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NOTE

ON THE POLITICAL AND ECONOMIC SITUATION

IN MOLDOVA AND ITS RELATIONS

WITH THE EUROPEAN UNION

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Sources: *World Markets Country Analysis*
 Economist Intelligence Unit (EIU)
 Oxford Analytica
 Reuters
 Agence Europe
 Eurostat
 European Commission

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I. POLITICAL SITUATION

1. Introduction

The Republic of Moldova is a country in Eastern Europe, situated between Romania (west) and Ukraine (east and south). It covers an area of 33 670 km² (equal to Belgium) and has a population of 4.3 million inhabitants, of different ethnic origins (Romanians 64.5%, Ukrainians 14%, Russians 13%, Gagauzis 3.5% and Bulgarians 2%). Its capital is Chisinau. Although the Black Sea is not far, the country is still landlocked between its two large neighbours¹. The country's low altitudes and open expanses to the east are responsible for its continental climate, which has an effect on the flow of the two major rivers bordering the country – the Prut in the west and the Dniester in the east – which frequently flood their banks in the springtime and fall back to very low levels in the summer.

2. Historical background

Situated in a strategic area linking up Europe and Asia, Moldova (which is Romanian-speaking and, in this sense, a Latin country) has been the object of territorial ambitions on the part of various outsiders, including the Ottomans and the Russians. The Principality of Moldova (whose area extended much further than the present Moldova) was established in 1359 by Bogdan I, breaking away from the kingdom of Hungary. Scarcely had it thrown off the suzerainty of Hungary than it fell under that of Poland (15th century). The Ottoman threat appeared in the middle of the 15th century. In 1538, the Ottoman Empire took control of southern Bessarabia (the south of the present-day Moldova) and the Romanian principalities of Moldova and Wallachia became vassals of the Turks.

The Ottoman Empire's declining fortunes in the 18th century gave Moldova an opportunity to recover some of its autonomy even though it lost parts of its territory. In 1768, Austria took Bukovina (in northern Moldova) and in 1812, Russia took southern Bessarabia. Having been freed from Turkish domination, Moldova was subjected to the harshness of Russian rule, including a ban on the use of its national language, Romanian.

Following the defeat of the Tsarist empire in the Crimean War (1854-1855), Moldova, together with its sister principality, Wallachia, claimed its autonomy and called for the merger of the two principalities into a single state. While this union took place in 1859, independence was only proclaimed in 1877. From this moment on, Moldova's history became intertwined with that of Romania.

The fall of the Habsburg and Romanov empires at the end of the First World War gave Romania an opportunity to recover the Romanian territories held by Austria-Hungary (Transylvania, Banat and Bukovina) and by Russia (Bessarabia). The USSR, which succeeded the Tsarist empire, did not recognise Romania's annexation of Bessarabia and in 1924 set up, on the right bank of the Dniester, an autonomous Moldavian Republic within the Ukraine.

¹ See Annex I, p. 16.

Having supported the Axis powers, Romania once again lost Bessarabia which was returned to Russia in 1944. Three years later the Moldavian Soviet Socialist Republic was established. It included Russian-speaking Transnistria, but not Bukovina in the north or the Bujak Steppes in the south, which were annexed to the Ukraine, thereby depriving Moldova of direct access to the Black Sea and splitting up the Romanian nation. The Moscow-Bucharest dispute caused by the annexation of Moldova was, at the least on the surface, finally settled between Soviet Russia and newly Communist Romania.

The 'perestroika' years undoubtedly contributed to arousing nationalist sentiments. In 1990, the Popular Front of Moldova succeeded in imposing the Latin alphabet and Romanian as the official language. A declaration of sovereignty was also adopted. In the wake of its success, the Popular Front then proposed outright unification with Romania. This proposal, fraught with consequences, threatened the unity of the republic even though it proclaimed its independence on 27 August 1991, following the anti-Gorbachev coup in Moscow.

Just as the new republic was facing the threat of breaking up, Moldovans elected Mircea Snegur President by universal suffrage, with a 98% majority, on 8 December 1991. He quickly distanced himself from those advocating union with Romania, with his motto 'one language, two states'. The 1994 parliamentary elections resulted in an overwhelming defeat for the 'unionists', who only obtained 7.5% of the vote, and victory for President Snegur's Agrarian Democratic Party (56 of the 101 seats).

In the presidential election held on 1 December 1996, Mircea Snegur was himself defeated by Mr Petru Lucinschi, President of the Parliament, who had the support of the centre-left Social Progress Party. However, given the difficult political context, the economic reforms introduced were too limited to bring about a rapid recovery and the parliamentary elections held in March 1998 reflected the country's political uncertainty. Although the Communist Party received the largest share of the votes, a centre-right coalition formed the new government, in a scenario reminiscent of the situation in neighbouring Ukraine.

