



FREEDOM BAROMETER

Europe Edition 2015

Freedom barometer

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FOREWORD TO THE 2015 EDITION OF THE FREEDOM BAROMETER EUROPE OF THE FRIEDRICH NAUMANN FOUNDATION FOR FREEDOM

By

Dr. Rainer Adam, Regional Director for East and Southeast Europe

I have the great pleasure to introduce to you the 2015 edition of the Freedom Barometer Europe, the annual assessment of the situation of freedom in the European region. Most comparative indicator systems paint a rather sober picture with regards to the progress of freedom. Instead of broad advances of freedom and prosperity, we seem to be heading in the opposite direction. The results of FB 2015 support the general view, as advanced by many international analysts and democracy promoting organizations, that individual freedom and the institutions guaranteeing democracy, the rule of law and the free market economy are under severe stress, and generally in decline.

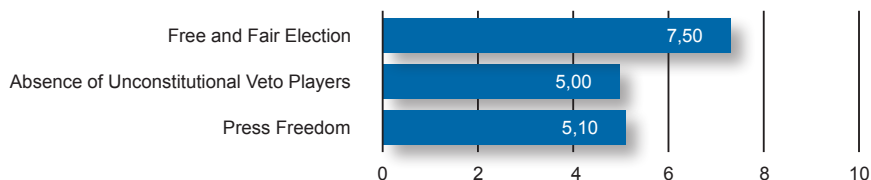
Either under the assault of illiberal forces or the inability and/or unwillingness of current governments, the acceptance of liberal ideas, values and concepts has generally weakened. The enemies of freedom challenge the existing liberal-democratic order and see “the West” in a normative retreat. The current problems of the USA and the EU are seen as indicators for the weakness of democracy and the inferiority of its norms to authoritarian models of development. They even go as far as to proclaim that authoritarian models of development are superior to liberal democracy. In short, free societies seem to be becoming more and more uncompetitive globally in addressing current societal and geostrategic challenges. Nonetheless, the current political climate imparts a widespread perception that the universalism of liberal democratic norms is under threat and in fact many of our partner organizations can attest to the fact that spreading liberal democratic norms is far more difficult than it used to be two decades ago.

In this context of exacerbated confrontation between ideas and concepts relevant to the advancement and the protection of our freedoms and responsibilities, it is of tantamount importance to have good measurements and assessment tools for the debate. The current issue of the Freedom Barometer Europe is the first cross-regional edition and includes 27 countries in Western and Eastern Europe. The results point to a widening gap between countries embracing freedom and freedom-preserving institutions and countries retreating to autocratic practices and illiberal rules. Despite these difficult circumstances some countries managed to improve rankings in all three fields (rule of law, economic freedom, political freedom). The Baltic states are a shining example of the notion that more freedom generally leads to more progress and prosperity. Thus the FB is also an indicator of how it pays off to invest in freedom. The current European refugee crisis is too young to make an impression on statistical data and other qualitative and quantitative information used for our FB 2015. It is hoped future expansions will include such data and thereby contribute to a continuous improvement of our FB indicator system.

ALBANIA

GDP in 2014: EUR 9,984 million		
Yearly growth rate : 1,9%	per capita: 3,600 EUR	by sector:
		agriculture 22.6%
		industry 15.1%
		services 62.4%
Population: 2,774 thousand	Human Development Index	Government position in 2014
Unemployment rate:17.5%	HDI: 0.716 (rank 95)	-5.41% of GDP

A. POLITICAL FREEDOM



Free and Fair Elections

General elections in June 2013 were competitive, taking place in an overall peaceful environment. Following the victory of the opposition, the transfer of power was carried out in a smooth way and the government was built by Edi Rama in a very short period of time. Local elections in June 2015 were predominantly in accordance with international standards. On the other hand, group voting was reported at a number of polling stations. The greatest problem during the election campaigns, both at the national and at the local level, has been in widespread misuse of power by state institutions. The introduction of the gender quota (50% of the candidates had to be women) was implemented only formally, since women candidates were placed towards the bottom of

the electoral tickets. Even the women candidates who ran for mayors received significantly less media coverage than their male counterparts.

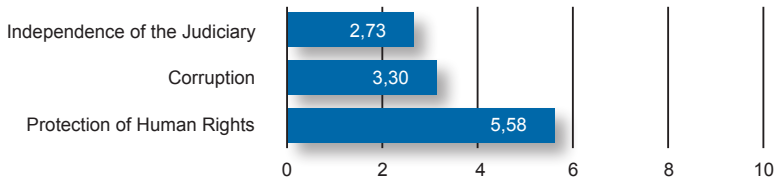
Absence of Unconstitutional Veto Players

Few obstacles pose a threat to democracy and effective governance in Albania. Widespread corruption is still one of the largest problems of the country. Government has made some progress in the field, such as finalization of the new anticorruption strategy and adopting measures which aim to prevent conflict of interest among officials, however political and business elite remained untouched. There is a perception that close ties between politicians and wealthy businessmen can influence the decision making process. Also, the government does not hold effective control over its whole territory. There are some parts of the country known for criminal activities (primarily for drug trafficking), which reject state authority.

Press Freedom

The situation of media remains unchanged and must still be labeled as partly free. In their reporting on events, media are heavily dependent on their ownership structure. They are thus used as a tool to spread information favourable for an interest group or a political party. The state's media regulator – the Audiovisual Media Authority – follows the interest of the ruling party. The ruling party channels funds to the media and makes sure that journalists do not deviate. Else they would lose their job. With the country's efforts to join the European Union, the opportunities arise to make legislation more transparent. But this will take time, because the main problem is rooted in a lack of democratic culture and in a tradition of a centralized state claiming to represent the interests of all its citizens.

B. THE RULE OF LAW



Independence of the Judiciary

Albania's judiciary struggles to gain its independence against various outside influences. In the lower courts, corruption is still a huge problem. In high courts, politicians (parliament, President, justice minister) have a say over the appointment of judges or disciplinary measures. Access to justice is sometimes hindered. The trust in courts is traditionally low. Blood feud reappeared in post-communist era, taking thousands of lives, mainly in the north. Unlike neighbouring Kosovo, itself until 1992 heavily struck by blood feud but now largely free of it (except between criminal clans), whereby NGOs played a key role in the turnaround, Albania's civil society still looks for ways to rebuild social cohesion and trust in the legal system. The conditions in prisons are bad. There were cases of police abuse in detention, including torture, corruption and extortion. The post-2013 PS-led government replaced a number of officers and disbanded several units due to either inefficiency against organized crime or abuse. EU-based GRECO group is assisting Albania in fighting corruption, including in judiciary. In 2015 the Parliament started implementing the judicial reform strategy until 2020, drafted together with the Venice Commission.

Corruption

After setbacks in 2013, Albania's Corruption Perception Index of the Transparency International went back to the 2012's level of 33, placing her 110 (of 175 countries) in 2014. As Freedom House reckons, corruption is pervasive. EU's Progress Report as of October 2014 noted a number of efforts taken by the government to suppress it. Measures included firing 20 central

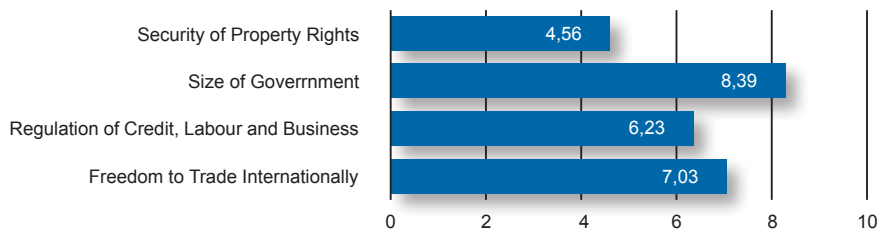
bank officers, resignations of MPs or a deputy minister due to conflicts of interest and, in October 2014, charges against 16 government officials. To it, new laws were enacted. In September 2014, the law on freedom of information was carried, enabling civil society and citizens to better monitor corruption-vulnerable government activities. National anti-corruption strategy 2014–2017 was adopted in December 2013. Concrete action plans were elaborated throughout 2014. In February 2015, an anti-corruption web portal was launched, demonstrating the already present considerable modernization in approaching and combating corruption.

Protection of Human Rights

The situation regarding human rights in Albania has improved by 2014. In October, the European Commission has reported on a “mixed picture” of the protection of minorities in Albania. Inter-ethnic relations were overall good, but Romany and Egyptians needed far more protection and support. As Freedom House noticed, during the parliamentary elections in 2013 ethnic minorities had access to ballots and other material, as well as freedom to campaign, in their mother tongues. Some of the local government units are drawn along ethnic lines. The July 2014 nationwide reform of the territorial organization reiterated it, even though Macedonian and Greek minorities complained that there could be more ethnic-based units. Women are underrepresented in politics, but that has been changing, from top (government cabinet) to bottom. Sex trafficking is still a huge problem. The number of reported cases of domestic violence sharply increased during 2013–2014, but that actually reflected an increased awareness and more opportunities for victims to seek protection from the state. Alas, as Amnesty International claims, majority of reported cases still do not result in criminal processing of the perpetrators, while government safe-houses, stationed mainly in the deserted military barracks, do not meet international standards. By various reports, the position of LGBT community started improving, after several years during which the anti-discrimination law of 2010 had been a dead letter. Changes to the Criminal Code as of 2013, introducing protection against hate crimes and

hate speech, are believed to have contributed to positive developments. In May 2015, Albania’s Parliament pledged “to protect rights and freedoms of persons belonging to the LGBT community” and issued a number of adjacent concrete recommendations to various government bodies.

C. ECONOMIC FREEDOM



Security of Property Rights

Private property in Albania is not well protected. Judiciary is not independent from vested private interests in connection to state offices. Courts can be partial in their dealings. Enforcing contracts is another problem for the legal system – the high number of legal procedures incurs cost and leads to long processes, breaching reasonable deadlines. The acquisition of agricultural land by foreign nationals is restricted. It can only be leased up to 99 years, but not purchased. However, this regulation can be circumvented by registering a foreign owned legal entity. Commercial property may be purchased only with a guarantee of threefold investment against the value of the land. The cadaster service is incomplete, which, coupled with still unresolved property restitution, diminishes certainties of real estate purchase, although the introduction of public notary service has improved the situation. Private property expropriation carries a significant risk to property holders, because of the low compensation offered by the state, which is usually significantly lower than the perceived market value. That leads to a high number of petitions against the state of Albania in front of the European Court of Human Rights and subsequently high payable damages.

Size of Government

The low level of government expenditure of 31.8% of GDP in 2014 is a contrast to the European or regional average with more prolific public spending. However, public revenues are lagging, giving rise to high budget deficits, increasing the public debt to a substantial level of 72.5% of GDP. The deficit in 2014 increased unexpectedly for almost 10 percentage points (from 5.1% to 5.6% of GDP) due to government support for the national electrical company KESH, through energy subsidies and loan guarantees for investments. This remains a large fiscal burden, thus more concrete measures, such as energy tariff changes and management restructuring should be made in order to alleviate it. The necessary fiscal consolidation is important due to rising medium term costs due to demographic changes – the reforms of the pension system which increased the number of people participating will have to be strengthened by parametric changes. High arrears of the state also pose a significant problem. Low public consumption led to low taxes: personal income tax is slightly progressive, with rates of 0%, 13% and 23% (with low thresholds, being approximately 20% on average wage), while the corporate tax is flat at 15%. Social security contributions lead to labour tax wedge slightly below 30%.

Regulation of Credit, Labour, and Business

Regulations are generally favorable to private business in Albania, but many more improvements are necessary to support market economy development. Starting a business is relatively easy regarding procedures and requirements for private investors, with only 4.5 days and 5 procedures to start a new venture. However, dealing with Albania's bureaucracy is costly and corruption remains a serious issue. Complicated tax collection regulations prove to be a significant burden on Albanian enterprises, while getting electricity and obtaining construction permits are very long and costly processes. The labour market is generally inflexible - a trait that was common among the countries of the region, but has been slowly abandoned. Collective bargaining is prevalent in some industries (and in the public sector), leading to serious constraints.

Furthermore, low notice periods for redundancy workers, as well as generous severance pay and priority reemployment rules make firing regulations restrictive. The relatively high minimum wage, set at 45% of the average monthly wage, leads to widespread shadow employment among workers with lower qualifications.

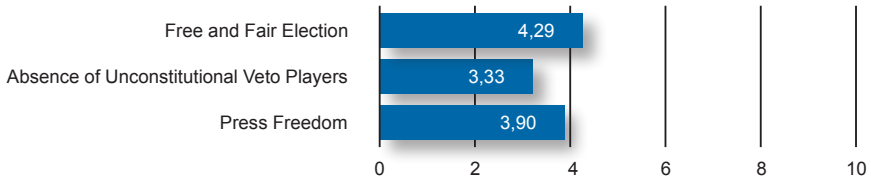
Freedom to Trade Internationally

The freedom of international trade is generally respected in Albania. Still, there are regulations that impede international trade, such as bureaucratic procedures in standardization of products. Furthermore, very bad railroad infrastructure bears significant impediment on international trade, restricting cargo freight to road transportation, thus increasing cost. Capital controls and labour restrictions on foreign nationals, through complicated documentation necessary for obtaining permits, are still present in the country. Albanian trade is mostly conducted under the Stabilization and Association Agreement (SAA) for the EU countries, signed in 2009, and under Central Europe Free Trade Agreement (CEFTA) with countries from the region. Main trade partners are EU countries of geographical proximity, most notably Italy and Greece, accompanied by Germany and Turkey. Albania is not well integrated into the regional economy, due to bad transportation connections and little previous contacts, so prospects of CEFTA are not well utilized. The only cooperation worth mentioning is with Kosovo. Natural gas and oil sites make Albania the only country in the region not relying on energy imports from the Russian Federation. It should be noted that future Albania's EU accession process will foster trade freedom by further liberalizing trade.

ARMENIA

GDP in 2014: EUR 8,757 million		
Yearly growth rate : 3,4%	per capita: 2,930 EUR	by sector:
		agriculture 21.9%
		industry 31.5%
		services 46.6%
Population: 2,985 thousand	Human Development Index	Government position in 2014
Unemployment rate:18%	HDI: 0.730 (rank 87)	-1,94% of GDP

A. POLITICAL FREEDOM



Free and Fair Elections

In 2014, local elections took place in Armenia. The ruling Republican Party of Armenia confirmed its domination by winning in 87 out of 121 communities. Despite some improvements of the electoral process, elections were only partly free and fair. Still, some violations in the form of abuse of the administrative resources or of vote buying are presently practiced by the incumbents in the Armenian elections. At the end of 2014, president Serzh Sargsyan proposed a transformation of the political system, from a presidential democracy to a parliamentary republic, whereby a referendum on the issue is expected by the end of 2015. People are free to organize political parties in Armenia, but government is often accused for abusing the administration to limit their

activities. During the year, opposition united to address a list of demands to the government, which led to a series of rallies across the country.

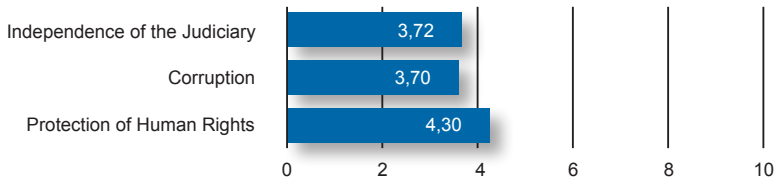
Absence of Unconstitutional Veto Players

Authorities in Armenia have constitutional, effective and unchallenged power to govern. However, this is mainly due to the highly concentrated power in the hands of the political elites and lack of the system of checks and balances. Together with the widespread corruption among the officials, this represents the biggest threat to democracy in Armenia. Security forces are controlled by the president who appoints the heads of these organizations. Although, formally, the church is separated from the state, during the recent years it has been much more involved in everyday politics, helping government to deal with some sensitive issues in the society.

Press Freedom

Armenian press is not free. According to the Freedom House, broadcast media, which remain the main source of information for the citizens, are under control by the political and business elite. Thus, these media outlets are increasingly partisan in favor of their owners, unlike online outlets which are becoming the center of independent journalism. However, government had tried to influence that through a draft amendment which would hold online outlets responsible for defamatory or insulting comments on the internet. After the criticism from the media watchdogs, most importantly by Reporters without Borders and by OSCE/ODIHR, the amendment was dropped. Defamation is not punishable by imprisonment but it is subject to huge fines. Due to that, as well as because of frequent verbal or physical violence against journalists, self-censorship is often exercised by media workers.

B. THE RULE OF LAW



Independence of the Judiciary

Armenia's judiciary remains the least independent in the Caucasus region. As Freedom House remarked, "the functioning of the justice system is one of the weakest links of Armenian governance". Citizens' trust in the system is low indeed - only 15 percent. Of all areas of life, they perceive judiciary as the most corrupt. Political control is also present. Judicial reforms launched in 2012 are to be completed in 2016. Amendments to the Judicial Code were carried, strengthening the role of autonomous judicial bodies in appointment, evaluation and promoting of judges. European Commission, in its report on ENP in Armenia in 2014, wrote that there was a progress in access to justice, but no improvements on impunity or regarding the right to a free trial. World Bank reckoned that, overall, there were small improvements. FH tells that the situation in Armenian prisons has improved. Following a general amnesty in late 2013 and opening up of a new prison facility in late 2014, the overcrowding became a lesser problem. Internal prison regulation was relaxed. But sanitary conditions are still worrisome.

Corruption

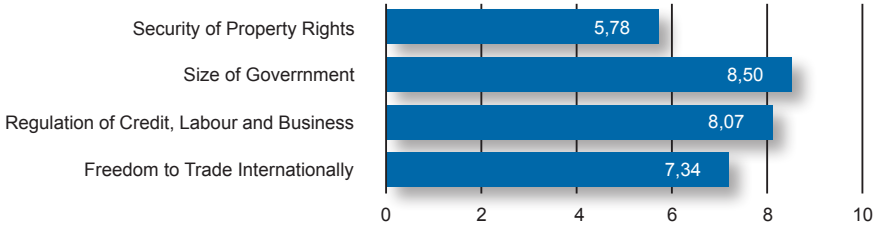
Since 2011, Armenia has slowly but steadily advanced in fighting corruption. In 2014, it ranked 94 (of 175) in the Transparency International's Corruption Perception Index. In its latest strategic paper on corruption, as of April 2014, the government put emphasis on fighting it in education, state revenue, police and health care. Judiciary, even though majority of citizens and many international observers perceived it as the most corrupt, was not of the highest

priority. True, tax and customs, or other revenue offices deserved to be among priorities. But even in that field, the illicit secret ties that link those having political and those having economic power, as a powerful generator of corruption, might not on the longer run be easily dismantled without further, simultaneous, democratization of politics and liberalization of economy.

Protection of Human Rights

As EU has complained in its ENP on Armenia in 2014 progress report, the awareness of the international regulation on human rights and of their obligations stemming from it was low among Armenia's national institutions. Even if there were strategies, action plans and subsequently laws, proper implementation was lacking, due to the absence of by-laws or to their being in variance with European standards. Moreover, as many observers noticed, contemporary Russia is increasingly a role model for many in Armenia, even regarding the ways some human rights issues are dealt with. Albeit there is no "foreign agent bill", the treatment of NGOs, if their activities disturb government policies, has recently worsened, occasionally being violent or prohibitive. Lawmakers and government officers on the ground are ever more giving way to traditionalists, be it on the terrain of domestic violence, or gender equality, or protection of LGBTs against discrimination. So far so good there are only a few overtly extremist organizations in Armenia, according to Freedom House's report Nations in Transit 2015. Sex trafficking continues to be a huge problem. The figures in the Maplecroft's Human Risk Atlas also show that deterioration was the worst regarding government's attitude towards "human rights defenders" (from 6.02 to 4.43 on the 0-10 scale). The relative success stories in 2014 were freedom of thought and the rights of international migrant workers.

C. ECONOMIC FREEDOM



Security of Property Rights

Property rights in Armenia need more sufficient security. Weak administration of justice is a result of court partiality and of the influence of external factors on court proceedings, leading to low integrity of the legal system. Privatization process, although almost complete, has been heavily politicized and conducted in a non-transparent way, both in first waves of market liberalization and more recently. Rules and regulations are implemented in a non-consistent way, allowing for widespread favouritism and corruption. One of the major problems is weak and ineffective enforcement of contracts due to high number of necessary legal procedures which are time consuming. Slow court procedures lead to uncertainty of property rights, while out-of-court settlement mechanism is not well established.

Size of Government

A strong recession in 2009, coupled with sluggish economic recovery, led to the fact that Armenian GDP reached its pre-crisis level only in 2013. Government consumption is low by international comparison. It reached 25.6% of GDP in 2014, with fiscal deficits lower than the projected growth. The growth prospects are dim, taken the economic downturn in the Russian Federation, which is one of the main Armenian economic partners. Expected decrease in remittance from workers in Russia would also lead to lower domestic consumption. Public investment in infrastructure could boost growth, both in the short run via increased investment and in the long run by eliminating infrastruc-

ture bottlenecks that burden exports. However, current level of public debt, which has tripled since 2008 to 44.2% of GDP, leaves little room for such action and calls for necessary fiscal adjustments in order to make it sustainable. Overall low government consumption has led to low level of taxation: tax on corporate profit is 20%, the same as VAT, while income tax is slightly progressive and is set at 10% and 20%. Social contributions are regressive, being higher at lower income and lower at higher earnings. Armenian government has, through privatization process, walked out of the economy, but some companies (mostly in the utility sector) remain in its property. Reforms in the pension fund, e.g. involving the second pillar (mandatory contributions into private-owned funds), are expected to continue in order to make it more sustainable. The efficiency of the tax system is low and there is a high level of shadow economy in the country, while tax authorities are perceived as corrupt. High dollarization of the financial system remains an obstacle to more effective monetary policy, due to the hyperinflation background of the national currency.

Regulation of Credit, Labour, and Business

The regulation of business activities is not always in favour of businesses, which increases their operational costs. However, starting a business is easy and cheap, and there are few licensing restrictions. Administrative requirements for conducting business remain high, with unnecessary or complicated procedures, while the process of reform by cutting the red tape has not been implemented yet. These requirements serve as a fuel for corruptive practices due to non-coordination of government bodies and their different interpretations of the rules. Furthermore, paying taxes and compliance with all the tax procedures is very lengthy and incurs cost. The same is with the process of getting electricity. Reforms that liberalized civilian air transportation (“open sky” policy) have given good results through increase in flights and lower prices. Competition policy remains an issue, due to the fact that many industries in the country are faced with high concentration ratios. Labour regulation is mostly flexible, with little restrictions in the working-hours regulation

and low costs of worker dismissal. Minimum wage is not high as compared to the average wage. However, almost half of the working force works without contracts. Centralized collective bargaining is mostly concentrated within the public sector.

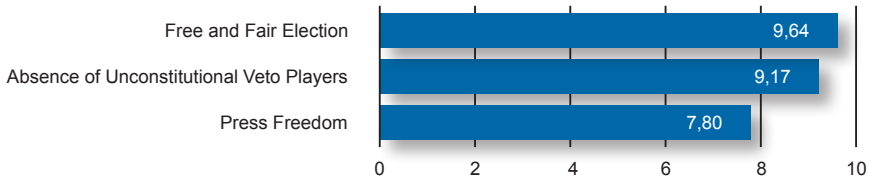
Freedom to Trade Internationally

Armenia signed the accession treaty to the Eurasian Economic Union (EEU) in October 2014. It became effective in January 2015. Other member countries include the Russian Federation, Kazakhstan, Belarus and the Kyrgyz Republic. Applied tariff rates in Armenia are low for manufacturing products but are significant in the field of agriculture products (and extensive, since almost all agriculture products are protected by tariffs). Membership in the EEU entails also a customs union, which is envisaged to increase Armenian overall tariff rate, leading to higher prices for imported goods and commodities. On the other hand, this move has secured continuation of privileged prices on imported oil and gas from the Russian Federation, as well as more fiscal revenues from the common EEU customs pool. Standardization procedures pose significant problems in international trade: regulations are costly, time consuming and complicated, while their implementation can be evaded by the well-connected, although export and import documents are usually easy to compile and quick to obtain. However, main problems of further Armenia's connection to the world economy lie in the field of politics, infrastructure and geography. Due to the mountainous terrain, only a limited number of routes are used for transportation, and most of them are closed because of the political confrontation with Azerbaijan and Turkey, while open borders of Iran and Georgia lack good infrastructure. All these significantly burden international trade with high freight costs.

AUSTRIA

GDP in 2014: EUR 329,083 million		
yearly growth rate: 0.3%	per capita: 38,680 EUR	by sector:
		agriculture 1.3%
		industry 28.4%
		services 70.2%
Population: 8,508 thousand	Human Development Index	Government position in 2014
Unemployment rate: 5.6%	HDI: 0.881 (rank 21)	-2.4% of GDP

A. POLITICAL FREEDOM



Free and Fair Elections

Elections in Austria are free and fair. The 183 members of Austria’s *Nationalrat* (the lower house of the Austrian Parliament) are chosen through proportional representation at the district, state and federal levels and serve 5-year terms. The 62 members of the *Bundesrat* (the upper house) are chosen by the provincial diets for five- to six-year terms. The chancellor is appointed by the president. The president, elected for a maximum of two six-year terms, is theoretically given significant powers by the constitution. But in praxis he serves as a mere ceremonial figurehead. The last general election, in September 2013, resulted in a narrow combined majority of the centre-left Social Demo-

cratic Party (52 seats) and the centre-right People’s Party (47 seats), thereby allowing the two parties to renew their grand coalition government.

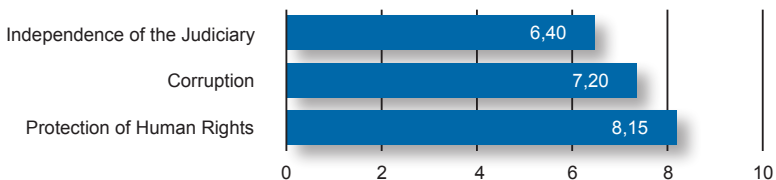
Absence of Unconstitutional Veto Players

Unconstitutional veto players are all but absent from Austrian politics. Michael Häupl, the Mayor of Vienna, allegedly has considerable influence within the ruling Social Democratic Party and on Werner Faymann, the chancellor. On occasion he has been accused of undue behind-the-scenes meddling in government affairs.

Press Freedom

Freedom of the press is enshrined in Austria’s constitution and regulated by the Media Law of 1981. Censorship is virtually unknown but, owing to Austria’s past, any form of Nazi propaganda or anti-Semitism is prohibited and punishable by law. Freedom of information is an issue. Although granted by law, it is subject to certain provisions in the constitution that provide for official secrecy. Austria’s freedom of information legislation was ranked worst among 93 countries in a 2013 joint study by Access Info Europe and the Centre for Law. The official response by Austrian authorities suggests that they see limited need for action.

B. THE RULE OF LAW



Independence of the Judiciary

The Austrian judiciary is independent. But the country had been at loggerheads for two decades with the European Court of Human Rights over the need for independent judges to be allowed to review matters of administrative

law. A reform of the administrative jurisdiction system finally took effect in 2014. The overall situation is less grim than the country's score might suggest.

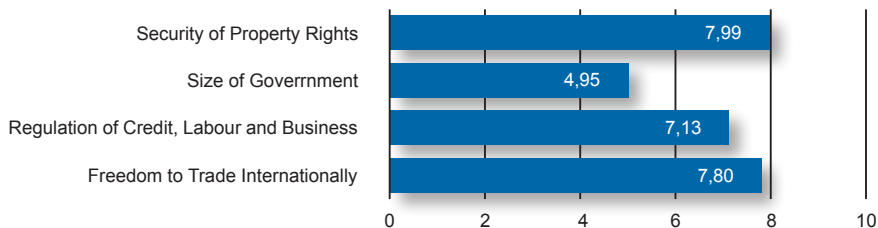
Corruption

During the past few years several big corruption scandals made headlines in Austria. They included dubious payments during the acquisition process of new fighter jets for the Air Force; a former interior minister who accepted a bribe from undercover reporters while being a member of European Parliament; a deputy governor of the central bank who allegedly was involved in paying bribes to win contracts to supply banknotes to Syria and Azerbaijan; and a former deputy chief executive of Telekom Austria who was found guilty of funneling money to a political party. A 2011 study of Johannes Kepler University Linz (the latest available) estimated that the monetary damage to the economy due to corruption to rise to €27bn in 2012.

Protection of Human Rights

Human Rights are adequately protected in Austria but in some areas there is room for improvement. Amnesty International in its latest report criticized shortcomings in prison conditions, some forms of discrimination against same-sex couples, and the processing and assistance of asylum-seekers.

C. ECONOMIC FREEDOM



Security of Property Rights

Property, be it real or intellectual, is protected and contracts are usually highly respected.

Size of Government

Government spending (which includes consumption and transfer payments) amounts to about 52% of GDP. Austrians pay a top income tax rate of 50% and a top corporate tax rate of 25%. Other taxes include VAT and tax on real estate transfers. Overall tax revenue equals about 43% of GDP

Regulation of Credit, Labour, and Business

Austria was ranked 21st out of 189 economies surveyed in the World Bank's latest Doing Business report, reflecting prudent legislation regarding starting, running and closing a business. On average it takes 22 days and 8 procedures to start a business. A recent reduction in minimum capital requirements and lowering of notary fees has made the process cheaper. Obtaining a business license consumes 11 procedures and 192 days. Employment regulations are fairly flexible.

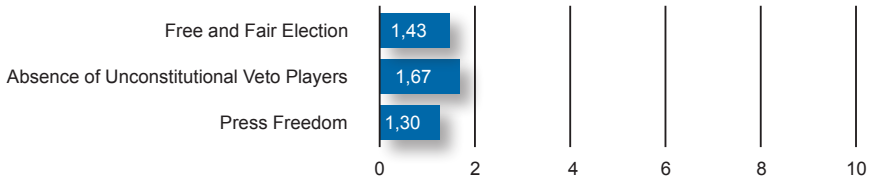
Freedom to Trade Internationally

Austria's average tariff rate is 1%. As a EU-member state, Austria is relatively open to foreign trade, with only few non-tariff barriers in place.

AZERBAIJAN

GDP in 2014: EUR 55,761 million		
yearly growth rate: 2.8%	per capita: 5,970 EUR	by sector:
		agriculture 5.7%
		industry 61.2%
		services 33.2%
Population: 9,342 thousand	Human Development Index	Government position in 2014
Unemployment rate: 6.0%	HDI: 0.747 (rank 76)	-0.39% of GDP

A. POLITICAL FREEDOM



Free and Fair Elections

Elections in Azerbaijan abound with irregularities, thus they are not free or fair. Frauds in the tabulation of the votes, use of extralegal tools toward opposition and voters intimidation can be seen in every election. Government, led by the president Ilham Aliyev and his Yeni Azerbaijan Party don't hesitate to use violence and arbitrary arrests when dealing with the opposition. Two prominent opposition leaders were sentenced to prison in 2014 for creating "mass disorders". Situation is even less competitive since some changes to the law on freedom of assembly were adopted. Political parties are forbidden to organize rallies or campaign in public space. Also, media environment during the election campaign is highly restricted. According to the Freedom House,

almost 92% of the airtime of the monitored television channels was devoted to the incumbent.

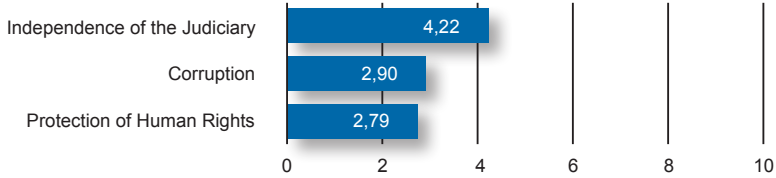
Absence of Unconstitutional Veto Players

Although president and his party have effective power to govern, there are some unconstitutional veto players in the country. Radical Islamic movements such as Forest Brothers or Gülen movement, which poses a threat to the national security, and high level of corruption, have to be perceived as such. The system of checks and balances is granted by the constitution. However, in practice, the ruling party holds control over all three branches of power. Because of that, high ranking officials and their friends from the business sector are almost never found accountable for the corruption. A legal amendment from 2012, which allowed companies to hide their ownership structure, blurred the corruption in Azerbaijan even more.

Press Freedom

In Azerbaijan, freedom of the press is not respected in practice. Government holds almost complete control over broadcast, press and online media outlets through financial pressure as well as through partisan members of the main media regulatory body, National Television and Radio Council, who are appointed by the president. Furthermore, they are using various tools to censor media and suppress critical voice in society, such as violence, harassment or intimidation of journalists. Defamation, itself punishable by prison terms or huge fines, since 2013 has been extended to online media, in order to shut down this, scarce, source of criticism towards government. Few organizations which aimed to foster freedom of media in Azerbaijan, as well as Radio Free Europe / Radio Liberty, were forcibly closed during the year. Throughout 2014, eight journalists were arrested and taken to prison.

B. THE RULE OF LAW



Independence of the Judiciary

The only aspect of the rule of law where the situation in Azerbaijan is still bearable, and to it better than in the other two Caucasus countries, is the position of the judiciary vis-a-vis the government. There is still a certain degree of separation of powers i.e. judicial independence in an otherwise clearly authoritarian regime whose reliance on a Soviet-style vertical organization of power is increasing. However, European Commission, in its latest report on Azerbaijan, as of March 2015, warned at a few disturbing precedents. There were court rulings in absence of lawyers and defendants. Trials against civil society activists have had more procedural or judicial shortcoming than other trials. There is a pressure on defense lawyers who counsel anti-government dissidents, even by some of their colleagues. The problems at which EU has pointed out indicated at an increase in politicization of judiciary.

Corruption

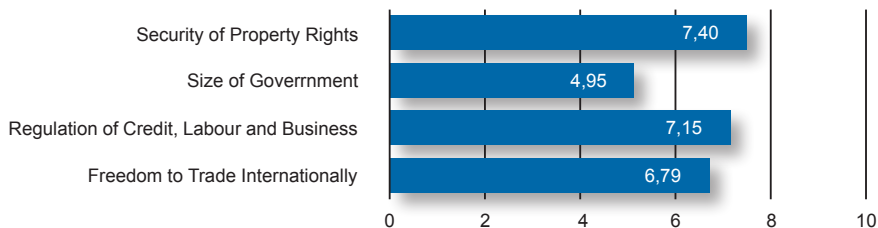
Azerbaijan is overwhelmed by corruption. The situation is worse than in somewhat comparable Georgia, Armenia or Turkey. Corruption starts at the top of the government, where the President's clan is enjoying privileges and amassing enormous wealth, and springs down to numerous ordinary public servants who receive bribes. The improvements in 2014 were neglect. Some institutional changes might, however, bring – though limited - progress in future. For instance, the Anti-corruption Department of the Prosecutor-General's Office was in 2014 upgraded to a directorate-general. In absence of other changes, this reform will not bring a turnabout. Transparency Interna-

tional has put Azerbaijan, in the Corruption Perception Index 2014 ranking, to the place 126-132 (of 175 countries). The score 29 was just slightly better than the 28 obtained in 2013, when Azerbaijan was ranked 127-135 (of 177).

Protection of Human Rights

Freedom House has noticed a sharp downward trend regarding respect for human rights in Azerbaijan. Besides the decline in political rights and civil liberties, many of the human rights are increasingly breached. Maplecroft's index shows, and human rights watchdogs confirm, the frequency of arbitrary arrests, even of the highest ranking opposition figures or renowned NGO activists or journalists. The torture or other ill treatment in custody is common. The activities of human rights' watchdogs and defenders, especially if they are foreign-funded, are ever more sabotaged. NGOs are often fined and their assets are frozen. Many individual critics of the regime, such as popular Internet bloggers, encounter official or unofficial harassment. Religious freedom is limited, while members of the non-registered faith communities or of non-official Islam cults are prosecuted, often on charges of extremism or other anti-constitutional activity. Freedom of opinion and expression is on a low level indeed. There is no legal protection of LGBT people. Among rare success, protection of children against forced labour or militarization is well arranged. To it, treatment of international migrant workers and refugees is better than in comparable countries.

C. ECONOMIC FREEDOM



Security of Property Rights

Private property is not well respected in Azerbaijan. The influence of the political elite over the judiciary is overwhelming, making legal proceedings partial and the whole legal system ineffective. An example of malfunctioning of the system is the implementation of the law on expropriation, which can be used for private economic gains, by unnecessary appropriation or low compensation. The cases litigated against Azerbaijan by the European Court of Human Rights include a high number of cases dealing with property rights, a majority of which concerns the restriction of right to use property in an internationally disputed area (mostly in Nagorno-Karabakh province) but which is under Azerbaijan's control. Ineffective enforcement of contracts, due to a high number of slow legal procedures it entails, limits the possibility of property rights' protection in court. Restrictions on ownership of land by foreign nationals are upheld and state farms and cooperatives still dominate the sector.

Size of Government

Government consumption in Azerbaijan, at 38,3% of GDP, is lower than the average of European countries, but in line with other Commonwealth of Independent States (CIS) countries. Government revenues, however, are much higher due to the export of oil and gas, leading to budget surpluses (as high as 20% of GDP in 2009), which are tied to the price levels of those commodities. These non-tax revenues allow for generous state programs coupled with lower taxation levels than otherwise anticipated, and contribute to high levels of shadow economy (approximately 1/3 of the annual GDP), which is tolerated. Much of the oil revenues are invested through state sovereign wealth fund Oil Fund of Azerbaijan (SOFAZ) in order to maintain and increase their value and preserve them for the future. However, transparency and accountability of the oil fund is under question, due to strong influence of politics onto economic life in general. Many of investment decisions of the fund are not considered lucrative. Although large scale privatization process has been implemented, the state still owns many companies, not only in oil or public utility sector. The overall level of subsidies and social transfers is high. Corporate tax is set at

20% and the VAT at 18%. Personal income is progressive, being 14% up to the high threshold and 30% afterwards, while social contributions stand at 25% of the gross wage, bringing the tax wedge to a high 38% on the average salary.

