58814337709e3/7-suspectii-in-dosarul-sor-ar-fi-parasit-rm-cozer-despre-surgerea-de-informatii-a-fost-sabotaj-pe-interior.html>

Exogenous crises have extended the state's vulnerabilities, on the one hand, and have tested the government's capabilities, on the other.

Since taking power in August 2021, PAS has had to respond to a series of crises, which were amplified by the aggression by the Russian Federation against Ukraine, launched in February 2022. Two of these crises – the COVID-19 pandemic and the energy crisis – had their roots in 2021. The others – the refugee crisis and the security crisis – arose as a result of the war and the secondary implications of Western sanctions against Russian aggression. The government resorted to the introduction of a state of emergency in order to take decisions quickly, avoiding procedures that traditionally involve public consultations, tenders, and increased transparency.

Some crises, like the pandemic, have a volatile character. The authorities were forced to re-introduce the state of emergency in public health in September 2021, to counter the increasing rate of COVID-19 infections at that time.<sup>47</sup> They then cancelled it about eight months later (April 2022). However, the risk of a return of the virus should not be ruled out, since the vaccination rate in the country is below 41 percent<sup>48</sup> (at the end of 2021, the vaccination rate with the booster dose was only 1.6 percent, compared to the 26 percent average in the EU states).<sup>49</sup> Since September 2021, the country has entered an energy crisis that has had major socio-economic and political implications for governance. The inflation rate reached around 34 percent y-o-y in September 2022,<sup>50</sup> largely due to the increase in the price of public services, as a result of at least a nine-fold increase in the price of natural gas purchased from Russia and an almost seven-fold increase in the natural

gas tariff paid by the final consumers.<sup>51</sup> The government introduced a state of emergency in the energy sector in October 2021, last extending it in July 2022 until October this year. The state of emergency has allowed the government to adopt a series of measures related to the supply to the country and the population of energy resources, including the purchase of about 24 million cubic metres of natural gas as a strategic reserve (this will last for about four days).<sup>52</sup> The most unpredictable crisis is the security crisis, which depends on Ukraine's defence capacity and the Western support (political, military and financial, including the tightening of sanctions) provided to Ukraine to counter Russian aggression. Developments in the neighbouring country could have major effects on the Transnistrian conflict, where a series of destabilizing provocations have taken place (in April–May 2022).<sup>53</sup> However, the separatist region's leadership has maintained relative neutrality vis-à-vis Ukraine and has continued to hold technical negotiations with Chisinau. Both sides have showed an openness to compromise: the constitutional authorities allowed the separatist region to import scrap metal contrary to environmental standards, while in exchange it continued purchasing electricity from the Cucurugan Thermal Power Plant, produced on the basis of Russian gas which has not been paid for. The consensus-oriented technical dialogue between the two parties continued until November, when, due to the breakaway region's refusal to sell sufficient volumes of electricity, the Moldovan government switched to imports from Romania entirely.

47 <https://sinteza.org/2021/09/09/ultima-ora-guvernul-pas-introduce-stare-de-urgenta-in-sanatate-publica-pe-tot-teritoriul-tarii/>

48 According to the data from 4 September 2022, the total number of vaccinated people is about 1.1 million, while new infections amount to about 200 cases. Considering that the last weekly report on COVID-19, published on the website of the Ministry of Health, dates from December 2021, it is difficult to identify the rate of people vaccinated with the booster dose. The data from December 2021 indicate the figure of 25,329, which represents about 2 percent of the total of the fully vaccinated. Also, in 2022, the authorities allowed vaccination with the fourth dose.

49 <https://adevarul.ro/stiri-externe/republica-moldova/republica-moldova-este-pe-ultima-pozitie-in-2143691.html>

50 <https://intellinews.com/moldova-s-inflation-hits-34-3-y-y-in-august-256181/?source=moldova>

51 <https://tv6.md/ro/2022/09/23/mi-e-frica-nu-o-sa-poata-plati-nici-tinerii-nici-pensionarii-noul-pret-la-gaz-sperie-populatia-oamenilor-le-e-frica-ca-nu-vor-putea-achita-facturile-iar-intre-prinderile-preciz-scumpiri-ale-productie/>

52 Around 580,000 refugees crossed the Moldovan border, and the number of those remaining in the Republic of Moldova fluctuated between 50,000 and 90,000 people at any one time. In August 2022, around 33,000 refugees were hosted by over 25,000 Moldovan households. The other refugees are accommodated in placement centres. In August 2022, out of the total of 130 functional centres in February–August, only 74 were still open (capacity for 5,400 places). The Republic of Moldova received aid from 92 international partners, <https://anticoruptie.md/ro/stiri/cati-refugiati-ucraineni-sunt-in-moldova-si-cati-bani-au-mai-ramas-din-donatiile-facute>