3. Domestic policy

3.1 **Recent trends**

The persistence of the causes of the situation of deadlock in Moldova, trapped by its geopolitical situation, contributed to the victory of the Moldovan Communist Party (PCM) in the parliamentary elections of 25 February 2001. The PCM now controls the parliament, with 71 of the 101 seats. On 4 April 2001, Mr Vladimir Voronin, the PCM's leader, won the presidential election, thus becoming the first Communist to lead a former Soviet republic. The Communist Party currently plays a dominant political role in Moldova.

This situation, which is unique among CIS countries, has led to a number of abuses on the part of the new government:

- the Christian Democratic People's Party (PPCD) was suspended in January 2002²;
- according to the FIDH, freedom of expression is under threat;
- the right of assembly and demonstration is also under attack.³

² Mr Vlad Cubreacov, vice-chairman of the PPCD, disappeared in March 2002, to 'reappear' in May 2002. The Council of Europe and the European Parliament had called for an investigation into his disappearance.

3.2 Migratory pressures

The major economic and social problems involved in the transition from a planned economy to a market economy led Moldovans to vote massively in favour of the Communist Party. The return to the values of the Soviet era, a policy encouraged by this party, simply caused the country's social, economic and political situation to worsen.

Moldova has now replaced Albania as Europe's poorest country. More than 80% of the Moldovan population are believed to live on less than one dollar a day. The country's per capita GDP is equal to US\$ 296 and 15% of the population are unemployed. Emigration is therefore a tempting prospect for Moldovans. Some 800 000 people have apparently left to work in European countries, generally illegally. In fact, observers point out that it is thanks to the money they send back that the country is still able to function.

Observers also reckon that the Moldovan crisis may eventually destabilise Romania and cause migratory pressures on Western countries to increase further⁴. After the Communists had been in power for more than one year, a poll carried out in June 2002 suggested that 41% of the population did not trust their leaders' capacity to handle the country's problems and believed that the government was not doing its job properly.

Institutional set-up

(a) Constitution

The Constitution was adopted by the parliament on 28 July 1994, granting autonomous status to the secessionist regions of Gagauzia and Transnistria, although, in the latter case, the actual status still remains to be clarified.

(b) Parliament

The Moldovan parliament consists of a single chamber. Members are elected for four years. The PCM has an absolute majority in the Chamber⁵. The next parliamentary and presidential elections will take place in 2005.

(c) President

The President is elected for a term of 4 years. As a result of the constitutional changes introduced in July 2000, he is elected by the parliament.

(d) Government

The Prime Minister is appointed by the parliament. The Council of Ministers is appointed by the President, on a recommendation from the Prime Minister. There have been four Prime Ministers

³ According to reports from various NGOs, a large number of people were detained and even tortured by the police, following large anti-government demonstrations in January and February 2002.

⁴ Romania's status as an EU candidate country is attracting an increasing number of Moldovans.

⁵ See Annex III, p. 18.

since 1999, reflecting the climate of recession and instability in Moldova. The new Prime Minister, Mr Vasile Tarlev, was appointed on 19 April 2001 despite the fact that the PCM, of which he is not a member, was the election winner. President Voronin nominated this young independent politician as a way of reassuring the Western countries.

3.1. **Secessionist regions**⁶

(a) Gagauzia

Gagauzia is a small territory (1 800 km²) whose population (200 000) is Turkish-speaking and Orthodox, and its main town is Komrat. Fearing Romanian-Moldovan unification, the Gagauzis founded the Soviet Socialist Republic of Gagauzia on 19 August 1990. Fortunately, it was possible to avoid an armed conflict. The 1994 Moldovan Constitution granted extensive cultural and political autonomy (three official languages – Gagauzi, Russian and Romanian; a local president with ministerial status; and a regional legislative assembly of 35 deputies) to an autonomous territorial unit called Gagauz Yeri, which in turn recognised Moldovan sovereignty. Gagauzia, however, reserved the right to opt for self-determination should Moldova decide to form a union with Romania.

(b) Transnistria

This once-Ukrainian region was incorporated by Stalin into the Soviet Republic of Moldova in return for relinquishing Bukovina and Bujak when they joined Ukraine. Transnistria has an area of 5000 km² and a population of 720 000. The Ukrainian (28%) and Russian (25%) populations of Transnistria, fearing assimilation to the pro-Romanian model, set up their own 'sovereign' and pro-Soviet republic in 1990⁷. The simultaneous establishment of these two secessionist republics at this juncture was largely due to Moscow's influence. The Soviet (and subsequently Russian) authorities were far from happy with the rapprochement between the two Romanian-speaking states, particularly in view of the fact that a major military base (the Fourteenth Army controls the south-west flank of the former USSR in the direction of the Balkans) is located in Tiraspol, which had been chosen as the capital by the Transnistrian secessionists. It was thanks to the support of this army, commanded by General Lebed, that the Tiraspol authorities were able to hold off the Moldovan army's attempt to regain control of the territory in June 1992.