Regulation of Credit, Labour, and Business

Although named the top reformer on the Doing Business list by the World Bank in 2007/2008, many areas of business regulation in Azerbaijan are yet to be transformed in order to guarantee good business environment. Administrative requirements coupled with bureaucracy cost are high – obtaining construction permits and getting electricity is not only a lengthy process but is also very expensive. High number of procedures and their length create an environment in which favoritism and corruptive activities are endemically present. Starting a business, however, is quick and inexpensive and there are few licensing restrictions. Tax compliance is easier than in many neighboring countries. The minimum wage is low as compared to the average wage in the country, but the overall tax wedge due to high social security contributions makes labour expensive, contributing to the spread of shadow economy. Notice period and severance pay for redundancy workers do not increase with their years in tenure, thus avoiding age discrimination in the workforce and making the labour market flexible. Working-hours regulation is also flexible. The long mandatory military service of 18 months for general male population (12 months for university students) incurs high costs onto the private sector, but also for the workers, due to disruption in human capital accumulation.

Freedom to Trade Internationally

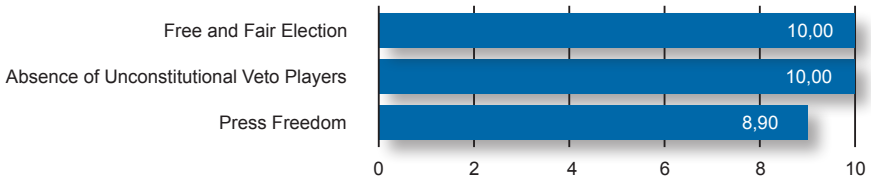
Azerbaijan is not a champion of free trade. Partiality and corruptive activities within the customs are invigorated by high non-tariff barriers, especially the process of standardization, which is expensive, time-consuming and not transparent. Standardization procedures are not in line with international agreements such as General Agreement on Trade and Tariffs (GATT), which is an impediment in the long accession talks about World Trade Organization (WTO) membership, which have been held since 1997. Reformed custom valu-

ation based on the actual cost of goods (in line with international standards), is under implementation and is expected to lower trade barriers. Documentation process for both import and export involves a high number of procedures and long time frame. In order to maintain the monetary regime of the national currency manat, which is in stabilized arrangement regime as classified by the IMF, some forms of controls of capital remain present. However, the value of manat has plummeted due to falling oil prices and subsequent decrease in export volume. High tariffs are still present, especially in the field of agriculture products.

BELGIUM

GDP in 2014: EUR 401,767 million		
yearly growth rate: 1.1%	per capita: 35,860 EUR	by sector:
		agriculture 0.8%
		industry 21.1%
		services 78.1%
Population: 11,204 thousand	Human Development Index	Government position in 2014
Unemployment rate: 8.5%	HDI: 0.881 (rank 21)	-3.25% of GDP

A. POLITICAL FREEDOM



Free and Fair Elections

Most recent Belgium’s parliamentary elections, in May 2014, were considered as free and fair. The political landscape is pluralistic and political parties can freely express their views. However, no political party is active across the whole country. This is mainly due to complicated state structure, legal obstacles and strict linguistic lines. Voting is compulsory in Belgium, for all citizens. Belgium is a constitutional monarchy with the bicameral parliament, which consists of the 150-member Chamber of Representatives and the 60-member Senate. The incumbent government was created after four months of negotiations because of disagreements between parties. In October, the coalition was formed between Christian Democratic and Flemish party, Movement for

Reform, New Flemish Alliance and Open Flemish Liberals and Democrats, leaving out of the government the Socialist Party for first time after more than 20 years.

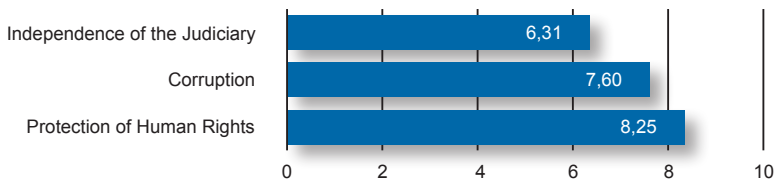
Absence of Unconstitutional Veto Players

Government in Belgium has effective power to govern without interference by the unconstitutional veto players. Procedures for punishing corruption are well developed and efficient, thus the level of corrupt activities in the country is very low. Four people were killed in the anti-Semitic attack at the Brussels Jewish Museum in 2014, committed by a radical Islamist. Besides that, a few more anti-Semitic acts occurred during the recent years.

Press Freedom

Press in Belgium is free. Broadcast, printed and online media outlets exploit that through expressing wide variety of views. However, hate speech, defamation and holocaust denial are prohibited by the law. All media outlets are functioning alongside linguistic lines and each of the linguistic Communities (Dutch/Flemish, French and German) has its own institutions for supervising those outlets, regulate the content and issue the licenses. According to the Freedom House, cases of pressure upon - or verbal and physical harassment of - journalists are rare.

B. THE RULE OF LAW



Independence of the Judiciary

Independence of judiciary from the executive power is a principle that has been developed in Belgium ever since its independence in 1830s, first as an unwritten rule and later as part of the Constitution. The principle is highly respected. As Belgium has been gradually transformed into a compound federation of three linguistic communities and three regions (only partially overlapping), the role of judiciary, especially Constitutional Court, has become vital in resolving conflicts of interest between the constituents of the federation, in preventing discrimination and in securing peaceful resolution of a number of disputes. Besides, yet another judicial body, Council of State, as the highest administrative court in the country, plays an important role in the peaceful settlement of inter-regional or inter-communal disputes. In June and December 2014, it brought two important decisions on the linguistic issues in municipalities in the multiethnic Brussels region. Deciding on the famous Peeters Directive, carried by the Flemish government, which obliged native French speakers in majority Dutch-speaking municipalities to use Dutch in official communication and severely restricted their right to obtain translations, the court produced a compromise solution, whereby local councilors would apply for translation facilities only once during their four years' term instead of each and every time they needed a translation. Thus the court has resolved the dispute that politicians either could not or for demagoguery or strategic reasons did not want to resolve for years.

Corruption

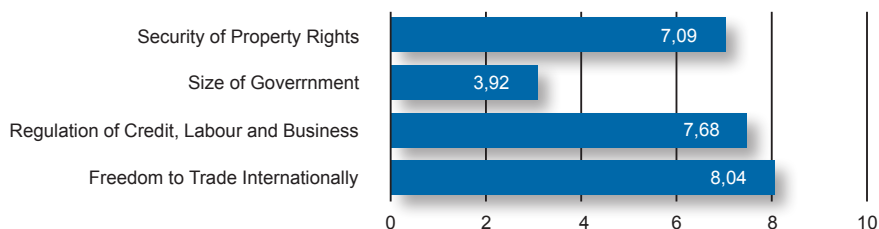
Social market economy, long experience in building anti-corruption mechanisms and a highly developed citizens' awareness have all narrowed the ground for and led to relative rareness of corruption. Proven cases usually include just indirect responsibility of politicians. There were occasionally suspicious infrastructure contracts, when tenders were won by companies favoured by decision makers. Especially corruption-vulnerable are the EU-funded projects. In March 2015, a case was opened against a former PM of Walloon Jean-Claude Van Cauwenberghe, for alleged mismanagement of city funds in the municipi-

pality of Charleroi during his Mayor-ship. According to Transparency International's Corruption Perception Index 2014, Belgium shared the rank 15 (of 175) with Japan (with the score of 76 points, one point up as compared with 2013).

Protection of Human Rights

Belgium is improving its anyway remarkable record on human rights. The new government, that took office in October 2014, promised to establish a new National Human Rights Institution, for monitoring human rights. In many fields the situation might be described as excellent, especially regarding almost total improbability of extrajudicial killings, kidnappings, conscription of minors, denying the legal rights or right to privacy or similar misdeeds by authorities. Like in the rest of Europe, death penalty is abolished. Very high respect is paid also to women's and girls' rights and the equality of sexual minorities. Freedom of assembly, of expression and of opinion is highly regarded. Advancements have been made regarding the treatment in prisons or custody, even though not much is done regarding overcrowding. Security forces are under strict civilian and democratic control and bound (and trained) to respect human rights. Eradication of child or other involuntary or slave labour is under way, even though the struggle against sex slavery will take time. The treatment of migrant workers, as well as of refugees or asylum seekers could improve. Freedom of thought is occasionally endangered, from various sides, be it by too strictly formulated rules of political correctness or through societal pressure from various ethnic, ideological or other interest groups. Minority rights should be advanced to match other high human rights' standards. Linguistic rights of the people living in areas where their mother-tongue is in minority should be implemented alongside a more active state and societal support to multilingualism.

C. ECONOMIC FREEDOM



Security of Property Rights

Property rights in Belgium are overall well respected. Judiciary is mostly independent from out-of-court influences and its proceedings are respected. However, there were indications from opinion polls of business people (for example, from the Global Competitiveness Report) that courts could sometimes be partial in their rulings. However, a weak point could be found in slow legal enforcement of contracts, which undermined the efficiency of the entire legal system. Procedures are usually lengthy and the costs of enforcement are high. There are some regulatory practices that restrict completely free transfers of real property ownership (such as the right of preemption of local authorities in the case of agricultural land, social or residential housing). Registering property, the first step in ensuring any property rights, is a very expensive procedure. Police force are reliable. Crime does not impose significant costs to businesses.

Size of Government

Although the government is not a proprietor of a large number of state owned enterprises (SOE) and, consequently, it is not significantly involved in the market apart from acting in a standard regulatory manner, public sector in Belgium is both extensive and expensive, and less than a quarter of the overall population is employed in the private sector. Main SOEs are in the field considered as natural monopolies, such as railway and postal systems, as well as telecommunications, which are not well managed when compared to

the international OECD practice (for example, the railway system is divided into two regional enterprises, which incurs higher cost). The real price of the state consists of the provision of welfare and redistribution, which hinders economic growth due to wrong incentives and very high taxes. High tax wedge of 55.6% on average wage (the highest among OECD countries) keeps inactivity-level of the population in the labour market high, as compared to other developed European countries. Total government consumption is among the highest in Europe, more than half of its annual GDP (54.5%). The company tax rate is 33.99% but the income tax has very progressive rates: from 25% as the minimum to even 50% as the maximum. The rise of public debt since the wake of financial crisis (from 86.9% to 105.6% of GDP) has become a major issue, especially because future social allocations for healthcare and retirement funds are going to sharply increase in the near future due to demographic changes. All those are calling for fiscal consolidation just to keep public expenditures at the same level. High deficit in 2014 has led the European Commission to issue a new recommendation in February 2015, on a minimum necessary fiscal adjustment for Belgium in order to have met the European deficit criteria.

Regulation of Credit, Labour, and Business

Business regulation in Belgium is overall business friendly, however bureaucracy cost can be high. The minimum wage is set relatively high at 48% of the average gross wage, which is another contributor, apart from high tax wedge and generous social assistance, for low activity levels in the labour market. Labour code law is not restrictive in the regulation of working-hours or in the hiring section, but it incurs high cost for redundancies through high severance pay which increases with the longevity of the work tenure, and long notice periods for redundancy dismissals (up to 5 months). This effectively gives seasoned workers more job security, but also makes their future employment harder due to an associated risk. Centralized collective bargaining, via tripartite negotiations, is dominant in certain industries and can be harmful to businesses due to increased wage bills. Setting up a business is easy and inexpensive, while tax administration is professional and not costly to comply with,

apart from high effective tax rate. Administration requirements in the section of registering property and construction permits are very high, expensive and time consuming. High transaction tax on purchase of private property, instead of recurring annual property tax, decreases already low labour mobility by creating disincentives to relocate. Wide parts of the service economy, such as network industries and regulated professions are sheltered from competition via mandatory licensing, which increases costs for the rest of the economy due to emerging rents.

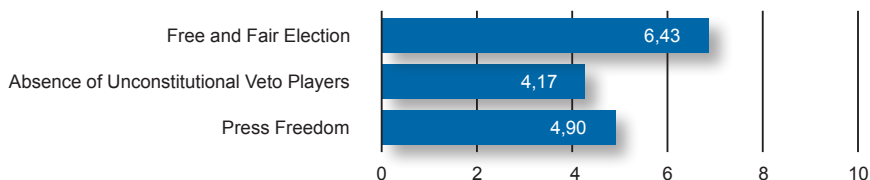
Freedom to Trade Internationally

Small economies gain most from competition and international cooperation introduced through free trade. As one of the founding members of the European Union, Belgium has been oriented to the international and the common European market. Tariffs are low and in accordance with the EU common trade policy, while other regulatory trade barriers, such as accreditation, quotas and standardizations are few, or easy and cheap to obtain. However, distribution and transport is one of the areas in which competition is not fierce, due to regulatory restrictions. That burdens international trade, especially in the sector of small and medium sized enterprises (SME), via increased costs. Furthermore, controls on the movement of migrant workers (excluding EU nationals) are enforced through working permits, which are difficult to be obtained. Belgium's main trade partners are its fellow members of the EU. International trade poses a risk for already slow growth of the Belgian economy, through possible slowdown of the German economy due to happenings in Russian and China.

BOSNIA AND HERZEGOVINA

GDP in 2014: EUR 13,661 million		
yearly growth rate: 1.1%	per capita: 3,530 EUR	by sector:
		agriculture 8%
		industry 26.3%
		services 65.7%
Population: 3,871 thousand	Human Development Index	Government position in 2014
Unemployment rate: 27.5%	HDI: 0.731 (rank 86)	-2.97% of GDP

A. POLITICAL FREEDOM



FREE AND FAIR ELECTIONS

General elections in Bosnia and Herzegovina, which took place as scheduled in October 2014, were generally free and fair. The results confirmed the victory of nationalistic parties. The building of a national government took considerably less time than in 2010 (some four months vs. more than a year in 2010/2011). Some more trouble appeared during the building of the government on the entity level of Federation of BiH. It ended in September 2015 after a government reshuffle. Same as in every fourth year, also in 2014 the elections for the state Presidency, state Parliament, parliaments of the entities, president of the entity Republic of Srpska and (for the voters in the Federation

of BiH) for the cantonal parliaments took place on the same day, confronting the voters with four or five different ballots. That contributed to confusion at the polling stations. The release of the election results was provided within just two days - considerably faster than in 2010. Also, the verdict of the European Court for Human Rights as of 2009 (in the so-called Sejdić-Finci case) concerning the elections of the Presidency has still not been implemented. Since the joint agreement on it was not reached for five years, the EU withdrew it as a condition for the ratification of the SAP Agreement with Bosnia and Herzegovina. Compared to other countries in the region, laws regarding campaign financing are strict and well enforced. The protest which struck the predominantly Bosniak parts of the country, in early 2014, ended without any visible consequences on the political process or election results. The concept of “direct democracy” promoted in a course of the protests has not been accepted by broad population.

Absence of Unconstitutional Veto Players

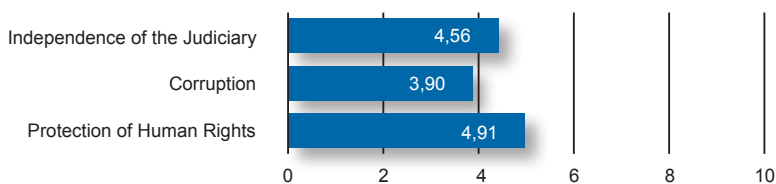
Bosnia and Herzegovina does have unconstitutional veto players. Although its purpose is to protect the implementation of the Dayton Agreement and ensure the representation of all countries involved in the agreement, the Office of the High Representative is often used to prevent the decision-making process in the state. Corruption among the officials remains a serious obstacle to the democracy. According to the Transparency International, prosecution of corruption in BiH was at its lowest in five years. All three dominant religious communities - Islamic, Roman Catholic and Serbian Orthodox - have power to influence public opinion, thus influence government decisions.

Press Freedom

The press in BiH remains to be regarded as partly free. This country, in the heart of Balkans, faces a continuous downward trend concerning assessment of its independent media. This is because politicians exert pressure on the poorly paid journalists to write on their behalf. Likewise, self-censorship is widespread. Only international media such as Al-Jazeera, accessible on the

ground as well as via internet, are able to practice high-standard journalism. Police is targeting journalists. As Freedom House reported, police tried to prevent media from reporting on anti-government demonstrations in 2014. In the spring of 2015, the entity Republic of Srpska adopted a law which might criminalize social network content. This is yet another step towards a tighter control of what social media write about politics or politicians.

B. THE RULE OF LAW



Independence of the Judiciary

In spite of huge problems, judiciary in Bosnia and Herzegovina is among the better organized and efficient parts of the public sector. Massive post-1995 institution-building efforts of the international community bore results. Judiciary is more independent than in neighbouring Serbia, Croatia or Montenegro. It further improved in 2014, mainly due to the decrease in backlog of cases, especially regarding war crimes. But, fragmentation to four separate systems at various tiers of government has put a heavy burden on efficacy and efficiency of the overall system of justice. Judiciary is underfunded. Prisons are overcrowded. There are cases of retroactivity. As Freedom House pointed out, even the justice regarding war crimes suffered due to such application of the Criminal Code of 2003 to the war crimes of the 1990s, later overruled by the European Court of Human Rights. Assessing the independence and impartiality of judiciary in BiH in the progress report of 2014, European Commission has especially noted “pressure by political establishment” on the courts processing war crimes.

Corruption

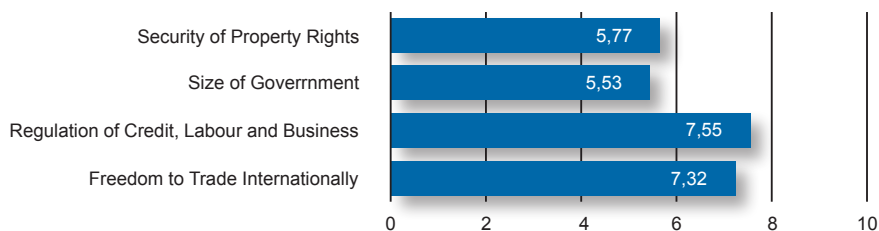
Anti-corruption struggle suffers due to unclear division of responsibilities between different tiers of government and poor coordination there between. Politics is the main arena of corruption. Widespread trading in influence in fragmented society and polity, huge public spending, political patronage over foreign investment or infrastructure projects and non-transparent relations in the triangle between state administration, religious communities and political parties are some of the specifics of Bosnia and Herzegovina that additionally nurture corruption. Transparency International, in its Corruption Perception Index 2014 has put BiH, scoring 39, to the place 80 (of 175 countries), a sharp decline from the 2013's place 72 (of 177) and score 42. Bosnia is behind Serbia, Bulgaria and Greece. Direct citizen actions during 2014, i.e. mass street protests that later transformed into "citizen plenum", succeeded in removing a few politicians but failed to initiate more prosecution for corruption let alone change the favourable political, legal or societal environment for it. Among reassuring developments there was a landmark case of a whistle blower in Brčko, initially fired because he reported corruption in the customs department. Following a pressure by several NGOs, as well as due to authorities' fear of the newly carried Law on Protection of Whistle Blowers, he was reemployed. Freedom House noted other positive developments, such as the new BiH's law against money laundering and new anti-corruption offices established in the Federation of BiH.

Protection of Human Rights

There was no improvement in human rights' situation recently. Minority rights still lag far behind standards in the EU or in neighbourhood. Citizens who do not belong to one of the three "constituent" ethnic groups, or even those who do but live as a local minority, lack numerous opportunities for employment, political advance, equal treatment under the law or societal protection, amid heavy divisions over ethnic lines, official or unofficial quotas and rising inter-entity mistrust. Roma are especially endangered, which was again demonstrated during the distribution of post-flood aid in 2014. Even

among the three “privileged” ethno-national groups there is increased tension and occasional violence inspired by ethnic or religious bigotry. Ethnocentrism with elements of hate speech dominates school curricula throughout BiH. Failure to provide political equality of the members of “other” ethnicities is among stumbling blocks for further advance of BiH towards EU accession. Gender equality is all too slowly getting through. Reported domestic violence is often not responded by police in rural areas. Homophobia is stronger than in any of the neighbouring countries, amid cases of an organized violence against indoor LGBT events in early 2014. In June 2015, a research by the independent portal Buka showed that a quarter of all LGBT persons in BiH had suffered physical violence.

C. ECONOMIC FREEDOM



Security of Property Rights

Private property rights are not adequately protected in Bosnia and Herzegovina. Weak judiciary remains one of the most important problems in the country: courts are partial in their decisions and can be influenced by external factors: both the government officials and powerful private interests. Corruptive activities within the judiciary are also present. Judicial process is slow and inefficient, which significantly delays enforcement of legal contracts, while insolvency procedures in addition are met with low recovery rates. Although reforms in the judiciary are a prerequisite for any successful market oriented reforms, the lack of political will to do so, as well constant frictions between the two ethnic-based entities create political instability which postpones action in this area. Another bottleneck for access to justice is in the ineffi-

cient proceedings of the Commission for Real Property Claims of Displaced Persons and Refugees. There are some regulatory restrictions on property of foreign investors in the field of defense, but also in the media, in which foreign share is limited to minority shares.

Size of Government

In general, public spending and direct government involvement in the economy are high. Although wide scale privatization process was conducted, many companies are still owned by the state, relying mostly on government - indirect or direct - subsidies. Government consumption is very high, reaching almost half of the GDP (49.4% in 2014). Continuous budget deficits in the last couple of years increased public debt by one half, to 45% of the GDP in 2014. Personal income and corporate tax are flat and both set at 10%. VAT is low for European standards – only 17% (EU fiscal harmonization rules, for example, stipulate the minimum and maximum VAT level of 15% and 25% respectively), without preferential rates. Excise duties are low as compared to European standards (however, the overall income should also be taken into account). They were raised in 2014 and are envisaged to be raised further in 2015. However, social security contributions are very high (at different rates in the two entities), leading to a high payroll tax wedge, between 39% – 43%. Furthermore, the complicated political division of the country, with two entities and one special district which have different tax rates, and ten cantons within the entity of the Federation of BiH that have different property taxes and prevalent Para-fiscal charges, lead to a lack of coherent national fiscal policy.

Regulation of Credit, Labour, and Business

Bosnia and Herzegovina regulatory environment cannot be described as suitable for entrepreneurial activities, with the excessive red tape and prevalent corruptive activities. Labor regulations are flexible in the sections of working hours and of short notice period for redundancy, but rigid in the areas of dismissals with priority retraining or reassignment rules and of trade union notifications.

Furthermore, centralized collective bargaining poses a burden in some industries. Fixed term contracts are set at a relatively short period of maximum two years. Labour code rigidity is one of the reasons for high unemployment rates in Bosnia (nearly 27% of the active labour force). There is a government initiative for changes, in order to make it more flexible, as was recently done by neighbouring countries in the region Serbia and Croatia. Administrative requirements for business operations are very burdensome. Starting a business is costly and time-consuming. Tax regulation is complicated to comply with, involving many annual payments. Getting electricity and obtaining construction permits are other notable examples.

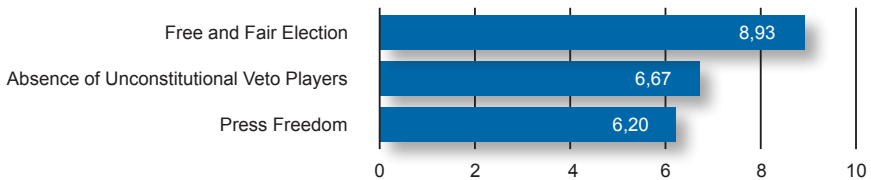
Freedom to Trade Internationally

Bosnia and Herzegovina, generally speaking, fosters free trade. Although Bosnia (alongside Serbia) is not a member of the World Trade Organization (WTO), the applied tariffs are low. The problem remains within the area of non-tariff barriers to trade, such as in standardization procedures. Furthermore, the custom service is not well organized, with many obsolete or complicated procedures and the corruption in the sector as still existent. Since Croatia's EU accession there has been a problem regarding over-reaching procedures for transportation of goods from Croatia through Neum area. Bosnia's main trade partners are countries from the region of Western Balkans or from the EU: namely Serbia, Croatia and Germany. Therefore, the bulk of trade is conducted under the Central European Free Trade Agreement (CEFTA), signed in 2007, or the Interim Agreement on Trade and Trade-related Issues (IA), signed in 2008. The IA, in the meantime, has been replaced with the Stabilization and Association Agreement (SAA), which came to force on 1 June 2015. Although the SAA did not bring important changes to the trade aspect as compared to the IA, it did serve as a positive signal, making the already existing trade regime more official. Further EU accession process is envisaged to lower the non-trade barriers and further liberalize international trade. However, this process is very slow (Bosnia, Kosovo excluded, is the only country in the region that is not an official EU-membership candidate) due to political tensions within the country and to the lack of will to implement the necessary reforms.

BULGARIA

GDP in 2014: EUR 41,982 million		
yearly growth rate: 1.7%	per capita: 5,830 EUR	by sector:
		agriculture 4.9%
		industry 31.2%
		services 63.9%
Population: 7,202 thousand	Human Development Index	Government position in 2014
Unemployment rate: 11.5%	HDI: 0.777 (rank 58)	-3.71% of GDP

A. POLITICAL FREEDOM



Free and Fair Elections

The legal framework governing the conduct of elections in Bulgaria includes the Constitution, the Electoral Code, and the Law on Political Parties. Provisions of other laws, including the Law on Assemblies, the Criminal Code and the Law on Media play also a key role. The combination of these acts provides a sound basic for conduct of free and fair elections in the country. A number of international observers, however, have been reportedly criticising the practical implementation of the electoral legislation. In October 2014, early parliamentary elections were held, after the Socialists-led government of Plamen Oresharski was forced to resign by a wave of massive street protests demanding better living standard and improved accountability in the coun-

try's politics. The elections were held against the backdrop of a political crisis provoked by the resignations of two consecutive governments, lack of political consensus among the parliamentary forces, scandalous public appointments and a number of cases of alleged corruption practices. These circumstances withdrew public confidence from the elected institutions, leading to a record low election turnout – 48.8%. These were the first general elections, held after the adoption of a new Electoral Code. The endorsement of the Code followed a large set of public debates, initiated by the Head of the Parliament. The deployed OSCE/ ODIHR election observation mission, however, reported on a number of continuing and inefficiently addressed irregularities, which account for a substantial lack of confidence in the elections, and in the country's politics in general. Widespread practices of controlled voting and vote-buying continued to be a part of the electoral landscape. Traditionally, the strongly marginalised minority groups in the country have been a subject of vote-buying practices.

Absence of Unconstitutional Veto Players

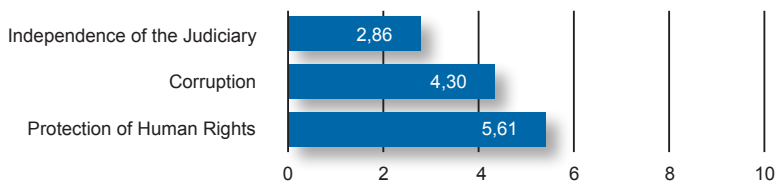
The institutional and legal framework of Bulgaria guarantees the independent functioning of the government and restricts the existence of traditional unconstitutional veto players. Powerful interest groups, however - most of them originating back to the very first years of the regime change after the fall of communism in 1989 - wield soft powers. Such groups intervene in the judiciary, economy and public policies. The army is under the shared control of the country's President and Minister of Defence. Bulgaria became a NATO member in 2004.

Press Freedom

Despite the fact that the constitution of the country provides for basic protection of media freedom and freedom of expression, Bulgaria's ranking, with regard to press freedom, has been deteriorating and is currently far below the rest of the EU member-states. The 2015's "Press Freedom Index", published by the "Reporters without Borders", takes the country to the place 106 out

of the 180 countries worldwide, which is a drop of 6 places as compared to the previous year. The reasons for the ever deteriorating media environment are manifold. Following the bankruptcy of Corporate Trade Bank, one of the largest banks in Bulgaria, and under the pretext to preserve public confidence in the banking system, the National Parliament discussed, in July 2014, an amendment to country's penal code, which envisaged 2-5 years of imprisonment for circulating false or misleading information about banks in the country. Under a pressure from journalists' associations and citizens, the parliament modified the provision, making it difficult to apply in practice. Yet, in January 2015, the Bulgarian Financial Supervision Commission imposed a fine of 80.000 Euro to the Economedia publishing group which manages a few of the largest newspapers in the country, for disclosing sensitive information about the banking sector. Individual journalists were also fined in this attempt to impose media censorship. The media ownership remains highly concentrated and non-transparent. Despite the large number of print, TV and radio outlets, the media environment is by and large obstructed by interest groups. Investigative journalism is on the rise, but it rarely meets the support of media, or by the state prosecution. Regardless of the high volume of manipulative web sites, Internet remains the most preferable source of accurate and unbiased information. The role of the social media - as a place of a free information flow - constantly rises.

B. THE RULE OF LAW



Independence of the Judiciary

Since last year Bulgaria has regressed in the field of judicial independence. Judiciary is corrupt, and as citizens perceived it in the Global Corruption Barometer 2013 it is the most corrupt part of public life. Political influences are multiple. Several court or prosecutors' decisions lately were widely perceived as politically motivated. For instance, in May 2014, the Sofia Prosecutor initiated an investigation against the state President Rosen Plevneliev for alleged treason, even though it was not in his scope of responsibility. Backlog of cases and their allocation, itself suspected to be politically motivated, are often a matter of dispute. In their latest report in the framework of the Cooperation and Verification Mechanism for Bulgaria, as of January 2015, the European Commission wrote that the overall progress was slow during the preceding year. By mid-2015, the discussion on a proposed new reform of the judiciary was under way, with lots of heated debate between institutions and between individual politicians, mutual calls for resignations and accusations of undermining the reform efforts.

Corruption

Prior to 2007, an argument against Romania's and Bulgaria's entry to the EU was widespread corruption. In the case of the former, a tiny improvement has thereby been made in the meantime, while the latter actually regressed in relative terms. According to Transparency International's Corruption Perception Index, Bulgaria fell from the place 64 of 180 in 2007 to the place 69 of 175 in 2014. The 2014's score of 43 was, true, a bit higher than the one for the two previous consecutive years: 41. According to the Freedom House reports 2006-2015, Bulgaria worsened also in absolute terms, from 3.75 to 4.25. During the past 8 years, all the anti-corruption regulation was put in place according to average EU standards, yet due to the poor implementation of (not just) those (but many other) laws the result was a state still captured by the alliance of political and corporate oligarchy, organized crime, just partially reformed secret services and biased traditional media. As a player in this corruption game, foreign authoritarian regimes are also present, through special intelli-

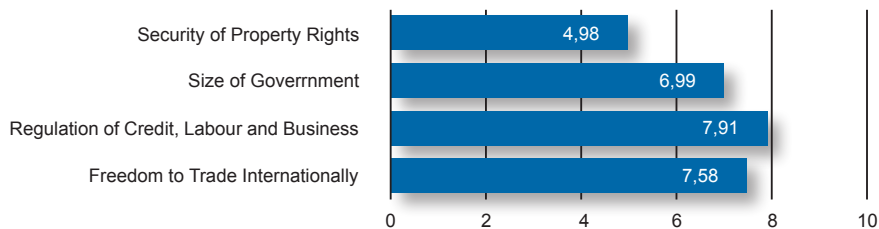
gence operations, facade companies and aggressive propaganda through their satellite TV channels or corrupted local journalists. Even though not the only one, corruption was one of the important motives for almost a year of – ideologically diverse - street protests in front of the Parliament between July 2013 and July 2014. Another, interconnected motive was popular discontent over the attempts by the government to appoint a media mogul Delyan Peevski as the head of the secret service DANS. In January 2015, the European Commission has invited Bulgaria “to accelerate progress on its recommendations on the reform of the judiciary and the fight against corruption and organized crime.”

Protection of Human Rights

There have been very few fields of human rights where Bulgaria has achieved uninterrupted progress during the past 6 years. According to Maplecroft’s Human Risk Atlas data, during the past two years there has even been a decline in the overall score for human rights. Constant improvement has lately been observed in suppressing child, forced or involuntary labour and human trafficking of various kinds. Also, women’s and girls’ rights, struggle against domestic violence and minority rights showed signs of progress. But in those fields the starting points were extremely low, hence the current state of affairs is nevertheless still bad. Minority rights stumble in many areas. The rights of linguistic minorities are even limited by the Constitution. An improper use of a minority language, e.g. Turkish, at a public (even political party or civil society) event might and in some cases did lead to paying fines. Ethnic Romany and Macedonians are generally worst protected. Homophobia is resistant. As a new challenge, an increased number of war refugees, asylum seekers or other migrants from Syria or other Middle Eastern or African countries have been arriving to Bulgaria since 2013. The official answer was, in 2014–2015, the building of a barbed wire fence on the border with Turkey. Additionally, conditions and treatment of refugees in collective shelters were bad. So was, occasionally, their treatment by the police or other authorities. Xenophobic (sometimes including Islamophobe) attitude was spread among the broad

population, mainly due to irresponsible political speeches delivered by the far right.

C. ECONOMIC FREEDOM



Security of Property Rights

Private property is not adequately protected in Bulgaria. Similarly to other countries in the region, the main problems arise from the weakness of the judicial system – partial courts that can be influenced by external factors, which greatly lowers the integrity of the entire system of justice. Furthermore, court procedures are numerous, and time consuming and costly, leading to overall long processes which undermine the possibility to protect one’s property in front of the court. This leads to inefficient contract enforcement. Insolvency resolving is characterized by extremely long processes and low recovery rates. Low reliability of the police in the country is another weakness, coupled with high levels of corruption, which is prevalent to such an extent that the European Commission froze pecuniary transfers to Bulgaria in order to assure embezzlement prevention. All those factors combined lead to relatively low score regarding property rights. In order to improve the situation, major reforms of the legal system should be undertaken. However, the political will for tackling this very important question in Bulgaria is lacking.

Size of Government

Public sector in Bulgaria is smaller than in other European countries, consuming only 38% of GDP. Public debt is low, reaching 27% in 2014. But it

almost doubled from the pre-crisis level. In order to contain it due to medium term financial obligations (mostly future rising expenditures for pensions and healthcare) and to build fiscal buffers, another set of fiscal measures is necessary. Stagnant low level of growth after the 2009 recession is a major issue – only did in 2014 the GDP reach its pre-crisis peak, and Bulgaria remains one of the poorest EU countries, with very slow income convergence. State subsidies are present for state owned companies, albeit in a smaller amount than their pre-2012 level. However, the financial stability of some of those companies (especially the performance of the national energy company) is dubious, with possible risks to the public finance. The level of public consumption left room for the lowest taxes in the European Union, standing flat at 10% for both personal income and corporate tax. Although the bulk of public revenue is coming from VAT (set at standard 20% or preferential 9%) and excise duties, the low share of the direct taxes is steadily increasing. However, even with low personal income tax, tax wedge on labour is relatively high, at 34.6%, due to high social contributions, paid both by the employer and by the employee. The grey economy is widespread, reaching one third of the GDP.

Regulation of Credit, Labour, and Business

The regulatory framework for conducting business operations in Bulgaria is a mixture of modern liberal and restrictive regulations. Another very important trait is inconsistent application of laws, fostering favouritism by state officials and enabling the high level of corruption. Regulations regarding credit and labour are Bulgaria's strong points. Collective bargaining in the tripartite social dialogue does not incur significant cost to private enterprises and is mostly limited to public sector employees. The minimum wage is not considerably high relatively compared to the average salary (approximately 34% in 2013). It was increased in January 2015 to 360 BGN, with further plans for its increase, which is not aligned well with the government's plans for decreasing the level of shadow economy. On the other hand, hiring and firing procedures, with their redundancy notification period and severance pay rules, may need improvement. Red tape and complicated administrative requirements are not

so favourable, whereas they are incurring high costs on businesses. Obtaining a construction permit, or electricity, are both very much time consuming and expensive procedures. Taxation legislation is complicated to comply with, although with low numbers of annual payments. On the other hand, starting a new business venture is faced with little difficulties, the process being fast and cheap.

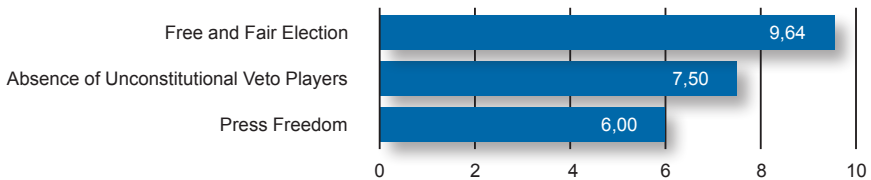
Freedom to Trade Internationally

Bulgaria fosters freedom to trade internationally. As a member of the EU, it tries to abide by the EU common trade policy, which is mostly liberal. Therefore, Bulgarian foreign trade is generally liberalized, with generally low tariffs. But, regulatory barriers to trade are present in the form of complicated and expensive standardization requirements for imported goods. The bad shape of the transportation infrastructure, most notably of the railways, is associated with higher freight costs, limiting the scope of international trade. Bulgaria's main export markets are fellow EU member countries (Germany, Italy, Romania, France and Belgium), followed by Turkey. Similar patterns are there also in imports, but with the more prominent role of the Russian Federation, which is the main energy supplier. The South Stream, a pipeline project that was envisaged to provide more energy security to Bulgaria and revenue from transportation tariffs, was cancelled in December 2014 by the Russian investors, due to non-compliance with the existing EU regulation, finally resolving a long debated issue.

CROATIA

GDP in 2014: EUR 42,922 million		
yearly growth rate: -0.4%	per capita: 10,130 EUR	by sector:
		agriculture 4.5%
		industry 26.6%
		services 68.9%
Population: 4,236 thousand	Human Development Index	Government position in 2014
Unemployment rate: 17.1%	HDI: 0.812 (rank 47)	-5.74% of GDP

A. POLITICAL FREEDOM



Free and Fair Elections

In the course of 2014, Croatian citizens were twice called to vote: in May, to the first regular elections for the European Parliament, and in December, to the first round of the regular presidential elections (whose runoff took place in January 2015). Parliamentary elections are scheduled for 8 November 2015. All elections have been carried out in a free and a fair manner, as usual. The level of diversification within political pluralism has increased not just by quantity but also substantially during the last year, as a consequence of the dissatisfaction of voters over the biggest political parties in the country, HDZ and SDP, which used to alternate in running the country ever since its independence in 1991. Presidential elections as of December 2014/January

2015 resulted in the surprise victory of the opposition candidate Ms Kolinda Grabar Kitarović, despite high popularity figures of the sitting president Ivo Josipović. Although the campaign took course in a correct way, by all participants, it was partially overshadowed by the protest of war veterans, who tried to establish themselves as an unconstitutional player per se, with some special rights reserved only for this particular group within the population.