53 Denis Cenușa, "Transnistria: Another Russian pressure point?", Mai 2022, <https://ridl.io/transnistria-another-russian-pressure-point/>

**The increased socio-economic vulnerability of the population is one of the main sources of potential internal destabilization of the country.**

The inflationary crisis represents an increased risk to the political stability of the country, but also to the government, as it can be a strong catalyst for protests. The worsening of living standards makes certain social categories (those in rural areas, pensioners, the unemployed, and those employed in the subsistence economy) more susceptible to manipulation and political corruption, which can materialize in their accepting payments to participate in anti-government protests. These groups are directed or exploited by political actors associated with kleptocratic groups: Ilan Shor<sup>54</sup> (Shor Party), Veaceslav Platon<sup>55</sup> and Gheorghe Cavcaliuc (allegedly affiliated with the fugitive oligarch Vladimir Plahotniuc). The first two are wanted internationally<sup>56</sup> on charges of serious financial crimes (the “theft of a billion”<sup>57</sup> and “Russian Laundromat”<sup>58</sup>), and the third for abuses committed while working in the Ministry of the Interior (fabricating cases against Gheorghe Petic and Ruslan Verbitschi).<sup>59</sup>

At the same time, there are other political forces that may try to use the protest spirit and antipathy towards the government to restore strategic relations with Russia, including PSRM, the Party of

Communists, and some members of the People's Assembly of UTA Gagauzia, led by Victor Petrov.<sup>60</sup> The efforts of kleptocratic groups are closely related to the energy crisis and the increase in gas prices, realities that are used to inculcate the view among vulnerable social groups that the fall of the government and early elections represents the optimal solution. Given that the leaders of these groups are currently being prosecuted in the country, it can be assumed that their intention is to seize power in order to paralyse the justice reform and prevent their extradition to Moldova, the confiscation of their illegally accumulated wealth and the deprivation of their liberty. Although they wish to see the government collapse, the pro-Russian political parties opt for a less precipitous scenario. The PSRM and Party of Communists' representatives exaggerate or distort the deficiencies in the government's management of crises in order to erode the popularity of the Sandu-PAS political tandem, the aim being to influence the local elections in 2023, and subsequently, through a chain reaction, to reduce the electoral opportunities for PAS and President Sandu for the 2024 presidential elections and the 2025 parliamentary ones.

**The increased interconnection with the EU has taken place against a backdrop of a strategic decoupling from Russia.**

The Russian aggression against Ukraine has generated enormous implications for Moldova's relations with the EU and other Western partners, on the one hand, and with Russia, on the other. During 2022, representatives of the Moldovan Government launched the “Support Platform for Moldova” (in Berlin in April)<sup>61</sup> and participated in the meeting of the G7 states (May), and the infor-

mal meeting of the Ministers of Foreign Affairs (in Gymnich in August). The Republic of Moldova also hosted visits from several heads of state from the West and also demonstrated solidarity and close cooperation with Ukraine (on refugees, grain exports, the situation in the Transnistrian region, etc.). All of these contacts have contributed to the “Westernization” of Moldova's foreign policy.

**At the same time, relations with Russia have been strictly reduced to diplomatic ties, and, at the level of rhetoric, the Chisinau authorities have resolutely condemned the Russian war against Ukraine and its consequences (territorial occupation, illegal referendums, war crimes, occupation of civil nuclear power stations, etc.).**

However, Moldova has not aligned itself with the sanctions regime. This appears to have been indirectly accepted in Kyiv and in Western capitals, where the limited effect of Moldovan participation in sanctions is understood, as compared to the consequences caused by the blacklisting of “unfriendly countries” (about 50 states), which

has led to Russia applying a series of counter-sanctions. At the same time, Moldovan banks have aligned themselves with the financial sanctions against Russia, in order not to be targeted by secondary sanctions. Also, the Moldovan authorities have banned the resumption of flights to Russia for security reasons (September 2022).<sup>62</sup>

<sup>54</sup> <https://tv8.md/2022/24/09/numarul-ucrainenilor-care-si-au-gasit-un-loc-de-munca-in-republica-moldova-creste-topul-celor-mai-solicitate-specialitati/211114>

<sup>55</sup> <https://www.rise.md/english/laundromat-how-veaceslav-platons-high-life-in-kyiv-came-crashing-down/>

