

## Moldova after the 2014 elections: Quo Vadis?

Since February 2015 Moldova is governed by a minority coalition consisting of the Liberal Democratic Party and the Democratic Party. The Communist party, which is not an official part of this coalition, supports the minority government. It provided the missing votes for the approval of the new Prime Minister and Cabinet of Ministers. Although the election outcome would have allowed a continuation of the previous three party coalition of Liberal Democrats, Democrats and the Liberal Party, the members of the old coalition could not come to an agreement due to a number of reasons.

The fact that the new government is based on a minority coalition poses the question of its ability to carry out reforms. This is particularly relevant as Moldova needs to stabilise the banking sector after the “disappearance” of USD 1 bn. In addition, the population and international partners require an investigation of the causes of the problems in the banking sector and a reform of banking supervision. On top of that, the EU expects meaningful progress with the implementation of the Association Agreement. Failure to do so is likely to see a withdrawal of international support and in turn a worsening of the looming recession. Therefore, the government is well-advised to gain broad support in parliament for the necessary reforms in order to bring Moldova back on a sound economic footing and regain the trust of international partners and the population.

### Record of the previous government

2014 was a year of both key results and challenges. The visa free regime with the Schengen area, in force since April, allowed hundred thousands of Moldovans to travel without any obstacles to the EU. Additionally, the signing and ratification of the Association Agreement upgraded EU-Moldova cooperation to a new level. This is also reflected in the fact that Moldova became one of the main beneficiaries of EU financial assistance with EUR 410 m promised for the 2014-2017 period. At the same time the previous government was faced with the ramifications of the Ukraine crisis and economic pressure from Russia.

### The election campaign and promises

The election campaign was mainly focussed on foreign policy issues. Liberal Democrats, Democrats and the Liberal Party, the members of the old coalition, ran a pro-European election campaign promising that Moldova will get to the point of no-return in the

process of European modernisation. Meanwhile the Socialists campaigned for “brotherly” relations with Russia, arguing that joining the Eurasian Economic Union is Moldova’s best option for the future. Additionally, a newly emerged party called “Patria” led by Renato Usatyi, a Moldovan businessman with links to Russia, gained swiftly in opinion polls based on populist anti-government rhetoric.

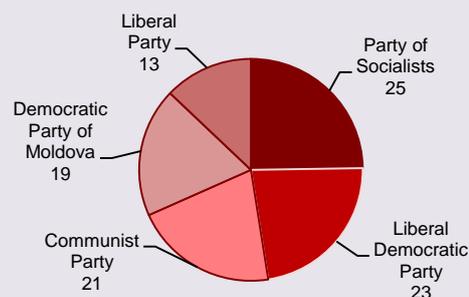
### The election process

According to the OSCE monitoring mission the election was considered largely fair and free. However, two cases raised concerns over the selective use of the justice system and had a significant effect on the election outcome. The first case was the exclusion of the “Patria” party from elections a few days before the election day. The Central Election Commission founded their decision on the claim that “Patria” had received financial support from a foreign country – referring most likely to Russia. The second case was the omission of authorities to exclude the Communist Reformist Party of Moldova from the election process. The party used a similar logo and brand as the Communist Party with the purpose to pull away voters from the main Communist Party. The party managed to receive over 5% of the votes; enough to reduce popular vote for the genuine Communist Party, but not enough to get into parliament.

### The election outcome

In the election the Liberal Democrats (LPDM) reached 20.2% (23 seats), the Democrats (PDM) 15.2% (19 seats) and the Liberals (PL) 9.7% of the votes (13 seats). As such – with 45% of votes or 55 seats in the 101 seat parliament – the results of the election showed a narrow lead of the parties with a pro-European campaign over those backing closer ties with Russia.

### Election results (seats in parliament)



Source: Central Election Commission

However, the winners of the election were the Socialists (PSRM) with 20.5% of the votes (25 seats). The Communists (PCRM) experienced a significant loss and went from 42 seats in 2010 to 21. Thus, even though there was a decrease in electoral support for the “pro-European” parties by seven percentage points (compared to 52% in 2010 elections), a new pro-European majority coalition of Liberal Democrats, Democrats and Liberals would have been technically possible.

#### **From a majority to a minority government**

However, despite long coalition negotiations and outside mediation, the old coalition of Liberal Democrats, Democrats and the Liberal Party was not formed again. Instead, on January 23<sup>rd</sup> Liberal Democrats and Democrats created a minority coalition without the Liberal Party. A few days later, Iurie Leanca was nominated as candidate for the position of the Prime Minister as was promised during the election campaign. However, the attempt in parliament on February 12th to approve a government under Leanca failed due to a lack of majority votes. After short negotiations a second attempt with a new candidate for the position of Prime Minister was made. This government under Chiril Gaburici, – a former telecommunication company CEO without previous political experience – was approved by the minority coalition with the support of the votes of the Communist Party.

#### **What can be expected from the new government?**

Being a minority government, the ability of the coalition to carry out reforms is potentially rather low as the Communist Party – who support the government but are not officially part of the coalition – can block any meaningful reform. One of the first challenges in this regard was the late adoption of the state budget, which eventually was forced through parliament using a “vote of confidence”. Another challenge for the government will be ensuring the implementation of the Association Agreement. While some progress has been made in carrying out the required legislative or institutional reforms, it is not clear how much political capital the government has to ensure swift implementation.

Furthermore, there is an urgent need to contain the banking crisis, investigate culprits and to reform the banking sector. Together with a justice sector reform, those are the main requirements of the major international development partners - in particular the EU - in order to continue financial and technical support at today’s level.

Reduced donor support and the need to cover the estimated USD 1 bn which disappeared from the

banking sector may face the new government with a precarious fiscal situation. Against this backdrop Moldova has requested a new IMF programme. However, approval of this much needed financial assistance will be tied to very stringent conditions (prior actions) such as clearing up the banking sector. It needs to be seen if the minority coalition can muster the votes to meet those prior actions. However, if no agreement with the IMF can be reached, this may result in large budget cuts and a deepening of the economic recession.

#### **Conclusion**

In summary, the short term priority for the current government should be to deliver on the Association Agreement, stabilise banks, investigate the causes of the banking frauds and recover the assets. If no progress on these matters is made, Moldova will not receive international financial assistance to manage the unfolding economic crisis. On top of this, the upcoming local elections on June 14<sup>th</sup> may shift power on the local level to the Socialist Party, a main promoter of Customs Union membership. Consequently, the main priority for the new government should be the formation of broad parliamentary support for reforms, seek close cooperation with international partners, thus stabilising the economy and regaining the trust of the population.

#### **Authors**

Iulian Groza, iuliangroza@gmail.com

Dr. Dr. Martin Sieg, martin.sieg@eisa-online.eu

Note: This text is the sole responsibility of the authors and does not necessarily reflect the opinion of the German Economic Team.

#### **German Economic Team Moldova (GET Moldova)**

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#### **Editors**

Dr. Ricardo Giucci, Jörg Radeke

#### **Contact**

German Economic Team Moldova  
 c/o Berlin Economics  
 Schillerstraße 59  
 D-10627 Berlin  
 Tel: +49 30 / 20 61 34 64 0  
 Fax: +49 30 / 20 61 34 64 9  
 info@get-moldau.de  
 www.get-moldau.de