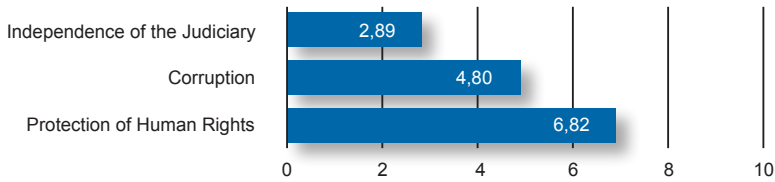
Absence of Unconstitutional Veto Players

Croatia doesn't have unconstitutional veto players. When it comes to dealing with corruption, the country is performing much better than the other Western Balkans states. The arrest of the Mayor of Zagreb and of a wealthy tycoon at the end of 2014 represented a continuation of the fight against high-level corruption. However, there is still large space for improvements, especially in the public procurement sector and regarding ties between politicians and private businesses. According to the Eurobarometer Survey, almost 94% of Croatians believe that corruption is widespread in the country. Also, the Catholic Church has significant influence in shaping public opinion in Croatia, which its representatives often use to put pressure on government decisions.

Press Freedom

The missing progress in improving the situation regarding freedom of media in Croatia led to stagnation in the Freedom House's assessment of media landscape, itself marked as "partly free". The ownership structure of the private media is still non-transparent, while harassment against journalists and self-censorship still happen. Still, the Croatian Journalists' Association is trying to pick up cases and bring them to court. The state media use to reflect the interests of the majority party in parliament. They are still on their way to develop into a non-biased source of information. However, Reporters without Borders' Press Freedom Index ranks Croatia 58 of 180 countries, putting this Adriatic country seven places higher than in 2014. This might be due to less violence towards journalists.

B. THE RULE OF LAW



Independence of the Judiciary

Many domestic, foreign or international observers reported on a considerable progress in gaining independence by Croatia's judiciary, but in the related numerical indexes that has yet to be properly evaluated. The system of justice has to a large degree been reformed to meet the high EU standards. In practice many changes are visible, making the judiciary more autonomous in education and training of judges or prosecutors, as well as in their appointments, promotion and evaluation. However, there is still a backlog of cases, especially regarding the pre-1995 property rights, with consequences onto the minority rights. Justice for war crimes is overall slow and still selective. In the anti-corruption sphere, the appellation case of the most known defendant, former PM Ivo Sanader, sentenced for corruption in the first instance, was by mid-2015 still dragging on without an end in sight.

Corruption

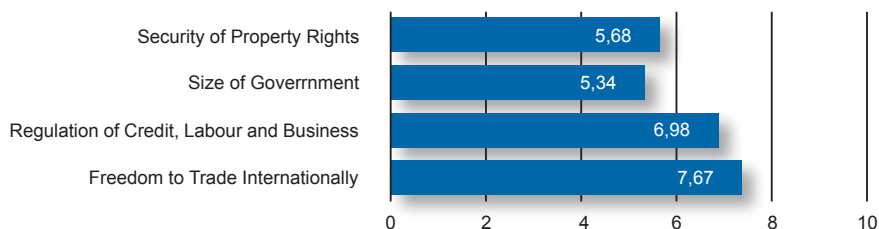
Not much has changed regarding corruption in Croatia between 2013/14 and 2014/15. The turnabout cases of the former PM and of the-then ruling party, sentenced for corruption resp. illicit financing, had by mid-2015 still been evaluated by higher courts. But in everyday life the beneficial effects of the reforms implemented prior to the 2013 accession to the EU are felt on every corner. Political party financing has been under better scrutiny of the anti-corruption authorities, civil society and media. Petty corruption has regressed or became less open and visible. However, according to Freedom House, in some towns, notably in Split and Omiš, there was a violent response by the mighty, towards

the investigative mood of the local media. In the Transparency International's Corruption Perception Index 2014, Croatia was ranked 60 (of 175). Its score remained 48.

Protection of Human Rights

Treatment of minorities in Croatia is variable. Some ethnic minorities (e.g. Italians or Czechs) enjoy rights above the average EU standards. On the other hand, the row over the official use of minority Serb Cyrillic alphabet in multi-ethnic towns in the east continues. Human Rights Watch noted in its World Report 2015 that "Serbs continued to face discrimination ... stripped of tenancy rights during the war, facing ongoing difficulties benefitting from the 2010 government program that permits the purchase of property at below market rates". A number of stateless Roma have difficulties accessing education, health care, social service assistance or welfare. Public manifestations of ethnic hatred, even though prosecuted, do not face across-the-board rejection as an anti-social behaviour. Gender discrimination is losing ground, even though the highly set target of 40% of women in parliament is still far away from reality (there are 24%). The posts of the President of Croatia and of the Deputy PM are currently held by women. In the otherwise flamboyant political rhetoric in Croatia misogyny is rare. There is an excellent protection of the right to privacy. LGBT Pride Rallies are held peacefully and are larger in the number of participants, while the referendum-installed constitutional ban on same-sex marriages was circumvented by the subsequent law on civil unions. During the first half of 2015, Croatia did not prepare well for the possible future influx of Syrian refugees should Hungary complete its border fence towards Serbia.

C. ECONOMIC FREEDOM



Security of Property Rights

Private property rights are overall well protected in Croatia. However, problems of the judiciary system are similar to the ones in other countries across the region. They are concentrated in weak judicial independence and, partiality, in court proceedings. Still, there is a substantial degree of integrity of the legal system, due to strict implementation of court decisions by authorities. Several high profile corruption cases have been litigated, including the mayor of the city of Zagreb. However, another major problem is the sheer length of litigation processes: enforcement of contracts is a process with many procedures of long duration, especially in the segment of resolving insolvency. The process of legalization of real estate property is underway, making the situation regarding proprietorship of objects clearer and strengthening property rights. Ban on acquisition of agricultural land by foreign nationals is still present, applying even to the EU nationals, for whom it is expected to be lifted after 2020.

Size of Government

Public spending in Croatia is broad and lavish. Overall government consumption in 2014 was at 46.9% of the GDP. Recent high deficits and continuing recession since 2008 have accumulated high public debt of 81% of GDP. Because of the elevated deficits, Croatia has been put under the Excessive Deficit Procedure by the European Commission. It is not expected to be terminated any time soon. An encouraging sign is that the year 2015 is the first one with

projected economic growth since the wake of the recession in 2008. Although low, the growth is finally expected to moderate due to Eurozone recovery. The increase in exports is not strongly connected to growth, because a lion's share of it is not the result of increased production, but a simple re-export due to the Rotterdam effect, i.e. to the shifting of transportation routes, following Croatia's EU accession. State owned enterprises (SOE) participate in the economy by using a distortive amount of resources. Although the efficiency of SOEs has improved through constraints in the wage bill and in the number of employees, to have minimized the fiscal burden, some of them are still posing a major problem, most notably the motorways and the railway system in the field of public infrastructure, or Petrokemija in other fields. SOE management is under political influences. Companies are used for political gains. Corporate income tax is at 20%, while personal income tax is progressive, with the rates of 12%, 25%, or even 40% for the top bracket earners. VAT is also at a very high level of 25% (the highest one allowed within the EU), with lower rates of 13% or 5% for certain products. High social security contributions, coupled with the income tax, lead to a high payroll tax wedge of 41%, much higher than the OECD average.

Regulation of Credit, Labour, and Business

Economic activities in Croatia are generally liberalized. There are but many areas in which business regulation should be improved in order to diminish administrative procedures which overburden entrepreneurial activities. Getting electricity is costly, while obtaining construction permits is not only costly but also associated with lengthy procedures (10 months on average). Corruption within the system is present, but some progress was made in tackling the problem. On the other hand, to comply with tax regulations is not too demanding, while starting a business is relatively quickly done and is affordable. The Labour Code has had both its flexible and its rigid solutions. The new Code as of August 2014 made the working hours' regulation more flexible. The new regulation abolished mandatory retraining or reassignment of redundancy workers by the employers and abolished the maximum threshold

on fixed-term contracts. The workweek maximum length was slightly increased to 50 hours (from 48). The work of those employment agencies that are leasing workforce, which hadn't been recognized by the previous law, was regulated. The minimum wage remains high (52% of the net average wage).

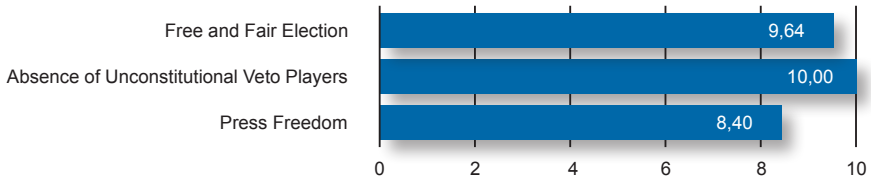
Freedom to Trade Internationally

Trade freedom is respected in Croatia. Since July 2013, when Croatia became the newest EU member, it has been implementing the common EU trade policy. Consequently, tariffs on imported goods are low. However, non-tariff trade barriers in the form of regulations and standardization of imported goods continue to pose obstacles to free trade. Trade is hampered by high transportation costs: although the quality of roads is satisfactory, ports and especially railroads pose significant bottlenecks. Although Croatia left the Central Europe Free Trade Area (CEFTA) upon its EU succession, it did not change the treatment of CEFTA goods, due to the signed Stabilization and Accession Agreements, while CEFTA countries were able to apply tariff rates on Croatian goods. Controls on inflow of short-term capital remain in action. Main trade partners of Croatia come from the EU or CEFTA: Italy, Germany, Slovenia, Serbia and Bosnia and Herzegovina.

ESTONIA

GDP in 2014: EUR 19,934 million		
yearly growth rate: 2.9%	per capita: 15,110 EUR	by sector:
		agriculture 3.6%
		industry 29.2%
		services 67.2%
Population: 1,319 thousand	Human Development Index	Government position in 2014
Unemployment rate: 7.4%	HDI: 0.840 (rank 33)	0.63% of GDP

A. POLITICAL FREEDOM



Free and Fair Elections

People from Estonia enjoy high level of political pluralism and free and fair elections on all levels. Elections are perceived as the most important tool for shaping country’s policies. Estonia has unicameral parliament called *Riigikogu* whose members are elected for four year terms. Although the ruling Reform Party lost 3 seats in a Riigikogu at the last elections held in March 2015, they formed the government once again by making coalition with the Social Democratic Party and with the Pro Patria and Res Publica Union. Amendments to the Political Party Act, adopted during 2014, such as lowering the number of members needed to establish a party, reduced deposit required for participation in the elections, or improved policy on public financing of political parties, all

aim to increase transparency and competitiveness of elections. However, non-citizens still do not have suffrage in the parliamentary elections, unlike in the local ones. That largely excludes those ethnic Russian residents of Estonia with unregulated citizenship.

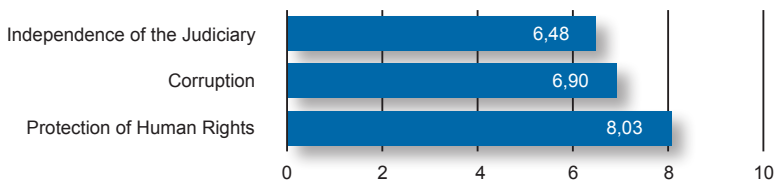
Absence of Unconstitutional Veto Players

Complete absence of the unconstitutional veto players is allowing democratic mechanisms in the country to work smoothly. According to the Freedom House, Estonia is one of the least corrupt countries in the European Union. However, several corruption affairs in last two years, concerning abuse of power, blurred that picture. Civil authorities hold an effective control over all security forces in the country. It is currently perceived that the only threat to national security comes from Russia and its tendency to “protect Russian speakers” in Ukraine, considering that Estonia also has significant Russian ethnic minority population.

Press Freedom

The press in Estonia is free. A large variety of independent and unbiased media together with the efficient judiciary and democratic procedures are ensuring that - according to the Reporters without Borders - Estonia is one of the countries of the world with the freest press. An ongoing problem and a discussion in Estonia is about the decision of the Supreme Court, upheld by the European Court of Human Rights, that online portals could be held liable for comments on their sites.

B. THE RULE OF LAW



Independence of the Judiciary

The system of justice in Estonia is free from political pressure. Nonetheless it has its own problems. Between 2014 and early 2015, some of its major shortcomings – slow enforcement of law, long trials and pre-trial detentions and overcrowding of prisons – were seriously tackled by a set of new laws. Those included changes to the penal code, Code of Criminal Procedure, Criminal Procedures Act and internal prison code. Penal code was simplified. It reduced the number of crimes by transferring some to the responsibility of misdemeanor courts. Criminal procedures are to be speeded up: the maximum length of a pre-trial detention was cut to four months. To it, surveillance measures in criminal investigations will undergo stricter procedures and scrutiny to prevent abuse. Various measures have added to the simplification and modernization of the system, e.g. extended use of IT and more flexible hire of temporary experts. Not just in the criminal justice system but also in other areas of judiciary the first results were visible already in 2014: the average length of trial in civil and commercial cases was shortened. However, results in the misdemeanor cases are yet to be seen. Measures were also taken to mitigate the overcrowding of prisons. The number of prisoners is decreasing year after year. Standards regarding minimum space per prisoner have been improving with the changed Internal Rules of Prison – the mandatory minimum of 3 sqm is achieved, while the recommended EU standard of 4 sqm will expect- edly be reached in 2017.

Corruption

Estonia has advanced only a little bit in the Transparency International's Corruption Perception Index between 2013 and 2014, from the place 28 of 177 (score: 68) to the place 26 of 175 (score: 69). Nevertheless it is the least corrupt of all countries admitted into the EU in 2004 or later. Extensive liberalization of economy, as well as simplification of administrative procedures by introduction of e-government, both have largely contributed to this success. But some areas still are dark spots, where the old ways inherited from Soviet era nourish partocracy, secret political deals, unaccountability and disregard of

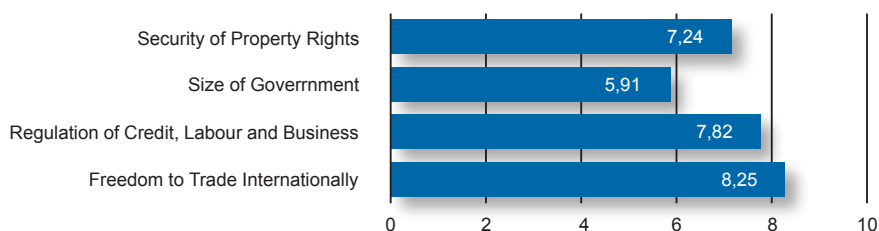
public interest. Citizens perceive political parties as the most corrupt. Therefore the focus of the anti-corruption struggle currently is on regulating, careful monitoring and cross-checking of the political party finances, the assets of politicians and various chains that link decision makers to their donors. In the new anti-corruption strategy 2014–2020 special attention is paid to broadest possible public information, corruption awareness and citizen cooperation. For that purpose, government agencies will also reach out to Russian-language media, NGOs and online communities. A culture of prevention of corruption, including whistle blowing, will be supported. Fighting corruption in the security sector will be of growing importance, for preserving both the external and the internal freedom that Estonia enjoys. Besides, during 2014, attempts have also been taken to make sports, as well as the so far meagerly regulated lobbying sector, cleaner of corruption.

Protection of Human Rights

Estonia has further improved its anyway high standing regarding human rights. It has reached the highest EU standards and, besides successful struggle against corruption, in this field too has been a leader among newly accessed member states. Freedom of thought and expression, of the media, or of religion or art or academic research, is well kept and respected. Access to information by the public or the entire relationship between the citizen and the state is built on different foundations than the one in Soviet times. Serious attempts are made to keep security forces checked by society. Sexual minorities enjoy better protection than elsewhere in Baltics. Among other measures, the Civil Cohabitation Act has been carried. Civil society organizations play a crucial role in shaping and safeguarding the system. In some of the remaining disputable fields, such as identity politics, changes have started. The Strategy of Integration and Social Cohesion in Estonia 2020 was adopted in 2014. It will be implemented by a “steering group” of governmental institutions and in cooperation with the EU. The already advanced yet recently slowed down integration of the Russian-speaking minority into citizenship and social life of the country is to continue via number of different policies, while plans are also made on how

to facilitate the economic migrants' integration. Holocaust denial has been increasingly opposed by the officials. Yet it survives in numerous niches, either through history exhibitions or via activities of the far-right political party EKRE, which made its way into the Parliament in 2014. Meanwhile, some other elements of the prevailing narrative on the WW2, such as the role of local Nazi collaborators, still require a review and a frank debate.

C. ECONOMIC FREEDOM



Security of Property Rights

Property rights are well respected in Estonia. The state has the right of expropriation in certain cases in the public interest (mostly for building of public infrastructure), but this right is exercised and the property is exchanged for a market price compensation. The judiciary is independent and integrity of the legal system is not undermined. However, impartiality is not always observed in court rulings. Another weak link of the judicial system is enforcement of contracts, which is burdened with long processes and procedures, which make enforcing contracts in Estonia time-consuming and expensive. The police are mostly reliable and business costs of crime are low.

Size of Government

Estonia has a government which is limited in scope. Government revenues stood at 38% of the GDP in 2014, which was lower than in most EU countries. Public debt was among the lowest in the world, below 10% of GDP, due to frugal budgetary policies prior to the economic crisis and to a strong

package of fiscal consolidation implemented in 2009 to eliminate government borrowing. Thereafter, since 2010 budget has been almost balanced. Robust economic growth followed, coupled with fall in the unemployment rate. Estonia was the first country in Eastern Europe to adopt the flat tax system, which is still used, albeit with minor progressive characteristics, due to limited basic exemption of the personal income of 1728 EMU (i.e. this amount of income is not taxable, but is included in the tax base for social security contributions). Personal income tax has been steadily decreasing during the previous decade, from 26% in 2004 to 21% in 2014, and was further lowered to 20% in 2015. The tax wedge stands as high as 40% of labour costs (slightly above the OECD average of 36%) due to high social security contributions for pensions and healthcare. Only a handful of companies are state owned, mostly in the field of transport: the main port, the railway system (which was renationalized), airport, the national post and the lottery. Subsidies are low, standing at 0.9% of the GDP.

Regulation of Credit, Labour, and Business

Estonia has got business regulation that makes it, overall, a very much business friendly environment, which is the main reason why it is a home for many successful companies who grew up to become important international market players, mostly in technology sector, including IT, and why it is also among the countries with the highest number of entrepreneurs per capita. Starting a business is easy and cheap and compliance with tax regulation is among the best in the world, due to simple procedures and high usage of electronic tax filing. Obtaining construction permits and getting electricity is quick, although the latter could be expensive. There are few administrative or licensing requirements in conducting a daily business, which helped bring corruption to a low level. State institutions show a strong inclination to digital era tools, instead of the old fashioned paperwork – an innovative example of which is the electronic residency: basically, a foreign national entrepreneur residing abroad can easily register and run a company in Estonia, under its laws. Labour regulation is characterized by flexibility of the workplace, with little requirements and

costs for redundancy workers, with short notice periods (one to three months), and with low severance pay (a monthly salary). Maximum working week is set at 5 days, with prolonged workweeks in case of workload increase, but with restrictions on the night work. Compulsory military service of 8 – 11 months is still present. The monthly minimum salary is approximately 40% of the average wage, which is at the higher end of its proposed level by the World Bank. It was increased approximately 10 percents as compared to the previous year.

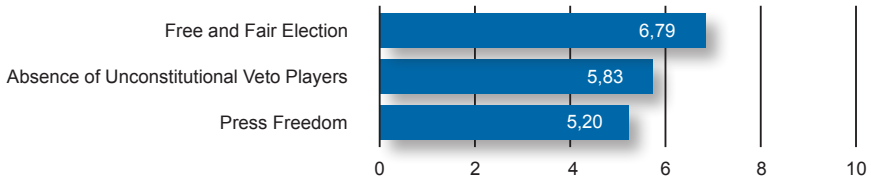
Freedom to Trade Internationally

International trade fosters production specialization, which is very important for small economies because seldom can they reach economy of scale. Therefore, it is not strange that Estonia, as a small economy, has been oriented to foreign trade more than many other European countries. Since the liberalization policy began in the '90-ies, it had pursued very liberal trade policy which had eliminated almost all tariffs and other free trade restrictions on such a scale that when it had joined the EU, in order to adopt the common European trade policy Estonia had actually to increase the overall level of its tariffs. This is in a sharp contrast to other new EU members, which all had to lower their tariffs, whereas the EU common trade policy was more liberal. Furthermore, net export has been a major source of growth of the Estonian economy after the deep recession in 2009. A good transportation infrastructure (apart from poor railway connections) is a strong contributor to fostering trade links and free trade, by significantly decreasing costs. Quick and easy administration allows for goods to be imported or exported with great efficiency, due to the minimum paperwork and costs (only 3 or 4 documents and just 5 to 6 days). Estonian main trade partners are its Nordic and Baltic neighbors, as well as Germany and the Russian Federation.

GEORGIA

GDP in 2014: EUR 12,436 million		
yearly growth rate: 4.8%	per capita: 3,330 EUR	by sector:
		agriculture 9.1%
		industry 21.8%
		services 69.1%
Population: 3,730 thousand	Human Development Index	Government position in 2014
Unemployment rate: 14.3%	HDI: 0.744 (rank 79)	-1.83% of GDP

A. POLITICAL FREEDOM



Free and Fair Elections

Georgia continues the practice of relatively free and fair elections established in 2012 when the first peaceful and democratic transfer of power since its independence in 1991 took place. Local elections were held in June 2014 and citizens of the 12 cities had opportunity to directly elect their mayors, in 11 of them for the first time. The ruling Georgian Dream movement candidates won in every city, confirming its current dominance. However, they were accused by the opposition parties and few other organizations for abusing of the administrative resources, pressure on opposition candidates to withdraw, harsh rhetoric and the arrest of the campaign manager of the United National Movement, the main opposition party, just before the runoff. Since

2013, Georgia is a constitutional democracy with the unicameral parliament which has 150 seats.

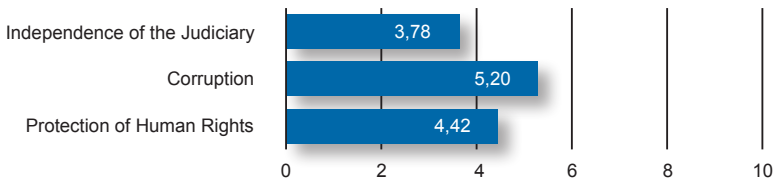
Absence of Unconstitutional Veto Players

There are no unconstitutional veto players in Georgia. Although there were some accusations of the corruption by the high-level officials, government is dealing with the corruption effectively. However, former Prime Minister Bidzina Ivanishvili and his influence on the government is subject of speculation in the country. Allegedly, he influenced the changes of some ministers in the government in November 2014. The Georgian Orthodox Church is also perceived to be very influential in shaping public opinion and affecting the country’s policy. This is especially emphasized on some sensitive topics such as the position of LGBT population, or education.

Press Freedom

Press freedom has been granted by the constitution in Georgia, but broadcast, print and online media outlets could only partly exercise this right. Media scene is pluralistic and diverse, expressing wide variety of views. Still, reporting is often biased in favor of either the governing or opposition parties. Also, according to the Freedom House, the main regulatory body for broadcasting media, the Georgian National Communications Commission, is often criticized for lack of independence from political elites. Although becoming less common, harassment and intimidation of journalists resumed throughout the year.

B. THE RULE OF LAW



Independence of the Judiciary

There was some progress towards independence of judiciary. Numerous institutional reforms began in 2014 and continued during 2015, including constitutional reshaping of the role of judiciary, increasing the independence and accountability of the Prosecutor's Office and amending the Law on Common Courts so as to secure more objective criteria in selection and appointment of judges. In the area of criminal law, pre-trial detention was shortened, more precise rules introduced into the plea bargaining system and the victims' rights improved. Courts prosecuted and sentenced more former politicians than before. Some complain that those proceedings have so far encompassed almost entirely the officials of the previous government, thus raising suspicion that mere political retribution was on. The problem of impunity of politicians might not be erased that easily. As Human Rights Watch noticed, lack of accountability of law enforcement officers for human rights abuses is still a problem.

Corruption

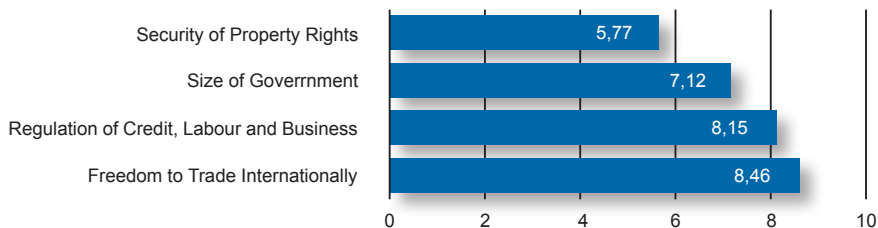
Advancing further during 2014, Georgia has become the least corruption-struck country in the region of Caucasus and Black Sea. Transparency International's Corruption Perception Index 2014 ranked her 50 (of 175 countries), with the score 52 (of 100), ahead even of 7 EU members. Freedom House quoted a local research which found that only 2% of citizens had put corruption among the three main problems of the country. Economic liberalization coupled with bold measures to clean the most vulnerable parts of the public sector has created a sound basis upon which various sophisticated anti-corruption strategies are developed and implemented in cooperation with the EU or international institutions. Since relatively free Georgian media and developed civil society also contribute to the progress, corruption is besieged from many sides. The problems still persist within the political sphere and administration. Proper procedures for transparent appointment of public officials are still lacking. Tender procedures for big infrastructural investments or for public procurement could improve. In future, a disturbing factor could be in that the

current government has concentrated on revealing corrupt activities only of the previous, pre-2012 administration, while neglecting the present.

Protection of Human Rights

Georgia violates human rights less often than any of her neighbours. Arbitrariness by law enforcement officers - together with poor judicial protection thereof and meager space for civil society's overview of the security sector - is among the biggest problems. Right to privacy is insufficiently protected. Protection of people with disabilities and especially the overall position of sexual minorities raise concerns, mainly due to poor implementation of the laws against discrimination. A lot more could be done for safety and equality of women. Although their participation in high politics is more visible, in local governments nothing has changed in a decade. Issues of child brides, or domestic violence, require more attention. There is still gender discrimination at workplace. On the other hand, through new legislation and in practice, children are increasingly well protected against forced labour or militarization. Freedom of thought, assembly and association is reasonably well maintained. In 2014 there was some progress regarding ethnic minority rights, notably in education. But, in spring 2015, the European Commission warned of a trend of rising religious intolerance in Georgia, especially of Islamophobia. Small religious groups complain that Georgian Orthodox Church still enjoys a preferential tax or other status.

C. ECONOMIC FREEDOM



Security of Property Rights

The legal system in Georgia is not yet fully developed and independent. Therefore it lacks integrity. This causes problems in the area of property rights. Weak judicial independence allows for vested-interests groups' and political elite's influence on court decisions. Furthermore, courts can also be partial and selective in their proceedings, benefiting the side that has better political or business connections. Property rights are often infringed and are not well respected, especially in areas where they are not well defined, such as in agriculture. The process of registering property (especially land), although usually fast and free, can be ignored by the authorities, while the cadaster office is inefficient. Possession of land for natural persons is possible only for domestic ones. Legal entities do not face such discrimination. Furthermore, process of enforcing contracts is associated with lengthy procedures incurring high costs, which, coupled with the above mentioned problems in court functioning, limit private property protection.

Size of Government

General public expenditures in Georgia, standing at 29.7% of GDP, are low as compared to most European countries but stand in line with other Commonwealth of Independent States (CIS) countries. A short and relatively mild recession in 2009 was followed by high growth rates, with envisaged growth of 5% of the GDP in 2015, even taken the negative shock of the slowing down of Russian economy. Existing budget deficits are still present, but sustainable. Public deficit is low, standing at 35% of GDP. Low public expenditures allow for low levels of taxation. The tax system relies on flat taxes: 20% for income tax and 15% for corporate taxes. The tax wedge on labour is low due to abolishing of social security contributions in 2008, which were as high as 31% of the gross wage in the year 2000. Social pensions to the retirees make the bulk of social transfers. Although large scale privatizations took place, the state still owns companies across the country, in utility services but also in agriculture and industry. These companies do not perform well in the market and receive direct or indirect subsidies which burden state finance: projected subsi-

dies and grants made up almost 8% of the public revenues in 2014. Partial or full scale privatization of some of those companies should address the issue, having in mind the example of the state railways (passenger system and infrastructure are operated by the state company, while the freight is provided by licensed private companies). Excise duties on tobacco products and alcohol beverages were increased in order to provide fiscal room for pension increases and education wage bill. However, these steps were ad hoc, made as results of political will. More neutral rules need to be implemented, such as social pensions' regular indexation and limiting of the teachers-to-students ratio.

Regulation of Credit, Labour, and Business

The business environment in Georgia is positively oriented towards entrepreneurial activities. Georgia has been twice designated by the World Bank as the reformer of the year among all the similar countries. Good business environment coupled with low taxes was the key to rapid economic development. Starting a business is fast and inexpensive, as well as obtaining a construction permit. Getting electricity is not time consuming, yet it is expensive. Tax procedures are still complicated, although the usage of electronic payments is improving the situation, however long working hours are necessary in order to comply with the complex taxation rules. However, administrative requirements and associated bureaucracy costs, coupled with the still present corruption, pose burden on businesses. Labour regulation is overall flexible. The minimum wage is very low, since its level hasn't been increased for almost two decades. Severance payments are low and equal for all workers regardless of their years of tenure, while collective bargaining is concentrated mostly in the public sector. However, long mandatory military conscription of 18 months poses significant burden on businesses and citizens alike. There are obstacles to getting a credit by banks for small and medium size (SME) enterprises. However, the establishment of a development financial institution, envisaged by the government, was postponed because there was no definite evidence that this would have improved the situation.

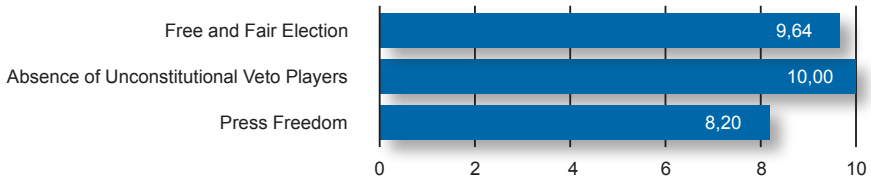
Freedom to Trade Internationally

Freedom to trade is mostly respected. Import tariffs are low - 0% for most products, and 5% and 12% for some agriculture and construction products. Bureaucracy procedures regarding import or export are not excessive. However, regulatory trade barriers in the area of standardization of imported goods remain an obstacle to trade, incurring high costs. Main trade partners of Georgia are countries from the region, such as Azerbaijan, Armenia, Turkey and Ukraine, followed by the EU countries and China. Trade connections with the Russian Federation exist, but they are at a lower level than expected, even after the lifting of the Russian trade embargo on agriculture products in 2013. Association Agreement with the EU, that was signed in June 2014, provided a broad instrument for further trade liberalization through Deep and Comprehensive Free Trade Area (DCFTA), whose provisional implementation commenced in September 2014.

GERMANY

GDP in 2014: EUR 2 913 770,023 million		
yearly growth rate: 1.6%	per capita: 35,930 EUR	by sector:
		agriculture 0.9%
		industry 30.8%
		services 68.4%
Population: 81.197 thousand	Human Development Index	Government position in 2014
Unemployment rate: 5.0%	HDI: 0.911 (rank 6)	0.31% of GDP

A. POLITICAL FREEDOM



Free and Fair Elections

Voters have possibility to change the government in Germany through free and fair elections. Germany is a parliamentary democracy with the bicameral federal parliament, the Bundestag (Federal Diet) as the lower house and the Bundesrat (Federal Council). There is a wide range of political parties. There is a 5% threshold that was designed to prevent a fragmentation of the parliamentary system. However in 2013 this barred 15.7% of the voters from proper representation (including 4.8% of those, who voted for the liberal Free Democrats). This is the reason why the threshold is more and more questioned and has been abolished in several local elections and the election to the European Parliament.

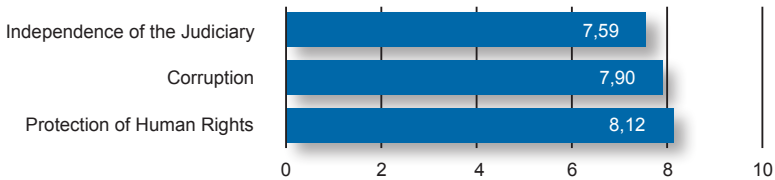
Absence of Unconstitutional Veto Players

There are no unconstitutional veto players in Germany. Corruption in the country is rare and the police and military are under effective civilian control. Political violence is rare, although it may increase due to tensions over the question of immigration.

Press Freedom

Freedom of the press and expression is guaranteed by the constitution and highly respected. The country is on rank 12 of the international Press Freedom Index. However, some limitations do exist to the freedom of expression. Thus, holocaust denial and calls for the overthrow of the liberal democratic order. The state does not have a monopoly over television and broadcast.

B. THE RULE OF LAW



Independence of the Judiciary

German judiciary is independent from the executive branch of power. Especially the Bundesverfassungsgericht (Federal Constitutional Court) has shown great independence in its ability to check the political power of parliament and government and is the most trusted institution of the country. The country usually does very well in all comparative human rights indexes. However Amnesty International noted some minor problems. The authorities, for instance, failed to address obstacles in the effective investigation of allegations of ill-treatment by police. None of the federal states established an independent complaints mechanism to investigate allegations of serious human rights violations by the police. There is a high level of protection of personal

data. These protections are guaranteed by the constitution, since the Constitutional Court developed the right to informational self-determination.

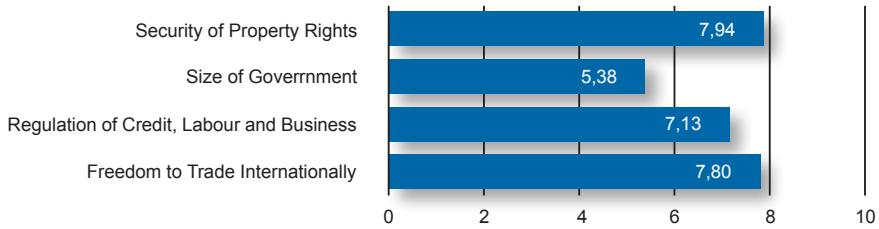
Corruption

Germany's economic system, with its market oriented policies, offers fairly little incentives for corruption. Corruption is effectively persecuted. The country ranks fairly high on Transparency International's Corruption Perception Index with rank 12 (2013: 15) of 175. However, Transparency International has also noted that the hidden influence of lobby groups on the political process is in Germany much higher than in most other Western European countries, therefore the country should do more about laying open connections between politicians and lobbyists.

Protection of Human Rights

Germany respects the highest EU, OSCE and UN standards of human rights. Freedom of speech and media (including Internet), of assembly and gathering, academic freedom and many other are a norm. There are, of course, also reasons to worry. Obviously Germany secret services co-operated in the transfer of protected personal data to US-security institutions. Germany's foreign policy usually stresses the importance of human rights internationally. Nevertheless government from time to time deviates from this course in order to maintain the country's position as a leading arms exporter in the world. Deliveries of arms to countries that violate human rights systematically (e.g. Saudi Arabia) are very much critically debated. It is also feared that the huge influx of refugees from civil-war-torn Syria will lead to more restrictive policies against asylum-seekers and migrants.

C. ECONOMIC FREEDOM



Security of Property Rights

Property rights in Germany are overall well respected. Judiciary is mostly independent from outside influences and its proceedings are implemented. The process of law enforcement sometimes tends to be bureaucratic, but is – on the whole – efficient. There are, however, some regulatory practices that restrict the use and free change of real property ownership. For instance, rent controls have been introduced recently. A statutory minimum wage is undermining the right of contract. A new inheritance law was rejected by the constitutional court and it is feared, that a new draft by the government may discriminate against family businesses.

Size of Government

The state in Germany is both extensive and expensive and the present government does very little to confront the long-term consequences of this governmental over-stretch. While it is clear that the amount of spending will become increasingly unsustainable in the face of demographic change, Germany has done some rather counter-productive “reforms” in recent times, such as the increase of the retirement age. At the moment the perception of this problem is severely distorted, since the budget is about to become balanced due to massive new revenue. This, however, is only the side-effect of the ECB’s response to the Euro crisis. Artificially low interest rates and the comparative solid state of the economy have produced a boom that almost certainly will end soon. The problem of government spending, then, will show its true virulence.

Regulation of Credit, Labour, and Business

Business regulation in Germany is overall business friendly, however bureaucracy cost can be high. The new minimum wage and the regulation of temporary employment may become very problematic in the light of rising immigration. In many sectors of the economy regulation is already thwarting business. Only the artificially low interest rates have prevented the building sector from recession since the costs of environment regulations is excessively high in comparison to other European countries.

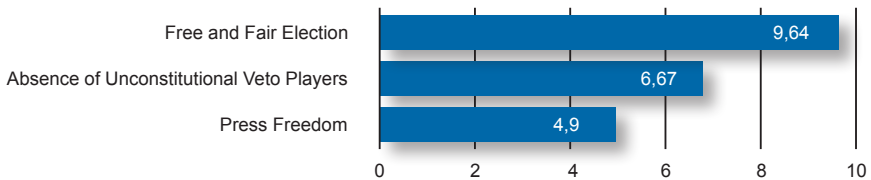
Freedom to Trade Internationally

As one of the founding members of the European Union, Germany, with its strongly export-oriented economy, has been oriented to the international and the common market. Tariffs are low and in accordance with the EU common trade policy, and other regulatory trade barriers, such as accreditation, quotas and standardizations are few or easy and cheap to obtain. Oddly enough, public opinion increasingly seems to be turning against free trade, as the mass demonstrations against TTIP have shown. It is not yet clear how this change will affect the trade policies of the country. This policy of fairly open borders also reflects the country's comparatively liberal immigration laws, which have made the country the most popular destination for migrants. As a consequence of the huge wave of migration from Syria this may be handled more restrictively in the future.