<sup>56</sup> <https://radiochisinau.md/gheorghe-cavcaliuc-si-veaceslav-platon-anuntati-in-cautare-internationala-de-interpol---141152.html>

<sup>57</sup> <https://www.reuters.com/article/moldova-banking-idUSL8N2AY4PF>

<sup>58</sup> <https://www.occrp.org/en/laundromat/russian-laundromat/>

<sup>59</sup> <http://oficial.md/politica/gheorghe-cavcaliuc-citat-la-pccocs-in-dosarele-petic-si-verbitschi>

<sup>60</sup> <https://stiri.md/articole/politica/alesul-local-care-sta-in-spatele-protestelor-din-gagauzia-legaturile-cu-lumea-criminala>

<sup>61</sup> <https://www.gov.md/ro/platforma-de-srijin-pentru-republica-moldova>

<sup>62</sup> <https://www.caa.md/in-atiinta-presei-si-pasagerilor-3-541>

On the other hand, during the first seven months of the Russian aggression against Ukraine, officials in Moscow launched various insinuations alleging that Chisinau was being influenced and controlled by the West, repeating the actions of the Ukrainian authorities and risked being drawn into the war.

In the same period, the destabilization of the gas market, significantly influenced by the reduction of gas supplies by Russia, was considered by Chisinau to constitute geopolitical pressure. The Moldovan authorities are trying to prevent the country's disconnection from gas, using the dependence of the Transnistrian region on Russian gas. At the same time, the Moldovan government must carry out the audit of MoldovaGaz that can lead to new tensions with Russia and affect the current gas contract. If the problem of old debts (over USD 700 million) accumulated by Moldova, the territory controlled by the constitutional regime (except the Transnistrian region) is not resolved, Gazprom can stop deliveries

on the basis of a failure to fulfil the commitments negotiated by the PAS government in October 2021.<sup>63</sup> At the same time, Russia returned to applying restrictions on the import of agri-food products from all areas of the country, except for the Transnistrian region. The Moldovan authorities are purchasing natural gas for reserves and have received confirmation from Romania regarding its help in the event of a disconnection from Russian gas. Moldova has gas interconnections with networks in Romania (the Iasi-Ungheni-Chisinau Gas pipeline), and the European Bank for Reconstruction and Development has provided a Euro 300 million loan to ensure Moldova's energy security.

While Russian influence is declining, the EU candidate country status obtained by the Republic of Moldova in June 2022 (along with Ukraine) opens opportunities for deepening interconnection with the EU and its member states.

Synchronization of Moldova and Ukraine with the European Electricity Transmission Networks (ENTSO-E) has proven that there is technical capacity and political will to interconnect the European neighbourhood with the EU (March 2022), which also contributes to regional energy security.<sup>64</sup> The authorities are also pursuing the construction of critical infrastructure to increase road connections with

Romania.<sup>65</sup> The deepening of the (pre-) accession dialogue with the EU could maintain and broaden the existing trade benefits for Moldovan producers and transporters. However, without tangible economic benefits for citizens, European integration, while popular at present (about 60 percent support in September 2022), will remain vulnerable to internal political changes and geopolitical challenges.

## Recommendations

Preventing sabotage attempts within state bodies and punishing crimes related to national security:

1) In order to prevent risks related to corruption in protests due to illegal financing, the bodies responsible for national security (the National Security Council, the Information and Security Service and others) must carefully supervise the activity of the judicial and law enforcement structures to prevent acts of sabotage, including by increasing penalties for actions that fall within the scope of sabotage (Contravention and Criminal Code). 2) It is imperative to create "checks and balances" mechanisms within state institutions that, on the one hand, do not limit transparency, and, on the other, contrib-

ute to the identification of employees who act in bad faith and leak information. To this end, the provisions of the Whistle-blower Law of 2018 could be extended, to encourage the reporting of suspicious links between public officials and persons associated with political actors under criminal investigation. 3) It is necessary to increase the penalties for separatist actions that affect statehood and the territorial integrity of the country, for treason, for war propaganda, and for inter-ethnic hatred – above all when engaged in by persons with public responsibility and political actors.

