

Republic of Moldova. Two Years from Signing of Association Agreement with the EU.

European integration advantages and disadvantages are being continuously discussed in Moldova. Its supporters-promoters are talking tirelessly about its benefits and successes of Moldova's Europeanization. They have forgotten that European officials are no longer considering us a 'success country'. Moldovan Government recently declared that Action Plan on Implementation of the Association Agreement for 2014-2016 had been fulfilled by 73.73%. For some reason, the Government does not associate the Action Plan fulfilment with concrete results that population and businesses would feel.

More than two years have already passed from the moment of signing of Agreement on Moldova's association with the EU countries and one can sum up what our country has achieved during the 'association' approximation with European norms and standards.

We decided to present this material without any political background taking into account just mere figures, ratings and estimations provided with regard to Moldova by local and foreign organisations.

Let us start our review with estimation of dynamics in foreign trade with the EU countries and with the Russian Federation, as well as with real consequences and losses of traditional markets due to new economic conditions of the last two years. Let us also assess dynamics of investments coming to the country, internal and external debts of the state, and international ratings of the Republic of Moldova in a number of areas, as well as our fellow citizens' opinions on the state of affairs in the country. We will try to present, to the extent possible, this material in the form that is understandable for broad public.

Main Expectations from Signing of Moldova-EU Association Agreement

Active make-believe PR-campaigns were held before signing the Association Agreement to convince Moldovan society of the would-result benefits and advantages. These campaigns based on economic projections data saying that implementation of Moldova-EU Association Agreement would yield within a short period Moldovan GDP increase by 3.2%, growth of export – by 14.8%, that import – by 6.4%, salary – by 3.1% with consumer prices decrease of 1.0%.

Anticipated Economic Outcomes of Moldova-EU Association Agreement Implementation

	Short-term period
GDP growth, %	+3,2
Growth of export, %	+14,8
Growth of import, %	+6,4
Growth of salary, %	+3,1
Consumer price index, %	-1,0

Source: *Trade Sustainability Impact Assessment in support of negotiations of a DCFTA between the EU and Georgia and the Republic of Moldova. Final report (Client: European Commission - DG Trade) / ECORYS. - Rotterdam, 27 October 2012.*

Signing of Association Agreement with the EU countries and creation of the free trade zone were expected to result in the opening of the European market and growth of Moldovan goods export, higher investment potential of Moldova, increase of foreign investments inflow and steady external financial support for reforms.

However, majority of expectations never came true.

Foreign Trade

Customs duties on the major part of Moldovan export to EU (about 90% of volume of deliveries) were cancelled on 1 September 2014, which was expected to promote growth of export to the EU.

However, quick growth of export to the EU countries never happened. From 1 September through December 2014, export decreased by 0.4%; in 2015 – by 2.3%, in January-August, 2016 – by 1.3%. We should note, for fairness' sake, that for 11 months of 2016 export to EU showed growth by 7.2%.

During the period of 1 September 2014 through August 2016, in the situation of free trade with the EU, export to the European Union countries decreased by 41 mln dollars. As it has been mentioned above, there was noted a respective growth only in the autumn of 2016, which was due to good harvest and seasonal factors. Therefore, export growth to the EU market cannot yet be considered as a tendency.

Export to the EU Countries

	September-December 2014	2015	8 months of 2016	11 months of 2016
Export				
% versus respective previous period	-0.4	-2.3	-1.3	+7.2
+ / - mln dollars	-2	-28	-11	+81

Source: RM National Statistics Office.

At the same time, there was noted a tendency of import growth from the European countries of some agricultural food products, i.e. those that our country can produce in big quantities and with high quality, such as vegetables (tomatoes, onion, cabbage, salad, carrots, and so forth), apples, corn, sugar, etc. Thus, in 2015 versus 2014, import of eggs grew from 11.0 mln pieces to 20.9 mln pieces (by 1.9 times), tomatoes – from 0.2 thousand tons to 0.9 thousand tons (by 4.5pa3a), apples – from 0.3 thousand tons to 1.1 thousand tons (by 3.7 times), sugar – from 6.3 thousand tons to 8.1 thousand tons (by 1.3 times). In 2016, there was noted import growth from the EU of milk and sour cream, apples, corn and sugar.

Thus, signing of the Association Agreement did not improve export positions of Moldova in the EU countries markets. Opening of the EU markets for Moldova was accompanied by catastrophic deterioration of conditions for Moldovan goods export to Russia's market.

After signing the Association Agreement Moldova in July 2014, the RF started imposing restrictions on deliveries of goods from Moldova (fruits, canned fruits and vegetables, wine) as its trade and economic interests had not been taken into consideration and no necessary consultations had been held. **As a result, from July 2014 through August 2016, export of Moldovan goods to Russia's market decreased by 325 mln dollars.**

Export to Russian Federation

	September-December 2014	2015	8 monts of 2016
Export			
% versus respective previous period	-42.6	-43.2	-6.3
+ / - mln. dollars	-132.1	-183.1	-9.7

Source: RM National Statistics Office.