GREECE

GDP in 2014: EUR 178,965 million		
yearly growth rate: 0.8%	per capita: 16,280 EUR	by sector:
		agriculture 3.5%
		industry 15.9%
		services 80.6%
Population: 10,993 thousand	Human Development Index	Government position in 2014
Unemployment rate: 26.5%	HDI: 0.853 (rank 29)	-3.91% of GDP

A. POLITICAL FREEDOM



Free and Fair Elections

In general, the rather high rating of Greece is justified. Compared to former times, the Hellenic Republic currently has a quite open and pluralistic political landscape with widely independent political parties representing every political ideology. There are high constitutional obstacles for banning political parties. Elections are widely free and fair. However, parties are obliged to print their own ballot papers and distribute them to polling stations at their own cost. This discriminates smaller parties relative to partially state-funded big parties. If one takes the frequency of going to the polls as an indicator of political freedom, Greeks were among the most free in 2015, being called to the national ballot box three times – twice for parliamentary elections and

once for a referendum, in which the Greek people found themselves in the rather unusual position not only of having to vote on a highly technocratic and complex matter but also on an agreement which was not valid any more at the time of the vote, because European leaders had withdrawn their proposal. There were also doubts about the clarity and neutrality of the phrasing of the referendum's question, thus constraining the alleged political freedom that comes with a plebiscite. In the only seven months lasting span of the first Tsipras government, the administration took no initiative of abolishing the Greek peculiarity of "enhanced" proportional representation, which bolsters the strength of the leading party by a bonus of 50 extra seats in Parliament. Although this non-proportional seat allocation is highly questionable with regard to the accuracy of political representation and political freedom, no governing party has an incentive to repeal a law which had just secured it fifty additional seats. It must be added that the current complex proportional system which favours the winning party was imposed many decades ago, when only two big parties existed. This system was supposed to give exit in a situation when the score between the two major opponents is tied. This way, the first party could get a confidence vote and form a government even with a short head. Today, one-party governments belong to the past and therefore, this anachronistic system should be substituted by a new functional one which is more proportional and more democratic.

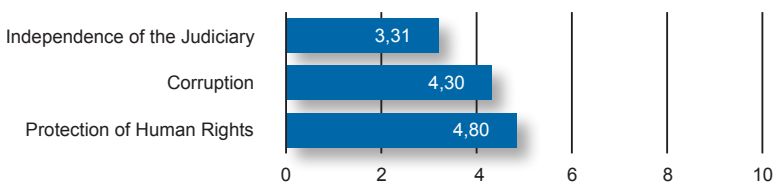
Absence of Unconstitutional Veto Players

Another factor which limits political freedom is the ubiquitous power of the Greek Orthodox Church. Due to the prevailing influence of the church, quite a lot of taboos still exist in Greek society which cannot be tackled by politics. Examples are LGBT equality, various privileges for the church itself as well as the conflict with Macedonia which also has a religious element. To make matters worse, some of the church's most prominent representatives constantly and publicly interfere in the process of shaping the public and political opinion. It is estimated that around twenty percent of the Greek electorate can be directly influenced by statements from the clergy.

Press Freedom

With a score of 4.90 for “Press Freedom”, Greece ranks among the worse of the Balkan countries – there is quite a number of countries doing better (Croatia, Serbia, Montenegro, Bulgaria) and basically only FYR Macedonia doing worse than Greece. Ever since the outbreak of the crisis, Greece’s score with regard to media freedom has constantly dropped to its current nadir at 4.90. There are serious problems with the legal framework itself. Technically speaking, all TV stations transmit illegally because since 1989 (when TV frequencies were opened to private corporations), no bidding procedure has taken place and no fees have been paid to the state. The SYRIZA government pledged to propose a draft law to put an end to this chaos, redistributing frequencies from scratch and asking the holders to retroactively pay the bill since 1989. This would increase public revenue and legal security but it would be very expensive for the media enterprises which face severe economic threats due to the crisis. Also in 2015, quite a significant number of journalists were physically attacked by members of neo-Nazi “Golden Dawn” (“*Chrysi Avgi*”). Golden Dawn’s leaders and members openly target journalists and call their supporters for “action”. On the other side, anarchists have attacked reform-oriented journalists and politicians (such as Kostis Chatzidakis, MP, and Konstantinos Bogdanos from SKAI TV), causing injuries. ESIEA, the Greek journalists’ union, has banned membership to several journalists who openly disagreed and criticized the union’s conformist position, showing severe reluctance towards reforms.

B. THE RULE OF LAW



Independence of the Judiciary

In the Freedom House's Freedom of the World report for 2015, Greek judiciary is described as "independent". However, other findings show that Greece is still below EU standards in the field. Fraser's Economic Freedom of the World report actually shows decline after 2000. Friedrich Naumann Stiftung's extensive interviews with Greek researchers into the field, held between 2014 and 2015, showed that there was a lot of - mainly indirect - political, business or other outside influence on courts. Corruption is also a serious problem. Backlog of cases and - sometimes deliberately - prolonged trials undermine citizens' trust in the judiciary. The situation in 2014 has only slightly improved as compared to 2013. To it, conditions in prisons are bad, with a huge overcrowding and occasional maltreatment of detainees. In detention centers for refugees and asylum seekers, the situation is very bad. Living conditions are often inhumane, while the bureaucratic proceedings with asylum applications are slow and slipshod.

Corruption

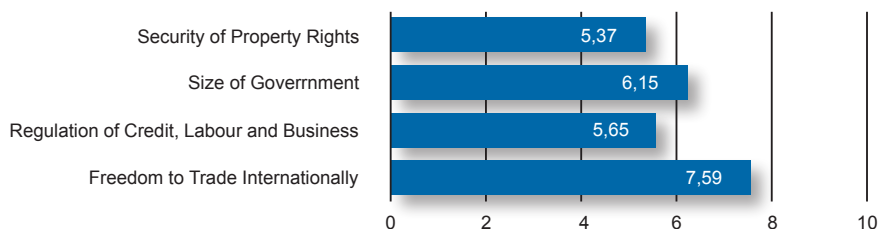
Greece is better than the world average in fighting corruption. But as a full member of the EU since 1981 it is, together with Italy, Bulgaria and Romania, at the bottom of the list of countries with which it should compare. It was ranked 69 out of 175 countries or territories surveyed in Transparency International's 2014 Corruption Perceptions Index (with the score 43). During 2014, the government initiated some reforms, but which, as analysts reckoned, only "cracked the surface" of the widespread system of oligopolies, professional licenses or otherwise closed markets, crony business activities, furnished public procurement, tax evasion or numerous other manifestations of inequality at the market. The system that resulted in plenty of rich individuals or other well-off citizens, alas, who failed to adequately contribute to the public revenue, resulted in a gigantic debt, which endangered the future of Greek economy and finance. The new, ultra-left oriented government, which took office in January 2015, was promising to revolutionize the system, make the wealthy pay their share of the tax burden and abolish privileges. However,

they represented some special interests as well, thus did not tackle any of the deep causes of crisis. It was only upon the failure of their anti-austerity crusade and their agreement with creditors as of mid-2015, on the new reform packages, that some opportunities for corruption or other irrationalities of the system started being eliminated, such as via reducing the number of tax deductions or exemptions.

Protection of Human Rights

The human rights situation in Greece has deteriorated, mainly due to the poor treatment of refugees by the police and immigration authorities, which occasionally behaved in an openly unlawful way. Besides, austerity measures and attempts at economic reforms during 2014 led to some previously acquired “second (or third) generation” rights being limited, such as in the fields of employment or public broadcasting. Overall, the respect for human rights in Greece is variable. Academic freedom and respect for civil society organizations are both highly valued. Thus universities, as well as some adjacent think tank NGOs, are the places of free and innovative social thinking. Some are among rare “reservations” of intellectual liberalism, i.e. rare places where calling someone a liberal is not an insult. Freedom of religion is guaranteed, but Greek Orthodox Church still enjoys favourable treatment, government subsidies and tax exemption. Even the radically socialist Syriza government did not change that. Building of a mosque in Athens faces fierce opposition. Women are still unequal, discriminated at the workplace and underrepresented in politics. Sex trafficking persists. Homophobia still prevents the regulation of same sex unions. But there were some improvements in the field in September 2014, with the adoption of anti-discrimination law. Penalties for the attacks motivated by ethnicity or by sexual orientation of the victim were raised. A ban was passed on Holocaust denial. However, the adjacent ban on a denial of the WW1 genocide against Armenians in Turkey was, during 2015, questioned in front of the European judiciary.

C. ECONOMIC FREEDOM



Security of Property Rights

Private property is not well respected in Greece, a trait similar to other regional economies. Court proceedings are not impartial and connections with political or business elite can influence court decisions. Weak enforcement of contracts poses a serious problem due to the high number of legal procedures involved and to extremely long deadlines. Poor police reliability negatively influences the level of business costs of crime in the country. Procuring real property in Greece for non-nationals is a complicated and expensive process, burdened with various fees and a high transfer tax. In certain fields, a prerequisite for obtaining real property is permission by the local council. The national land register, which could alleviate uncertainties, is under construction. Therefore, weak institutions remain at the core of the problems of property rights in Greece.

Size of Government

The size of government is still substantial in Greece, with the general government expenditure in 2014 standing at 46.3% (a decrease from 53.7% in 2011, due to the meanwhile imposed austerity measures). After the long recession, Greece finally returned to the path of economic growth, although the growth has slowed down in 2015 due to the political tensions heated up by the Greek government's populist moves and to the unsettled relations with international creditors. Fiscal balance is still negative, but deficit in 2014 was within the Maastricht criteria. It was mostly fueled by high debt interest payment.

But there was a primary fiscal surplus. The public debt is enormous, reaching 177% of GDP in 2014. It is most likely unsustainable, even taken the already implemented debt relief. High government consumption needs high level of taxation. Personal income tax is progressive, with rates of 22, 32 and 42%. Corporate income tax has been further increased in 2015, from 26% to 29%. High social security contributions lead to the overall high payroll tax wedge, reaching one half of the gross wage. VAT is set at 6%, 13% and 23%. Such high level of taxation leads to tax evasion and shadow economy. Transfers and subsidies remain at a very high level: even with the implemented downsizing, the public sector in Greece is oversized, with dubious efficiency. Pension system is not sustainable, and further parametric reforms, as well as possible second tier, should be considered.

Regulation of Credit, Labour, and Business

Regulatory environment in Greece is not well-oriented towards entrepreneurial activities, making daily business conduct difficult and costly. Ineffective and slow bureaucracy, with competing rules and regulations, contribute actively to this situation, all of which create an environment prone to corruptive activities. Some improvements in cutting the bureaucracy cost have been made, but cutting the red tape should be further implemented in order to make the business environment more suitable to growth. Starting a new business venture is an easy and cheap task. Labour regulations are mostly inflexible, stipulating rigid working hours and creating obstacles in dealing with redundancies, with the required trade union approval for dismissing redundant workers and priority redundancy rules. The high severance pay also serves as a deterrent for redundancies. Collective bargaining is widespread in the public sector. It is also prevalent in some private sector industries. The minimum wage is relatively high, reaching over one half of the average wage. The very high level of unemployment of 27.2% is partly due to inflexibility of the labour market, which should be increased in order to provide incentives for creation of new jobs.

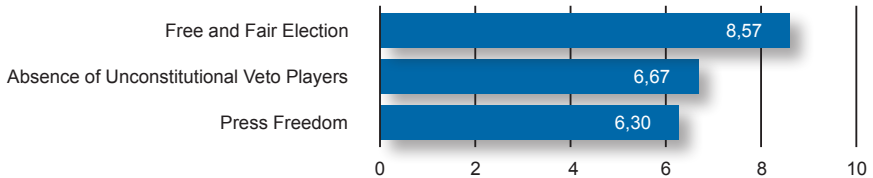
Freedom to Trade Internationally

Greece, as an EU member state, follows the common EU trade policy, with low trade tariffs for manufactured goods, while tariffs on agriculture products, clothing and some specific items are substantially higher. Custom clearance fees for import of goods from other EU countries are still implemented. However, non-tariff regulatory trade barriers are present, amid the complicated process of imported goods' standardization. The customs' service is not efficient, with numerous and slow procedures, and licensing, all of which hinder free trade. Another important issue is the control on migrant workers, with foreign labour supply being restricted via necessary working permits that are hard to obtain. Capital controls on inflow of capital from the country are present. Those were heightened during the crisis in negotiations with the international creditors, in order to stop cash outflows from the country. These new measures were soon discarded, after the new deal was struck. High cost of both exports and imports are partially attributed to the deteriorating public transport infrastructure, due to the lack of funds for the quality maintenance and resolving bottlenecks in transport, after the wake of recession and Greek debt crisis. Railroad infrastructure is especially affected. Due to public finance constraints, improvements should consider more private sector involvement through concessions or other forms of private-public partnership, or even privatization. Main Greek trade partners are other EU member countries, most notably Italy, Germany and Bulgaria, followed by Russia and Turkey.

HUNGARY

GDP in 2014: EUR 103,022 million		
yearly growth rate: 3.6%	per capita: 10,430 EUR	by sector:
		agriculture 3.4%
		industry 31.1%
		services 65.5%
Population: 9,877 thousand	Human Development Index	Government position in 2014
Unemployment rate: 7.8%	HDI: 0.818 (rank 43)	-2.57% of GDP

A. POLITICAL FREEDOM



Free and Fair Elections

Freedom of the elections is declining in Hungary. The country’s rating went down from 9.64 in 2014, in the “Free and Fair Election” component of the Freedom Barometer Report. Fidesz (Young Democrats’ Alliance – Hungarian Civic Union) party, in coalition with the Christian Democratic People’s Party, retained a 2/3 majority, capturing 133 seats out of 199. Opposition criticized the new electoral law imposed by the Viktor Orbán’s government, emphasizing unequal opportunities for political parties. OSCE/ODIHR noted in their report that “Governing party enjoyed an undue advantage because of restrictive campaign regulations, biased media coverage and campaign activities that blurred the separation between political party and the State”.

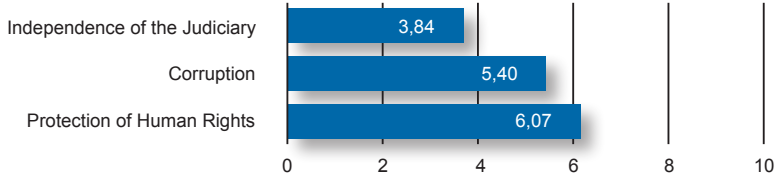
Absence of Unconstitutional Veto Players

There are no unconstitutional veto players in Hungary. However, this country recorded decline in this section of the Freedom Barometer Report, from 7.50 in 2014, because of the raising corruption and undermining of the system of checks and balances. Government, with its frequent interference in the market, creates dominant economic players in the country. Also, the system of checks and balances was undermined by the government, on one hand through legislation while on the other hand through appointing of “loyal” people to the key positions in the independent state institutions. The rising of the extreme right forces, such as paramilitary force of the Jobbik Party - Hungarian Guard, with their violent actions towards minorities, poses a threat to the Constitution.

Press Freedom

Freedom of the press is granted by the Hungarian constitution, but in practice a diverse media scene is partly free. Since 2010, the government has constantly tightened its control over media outlets, through adaptation of laws and changing of the constitution. Monitoring of media is now delegated to one body, the National Media and Infocommunications Authority, whose leader also chairs Media Council, the main regulatory body. In 2014, government adopted a new progressive advertising tax, which mostly affected the largest outlets. The introduction of this tax was criticized by a number of media or organizations which protected freedom of expression, as an interference in media market. Only the television station RTL Klub, still one of the main sources of news for Hungarians, was put into the highest taxation bracket. Defamation is a criminal charge often brought against journalists.

B. THE RULE OF LAW



Independence of the Judiciary

In 2014, the independence of judiciary in Hungary was further challenged by indirect political influence. Earlier changes to the organization of the Constitutional Court are now bearing fruit for the Fidesz government. The conservative majority in the Court, consisted of 11 judges (out of the total of 15) appointed by Fidesz supermajority in Parliament, ruled several contentious laws constitutional, such as parts of the electoral legislation and the retroactive regulation of loans pegged to foreign currencies. The Court is anyway prevented of deciding on the constitutionality of financial or tax laws. However, there is less corruption in courts than in other sectors and less direct influence on judiciary than in comparable countries. As for European influence, ECHR had to intervene several times in 2014 against legislation breaching human rights. Disputed issues included treatment of independent regulatory bodies, appointments to the Constitutional Court, further cartelization of the tobacco market and the introduction of life imprisonment without possibility of parole.

Corruption

Despite Hungary's stagnation on the Transparency International's Corruption Perception Index world list between 2013 and 2014 (again at the place 47, scoring 54), there came further disturbing signals. High level corruption is taking firmer roots. It is more often initiated by political factors than by businesspeople. Tax - including VAT - evasion, or fraud, by big companies linked to the ruling elite, is tolerated by financial authorities. Transparency of public

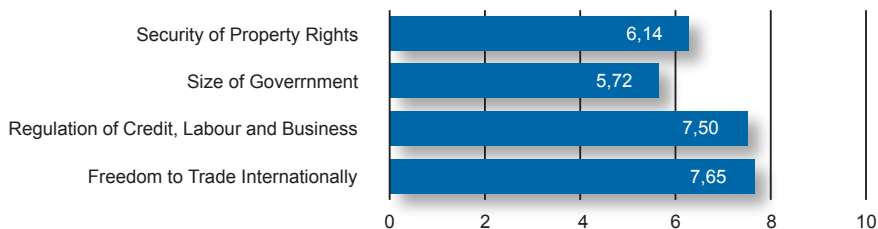
procurement transactions and infrastructural investments (especially those with Russian partners) has decreased, mainly due to the newly introduced limitations to public access to information. Political party finances, amid elections, were in clear breach of the existing laws, but with no consequences. The situation is seriously affecting many foreign investors and has led to complaints by German, American or other companies or banks. Petty corruption, such as in the health care sector, is endemic, to the degree that mere limiting rather than eliminating it is really at stake. Citizens are increasingly outraged by corruption at all levels. Between October and November 2014, street protests against the-then proposed Internet usage tax have transformed into anti-corruption protests. They repeated in April 2015. Protests encompassed dozens of thousand people in 50 Hungarian towns. The European Commission has suspended some of the payments towards Hungary due to insufficiently transparent tender procedures.

Protection of Human Rights

Several successive attempts by the government to establish discrimination against faith groups that did not fit into the definition of “incorporated churches” failed. In April 2014, the European Court of Human Rights ruled that the law on re-registration of religious communities infringed human rights and the principle of state neutrality. Throughout the first half of 2015, amending of the law was under way, seemingly again in variance with European standards. Civil society, itself also dependent on government funds, has suffered an increased partisan pressure. Disturbing signals included selective auditing of the NGOs’ financial operation and denigration rhetoric by government officials against NGOs, as allegedly politically biased, “paid activists”, who had been serving foreign interests. The presence of women in the Parliament barely changed after the elections of 2014 and is now around 10%. Macho-style demeaning of women politicians by their male colleagues is commonplace, including among MPs. More generally, in everyday public life, respect for minorities is low. Verbal abuse of Romany, xenophobia or other hate speech is not regarded as anti-social behaviour. Human trafficking also

remains as a huge problem. On the top of it, the treatment of asylum seekers and of the masses of Syrian or other war refugees has become, by mid-2015, a truly dark spot, following police brutality against refugees and construction of a barbed-wire fence on the Hungarian southern borders.

C. ECONOMIC FREEDOM



Security of Property Rights

Property rights are largely protected in Hungary, but are not always adequately secured. Low judicial independence from the executive power is one of the main problems, which can influence court proceedings to benefit the political elite or connected parties. Acquisition of private pensions (from mandatory private pension funds) from citizens of Hungary by the state is a clear example – although compensation in the shape of public social security pensions was offered, this move was a clear violation of private property. Government policies on increasing share of domestically owned enterprises in certain industries can also be regarded as property-rights violation: although there were no classic cases of nationalization, informal pressures to change current property situation were present. Furthermore, legal enforcement of contracts is burdened by a high number of procedures, and therefore it is slow, which diminishes the possibility to manage private property effectively. Another problem is police reliability which is not high. That is also influenced by political factors. Acquisition of real property by foreign natural persons (apart from EEA citizens who are considered to be al par with Hungarian citizens) is largely restricted.

Size of Government

Hungary has experienced a double recession, in 2009 and in 2012. However, bigger problem rests in low levels of growth that occurred in between – only in 2015 did the estimated GDP reach its pre-crisis level. Fiscal deficits in recent years have been high. It was only after 2012 that they fell below the targeted Maastricht criteria of 3% GDP. The accumulated high public debt, standing at 78% of GDP, seems to finally be under control. Public expenditures in Hungary are high, even for European standards, reaching 49.6% of GDP in 2014. High propensity to spending needs to be financed by high tax rates: the VAT level is set at 27% (the highest in the EU and higher than the maximum level of 25% approved by the European Commission), while the total tax wedge on labour is very high, standing at 49% (in the EU, just Belgium, Germany and Austria have higher rates). Personal income tax is flat and stands at 16%, but social security contributions, divided between the employer and the employee, are high and make for the rest of labour taxes. Corporate tax rates are set at 19% (while 10% for small companies). The government has increased its role in the economy through measures of renationalization in certain industries – foreign bank subsidiaries and energy companies; and large scale public works were introduced with the intention to curb unemployment.

Regulation of Credit, Labour, and Business

Business regulation is overall favourable for conducting business. Starting a business is inexpensive and quick. Obtaining a construction permit is not difficult. There are few industries or occupations with existing licensing restrictions. However, certain challenges remain in the area of administrative requirements, which are costly to businesses – for example, getting electricity requires long procedures. Increasing bureaucracy costs borne by business entities is also a matter of concern. This situation is enhanced even by regulations which are purposefully written in a way to provide rents to private companies with ties to influential politicians. Government's preference towards domestically owned companies (which, of course, might be connected to politicians) creates an environment where foreign-owned companies can be

faced with obstacles and discriminatory regulations, although it is required by the law that they be treated in the same manner as the domestic ones (recent examples include the regulation of the working hours of supermarkets, which puts foreign owned companies at disadvantage). Tax procedures are complicated and burdensome to businesses. On the other hand, labour market regulations are mostly flexible, but redundancy costs and notice period increase with the years of tenure, protecting more seasoned workers (but also putting them at a disadvantage in the labour market). However, rigidity is preserved in the working-hours regulation, which stipulates relatively low maximum of working days, banning possible prolongation due to an increased workload. The minimum wage is high, above 40% of the average wage, thus having a distortion effect. Low level of participation rates, especially among women, is a reason for concern.

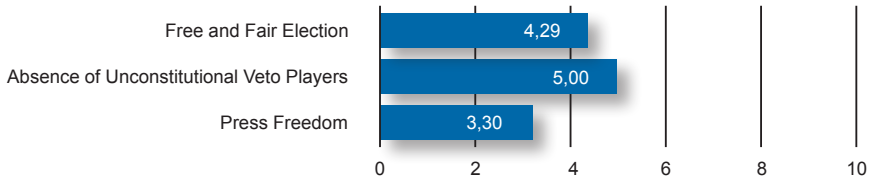
Freedom to Trade Internationally

As a member of the European Union since May 2004, Hungary applies its common trade policy. Therefore, tariffs are low, although still significant for some agriculture products. However, non-tariff barriers in trade - via complicated and expensive certification and standardization - remain, increasing the cost of imports. Good public transport infrastructure significantly lowers the cost of freight, boosting international trade, while necessary export / import documentation can be obtained within reasonable time. Capital controls introduced during the financial crisis in Europe on the movement of short term capital ("hot money") are still active. The EU internal market is of utmost importance to Hungarian economy. Germany is the main trade partner. Therefore, a relatively high number of cases which Hungary filed against its neighboring EU member states in front of the World Trade Organization (WTO) are surprising.

KYRGYZSTAN

GDP in 2014: EUR 5,567 million		
yearly growth rate: 3.6%	per capita: 940 EUR	by sector:
		agriculture 19.3%
		industry 31.1%
		services 49.6%
Population: 5,895 thousand	Human Development Index	Government position in 2014
Unemployment rate: 7.6%	HDI: 0.628 (rank 125)	0.09% of GDP

A. POLITICAL FREEDOM



Free and Fair Elections

The only Central Asian republic which might be labeled “democratic” will face the biggest test in the upcoming elections in 2015. In a climate where the president tries to expand his powers, while the country has embarked onto developing closer economic ties to Russia through joining the Eurasian Economic Union (EEU), civil society still seems robust enough to demand free and fair elections. Another problem looms from the political camp. As Freedom House’s Nations in Transit report reiterates that political parties are mainly a vehicle for business interests. This might jeopardize voters’ interest when it comes to the implementation of further democratic reforms on the governmental level.

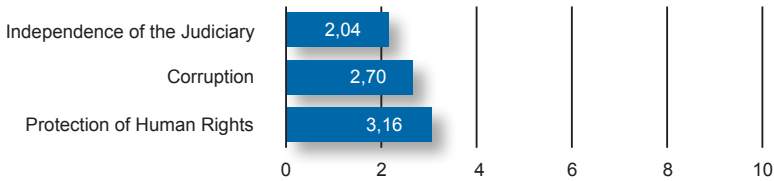
Absence of Unconstitutional Veto Players

The impact of unconstitutional veto players on Kyrgyzstan’s domestic affairs remains strong. Organized crime is still intertwined with politics and rule of law has not been implemented as the Central Asian Analytical Network puts it. Widespread corruption in all spheres of economy and public life reflect the weakness of democracy.

Press Freedom

Due to tighter governmental control of the media, Kyrgyzstan dropped in its ranking more than one point. This Central Asian republic, which had embarked onto the only real “democratic experiment” after 2010, has been drawing closer to the situation of its neighbours – including in the field of press freedom. With its law on “false information relating to a crime or offense” the government introduced a “carte blanche” to punish the last remnants of independent journalism or journalists who speak up too positively for the Uzbek minority in the country.

B. THE RULE OF LAW



Independence of the Judiciary

Political or criminal influence, corruption, nepotism, ethnic bias and arbitrariness are still characteristics of the judiciary in Kyrgyzstan. Situation is stagnant and in some aspects even worrisome. For instance, according to the Freedom House, the number of court cases against alleged or real religious extremism has risen dramatically, indicating rather at criminal extortion motives than at political manipulation. Lack of independent and professional

judiciary has been the biggest obstacle to reforms in other fields of public life. It was only in July 2013 that the highest judicial body, the Constitutional Chamber of the Supreme Court, tasked to protect the Constitution of 2010, became operative. During 2014 it resolved several important cases regarding privatization of public property.

Corruption

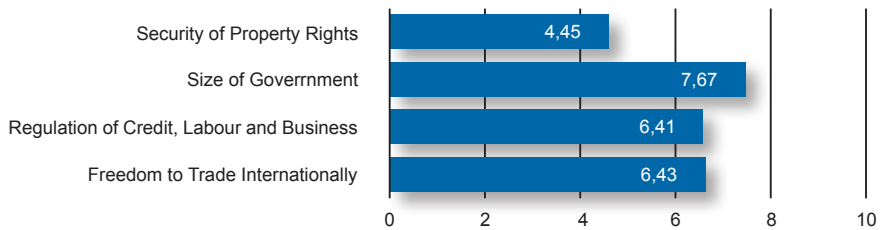
Very bad situation in Kyrgyz Republic regarding corruption has improved a little bit during the past year. As compared with the pre-2010 situation, the improvement is already visible. On the low and middle level, government authorities try to suppress corruption, especially if it involves organized criminals. In the ranking by the Transparency International's Corruption Perception Index, Kyrgyzstan is moving upwards. In 2014, its score was 27 (in 2013 it was 24), which put them on the place 136, well ahead of the comparable Tajikistan, Uzbekistan and Turkmenistan. The main limitation factor is the ad hoc nature of the anti-corruption struggle, i.e. lack of comprehensive strategy and sector action plans. Another problem is occasional political bias at the top, which was last time demonstrated in August 2014 through the acquittal of the former Mayor of Bishkek, who had been accused of corruption. Many perceived it as a pardon granted by President Atambayev to his close aide from the ruling party SDPK.

Protection of Human Rights

Since 2014, Russian influence is increasingly felt in Kyrgyzstan. With it, there arise numerous initiatives to adopt human-rights' restrictive legislation similar to the one in the Russian Federation. Restrictions on freedom of association and assembly are mounting. NGOs, until recently the important collaborators of government in promoting reforms, maintaining dialogue with citizens, monitoring security forces, etc, are ever more worried. The "foreign-agents bill", i.e. the law restricting foreign donations to civil society organizations, modeled over Russian law as of 2012, was first proposed in 2013, but soon withdrawn. In October 2014 it re-entered parliamentary procedure and

in June 2015 it passed the first reading. Since President Atambayev is opposing it, it is unclear whether or not he would sign it even if it was finally adopted. Another law modeled over Russian practice was the “anti-propaganda law”, i.e. restrictions to publications or other public appearance of the LGBT organizations on the grounds of protecting minors from the “propaganda of non-traditional sexual relations”. The latter law passed the second reading in parliament (by 90:2) in June 2015 and is not far from being adopted. On the positive side, one should mention the action plan against torture, adopted by the government in October 2014.

C. ECONOMIC FREEDOM



Security of Property Rights

Private property is not adequately secured in Kyrgyzstan. The courts are neither partial nor independent, and corruption within the judiciary is evident. Political influence of the elite can be an important factor in court rulings. Legal processes are long, costly and ineffective, especially in the appealing process. Long procedures, even when unblemished, can considerably damage property rights. Wide authority of the state in nationalization or appropriation of private property for public interest can be used by the political elite for their personal political or economic gains. Furthermore, weak implementation of laws through rule-of-law institutions provides room for widespread clientele system and informal patronage connections between economic and political agents, contributing to the high level of corruption.

Size of Government

The government in Kyrgyzstan consumes 38% of GDP, lower than in Europe welfare states but still above more successful transition economies. This is a strong increase compared to the pre-crisis level of 29%. The government consumption spiked in order to boost the economy in the wake of the crisis, which led to sizeable budget deficits and growing public debt. The implemented austerity measures in 2013 and robust economic growth have partially slowed down public debt growth, however due to another push of government financing out of the economic decline it is considered to further increase. However, these developments were reversed due to negative economic development in the Russian Federation, which is the main source of migrant workers' remittances and an important foreign market for Kyrgyz products. In order to tackle imminent economic downturn, the government has initiated an ambitious public infrastructure investment plan. This stopped the fiscal consolidation, which will have to be continued if fiscal targets are to be met and public finance checked. There are still many state-owned enterprises (SOEs) in the country, the most important of which operate in the field of electricity, natural gas and transportation. These companies are mostly inefficient and operate with financial losses which are covered by the government via subsidies or by taking over their debts. Those companies continue to pose a financial risk for public finance. Energy is heavily subsidized by the government, making those subsidies a fiscal burden and an inefficient social measure, because it is not targeted only towards the poor.

Regulation of Credit, Labour, and Business

The business environment in the country is more business-oriented than in other countries in the region. However, there are still many areas in which improvements are necessary in order to describe the current business climate as favourable. Administrative requirements lay a heavy burden on companies, especially in the SME sector. The process of licensing and providing permits is not transparent and can be easily manipulated. Bureaucracy is complicated, with many inconsistent regulations, which leads to high risks of corruption,

which to its part induces significant costs. The regulations in starting a business, however low and cheap, are quite contrary to the conduct of regular business operations. Dealing with construction permits is cheap but lengthy. At the same time, getting electricity is slow and very expensive. Further reforms in the tax system are envisaged to make paying taxes more easily, however reorganization of tax authorities is an ambitious reform that will take some time to give results. Banking regulation is not in line with international standards. The central bank is perceived as one not being independent from the government. There are restrictions on property ownership of agricultural land by foreign nationals, but land can be leased for a period of up to 99 years. Labour regulations are not overly stringent: fixed term contracts are not allowed for permanent tasks, but maximum level of fixed-term contract is relatively long. Mandatory military conscription poses significant burden, while bribing one's way out of the military service has become widespread. The minimum wage is low and is not a strong obstacle to economic development.

Freedom to Trade Internationally

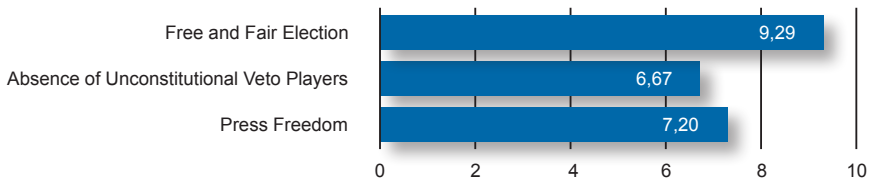
Kyrgyzstan was the first Commonwealth of Independent States (CIS) to join the World Trade Organization (WTO) in 1998, which substantially lowered tariffs. Those remained low, as compared to other countries in the region. However, obtaining customs' certificates for import or export operations is lengthy (more than 2 months on average) and complicated, providing high trade barriers. Standardization requirements prove to be complicated and expensive due to underdeveloped or incomplete technical regulation. This state of affairs is further aggravated by the weak enforcement of rules in the custom bodies, inconsistent enforcement and interpretation of regulations, complemented by informal payments and bribes in order to obtain necessary documents. The poor state of transportation infrastructure further aggravates the situation, considerably inflating costs of international trade. However, the Kyrgyz Republic remains the most open and trade-friendly country in the region. Kyrgyz Republic has become a member of Eurasian Economic Union (EEU) in May 2015, joining the Russian Federation, Kazakhstan, Tajikistan,

Belarus and Armenia. This is expected to facilitate cross border trade with those countries that are its main economic partners, alongside the European Union, especially with Kazakhstan where problems with international freight were detected.

LATVIA

GDP in 2014: EUR 24,044 million		
yearly growth rate: 2.4%	per capita: 11,830 EUR	by sector:
		agriculture 4.8%
		industry 24.8%
		services 70.4%
Population: 2,033 thousand	Human Development Index	Government position in 2014
Unemployment rate: 10.8%	HDI: 0.810 (rank 48)	-1.66% of GDP

A. POLITICAL FREEDOM



Free and Fair Elections

According to the ODIHR/OSCE, parliamentary elections in Latvia which took place in October 2014 were both free and fair. The pro-Russian social-democratic alliance Harmony Center won the highest percentage of votes – 23%, but they didn’t have a majority to build government. Instead, the ruling conservative coalition consisting of Unity party, Union of Greens and Farmers and National Alliance, created the government. Latvia has unicameral parliament consisting of 100 seats, known as Saeima, whose members are elected to four-year terms. Non-citizens can be members of the political parties as long as they are not the majority of members, but they do not have the right to vote or be elected at the elections. The election law also prohibits independent indi-

viduals and persons who were active in the communist or pro-Soviet organizations from holding office.

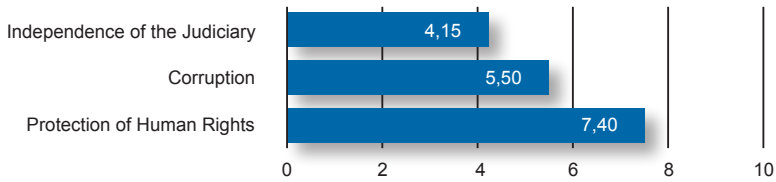
Absence of Unconstitutional Veto Players

There are no unconstitutional veto players in Latvia, however wealthy oligarchs, with their tight connections to politicians, could be seen as a threat to democracy. Corruption remains the big problem of the country, although the Corruption Prevention and Combating Bureau made some progress. Throughout the year, they investigated many cases of corruption, some of them including public officials. Like in the other Baltic countries, national security is one the main topics in Latvia as well, because of the Ukraine crisis and of Russian military buildup along the border. The country constantly lobbies for an increase in presence of NATO troops in Latvia as a response to such buildup.

Press Freedom

The press is generally free in Latvia, but it has got a few restrictions. The law on electronic mass media requires 65% of broadcast airtime to be in Latvian language. Also the radio stations, from 2016 on, will not be able to broadcast mixed language programs. Considering that the main regulatory body for broadcast media, the National Electronic Media Council - NEPLP, is composed of party members appointed by the parliament, politicians have influence on Latvian media. Several Russia's state-owned stations were fined or banned by the government for biased reporting on war in Ukraine. Economic crisis brought merging of a many media outlets and increased concentration of media ownership. Still, Latvia's citizens can enjoy in a diverse spectrum of media outlets.

B. THE RULE OF LAW



Independence of the Judiciary

Judicial independence is only partially respected in Latvia. There is occasional exercise of political influence on courts, including in appointment of judges. The parliament anyway has a final say thereon. The situation is worse than in 2013 and far worse than in neighbouring Estonia. The system of evaluating judges, as established in 2013, proved insufficient. Its reform is discussed. Impartiality of courts is disputable. Corruption is also present. In late 2014 and early 2015, investigations were on against a Jurmala City Court judge and a Riga District Court judge, for falsification of documents and taking bribes respectively. Trials are lengthy, which undermines public trust in the judicial system. Conditions in overcrowded prisons are bad, with abuse, violence and poor access to health care. A small acceleration of court procedures is notable since 2013, but a lot more has to be done. Council of Europe's GRECO evaluation as of March 2015 found out that Latvia only partially implemented their 2012 recommendations as regarded prevention of corruption among judges. As Freedom House noted in their report Nations in Transit 2015, independent bodies such as human rights ombudsman keep a high profile in defending human rights and limiting governmental powers.

