

REPORT ON 100 DAYS OF GOVERNMENT'S ACTIVITY
Delivered by Vlad Filat, Prime-Minister of the Republic of Moldova
on January 4th, 2010

Executive Summary

On September 25, 2009, the Parliament of Moldova (RM) gave vote of confidence to the Government and Activity Program "European Integration: Freedom, Democracy, and Welfare".

The Government inherited a country in deep economic crisis, with an antagonized, divided society, isolated on the external arena and with frozen relations with the development partners.

The former government did not ensure a civilized transfer of power.

The current government was compelled to make in three months what the former government would be within a year – development of the budget-fiscal policy, of the Medium Term Expenditures Framework, State Budget Law, etc.

The economic development model of the country was inefficient and the financial-economic crisis has shown that. In 2009, Moldova's economy saw most acute economic decline over the past 15 years.

Gross Domestic Product has decreased by 7.7% during the period January-September 2009, as compared with the same period of the year 2008.

The annual budget deficit, at the moment of government takeover, was forecasted at the level of 16% of GDP, but the Government managed through its actions to decrease it to 7.8% at the end of the year.

The public finance system has been seriously destabilized. The economic crisis affected the revenues part of the state budget. During January-October 2009, the revenues decreased by 8.6%, as compared to the similar period of the year 2008. The electoral increases of salaries and pensions in 2009, the communist governance used, have contributed to the increase of public spending by 3.7%.

Investment flows fell sharply in our country. Investments in fixed capital decreased by 42.5% during the period January-September 2009.

Government priorities in the first 100 days of activity

Government acted quickly to manage the economic crisis, to halt the decline and revive the economic growth, to ensure functionality of democratic institutions and the rule of law, to launch the country's European integration process and to ensure conditions for private sector development. But most importantly, we managed to restore the confidence of the citizens and development partners in the country's democratic development capacity.

Progress in achieving the priorities of the Government

1. Agenda for European Integration and Foreign Policy

The Government was able to resume and intensify political dialogue with EU member states, including at the level of Prime Ministers, (Romania, Germany, Italy, France, Britain, Poland, Hungary, Belgium, Sweden, Estonia, etc.) in the framework of bilateral and multilateral meetings.

On December 21, 2009, in Brussels, for the first time in the history of Republic of Moldova-EU relations, during the meeting of the EU-RM Cooperation Council, a Joint Declaration was adopted, which provides for specific objectives of cooperation between Republic of Moldova - European Union:

Start of negotiations on the Association Agreement between the RM and EU on January 12, 2010;

Launch the dialogue on liberalization of visa regime for Moldovan citizens in 2010;

Start the negotiations on the creation of the Deep and Comprehensive Free Trade Agreement in the context of negotiation of the Association Agreement in 2010;

Agreement on the EU macro-financial assistance framework, framework for the negotiation and implementation of the Association Agreement. Government ministries and public agencies shall be consulted and assisted by high-level EU advisers, and institutional capacities of the key institutions shall be strengthened, as part of the European integration process.

Government is committed to fully fully maximize and use the opportunities for development offered by the „Eastern Partnership”, as part of the bilateral and multilateral platforms.

The Republic of Moldova adhered to the Energy Community Treaty on December 18, 2009, which will facilitate our integration in the regional energy market, increase the degree of energy security of the country, and will stimulate the foreign investments in the field.

The openness and qualitative change in the relationship with the European partners were possible because we managed, from the first days in office, to ensure the coherence between the declarations and actions, in contrast with the previous government.

In our relationships with the neighbouring countries Romania and Ukraine, we returned to a civilized and constructive dialogue, in the European spirit, and in the interest of the citizens from our countries.

One of the first decisions promoted by me, as Prime-Minister, was the cancellation of the Government Decision regarding the introduction of the visa regime for the citizens of Romania, a decision saluted (welcomed) by the EU. The development and deepening the relations between the RM and Romania are part of the efforts undertaken by the Government with a view to the integration of our country into the EU. In this context, we have signed the Agreement on small traffic at the border (which offers the right to free

access on the territory of the neighbouring state, free of visa, to about 1.2 million citizens of the RM); the Agreement with regard to the state border crossing points between Romania and the RM; the Protocol of amending the Agreement on the mutual promotion and protection of investments. The Government of Moldova is to open a consulate in Iasi and Romania will open Consular Sections in Balti and Cahul, in the very near future.

The constructive dialogue with Ukraine was resumed at the level of Prime Ministers and the discussions were deblocked on the Moldovan-Ukrainian border demarcation and ownership related issues. Regional cooperation of the RM in Central and South-Eastern Europe has been given an impulse.

Moldova's relationships with the United States of America represent one of the priorities of our country's foreign policy. In this context, we expect to draft documents for collaboration, which will boost the bilateral relationships. On January 22, 2010, during a visit by Prime Minister Vlad Filat to the U.S.A, there shall be signed the Agreement on full financing from the Millennium Challenge Corporation (Compact) for the projects *Transition to a high-value agriculture* and *Rehabilitation of the network of roads*, as well as the *Memorandum of principles and procedures between the Republic of Moldova and North Carolina state with regard to the desire to strengthen the good relations*.