On 8 April 1997 the Moldovan President, Petru Lucinschi, and the secessionist leader of Transnistria, Igor Smirnov, signed a memorandum in Moscow aimed at 'normalising' their relations. This text, which reaffirms Moldova's territorial integrity 'within the January 1990 borders of the former Soviet Republic' is the most important step taken in the direction of a settlement of the conflict, which caused some 700 deaths in 1991 and 1992. However, the problem has not been entirely resolved. Negotiations still need to be held on the status of Transnistria, which will probably be granted extensive autonomy within the Moldovan 'common state'⁸. Another problem for Chisinau and Kiev is the future of the Russian Fourteenth Army, which is stationed in Transnistria. This former advanced unit of the Red Army, which is currently 2 600 strong, was responsible for separating the warring factions in 1992, under

⁶ See Annex II, p. 17.

⁷ See Annex II, p. 17.

⁸ At its most recent meeting, held in Kiev on 1-3 July 2002, the OSCE proposed a plan for the settlement of the conflict in the context of the creation of a Moldovan federation.

General Lebed's orders. Contrary to the terms of an agreement signed by Moscow and Chisinau in 1995, this Russian unit has not yet been dismantled. It would even appear that the Kremlin wishes to convert it into a military base located on the edge of the 'near abroad'.

At the OSCE summit held in Istanbul in November 1999, Russia undertook to withdraw, in 2001, the arms it had brought to Transnistria, and to repatriate its troops one year later. The existence of the (Russian-speaking) Republic of Transnistria (in which more than 40% of the industrial production of the former Moldovan Soviet Republic is concentrated) represents the most sensitive issue to be resolved, since it involves not only Chisinau and Tiraspol, but also Bucharest, Kiev and, in particular, Moscow.

4. Foreign policy

4.1. **Relations with international organisations**

Moldova is a member of the CIS, the UN, the OSCE, the Black Sea Economic Cooperation Area and the Council of Europe, and is a signatory to the NATO Partnership for Peace. It is also a member of the Francophone Community ('la Francophonie'). Finally, it is part of the GUUAM, an organisation set up in 1997 which groups together those former Soviet republics that are most wary of Moscow: Georgia, Ukraine, Uzbekistan⁹, Azerbaijan and Moldova.

Moldova's position within the Council of Europe is at present delicate. The Council has threatened to deprive Moldova of the presidency of its Council of Ministers, which it is due to take over in May 2003, if the Moldovan authorities fail to comply with the decision of the European Court of Human Rights (ECHR) on the status of the Bessarabian church and persist with their intention of 'nationalising' the Moldovan radio and television company¹⁰. The Moldovan authorities have also been required to introduce new legislation on local government, in line with the instructions of the European Congress of Local and Regional Authorities. Luxembourg, which currently holds the Council of Europe presidency, has given Moldova until 31 August 2002 to implement these demands. A Council of Europe mission will be sent to Moldova on 11 and 12 September 2002, and its report will decide whether or not Moldova will be considered eligible for the presidency.

4.2. **Relations with neighbouring states**

(a) Russia

Although Moldova is no longer part of the Soviet set-up, it is still subject to pressure from Moscow in Transnistria through the presence of the Russian troops stationed there. The Moldovan authorities doubt that President Putin will honour the Istanbul agreement and withdraw his troops from Moldova. The fact that the Moldovan Communists are now in government will undoubtedly have an impact on Russian-Moldovan relations. However, President Voronin, who visited Moscow two weeks after his election, has expressed his wish to strengthen links with Russia through possible membership of the Russia-Belarus union or of the

⁹ Uzbekistan, however, has said that it does not wish to join the project for a free trade area which was expected to be launched by its partners at the GUUAM summit to be held on 19 and 20 July in Yalta.

¹⁰ These two subjects were referred to in a resolution of the Council of Europe Parliamentary Assembly adopted on 24 April 2002.

Eurasian Community, a customs union comprising Russia, Belarus, Kazakhstan, Kyrgyzstan and Tajikistan. On the other hand, Moldova could withdraw from the GUUAM.

According to Mr Voronin, Moldova cannot contemplate membership of the European Union so long as other CIS states do not join. Membership of NATO is ruled out by the fact that Moldova is a neutral state according to its constitution. Relations between Russia and Moldova are not only political, but also economic: 60% of Moldovan exports go to Russia, which for its part exports large quantities of gas to Moldova.

On 19 November 2001 the Russia-Moldova friendship treaty was ratified. This agreement provides for a special legal status for the Russian language. Following demonstrations by members of the Romanian-speaking (majority) community, the Moldovan Government decided on 22 February 2002 to abandon the plan to impose the compulsory teaching of Russian in schools. It also backtracked on the planned reform of the history curriculum, which, according to observers, would have promoted a 'Stalinist' interpretation of events.

(b) Romania

After 1918, all Romanian-speaking regions were incorporated into a single country, namely Romania. However, this unity did not last long. As early as 1939, the Ribbentrop-Molotov Pact provided for future annexation of Bessarabia by the USSR, and this occurred in 1944.