Corruption

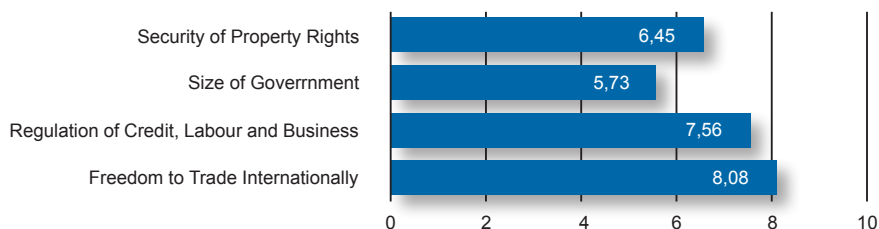
Situation has improved between 2013 and 2014 mainly due to diminished petty corruption. The Transparency International's Corruption Perception Index 2014 put Latvia to place 43 (as compared to place 49 in 2013), with its score risen from 53 to 55. The main challenge is still the political corruption

- illicit ties between business and politics. Citizens perceive political parties as the most corrupt part of the public life. In the notorious “oligarch case”, the investigation and proceedings against a powerful businessman and former mayor Aivars Lembergs for trading in influence and other alleged misdeeds have been dragging on for years, while by mid-2015 their end was not in site. Lengthy court procedure, besides a poor protection of whistle blowers, is anyway among the main limitation factors for combating corruption in Latvia. Anti-corruption agency KNAB did a lot, but its own limitation factors included internal strife within the agency and its unclear position vis-a-vis Cabinet of Ministers. In 2012, the GRECO group of the Council of Europe has urged Latvia to strengthen the independence of KNAB from the executive branch, but at least until spring 2015 that recommendation was not met.

Protection of Human Rights

In many fields, human rights in Latvia are well protected and the situation is improving. For instance, freedom of gathering, of speech, or of religion, is kept up to the highest EU standards. Gender gap has generally been smaller than in comparable countries. However, problems remain in the identity politics. The rights of the Russian-speaking minority (one third of the population) are challenged in education system as well as regarding citizenship. Long time mistrust and limitations put to Russian-language media in Latvia have backfired through domination of Kremlin-controlled TV channels among local ethnic Russians. Only recently has Latvia followed a more liberal and proactive approach similar to Estonia’s and cooperated with its neighbour in countering Kremlin’s propaganda. Occasional honoring of those Latvians who had joined the Waffen-SS during the WW2 also backfired, where after the ethnic-Russian nationalists’ propaganda has portrayed the entire Latvian national identity, including even the Western liberal values, as “polluted by fascism”. Unlike Estonia, there is still no regulation of same-sex unions, although public manifestations of homophobia are much rarer than of other forms of bigotry.

C. ECONOMIC FREEDOM



Security of Property Rights

Private property in Latvia is overall secure. However, there are areas in which improvements are necessary, most notably regarding judicial independence, which is not upheld in all cases, which undermines integrity of the entire legal system. Courts can also be partial in many cases and legal procedures can be long, in violation of the principle of reasonable time of court proceedings. That is most visible in bankruptcy cases. Furthermore, enforcing legal contracts could be long due to high number of legal procedures that could be complicated. It is also very costly. Police reliability is not properly guaranteed and is not in line with the rest of legal system. The lack of major restrictions on possession of property – Latvia was among the first ex-USSR nations to let foreign legal entities and natural persons own land – is a Latvia's strength.

Size of Government

As in other Baltic countries, government presence is not prevalent in the economy. Total government expenditure stands at 37% of GDP. Government expenses that exploded during the recession, reaching even 43.4% of GDP, were put under containment via successful fiscal consolidation package, including curbing wage bills and retirement benefits. This austerity program supported by the IMF put the government finances again in order lowering high deficit from 7.3% in 2010 to just 1.4% of GDP in 2014. Economy restructuring resulted in a robust economic growth. However, the projected growth was undermined by weak performance in the Eurozone which is Latvia's main trade partner, by geopolitical tensions in Eastern Europe which may have

discouraged investments, and by the problems associated with the Liepavasmet-alurgs steel mill. The mill that went bankrupt was acquired by the Ukrainian KVV Group company in 2014, which, however, decided to close down the site in May 2015. The guaranteed debt paid by the government for the old mill remains as an unsettled issue, while future developments are uncertain. Transfers and subsidies remain high, although they decreased by cuts in the level of guaranteed minimum income. State owned companies in Latvia are mostly concentrated in the utility and transportation sector, but still comprise a large share of the economy. Efficiency of their managerial practices is under question. Taxes on corporate income are low, at 15%, while VAT levels are 21% and 12% (preferential rate). However, the overall tax wedge is high (44%), due to high social contributions (11% of the gross wage on behalf of the employee and 24% on behalf of the employer) and to - flat - personal income tax of 24%, which was decreased by 1 percent as compared to the previous year.

Regulation of Credit, Labour, and Business

Latvian business environment is overall business friendly. Starting a new business is easy and inexpensive, and there is very little licensing as a prerequisite for conducting a business. The tax compliance, on the other hand, could be complicated, although with a low number of annual payments. Administrative requirements can also incur high bureaucracy costs (for example, getting electricity is a relatively quick but at the same time a very expensive process), which is a suitable environment for partial treatment by government officers. Several waves of reforms of the inspectorate were taken to alleviate those problems, but further improvements are necessary. Labour regulations are mostly flexible, but with retraining or reassignment obligation of the employer for the workers prior to redundancy. The years in tenure increase the severance pay, which discriminates older workers in the labour market by making their re-employment more expensive, and fosters shadow economy. The minimum wage is set relatively high, reaching more than 50% of the average wage. It was increased twice, in January 2014 and in 2015, making a substantial total combined increase of more than 20 percentage points since 2013.

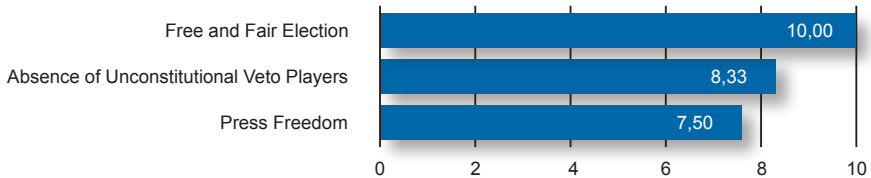
Freedom to Trade Internationally

As in many other small open economies, Latvia's economic prospects are dependent on production specialization and international trade. Good transportation infrastructure which enables cheap and fast movement of goods complements this situation. There are challenges in this area: ports and roads are of high quality, but the railway is not well developed, which then negatively impacts the functioning of ports. That leads to losing markets in transportation, due to international competition. Being an EU member state, Latvia imposes tariffs in accordance with the common EU trade policy. The paperwork for import or export of goods is easy to obtain within a short time frame. However, complicated and difficult standardization procedures that importing goods has to follow make for substantial barriers in trade. Procedures in obtaining working permits and residence permits for non-residents (EU citizens have the same rights on the labour market as nationals) are also an issue.

LITHUANIA

GDP in 2014: EUR 36,315 million		
yearly growth rate: 3.0%	per capita: 12,380 EUR	by sector:
		agriculture 3.7%
		industry 28.2%
		services 68.1%
Population: 2,932 thousand	Human Development Index	Government position in 2014
Unemployment rate: 10.7%	HDI: 0.834 (rank 35)	-0.67% of GDP

A. POLITICAL FREEDOM



Free and Fair Elections

During the 2014, two elections took place in Lithuania, for the European parliament and presidential elections. Both demonstrated high level of freedom and fairness of the process. After the presidential elections, Dalia Grybauskaite became the first Lithuanian president to be elected for the second term. Although the European Court of Human Rights ruled that banning of Rolandas Paksas of running for office is a violation of his rights, Central Electoral Commission didn't accept his candidacy for presidential elections. Political parties, the least trusted institution in Lithuania, can operate in the unrestricted environment. However, Communist Party continued to be banned.

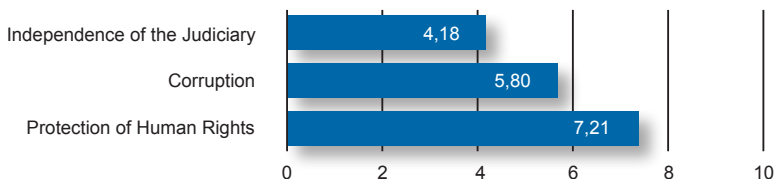
Absence of Unconstitutional Veto Players

Lithuania improved its score in this matter, from 7.50 in the 2014's Freedom Barometer Report. Generally there are no unconstitutional veto players in the country. This is mainly due to the improvements in the fight against corruption in the public sector. The main anticorruption agency, Secret Investigation Service, announced in 2014 the list of individuals suspected to be involved in corruption and launched the investigations. The list included 8 vice-ministers, who then after immediately resigned. Due to the ongoing crisis in Ukraine and few more incidents between Baltic states and Russia, national security became a serious issue in Lithuania. In order to strengthen security, the government requested NATO to reinforce its mission in the Baltic region and decided to increase the percentage of GDP for defense spending by 2020.

Press Freedom

Freedom of the press is guaranteed by the Lithuanian constitution and mostly respected in practice. However, raising tensions with Russia and situation in Ukraine led to restrictions against some Russian-language media outlets. Russian state-owned television channel RTR Planeta faced 3 months ban for alleged spreading of war propaganda. Representatives of OSCE intensively called on government not to tackle the war propaganda by censoring the media. Media ownership continued to be a problem in Lithuania. Increased concentration of the ownership and lack of transparency led to biased coverage by the media, in favor of their owners, which could often be financial institutions, or politicians.

B. THE RULE OF LAW



Independence of the Judiciary

Judiciary is still a weak point of the rule of law in Lithuania. The situation is nearly the same as in neighbouring Poland or Latvia, while considerably worse than in Estonia. Impartiality of the courts is dubious. Political influence on them is worrisome. Transparency International's research indicates at a high level of perceived corruption in courts. According to the Freedom House report *Nations in Transit 2015*, "lengthy investigations and trials, as well as occasional corruption scandals in the judiciary, have damaged the reputation of Lithuania's court system". Improvements are also needed in the law enforcement system. Existing problems include arbitrary arrests, insufficient access to legal counseling, abuses in detention (especially in cases of suspected terrorism), overcrowding of prisons and discrimination against Romany or some other minorities. Constitutional Court was very active in 2013 and 2014 and made bold incursions into the political field. Some of the rulings, such as limiting space for referenda if they contradicted constitutional provisions, reflected a liberal constitutionalist approach. Others, such as annulling of the government's measures of 2010 to cut public spending, reflected a surplus of political activism by the judges.

Corruption

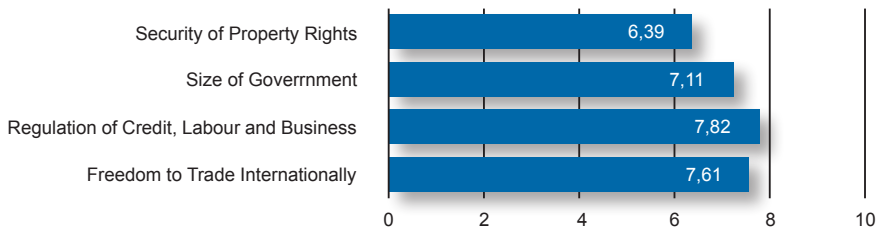
During the past three years Lithuania has moved up in curbing corruption. Petty corruption is retreating well, taken the burdensome Soviet era heritage. But it still persists in health care, police force, courts and in municipalities' administration. Similar – a seeming retreat – goes for tax evasion. In a Transparency International's research as of 2013, citizens indicated at political sphere (especially political parties) and the judiciary as the main centers of corruption. Anti-corruption activities in 2014 targeted mainly corrupt politicians. A number of investigations were opened. Three members of government and two prominent local politicians had to step down due to lack of transparency. There is even a dispute on whether general rules of tender procedure should oblige political parties in their own procurement or not. More could be done against the corruption in judiciary, which is among the weakest links in the

chain of rule of law. In the Transparency International's Corruption Perception Index 2014, Lithuania was ranked 39 of 175 (with the score 58).

Protection of Human Rights

High European standards of human rights are reached in many areas, from freedom of association to academic or Internet freedom. Yet there are numerous problems, including the tax status of non-traditional religious communities and the linguistic rights –not that much anymore of native Russian speakers but increasingly of native Polish speakers - as well as the protection of Romany against discrimination. During 2014, human rights situation improved in some, while deteriorated in other areas. New legislation was carried on NGO activities, which will expectedly open them new opportunities and foster their cooperation with the government. On the other hand, the anyway feeble position of the LGBTI community has been under additional attack by the joined forces of (multi) religious conservative groups. According to a January 2015 release of the European Parliament's Intergroup on LGBT Rights, homophobic hate-speech in Lithuania, including among some MPs, was widespread. The law on protection of minors against inappropriate content in media is occasionally misused to censorship public advocacy of LGBTI equality. Several new anti-gay laws, that would prevent eventual legalization of same-sex unions, ban them of adopting children, or even establish fines for some segments of their public advocacy, were discussed in parliament, but were rejected.

C. ECONOMIC FREEDOM



Security of Property Rights

Private property is relatively secure and respected in Lithuania. However, judicial independence and court impartiality remain weaker than other facets of the legal system, and political influence could still be exercised in some court rulings. Therefore, although Integrity of the legal system overall is high, there is room for significant improvements. Legal enforcement of contracts is burdened with a high number of procedures, leading to long processes which can incur high costs, but is overall far less complicated and costly than the EU countries' average. Resolving insolvency is cheap, with reasonable recovery rates. There is little involvement of military in the rule of law, but the reliability of the police is not high, while business costs of crime are low.

Size of Government

The government size in Lithuania is very moderate compared to European standards, with the level of government expenditures of 33.5% of GDP. The strong recession of 2009 had major repercussions on the public finance, leading to very high budget deficits and rising public debt. The introduction of major austerity measures decreased public expenditures by 10 percentage points (from 43% of GDP), which led to low and sustainable budget deficits. However, further fiscal improvements need to be made in order to accommodate the rise of future liabilities due to demographic changes and to create room for fiscal buffers that are now under major constraint due to the public debt hovering over 40% of GDP (2.5 times higher than before the recession). This low level of government spending is a result of moderate governance coupled with low transfers and subsidies, allowing for moderate level of taxes. Lithuanian tax system is flat, with some minor progressive characteristics – personal income tax is set at 15%, the same rate as the corporate income tax. Standard VAT rate is 21%, with the reduced rates of 9% and 5% for certain products. The excise duties on tobacco, alcohol and energy are among the lowest in the EU. However, tax wedge on labour is high (approximately 35.5%) due to high rates of social contributions. The income from interest and capital gains has been subjected, in 2014, to personal income tax. The Lithuanian

state has largely exited the market, apart from public utility companies. These state owned enterprises are usually not managed in a commercial way and are not cost efficient. Some progress has been made in this section of the economy (most notably in energy sector), but more progress is necessary.

Regulation of Credit, Labour, and Business

Regulation of business activities is overall business friendly. However, administrative requirements and bureaucracy costs associated with them are present, hindering economic development. This kind of business environment is prone to corruption and favouritism associated with it, distorting market competition. However, it is easy and inexpensive to start a new business venture, while licensing restrictions for operating a business are not prevalent in the economy. Getting electricity or obtaining a construction permit can be a long process but is inexpensive, while tax compliance with tax procedures is not too complicated. Regulations regarding labour are a mix of flexible and rigid legal solutions. Flexibility within the system is mostly the result of their meager application within the private sector. Working hours remain rigid, with relatively low maximum number of working days per week (5.5) and no prolonged working hours in the case of increased workload. Redundancy notice periods are long, with high severance payments that increase with the length of worker's tenure. Furthermore, the minimum wage is relatively high, reaching 40% of the average wage, encouraging shadow employment and increasing unemployment level among workers with lower qualifications.

Freedom to Trade Internationally

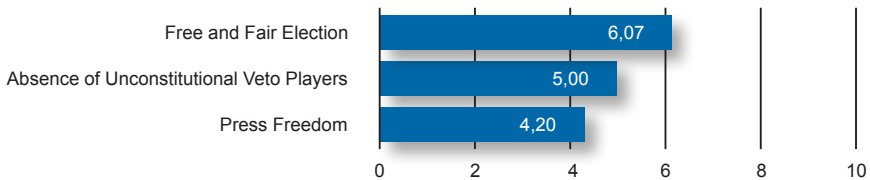
Lithuania is a country very open to international trade. As a member of the EU, Lithuania implements the EU common trade policy with low tariffs in international trade. However, regulatory trade barriers in use still pose a problem, mostly in the field of required standardization of imported goods. Good transportation infrastructure makes importing or exporting relatively easy and cheap, while quick and uncomplicated customs' administrative requirements further facilitate free trade. However, as elsewhere in the Baltics, railroad is

much less developed than other forms of transport, creating constraints and increasing costs. In January 2015, Lithuania became a member of the European Monetary Union (EMU), replacing its former national currency, the litas, with the euro. This is envisaged to further increase the volume of trade, eliminating currency exchange costs (the currency risk was already reduced with the introduction of the currency board between the litas and the euro in 2002). Movement of capital is mostly unobstructed, but certain restrictions on the movement of short-term capital remain. The EU citizens have the same legal rights and obligations in the labour market as do the nationals, but working permits' obtaining for third party nationals is complicated, involving lengthy procedures.

MACEDONIA

GDP in 2014: EUR 8,530 million		
yearly growth rate: 3.8%	per capita: 4,120 EUR	by sector:
		agriculture 8.8%
		industry 21.3%
		services 69.9%
Population: 2,069 thousand	Human Development Index	Government position in 2014
Unemployment rate: 28.0%	HDI: 0.732 (rank 84)	-4.21% of GDP

A. POLITICAL FREEDOM



Free and Fair Elections

The Former Yugoslav Republic of Macedonia is a parliamentary republic, with elections held periodically and generally complying with the international standards. The members of the 123-seat unicameral parliament elect the Prime Minister, who is the country’s leading political figure and *de facto* chief executive. The President is elected by a direct vote and has a largely ceremonial post. A few ethnically based political parties strive for better political representation of the ethnic Albanians, who account for 25 per cent of the country’s population. Despite the fact that the parliamentary opposition to the ruling Christian-democratic government was continuously contesting the results of the 2014 early parliamentary elections, another round of snap elec-

tions was not called in 2015. Accusing Prime Minister Gruevski of a vast election fraud, which had guaranteed him once again a full parliamentary majority, the opposition parties - the biggest among them being the Social Democratic Party and the Liberal Democratic Party - boycotted the parliament and did not assume their seats. The allegations were manifold, referring to the reports of voter intimidation, vote-buying, inaccuracy of the electoral roll, illicit control over the election administration and unequal access to media.

Absence of Unconstitutional Veto Players

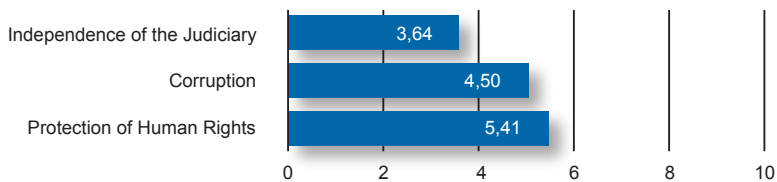
The constitution of Macedonia does not allow for the presence of traditional unconstitutional veto players, but an alleged corruption at high levels of the country's governance has reportedly facilitated unlawful interventions into public policies. Moreover, for nine years now, Macedonia has been led by a single Prime Minister, Nikola Gruevski (leader of the VMRO-DPMNE party), who has won four consecutive elections since 2006. All the opposition parties claim that throughout this period he managed to gain a full control over the state resources and to effectively use them in favour of his own party ambitions. The public sector has been put under the strict control of the government.

Press Freedom

Press freedom in Macedonia continues to be the poorest in Europe. The press is only partly free. The "2015 Press Freedom Index", provided by "Reporters without Borders" ranks the country 117 out of 180 countries worldwide. Similarly to most of the countries of the region, the lack of transparent media ownership, compounded to unclear media financing, affects negatively the free media environment in Macedonia. The private TV outlets and a part of the printed press have allegedly been tied with political and business interests, which strongly influence their content. On the other hand, the government silences the vast state-owned media, including national TV, radio and print outlets. In the first part of 2015, the opposition leader Zoran Zaev disclosed a large amount of audio recordings of illegal wiretapping commanded by Nikola Gruevski's government over the last four years. More than 20.000

people had been wiretapped, according to Zaev, amongst which opposition politicians, Cabinet members, other public figures, and more than 100 journalists from independent media outlets. The surveillance practices strongly violated the country's constitution and were perceived as an attempted censorship and control over the media. Internet and the social networks in particular remain as the most trustful channel for information exchange and communication. Numerous anti-government demonstrations were called, namely, via social networks.

B. THE RULE OF LAW



Independence of the Judiciary

Independence of judiciary has been among rare areas of public life which experienced any notable improvements during the past year. That was due to consistent previous reforms, many of which had been launched more than a decade ago when Macedonia used to be the most advanced EU aspirant country in Western Balkans. The court system is now at least technically if still not fundamentally independent of political influence. However, Freedom House has warned of weak independence of the Constitutional Court. It declined to examine several laws suspected to be non-constitutional. For instance, the lustration law, otherwise crucial for safeguarding democracy and human rights, allegedly lacked mechanisms of preventing political vendettas disguised as purges of the pre-1991 secret police collaborators. As for other influences, corruption and nepotism remain as problem in Macedonia's judiciary. There was allegedly an ethnic bias in some rulings, e.g. in the June 2014 verdict on the murder at Lake Smilkovci in 2012. The European Commis-

sion noticed in its October 2014 progress report that judicial proceedings in “FYRoM” needed more transparency and reminded on a basic principle of rule of law that “justice must not only be done but must also be seen to be done”.

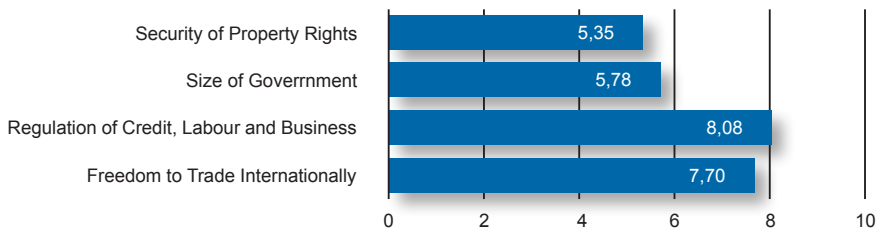
Corruption

There was just a minor improvement, thus Macedonia took place 64 (of 175 countries) in the Transparency International’s Corruption Perception Index 2014. Its score rose (from 44 in 2013) to 45. In many areas corruption is prevalent and poses a serious problem. One of those is judiciary. Another one is politics. Financing of political activities is insufficiently transparent. Employment or promotion in public sector is largely burdened with nepotism, corruption or political cronyism. Although there is a sizeable private sector, even in it political parties often influence hiring, firing or investments. In October 2014, EU suggested Macedonia (“FYRoM”) more continuity and endurance in anti-corruption struggle, more building on past experiences, more strategic planning, prioritizing political or other high level corruption and elimination of selective enforcement of the existing anti-corruption laws. However, events in the first half of 2015, like a political earthquake, have changed the “business-as-usual” approach by many people to the issue - and to the root causes - of corruption in Macedonia. Namely, secret tapes were revealed by the main opposition party SDSM, alleging that the PM Gruevski and his aides, together with secret services, wire-tapped more than 20.000 citizens and that they were receiving bribes from foreign investors to Macedonia or were involved in other huge corruption. The ruling VMRO-DPMNE party responded by releasing material that alleged corruption by the SDSM leader Zaev during his Mayorship in Strumica. Mass protests in the streets against or pro-government followed, dangerously polarizing the country. The cold war between the two political blocks continues, while EU has managed to facilitate their agreement at least on the timeline of early elections, in April 2016. At those, corruption will certainly be among the main issues.

Protection of Human Rights

Political partisan and ethnic divisions, as well as presence of religious and nationalist extremism in various forms, destabilize Macedonia. Street protests often turn violent, whereby police easily overreach their authority. Arbitrary arrests have been more common than before. Ethnic discrimination outside one's own ethno-linguistic neighbourhood is not a rarity, which especially goes for Romany as a "visible minority". Islamophobia is in the rise. The treatment of Syrian or other war refugees by the police in the first half of 2015 was violent and humiliating. Freedom of thought and expression is curtailed. The position of LGBT community is worsening, not least owing to increased homophobia in society but also to the revision of the earlier anti-discrimination laws and to the constitutional ban on same-sex marriage. Family legislation is anyway de-modernized, for all couples. Women comprise a decent 40/123 ratio among the MPs, yet changes to the entrenched traditional division of gender roles are slow and shallow. Generally, the human rights situation is worse than a year ago.

C. ECONOMIC FREEDOM



Security of Property Rights

Private property rights are not adequately respected in Macedonia. Courts are not impartial in their dealings and could be under influence of interested groups outside the courtroom. Some of the court proceedings even could be perceived rather as a political, than as a legal process. Furthermore, judicial processes are costly, slow and ineffective, due to high number of required legal

procedures and their long duration. Enforcement of court judgments is ineffective and slow. Registering property is a slow process due to tax collection authorities which calculate property sales tax. Strong points in the Macedonian judiciary system are scarce restrictions on real property sales and low business costs of crime.

Size of Government

The size of government is considerably smaller in Macedonia than in most other countries in the region, reaching only 32.6% of GDP. Macedonia did not experience a major recession during the economic crisis, but was faced with sluggish growth. The government has been using fiscal stimulus by increasing capital investments in infrastructure in order to foster growth, with mixed results – the growth did follow, but its sustainability was not secured. The budget deficits that were used as a fiscal instrument of economic policy led to a substantial increase in public debt, by 80% in a couple of recent years (debt ratio increased from 20.6% in 2008 to 38% of GDP in 2014), thus calling for a moderate fiscal consolidation in order to prevent further debt increase. The situation might be eased by the expected growth, among the highest in the region (3.8% of GDP in 2015). Future growth prospects are under constraint of the developments in the EU, coupled with the high level of non-performing loans (NPL) in the banking sector, targeting private sector investment and growth. Low government spending resulted in a relatively lower tax burden – VAT stood at 5% and 18%, while personal income and corporate tax are set at low 10%. However, high social security contributions of 27%, coupled with the personal income tax, lead to the labour tax wedge of 37%, slightly above the OECD average. On the other side, government subsidies and transfers are still high due to inefficiency of state owned enterprises (SOE), which are poorly managed. Non-targeted social policy, in the manner of inadequate and lower prices of goods produced by these SOEs, is another limit on successful functioning of these enterprises. The two biggest public-owned companies, operating in the road infrastructure (PESR) and electricity (ELEM) also pose a significant financial risk for the public finance, due to their rising indebtedness.

Regulation of Credit, Labour, and Business

The regulatory environment is favourable to private enterprises in Macedonia, which was even proclaimed the top performer in 2009 by the World Bank. Macedonia holds the highest rank in Doing Business report in the South East Europe region. Starting a business is cheap and timely, while compliance with tax procedures is not burdensome. Administrative requirements and associated bureaucracy cost can be substantial, for example for getting electricity. Favouritism and extra payments have been fostered in an environment of weak state institutions with overlapping authority. The market inspection services are considered to be malfunctioning, therefore the establishment of Inspectorate Council, which covers all inspections but those in custom, tax and financial intelligence, is a step in the right direction, leading to increased coordination and cooperation between those bodies. Financial institutions are well integrated into the international financial market, without any major restrictions. Labour regulation is mostly flexible - due to flexible working hours and because collective bargaining does not incur high costs to businesses. But the minimum wage is relatively high as compared to the average monthly salary, and legal firing of workers can be costly due to prescribed levels of severance pay.

Freedom to Trade Internationally

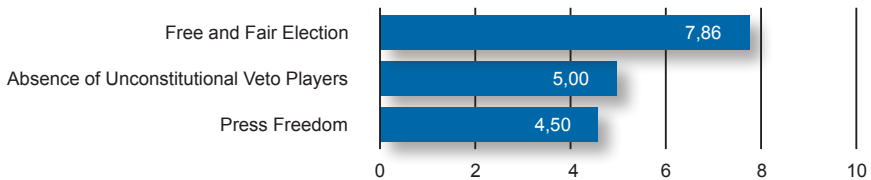
As a small open economy, Macedonia is open to free trade. Trade tariffs are low, with the average of 7.2%, with the exception of agriculture products, where tariffs can be significantly higher. Regulatory trade barriers still remain, incurring costs on the imported goods, due to complicated product standardization procedures. Customs' bureaucracy could be less demanding, in order to speed up export and import procedures, but the main challenges lie in the poor state of the transportation infrastructure, most notably in the quality of roads and railways, which impedes transport of goods and increases the costs of freight. Capital controls on short-term capital inflow in order to limit the impact on the national currency exchange rate are maintained. Macedonian economy is integrated in the regional economy through the Stability

and Accession Agreement (SAA) with the European Union, signed in 2001, and Central European Free Trade Area (CEFTA) as of 2006. These two free trade agreements connect Macedonian economy with its main trade partners: Germany, Italy, Greece, Bulgaria, Serbia and Kosovo.

MOLDOVA

GDP in 2014: EUR 5,988 million		
yearly growth rate: 4.6%	per capita: 1,680 EUR	by sector:
		agriculture 15.7%
		industry 20%
		services 64.3%
Population: 3,558 thousand	Human Development Index	Government position in 2014
Unemployment rate: 3.9%	HDI: 0.663 (rank 114)	-1.74% of GDP

A. POLITICAL FREEDOM



Free and Fair Elections

The legal framework in Moldova provides a sound basis for the conduct of free and fair elections. While the November 2014 parliamentary elections were praised as genuinely competitive and generally well administered, still there were some significant deficiencies. The fiercely pro-Russian Patria Party was abruptly disqualified just days before the voting on the grounds that it received campaign funds from abroad, which is illegal. Meanwhile, a party whose name and symbols closely resembled those of the PCRM was allowed to participate, potentially confusing voters. The distribution of overseas polling places favoured residents of EU countries over those living in Russia. Nevertheless, the Constitutional Court approved the election results in early December,

rejecting challenges by opposition parties. Moldova’s multiparty system features rivalry and diversity within the loosely defined pro-European and pro-Russian camps. Moldova was credited by the Freedom House with a score of 12 from 16, the major challenges being the November disqualification of the Patria Party, which was accompanied by police raids on an affiliated “anti-fascist” movement, the reported seizure of arms and explosives, and the arrest of several members. Also, the Gagauz, a Turkic ethnic minority group in the country’s south, enjoy regional autonomy, but their leaders complain that their interests are not well represented at the national level. Gagauzia held a referendum in February asking local residents whether they favored EU integration or a customs union with Russia. Amid 70 percent turnout, more than 98 percent backed closer ties with Russia, and nearly 99 percent supported secession if Moldova were to lose its independence—namely through a union with Romania. Moldova’s central authorities deemed the vote illegal; a Russian businessman provided funding for it after a court barred the use of public resources.

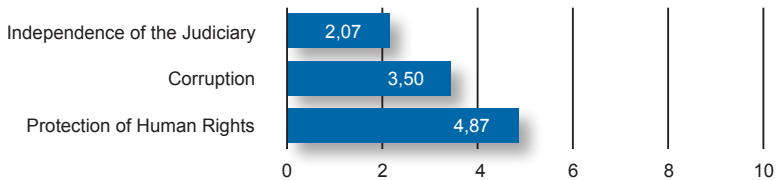
Absence of Unconstitutional Veto Players

The institutional and legal framework of Moldova guarantees the independent functioning of the democratically elected government and restricts the existence of traditional unconstitutional veto players. The National Anticorruption Center (CNA) should ensure that this was upheld. Interest groups, however, wield power over various sectors of the economy and public life, which undermines public confidence in the state authorities. Corruption remains as a major problem in Moldova. The country’s leading politicians regularly trade accusations of graft and illegal business activities. The politicization of anticorruption mechanisms became especially apparent during the partisan feuding of early 2013. The National Anticorruption Center (CNA), led by a PDM nominee, launched cases against PLDM cabinet ministers and allied officials. The CNA was then shifted to the government’s control under legislation passed in May, reversing an earlier reform that had placed it under Parliament.

Press Freedom

Moldova ranks 72 out of 180 countries in the Press Freedom index. The public broadcasting service has grown more impartial since 2009, while the entry of new private outlets into the market has added to the diversity of national news coverage. Internet penetration has increased in recent years to nearly 50 percent of the population. Access is limited only by high costs and underdeveloped infrastructure. Many media outlets are perceived as party affiliates, with wealthy businessman and PDM powerbroker Vladimir Plahotniuc reportedly controlling four national television stations, among other assets. In 2014, the Audiovisual Coordinating Council (CCA), the broadcast media regulator, repeatedly issued warnings and fines to television channels for violating rules that required pluralism and balance in news coverage. In January 2015, major cable services dropped three channels known for critical reporting on the government and for carrying Russian content, allegedly under political pressure. Following an outcry from international institutions and local non-governmental organizations the channels were quickly restored. Reporters in Moldova sometimes face physical abuse, threats of violence, or selective exclusion from events of public interest.

B. THE RULE OF LAW



Independence of the Judiciary

Lack of independence of judiciary is the main obstacle to implementation of the rule of law in Moldova. There are more similarities with the neighbouring Ukraine than with the also neighbouring yet EU-member Romania. Prolonged post-1991 communist party rule with a facade of democracy and

market economy, or a Soviet-era tradition of subordination of the judicial to the executive branch of government, or subsequent Russian influence and pressure, could all be among reasons for the obsolete and ruinous state of the Moldovan judiciary. Incompetence and corruption are widespread. Even after the regime change as of 2009 reforms of the judiciary were not the immediate priority. It was only in 2012 that some changes were initiated, following a reform strategy adopted in 2011. Since 2010, a third of the judges were replaced. Judges' wages have doubled and are envisaged to rise further. There were efforts made to reeducate judges. But in 2013-2014, draft legislation regulating criminal liability of judges for corruption met a strong opposition by parts of the judiciary, while some of its provisions are still under review by the Constitutional Court.

Corruption

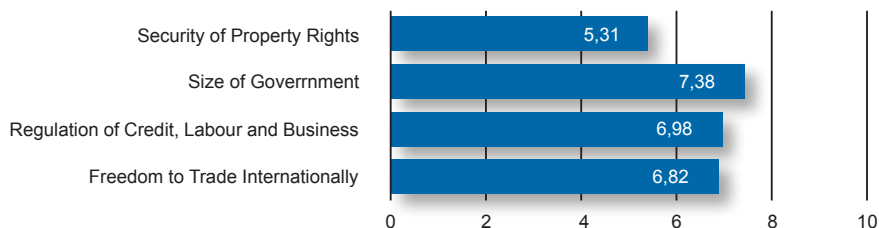
Corruption in Moldova is widespread. Transparency International, in its Global Corruption Barometer 2013, noted that 80% of the citizens found the judiciary, 76% found the police - while 75% of them found political parties and also 75% the legislature - corrupt. The staggering 34% reported that they had paid bribes to judiciary during the last 12 months preceding the survey. Corruption is also very much present among public servants, in the health care sector and even in education. A more recent Transparency International's publication, the Corruption Perception Index 2014, puts Moldova to the place 103 (out of 175 countries), with the score 35. There was almost no advance as compared to 2013 or to 2012 (while the pre-2012 situation was indeed worse). Media ownership law is missing. National Anticorruption Center is still struggling for its autonomy from the government. It made some advancement in the struggle against corruption among public servants, but it is discouraged of investigating the high politics. Meanwhile, a grand scale banking scandal was revealed, whereby at least 870 million USD (ca. 14% of the Moldova's annual GDP) was misappropriated through bad or corrupt loans. It was followed up by a corruption scandal in the management of the biggest airport in the country. Those events have had serious effects on the political stability of the country,

anyway faced with a continuous Russian media and economic pressure, separatism and unwanted presence of Russian troops in the Trans-Dniester region. In the latter, similar as in other territories of unclear jurisdiction, corruption, contraband and money laundering additionally flourish, because of the legal limbo, lack of proper international scrutiny and near-war conditions.

Protection of Human Rights

Human rights have been the only subcategory of the Freedom Barometer that showed a non-neglect improvement in Moldova in 2014. While comparing various elements of the Maplecroft's Human Risk Atlas index, this might largely be explained by less bad treatment of citizens by security forces and partially improved labour conditions (suppression of forced and involuntary labour and improvements for international migrant workers). Huge problems still remain regarding child labour. Minority rights are poorly protected. Homophobia is strong. Moldova's Contravention Code ("anti-propaganda law") as of 2013 breaches European standards regarding LGBT rights. In May 2014, an LGBT Pride March was nonetheless held in Chisinau. Except for the latter issue, NGOs are given relatively free hand to operate, perhaps because they play an important role in countering Russian propaganda and promoting the country's independence. According to Freedom House's report *Freedom of the World 2015*, in the rebel-held territory Trans-Dniester, which has been guarded by Russian troops since 1990s, the situation with human rights is far worse than in Moldova. Romanian/Moldavian native speakers are seriously discriminated - in education, politics or other areas of life. Small religious communities are often denied registration and harassed. The territory is a significant source and transit point of sex trafficking.

C. ECONOMIC FREEDOM



Security of Property Rights

Property rights in Moldova are mostly secure. However, there are many challenges to this issue due to the low judicial independence, which can be swayed to a certain legal stance by powerful vested interest groups and political elite. Court impartiality also remains a weak point of the judicial system as a whole. Reliability of the police is very low, thus increasing business cost of crime. On the other hand, registering a property is cheap and easy, increasing legal certainties and property rights. Enforcing contracts is within reasonable time schedule and with reasonable costs. Relations regarding ownership of public assets between the central and local governments are not always clear, which leads to underutilization of public resources. Ownership of the agriculture and forest land is restricted to Moldovan citizens, while foreign nationals can acquire land through inheritance only, albeit they can rent the land freely.

