



# **FREEDOM BAROMETER**

**Europe Edition 2017**

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## FOREWORD

Dear reader, this new edition of our *Freedom Barometer* covers 30 European and Central Asian countries. The Friedrich Naumann Foundation for Freedom is dedicated to promoting freedom and open societies worldwide. For us, freedom is one of the most important values. We are not cynics, and we do not subscribe to the view expressed by Janis Joplin in her famous lyric “Freedom’s just another word for nothing left to lose”. Freedom is about people, the freedom of the individual person in his or her community. Unfortunately, usually human beings realize the importance of this most basic of all values only when freedom is lost. We get so easily used to our freedoms that we only understand their importance when we encounter a state with less freedom. Whereas human beings can easily determine their own realm of freedom, societies at the aggregate level often have great problems in assessing the quality and the quantity of their freedom. This is why we at the Friedrich Naumann Foundation attempt to measure freedom. We also believe that freedom can only be assessed in its entirety. And this is why we try to look at the different components of freedom: economic, social and political freedom.

In recent times a lot of comparative studies and projects have tried to build systems of statistical indicators so that different societies can be compared to each other. These systems and their respective publications are a treasure trove for us. We do not intend to reinvent the wheel and therefore we use information, data and indicators from existing, well-respected sources. However, we recombine them in such a way that they reflect our liberal values and the views we have of desirable institutions and organizations that preserve our fundamental freedoms.

We are delighted to see the growth of our Freedom Barometer over the past years. We constantly review our sources and our methodology to improve our analytical instrument further. Part of this is out of necessity: many well-established data sources change their definitions from one year to another, and unfortunately, some of the index-producing projects are being abandoned after only a few years so their information and data are not available any longer. For the 2017 data set, we have also introduced improvements and changes which are each explained by our authors. I am very proud to present to you our newest edition and, as with previous issues, hope you enjoy foraging through the material of Freedom Barometer 2017.

Dr Rainer Adam,

November 2017, Sofia, Bulgaria

Regional Director for East and Southeast Europe

Friedrich Naumann Foundation for Freedom

# TRENDS IN 2017 FREEDOM BAROMETER EDITION

## **A. POLITICAL FREEDOM:** Illiberal opportunities and liberal hopes

A quick overview of the data and comments in the Political Freedom section of the Freedom Barometer 2017 Edition will unequivocally reveal a key trend and a clear conclusion – that political freedom is “paying a price” in the struggle for power in most of these countries. In some cases, it’s a more restrictive and controlled media environment, in some others, state capture and the legal empowering of autocracies. Also, the level of democratic development is directly correlated with the strength of countries to deal with global challenges like the rise of populism, the migrant crisis, extreme terrorism, or false information propaganda. Thus, the decline of political freedom, democratic setbacks and ever lower scores of some indicators were reserved for post-communist and post-Soviet countries and Turkey. On the other side, positive developments were mostly rare or minor; some noteworthy ones are the strengthening of democracy in Albania and Romania, and of media freedom in Greece. However, these can hardly count as a trend, just as some particular, positive deviations.

The most serious decline of freedom happened in Turkey, a consequence of the failed coup attempt. The subsequent hostile atmosphere allowed a referendum which changed the country’s parliamentary system into a presidential democracy in a process which was marred with frauds and irregularities. The coup also showed how influential the Turkish military is, able to interfere in the country’s politics, therefore the country’s score in the Absence of Unconstitutional Veto Players has been halved. The crackdown on media freedom which followed the failed coup made the environment more restrictive than ever and 158 journalists currently remain in prison. The rise of populism hit Central and Eastern Europe hard, fulfilling its main purpose, creating strong divisions in societies, and resulting in many protests. In Poland, after years of improvement, the absolute majority in Parliament achieved by the Law and Justice Party gave them an opportunity to take advantage of this global trend to strengthen their position through the firm control of all three branches of power by the executive, causing huge dissatisfaction in society. Their plan for gerrymandering will certainly further deepen this dissatisfaction. This way of governing was pioneered by Hungary in its policy towards the EU. This trend of undermining political pluralism and the fairness of the political playing field in this country doesn’t seem to be ending anytime soon. The opposition has limited access to media, a “Billboard law” has tightened regulation of political advertising on billboards, and the ongoing abuse of institutional power are all set to ensure Viktor Orbán’s position in the forthcoming elections. For the post-Yugoslav countries, the abuse of the institution of elections is considered a proof that democracy exists. This misuse of democracy, together with ethnic and nationalistic tensions, greatly contribute to the atmosphere of societal segregation. Citizens in Serbia are facing elections almost every year, while the ruling party dominates the legislative and executive branches and controls the judiciary. The huge increase in electoral violations in the 2016 parliamentary elections and the 2017 presidential elections caused mass protests in the capital. The division of society along political lines in Montenegro led to an alleged coup attempt and a lengthy boycott of parliament sessions by the opposition. Political and ethnic division reached a peak in Macedonia when the transfer of power

was followed by violent protests from the supporters of the former ruling party and by months of political uncertainty.

Instead of the strong influence of the business sector and the ability of wealthy oligarchs to navigate their countries' politics, the trend today is of dominant autocratic leaders with a political background who abuse their power and present a major challenge to democratic processes and the rule of law. For a long period of time this has been the case in Central Asia. In countries like Tajikistan and Azerbaijan, which are at the very bottom of the political freedom ranking in Freedom Barometer 2017 Edition – Tajikistan even became the first country to score 0 in an indicator (Free and Fair Elections) and complete power is in the hands of the ruling families who do not leave any space for the opposition to participate in political life. Reasons for further decline of their scores are the constitutional referendums they conducted which abounded with irregularities but gave more power to the president; they prolonged the presidential term in Azerbaijan from five to seven years while entirely removed term limitations in Tajikistan. Similar behaviour in the manner of Putin and Erdogan, although adjusted to the local context, was followed by many strong autocratic leaders such as Vladimir Plahotniuc in Moldova, Liviu Dragnea in Romania, Petro Poroshenko in Ukraine, Jaroslaw Kaczynski in Poland, Viktor Orbán in Hungary, and Aleksandar Vučić in Serbia.

Press freedom has deteriorated the most, since 12 out of 30 countries have lowered their rating by this indicator. Besides, some regress in this regard can be noticed in other countries, which have kept their ratings up so far yet are expected to have them decline in the future. Common for almost all the countries observed is that media outlets are facing enormous political and economic pressure. State advertising in many countries, including in the most developed ones like Austria, plays a significant role in shaping the outlets' narrative and keeping up their existence. The concentration of ownership in the hands of a few companies or people is becoming a bigger problem every day, especially since these huge conglomerates are often used as a mouthpiece for certain political parties. Freedom has deteriorated the most in those countries where autocratic regimes aim to secure or further empower their position, like Turkey, Russia, Hungary, Poland or Serbia, but also are being threatened in their own countries by false information propaganda, mostly from Russia, like the Baltic countries, the Czech Republic, Ukraine, and Moldova. In many countries, media freedom and the independence of journalists are highly limited. Some journalists have had their programmes cancelled or face criticism, threats, violence, and even imprisonment while others, toeing the line of the ruling elites, enjoy an undue advantage in getting information, financing their work, etc.. In Ukraine, a journalist was killed in a bomb attack. Many journalists are behind bars in Turkey, Tajikistan, Azerbaijan, and Russia. Social media as a source of free and independent information are censored in some countries, while at the same time serve as the perfect platform for fake news in almost all of Europe.