On 2 May 2000, following seven years of negotiations, a treaty was signed between Romania and Moldova. This Treaty is intended as a basis for a special partnership between the two countries. It recognises the principle of inviolability of borders. By expressing its desire to resolve the problems of its relationship with Moldova, Romania is hoping to facilitate its own integration into the European Union. The treaty stipulates that 'one of the common strategic objectives will be to devote their efforts to mutual support in the process of European integration'. This prospect would effectively detach Moldova from the CIS.

At present, the two sister republics seem to be heading in opposite directions: Romania is continuing its progress towards EU membership, while Moldova, following the recent elections, is turning towards the CIS.

(c) Ukraine

Relations between Moldova and Ukraine are generally positive, despite the territorial disputes dating back to Stalin's unfortunate decision to incorporate Russian-speaking Transnistria into Moldova and to transfer northern Bukovina and Bujak to Ukraine. An 'exchange' of these regions now seems unlikely. Added to this is the fact that Romania and Ukraine signed an agreement on 2 June 1997 guaranteeing their present borders. In this context, Moldova, which shares a 939-km border with Ukraine, will most probably accept the status quo.

II. ECONOMIC SITUATION

1. Introduction

The Moldovan economy does not have any mineral resources. Agriculture forms its economic base, accounting for 40% of the country's gross domestic product (GDP). Before the break-up of the Soviet Union, Moldova was the sixth largest agricultural producer among the 15 republics. 35% of the working population is employed in agricultural activities, carried out on rich black earth. This work is directed primarily at ex-Soviet markets; the main crops are cereals, beet, sunflowers and tobacco. However, the most valuable resources are to be found in the country's vineyards and orchards: Moldova accounted for over 25% of the former Soviet Union's vines and 30% of its fruit. This economic over-specialisation, the country's landlocked situation, the problems caused by the move from a planned economy to a market economy, those arising from the extensive industrial interdependency between companies inherited from the former Soviet Union, Moldova's energy dependence and the repercussions of the Russian crisis are all substantial obstacles to national economic development.

2. Historical background

Like most CIS states, Moldova has been hard hit by the repercussions of the collapse of the former USSR. Being 100% dependent on its former partners, and in particular on Russia, for the provision of energy resources and raw materials, Moldova found itself cut off from part of the Russian supplies and credits without being able to turn to alternative sources. It cannot expect very much from its Romanian neighbour, which is itself faced with serious economic difficulties. Moldova has therefore turned to the international financial organisations, with all the draconian conditions attached to the corresponding aid measures.

From 1993 to 1997, the reforms introduced by successive governments with the support of the IMF led to financial stabilisation. A new currency – the leu – was put into circulation in 1993. The authorities implemented an extremely stringent monetary and tax policy, bringing about a steady fall in inflation, which was 11.2% in 1997, and a stable exchange rate for the leu.

The reforms improved the efficiency of companies. However, this process had its drawbacks. The domestic and foreign debts reached record levels and the trade balance recorded a growing structural deficit. The economic liberalisation policy also had adverse effects in social terms. Delayed payment of salaries affected most of the civil service, and there were frequent delays in the payment of pensions, leading to a growing impoverishment of many sections of society.

The 1998 Russian financial crisis seriously destabilised the Moldovan economy, whose GDP fell by 8.6%. As Moldova is largely dependent on its CIS trade partners, exports fell by half, the currency fell to 50% of its previous value and the foreign debt rose to almost 100% of GDP.

In 1999 economic problems continued: production fell in most economic sectors. The international financial institutions then exerted pressure on the government to take appropriate action. In 1999 the World Bank and the IMF suspended their programmes of aid to the country owing to the obstacles placed by the parliament in the way of privatising the wine-growing and

tobacco industries. Payment of a US\$200 m tranche has therefore remained suspended since November 1999.

Many observers consider that these difficulties are the result of a situation of political deadlock which is preventing the country from making progress in introducing vital reforms. A situation of insolvency is thus developing:

- non-payment of salaries;
- inability to pay energy bills to the Russian Gasprom company;
- inability to pay off the foreign debt (which is in excess of US\$ 1 bn)..

The first signs of economic recovery in 2000 were short-lived. The country was plunged back into crisis in 2001 after the government was unable to pay its foreign debt. In 2002 Moldova will be required to pay US\$277 m, or the equivalent of 20% of GDP!

3. Economic objectives of the new government

According to the Economist Intelligence Unit (EIU), the government has opted against a 'conventional' communist policy, and also recognises the need for sustainable economic growth, greater foreign investment, macroeconomic stability and a reduction in poverty and unemployment (which stands at 7.3%). However, the measures envisaged – price controls, state control of key sectors, restrictions on privatisation in the agricultural sector – are bound to hinder the achievement of these objectives. These plans therefore represent a risk for Moldova, since they are a threat to economic recovery and the funding of loans by international organisations.