Foreign Investments

Expectations of considerable inflow of foreign investments to Moldovan economy connected with signing the Association Agreements and coming into force of free trade regime never came true.

Dynamics of foreign direct investments inflow to the national economy are as follows:

- In the 4th quarter of 2014 investments inflow decreased by 3.5%, in 2015 it increased by 13.9%
- **During 9 months of 2016 foreign direct investments inflow reduced to 41.7% and made only 112 mln dollars, which it is the lowest absolute indicator since 2005**

As a whole, during 2 years of the Association Agreement effect, foreign direct investments inflow to Moldovan economy appeared to be lower by 17% than 2 years prior to its coming into force (for the period of October 2014 – September 2016 it made 389 mln dollars, for that of October 2012 – September 2014 – 468 mln dollars).

Foreign Direct Investments Inflow to Moldova's Economy 2 Years prior to Coming into Force of Agreement with the EU

	2 years prior to Agreement with the EU (October 2012 – September 2014) (mln dollars)	During 2 years of effect of Agreement with the the EU (October 2014 – September 2016) (mln dollars)	Change (2 years of effect of Agreement with the EU /2 years prior to Agreement with the EU),%
FDI	468	389	-17%

Source: RM National Statistics Office.

During the last years there was noted a decrease in the total amount of investments in fixed capital in Moldova, including the volume of investments out of the funds of foreign investors. In 2015, the volume of investments out of the funds of foreign investors decreased by 4.5%, in January-September 2016, practically, by 1/3 (by 32,8%).

Considering the facts stated above, it is possible to state that expectations and projections not only never came to be true, but the situation has essentially deteriorated.

Debt Burden

During the last two years, both internal and external public debt has considerably increased. If, for example, at the end of 2009 the internal debt made 5.1 bln lei, by the end of 2016 it increased by more than 4 times and made 21.5 bln dollars.

During the same period, external debt in lei terms increased from 9.5 bln lei to 29.3 bln lei, which means more than 3 times growth. The major cause is theft of 1 bln dollars having been extended as loans by the National Bank to 3 commercial banks and classification of this amount as public debt. Another reason is growth of external loans.

The overall public debt has increased from 14.6 bln lei in 2009 to 50.8 bln lei in 2016.

Public Debt (as of 31 December)

	2009	2014	2015	2016	Growth, times
Internal debt (bln lei)	5.1	7.1	7.2	21.5	4.2
External debt (bln lei)	9.5	20.4	26.3	29.3	3.1
Public debt – total	14.6	27.5	33.5	50.8	3.5

(bln lei)					
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Source: RM Ministry of Finance.

With the existing low rates of economic development, constant growth of public debt is becoming rather burdensome. Let us note that per-capita rate of public debt grew from 2009 through 2015 by 2.3 times – from 4.1 thousand lei to 9.4 thousand lei.

Meanwhile, we have no official data on GDP for 2016. **However, in 2015, per-capita GDP rate in dollar equivalent decreased versus 2014 from 2244 dollars till 1833 dollars or by 18%, while per-capita public debt increased by 22%.**

Perception by Citizens of Situation in the Republic of Moldova

Moldovan citizens are extremely negative in their estimation of the state of affairs in the country. There are held numerous sociological polls. Let us dwell upon one of them – Public Opinion Barometer – carried out by CBS – AXA, Centre for Sociological Studies and Marketing.

Changes in Perception by the Moldovan Population of Internal Economic and Political Situation

If in November 2014, the share of those who considered that economic situation in the country had worsened in comparison with the previous year made 29%, in October 2016 it made 63%, i.e. it increased more than twice.

More Than Half of Population Considers that Economic Situation Has Become Worse

	November 2014	October 2016
Situation in economy has improved	28%	10%
Situation in economy has deteriorated	29%	54%

Public trust in authorities has considerably decreased. If in November 2009, 44% of the population trusted the Government, in October 2016 their number made only 9%. Trust in the country's Parliament has decreased even more. If in November 2009, 41% of interviewees trusted the Parliament, in October 2016, their percentage made only 6%. **Thus, trust of Moldovan people in the ruling coalition that is constantly referred to 'as a showpiece' has gone down by almost 7 times.**

Present leaders have failed to convince citizens of the country in successes in the build-up of the law-based state. If in 2008 - 2009 law enforcement agencies were trusted by 37% of citizens, in October 2016 this indicator made only 8%, having decreased by 4.6 times.

Moldova has no success in the build-up of a law-based state. The share of people trusting law enforcement agencies wend down from 31% in 2005 (37% in 2008-2009) to 8% at the end of 2016.