Still, some positive trends are visible in developed democracies. Elections held in Netherlands, France (a country not assessed in this publication), and Austria, have managed to mitigate the wave of populism. Answers were presented to the challenges of the migrant crisis and extreme terrorism while protecting basic democratic values. The radically illiberal ideas of political parties which had been on the rise previously this time didn't succeed in changing the democratic course of those countries. However, one should not be misled by this, since the popularity of those parties among society in many countries is bigger than ever.

## **B. RULE OF LAW: A few more improvements than setbacks**

The overall situation in the 30 countries monitored by the Freedom Barometer regarding rule of law has not been as bad in the observed period (July 2016 to June 2017) as intuition and media headlines might lead one to believe. In fact, there was generally a small improvement yet the situation remains mixed.

In some countries, mainly new EU members such as Estonia, Latvia, Slovakia, Slovenia and the (not quite so new) Czech Republic, and even in old members (Austria, Greece), the rule of law has over one year become better. Almost all progress results from the improvements in the position, professionalism and/or independence of the judiciary (either during the past year alone, or as a cumulative result of past reforms). Notably, Latvia's improvement in the anti-graft struggle also contributed to its overall improvement in the rule of law.

On the other hand, the most notable setbacks were noted in Turkey, especially in the independence of the judiciary and human rights. In Hungary, a steady decline has been recently noted in all three aspects of the rule of law (judiciary, corruption and human rights). In numerous countries, the rise in one aspect (usually more judicial independence) was offset by a fall in others (more corruption and/or a worse respect for human rights).

Governments should understand that a professional, independent and efficient judiciary is not just helpful to freedom in general, to the viability of democracy, and to economic progress via enlarged economic freedom and stability, but even for their own narrow interests over the long run. Legal uncertainty has often backfired against the very ones that let it flourish even though they could and should have had eliminated it. However, authoritarian-minded regimes, and populist governments that head in such a direction, unscrupulously stamp on the judiciary, which is often the first victim of any campaign aiming for "illiberal democracy".

Corruption often accompanies authoritarianism, and lately also populism. If there are no free and fair elections to replace corrupt or incompetent officials, or if media freedom is restricted so that there is no way to investigate and freely discuss issues of transparency, or if all institutions are put under the control of one single executive without proper checks and balances, there is no real obstacle to the rise of corruption, from the top to the bottom of society. Likewise, the less economic freedom, i.e., the more government intervention in the economy and over-regulation there is, the more ground is open for corruption, i.e., for the misuse of the huge authority given to the state. This interdependency of the various aspects of freedom is an added value of the Freedom Barometer, springing from its basic liberal credo.

The comments on old EU members such as the Netherlands, Belgium, Germany, etc., show how a social market economy without excessive government intervention, accompanied by a developed state (e.g., anti-corruption bodies, or independent courts and prosecutors) and non-governmental (e.g., anti-graft watchdogs, or investigation journalists) institutions, together lead to nearly corruption-free countries. They also explain the miracle in a few transition countries, such as Estonia or Georgia, where bold economic reformers have eased the task of classical anti-corruption bodies and, supported by a strong civil society and media, have brought these countries to high levels of transparency and integrity.

Human rights also are highly dependent on political freedom and the rule of law. If there is no political will and no democratic mechanism to protect and advance them, and if there is no equal judicial protection of each and every individual, then human rights are at the mercy of the political elite and their overall situation is mixed at best and catastrophic at worst. Some of the most authoritarian regimes among the monitored countries (such as Russia, Azerbaijan and Tajikistan) are at the same time the worst in their attitude towards human rights. Trends towards authoritarianism often coincide with heavy breaches of human rights, such as in Turkey after the failed coup of July 2016. Populists who take a position against an independent judiciary and media in their countries (such as in Hungary and lately also in Poland) soon turn also against other human rights and freedoms.

Another added value of the Freedom Barometer is that it underlines the linkage between economic freedoms on one side and political freedoms and human rights on the other. If the state possesses or controls too much, no political or civic opposition can survive in the long run, nor can efficient human rights' protection mechanisms. On the other hand, de-monopolization and de-regulation of some sectors of economy (as seen in post-2015 Greece) have correlated with more media freedom, thus more freedom of expression and a better human rights situation in general.

Finally, despite many divergent trends, an optimistic one is clear throughout Europe – slow albeit steady recognition of equality for LGBT citizens. In the observed period, same-sex marriages were fully legalized in Germany and Slovenia and partially in Estonia and Armenia. Recognition of same-sex unions (in Lithuania), improved adoption rights (in Germany, Greece and Macedonia), various other anti-discrimination regulation (e.g., in Bosnia and Herzegovina, Bulgaria, Belgium, etc.), or the ascension of declared LGBTs to high political posts (e.g., in Serbia), were additional gains. In many transition countries that until recently were bastions of homophobia or at least silent about it, through free pride rallies, LGBTs are able to raise the issues of their legal and/or societal equality. Turkey seems to be the only exception, whereby trends towards the further social marginalization of LGBTs are visible, despite centuries-old traditions of relative tolerance. However, though this issue affects a relatively small percentage of people, it is a powerful indicator of the overall trends towards treating minorities and the freedom of the individual in general, thus of human rights trends in the future.

## **C. ECONOMIC FREEDOM: Business as usual**

There were few changes in the Freedom Barometer 2017 edition in the field of economic freedom. Score changes were minor, fluctuating around their trend – there were only two noticeable but positive changes, Slovenia and Tajikistan. However, the political situation in some countries and regions remains volatile, which could have significant repercussions on economic freedom. Populist threats seem more rooted now in Central and Eastern Europe than ever before but some of them are being addressed by the supranational authorities within the EU. For countries outside this block, populism remains a threat to both economic and political freedom.

### ***Little changes***

Country scores in the field of economic freedom measured by the Freedom Barometer have been very stable. Overall, if there were some slightly positive changes in one indicator, it was usually

followed by some slightly negative one in others. Therefore, the total economic scores were surprisingly stable, despite the volatile political situation in some countries and regions. Minor score changes could also be attributed to noise in the data used to construct the index, so those minuscule changes that can be seen should be taken with a grain of salt. There were only two changes that surpassed the 1 percentage point significance threshold: Slovenia and Tajikistan. All the others were much less pronounced.

Slovenia increased its economic freedom score from 23,71 in 2016 to 25,49 in 2017. The main reason for this is a strong recovery in the Government Spending section: rebounding growth rates due to higher exports, a good tourist season, and improvements in the financial system led to higher public revenues. These in turn lowered the deficit and the government's share in GDP, leading to a higher score in Freedom Barometer 2017.