After conducting a policy of obstruction over the years vis-à-vis the economic initiatives taken by successive centre-right governments, the PCM would, according to the EIU, be well-advised to adopt a pragmatic attitude so as to avoid economic instability and the erosion of grassroots support. In the EIU's view, the appointment of an independent prime minister to lead a cabinet which includes six ministers from the previous government, including the Ministers of Finance and Economic Affairs, are in this sense a positive sign.

4. Economic forecasts¹¹

(a) *Economic growth*

Following the repercussions of the Russian crisis of August 1998, Moldova recorded negative growth in 1999 (-3.4%). There was a slight recovery in 2000 (+1.9%). Observers estimate that the growth figures for 2001 and 2002 will be 5% and 6% respectively.

(b) *Fiscal policy*

The previous government failed to achieve its aim of limiting the budget deficit to 1% of GDP in 2000, which is far from the 5.3% figure achieved in 1999. However, the PCM's wish to honour its election promises could mean a budget deficit of around 2.5% of GDP in 2001-02.

The IMF, concerned at the slowness of reforms, has frozen a three-year US\$142 m loan.

¹¹ See Annex IV, p. 19.

(c) Inflation

According to the EIU, Moldova still has two-figure inflation: 31% in 2000, 12.7% in 2001 and probably 10% in 2002, despite the government's aim of achieving an average of 10% for the next two years.

(d) Exchange rates

The leu's remarkable stability in 2000 resulted in an actual rise in the Moldovan currency's value in relation to the euro, the dollar and the rouble. The exchange rate stabilised in 2001 at around 13 lei to the US dollar and 11 lei to the euro, far from the sharp depreciation recorded in 1998-1999 following the Russian financial crisis.

(e) Privatisations

The PCM's election manifesto did not favour the privatisation policy introduced by the centre-right government, and called for the continuation of the state monopoly in the two most important economic sectors, namely the wine and tobacco industries. However, the new government will need money from privatisations if it is to cover expenditure without resorting to measures which would cause inflation and hence widespread discontent.

(f) External trade

Russia and the European Union, Moldova's leading export markets, had low growth rates in 2001. Oil prices should drop in 2001-2002, which will reduce Moldova's energy bills. However, the possibility of reducing the trade deficit will be limited because exports are too dependent on the agri-foodstuffs sector, which only increased by 3% in 2000 while imports rose by 38% in the same year.

Moldova's accession to the WTO, in May 2001, has had a positive impact on its economy.

III. EU-MOLDOVA RELATIONS

1. Historical background

The collapse of the Soviet Union in December 1991 made it necessary for the relations which had developed with the European Community to be extensively reviewed. The EC was faced with a dozen new independent states of different sizes, structures and levels of development. Following the break-up of the USSR, the trade and cooperation agreement (concluded in 1989 between the European Community and the Soviet Union) was applied individually to all the new independent republics.

Aware of the importance of these countries to the stability of Europe and the world at large, the European Union decided to offer them partnership and cooperation agreements. These agreements do not go as far as the European association agreements already concluded with ten Central European countries, since they do not include free-trade clauses, do not mention the possibility of joining the European Union and include a suspension clause, like all new agreements concluded by the EU with third countries since 1992. They are basically 'mixed' agreements, covering matters falling within the sphere of competence of both the EU and its Member States. They also contain a future developments clause, which stipulates that free-trade agreements can be considered once the necessary conditions have been met.

The Partnership and Cooperation Agreement (PCA) between the EU and Moldova was signed on 28 November 1994 and entered into force on 1 July 1998.¹²

2. Content of the EU-Moldova Partnership Agreement

This agreement provides the necessary framework for closer relations with the EU based on democratic values, including political dialogue and respect for the rule of law. In economic terms, the Agreement promotes a market economy and forms the basis for a close partnership, establishing a new institutional framework and opening up new opportunities for cooperation in a whole range of areas.

The agreement thus includes the following:

- establishment of a political dialogue with regular meetings at the highest level,
- provisions on: trade in goods; labour conditions; the establishment and operation of companies; crossborder supply of services; payments and capital; competition; intellectual, industrial and commercial property protection; legislative and economic cooperation; respect for democracy and human rights; cooperation in the field of prevention of illegal activities; cultural cooperation; and financial cooperation;
- a human rights conditionality clause making it possible to suspend the agreement, even unilaterally, in the event of violation of essential elements thereof, such as respect for democratic principles, human rights and the principles of the market economy;
- establishment of an institutional structure, including a Cooperation Council, a Cooperation Committee and a Parliamentary Cooperation Committee.

¹² OJ L 181, 24.6.1998, p. 3.

3. Financial assistance

On 13 December 1993, the European Community decided to provide ECU 45 m in financial assistance to support Moldova's macroeconomic restructuring efforts. The Moldovan authorities were also provided with an additional macrofinancial aid amounting to EUR 15 m for a maximum period of ten years to ensure the viability of the country's balance of payments. Moreover, Moldova has received other aids, amounting to EUR 70 m for the period 1991-1999, for projects under the TACIS programme.