Russian Federation is an important partner of RM. In the meetings with Mr. Vladimir Putin, Prime Minister of Russia, we have agreed on the development priorities of the Moldovan-Russian relations based on pragmatism and mutual benefits. We managed to re-launch the activity of the Joined Moldovan-Russian Commission for commercial-economic cooperation and de-blocking the export of Moldovan wines on the Russian Federation's market.

2. Managing Economic Crisis Impact

By means of vigorous actions the Government succeeded to competently manage the impact of the economic-financial crisis.

The relations with the International Monetary Fund (IMF) have been re-launched. The Government managed to develop a dialogue and cooperation based on accountability and mutual benefits principles with the development partners, World Bank, European Bank for Reconstruction and Development (EBRD) and European Investment Bank.

In October 2009, the Government managed to negotiate a new Agreement-Memorandum of cooperation with the IMF for the years 2010-2012. The Government has honoured all its commitments assumed and the new Agreement-Memorandum with the IMF follows to be approved by the Board of Executive Directors of the IMF on 29 January 2010. The Agreement-Memorandum, in the total amount of USD 590 million, will support the reduced revenues of the country's budget, by offering the possibility to the Government to honour its commitments on the internal and external arena.

The Agreement-Memorandum of cooperation between the Government of the RM and the IMF has de-blocked the financial assistance for our country, from donor organizations and countries, previously stopped (for example, financial support from the IMF, amounting to 177 million Special Drawing Rights (equivalent to about 180 million U.S. dollars) to finance budgetary needs, the European Commission granted the first tranche

of financial assistance amounting to Euro 15 million for implementing reforms in the drinking water supply and sanitation sector, the EU provided EUR 12 million for modernization of roads and the third tranche of EUR 6 million for social sector budget support).

In consultation with business, civil society, development partners, Government has developed and implements the *Stabilization and Economic Recovery Plan 2009-2011*. The plan represents the Government's policy and actions platform to stabilize public finances, restore economic growth and ensure an effective and fair social protection of our citizens.

With an annual budget deficit, estimated at 16% of GDP at the time of taking over government, the government managed to ensure social stability, to pay wages in full and on time to budget sector employees, to ensure transfers to the budgets of administrative-territorial units, state social insurance budget and mandatory medical insurance funds budget. Teacher salaries were increased by 24%, and adjusted to the average salary per economy. Government has the capacity and resources to continue to honor all budgetary obligations towards citizens and businesses.

3. Boost economic growth

The Government started the reform of legal and institutional framework regulating entrepreneurial activity, in order to create a favourable business environment.

The Register of products, subject to mandatory compliance certification was amended. The groups of goods subject to mandatory conformity certification have been reduced from 250 to 41, which will have direct impact on reducing the cost of services and products.

The Decision on "The rules of origin of goods" was amended to ensure proper competition for domestic producers and domestic market as compared to the massive preferential imports and excluding the possibility of using the preferential status of resident of free economic zones for miming production operations, obtaining originating status and placing it under preferential regime on the rest of the customs territory of the Republic of Moldova.

The Government has approved new import rules aiming at the liberalization and de-monopolization of this market segment and protection of end consumers and domestic producer. The price monitoring system on meat and meat products throughout the value chain will be implemented to not allow undervalued imports and of suspect quality.

In 2010, the Government will grant MDL 300 million as state subsidies for agriculture in three priority directions: development of value-added production of vegetal and animal origin, stimulating business investment in the creation of post harvest processing and infrastructure. *For the first time*, grants will be awarded based on a competition of business projects, which will be eligible for all operators in the area, especially small farmers, who had limited access to state subsidies in recent years. The government released export of wine in bulk, removed barriers to the export of grapes, and has advanced its efforts to reopen the Russian market for Moldovan wines.

The government has managed to develop and promote in the Parliament the Budget Law for 2010 and budget-fiscal policy, which provides the necessary instruments to work in 2010 and for reviving economic growth. We expect to be able to overcome the economic recession by the end of the first quarter of 2010, a gradual economic growth from 1.5% in 2010 to 5% in 2012. The share of budget deficit in the GDP will decrease gradually from 9% in 2009 to 3% in 2012, and the current account deficit will get stabilized around 10% of GDP.

4. Government Actions in the social, health and education sectors in the context of the economic crisis

In Social sector, to reduce the impact of economic crisis on the most vulnerable categories of the population, the Government has identified resources to implement a new system of social assistance, which provides higher allocations for social assistance in 2010, including unemployment benefits, by 40% as compared to 2009. The one time allowance at childbirth in 2010 will be increased by MDL 300: for the first child it will be in the amount of MDL 1700, and for each next child – MDL 2000. Also in 2010 a differentiated increase of the allowance for childcare for insured and uninsured persons will take place.