Tajikistan, on the other hand, experienced increases in Trade Freedom and the Security of Property Rights. While property rights were considered slightly more protected in all covered aspects by the Global Competitiveness Report, the freedom to trade internationally was mostly lifted by better customs office organization and the introduction of electronic filing services. A more flexible exchange rate policy was also introduced, aiming at unifying the official and the market exchange rate of the national currency, the somony.

However, some of the changes that took place are not yet fully accounted for in the Freedom Barometer data and texts, due to the inherent time lag: Freedom Barometer 2017 covers the situation from July 2016 to June 2017. Therefore, the most recent changes will be captured by the next Freedom Barometer edition.

### ***Regional trends remain strong***

When Freedom Barometer economic freedom scores are more closely inspected, a clear regional pattern emerges. Advanced countries from Europe – for example: Germany, Austria, the Netherlands and Belgium, have strong property rights protection through independent and professional judiciary and prosecution offices, and at the same time high public expenditures, the most important portion of which goes to income redistribution through welfare state policies. The opposite trend is present within former countries in transition: they have weak institutions, so property rights are guaranteed only to those connected to powerful political groups, while more resources are controlled by the government through state-owned enterprises or via subsidies. These countries are more frugal, with lower levels of income redistribution. Successful ex-transition countries that entered the EU are somewhere in the middle between those two opposites.

This trend is explained by the fact that a good institutional framework (including the rule of law and security for property rights) is important for economic growth in the long run. Also, higher income per capita has been historically correlated with higher government expenditures, the so-called Wagner law. Ex-transition countries, with a few notable exceptions (most notably Baltic states), have not yet built strong institutions that promoted the rule of law and property rights, this has hampered their economic and social progress. On the other hand, old advanced countries also face challenges stemming from their high level of public spending: high public expenditures lead to low growth rates through higher taxes, which erode savings and decrease



investments. Furthermore, demographic changes (an aging population and longer life expectancy) will lead to even higher social spending on an already unsustainable basis – sluggish growth rates coupled with high public debt levels and enormous unfunded government liabilities for pension and healthcare estimated above 250% of GDP for most advanced EU countries; this all calls for the questioning of the feasibility of the so-called European social model.

Freedom of trade is respected in all countries at a similar, relatively high level. It seems that globalization does not have an alternative. Even the Russian Federation, which continually uses protectionist policies for export substitution and has on more than one occasion used trade policy as an instrument of diplomacy and political pressure, is more open to trade than one would suppose. Trade tariffs have lost their importance for trade policy, but non-tariff trade barriers have increasingly gained in importance, posing obstacles to trade, especially with less developed counterparts.

Business regulation has been increasing in quality, providing a more business friendly environment. Public administration now uses more e-services and less red tape; bureaucratic procedures are fewer, less costly and shorter, or so says the Doing Business data. However, apart from the word of the law, its actual application is also important, and in many instances an unprofessional and captured civil service fails in this regard. Laws are often disregarded or are partially implemented, favouring those with political connections. Regulations are often numerous and conflicting, creating an environment suitable for corruption. However, in most countries starting a business now is a much better organized procedure, while obtaining a construction permit is more effective. Labour relations have been made more flexible, following the principle of “flexicurity”.

### ***Is democracy good for economic freedom? The threat of populism.***

Populism is now perceived as a strong threat to the regime of liberal democracy in Europe. But what does populism have to do with economic freedom? At their core, populist movements maintain a strong distrust of the free market and of spontaneous order: they have a strong foreign bias, visible in recent policies of the “polonization” and “hungarization” of strategic industries in Poland and Hungary that are foreign owned. Furthermore, the urge to remove intermediary political institutions between “the people” and “the leader”, as well as all existing checks and balances, and to concentrate executive power into a single focal point is a threat to the rule of law and to judicial independence, especially in countries where these traditions are still new and not well established. Business regulation is often used as a political weapon by authoritarian populists, punishing opponents and rewarding supporters, i.e., providing the latter with market privileges and rents. Populist policies of high income redistribution are mostly not a viable threat, but are due to the high levels of government spending already achieved. But even in this area, populist policies, mostly in the field of family planning, are taking shape.

This means that populist movements could have a strong negative impact on all the economic freedoms measured by the Freedom Barometer. For the time being, liberal democracy and free markets have been able to resist the populist threat. But is this just a short respite from a gathering storm? We hope that the next edition of the Freedom Barometer will see our hopes again high and that economic freedom will continue to rise and bring prosperity to an ever-growing number of people.

## RANKING OF THE COUNTRIES IN 2017 FREEDOM BAROMETER EDITION

The Freedom Barometer ranks countries based on their performance in the areas of political freedom, the rule of law and economic freedom. A detailed description of its methodology can be found in the **Methodology of Freedom Barometer: Measuring Freedom** section of this publication. The table below presents the scores and ranks for each country assessed in this publication.

Country	Ranking 2017	Score 2017
Netherlands	1.	83,8
Estonia	2.	80,1
Germany	3.	80,1
Austria	4.	79,0
Belgium	5.	78,4
Lithuania	6.	75,6
Czechia	7.	74,5
Slovenia	8.	72,5
Latvia	9.	71,9
Poland	10.	70,7
Slovakia	11.	68,3
Romania	12.	68,2
Georgia	13.	67,1
Croatia	14.	64,9
Bulgaria	15.	64,3
Greece	16.	61,5
Albania	17.	60,6
Hungary	18.	60,6
Montenegro	19.	59,4
Serbia	20.	57,5
Macedonia	21.	56,4
Armenia	22.	55,0
Moldova	23.	53,1
Ukraine	24.	52,3
Bosnia and Herzegovina	25.	52,2
Turkey	26.	49,6
Kyrgyz Republic	27.	49,6
Azerbaijan	28.	43,9
Tajikistan	29.	42,0
Russian Federation	30.	41,8



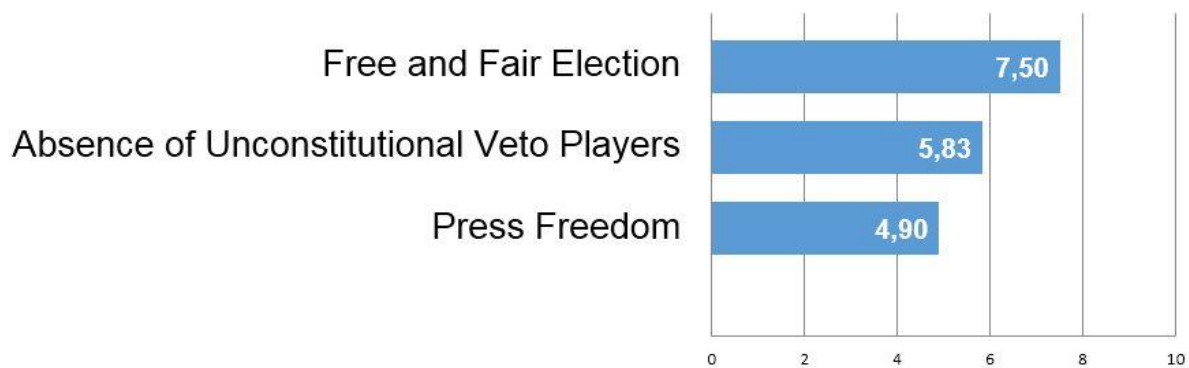
# Albania

GDP in 2016: EUR 10,964 million

annual growth rate: 3.4%	per capita: 3,800 EUR	by sector:
		agriculture 21.6%
		industry 14.9%
		services 63.5%