	November 2014	October 2016
Trust in the Government	28%	9%
Trust in the Parliament	24%	6%

Trust in justice	23%	8%
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If 61% of the country's population considered in November 2014 that Moldova was going in a wrong direction, a year after the beginning of implementation of the Association Agreement this indicator made **84%**.

Majority of the population of Moldova considers that the country is going in a wrong direction.

The country is going:	November 2014	November 2016
In the right direction	34%	9%
In a wrong direction	61%	84%

Deterioration of the economic, social and political situation, the fact that majority of the population does not see any results of the European integration and financial support of donors **caused a 2 times decrease of the share of supporters of the European development vector.**

If at the end of 2009, 63% of Moldovan citizens were in favour of integration with the European Union, at the end of 2016 their share made only 38%. Thus the share of the population prejudiced against integration of the Republic with the EU grew up from 12% in 2009 to 37% at the end of 2016, which is an essential increase.

Integration of the RM with the EU	November 2009	November 2014	November 2015	October 2016
FOR	63%	44%	45%	38%
AGAINST	12%	35%	33%	37%

Evaluation by International Organisations of the State of Things in the Republic of Moldova International Indexes

Despite positive rhetoric by the Government and international partners with regard to the Republic of Moldova development in different areas throughout the years the Association Agreement is in effect, majority of international ratings and indexes show negative dynamics regardless of the evaluated sphere. We will provide only some indicators from the reports of well-known and worldwide-recognised organisations.

Corruption

According to the data of one of the most authoritative organisations in the world – Transparency International, Moldova essentially worsened its corruption perception index rating in 2016 lowering it by 20 positions – from 103rd place to 123.

Corruption perception Index (Transparency International)

	2014	2015	2016

Moldova's position in the rating	103	103	123
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Source: TransparencyInternational

http://www.transparency.org/news/pressrelease/corruption_index_reflects_moldovas_disappointing_response_to_corruption

According to the World Economic Forum Report for 2014-2015, **for the first time after 1991 Moldova was referred to as the country with the most corrupt judicial system in the world holding the last 144th place.**

Mass Media Freedom

There are serious problems in the sphere of freedom of speech and activity of mass-media. According to the Press Freedom World Index Report, annually presented by the organisation of Reporters sans Frontières, **during the period of 2014 through 2016 Moldova went down by 20 positions.**

	2014	2015	2016
Moldova's position in the rating	56	72	76

Source: <https://rsf.org/en/moldova>

An essential recession can be observed in the area of freedom of speech protection evaluated by the well-known organisation of FreedomHouse. During the period of 2014 through 2016 Moldova lost three positions in the rating, while domestic mass-media are recognised as 'partially free' (source:<https://freedomhouse.org/report/freedom-press/>).

Global Competitiveness Index

During 2 years having passed after signing of the Association Agreement, Moldova has worsened its indicators included in the Global Competitiveness Index. The Republic **went down in the rating of countries of the world by 18 points – from 82nd place in 2014-2015 to 100th in 2016-2017.** The drop took place by such important positions as 'institutions', 'efficiency of commodity market and services', 'competitiveness of companies'.

Global Competitiveness Index

	2014-2015	2015-2016	2016-2017
Moldova's position in the rating	82	84	100
Including:			
Institutions	121	123	128
Efficiency of commodity market and services	103	103	107
Competitiveness of companies	124	127	127

Source: *WorldEconomicForum*

Wall Street Journal and analytical centre of Heritage Foundation in their study of economic freedom index (2015) referred Moldova to the category of countries with mainly unfree economy. The country has lost positions in the rating of countries by the index of economic freedom holding 117th place among 178 countries of the world.

Prosperity Index of Countries

This index reflects quality of economy, business environment, public governance, education, public health services, social capital, personal freedom, security and environment. **According to the data of the last two years, Moldova has gone down by 7 positions – from 89th place in 2014 to 96th in 2016.**

	2014	2015	2016
Moldova's position in the rating	89	92	96

Source: *The Legatum Prosperity Index*
<http://www.prosperity.com/globe/moldova>

We drew your attention only to the main indicators and international evaluations of development of the Republic of Moldova during the last two years having passed after signing of the Association Agreement with the EU.

We should also note very important and, unfortunately, negative tendencies – more than 100 citizens of Moldova are daily leaving the country, there is taking place an outflow of labour, including qualified population, the number of pensioners is growing, while the number of those officially employed and paying contributions to the pension fund is decreasing. Despite all the assurances that everything is OK, the data given above, as well as a number of other facts suggest the opposite.

Let everyone make his/her own conclusions.

What should be done in this situation? In the nearest future, we will present to the broad public a complex program of social and economic development of the country. It is necessary to start making changes in all the sectors and following the way of development.

source: www.dodon.md