In the light of the country's extreme poverty, the Commission adopted the strategy paper for Moldova on 27 December 2001, providing the framework for aid to Chisinau for the period 2002-2006. In this context, the Union had already implemented humanitarian measures (EUR 4 m) through ECHO in 1999. A food security programme has also recently been implemented (budget: EUR 5.5 m).

4. Trade relations between the EU and Moldova

The EU is an important trade partner for Moldova¹³. In 2001, Moldova's exports to the EU totalled approximately EUR 232 m, while its imports from the EU were in the region of EUR 376 m. Moldova mainly exports agricultural and textile products to the EU; imports from the EU consist of machinery, electrical products and agricultural products.

5. Institutional relations

(a) *Council*

On 2 March 2001, the Swedish Presidency made a statement on behalf of the European Union on the parliamentary elections held in Moldova on 25 February 2001, in which it welcomed the holding of free and fair elections, expressed its desire for closer EU-Moldova relations through the implementation of the PCA, encouraged the new government to find a rapid solution to the Transnistrian conflict, and welcomed the imminent accession of Moldova to the WTO and the Stability Pact.

Following the fourth session of the European Union-Republic of Moldova Cooperation Council on 16 April 2002, the President-in-Office of the EU Council confirmed that the Union wished to maintain the political dialogue and help Moldova resolve the political, economic and social crisis it was experiencing, but pointed out that Moldova must become a fully democratic state if cooperation was to become as close as hoped for.

(b) *European Council*

On 15 and 16 June 2001, the European Council, meeting in Göteborg, stated the following: 'With a view to strengthening the Union's partnership with the Ukraine and Moldova, they will subsequently be invited to join the European Conference'.

¹³ See Annexes V-VII, pp. 20-22.

(c) *European Parliament*

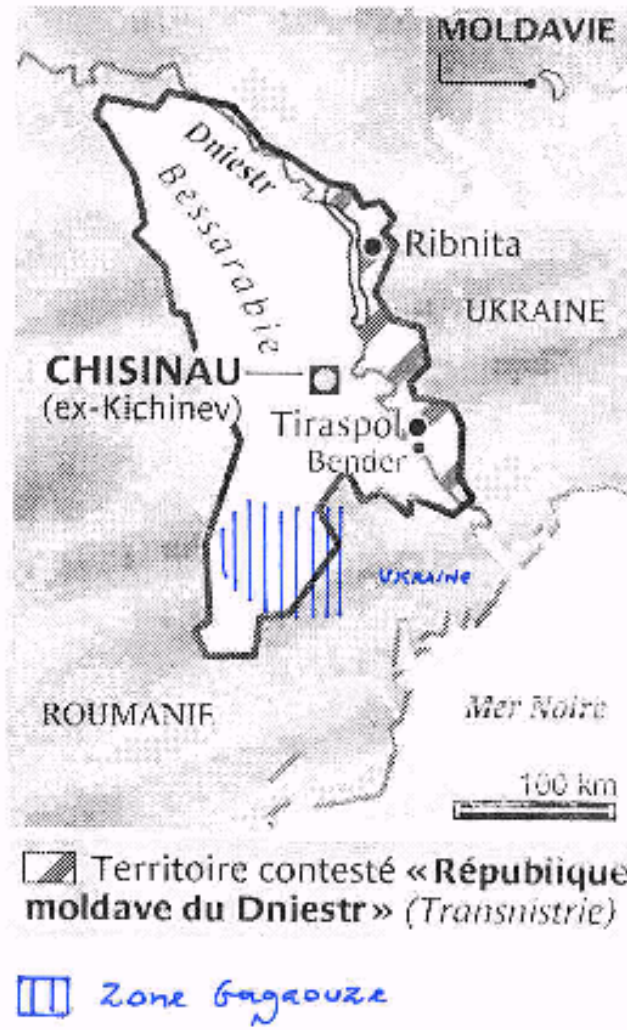
The European Parliament has consistently supported the Moldovan authorities' efforts to consolidate democracy¹⁴ and respect for human rights and to introduce a market economy. Several resolutions have been adopted on Moldova. In the most recent of these, adopted on 14 March 2002, Parliament calls on the government and parliament of Moldova not to take any decision that may endanger the social and political stability of the country. It calls on the government to abide by basic democratic rules and procedures, to guarantee respect for human rights and the rule of law, and not to abuse its political majority to dissolve the democratic opposition. It expresses its concern at the persistent conflict between the government and the Christian Democratic People's Party of Moldova. Parliament also calls on the Romanian and Russian governments not to interfere in Moldova's delicate domestic political situation, and to give their support, together with the European Union, to the stable and peaceful development of all the countries in the region. It calls on the Council and Commission to improve the capacity of the TACIS programme and to assist actively, within the OSCE mandate, with settling the Transnistrian conflict. This call was repeated on the occasion of the visit to Chisinau of the EU-Moldova interparliamentary delegation in June 2002. On the same occasion, the EP reiterated its support for the Moldovan authorities' efforts to introduce economic, social and institutional reforms with a view to achieving sustainable development and the consolidation of democracy¹⁵.