Population: 2,885 thousand	Human Development Index	Government position in 2016
Unemployment rate: 16.1%	HDI: 0.764 (rank 75)	-1.68% of GDP

## A. POLITICAL FREEDOM



### FREE AND FAIR ELECTIONS

Albania held parliamentary elections on 26<sup>th</sup> of June 2017, as an event which aimed to end the political crisis that lasted for months. After relatively politically calm 2016, deep divisions along political lines - a situation characteristic for most of the Western Balkan countries - culminated in the opposition boycott of the Parliament and mass street rallies in February 2017. Opposition demanded from Prime Minister to resign and establish a technocratic government which would ensure free and fair parliamentary elections. Situation was not resolved until opposition parties refused to register for elections and international instances started to mediate negotiation process between the two sides, resulting in delay of the election date and giving a number of seats in the interim government to opposition, with the aim to increase transparency and fairness of the electoral process. According to OSCE ODIHR, this agreement led to less polarized and more inclusive campaign, but the implementation of the agreement endangered the rule of law in Albania. Allegations of vote buying and other voting manipulations were widespread - a characteristic which hasn't improved since previous election times. The ruling Socialist Party led by Edi Rama secured majority on its own, by winning 74 out of 140 seats in the parliament.

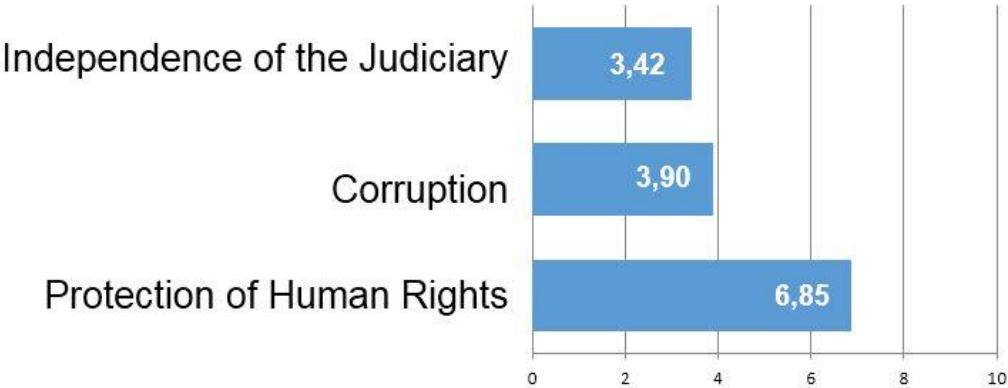
# ABSENCE OF UNCONSTITUTIONAL VETO PLAYERS

Albania improved its score regarding Absence of Unconstitutional Veto Players section of the Freedom Barometer 2017 index. Government took certain steps to ensure independence of judiciary and provide for more balance between branches of power. However, certain threats of illicit influencing the decision-making process by the officials and undermining the democratic governance of the country still exist. Major challenge is coming from tight connections between politicians and private businesses seeking for joint economic benefit, as well as from organized crime. Corruption in the country is pervasive at all levels, while mostly high level one passes with impunity. However, some steps towards reducing corruption have been taken, while first results of those measures are still to come.

## PRESS FREEDOM

Albania has relatively pluralistic and diverse media landscape. But, taken many challenges that media outlets or journalists are facing, it is to be considered as only partly free. Politicians and owners don't hesitate to use strong pressure to limit independence and objectivity of journalist reporting, which leads to more biased coverage by media in general. Measures, such as removing people from their position, have been often used to silent critical journalism. The fear of losing job has been a significant driver of self-censorship among journalists. Intimidation and violence against journalists were also tools that limited media freedom in Albania, while a journalist known for his investigations into corruption was beaten in March 2017. Restriction of percentage of ownership in national broadcasting outlets was abolished, allowing owners to possess more than 40% of shares. Defamation remains punishable by fines.

## B. RULE OF LAW



### INDEPENDENCE OF THE JUDICIARY

In July 2016, Albania's parliament unanimously adopted constitutional changes. Those envisaged new procedure for the selection of the High Council of Justice, changed the composition of High Court and Constitutional Court and gave more responsibilities to the Prosecutor General in corruption-related investigations. The changes were aimed at preventing political interference into judiciary, thus also facilitating the struggle against corruption and organized crime. It was the beginning of the comprehensive reform of judiciary, which would encompass dozens of new laws

and hundreds of by-laws. It would expectedly take several years to fully implement it and to establish a system of rule of law compatible with the desired Albania`s membership in the EU. Along the new laws, some of which already passed, all judicial institutions in the country would be restructured starting from 2017.

**CORRUPTION**

There have been positive developments in Albania regarding anti-corruption struggle. During the past four years, the situation has considerably improved, albeit from a low starting point. Transparency International, in its Corruption Perceptions Index 2016, ranked Albania as 83rd (of 176 countries), together with Bosnia and Herzegovina, Jamaica and Lesotho. Its score, 39/100, is considerably better than 31/100, as of 2013. However, another figure put by TI, in its Global Corruption Barometer 2016, is worrisome - Albania has the highest bribery rate in Western Balkans, 34% (comparable CEFTA or EU neighbours Montenegro, Macedonia, Greece and Kosovo have 16%, 12%, 10% and 10% respectively). Thus, Albania, NATO-member and EU-candidate, realized it needed a radical breakaway from the hybrid crony system entrenched in between the long-ago rejected totalitarian communism and the desired system of liberal democracy, market economy and rule of law. Constitutional changes as of July 2016 might be a real start. Other adjacent laws also aimed at the same - i.e. the law on whistle blowers. Carried in June 2016, it was meanwhile implemented through numerous by-laws.

**PROTECTION OF HUMAN RIGHTS**

There are fields in which Albania`s human rights record is very good, e.g. rights of ethnic and linguistic minorities, religious freedom and tolerance among different faiths, freedom of association, etc. In some, the situation is improving, e.g. in protection of children, lessening the discrimination of LGBT persons through sincere implementation of the existing laws, or, especially, in fighting human trafficking (e.g. by creating a special fund, fed by assets seized from traffickers while used for assistance and compensation to, and re-socialization of the victims). Finally, as Amnesty International warned in 2017, some areas are of special concern, such as rights of Roma and Egyptians, as well as the situation (including occasional cases of torture or other abuse) in detention facilities in general, especially in juvenile penitentiary centers (but also in some orphanages).