Size of Government

The size of government in Moldova is at the average of Eastern Europe. Public consumption stood at 39.7% of GDP in 2014, higher than in the previous year, due to the increase in public pensions in the election year. Robust growth has been present since 2009, apart from 2012 when agricultural output plummeted due to persistent drought, but growth is now expected to be negative due to political uncertainties and problems in export of agriculture products to Russia. High fiscal deficits that were recorded after the outbreak of the financial crisis were subdued by a successful fiscal consolidation program. Public

debt is moderate, expected to reach 44.8% of GDP in 2015, but fiscal position of the public sector is increasingly unsustainable due to very high pension transfers which even will increase in the long term. Fiscal decentralization that is currently under implementation could lead to high fiscal risks due to the weak fiscal policy framework. In order to make fiscal decentralization viable, the collection of revenue resources by local governments should increase and the management of local utility companies should be transformed as proposed by the Court of Accounts. There are still companies in state ownership, mostly in utility and energy sectors, but government portfolio also includes companies in telecommunications and banking, and an airliner. These companies, although not legally protected from competition, are able to obtain preferential treatment in the market. Income tax is progressive, with the tax rates of 7% and 18%, while corporate income tax is set at a low 12%. VAT's regular rate is 20%, and the reduced rate implemented for a limited number of products is 8%. Social security contributions are high, leading to an overall tax wedge on the average wage of 38.4%.

Regulation of Credit, Labour, and Business

Business regulation in Moldova is not too open to entrepreneurial activities. Starting a business is easy and inexpensive and the costs of tax compliance are not excessive. On the other hand, administrative requirements are very demanding, incurring high cost. Obtaining a construction permit or getting electricity are lengthy and expensive processes. This business environment leads to high levels of corruption in dealings between the public administration and the entrepreneurs. Inspection service and the customs administration are among the most corrupt public agencies. Labour code is mostly inflexible. Regulation of working hours allows for longer working periods in case of an increased workload, with a 6-day work week possibility, but it also imposes restrictions on the work during the night or on holiday days. Very short probation periods (up to two weeks) is another rigid regulation. Firing regulations are burdened with trade union notifications of redundancy workers, retraining or reassignment rules, as well as by the cost of dismissal, with the severance pay increasing with the years in tenure, itself protecting older workers while

employed yet putting them at a disadvantage in the labour market. Obligatory military conscription of 12 months is a significant burden.

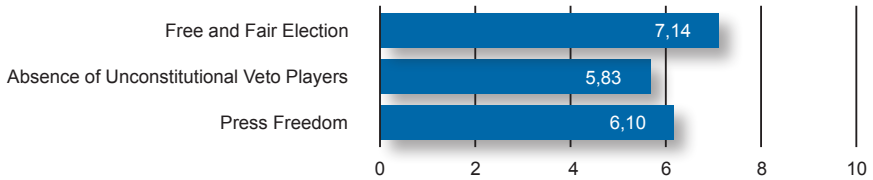
Freedom to Trade Internationally

Free trade is relatively well present, although Moldova thereby faces a lot of obstacles. Tariffs are low (average trade weighted tariff rate stands at 3.6%) but the problems lie in the field of regulatory non-tariff trade barriers, with mandatory bureaucratic requirements necessary to be fulfilled. Customs' documentation incurs cost due to the long schedules, while corruption within the department is present. The bad shape of the transport infrastructure hinders international trade by incurring high freight costs. Although almost all infrastructure is in bad shape due to low public investments, roads are especially stricken. Bearing in mind fiscal challenges that are an important obstacle to alleviating this problem, more involvement from international organizations for project financing or private sector involvement in concessions or other private-public partnership forms should be reconsidered. Moldovan main trade partners are Commonwealth of Independent States (CIS) countries, most notably the Ukraine and the Russian Federation, followed by the EU countries (Romania, Italy and Germany). Moldova has been a World Trade Organization (WTO) member since 2001, and of Central Europe Free Trade Agreement (CEFTA) since 2007, although trade distance, poor transport connections and low complementarity of economies result in modest levels of trade. The Association Agreement (AA) between the EU and Moldova was signed in June 2014, with its provisional application starting in September of the same year. As with other countries included in the European Neighbourhood Policy, the document put into effect the creation of a Deep and Comprehensive Free Trade Area (DCFTA), which is to further liberalize trade between the EU and Moldova. A free trade agreement with Turkey was also signed in 2014.

MONTENEGRO

GDP in 2014: EUR 3,422 million		
yearly growth rate: 1.5%	per capita: 5,480 EUR	by sector:
		agriculture 8.3%
		industry 21.2%
		services 70.5%
Population: 0,624 thousand	Human Development Index	Government position in 2014
Unemployment rate: 18.0%	HDI: 0.789 (rank 51)	-1.35% of GDP

A. POLITICAL FREEDOM



Free and Fair Elections

There were no parliamentary or presidential elections in Montenegro this year, but only local ones in 15 out of 23 of its municipalities. Generally, the elections in Montenegro are considered to be free, although the opposition accuses the governing Democratic Party of Socialists (DPS – in power since 1991, successor of the former Communist Party) of misuse of power, corruption and vote buying – which is hard to be proved, but was met by the state institutions by a lackluster. The local elections ended in considerable success for the DPS and its coalition partners, especially in the capital Podgorica, and in predominantly ethnic-Albanian city of Ulcinj.

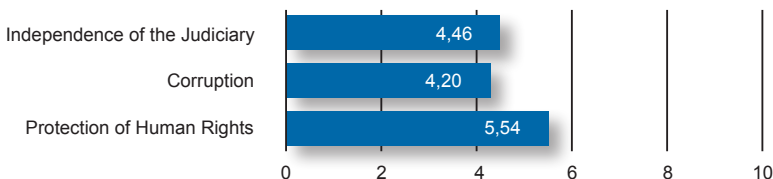
Absence of Unconstitutional Veto Players

There are no unconstitutional veto players in Montenegro. However, close relations between politicians and their friends from business sector, as well as some religious groups, especially Serbian Orthodox Church, can influence the government decisions. Despite the fact that some serious scandals involving high-ranking officials occurred, prosecution of them remained a problem. At the end of 2014 government adopted the Law on the Prevention of Corruption in order to determine jurisdiction of a new anticorruption agency scheduled to open in 2016 and improve the protection of whistleblowers. Security forces in Montenegro are under effective civilian control.

Press Freedom

The situation of press freedom in Montenegro has not improved since last year's Freedom Barometer assessment. There are number of reasons for the sad fact. Critical journalists are still prosecuted, self-censorship is widespread and new ownership structures do not contribute to progress in investigative reporting. With regard to low salaries and a lot of competition, journalists think twice before embarking on a critical story about the small country's long term ruler Milo Djukanović. The latter himself spoke about the "Media Mafia", successfully putting the blame on the journalists who were not refraining from commenting about nepotism in this future EU member state. After a newspaper had reprinted articles revealing the president's family involvement in cigarette smuggling, it was brought to court and sentenced to pay 15.500 euro, as Reporters without Borders commented.

B. THE RULE OF LAW



Independence of the Judiciary

In spite of the progress noted in October 2014 by the European Commission - such as implementation of the earlier judicial reforms, appointment of the Supreme State Prosecutor and of the President of the Supreme Court according to an enhanced procedure, or a sharp decrease in the number of presidential pardons as compared to 2012 – effects on the overall performance of the system of justice are yet to be felt. Legal proceedings are still lengthy, in spite of some progress. Changes are also needed in the misdemeanor justice, itself still not fully transferred to courts. Education and health conditions in prisons need improvement. European Council has demanded a more active prosecution of the 1990s` war crimes, despite the fact that Montenegro had performed better in this field than other participants in post-Yugoslav conflicts.

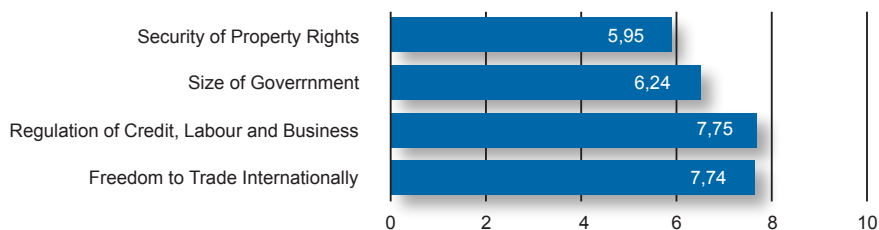
Corruption

During the past year the perception of corruption increased, due to Transparency International and its local partner MANS. Montenegro is now ranked 76 (of 175 countries), with a score 42. Corruption is present in the highest echelons of government, as well as on the ground. Freedom House noted that many laws, e.g. in political party financing or public procurement, albeit tailored over EU standards, lacked proper implementation. A report by MANS as of February 2015 even concluded that some recent changes of laws – as such - had facilitated rather than prevented organized crime. Let aside their biased application. Citizens encounter corruption on many steps in everyday life, but also increasingly report it to NGOs, such as in health care, public sector employment, customs, or local government administration. In the Progress Report on Montenegro in 2014, European Commission pointed out at many shortcomings in the anti-corruption combat, e.g. lack of deterrent for illicit party financing, superficial monitoring of the conflict of interest, or poor protection of whistleblowers in practice. According to the EC, “construction and land planning, education, healthcare and public procurement continue to be particularly vulnerable to corruption”.

Protection of Human Rights

Divergent trends as of 2013/14 have continued into 2014/15, with overall human rights situation deteriorating. The biggest setbacks were in the freedom of opinion and expression and the legal protection of civil society organizations. While academic freedom at universities was well maintained, authorities failed to protect NGO-based researchers from unethical counter-campaigns that severely breached their privacy. Court proceedings regarding the abduction and murder of a newspaper editor in 2004 lacked an effective ruling, amid new attacks on journalists and media houses. The new law on the legal status of religious communities is in the procedure in parliament amid confrontations over a number of its provisions. Women are underrepresented in political life (with only 17%, instead of legally mandated 30% of them among MPs), discriminated in employment and discouraged of high education. Domestic violence, sex trafficking and forced labour remain as serious problems. Anti-trafficking strategy 2012-2018 is bearing some results. According to a US State Department report as of mid-2015, Montenegro has recently achieved notable results in fighting human trafficking. After glimpses of hope in 2013, the position of LGBTs has again worsened, especially at the local level. In May 2015, police in Nikšić has once again banned the Pride Rally. For the first time in two decades, Montenegrin gay activists claimed that they felt safer in neighbouring Serbia's capital Belgrade than back home in Podgorica.

C. ECONOMIC FREEDOM



Security of Property Rights

The protection of private property rights is present, but could be on a much higher level. Montenegro struggles with the implementation of rule of law through its judiciary system due to slow judicial processes which can be subject to political manipulation because of the still existing interdependence between the government and the judiciary. Reliability of the police is not satisfactory, which increases business costs of crime. Corruption can prove to be a significant obstacle in judiciary processes, which in addition, makes the overall integrity of the legal system uncertain. Enforcing contracts is a very long lasting process, proving to be a real obstacle in protecting one's right in front of a court. The process of property restitution is slow, due to administrative constraints and the lack of political will, and processes are long lasting, which may have its finale in front of the Court of Human Rights in Strasbourg. Displaced persons during the break up of former Yugoslavia (mostly from Bosnia, and most recently, Kosovo) residing in Montenegro are facing discrimination in access to land.

Size of Government

Government consumption is a major burden for the private sector. The high public deficit recorded in previous years has worsened the state of public finance. The level of public debt doubled 2008/2014, from 28% to 58% of GDP, increasingly calling for fiscal consolidation. It is even more important when a new medium-term cost is taken into account: due to demographic changes, the increasing transfers to pensions and healthcare. Another very important issue is the project of a highway from the city of Bar to the border with Serbia. The deal was struck with the Chinese ExIm Bank and the company CBRC. Although the project is envisaged to be beneficial for the economy, the large investment will prove as a heavy burden on public finances (current estimated price is 25% of GDP). The project will be financed by means of a loan that is indexed in dollars, which puts Montenegro in currency risk that would be costly to hedge. The state is still involved in many smaller companies however it has left the KAP aluminum plant, which was privatized. Another

important notion is the private minority shareholder in the national energy company, which manages it. The tax system consists of flat corporate tax set at 9%, while VAT levels are 0% (only for medicine), 7% and 19%. Personal income is taxed slightly progressive, subject to 9% tax for income under 720 euros monthly, and 13% for higher earnings. However, high social contributions, reaching approximately one third of the gross wage, lead to high overall labour tax wedge of 39%.

Regulation of Credit, Labour, and Business

Montenegro has a relatively liberal business environment. Since the currency in the country is the Euro, the credit market is completely liberalized. Labour code allows flexibility in working hours, but creates obstacle in the field of firing redundancy workers due to mandatory trade union notification, while dismissal costs and long notification period can be burdensome. Centralized collective bargaining is also present in some industries, and prevalent in the public sector. Business regulations are a mixture of liberal and rigid laws, coupled with some complicated procedures followed by bad implementation. Starting a business is very easy, and tax compliance costs are relatively tolerable, although followed by complicated and time consuming procedures. On the other hand, administrative procedures are complicated and non-transparent, with significant bureaucracy costs and opportunities for corrupt activities – obtaining a construction permit costs are extremely high, with a high number of long lasting procedures. Licensing professions still provides protection to a number of occupations.

Freedom to Trade Internationally

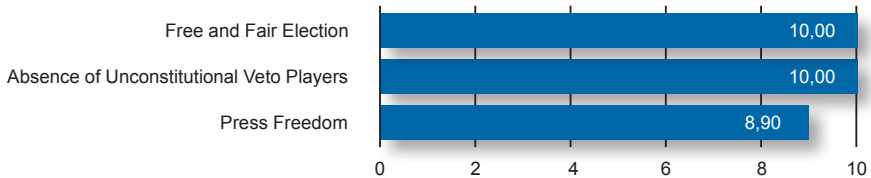
Being a small open economy, international cooperation and free trade is important to development of Montenegro. Generally, tariffs are low (average most favoured nation tariff stands at 4.3%) and were slightly decreased after Montenegro's recent World Trade Organization (WTO) membership in 2012. The most important trade partners are the EU countries, and countries from the region - most notably Serbia, Bosnia and Croatia. This highlights the impor-

tance of the Stabilization and Association Agreement concluded with the EU, which came into force in 2010, and Central European Free Trade Agreement (CEFTA) signed by Montenegro in 2007. Montenegro, although it is neither an EU member state nor a Eurozone member, unilaterally adopted the euro, which enhances international trade by eliminating currency risks and other currency exchange costs. The bureaucracy required for export and import leads to complicated standardization requirements for import goods, which serve as non-tariff trade barriers. Bad transportation infrastructure, including roads, ports and most dominantly railroads, limits the scope of trade and increases cost. Further trade liberalization is expected to increase with the continuation of the EU-accession process in the following years.

NETHERLANDS

GDP in 2014: EUR 662,342 million		
yearly growth rate: 1.0%	per capita: 39,280 EUR	by sector:
		agriculture 2.8%
		industry 22.3%
		services 74.8%
Population: 16,864 thousand	Human Development Index	Government position in 2014
Unemployment rate: 7.4%	HDI: 0.915 (rank 4)	-2.27% of GDP

A. POLITICAL FREEDOM



Free and Fair Elections

Netherlands is a parliamentary monarchy. The role of the monarch is largely ceremonial. Its bicameral parliament is consisting of the First Chamber, whose 75 members are elected by the country’s 12 provincial councils, and the Second Chamber, whose 150 members are elected by a popular vote. Elections in the country are free and fair, as were those most recent local and European-Parliament elections in 2014. Political parties can express their views without any restrictions. Non-citizen residents who are living in a country for more than 5 years are allowed to vote in local elections. The government is led by the coalition between People’s Party for Freedom and Democracy and Labor Party.

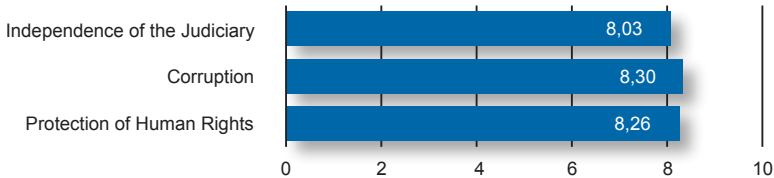
Absence of Unconstitutional Veto Players

Netherlands doesn't have unconstitutional veto players. Elected representatives have power to govern without any interference. Problems with corruption are rare while the government has effective ways of prosecution.

Press Freedom

Reporters without Borders ranked Netherlands, in their 2015 World Press Freedom Index, on the high 4th place among 180 countries. Freedom of the press is granted by the constitution and largely respected in practice. However, there are some restrictions on hate speech. Libel is a criminal offense. European Court of Human Rights ruled several times during the recent years in a way that would strengthen the protection of journalists' sources. At the end of 2014, two amendments were proposed to the parliament regarding source-protection, but they are still on waiting. Self-censorship of the journalists occurs rarely, mostly on some sensitive issues in society such as religion or immigration.

B. THE RULE OF LAW



Independence of the Judiciary

Judiciary in Netherlands is fully independent of the executive branch of power. Their overall performance is even better than in neighbouring Belgium or Germany. Judges are irremovable except for malfeasance or incapacity. The supreme judiciary body is the Supreme Court of Netherlands. It does not determine the constitutionality of laws, yet some of its decisions have political implications. One of such, itself far reaching, was brought in December 2014, when the Supreme Court acquitted a local council candidate in Amsterdam

of criminal liability for a homophobic hate-speech during his campaign. The constitutionality of laws is checked only in advance, when they are drafted by the government, not least by various parliamentary committees but even before that, by the Council of State, a body appointed (and sometimes presided) by the King/Queen, which thereby has an advisory role.

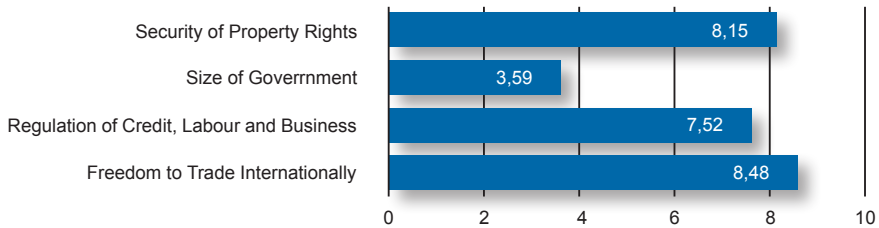
Corruption

Netherlands is one of the corruption-cleanest places. Both in 2013 and in 2014, with 83 points (of the possible 100) it took the place 8 in the Transparency International's Corruption Perception Index, on the list of 177 resp. 175 countries of the world. Petty corruption hardly exists at all. Not least that taking bribes is strictly forbidden, but receiving any gift from anyone is seriously restricted to public officials. Market economy with a lean public sector, well developed and highly sophisticated anti-corruption procedures and awareness of the broad population about the social perils of corruption, all together make it extremely hard for politicians to even remotely take illicit personal advantage of their policies or decisions. Citizens mainly share optimism. The last available Global Corruption Barometer data, as of 2011, showed that citizens perceived private business sector as a rare remaining field for anti-corruption struggle. In reality, the problems mainly rest in the corrupt activities of Dutch companies abroad. One is in direct bribing of foreign officials to get advantage on the market. Another one is tax deductions that they occasionally try to secure at home, for the money used for bribes abroad. Both practices are forbidden and regulation on that is constantly tightening. During the last extensive parliamentary debate on the issue, in March 2015, the anti-corruption bodies were urged to fine-tune to even the slightest "signals" of corruption. As an almost corruption-clean country, a true role model, Netherlands has been helping many countries all around the world, through development cooperation or other channels, to increase transparency in the public sector and suppress corruption. That is a usual part of the aid package, while there are also specialized anti-corruption projects in individual countries.

Protection of Human Rights

Netherlands is famous for its liberal approach to human rights, coupled with its democratic political system and a solid degree of economic freedom. The notion that limitations to individual freedom should be put only in as much as required to protect other members of society, as perhaps the most important of all liberal principles, is enshrined in all aspects of public life. Freedom to associate, in public or in private, to speak and express various views, or beliefs, or theories, or products of art, is widely practiced and makes the country diverse, colourful, innovative, vibrant and attractive for immigration like few other in the world. Police are carefully trained to act in a professional manner and respect human rights of citizens. However there are occasional cases of arbitrary arrest. Women are well protected against violence and discrimination, even though the highest (Scandinavian) standards of their equality and share of power in politics and society are not yet met. A lot more has to be done against human, including sex trafficking. But treatment of sexual minorities is a role model. All marriages and civil unions are equal in rights and duties. LGBT community is well integrated into society. Pride rallies in Dutch towns are a popular festivity often visited by top politicians and a celebration of the results of the struggle that is almost over in Netherlands, while in some other countries it has just begun. Some other minorities in Netherlands still await more protection. Refugees or other migrants are often an object of hate speech, even by some politicians, as an alleged anti-social element. Local minority language speakers also complain about impossibility of their broader usage in public.

C. ECONOMIC FREEDOM



Security of Property Rights

Private property is well protected in the Netherlands. Legal system integrity is at a high level, due to judicial independence and impartiality in their dealings. Legal enforcement of contracts is guaranteed, although with some setbacks concerning lengthy procedures. Bankruptcy procedures are efficient, with low costs and high recovery rates, but the personal bankruptcy rules are still restrictive. That explains a very low number of mortgage defaults, although the real estate market experienced a boom and bust cycle. Temporary tax break to monetary gifts of up to 50.000 euros is expected to encourage home ownership among the young people. Registering property is a major prerequisite for its legal protection. It is functioning well in the Netherlands due to the service of professional public notaries and to online procedures, both leading to an expeditious process, however burdened with a high transfer tax. This process was made smoother by introducing a more efficient title search process for notaries.

Size of Government

The government in the Netherlands is of a similar size to the ones in other European countries, with total government expenditures reaching 46% of GDP in 2014. High budget deficits recorded after the wake of the financial crisis in Europe were subdued to reach the Maastricht criteria of the EU and exit the Excessive Deficit Procedure in June 2014. Following a recession in the period of 2012 – 2013, growth rates were finally recorded. The level

of public debt increased to 67.9% of GDP in 2014, with a downturn trend, thus making it sustainable. Aside of regulatory activities, the involvement of government in the economy is low. State owned companies are mostly concentrated in the utility services sector, both on the national and on the municipal level. Social transfers are high, reaching half of all government expenditures. Recent developments (higher dependency ration, increasing number of people outside the pension system, etc) call for pension-system reforms, which are for the time being restricted to minor parametric changes in retirement age. High expenditures need to be met by high tax rates: both corporate and income tax are progressive, the corporate one being 20% and 25% above the threshold of 200.000 euro, while the personal income tax is set at 5.1%, 10.85%, 42% and 52% for the highest earners (the two latter rates include social security contributions). VAT is set at the standard 21% or the reduced 6% rate. Social security contributions are high, reaching 31.5% of the gross wage, which, coupled with the income tax, leads to a high labour tax wedge, of 37.3% on an average wage, and, especially among higher earners, of 53.4%. As a result, a large share of employees in the Netherlands (10 – 15%) are not in the status of employed persons, but are registered as owners of small enterprises and are active as free lancers, in order to evade social security contributions.

Regulation of Credit, Labour, and Business

Business regulation in the Netherlands creates a friendly environment for entrepreneurial activities. Starting a new business is quick and inexpensive and made even easier by abolishing the minimum required capital. Compliance with procedures is not burdensome due to low number of annual payments and widespread use of electronic filing. However, there are still administrative requirements that pose hindrance to business activities. Obtaining a construction permit or getting electricity could be costly, with lengthy – even though not numerous - procedures. On the other hand labour code, with its high employment protection for workers, is restrictive for the creation of new jobs. It deters employers from hiring. It is one of the factors leading to high self-employment in the country. The number of short term contracts is restricted

to only one, while the working hours regulation is not too flexible due to relatively low maximum of working days per week, albeit allowing for the possibility of longer working hours in case of an increased workload. Severance pay is low, but the role of trade unions in redundancy process is excessive, with long redundancy notice periods, increasing with years in tenure and protecting more seasoned workers. More flexibility in the labour code is one of the important issues necessary to be discussed.

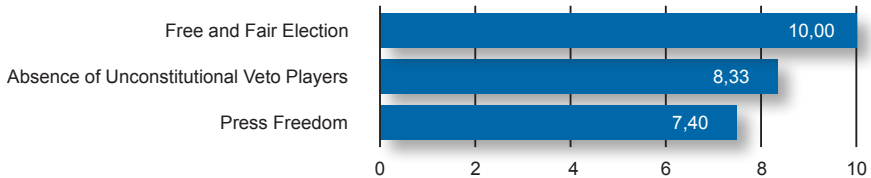
Freedom to Trade Internationally

Freedom to trade internationally is protected in the Netherlands. As a small open economy, international trade has always been important for its economic development. Being one of the founding countries of the European Union, the Netherlands abides by the common European trade policy, with the overall low tariff rate. Efficient customs office lowers non-tariff trade barriers in the field of mandatory product standardization, while very good public transport infrastructure leads to low freight cost, enhancing the volume of trade. Therefore, the Netherlands also serves as a regional trade hub for neighbouring European countries, with Rotterdam harbour as one of the biggest harbours in Europe (giving its name to the Rotterdam effect). Its main trade partners are other EU countries such as Germany, Belgium, France or the United Kingdom. The Netherlands has been experiencing a large current account surplus, reaching 10% of GDP in 2014, due to sluggish private consumption recovery which stifled imports and strong export base, fuelled by high exports of natural gas. Acquiring a residence permit for non-EU citizens is a complicated process, but the regulation was eased by introducing a one-year residence permit for entrepreneurs.

POLAND

GDP in 2014: EUR 412,043 million		
yearly growth rate: 3.4%	per capita: 10,840 EUR	by sector:
		agriculture 3.7%
		industry 32%
		services 64.3%
Population: 38,018 thousand	Human Development Index	Government position in 2014
Unemployment rate: 9.0%	HDI: 0.834 (rank 35)	-3.20% of GDP

A. POLITICAL FREEDOM



Free and Fair Elections

All elections in Poland since 1990 were considered as free and fair, however distrust in electoral institutions was spread among public after the local elections in November 2014. Delay in the tabulation of votes and publishing of the results, as well as high percentage of spoilt ballots – 17.47%, incited opposition to call for a repeat vote. Allegations were declared as unsubstantiated, thus the elections as valid. Almost all members of the National Election Commission had resigned, and their replacements raised concern that the Commission will not be prepared for the 2015 presidential elections. Political scene in Poland could be described as a pluralistic and free. The two strongest parties in the country are Civic Platform, the governing party, and Law and Justice, which is

the strongest opposition party. Beside them, few more parties are creating the political life of the parliament. Minority groups enjoy some benefits in Poland, in that their registration procedure is easier and they are not subject to the electoral threshold of 5%.

Absence of Unconstitutional Veto Players

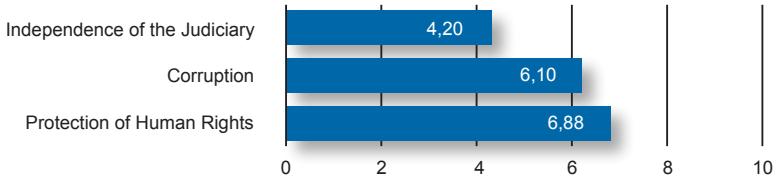
Problems with corruption among the officials remain among the biggest issues in Poland. It attracted special attention after a weekly magazine had published, in June 2014, the wiretapped conversations between high-level politicians. The content of those conversations revealed corruption practices among them. According to the Freedom House, few months prior to that the government adopted new anticorruption strategy which aimed to strengthen the position of the Interior Minister and placed greater emphasis on education and prevention. The government has power to govern effectively and interferences are rare. However, Roman Catholic Church still has serious influence on society, especially on some topics like LGBT rights or educational issues, and tries to interfere in the decision-making process in Poland.

Press Freedom

Freedom of the press is granted by the constitution, but there are some laws which restrict this right. Libel, defamation and offending of the religious feelings remain punishable by fines or imprisonment in Poland. Wide variety of broadcast, print and online media are expressing broad range of opinions but they are mostly biased. Politicians tend to influence reporting via National Broadcast Council, a body composed of members elected by the government, or through advertisements. Importance of the media in Poland in shaping public opinion was emphasized during the “Waitegate” tape scandal, considering that it has seriously shaken the government. The offices of the Wprost magazine, which published the secret conversations between high-ranking officials, were raided few days after the publishing. The raid was recorded and created outrage throughout society, after which the Prime Minister Tusk apologized and promised to launch an investigation. Two journalists were arrested

during the protests which followed local government elections in November 2014, but they were found not guilty.

B. THE RULE OF LAW



Independence of the Judiciary

The problems encountered during the past several years have persisted. Throughout 2014 no reform of the judiciary was in sight. Courts remained unevenly burdened with casework. Their regional organization is dysfunctional. Their proceedings are slow, while some rulings are regarded as biased in favour of politicians or other public figures. Judiciary remains as a sector which was least reformed during the post-communist transition period. It is the main limitation factor to the implementation of the rule of law in Poland. Political pressure on the courts was especially notable in the case of detainees of the secret CIA centers in Poland between 2002 and 2003, where after European Court of Human Rights intervened and ruled that their rights were violated. By early 2015, some improvements regarding spatial and sanitary conditions in prisons were notable due to the new regulation.

Corruption

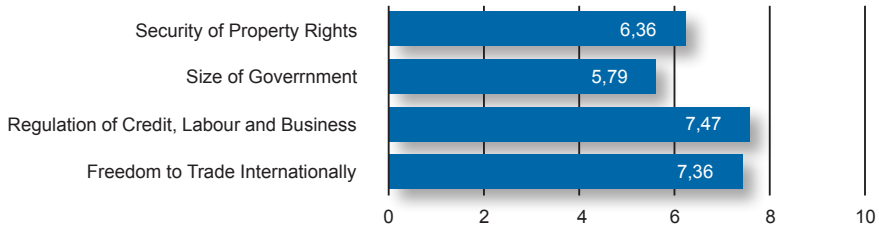
A minimal improvement in fighting corruption was noted between 2013 and 2014, whereby Poland rose in Transparency International indexing, from 60 to 61 points, just to take the place 36 (of 175) instead of 38 (of 177) countries. Combating corruption had varying results in different fields of public life. The Central Anticorruption Bureau completed 214 investigations in 2014, plurality of them related to cases in local government. However, the two most

outspoken of such cases from 2013, when a high ranking national and a local politician were sentenced for taking bribes, got a U-turn in 2014, with the acquittal of the defendants by the Supreme Court. Two major corruption scandals were revealed in sports, regarding organization of the already held or planned international tournaments. Issues of misuse of travel refunds by the MPs, or of corruption in medical consultancy services for the government also came into focus. Public has been showing ever greater awareness of the problem of corruption and has demanded reforms in order to suppress it.

Protection of Human Rights

In late April 2015, Poland completed the ratification of the Council of Europe Convention on preventing and combating violence against women. The convention met sharp disputes, resistance and blockage in the Parliament, as well as outside it. Catholic Church strongly opposed it on the ground that it was spreading “gender ideology” and destroying traditional family values. President Komorowski signed the ratification bill nevertheless. Yet another bill, opposed by the Church albeit supported by a firm majority of population, was about the in vitro fertilization, which was thereby for the first time legally regulated. Accordingly, couples got equal IVF treatment regardless of marital status. Law was adopted in Sejm in late June 2015. The third major breakthrough, which might positively affect human rights in Poland in future, occurred during 2014: the effectuation of the new, more liberal rules for NGOs` fundraising. The liberalization would diminish red tape, hence encourage even more private donations to civil society organizations and thus further improve the anyway admirable record of Polish civil society in both the fields of humanitarian work and of human rights advocacy, monitoring and protection.

C. ECONOMIC FREEDOM



Security of Property Rights

Property rights are overall secure in Poland, due to established integrity of the legal system. However, court impartiality and low judicial independence remain as serious obstacles. Business costs of crime are low and police system is reliable. Restrictions on the real property ownership by foreign nationals are present: permits by the Ministry of Interior Affairs are necessary for acquisitions, even in a case of acquisition of a legal entity that owns real property. Furthermore, foreign nationals (including even the European Economic Area nationals) cannot hold agricultural land, a measure which is expected to be lifted in 2016. Enforcing contracts is a long process due to the high number of procedures involved. Resolving insolvency is a much better organized process, which provides high recovery rates in spite of lengthy procedures it involves. Overall, long and inefficient court procedures make property rights considerably less secure.

Size of Government

Poland is one of few countries in Europe which did not experience recession during the financial and fiscal crisis. In 2014, growth has accelerated, to 3.3%. Government expenditures are at the average EU level, exceeding 42% of GDP. Continuous high fiscal deficits increased the medium size public debt to 51% of GDP, but it was put on a sustainable path through implementation of fiscal consolidation with measures both on the public revenues and on the expenditure side. Successful implementation of the program led to Poland's

exit from the Excessive Deficit Procedure of the EU in 2015, one year in advance than previously envisaged. Income tax is progressive, with the lower rate of 18% and the higher one of 32%, applied above the threshold of approximately 160% of GDP per capita. VAT level is set at 23%, with privileged rates of 5% and 0% for some products. Total payroll tax wedge reaches OECD average of 36% mostly due to high social insurance contributions, which are divided between those paid by the employer and those by the employee. High social security contributions have led to high share of non-fixed temporary working contracts (“junk contracts”) among the working population, because of the lower social-contributions scheme having had been applied. Although thorough privatization process took place in 1990s, the government is still in possession of many enterprises in various sectors, including the biggest bank in the country PBK BP, although that one is listed in stock exchange with private minority shareholders. Some of those companies do not operate efficiently, receiving direct funding from the state for their operation, especially in the mining sector, although the overall level of subsidies is low, at 0.6% of GDP. The plan for privatizations of state owned enterprises has been downsized since last year, with a number of companies excluded from the program. Emphasis was put on the inclusion of minority shareholders via stock exchange public offering.

Regulation of Credit, Labour, and Business

Business regulation is overall positive oriented towards entrepreneurial activities. Problem rests in the administrative requirements for conducting daily business operations, which sometimes involves unnecessary, lengthy and expensive procedures, all of which incurs significant costs on businesses. Similarly, starting a business is not as quick and easy as in many other European countries, with substantial costs and relatively high minimum capital requirements. Two examples of processes with expensive and long procedures are obtaining a construction permit and getting electricity. Licensing restrictions in certain professions and industries are present, lowering the competition by putting obstacles to entry. Tax procedures are also complicated to

comply with. Labour regulation is mostly flexible: working hours are not rigid, due to possible longer workweek in case of increased workload, although the maximum number of workdays is set relatively low. Notice periods and severance pay increase with the years in tenure, making more seasoned workers more secure in their workplace but also prone to less chance for re-employment if they are back on the labour market. Priority rules in the redundancy process and reassignment / retraining obligation and priority rules of employment make the process of hiring and firing complicated, as yet another major factor, apart from high social security contribution for widespread temporary working contracts. There are plans to reform the tax administration of large payers by setting up a new Large Taxpayers Office. Deregulating professional licensing is necessary in order to enhance labour market efficiency and lower rents.

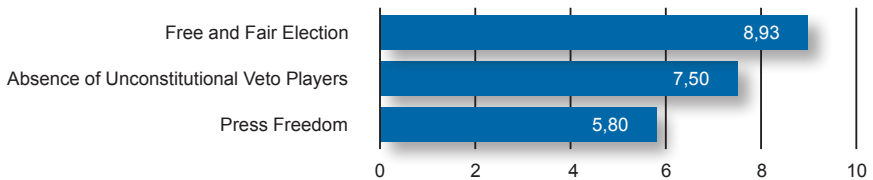
Freedom to Trade Internationally

Being a member of the EU, Poland is a part of its common market and applies its common trade policy. Therefore, tariffs are low (simple average tariff is set at 5.47% and most products have either lower tariffs or none at all, excluding the agriculture products). However, the process of standardization and certification for the imports of goods from non-EU countries is complicated and incurs costs, thus serving as a barrier to international trade. Capital controls introduced by the National bank of Poland to stop the inflow of short-term capital at the offset of the financial crisis are still present. Coupled with flexible exchange rate of the national currency, this lowers the risk of possible external shocks. Documentation for the international trade is not burdensome. Good public infrastructure fosters trade by lowering transportation costs. Major market for Polish products is the EU, most notably Germany. The Russian Federation is another important trade partner. The restrictions on trade, imposed by the Russian government due to political tensions in Ukraine, have damaged Polish agriculture export.

ROMANIA

GDP in 2014: EUR 149,728 million		
yearly growth rate: 2.8%	per capita: 7,500 EUR	by sector:
		agriculture 5.4%
		industry 27.3%
		services 67.3%
Population: 19,947 thousand	Human Development Index	Government position in 2014
Unemployment rate: 6.8%	HDI: 0.785 (rank 54)	-1.87% of GDP

A. POLITICAL FREEDOM



Free and Fair Elections

Beginning with the 1989 Revolution, the legal system in Romania has been gradually improved and the country managed to obtain full scores regarding the organization of free and fair elections. However, according to the Freedom House analysis, the last presidential elections that took place in November-December 2014 proved that there is still room for improvement regarding the electoral process in Romania. Due to procedural misunderstandings, a lack of executive strictness and an increasing number of new international factors such as the free movement of people, a large number of Romanian citizens living abroad have been denied the right to vote. There have been long lines and a shortage of official stamps to mark ballots. This situation created polit-

ical turmoil and caused the resignation of two Ministers of Foreign Affairs. Moreover, a legal investigation has been opened regarding the issue. In terms of political pluralism and participation, Romania's multiparty system seems to work just fine, facing only minor challenges. Although minorities seem to have the right to be fairly represented in the Parliament, there is still a lack of representation of the Roma minority.