<sup>63</sup> Denis Cenușa, "Russia-Moldova gas disputes: Is an 'energy divorce' possible?", October 2021, <https://ridl.io/russia-moldova-gas-disputes-is-an-energy-divorce-possible/>

<sup>64</sup> <https://www.entsoe.eu/news/2022/03/16/continental-europe-successful-synchronisation-with-ukraine-and-moldova-power-systems/>

<sup>65</sup> According to the "European Moldova 2030" Strategy, roads and bridges are to be built: the Chisinau-Iasi highway, and five road bridges in Giurgiulesti, Leova, Cantemir, Ungheni and Nisporeni, <https://gov.md/ro/content/strategia-nationala-de-dezvoltare-moldova-europeana-2030-fost-aprobata-de-guvern>

<sup>66</sup> [https://www.legis.md/cautare/getResults?doc\\_id=105486&lang=ro](https://www.legis.md/cautare/getResults?doc_id=105486&lang=ro)

## Activating justice reform and combatting (geo-)political corruption:

**1)** The Electoral Code, the Law on Political Parties, and the Criminal Code should be amended in order to introduce harsh sanctions for political corruption (bribery, harassment) and for corrupting citizens in non-electoral periods (payment for participation in public protests, etc.). **2)** The Criminal Code (Art. 18122) should be amended with a view to establishing penalties for citizens involved in the financing by other states (through offshore jurisdictions) of political parties from Moldova, with the aim of preventing and combatting foreign interference in local electoral and political processes. **3)** Efforts should be made to simplify voting from abroad – voting by mail and electronic voting (provided that the security of the vote is ensured and the political advertising of parties carried out online is regulated, by limiting access to the use of information before, and during, the electoral campaign). **4)** Activating the justice reform, with a focus on finalizing the external evaluation of judges and prosecutors, completing the composition of self-administration bodies (CSM and CSP), and overcoming blockages related to the filling of vacant positions (CSM, CSP) carried out by the general assemblies of these bodies. **5)** Prompt consultation of the Venice Commission,

and the implementation of its recommendations before the new rule of law legislation in its final reading (the bill on the Supreme Court of Justice, the Article 330 of the Penal Code regarding illicit enrichment). **6)** Establishing intensive training programmes for integrity specialists in the field of justice and combatting corruption in the higher education system (in particular, in legal studies), continuing to attract law specialists from the diaspora, and developing exchange programmes for students specializing in law (Romania, Germany, France, etc.). **7)** Delimiting the powers of the National Anti-corruption Centre and the Anti-Corruption Prosecutor's Office regarding high-level corruption, as well as concretizing responsibilities for confiscation procedures between the National Anti-corruption Centre and the Ministry of Justice, on the one hand, and the National Integrity Agency, on the other. **8)** In accordance with the requirements of the EU, in the pre-accession negotiations with Moldova, it is recommended to adopt legislative changes to oblige the government and the parliament to carry out an anti-corruption analysis and to adopt the prescriptions of the anti-corruption bodies, except for cases of the state of emergency.

## Close surveillance and management of the public health situation.

Although the authorities have decided to end the state of emergency in the field of public health, they should prepare for a possible return of the pandemic, due to the low vaccination rate with the booster dose and the appearance of new variants of the COVID-19 virus. **1)** The Ministry of Health should return to the

weekly publication of the COVID-19 bulletins (the last available report is from December 2021), providing a detailed presentation of data on vaccination with booster dose. **2)** It is also imperative to continuously promote vaccination among the population, as well as among Ukrainian refugees.

## Intensification of the European integration process and radical revision of bilateral relations with the Russian Federation:

**1)** Create a transparent and inclusive mechanism for meeting the conditions of the European Commission regarding the advancement of EU candidate country status (examined in the "Special Issue" chapter). **2)** Hire staff with skills in the field of European integration for ministries and state agencies by attracting funds from the EU and member states, to compensate for the low salaries in the Moldovan public sector. **3)** Support the efforts of civil society in regard to the process of monitoring the fulfilment of pre-accession conditions, avoiding any manifestation of discrimination. **4)** Incorporate the concept of state resilience in documents dedicated to national strategies for security, defence, foreign policy, public order, border protection, food security, energy security and critical infrastructure protection, by establishing robust risk management mechanisms

and crisis PPRR (prevention, preparation, response and recovery). **5)** Use Western assistance to modernize comprehensively the defence capabilities of the Moldovan Armed Forces, by studying the experience of Ukrainian partners in its military actions against Russian aggression. **6)** Radically review Moldovan–Russian relations by eliminating asymmetric dependencies (energy, foreign trade, etc.) and using the platforms offered by international organizations to prompt the withdrawal of Russian military forces and armaments from the Transnistrian region. At the same time, the elites in that region must be co-opted in the negotiations through a combination of constraints (individual and sectoral sanctions applied by the EU and the US) and opportunities (sectoral integration with the support of Western partners).