**C. ECONOMIC FREEDOM**



## **SECURITY OF PROPERTY RIGHTS**

Private property in Albania is not adequately protected. The biggest concern is low judicial independence from powerful political and business interest groups. Contract enforcement is plagued with many other problems: long procedures, high costs and corruption within the judiciary. Foreign entities often use international arbitration tools for dispute settlements in order to avoid local courts, and arbitration rulings are mostly respected. There are no specialized commercial courts, nor are there automated procedures. All those undermine efficiency of the judiciary system. The cadastre service still remains incomplete, with a significant proportion of land without a clear title, which increases uncertainties of real estate purchases. Property registration involves high fees. Low compensation offered by the state, usually significantly lower than the perceived market value, poses a significant problem in cases of private property expropriations (but they are rare). Agricultural land possession is restricted only to domestic nationals, but it can be leased for a period of up to 99 years. Commercial property may be purchased only with a guarantee of a threefold investment against the value of the land. However, if a legal entity in foreign ownership registers a company in Albania, it can avoid those restrictions. Foreign ownership is also restricted to minority equity in several sectors, such as air transportation, electric power transmission and television broadcasting. Political changes can lead to attempts by the new government to revoke or renegotiate already settled concessions, licenses or contracts. The process of restitution has yet to be finalized. In practice, lots of obstacles are faced by claimants due to unclear rights, slow judicial procedures or corruption.

## **SIZE OF GOVERNMENT**

Size of government in Albania is modest as compared to many other European countries, with low levels of government expenditures, reaching only 29% of GDP in 2016. High public deficits during previous years piled up a substantial public debt, reaching 73% of GDP in 2016. But the fiscal consolidation program supported by the IMF put the deficit under control, cutting it in half, which, combined with growth rates, finally put the debt on a downward path. Local government arrears, although still high, have been curbed. State owned enterprises in the energy sector, KESh and OSHEE, still pose a significant risk for public finances, due to inefficient management and operational policies, although resources allocated to them have decreased. SOEs are active in several important industries, most notably in energy generation and transmission, utilities, transport (ports and railways), insurance and postal services, while government holds minority equity in the fixed telephony company. The process of privatization of state companies and their assets, when they are bankrupt, is progressing slowly. Privatization of Albpetrol, the state oil company, is in question, since it was postponed several times. Low public consumption makes room for low taxes: since 2014, personal income tax has been slightly progressive, with 13% and 23% rates and a high non-taxed threshold (at approximately 65% of the average wage). Corporate tax is flat and set at 15%, except for the special rate of 5% for small companies, while the general VAT rate is set at 20%. Relatively low level of social security contributions leads to one of the lowest labour tax wedges in Europe - below 30%.

## **REGULATION OF CREDIT, LABOUR AND BUSINESS**

Regulation is generally not too favourable to private enterprise in Albania. Starting a business is relatively easy regarding procedures and no paid-in minimum capital, but it is tied to high administrative fees. However, the government waived the taxes on new business ventures during their first year of operation, which has been a great boost to small and micro enterprises. Issuance of construction permits, which had almost stopped due to moratorium enacted in 2013 in order to combat illegal construction, has finally resumed. But the process is complicated by numerous procedures and long time limits. On the other hand, getting electricity is very expensive. Corruption remains widespread among public officials, undermining impartial implementation of regulations. It is especially visible in public procurement. Legislation is often difficult to interpret – e.g. outright contradictory - which serves for manipulation and extortion, while regulatory changes are made without proper consultation with the business community. Tax regulations are overly complicated, with high number of annual payments and burdensome procedures. Those are top problems for business development, alongside tax rates. The newly introduced online system for filing and paying taxes is expected to improve the situation at least partially. Labour market regulations are a mix of flexible and inflexible traits. There are no limits to the maximum length of fixed-term contracts, but those are prohibited for permanent tasks. Working hours are not very flexible, with a low number of weekly working days. Notice periods are long and severance pay for redundancy workers is high. Both rise with the longer number of years in tenure, thus protecting more seasoned workers. The minimum wage is relatively high as compared to the average one, but it has stagnated since 2013. Collective bargaining is not imposing high costs to businesses since it is mostly concentrated in the public sector, and is prevalent in just some of the industries.

## **FREEDOM TO TRADE INTERNATIONALLY**

Freedom of international trade in Albania is generally respected. Tariffs are low, with the average MFN-applied rate of 3.8%, and with tariffs higher on agricultural than on manufactured goods. Product standardization procedures, however, serve as a barrier to free trade, incurring high costs to importers. Border and documentary custom procedures also pose difficulties, which were recently further exacerbated by the introduction of mandatory scanning inspections for exports and imports, which increased both time and costs for border compliance. Furthermore, very poor transport infrastructure, especially the railroad, increases freight costs and impedes international trade. Main Albanian trade partners are EU member countries (most notably Germany and Italy), followed by China and Turkey. Therefore, Albanian trade is mostly conducted under the Stabilization and Association Agreement (SAA) for the EU countries, signed in 2009, while for the countries from the region under the Central Europe Free Trade Agreement (CEFTA). Albania has been a World Trade Organization (WTO) member since 2000, so trade with countries outside Europe is conducted under WTO rules or bilateral free trade agreements. In November 2016, the European Commission (EC) published a recommendation to have opened accession negotiations with Albania, conditioned by the successful implementation of the current judicial reform. The future accession negotiations would have a direct impact on Albania's trade policy, since it will have to implement the EU common trade policy. But this will not happen in near future. Albania also ratified the Trade Facilitation



Agreement (TFA) in May 2016, which is expected to further liberalize foreign trade when it becomes operational. Controls on short term capital flows by the National Bank are still maintained, mainly due to the exchange rate policy and low foreign currency reserves. Work permit issuance process is streamlined, but there is a restriction stipulating that foreign workers cannot encompass more than 10% of the total workforce of a company.

# Armenia

GDP in 2016: EUR 9,493 million

annual growth rate: 0.2%

per capita: 3,170 EUR

by sector:

agriculture 19.6%

industry 29.1%

services 51.3%

Population: 2,991 thousand

Human Development Index

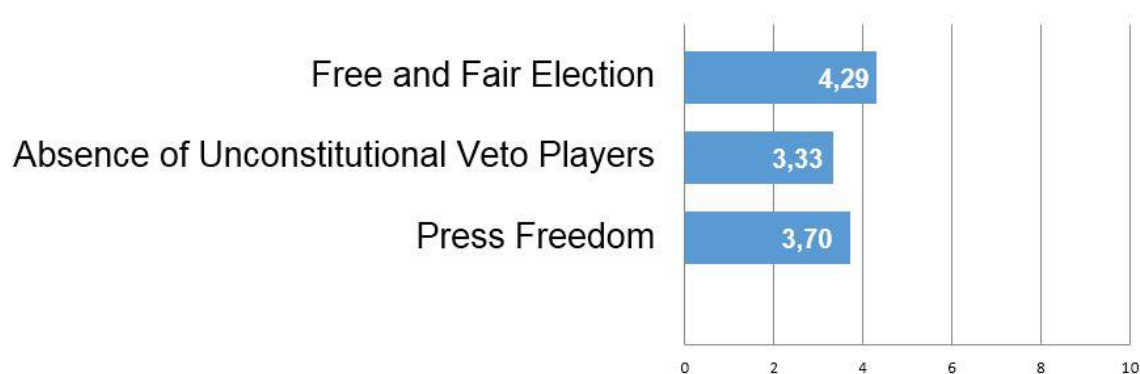
Government position in 2016

Unemployment rate: 18.8%

HDI: 0.743 (rank 84)