Absence of Unconstitutional Veto Players

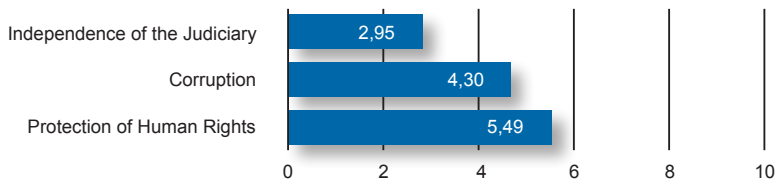
Ever since it joined the European Union in 2007, Romania has been blamed of corruption, a lack of political transparency and huge resistance from political leaders. This should be of no surprise considering that Romania was the only Warsaw Pact country that did not experience a process of lustration in any form or shape. Furthermore, Transparency International's 2014 Corruption Perceptions Index ranks Romania 69 out of 175 while a European Commission report, released in 2014, argues that the country was the second largest source of attempts to defraud the EU in 2013. However, the National Anticorruption Directorate in Romania started to play an essential role in investigating acts of corruption among top political leaders. Consequently, during 2014, a large number of individuals were arrested and many more investigated, including former and current Ministers, Members of Parliament, mayors, and political advisers. To conclude, it could be argued that the number of unconstitutional veto players is decreasing in Romania.

Press Freedom

Although it experienced ups and downs, press in Romania has been ranked by Freedom House as partially free for a long period of time. The reasons why such a situation occurs are quite clear. Firstly, there are legal ambiguities regarding defamation, there are fines for specific insults in public speeches and the appointments to the National Audiovisual Council are highly politicized, obstructing the well-functioning of the institution. Secondly, the political environment plays an important role in shaping the agenda of both public and private broadcasting companies. The leadership of the public broadcaster

is changed after each of the general elections, while the private media sector shows strong business and political interests, usually maintaining close ties to players in the political arena. Last, but not least, public advertising is also highly politicized and non-transparent, while journalists frequently suffer from abuses, low pay and job insecurity.

B. THE RULE OF LAW



Independence of the Judiciary

Since Romania's accession as a full member of the EU in 2007 there has been a progress in the independence of judiciary. But in this subcategory of the rule of law Romania is still quite low. Starting from political influences down to corruptive ones, problems are numerous. Judges of the Constitutional Court (CCR) are selected largely along political preferences of the two chambers of Parliament or of the President, who appoint them one each every three years, to have served nine years' terms. Many of the CCR decisions reflect partisan interests or positions. Throughout the court system, corruption, nepotism and trading in interest are common. According to Transparency International's Global Corruption Barometer 2013, 58% of citizens found the judiciary corrupt. 13% of citizens reported giving bribes to judges during the preceding 12 months. During 2013 and 2014, a number of judges were convicted and retired because of corruption. Many among them afterwards received high special pensions. Legislation was carried in July 2014 to disallow that, at least for those with definitive sentences for corruption.

Corruption

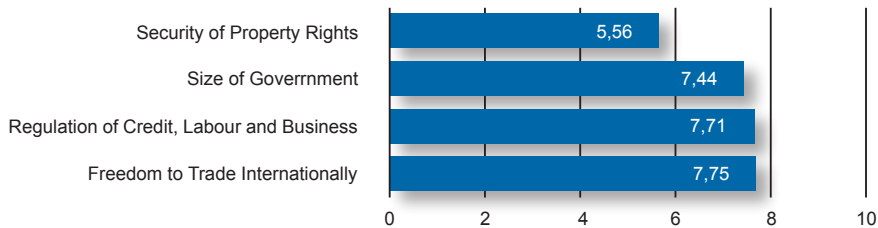
Prior to 2007, widespread corruption was often cited as an argument against Romania's EU accession. Since then, plenty of domestic and EU's effort was put into the anti-corruption struggle. The situation has improved, albeit relatively little. For instance, Freedom House reports between 2006-2015 showed a fall of the score in the field of corruption, from 4.25 to 3.75, on the scale between 7 (worst) and 1 (best). Transparency International, in its Corruption Perception Index 2014, marked Romania 43 points, which put her, together with Brazil, Bulgaria, Greece, Italy, Senegal and Swazi, on the place 69 of 175 countries of the world. No other EU country is below. Same organization's Global Corruption Barometer 2013 showed that citizens perceived political parties (by 76%), legislature (68%) and judiciary (58%) as corrupt or extremely corrupt. Roughly half of them considered civil servants, police or medical staff corrupt, which indicated at a trend of gradual decreasing of petty corruption.

Protection of Human Rights

Romania is worse in the field of human rights than the neighbouring Bulgaria or Hungary. While ordinary street police forces are ever better trained in professional treatment of citizens, ill treatment in custody or jail is still present. The worst reformed among security forces are secret services, which occasionally break laws, infiltrate and misuse other state institutions and avoid full democratic civil control. They are sometimes misused by various branches of government to pressurize each other over political issues. Other, even bigger problems include gender inequality, poor protection of women and girls and widespread human trafficking. Minorities – racial, ethnic, religious, sexual or other - are insufficiently protected. Too little is done for the persons with disabilities. Romania is a homophobic country, due to strong religious traditionalism but also due to remaining legacies of Ceausescu regime. The Romany people suffer maltreatment. Worse to it, as a recent study by the University of Uppsala has shown, Romanian or Bulgarian Romany who migrated to some other EU countries including even Sweden have sometimes faced discrimination over there too. On the bright side of Romania's human rights record,

freedom of assembly, association or expression is fairly well respected, in contrast with the memories of the brutal treatment of dissidents until 1989.

C. ECONOMIC FREEDOM



Security of Property Rights

Property rights in Romania are relatively secure. However, problems arising from weak judiciary system are present. The judiciary is not independent from out-of-the-court influences, with powerful vested private interest groups. Courts can also be partial in their ruling, undermining the rule of law. Enforcing legal contracts is complicated, with many procedures resulting in a long duration process. However, the newly enacted civil procedure code is expected to streamline and speed up current court procedures. Foreign nationals face restrictions in the right of ownership of agricultural land. However, there has been improvement in this field due to lifting the ban on the EU citizens in January 2014 (Romania opted for a 7 year restriction, starting from its EU accession date in 2007). Property rights can be ill-defined, as in the case of real estate property land ownership and land tenancy rights, which are divided, resulting in uncertain or unclear property rights.

Size of Government

Size of government in Romania is modest as compared to other European countries, with government expenditures reaching 34% in 2014. After the strong recession in 2009, Romanian economy has rebounded with robust growth in European terms since 2013. Harsh fiscal austerity measures intro-

duced since 2010, by cutting public expenditures as well as by raising taxes, have substantially decreased the level of fiscal deficits (from 7.1% of GDP in 2009 to 1.9% in 2014), leading to a more sustainable public debt, which increased threefold since 2008, to 40.6% of GDP. State-owned enterprises remain one of the weak points of the Romanian economy: they are numerous and play a notable role in the economy. However, their performance is low, with low profitability, accumulated arrears and the reliance on government transfers for needed investments. Further involvement of the private sector in this area is necessary in order to hurdle investments and increase performance, by majority or minority privatization or other public-private partnership arrangements. Personal income and corporate income taxes in Romania are flat, all set at 16%. However, VAT is high, with the standard rate of 24% and reduced rates, for certain products, of 9% or 5%. In June 2015, a plan for a substantial reduction of VAT rate was introduced, aiming at 20% standard VAT rate from January 2016 and its further decrease to 19% in 2017. This move, although a moderation from the previous plan under the influence of the European Commission and the International Monetary Fund, and generally a step in a good direction, still poses a significant fiscal threat and therefore calls for more efforts in making the program sustainable, by improving the tax coverage. Labour tax wedge in Romania is high due to social contributions which remain high, approximately 47.5% when applied on an average wage. They are surpassing those of Belgium, a country which has the highest labour tax wedge in the OECD.

Regulation of Credit, Labour, and Business

Business regulation in Romania is mostly favourable to business activities, but many aspects of legislation are complicated and burdensome to entrepreneurial activities. Starting a business is easy and inexpensive, but problems exist in the area of administrative requirements. Obtaining a construction permit and getting electricity are both lengthy processes with many procedures, and with high fees. Compliance with tax procedures is unnecessarily complicated, incurring costs due to the high number of annual payments. Corruption and

open favouritism by public officials is present, due to the environment in which regulations can be circumvented via proper contacts. Labour market regulations are mostly flexible, especially in the section of working hours, where only the maximum working week regulation, stipulating a 5-day workweek, is restrictive, albeit allowing for longer hours in case of an increased workload. Firing regulations can impose difficulties through retraining, reassignment or reemployment obligations of the employer towards the redundancy workers, but with low severance payments.

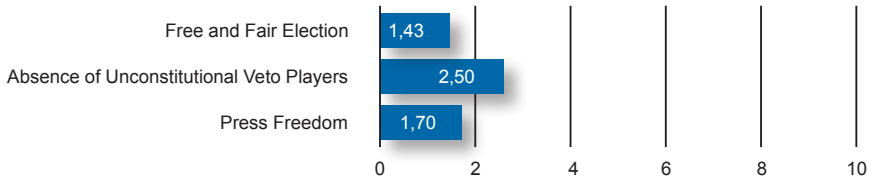
Freedom to Trade Internationally

Freedom to trade internationally is mostly upheld in Romania. As a member of the EU since 2007, Romania implements the common trade policy, with low tariff rates. However, regulatory trade barriers are enforced, mostly in the field of necessary product standardization for imports, which burdens trade by incurring costs. Poor state of the public transport infrastructure, most notably the railroads, is another hindrance to free trade, resulting in high transportation costs, which limit the trade volume. Further private involvement in the railroad freight system through the privatized Marfa Company is expected to boost freight performance. Bearing in mind fiscal risks due to the envisaged decrease in tax rates, more effort should be made to involve international project financing, where steps could be made by increasing effectiveness in the EU funds' absorption. Romania is mostly oriented to the EU common market and its main trade partners are Germany and Italy, followed by other EU countries, while Turkey is being the only EU outsider on the list of important trade partners.

RUSSIAN FEDERATION

GDP in 2014: EUR 1 399 262,992 million		
yearly growth rate: 0.6%	per capita: 9,570 EUR	by sector:
		agriculture 4%
		industry 36.3%
		services 59.7%
Population: 146,370 thousand	Human Development Index	Government position in 2014
Unemployment rate: 5.2%	HDI: 0.778 (rank 57)	-1.18% of GDP

A. POLITICAL FREEDOM



Free and Fair Elections

The outcome of regional elections in September 2014 confirmed the will of the ruling United Russia Party and of president Putin not to embark on democratic experiments. The candidates were fixed, the electoral process itself non-transparent, voters of other parties than the ruling party were harassed and the desired outcome was produced. Under immense external pressure due to Russia’s annexation of the Crimea and tumbling crude oil prices, the incumbent governments try to strengthen their hold on all spheres of society through restrictive laws. Turning against the last remnants of the opposition and disposing them on “show trials”, they make the chances for democratic improvement currently low.

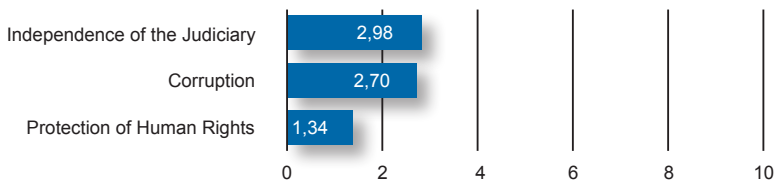
Absence of Unconstitutional Veto Players

Unconstitutional veto players are as potent as described in the last year's comment. Secret service, tycoons in economy and the media even started to play a more significant role. Russia's international isolation, caused by the annexation of the Crimean peninsula and the war in eastern Ukraine led to more restrictions from the state vs. civil society. The parliament continues to play its figurative role.

Press Freedom

With regards to dramatic changes in foreign policy – the annexation of the Crimean peninsula and the war in eastern Ukraine – press freedom has suffered. However low the ranking in Freedom Barometer's press freedom index were, one might ask about the limits of such downward trend. The general answer, which Reporters without Borders have indicated in their press index, is that Russia followed an overall bad trend, because two thirds of all countries considered were faring worse than in 2014. Russia ranks 152 out of 180 countries. This shows the degree to which authoritarian rulers give central place to the issue of (hindering) the access to free media. Although total control seems only possible in regions which Reporters without Borders listed as black holes, e.g. areas of civil war, a growing number of states try to impose their will on the last remains of possibly critical media – even in countries which are part of the EU (e.g. Hungary).

B. THE RULE OF LAW



Independence of the Judiciary

Ruling ideologies and political and religious elites of Russia openly reject the concept of rule of law as allegedly “alien” and replace it with less clear “justice”. Yet another liberal principle, the separation of power, rejected in Soviet era while reinstated by the 1993 Constitution, has been under threat during the last 15 years of autocratic rule of Vladimir Putin. The autonomy of the judiciary is shrinking, while political influence is obvious in all court cases that had any political relevance. The court reform of February 2014, which included a merger of commercial and general courts, allowed executive branch even more control, almost completing the establishment of a corporatist, clientele petro-state. Additionally, in October 2014, changes to the criminal procedure code blurred the division of responsibility between revenue authorities and police for investigating tax fraud, thus making it easier to the executive to use tax investigations as leverage against political opponents. Following the outbreak of the conflict in Ukraine, Russia’s judiciary has been misused for war ends. A number of Ukrainian citizens were illegally detained in Russia, often in cooperation with the pro-Russia rebel forces in eastern Ukraine. The most prominent of the detainees are a military pilot Nadiya Savchenko and a film director Igor Sentsov. By mid-2015 their trials were still on. Meanwhile, in July 2014, Russian government and state oil company Rosneft were ordered, via two separate rulings of the Hague-based Permanent Court of Arbitration and the Strasbourg-based European Court of Human Rights respectively, to compensate the shareholders of the oil company Yukos (seized by the government in 2004 upon a political dispute) the sums of 50 billion resp. 2.5 billion USD. Yukos case, with the adjacent misuse of judiciary for political ends, had been an important milestone on Putin’s road to absolute power, hence Russia’s adherence to international law would hereby be significantly tested.

Corruption

Corruption in Russia worsened as compared to 2013. The country fell from the place 127 of 177 to 136 of 175 in the Transparency International’s ranking, while its Corruption Perception Index fell from 28 to 27 points. Politicians,

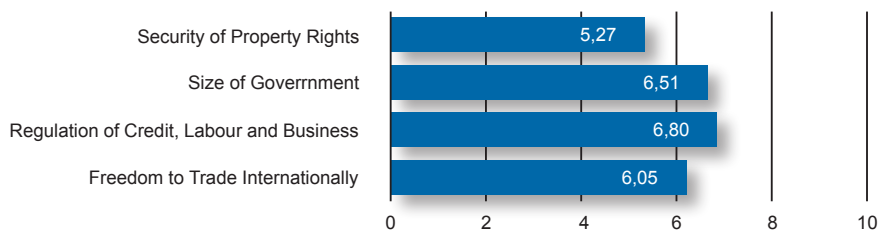
as well as those whose duty is to enforce the law, i.e. judiciary and police, are perceived as the most corrupt. The degree of merger of political and economic oligarchies is very high. With political influence on allegedly independent state bodies or on courts, plus with direct bribes in judiciary, serious implementation of the existing anti-corruption laws is impossible. Occasional campaigns make good marketing for the government, or merely reflect internal conflicts within the elite. Likewise, petty corruption in many areas of public life is pervasive. Least to say dubious - or perhaps cynical - answer to that problem by the government was a new law, signed in March 2015, which slashed fines and loosened regulation regarding punishment for giving or taking bribes. Taken in total, the sums misappropriated through corruption at all levels are so huge that they change the social fabric, create grand scale inequalities and hinder self-organization of the civil society.

Protection of Human Rights

On the entire European continent Russian Federation has the poorest record regarding human rights. The situation is worse even as compared to most other ex-Soviet republics. Arbitrary detentions, kidnappings (including of foreign nationals, on foreign soil), torture in custody and lack of democratic control over security sector resemble many of the old, Soviet-era ways. Present authoritarianism is thus on the verge of becoming an open dictatorship. Following a number of unexplained assassinations of journalists, NGO activists, dissident businesspeople, disobeying state officials or other mid-level opponents of the regime, that had happened during the last 15 years, on 27 February 2015 a high ranking opposition leader Boris Nemtsov was gunned down in Moscow, where upon the annihilation of human rights has entered into a new phase. As Freedom House noted, during 2014 civil liberties declined, media controls were further expanded, domestic and foreign civil society organizations were further pressurized, while new travel restrictions emerged, encompassing not just migrations within the country but also travelling abroad. Human rights activists are treated as enemies of the state, while LGBT people are labeled by the state (and church) propaganda as degenerates. Activities of their organi-

zations are seriously restricted, under the pretext of child protection. Racism against people of Caucasian or Central Asian origin is widespread, even though the government recently tried sincerely to diminish it. Another one among rare relatively decent records of the government regarding human rights is their treatment of indigenous minorities, some members of which use to take high level positions in the government. An exception is the occupied and annexed Crimea, where local Tatars are discriminated by the new Russian authorities. Human rights situation in the peninsula is overall alarming. Similar case is in some of the Russia's autonomous republics.

C. ECONOMIC FREEDOM



Security of Property Rights

Private property is not well secured in the Russian Federation. The main weak point is low judicial independence from political factors, vested interest groups and the executive power which can execute strong influence in the arbitration of justice. Courts are not impartial, and their decisions in similar cases differ, giving advantage to the party involved with political connections. Reliability of the police is also very low. Private property can be seized by the state with little, if any, compensation. Costs of businesses incurred by crime activities are still high, although at a lower level than in previous years. Another problem arises from extortions committed by state officials. However, legal enforcement of contracts is a good side of the overall legal system: although characterized by many lengthy procedures, it incurs low costs compared to the value of the claim. The insolvency process leads to relatively high recovery

rate. Restrictions on the possession of real estate, and agriculture land especially, are still present for foreign nationals.

Size of Government

Government consumption in the Russian Federation is lower compared to the EU or OECD average, reaching 38.4% of GDP in 2014, an increase of 4 percentage points since the beginning of the crisis. A sharp recession was recorded in 2009, but the growth rates rebounded. However, low prices of energy products, coupled with political tensions and international sanctions, have crippled economic growth, leading to economic stagnation in 2014. Lower levels of FDI and high capital outflows, as well as sharp decline in oil prices, made Russian economy prospect dim. High public revenues from oil and natural gas allow for high public expenditures and low level of taxes – in 2014 recorded budget deficit stood at 1.2%, but when oil revenues were excluded it reached 13% of GDP. Taxation system uses flat rates, with minor progressive methods in determining the level of social contributions: personal income tax is 13%, VAT 18%, while corporate tax varies from 15.5% to 20% due to regional tax deductions. Social contributions consist of 30% of the gross wage paid by the employer, which coupled with personal income tax gives a moderate tax wedge of 33% (moderately lower than 36% in OECD countries). The government's presence is widespread in many sectors via state-owned enterprises, not just in those that are legally considered to be of the strategic importance, such as public utilities, mining, energy and military equipment. Many of those companies enjoy large direct or indirect - usually inefficient - subsidies to maintain their operation, as well as protection from international competition on domestic market.

Regulation of Credit, Labour, and Business

Business regulation is one of the weak points of Russian economy. Although business regulation is overall favourable to conducting entrepreneurial activities, many problems are still present in the area. Substantial bureaucracy costs and complicated administrative requirements for conducting daily business

activities remain. This environment is suitable for the flourishing of corruptive activities and partial approach by state officials towards business entities: one of them is discretionary power to interpret vague regulations. Obtaining a construction permit is not only a lengthy but also an expensive process, involving many procedures prone to corruption, and the costs of obtaining an electricity connection are also very high. However, licensing restrictions, although present, are not prevalent. Tax compliance costs are not exuberant. Starting a business is both easy and inexpensive. Flexible working hours and low redundancy costs, which do not increase with the number of years in tenure, make some strong points in labour regulations. However, firing regulations are complicated due to obligatory trade union (third party) notifications. Centralized collective bargaining is mostly encompassing public sector employees, while the minimum wage is low as compared to international standards, set at approximately 20% of the average wage. Obligatory military service, although shortened to 12 months, still poses a significant burden.

Freedom to Trade Internationally

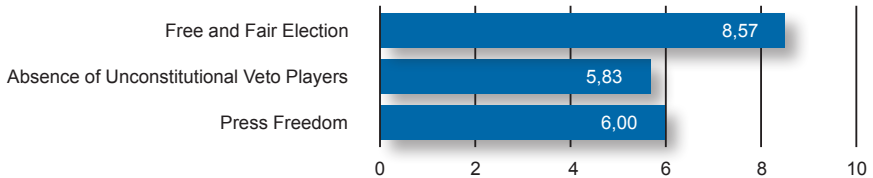
Russian economic policy does not have free trade high on its policy agenda. Joining the World Trade Organization (WTO) in 2012 did have a positive impact on trade liberalization, although tariffs remained high, especially on agriculture products. Establishment of the Eurasian Economic Union (EEU) in January 2015 will substantially lower the trade barriers between countries involved (the Russian Federation, Belarus, Kazakhstan, Kyrgyz Republic and Armenia). However, member countries do not have complementary economies, which will foster intra-industry trade, so the overall level of trade will not substantially increase. Protectionist measures are widely used as instruments of economic policy, in order to promote industrial production. For that matter, standardization requirements, which serve as non-tariff barriers, are burdensome and complicated. The Russian Federation has for long been experiencing surplus in trade due to the high energy export (oil and natural gas) with symptoms of the Dutch disease, with strong currency which discourages Russian exports. However, this may soon change due to sharp fall in oil prices.

Due to the high capital outflows, low oil prices and international sanctions that were introduced due to political tensions regarding the crisis in Ukraine, the rouble strongly devaluated, which decreased imports to Russia. Russia's counter-sanctions regarding the ban on import of foodstuffs from countries involved in original sanctions took a toll on Russia's international exchange (decreasing imports by 7% of their volume), hurting European producers as well as domestic consumers because of the increased prices of basic products, and fuelling inflation. Authorities also implemented several measures to counterbalance the lower imports of agriculture products: encouraging trade diversion (importing from countries other than those under sanctions) and supporting domestic supply, via production subsidies.

SERBIA

GDP in 2014: EUR 32,989 million		
yearly growth rate: -1.8%	per capita: 4,600 EUR	by sector:
		agriculture 8.2%
		industry 36.9%
		services 54.9%
Population: 7,164 thousand	Human Development Index	Government position in 2014
Unemployment rate: 19.7%	HDI: 0.745 (rank 77)	-6.28% of GDP

A. POLITICAL FREEDOM



Free and Fair Elections

In January 2014, the strongest party in parliament – the Serbian Progressive Party (SNS) - called for early elections on March 16, just two years after the previous ones, held in May 2012. The elections ended by an overwhelming victory of the SNS-led coalition (48.4% of the votes, resulting in 158 out of 250 seats). The SNS built a coalition with the Socialist Party of Serbia (SPS), creating a more than four-fifths majority in the Parliament. Those elections could be described as free and highly competitive. The biggest concerns are related to the intimidation of voters by the representatives of the governing parties at some polling stations, to the lack of critical and analytical reporting in the mainstream media (both printed and electronic) and to continuing

shortcomings in the voters' register. Each governing party since the introduction of the multiparty democracy declined to tackle the problem of the party financing in a serious way, misusing resources of the state institutions and public companies for financing their election campaigns. A law on this matter, adopted in 2010, has still not been implemented properly.

Absence of Unconstitutional Veto Players

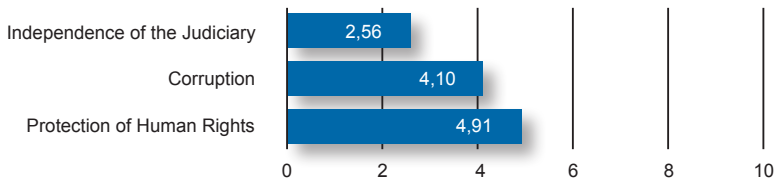
Authorities in Serbia have effective power to govern without interference of the unconstitutional veto players. However, corruption among the officials, organized crime and very low level of prosecutions by the judiciary creates a space for unconstitutional activities within the state. Serbia declined in Transparency International's 2014 Corruption Perceptions Index for six places, ranking now as 78 out of 175 countries, because anti-corruption measures adopted by the government still didn't bring success. Serbian Orthodox Church (SPC) showed in the past that it can have significant influence on public opinion. However, due to scandals by the church high-ranking officials during recent years, the capacity of the SPC to influence is seriously reduced. Police forces successfully dealt with the nationalist groups in September 2014, ensuring the first LGBT Pride Parade to take place in Belgrade since 2010.

Press Freedom

The freedom of the press in Serbia further deteriorated. Despite adopting three media laws which would streamline the country's legislation with EU legislation in the course of EU accession, the implementation has not occurred. The state still controls media through the advertisement market. Self-censorship among journalists is still widespread. The Balkan Investigative Regional Network (BIRN) as a source for free and independent media faced threats and attacks by state officials while criticizing the government of the Prime Minister Aleksandar Vučić. He himself labeled the network as "liars" and "spies" who were spreading false information. Hate speech remains a fact in Serbian media, especially in the online-media. Although the general idea of privatizing media is positive, the way it is done in Serbia does not support expectations for the

improvement of the quality of reporting. Media house B92 used to be one of the flagships of the uprising against the Milošević's regime. Since it was sold to a private investor in spring this year, critical journalism came to an end. It remains to be seen whether Serbia, in this respect, will follow Bulgaria's or Macedonia's path.

B. THE RULE OF LAW



Independence of the Judiciary

The situation in judiciary remains the most important stumbling block for the rule of law in Serbia. There was no major improvement in 2014 and there hardly would be any soon - several sequential reform attempts proved counterproductive and compromised the very idea of “reform”. Nonetheless, the official “strategy of judicial reform 2013-2018” is still valid and partially implemented. Judiciary is far from independent or efficient. There is a lot of political influence on the courts or public prosecutors. But occasional direct political pressure is near neglect as compared to corruption or criminal or crypto-political control over parts of justice system. Backlog of cases rose to 3 million. Repealed sentences and re-trials are rather a rule than an exception. The usual length of criminal proceedings is measured in years. Access to justice has been further hindered by the introduction of notary system and attempts to grant de facto monopoly in many fields to the freshly licensed notaries. Following the three months strike of solicitors between late 2014 and early 2015 which had paralyzed the courts, the government had to review the law and level the field for all registered lawyers. As Freedom House noted, the situation in Serbia's prison is gradually improving, even though overcrowding and inad-

equate access to healthcare are still serious issues. The Amnesty International acknowledged a small progress being made in prosecution of war crimes.

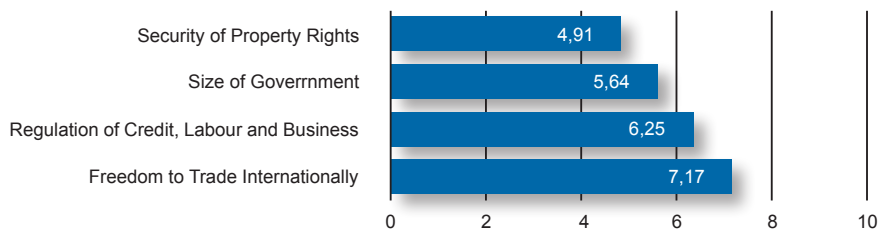
Corruption

Current government of the PM Aleksandar Vučić owes much of their popularity and domination to hopes for corruption-free country which they awoke in 2012. However, previously arrested tycoons did not have their trails concluded. Meanwhile, numerous revelations on the members of the ruling majority showed their conflict of interest, or suspicious ways they had obtained university diplomas or various benefits, or other indicators of direct or indirect corruption. Giant infrastructure projects, as well as management of the major public-owned companies, are kept away from public eye, mainly via contracts with foreign partners whereby parts of the domestic legislation are suspended, via direct government intervention circumventing the institutions in charge, or even via direct pressure on investigation media or NGOs. Independent regulatory bodies are neutralized - sidelined at best or subject to dirty media campaigns at worst. In April 2015, Transparency Serbia, the local partner of the Transparency International, in their report on the first year in office of the PM Vučić, noticed some improvements, such as enacting of the law on whistleblowers, start of restructuring of some public-owned enterprises, lowering the budget deficit, accelerating the construction permit procedure, or introducing elements of e-government. But the overall conclusion was that majority of promises were not met. Most parts of the adopted anti-corruption action plans were not executed. Ad hoc task forces for various elements of anti-corruption combat were established and disbanded without clear guidelines resp. subsequent evaluation. Most of them failed to deliver. Meanwhile, the government poorly cooperated with independent regulatory or auditing or ombudsman bodies. The amended "professionalization" in the public sector companies was not implemented as stipulated. In 2014, Serbia fell regarding the Corruption Perception Index, ranking as 78th of 175 countries and scoring 41, while in 2013 it was 72nd (of 177), with the score 42.

Protection of Human Rights

Overall human rights situation in Serbia is stagnant, halfway between the horrible 1990s and the desired EU standards. Disappearances and extrajudicial killings seem to be a matter of the past. But occasional police brutality, arbitrary arrests and ill treatment in custody remain as problems. The conditions at workplace and lack of rights to unionize in much of the private - especially in huge grey economy - sector, child or other forced labour and sex trafficking are worrisome. Freedom of assembly, opinion and expression, highly valued amid memories of the 1990s, is recently often curtailed to undesired critics of government. De facto bans to some gatherings or indirect pressure on media and websites not least hinder the normal political dialogue but also nourish the anyway aggressive polarization in society. Respect for minority rights is still uneven. While bigger ethnic minority groups such as Hungarians or Bosniaks actively promote their rights through electoral process and through participation in government at various tiers, smaller resp. more dispersed ones such as Albanians resp. Romany still receive just minor improvements. The discrimination of small or new religious communities, of non-Serb orthodox churches and of the bigger of the two Islamic communities, coupled with tax exemption without auditing and immunity and impunity of the biggest church SPC are all due to the obsolete law as of 2006. Overcoming the past is still a painful task. While acknowledging that terrible crimes were done during the 1990s in the name of Serbia or Serbs, officials deny the genocidal nature of the war crimes in Srebrenica in 1995, thus actively sabotaging international efforts in genocide prevention. The area where progress was indisputable is LGBT rights. By mid-2015 it was clear that LGBT Pride rallies would be held in Belgrade each year. Several government officials openly confronted homophobia and cooperated with LGBT organizations. An expected next step might be regulation of same-sex unions, thus providing at least basic socio-economic equality to same-sex couples. Yet another area where Serbia was – more or less rightfully - praised by the EU was the treatment of Syrian war refugees.

C. ECONOMIC FREEDOM



Security of Property Rights

Private property is not adequately protected in Serbia. The main problems within the judiciary system are strong out-of-the-court influences on the judiciary, mostly by persons connected to the political elite, as well as partiality of the courts in their rulings. Enforcement of contracts is very ineffective, due to slow, uncertain and expensive legal processes. Corruptive practices are widespread, including in the judiciary. The practice of a long restructuring process of state owned enterprises (SOE), which are legally exempted from collections from their creditors during the restructuring, seriously restricts property rights. Furthermore, the executive power can pose itself above the rulings of the Constitutional Court, which ruled the above mentioned practice to be unconstitutional, by a directive that is protecting 17 largest SOEs. Ownership of agricultural land is restricted to Serbian nationals only, but foreign nationals can acquire land by opening a domestic legal entity, thus this regulation affects only foreign natural persons. The new law on conversion of the right of usage of land into land proprietorship is envisaged to make property rights clearer and easier to uphold.

Size of Government

Size of government in Serbia is excessive, with the government consumption reaching 46.3% of GDP. Lower public revenues led to high budget deficit, which has accumulated in a high public debt of 72.2% of the GDP in 2014, tripling in absolute measures within the last seven years, far above the current

fiscal rules limiting the level of public debt at 60% of GDP. Fiscal austerity measures introduced in 2014 were further increased in order to combat one of the highest deficits in Europe (reaching 6.3% of GDP) by a 10% cut in public sector wage bill and pensions. Good fiscal performance could make some of these measures now look obsolete. However, when non-permanent factors are taken into account, there can be no successful consolidation without these measures. Transfers to households, most notably through the unsustainable pension system (currently there are more people retired than working and paying social security contributions) and subsidies to inefficient state owned enterprises (SOE) make up for a large share of government expenditures. The process of privatization or liquidation of SOEs in restructuring is slow. There has been no success in finding a privatization partner for the re-nationalized steel mill, which has been operating under losses but cannot receive any government support, as stipulated by the Stability and Association Agreement with the EU. Corporate tax is set at 15% while personal income tax is 10%. The high labour tax wedge of 38.9% is the result of high social security contributions, which is among the main reasons for high shadow economy activities – either working completely without contract or applying only minimum wage only while the rest of the salary is paid in cash.

Regulation of Credit, Labour, and Business

The business environment in Serbia is not very much oriented toward entrepreneurial activities. Starting a business is an efficient process, being fast and inexpensive, but administrative requirements for business activities are complicated and burdensome. Obtaining a construction permit is a long lasting and extremely expensive procedure, while getting electricity also incurs high costs. Compliance with tax procedures is also burdensome, due to complicated and sometime contradictory regulations and high number of annual payments. The process of licensing is widespread in certain industries, limiting competition and creating rents for license holders. Restrictive regulations of the National Bank regarding international payment operations online are burdensome for the sector of micro and small enterprises. Labour market regulation

rigidities were alleviated by the adoption of the new labour code (the adoption of the law is yet to be transferred to the Index). Working hours' regulation is flexible, while the duration of fixed-term contracts increased substantially. Changes in severance pay determination led to lower protection of seasoned workers. The minimum wage is still very high, a few percentage points above 50% of the average wage in the country, fostering activities in the shadow economy among older and people with lower education attainment.

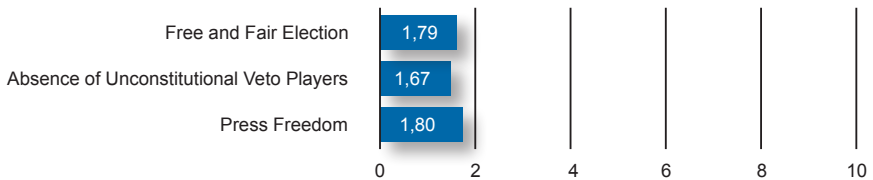
Freedom to Trade Internationally

Freedom of trade is generally upheld in Serbia, which is, alongside Bosnia and Herzegovina, one of the few countries in the region not being a member of the World Trade Organization (WTO), whereby the main reasons for slow accession are non-compliance with the GMO regulations and a dispute with Ukraine on the export of wheat. Its main trade partners are EU countries (most notably Italy and Germany), followed by neighboring countries of the region. The bulk of Serbian international trade is conducted under the SAA with the EU and under Central Europe Free Trade Agreement (CEFTA). The Russian Federation is also a major trade partner, important for being the main energy supplier but also as a market for Serbian agriculture exports. Russian embargo on agricultural imports from the EU in the wake of political tensions in Ukraine led to a substantial increase of Serbian exports of those goods to Russia, albeit for a brief period of time. Political uncertainty regarding Kosovo hampers trade with this entity, but the ongoing dialogue process facilitated by the EU has improved the situation. Tariffs are mostly low, but tariffs on some agriculture products can be substantial, while regulatory trade barriers persist to make obstacles to free trade. The customs agency burdens trade with complicated procedures and foreign currency regulations for companies are very restrictive. Bad shape of the transport infrastructure leads to high freight cost, hampering trade, with the railroad system being the most detrimental to trade.

TAJIKISTAN

GDP in 2014: EUR 6,950 million		
yearly growth rate: 6.7%	per capita: 840 EUR	by sector:
		agriculture 27.2%
		industry 21.6%
		services 51.2%
Population: 8,302 thousand	Human Development Index	Government position in 2014
Unemployment rate: 10.7%	HDI: 0.607 (rank 133)	-0.02% of GDP

A. POLITICAL FREEDOM



Free and Fair Elections

The conditions to perform free and fair elections have slightly worsened in the only Farsi-speaking Central Asian republic. This is mainly due to a weak opposition and a stronger president. As in Kyrgyzstan, a “foreign agents’ bill” puts the few civil society organizations under general verdict that they are financed by foreign secret services and gives state institutions a free hand to disband them. OSCE election observation mission described the parliamentary elections as not being administered in an impartial manner. Opposition candidates and their voters were intimidated and restricted. Thus the elections could neither be described as free nor fair.

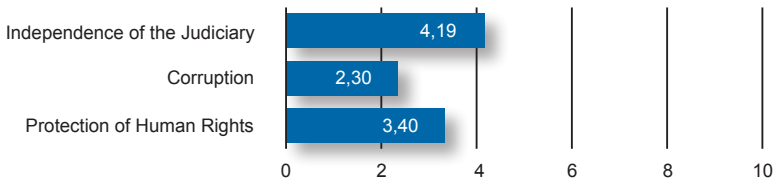
Absence of Unconstitutional Veto Players

Tajikistan is not a free country. Unconstitutional veto players such as the military, media tycoons living abroad and the fact that the country is deeply entrenched in Russia's concept of neighbourhood policy have a detrimental effect on the development of democratic structures. The political elites, e.g. president Rahmon, keep this state of play for their personal profit.

Press Freedom

There is no press freedom in Tajikistan. The main reason is basically the ruling elite's perception of its role: media has to duly report what the government announces. Journalists who dare to report against the narrow mainstream are subjected to threats and loss of their job. Despite countless programs trying to promote investigative journalism, self-censorship remains widespread. One after another of the Central Asian republics follows the example of Russia. That is one of the reasons why Tajikistan fared worse in this year's report, in comparison to the last year.

B. THE RULE OF LAW



Independence of the Judiciary

Tajikistani judiciary is facing setbacks regarding its independence and quality. There were several investigations against political opponents, individuals or groups, whereby court proceedings were kept secret from public. Arbitrary arrests are common. Prisons are dangerously overcrowded. Torture, extortions and corruption are frequent. Corruption in courts is a part of everyday life. Besides, capacity and experience of judges are insufficient. As Freedom

House noted, “court proceedings rarely follow the rule of law”. A notorious case during 2014 was the arrest, with so far unclear results of the investigation, of a postgraduate student from Toronto Alexander Sodiqov, who had researched into social conflicts and post-conflict management following the widespread police and other violence in the town of Khorog, where after he was accused of treason.