¹⁴ Parliament welcomed the 'reappearance' of the opposition leader Vlad Cubreacov in May 2002.

¹⁵ The delegation particularly stressed the importance of respect for the rules of democracy in Moldova.

ANNEX I





MOLDOVA - 2001 PARLIAMENTARY ELECTION

	% of no. of parliamentary	
	Vote	Seats
Communist Party of Moldova (CPM)	50.07	71
Christian Democratic People's Party (CDPP)	8.24	11
Braghis Alliance	13.36	19
Party for Revival and Harmony	5.79	0
Democratic Party	5.02	0
National Liberal Party	2.81	0
Social Democratic Party of Moldova	2.47	0
National Peasants Christian Democratic Party	1.74	0
Electoral bloc "Plai Natal"	1.58	0
"For Order and Justice"	1.46	0
Party for Democratic Forces	1.22	0
Other	6.24	-

Source: International Foundation for Election Systems (IFES)

MOLDOVA - ECONOMIC DATA

	1997	1998	1999	2000	2001 e	2002 f
Domestic Data						
- GDP Growth %	1.6	-6.5	-3.4	1.9	5	6
- Inflation %	11.8	7.7	39.3	31.3	12.7	10
- Budget Balance % GDP	-6.4	-10.6	-5.3	-2.8	-3	-2.8
- Leading Interest Rate %	33.3	30.8	40	35	35	30
- Unemployment Rate %	20
- GDP \$bn	2.2	1.9	1.3	1.4	1.6	1.7
- GDP Per Capita \$	595.6	525.4	297.7	323.9	369.2	409.2
- Interest Rate Spread, basis points	550	5800	1900	1600	900	850
External Data						
- Exchange Rate to \$	4.66	8.32	11.59	12.8	14	15.5
- Exports \$m	889.6	643.6	469.3	620	700	820
- Export Growth %, y-on-y	8.1	-27.7	-27.1	32.1	12.9	17.1
- Imports \$m	-1237.6	-1031.7	-597.3	-650	-720	-800
- Import Growth %, y-on-y	14.3	-16.6	-42.1	8.8	10.8	11.1
- Trade Balance \$m	-348	-388.1	-128	-30	-20	20
- Current Account Balance \$m	-274	-323	-34	-110	-81	-68
- Current Account % GDP	-12.5	-16.7	-2.6	-7.7	-5	-4
- Reserves \$m	366	143.6	185.7	200	210	225
- Reserve Import Cover - Months	3.5	1.7	3.7	3.7	3.5	3.4
- Foreign Direct Investment \$m	71	88	149	100	50	45
- Foreign Direct Investment % GDP	3.2	4.6	11.4	7	3.1	2.6
- Total External Debt \$m	1055.8	1021	943.3	1100	1150	1200
- Short Term Debt US\$m	254	205	200	200	210	230
- Total Debt % GDP	48.2	52.9	71.9	77	70.6	70.6
- Total Debt Service Ratio %	10.3	20.7	24.9	40	38	30

Source: World Markets Country Analysis

Trade relations EU-Moldava: 2000

Structural analyses

EU-imports (cif)

	1000 €	- % -	<u>Main products (SITC division):</u>	SITC 3rd rev.	1000 €	% of total	Intra-industry trade intensity (I)
Total	194.414	100,0	ARTICLES OF APPAREL AND CLOTHING ACCESSORIES	84	68.877	35,4	172,5
of which:			TEXTILE YARN, FABRICS, MADE-UP ARTICLES, N.E.S., + RELATED H	65	22.425	11,5	55,8
A: Raw materials	52.205	26,9	VEGETABLES AND FRUIT	05	17.429	9,0	177,1
Food, beverages and tobacco (0+1)	19.622	10,1	IRON AND STEEL	67	16.538	8,5	164,6
Raw materials (2+4)	32.576	16,8	METALLIFEROUS ORES AND METAL SCRAP	28	13.332	6,9	199,5
Energy (3)	7	0,0	OIL SEEDS AND OLEAGINOUS FRUITS	22	10.033	5,2	198,5
B: Manufactured articles	135.572	69,7	FOOTWEAR	85	9.594	4,9	153,7
Chemicals (5)	680	0,3	HIDES, SKINS AND FURSKINS, RAW	21	8.289	4,3	200,0
Machinery and transport eq. (7)	4.033	2,1	TRAVEL GOODS, HANDBAGS AND SIMILAR CONTAINERS	83	6.743	3,5	187,3
Other manufactured products (6+8)	130.859	67,3	PREFABR. BUILD.; SAN. PLUMB., HEAT. + LIGHT. FIXTURES + FIT.,N	81	1.674	0,9	81,9

EU-exports (fob)