-5.63% of GDP

## A. POLITICAL FREEDOM



### FREE AND FAIR ELECTIONS

Electoral process in Armenia provides only certain level of freedom and fairness for political parties, since in practice ruling politicians led by President Serzh Sargsyan use various methods to deal with the opposition and use their leverages to make the playing field uneven. Country faced a tough year due to escalation of conflict with Azerbaijan and hostage situation, followed by mass protests and violence, which led the President to dismiss the Government, appointing Karen Karapetyan as new Prime Minister. Since constitutional reforms had been adopted, changing country from semi-presidential to parliamentary republic by the end of president mandate in 2018, first parliamentary elections under new electoral system, also adopted in reform package, were set for 2<sup>nd</sup> of April 2017. The result of the complex party list proportional representation process was that the ruling Republican Party of Armenia won 58 out of 101 seats, ensuring it to build a stable majority government together with the Armenian Revolutionary Federation. Although some improvements in electoral fairness, such as new technologies for monitoring the voting process, have been introduced, the entire process was marred by biased media reporting in favour of government, voter intimidation and vote buying, among other issues.

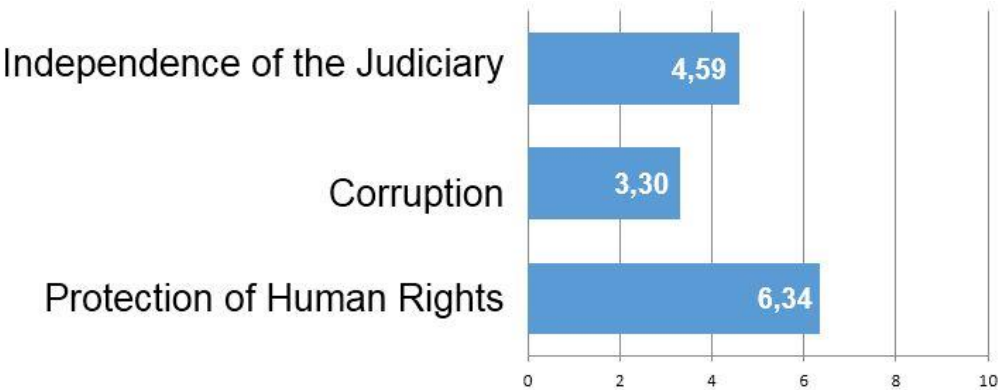
## ABSENCE OF UNCONSTITUTIONAL VETO PLAYERS

Weak system of checks and balances, together with a new electoral procedure which “helps” a dominant party to ensure a single-party stable majority in the parliament, places real power in the country into the hands of politicians. On one side it allows them to govern without interference, while on the other it undermines democracy and rule of law, which was often done in practice. Significant political influence in Armenia is exercised by wealthy businessmen, war veterans and Armenian Apostolic Church, but they are rather close allies of the ruling political elite than challenging forces. The country faced two security challenges throughout 2016. Conflict with Azerbaijan in Nagorno-Karabakh territory escalated in April, while in July a group of radical veterans captured a police station in Yerevan with hostages inside, demanding resignation of the President and release from prison of Jirayr Sefilian, an opposition politician. The situation led to huge protests of people discontent with the current regime.

## PRESS FREEDOM

Freedom of the press is granted by the Armenian constitution, but this right is not upheld in practice. Media landscape is plural, however lacking diversity and independent reporting, since most of the outlets are expressing views in favor of the ruling elites. Strong political pressure was mostly imposed through close connections to media owners, or by using financial and legislative instruments to influence editorial policy. Online content breathe certain level of diversity, however traditional media are still primary source of information for Armenian citizens. Violence against journalists escalated during the protests in July 2016, when police abused its authorities and physically attacked and arrested some of them while covering the events. In such environment journalists often practice self-censorship, especially on some government-sensitive topics. Ownership of the media outlets has remained clouded.

## B. RULE OF LAW



## INDEPENDENCE OF THE JUDICIARY

Judiciary in Armenia is not independent from the executive branch of power or other outside interests. The situation has not improved for an entire decade. Constitutional changes as of late 2015 are slowly translating into laws and by-laws and are yet to show off. Reform of the penal system in 2016, with more alternative sanctions, electronic supervision and use of probation, is

expected to ease the pressure in overcrowded and otherwise inadequate detention and penitentiary institutions. In politically sensitive human rights cases, courts have several times submitted to the government expectations. In commercial cases, courts often lack expertise, effectiveness and/or efficiency, or are bribed or politically influenced to favor one or another company.

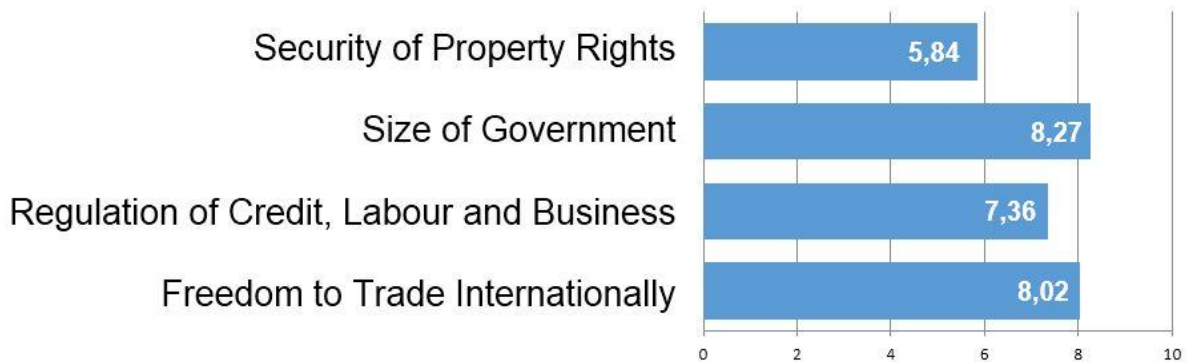
## **CORRUPTION**

After advance in 2010-2014, Armenia has worsened and fallen for the second year in a row on the Transparency International's list. Corruption Perceptions Index 2016 gave it a score 33/100 and placed it as 113 of 176 (together with Bolivia and Vietnam). According to Global Corruption Barometer 2016, 37% of the citizens named corruption as the main problem of the country, while 65% found government counter-actions inadequate. Since the bribery rate is 24%, less than the CIS average of 30%, it is clear that there is more high-level corruption than petty one. Freedom House assessed in 2017 that the establishment of the Anticorruption Council in 2015 and adoption of the anticorruption strategy 2015-2018 had "produced no tangible results". The campaign against corruption has intensified by the end of 2016, by sacking a number of high ranking politicians or army officers, after CSOs exposed high level corruption in army procurement, which was undermining both the country's military objectives and the humanitarian situation in the disputed, Armenia-held region of Nagorno-Karabakh. The business portal GAN evaluated that business planning and operation in Armenia posed a high corruption risk, especially because of close relationship between oligarchs, political and business circles. While this risk with land authorities and public services was "moderate", it was high with judiciary, police, customs and taxing administration, as well as in public procurement.