Corruption

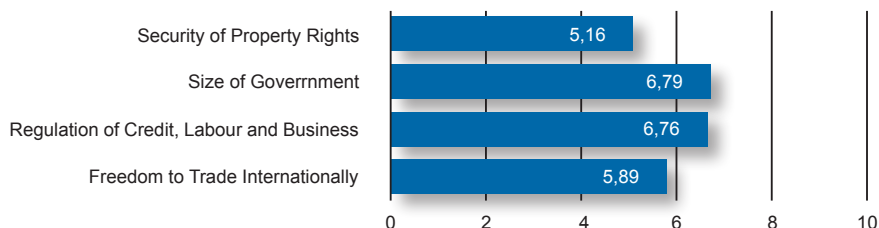
Parts of the legislation are intentionally designed so as to facilitate rather than to mitigate corruption. They allow for lots of arbitrariness by authorities, for favouring businesses close to the ruling clan and for tax evasion by the selected few, as well as, to civil servants, earning openly supplements to their salaries through bribes. President Rahmon’s family members hold important governmental posts and own the largest bank, the railroad and the main TV station. Other members of his clan own or control most of the country’s lucrative production facilities. In the Transparency International’s Corruption Perceptions Index 2014 Tajikistan was ranked 152 out of 175 countries, with the score 23, similarly as in 2013 when it was placed 154 of 177, with the score 22.

Protection of Human Rights

Similar as with corruption, the situation of human rights in Tajikistan stagnated throughout the past year. The level of protection remained low. Politically relevant associations, or the rights that might be used by the opposition parties, are limited one by one. Sometimes the struggle against extremism and terrorism is used as justification. NGOs encounter selective justice when applying to register or do other technicalities. In June 2015, the amendments to the law on NGOs were carried. They obliged NGOs to report to the Ministry of Justice each and every foreign donation they received. Limitations to free speech are numerous. Protection of LGBTs against discrimination is non-existing, thus people usually hide their orientation. Sexual harassment, discrimination at work and domestic violence are common, albeit they are rarely reported and investigated. Sex- or other human trafficking is

a serious problem. Women face societal pressure to wear headscarves, parallel to governmental pressure not to do so. In public institutions, hijab-style headscarves are barred (along with miniskirts) by the mandatory dressing code, but the traditional Tajik head cover is tolerated. In June 2015, in Brussels, EU and Tajikistan held the seventh annual round of their Human Rights Dialogue. During the meeting, EU representatives expressed concern over pressure on independent journalists and on social media websites in Tajikistan. They especially insisted on improvements of the freedom of expression.

C. ECONOMIC FREEDOM



Security of Property Rights

Private property is not adequately secured in Tajikistan. Courts are not impartial and can be influenced by pressure from outside the courtroom, most notably from higher ranking officials. Furthermore, connections between political and economic agents are widespread and can have major impact to conducting business. This provides ground for thriving corruption, nepotism and favouritism on behalf of public officials. Another serious problem resides in lengthy court procedures that bear significant costs, which impedes access to justice. The instrument of out-of-court settlement has not been developed. Private property expropriation by the state remains an area of concern, because this instrument can be used discriminatively and extensively, and the pecuniary compensation can be lower than perceived fair market price. The insecurity of property rights in the agricultural sector is considerably due to low performance of the land cadastre.

Size of Government

The size of government in Tajikistan is considerably smaller when the government consumption is compared with the one of developed European countries. That leads to a lower level and quality of services provided to the general public. Such a low level of expenditure provides room for low tax rates, contributing to recent robust economic growth. However, low growth base due to low level of development, disruption of economy during the civil conflict, as well as the drop in economic activities due to economic transition, also had impact on the recorded economic growth. A downside of this situation is a low quality of infrastructure, especially in transportation, due to low public investments. That impedes private sector development. The budget deficits in the wake of financial crisis accumulated a moderate public debt of 28% of GDP, however the debt is expected to continue to grow, both because of the envisaged slowdown in growth due to economic developments in Russia and due to higher interest rates. The share of shadow economy in the country is very high. Inflation has picked up, partially due to the pass through effect of the national currency devaluation. The role of the state in the economy is still considerable: it is one of the main proprietors of land in the country, which is then leased to private farmers, as well as of the main industrial facilities such as national electric grid operator, natural gas operator and the largest company in the country, the aluminium company Talco. Smaller private enterprises cannot compete with the state-owned enterprises because of the pressure from the ruling elite which is connected to state companies, although there are few official restrictions. Many of the SOEs have reported high financial losses during the previous years, which burden public finances. SOE mismanagement is also connected to corruption, which itself is widespread.

Regulation of Credit, Labour, and Business

Labour Code in Tajikistan is characterized by both flexible and rigid components: hiring and firing regulations are not expensive, but working-hours regulations are stringent and inflexible, which incurs cost to employers. Centralized collective bargaining is not widespread so it does not create additional costs

to private companies. The level of minimum wage in comparison to the average one is low, so it does not impede employment in the manufacturing sector. However, most of the workforce is still active in the low productive agriculture sector. Low quality of education, coupled with weak education and labour market connections, limit new job openings. Severance pay is limited to 8.7 weeks for redundant workers. Business regulation is complicated, with lengthy and costly procedures. In getting electricity and obtaining construction permits, Tajikistan is at the bottom of world economies – on average it takes more than 6 months to get a permit or to get connected to the power grid. This regulatory framework with many procedures and long timetables is an environment prone to corruption, which has become endemic in the country while the bribe is considered as a necessary business cost. Tax administration procedure is another area that incurs high cost of compliance with regulation.

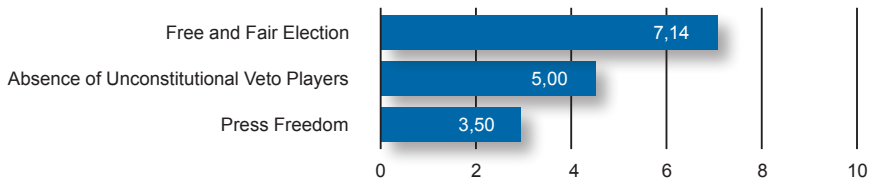
Freedom to Trade Internationally

Full membership of Tajikistan in the World Trade Organization (WTO) in 2013 expanded the freedom of trade by lifting tariffs and other artificial barriers to trade. However, the average tariff rate is still highly standing at 8.1% (and higher it is for agricultural than for industrial products). Only a limited number of products are imported duty free. More than by high tariffs, international trade is impeded by bad transportation infrastructure and geographical position. This makes movements of goods expensive and effectively serves as a substantial barrier to trade. Furthermore, obtaining the customs documentation necessary for imports or exports requires a lot of time. As a former USSR and current CIS member, Tajikistani economy is connected to the Russian economy but important, more distant markets are Turkey and China. Furthermore, its trade also relies on neighbouring ex-Soviet countries, for some strategic goods, most notably aluminium for processing. Regulatory trade barriers are still high, which in addition to control of movement of capital creates obstacles to free trade, so important for development, growth and economic restructuring. On the other hand, the procedure of starting a business is not too lengthy. There is no legal minimum regarding the required capital.

TURKEY

GDP in 2014: EUR 600,385 million		
yearly growth rate: 2.9%	per capita: 7,800 EUR	by sector:
		agriculture 8.2%
		industry 26.9%
		services 64.9%
Population: 76,903 thousand	Human Development Index	Government deficit in 2012
Unemployment rate: 9.9%	HDI: 0.759 (rank 69)	-0.98% of GDP

A. POLITICAL FREEDOM



Free and Fair Elections

Turkey's *de facto* semi-presidential system has been strengthened by the election of Recep Tayyip Erdoğan as President in 2014. This was the first ever direct election for that post in the history of Turkey. Since 1950, elections are generally known to be free and fair, and there is no considerable evidence of a possible fraud. However, the 10% threshold introduced in the early 1980s is still in effect to possibly keep Kurds and other minorities out of the parliament. Although a pro-Kurdish party was able to pass the threshold in the elections of 7 June 2015, the President and officials of the ruling party made worrying calls to prosecutors to investigate against the Kurdish MPs and drop their parliamentary immunity. The 10% threshold and the highly restrictive

law on political parties remain the biggest obstacles for the development of Turkish democracy. Since he took the office, President Erdoğan made calls for a system change, favouring a “Presidential System”. He did not clarify the checks and balances within this new political system.

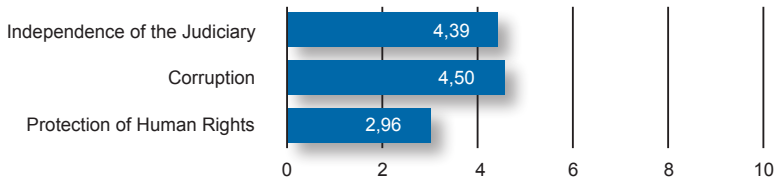
Absence of Unconstitutional Veto Players

As of October 2015, the portrait of Turkish society is marked by high levels of polarization and political rivalry. Especially with regard to the recent rhetoric of the ruling party, Turkish democracy is increasingly defined with reference to “the will of the nation” or “the ballot box”. This is to imply that only elected bodies might have a say on everyday politics. Other constitutional but non-elected powers such as an independent judiciary and auditing institutions are by-passed. Using Guillermo O’Donnell’s terminology, while we can talk about the government giving account to the citizens through the ballot box (i.e. “vertical accountability”), it is not possible to talk about the government being held accountable for its actions by the independent judiciary or audit institutions, (i.e. “horizontal accountability”) in Turkey. Thus, Turkey can be considered as a “delegative democracy” rather than an institutionalized liberal democracy. On the bright side, the Turkish military, the former unconstitutional veto power, has been brought under civil control to a great extent. In the last couple of years, it has been argued by government circles that there is a “parallel state” within the state establishment. Allegedly, this organization, taking root within the internal security bureaucracy and the judiciary, is formed by the members of the Gülen Movement, a religious order led by Fethullah Gülen, an Islamic cleric. It has been claimed that the members of this organization abuse their power in the state structures to harm the legitimate government. In fact, in response to the biggest corruption investigation in the history of the Republic, the government defended itself by arguing that this investigation was nothing else than a coup d’etat attempt by this “deep-state” organization in order to topple the government through judicial means. Eventually, the graft probe was prevented by the government and the case was dismissed without a thorough investigation and a fair trial.

Press Freedom

The government pressure on media is most evident. Alleged “parallel-state” accusations are used to justify government pressure on media and civil society. Major media outlets are raided either by police, audit officers or groups associated with the ruling party. It is now common to see police and audit officers regularly visit media in large groups, especially those who are critical of Mr. Erdoğan. This is seen as an intimidation to the press. Only recently, an open critic of the government and of Mr. Erdoğan - Koza Ipek Media Group, its owner, his company and estates - were raided by security forces on allegation that they were part of the so-called “Fethullah Gülen Terror Organization”. One of the leading media outlets, Hürriyet, was raided and stoned by a group associated with the ruling Justice and Development Party’s (AKP) youth branch on 6 October. This group was led by a current MP, at the same time being the chairman of the party’s youth branch. No comment was given or investigation held by the party administration. Within a month, one of the most renowned columnists of the same paper was ambushed and severely beaten by party members of AKP. More than 200 Turkish citizens, most of whom are journalists, are now being tried for insulting the President. Some state-run companies are among the biggest advertisers in the media. Reports are provided that their ad-giving pattern is not based on the circulation numbers. Their ads go to relatively minor TV channels or newspapers affiliated with the government, while partly or entirely ignoring some of the mainstream media. Foreign journalists were deported for covering the recent conflict between the outlawed PKK and the security forces. Turkey’s score cc. the freedom of the media has been lowered by almost all major “Freedom of the Press” indexes.

B. THE RULE OF LAW



Independence of the Judiciary

Despite the constitutional guarantee of the independence of judiciary, serious problems are encountered in practice, stemming from legal and administrative arrangements. First of all, government still controls the appointment of judges and financing of the judicial branch. Secondly, although the Constitution has established an autonomous body (the High Council of Judges and Prosecutors- HSYK) to carry out the administration of the judiciary, and although it was reorganized by the 2010 constitutional amendments to better comply with the principles of independence and impartiality, following a legal amendment regarding the Council's work, carried in 2014, and the election of new members, the Council largely came under control of the executive (i.e. the ruling party and the President). The Minister of Justice and his under-secretary are members of the Council. The Council is chaired by the minister. The President appoints four members directly among lawyers and academicians. Other members are elected by judges and prosecutors by a majoritarian system. Following the elections of new members of the Council in 2014, the control of the ruling party and the President over the Council became more solid because a government-supported list of candidates called "Platform on Unity in Judiciary" won most of the seats. The Council's ability to act independently from the government was severely restricted. The new Council has acted as an office of government rather than being an autonomous body. The judges and prosecutors, whose decisions had inconvenienced the executive, have faced sanctions, such as removal from the case, being sent to another city, dismissal from the office or even arrest and trial. In this regard, on 20

June 2015 the Venice Commission adopted a declaration on interference with judicial independence in Turkey. Another concern for judicial independence is the paralysis of the supreme courts by increasing their number of members enormously. In 2014, 129 new memberships in the Court of Cassation and 39 new memberships in the Council of State were created by the Law No: 6572. Those members were appointed by the new HSYK in order to take control of those high courts. Moreover, some experienced members were shifted from their chambers. In the meantime, an amendment reduced the waiting period for lawyers to be appointed as judges, from 5 to 3 years, making it easier for the ruling party to fill positions in the judiciary with its own supporters.

Corruption

Two large-scale corruption investigations were launched in December 2013, involving ministers, relatives of ministers and some ruling party (AKP) officials. The government circles argued that this was a Coup d'etat attempt by the "parallel state" nested within the state bureaucracy, especially in law enforcement agencies. The public prosecutors and police officers were removed from the investigations and were dismissed from their office. New public prosecutors and new police officers were appointed to the investigations and investigations were closed afterwards. Parliamentary investigation against four ministers was also closed by the votes of the ruling party's absolute majority. This incident shows that independent and impartial investigation of corruption allegations is not easy in Turkey. Transparency and the audit of public procurements are quite important to prevent corruption. Nevertheless, extremely frequent amendments to the Public Procurement Law and the creation of a new article for almost each new tender weaken the transparency of public procurements. It is widely believed that those amendments were motivated by the government's desire to provide unfair advantage to certain individuals and groups in the distribution of public spending. Another concern is related to the hardship in financial oversight of the government and the public administration. Government does not take seriously the parliamentary questions raised by opposition MPs regarding public expenditures. The Final Account Bill is generally voted

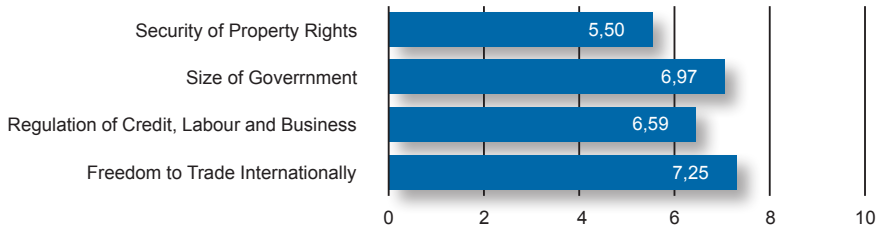
without any serious discussion or deliberation and is accepted by the ruling party's absolute majority. The Court of Auditors' oversight of expenditures of public administration on behalf of the Parliament is also prevented to a large extent both in *de jure* and *de facto* terms.

Protection of Human Rights

Despite the relative improvement in the protection of human rights after the 2002 elections, the situation started to deteriorate in the last couple of years. The introduction of the individual application to the Constitutional Court in 2012 was a major step towards individual rights and freedoms. Nevertheless, in a very short period of time the Constitutional Court was overburdened by workload, reaching the total number of nearly 50.000 applications. Nearly half of those applications are pending before the Court. The basic fundamental rights of individuals are increasingly attacked by public officials in recent years. Discrimination against opponents of the ruling party is becoming widespread in every aspect of life. The right to property and the freedom of enterprise of opponents are limited by selective and arbitrary cancellation of permits and licenses and the denial of the renewals thereof, by unnecessary and vindictive tax investigations and even by police raids into workplaces. Freedom of speech and press, of individuals or journalists, has been restricted by the threat of libel actions and defamation accusations. Restrictions on social media also limit the freedom of expression of individuals. Violent interference of security forces into public demonstrations has become a routine since the Gezi Park events in June 2013. Increased terror attacks and the high number of deadly casualties indicate that security forces failed in taking necessary security precautions in public demonstrations against government policies. This security gap threatens the right to life of individuals. Newly created "Peace Courts" control all criminal investigations and they decide all security measures like detention, search, etc. There is a widespread belief that these courts are under the control of the executive. Detention is being used as an instrument of oppression and punishment by those courts. The duration of detention, pre-trial and pending trial, is excessive in most cases. Lengthy trials violate the right to fair

trial of individuals. Widespread wiretapping and surveillances violate privacy rights. Freedom of religion - especially of minority beliefs - is limited. Conscientious objection is not recognized. Human rights protection mechanisms, like the Ombudsman or the Human Rights Board, have proven to be ineffective.

C. ECONOMIC FREEDOM



Security of Property Rights

Property rights are not adequately protected in Turkey. This is mainly due to the problems in the judicial system. Because of legal and administrative control of the government over the judiciary, the level of independence from the executive power and effectiveness of the judicial system is low and courts are not impartial. For similar cases, courts might decide differently, giving advantage to those who are close to the political power and the government. Legal investigations and lawsuits are used arbitrarily against media and capital groups which support the opposition, especially in banking, private education and TV broadcasting. In addition, court procedures involving enforcement of contracts are lengthy and costly, which increases the riskiness of doing business and reduces the number of potential entrepreneurs. Although declining and much less present than in the past, the military interference in law and politics is still high as compared to other European countries. That pulls the *Security of Property Rights* score of Turkey down. Another problem is low reliability of the police force.

Size of Government

In this indicator Turkey performs better than the European average. In 2014, total government expenditures were around 39.8% of GDP while total government revenues stood at 39.1 % of GDP. The difference, which was less than 1% of GDP, was financed by borrowing measures. The central government's internal and external debt stocks as percent of GDP were also quite low, about 23.7% and 11.3%, respectively. Most of the total tax revenue, around 65-70% of it, comes from indirect taxes; direct taxes make up less than 30% of the total tax revenue. For most products, the Value Added Tax is 18%, while for others it is either 8% or 1%. While the corporate tax rate is 20%, income tax rate starts at 15% and goes up to 35% for the highest income group. The level of transfer expenditures, which was around 45% of total government expenditures in 2014, continues to remain high.

Regulation of Credit, Labour, and Business

Although business regulation is not unfavourable towards conducting business activities, administrative requirements, bureaucratic costs and market regulations hinder entrepreneurial activities. Too many administrative requirements and high bureaucracy-costs necessarily lead to corruption and favoritism among state officials. Although there are some licensing restrictions, they are not widespread, while tax compliance costs are not necessarily very expensive. Starting a business and registration is easy and does not cost much. However, some labour market regulations can be regarded as unfavourable to business. Because of these regulations hiring and firing employees might be costly for businesses. One of such rules is the high severance pay connected to the employee's tenure, which makes firing senior employees quite costly and therefore renders them unattractive in the labour market. The high level of the minimum wage, which is about 40% of the mean wage and 70% of the median wage, is one of the main causes of unregistered economic activities and unemployment, especially among young and unskilled workers. Although reduced to 12 months (6 months for university graduates) military conscrip-

tion is still compulsory and therefore continues to keep approximately half a million young men out of the labor market for at least a year.

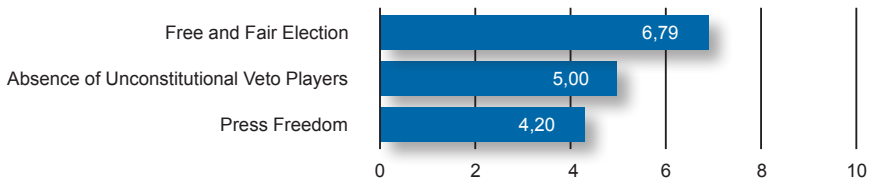
Freedom to Trade Internationally

Given the fact that Turkey signed a customs union with the European Union and became a member of the World Trade Organization in 1995, the relatively high score of freedom to trade internationally should not be a surprise. The benefits of the customs union with the EU are reflected in low tariff rates and low prices of import goods in Turkey. Nevertheless, for some agricultural products tariff rates may be quite high since the agricultural sector is not covered by the customs union with the EU. A typical example of this situation is observed in beef imports. Tariff rates for beef imports normally are very high and these rates are only lowered when beef prices become exorbitantly high. At other times, prohibitive tariff rates such as 225% may be imposed. In addition, certain restrictions on free movement of capital and people hinder further international trade. For foreigners, obtaining residence permits might involve complicated and long procedures.

UKRAINE

GDP in 2014: EUR 98,263 million		
yearly growth rate: -6.8%	per capita: 2,290 EUR	by sector:
		agriculture 12.1%
		industry 29%
		services 58.8%
Population: 42,831 thousand	Human Development Index	Government position in 2014
Unemployment rate: 9.3%	HDI: 0.734 (rank 83)	-4.52% of GDP

A. POLITICAL FREEDOM



Free and Fair Elections

Since the turbulent political changes in Ukraine – the ousting of president Yanukovich, Euromaidan, Russia’s annexation of the Crimean peninsula and heavy military engagement in Luhansk and Donetsk - Ukraine has conducted presidential and parliamentary elections. Both were labeled as free and fair. This positive development is reflected by this year’s figure (in contrast to last year’s FB findings). It brought to power a block of reformist parties, which is facing multitude of challenges. Due to the war and the annexation of Crimea a number of seats in the parliament – the Verkhovna Rada – remained empty.

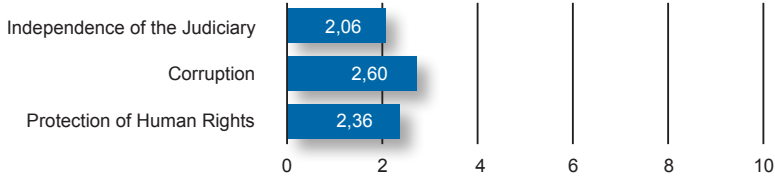
Absence of Unconstitutional Veto Players

The Euromaidan revolution has reduced the impact of unconstitutional veto players in Ukrainian politics. It remains to be seen whether or not more transparent procedures lead to a party landscape which corresponds more to the democratic needs of the country. Since Ukraine is in a state of war since the annexation of the Crimean peninsula and the beginning of a war in Eastern Ukraine, a vacuum might arise for new unconstitutional veto players. The representation in the Parliament is mainly dominated by oligarchs' interests. Along with the Poroshenko administration, their interests play the significant role in the formation of the government and legislative process. Small and medium sized businesses or other social groups in fact don't have a likewise strong representation on the central level in Ukraine.

Press Freedom

Press in Ukraine is partly free. The Euromaidan revolution with all its backlashes has brought to power politicians who might (hesitantly) start to acknowledge the independent role of media. However, since the country faces a war with its Eastern neighbour Russia, for many politicians (and journalists alike) it seems to be part of the patriotic duty not to criticize the government. As Freedom House states, problems such as self-censorship are still widespread. In the shadow of the war in Eastern Ukraine there is a war on information. The banning of fourteen Russian broadcasting channels with the explanation that they spread Russian propaganda shows the significance of media in shaping the picture of the enemy. It remains to be seen whether or not the newly created information ministry will seek a more rigid control of the press. The ownership structure remained in place. The oligarchs still use the media as a vehicle to spread their messages. Civic control of the media is weak. There are alternative media that do not, however, have as high coverage as oligarch-owned TV channels.

B. THE RULE OF LAW



Independence of the Judiciary

In spite of the highly spirited proclamations of dedication to the rule of law, the situation in the judiciary has not changed enough as compared to pre-Maidan years. Most of the problems remain. Judiciary is still among the most corrupt parts of public life. The law on lustration, carried in autumn 2014, was the first small step in establishing the transitional justice. Alas, many, including the EU, deny it efficacy in curbing corruption or other ills of the Ukraine's judiciary. Meanwhile, in the two eastern provinces held by pro-Russia rebels, there is a complete absence of any rule of law.

Corruption

However political rights, democracy and pluralism in Ukraine had advanced due to the departure of President Yanukovich in early 2014 and subsequent changes, it has yet to affect the field of corruption. Ukraine is still the most corruption-struck European country. In the Transparency International's Corruption Perception Index 2014, Ukraine, with just 26 points, was ranked 142 of 175 countries of the world (as compared to 2013 when it was listed as 144 of 177, with 25 points). In 2013, security and law enforcement institutions (e.g. judiciary, police) were the worst corrupted. Outbreak of the armed conflict in eastern Ukraine in spring 2014 revealed that parts of the army were also corrupt. Faced with an existential threat, the country and its new democratic authorities concentrated on fighting corruption and the adjacent foreign influence in the fields vital for defense, such as army and police. Some measures, such as the law on lustration as of autumn 2014 were carried so as to

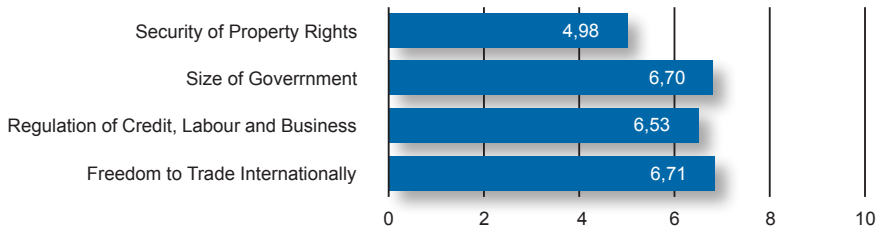
broaden that struggle, but their efficacy was questionable. The system creates plenty of room for corruption, with its 1800 state-owned enterprises, price controls, monopolies, red tape as a norm in administration and non-transparent financing of political parties. It needs the change from top to bottom. Parallel to lustration, creation of anti-corruption bodies and more corruption-sensitive legislation as well as getting rid of the still omnipresent Soviet-style corruption mentality and culture have all begun. Those tasks are enormous, prosecution of corruption in particular, while at the same time Ukraine - still torn apart by conflict and facing threat both from the neighbourhood and from the internal chaos – needs quick improvements.

Protection of Human Rights

The Russian annexation of Crimea immediately after the Euromaidan Revolution and the armed conflict that erupted in eastern Ukraine followed by the pro-Russia rebel's rule in significant parts of two eastern provinces, have all preoccupied Ukraine authorities. While affecting the situation in the country overall and the economy in particular, the situation should by no means hinder reforms but on the contrary speed them up. Nevertheless, a de facto war is on, whereby the freedom, integrity and even existence of the entire country is at stake. New Russian authorities in Crimea have committed a number of grave violations of human rights. Disappearance and extrajudicial killings of pro-Ukraine activists, arbitrary arrests, forced change of citizenship and limiting various other rights and liberties of ethnic Ukrainians and Tatars are just some of the abuses. In the Donetsk and Luhansk provinces (self-proclaimed "people's republics"), rebels have been doing similar or worse. Many clues indicate at their key role in shooting down a civilian airplane on the MH17 route and killing 298 people on board, in July 2014. In the mainland Ukraine, security and defense concerns hinder the advance of human rights. Yet in some fields there already have been improvements in spite of the conflict. Refugees (those from eastern Ukraine or other) have been ever better cared for, primarily due to the civil society efforts. The situation improved for international migrant workers. Trainings were held and improvements noticed in

the attitude of the newly recruited police (btw, a third of them being women) towards equal and professional treatment of citizens, including less corruption. Minority rights are still a hotly disputed issue, where on an open-minded majority of Ukraine's population is struggling for influence against outnumbered yet aggressive ultranationalist anti-minority paramilitary groups. On the other hand, civil society organizations have been playing a major role in all the progress achieved after the Maidan.

C. ECONOMIC FREEDOM



Security of Property Rights

Private property is not well secured in Ukraine. As in most other countries of the region, main problems arise from the low level of judiciary independence due to the influence of political and business elites over the judiciary. The influence of offices of the state monopoly of force is particularly strong. Such an environment leads to politicized and partial legal proceedings and makes room for corruption and nepotism. Weak implementation of the insolvency regulation leads to very lengthy procedures, with substantial costs and very low recovery rates, practically denying property rights. Legal enforcement of contracts faces the same limitations, but the main problem lies in the weaknesses of the enforcement of judgment process. Implementation of electronic procedures that are used by notaries is expeditious, but the unreformed Land Cadaster creates bottlenecks in the process of registering property. Unclear property rights in the field of agricultural land pose problems in the functioning of the land market.

Size of Government

Public expenditures in Ukraine are comparable to the European average, reaching 45.4% of the GDP in 2014, which is high for its level of development. These expenditures are financed not only through high taxes but also through significant budget deficits, standing at 4.5% of the GDP. Complicated political situation in the country (most notably the conflict in the Donbas region) had led to a strong recession that has even deepened in the first half of 2015. Increased public expenditures and a shrinking economy showed how unsustainable the level of Ukrainian public debt has been, exploding from 40% of GDP to envisaged 94% in just two years and calling for a debt restructuring in order to evade default. There are still many companies in competitive markets owned by the public sector which rely on government subsidies for funding of their daily operations or investments. In fact, a large share of the national debt occurred as guaranteed debts of these companies (Ukrainian export-import bank, Oschadbank or the national railways). Those companies are an important source of corruption through public procurement and transfer prices. The wage bill is inflated by too many employees. Pension system is unsustainable, with a very low retirement age. High tax rates are thus needed to finance public expenditures. Corporate tax in the country is 18%, while personal income tax is set at 15% with a minor progression for high earners (with the rate of 20% above a high threshold of 10 minimum monthly wages). Standard VAT rate is set at 20%, with the reduced rate of 7%. However, very high social security contributions, mostly paid by the employer, in the range of 36.76% to 49.7%, lead to a substantial labour tax wedge of 41% on an average salary. Consequently, the size of the shadow economy in the country is substantial, reaching as high as 40% of the GDP.

Regulation of Credit, Labour, and Business

Business regulation in Ukraine overall is not overly favourable towards entrepreneurial activities, with its major administrative requirements and high associated bureaucracy cost, detrimental to economic activities and fostering corruptive activities. Getting electricity is an expensive process which is also

burdened with lengthy procedures. Compliance with tax procedures is also burdensome, due to the complicated procedures and high number of payments. However, the introduction of an electronic system of filing and paying labour taxes for companies somewhat alleviated this problem. On the other hand, starting a business is easy and inexpensive. Labour market regulations are a mixture of flexible and rigid rules. Flexibility is present in working-hours regulation, while rigidity concerns redundancy procedures, with mandatory notification to the trade union representatives and the priority rules for reemployment and redundancies, as well as assignment obligation. Severance pay is not high. It is remaining flat, with the respect to the years of tenure. The minimum wage is not set high as compared to the average, but the high tax wedge makes labour expensive, which, coupled with costly redundancy procedures, encourages shadow market employment.

Freedom to Trade Internationally

Freedom to trade internationally is mostly respected. Tariffs on imported goods are low (reaching simple trade average of 5.8%), but could be exceptionally high in cases of some products (mostly of agriculture or heavy industry). On the other hand, regulatory trade barriers in the field of certification and standardization activities can be a significant burden on international trade, with long documentation preparation. Furthermore, customs service can be partial in their dealings, while corruptive practices are still present. Poor state of the transportation infrastructure is a significant obstacle to increased international economic cooperation, by increasing freight costs. The state of the roads, and to a lesser extent ports, is the main limitation factor. Bearing in mind that the economy is in recession, investments into this segment would be welcome to boost growth but current fiscal constraints of the government make this hard to achieve. More inclusion of the private sector through various private – public partnership arrangements, most notably concessions for motorways, could prove beneficial. Ukrainian main trade partners are the EU countries and the countries of the Commonwealth of Independent States (CIS), followed by China and Turkey. Therefore, most Ukrainian trade

is conducted via World Trade Organization (WTO) rules, or by the Association Agreement (AA) signed with the EU but still not ratified by 5 EU countries (Belgium, the Netherlands, Italy, Cyprus and the Czech Republic). The Deep and Comprehensive Free Trade Area is supposed to further liberalize trade with the EU. Heavy capital controls imposed by the Ukrainian central bank on capital flows are set in motion in order to maintain stability of the national currency.

ANNEX I - METHODOLOGY OF FREEDOM BAROMETER: MEASURING FREEDOM

I often say that when you can measure what you are speaking about, and express it in numbers, you know something about it; but when you cannot measure it, when you cannot express it in numbers, your knowledge is of a meagre and unsatisfactory kind; it may be the beginning of knowledge, but you have scarcely in your thoughts advanced to the state of Science, whatever the matter may be.

Lord Kelvin, Electrical Units of Measurement, 1883.

Why measure liberty?

Liberty, in the sense of freedom to live one's life according to his own preferences as long as it does not infringe freedom of others, is an important normative category, and obviously very important for liberals (the term liberal here is used in its European meaning which is close to its historical roots in classical liberalism, distinguished from its contemporary meaning in the America where it depicts more social democrats). However, beside its intrinsic value, liberty also has an instrumental one: societies with more economic freedom are more affluent providing their citizens with higher standard of living; freedom of speech and media fosters dialogue and social consensus on what are and how to solve the most important contemporary problems etc. Of course, as Cicero noted (*sub leges libertas*), freedom has its meaning only when coupled with the rule of law: fair, independent and impartial courts which deal justice efficiently, and where citizens can protect their rights. All this shows that liberty lies at the core of modern political polities, and that more freedom is beneficial for both social and economic progress of a society. Therefore, it is important to measure current status of the level of freedom in different countries, thus allowing for external country to country comparison or regional analysis, but also internal scrutiny by identification of areas where improvements have been made or are lagging.

How to measure liberty?

Freedom Barometer is a composite index, which means it consists of data from secondary sources, namely other indices that measure specific aspects of freedom. Freedom Barometer measures freedom in 3 wide areas:

- Political Freedom (Free and Fair Elections, Absence of Unconstitutional Veto Players, Press Freedom)
- Rule of Law (Independence of the Judiciary, Corruption, Protection of Human Rights)
- Economic Freedom (Security of Property Rights, Size of Government, Regulation of Credit, Labour and Business, Freedom to Trade Internationally)

These 3 broad categories are further divided into 10 subcategories, measuring more specifically different levels of freedom. The subcategories used in creating the Index are weighted in such a manner that each has a maximum of 10 points, and therefore the overall total score is measured on a scale with the maximum of 100 points, where more points indicate higher degree of freedom.

Covered period and data lag

Bearing in mind that Freedom Barometer is a composite index, it is dependent on indices that are used to calculate its components: *Freedom in the World*, *Freedom of the Press* (Freedom House), *Economic Freedom in the World* (Frasier), *Corruption Perception Index* (Transparency International) and *Human Risk Atlas* (Maplecroft). These indices have a built in time lag, which influences the final time lag by Freedom Barometer. The latest publicly available index is used to compute Freedom Barometer, so the existing temporal lag is minimized, but still present. This basically means that time coverage of Freedom Barometer, although published in 2015, represent state from the previous year (all indices have a one year lag except for Economic Freedom in the World whose time

lag is two years). Therefore, texts following the Freedom Barometer data can serve as a useful tool to further elaborate findings of respective countries. The texts cover the first half of the year in which Freedom Barometer is published, and the second half of the previous year. For example, Freedom Barometer 2015 illustrates situation from July 2014 to June 2015.

POLITICAL FREEDOM SUBCATEGORIES:

Free and Fair Elections

- Scores from Freedom House *Freedom in the World*: (A) Electoral Process and (B) Political Pluralism and Participation

$$(A+B / (\max A + \max B)) * 10$$

Absence of Unconstitutional Veto Players

- Scores from Freedom House *Freedom in the World*: (C) Functioning Government

$$(C / 12) * 10$$

Press Freedom

- Scores from Freedom House *Freedom of the Press*: final score

$$10 - \text{final score} / 10$$

RULE OF LAW SUBCATEGORIES:

Independence of the Judiciary

- Scores from Legal System and Property Rights segment of Frasier's *Economic Freedom in the World*, section (A) Judicial Independence and (B) Impartial Courts

$$(A + B) / 2$$

Corruption

- Final score from Transparency International's *Corruption Perception Index*

$$\text{Final score} / 10$$

Protection of Human Rights

- Score from Maplecroft's *Human Risk Atlas* for 24 categories: Arbitrary Arrest and Detention Index, Extrajudicial or Unlawful Killings Index, Disappearance Index, Torture and Other Ill-Treatment Index, Internal Displacement and Refugees Index, Child Soldiers Index, Security Forces and Human Rights Index, Discrimination in the Workplace Index, Child Labour Index, Forced or Involuntary Labour Index, Trafficking Index, Freedom of Association and Collective Bargaining Index, Working Conditions Index, Freedom of Thought, Freedom of Opinion and Expression Index, Human Rights Defenders Index, Women's and Girls' Rights Index, International Migrant Workers Index, Indigenous Peoples Rights Index, Health and Disability Discrimination Index, Sexual Minorities Index, Right to Privacy Index, Freedom of Assembly Index, Minority Rights Index

$$\text{Average of 24 scores}$$

ECONOMIC FREEDOM SUBCATEGORIES:

Security of Property Rights

- Legal System and Property Rights section final score from Frasier's *Economic Freedom in the World*

Size of Government

- Size of Government section final score from Frasier's *Economic Freedom in the World*

Regulation of Credit, Labour and Business

- Regulation of Credit, Labour and Business section final score from Frasier's *Economic Freedom in the World*

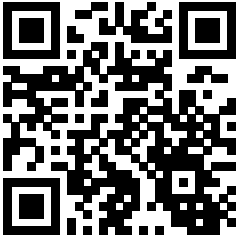
Freedom to Trade Internationally

- *Freedom to Trade Internationally* section final score from Frasier's *Economic Freedom in the World*

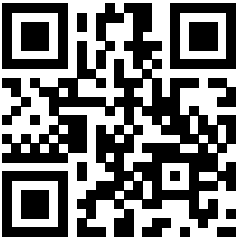
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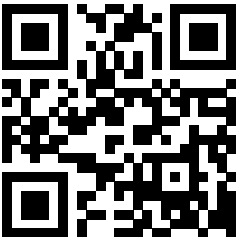
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