In the Health Care system, the Government has inherited a difficult situation; financing of national health programs from the budget was stopped by the former government, back in May 2009. The Government has risen funding from the state budget by increasing transfers to the mandatory health insurance funds by 5.4% as compared to the level approved for 2009, it redirected to primary health care 31.1% of the basic fund of the mandatory health care, by 1.8% more than in 2009.

In the area of Education, the Government started to elaborate the long-term Sectoral Strategy on the development of the education system in the Republic of Moldova and the new Code of Education. The two documents will provide the framework for the modernization of the education system and ensure its adherence to European values and standards, and to the new priorities of economic development and labor market needs of RM.

5. Independence of judiciary and the rule of law

The Government has undertaken structural and procedural reforms in the judiciary system.

To ensure the independent activity of the Superior Council of Magistracy, the General Assembly of Judges elected new members to the body of judicial self-administration; the Ministry of Justice has drafted the law on transfer of the judicial administration department under the Ministry of Justice to the Superior Council of Magistracy.

The process of liberalization of the system of enforcement of judicial decisions in order to address non-performance or delayed execution of judicial decisions, which affect public confidence in the judiciary system and quality of business environment in the Republic of Moldova was launched. The new draft Law on bailiffs approved by the Government provides for the establishment of private bailiffs, creating space for free competition and motivation of bailiffs, ensuring citizens' access to the services of bailiffs.

The Reform of the Attorney's Institution was developed in collaboration with the development partners and was approved by the Government.

Reforming the system of law enforcement institutions was and is one of the biggest challenges for the current Government. The former government has politicized the police and involved it in activities that damaged the image of law enforcement and diminished public confidence in institutions responsible for ensuring public order. The events of 7-8 April 2009 have demonstrated the intensity and extent of this phenomenon. Today, the police are not involved in inappropriate activities, the political interference in the activity of the police is completely ruled out, and the involvement of police officers and former leaders of the Ministry of Internal Affairs in the tragic events of 7-8 April is being investigated, the perpetrators following to be held accountable according to the legislation in force.

6. Decentralization of power and ensuring local autonomy

The Government has committed itself to modernizing public administration and development of a continuous dialogue with civil society representatives, private sector, Employers Associations, youth. Thus, the Government established the National Council for Participation - platform for dialogue, collaboration and partnership with the civil society in developing and implementing development policies for the RM. The Government also will develop and promote a public-private partnership to provide quality and efficient public services for the benefit of citizens. Government has initiated, with support from development partners, actions to strengthen its communication system to ensure transparency of the decision making process.

7. Country Reintegration

After a long pause, the informal meetings in the 5 +2 format and the informal bilateral dialogue at the level of political representatives in Vienna and Tiraspol in November 2009 have been resumed. The Government has prepared to restart the activities of working groups on issues of common interest. The executive proposed to suspend for 6 months the application of travel bans to the EU and USA for Transnistrian officials. To facilitate the reintegration of people from the Transnistrian region into economic, political, social and informational space of Moldova, the Government extended for an undetermined period of time, the facilitation of the documentation of people and removed the term regarding the specific conditions of goods declaration by economic agents from eastern raions.

Government priorities for 2010

1. Overcoming the economic crisis

Government is committed to developing an economy attractive inside and competitive outside. The Republic of Moldova can become, very quickly a country with the best and most attractive business environment in Central and Eastern Europe. Government will continue to remove administrative and institutional barriers, to de-monopolize and liberalize the economy, to modernize the educational system and ensure its integration into the European area of education and knowledge, to develop the information and

communication technologies sector and apply these technologies to ensure the efficiency and accountability of the administrative system and public services.

2. The European integration agenda of the Moldovan Government provides for:

Dynamic dialogue with EU and implementation of national reforms to obtain the liberalization of visa regime for Moldovan citizens;

Engaged and quality participation of state institutions in the negotiation of the Association Agreement and the deep and comprehensive Free Trade Agreement;

Deeper relationships and obtaining the support of the EU Member States in the European integration process of the RM.

3. Deepening the reform of central public administration and start the process of decentralization and local autonomy insurance.

Competence, professionalism and efficiency in public administration are determinant for efforts to modernize our country. The Government will intensify the fight against corruption, the use of state institutions and non-performing public services for abusing public money.

4. Expand and deepen the dialogue with Moldovan citizens abroad aiming at protecting their interests in countries they are located and here, at home.

5. Developing an institutionalized dialogue with citizens, civil society, private sector, and academia.

6. Building confidence between both sides of the Nistru River, by implementing joint projects in health, infrastructure, education, agriculture, environment, transportation, economic development.

7. Deepening relations with development partners, neighboring countries and the European Union in the European spirit, based on principles of cooperation and mutual benefits.

The Government thanks the development partners, private sector, and civil society for their openness and collaboration in the elaboration and implementation of its programs and initiatives to modernize and develop the country.