## **PROTECTION OF HUMAN RIGHTS**

Since 2015, freedom of public gatherings has been gradually limited. Vicious circle of arrests because of restrictive legislation, violent opposition street actions against arrests and police brutality in re-establishing law and order has made July 2016 unusually hot in political terms. In the aftermath, several police officers were suspended and majority of detained protesters released, yet there remained a warning that political system, media and civil society have not enabled proper procedures for peaceful resolution of social conflicts. Throughout 2016 and 2017, fierce debate was also held over the draft law against domestic violence. 60% of women in Armenia have suffered from it sometime during their lifetime. It directly took 50 lives during the past five years. Yet, there were conservative voices (inspired by the similar debate in Russia) who opposed the law as an "anti-family" one. Surprisingly or not, Armenian Apostolic Church supported government proposals. The law is expected to be carried and in effect during autumn 2017. A rare exception to the rule of almost total neglect of the issues of anti-discrimination protection and equal rights of LGBT persons was a decision by the Ministry of Justice on 3 July 2017 that any marriage (including same-sex) legally concluded abroad is valid in Armenia.

## C. ECONOMIC FREEDOM



### SECURITY OF PROPERTY RIGHTS

Property rights in Armenia are not sufficiently well protected. Courts are completely dependent from strong outside groups that can have influence over their rulings, and corruption within the judiciary is still present. There are no specialized commercial courts, so all cases are discussed in front of general courts; in some cases courts do not possess specialized knowledge that is required. Adjudication regulation does not stipulate their maximum number and time standards are not reasonably upheld, so slow court procedures lead to property rights uncertainty. Besides, out-of-court settlement mechanisms such as mediation or arbitration are not well established. Recent changes that provided financial incentives for mediation mechanism and established mediation framework are expected to lower the number of new court cases. Insolvency procedures are long, and lead to low recovery rates of just over one third of the requested sum. Registration of property is easy, inexpensive and can be done in just a week, while majority of the land has a clear title. A new law stipulating that court cases should be assigned to judges randomly is in implementation, leading to a higher level of accountability in court management. Foreign nationals cannot own land, unless they acquire a residence permit, but they can lease it freely. There are no specialized commercial courts, and all commercial cases are resolved in general jurisdictions courts. Unpredictability in verdicts, which can vary from court to court in similar cases, is another problem.

### SIZE OF GOVERNMENT

Government expenditures in Armenia are low as compared to other European countries, even those from the CIS region, reaching 27% of GDP in 2016. Economic growth reached a standstill due to falling prices of copper, Armenian number one commodity export and falling remittances, but it is expected to rebound strongly in 2017. Public deficit in 2016 reached as high as 5.6% of GDP and public debt peaked at 52% of GDP, having grown for almost two thirds in just two years. The IMF backed fiscal consolidation program is being implemented, but most efforts are being made by lowering capital expenses, which may not be the best strategy in a country with undeveloped infrastructure. A sustainable fiscal consolidation is necessary to comply with the existing fiscal rules that are now binding policy solutions. Overall low government consumption has led to low level of taxation: VAT and corporate profit tax rates are set at 20%. Income tax is progressive, with rather high rates of 24.4%, 26% and 36% above the set threshold. The

privatization process has limited the scope and influence of the government in the economy, but state-owned enterprises are still active in specific areas, mostly in utilities, infrastructure and energy. These companies do not operate efficiently, and pose a significant fiscal risk to the government, especially those in the energy sector. High dollarization of the financial system remains an obstacle to a more effective monetary policy, due to the hyperinflation background of the national currency. The new, recently introduced tax code is expected to increase public revenues through elimination of different exemptions but also to shift tax sources from direct to indirect taxes. The new tax code discriminates between Armenian and foreign nationals regarding the dividend tax rate (being 5% or 10%).

## **REGULATION OF CREDIT, LABOUR AND BUSINESS**

Regulation in the country is mostly business friendly. However, major areas of Armenian economy are controlled by business people who are well politically connected, enjoying government protected market position, accruing high rents through restriction of new business entrants. Accusations of unfair tender procedures are still rampant, and government institutions can give preferential treatment to certain companies that are owned by people that have good political connections, and the level of corruption in the country is high. On the other hand, starting a business is easy and cheap, and there is no requirement for minimum paid-in capital, and obtaining a construction permit although burdened with as much as 18 different procedures is also efficient. This process was eased through exemption of lower-risk projects from the need of having approval of architectural drawing by an independent expert. Connecting to electricity grid is a lengthy procedure incurring high costs, mostly due to inefficiencies within the company of Electrical Networks of Armenia. Although there are not many annual tax payments, compliance with tax procedures involves lengthy and complicated procedures. Corruption, government bureaucracy and access to finance are among the major impediments to a better business environment. Labour regulation is mostly flexible, although fixed term contracts are prohibited for permanent tasks, their length is not restricted and the total number of working days is set at 6. There are retraining and reassignment obligations in case of redundant workers, and although the length of notice periods and the level of severance pay increase with the years in tenure, they incur little costs. However, almost half of the working force works without contracts, or in the informal economy. Centralized collective bargaining is mostly focused to public sector, while trade unions are closely connected to the government. Long mandatory military service proves to be burdensome for individuals and private enterprises alike.

## **FREEDOM TO TRADE INTERNATIONALLY**

Freedom of trade in Armenia is generally respected. Overall, tariffs are not too high, with the Most Favoured Nation (MFN) average standing at 6.2% – however, tariff rates are more pronounced in the field of agriculture products. Non-trade barriers, especially the phytosanitary standards, still pose an obstacle to free trade. Some improvements have been made in the work of customs office and the use of reference prices during custom clearance was reduced, but custom procedures remain non transparent and corruption is still an issue. Documentary compliance costs for both export and import are unnecessarily elevated. Armenia has been a member of the World Trade Organization (WTO) since 2003. In 2015 it joined the Eurasian

Economic Union (EEU), which led to changes in Armenian trade policy in order to reflect the one of its other members (Russia, Kazakhstan, Belarus and Kyrgyzstan), but it granted Armenian goods easier access to EEU markets and vice versa. Besides, Armenian guest workers are facing a preferential treatment in other EEU countries. However, this also entailed changes in trade policy, by increases in tariff rates and new regulatory requirements for imported goods. Main problems facing Armenian involvement to foreign markets are geographical and political: the mountainous terrain provides only a limited number of routes suitable for transportation of goods, and most of them are closed because of the political confrontation with Azerbaijan and Turkey, while open borders to Iran and Georgia lack good infrastructure, which significantly burdens international trade, imposing high freight costs.

