

MOLDOVA LOST IN TRANSITION

The EU's role in addressing Moldova's transition challenges

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EU – Moldova relations

- Eastern Partnership
- European Neighbourhood Policy (ENP)
- Association Agreement, concluded June 2014
- Includes Deep and Comprehensive Free Trade Area (DCFTA)
- Visa liberalization
- Energy Community
- Aviation Agreement
- Strong support EU for transition process
- Substantial EU-assistance program (> EUR 130 million p.a.)

Moldova – transition challenges

- Political instability
- Unfavourable business environment
- Financial sector instability
- Weak justice sector
- Transnistria

Political instability

- Enhanced political cooperation
 - Institution building
 - De-politicization of state institutions, reducing state capture
 - Stronger, multifaceted links to Europe
 - EU values, human rights
 - Building open, tolerant, multi-ethnic society

Business environment: DCFTA in a nutshell (1)

- First-generation comprehensive agreement;
- Free trade for goods and services with a market of 500 million consumers;
- Makes Moldova part of EU-wide supply chains;
- Widens access for exports of agricultural goods;
- Opens the markets to establishment of new companies/branches;
- Opens up the services and procurement markets;
- Provides a roadmap for reforms;
- Stable relationship with a predictable partner;

DCFTA in a nutshell (2)

- Expected economic impact on Moldova is positive:
 - +8% growth of Moldovan imports from the EU;
 - +16% growth of Moldovan exports to the EU;
 - Boost to GDP by +5.4% ;
- Exports to the EU: already > 60% of total Moldovan exports to the world;
- But reforms are key to competitiveness

DCFTA in a nutshell (3): benefits

- Increased market access for industry, agriculture and services
- Reforms in many areas of economy
- Increased competitiveness, more investments
- Substantial assistance for modernization

Financial sector instability

- 3 banks under special administration, 3 banks under special monitoring, insurance sector unstable
- IMF-program, to include re-structuring of financial sector
- Continued EU budget support conditional on IMF-agreement
- Adoption of EU-acquis for financial services
- Twinning to strengthen regulatory oversight
- High-level policy advisors in key institutions
- Support for investigation and asset recovery
- Special EU role in investigation and prosecution?

Weak justice system

- Justice system prone to corruption and manipulation
- World Economic Forum – Global Competitiveness Index:
Moldova in 82nd place (out of 144 countries)
Ranking for Institutions: 121st place
- Many investors faced with legal problems
 - Strong EU support (budget support and technical assistance) for justice sector reform (> EUR 60 million)
 - Reducing corruption in justice sector
 - Special role CoE/ Venice Commission
 - Independence PGO
 - Strong role civil society in monitoring and evaluation
 - Human rights

Transnistria

- “Frozen conflict” since short civil war in 1992
- Not under control by constitutional authorities
- Supported by Russia
- “5+2”-process for conflict settlement in impasse
- Economic collapse looming
- EU-trade preference ending by end 2015, to be replaced by DCFTA
- Heightened tensions over blockade by Ukraine and Moldova, conflict in Ukraine, and increased war rhetoric

Transnistria - DCFTA

- Importance EU for Transnistria's economic future
- Choice: be part of free trade area with EU, or stay outside it
- Transnistrian side participated in all DCFTA negotiation rounds
- Informal consultations EU with Transnistrian side
- Arrangement Chisinau – Tiraspol: Moldova Contracting Party to AA/DCFTA

Conclusion

- EU a key partner in addressing transition challenges
- Questions?
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- Thank you!