**Table 5.**  
Main indicators for governance

	2019	2020	2021
Total public expenditure as part of GDP, %	29.9	33	34
Budget deficit, % of GDP	- 1,4	- 10	- 2.6
Global Competitiveness Report, "Institutions/irregular payments and bribes"	81 (of 141 countries)	-	-
Corruption Perception Index, Transparency International	120 (of 180 countries)	115 (of 179 countries)	105 (of 180 countries)
Number of sentences for corruption cases, % of total	88 (of 333 cases)	-	62 (of 376 cases)
Number of acts (draft laws, normative acts) subject to public consultations, % of total	90 (of 1221 approved acts)	66 (of 1197 approved acts)	44 (of 786 approved acts)

*Source:* NBS, Ministry of Finance, National Anti-corruption Centre, Court of Accounts, State Chancellery, Transparency International, World Economic Forum, authors' calculations.

# About Expert-Grup

## WHO WE ARE

**Expert-Grup** is a think-tank that specializes in economic research and public policy analysis. Expert-Grup was established in 1998 and started its research activity in 2006. We position ourselves as a politically and ideologically neutral organization, and we do not represent any economic, corporate or political interests.

## OUR MISSION

The mission of the organization is to promote the public interest and to develop efficient and innovative solutions for the development of the Republic of Moldova. In order to fulfil this noble goal, **Expert-Grup** provides a creative and institutional environment and encourages the expression of free thinking, making us a leading source of unbiased economic analysis.

## EXPERT-GRUP'S FOUR CORE VALUES

1. **Independence and objectivity** - We encourage creative and critical thinking. We remain independent of any political or ideological influences.
2. **Integrity and transparency** - We use robust, relevant and transparent analytical tools. All sources used in our research are quoted and all contributors to our research are mentioned.
3. **Quality and relevance** - We aim to produce high-quality analytical products that address topical issues for the economic and social development of Moldova.
4. **Avoiding conflicts of interest** - We do not accept activities and partnerships that are contrary to our values or that may undermine our independence.

## EXPERT-GRUP'S 10 PRIORITIES

1. A functional market economy: free competition and the protection of property rights.
2. Reasoned and rational economic and social policies, developed in the interest of citizens.
3. Free trade based on real competitive advantages.
4. An efficient, transparent and accountable public sector.
5. A business climate that is friendly to, and appealing for, SMEs.
6. Fair labour market conditions for both employers and employees.
7. A flexible educational system that is connected to the economic, social and demographic realities.
8. Equal access to economic and social opportunities for all citizens.
9. A society that is familiar with the economic trends and basic principles of the economy.
10. Balanced regional development.

## WHO WE ARE

**FES** is a German political social-democratic foundation which aims to promote democracy, peace, international understanding and cooperation. **FES** performs its tasks in the spirit of social democracy and participates in public debates to identify social-democratic solutions to current and future issues in society.

## FES IN MOLDOVA

In the Republic of Moldova, **FES** aims to foster European integration, democracy, peace and social justice through political dialogue, education and research. Our main areas of activity are the following:

### DEMOCRATIZATION AND POLITICAL PARTICIPATION

The Republic of Moldova faces challenges related to strengthening its democratic institutions and developing a democratic culture that would make the country fully compliant with the standards of the EU. **FES** contributes to this by promoting political participation in civil society organizations, political parties and local public administration bodies. In this area, **FES** puts a particular focus on building the capacities of citizens in the regions. Citizens should be trained to follow critically and participate in public debates in order to monitor decision-makers, express their views and act in their own interests. Therefore, through its activities, **FES** has committed itself to promoting participatory democracy and citizens' civic and political culture at the local level.

### EUROPEAN INTEGRATION

The Republic of Moldova is a part of the European Neighbourhood Policy and the Eastern Partnership, having been granted the EU candidate country status recently. **FES** aims to support the country's European integration process. Through a number of tools, such as radio debates, news bulletins, policy papers, publications and conferences, **FES** focuses on the main challenges related to European integration, facilitating people's access to up-to-date and reliable information on the topic, improving the dialogue between civil society and decision-makers as regards the requirements for successful European integration, and strengthening, in this way, the efforts of Moldovan authorities to integrate into the EU. Additionally, **FES** supports non-government organizations in contributing to a peaceful resolution of the Transnistrian conflict, as a precondition for successful European integration in the long-term.

### ECONOMIC, SOCIAL AND ENVIRONMENTAL POLICY

**FES** supports its partners in developing and implementing policies for a sustainable and socially balanced market economy that is able to address the needs of all citizens. The activities and projects in this area focus on reforming social security systems, improving working conditions and labour market opportunities, and fostering sustainable development. Additionally, **FES** runs programmes that aim to promote social-democratic values.