	1000 €	- % -	<u>Main products (SITC division):</u>	SITC 3rd rev.	1000 €	% of total	Intra-industry trade intensity (I)
Total	336.379	100,0	TEXTILE YARN, FABRICS, MADE-UP ARTICLES, N.E.S., + RELATED H	65	57.970	17,2	55,8
of which:			TOBACCO AND TOBACCO MANUFACTURES	12	23.110	6,9	0,1
A: Raw materials	68.837	20,5	TELECOMMUNIC. + SOUND RECORDING + REPROD. APPARATUS + I	76	20.770	6,2	2,7
Food, beverages and tobacco (0+1)	50.489	15,0	ROAD VEHICLES (INCLUDING AIR-CUSHION VEHICLES)	78	15.416	4,6	9,3
Raw materials (2+4)	16.945	5,0	MACHINERY SPECIALIZED FOR PARTICULAR INDUSTRIES	72	14.419	4,3	7,3
Energy (3)	1.403	0,4	MEAT AND MEAT PREPARATIONS	01	13.570	4,0	0,4
B: Manufactured articles	254.129	75,5	ELECTR. MACH., APP. + APPLIANCES, N.E.S. + ELECTR. PARTS THER	77	12.734	3,8	9,7
Chemicals (5)	27.931	8,3	NON-METALLIC MINERAL MANUFACTURES, N.E.S.	66	12.207	3,6	19,6
Machinery and transport eq. (7)	95.516	28,4	COMPLETE INDUSTRIAL PLANT APPROPRIATE TO SECTION 7	70	11.288	3,4	0,0
Other manufactured products (6+8)	130.681	38,8	GENERAL-INDUSTR. MACH. + EQUIPMENT, N.E.S., MACHINE PARTS	74	11.033	3,3	4,0

Source: COMEXT 2 database, EUROSTAT

Production: JDa/Parliamentary Documentation Centre/European Parliament

(1) The index can vary between 0 and 200: 0 means only exports, 200 only imports and 100 means balance in trade

Index: $\frac{((x+m)-(x-m))}{(x+m)} * 100$

Trade of the EU with Moldova by Member States

EU-imports (cif)

	2000		3rd quarter		
	1000 €	- % -	2000	2001	% change
Total	194.414	100,0	145.330	165.072	13,6
<i>of which:</i>					
France	8.867	4,6	6.124	6.807	11,2
Netherlands	10.369	5,3	8.261	6.310	-23,6
Germany	65.684	33,8	49.863	55.834	12,0
Italy	59.342	30,5	42.506	54.646	28,6
United Kingdom	7.119	3,7	4.639	4.744	2,3
Ireland	0	0,0	0	63	
Denmark	110	0,1	78	133	71,6
Greece*	3.046	1,6	2.411	1.711	-29,0
Portugal	4.841	2,5	3.703	402	-89,1
Spain	17.496	9,0	13.830	20.521	48,4
Belgium	3.042	1,6	1.824	4.038	121,4
Luxembourg	198	0,1	56	6	-89,6
Sweden	486	0,3	280	430	53,8
Finland	280	0,1	279	26	-90,6
Austria	13.535	7,0	11.477	9.401	-18,1

EU-exports (fob)

Total	336.379	100,0	233.681	258.993	10,8
<i>of which:</i>					
France	23.909	7,1	15.336	21.969	43,3
Netherlands	26.349	7,8	18.836	22.020	16,9
Germany	149.223	44,4	102.786	104.768	1,9
Italy	64.590	19,2	44.473	58.917	32,5
United Kingdom	8.254	2,5	5.718	12.080	111,3
Ireland	978	0,3	914	577	-36,9
Denmark	1.686	0,5	1.183	1.979	67,4
Greece*	15.289	4,5	13.473	3.361	-75,1
Portugal	2.196	0,7	1.188	2.226	87,4
Spain	6.401	1,9	3.916	3.920	0,1
Belgium	10.737	3,2	6.642	10.437	57,1
Luxembourg	4.271	1,3	2.402	917	-61,8
Sweden	9.008	2,7	8.517	957	-88,8
Finland	2.011	0,6	1.331	3.435	158,0
Austria	11.480	3,4	6.966	11.430	64,1

Source: COMEXT database, EUROSTAT

Production: JDa/Parliamentary Documentation Centre/European Parliament

Trade of the EU with Moldova: 1995-2001

	<i>1000 ECU/€</i>		
	EU-imports (cif)	EU-exports (fob)	Balance
1995	91.236	142.116	50.880
1996	86.783	210.887	124.104
1997	98.523	277.325	178.802
1998	115.256	285.955	170.699
1999	141.825	255.597	113.772
2000	194.414	336.379	141.965
2001*	225.012	372.394	147.382
Jan-Sept: 2000	145.330	233.681	88.351
Jan-Sept: 2001	165.072	258.993	93.921

Source: COMEXT database, EUROSTAT

Production: JDa/Parliamentary Documentation Centre/European Parliament

* including estimation for Greece (October-December) and Luxembourg (December)