# Austria

GDP in 2016: EUR 349,493 million

annual growth rate: 1.5%

per capita: 40,200 EUR

by sector:

agriculture 1.3%

industry 28.1%

services 70.6%

Population: 8,691 thousand

Human Development Index

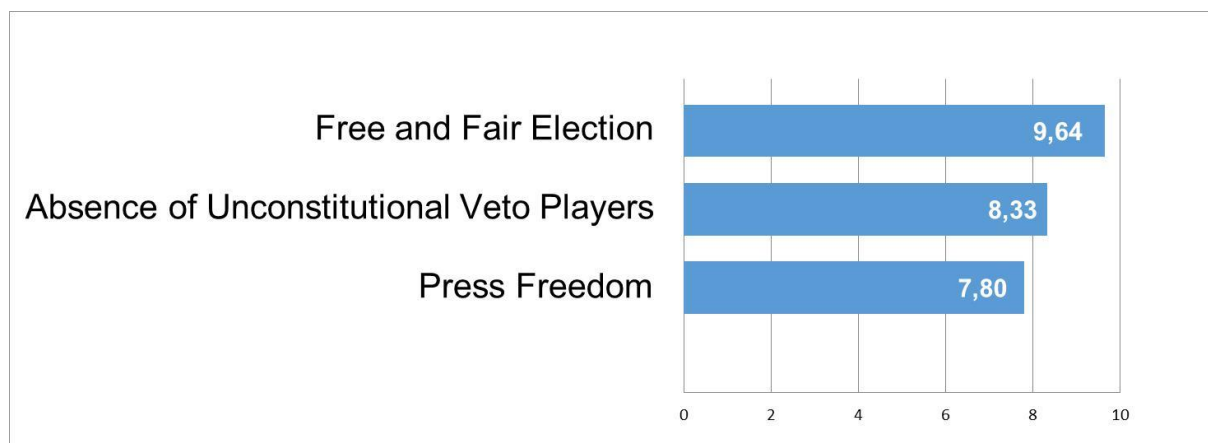
Government position in 2016

Unemployment rate: 6.1%

HDI: 0.893 (rank 24)

-1.4% of GDP

## A. POLITICAL FREEDOM



### FREE AND FAIR ELECTIONS

Political parties are able to compete in a free and fair manner in all elections in Austria. Though, last elections for president didn't go so smoothly. Austrian highest court annulled the result of the second round of last presidential elections on the ground of broken rules that could have an influence on the result (irregularities in the procedure). But there was no proof that it influenced final count. It led to a repeat of the runoff, which took place on the 4th of December, 2016 (previously scheduled for 2nd of October). Pro-European representative of the Green Party, Alexander Van der Bellen, was elected as the President of Austria. Disputes in the governing coalition during the first half of 2017 brought early parliamentary elections, scheduled for October 15th. Austria is a parliamentary democracy with bicameral parliament consisting of the lower house – Nationalrat, and the upper house - Bundesrat.

### ABSENCE OF UNCONSTITUTIONAL VETO PLAYERS

There are no unconstitutional veto players in Austria who could influence political decisions in the country. System of checks and balances is set in place and works well. Corruption among

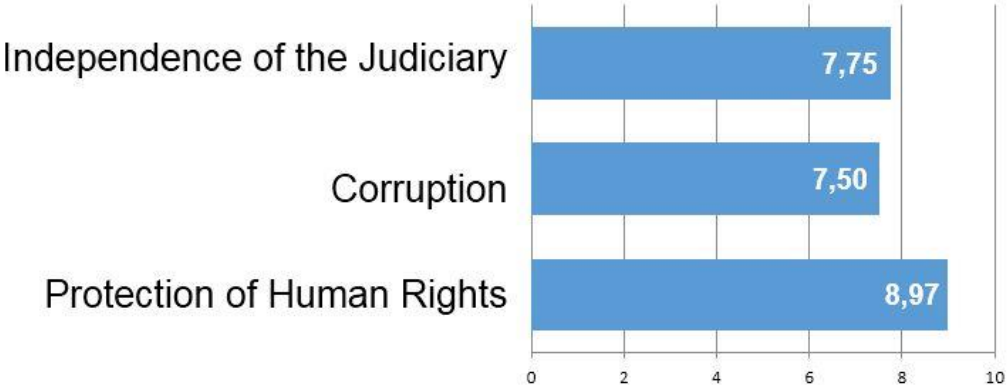


high ranking public officials occurs from time to time. For instance, former Minister of Finance was accused in July 2016 for embezzlement. Country went one place down in the Transparency International 2016 Corruption Perception Index and now holds 17<sup>th</sup> position.

### **PRESS FREEDOM**

After few years of declining in Press Freedom score of the Freedom Barometer Index, Austria finally reversed the trend, scoring 7,80 this year. Media landscape in the country is pluralistic, expressing wide variety of views and opinions. Journalists enjoy high level of independence. However, defamation is punishable by the law, which might influence their reporting to a degree. Like many countries in the region, Austria has a problem with concentration of the media ownership. In some regions, media owners control main printing and radio outlets. Also, high public expenditure on advertising in the media raises concerns of government influence on their reporting.

### **B. RULE OF LAW**



#### **INDEPENDENCE OF THE JUDICIARY**

The judiciary in Austria is to a large degree independent of the influences of the executive power, or of corruption, or of pressure by various interest groups. Citizens maintain huge trust in the courts. Constitutional Court is playing its role of the third pillar of power well. In July 2016, the Constitutional Court annulled the May 2016 presidential election runoff and ordered a revote. In the same month, new anti-terrorist legislation went into effect. Amnesty International or other observers complained about the lack of mandatory judicial oversight and discretion provided to law enforcement agencies while collecting data or meta-data on individuals. They were concerned about the respect of the rights to privacy and to an effective remedy.

#### **CORRUPTION**

Austria is less corrupt than the EU's anyway decent average, yet it is not immune of occasional high level corruption cases, even in ventures worth billions of euro. In July 2016, federal Minister of Finance between 2000 and 2007 Karl-Heinz Grasser was indicted of corruption, following 7-years` investigation and almost two decades of speculation in media over a number of suspicious decisions he had made or facilitated while in office at provincial or federal level. Politics and

banking are more intertwined than in neighbouring Germany. Partisanship in public sector employment is not rare, especially at senior positions. Aside of grand cases, especially at regional or local level there are cases of favouritism in public procurement, which is Austria's competitive disadvantage as compared to the most corruption-clean parts of the EU. Petty corruption is very rare, while the law criminalizes both passive and active bribery, attempted corruption, bribery abroad, extortion, money laundering, or other similar misdeeds. Austria supports anti-corruption struggle world-wide, among other also by co-sponsoring the Business Anti-Corruption Portal GAN. In Transparency International's Corruption Perceptions Index 2016, she is ranked as 17<sup>th</sup>, ahead of the United States, Japan or France.

## **PROTECTION OF HUMAN RIGHTS**

Protection of human rights is multiple. Awareness of those is widespread, with media, political parties or NGOs often citing them as important guidelines for various kinds of decision making. Academic freedoms, as well as freedom of religion, are hardly disputable. Women are well represented in politics, business or other public life, although gender pay gap is still serious. With the exception of proper marriage, same-sex couples and LGBT individuals enjoy equality and protection to the highest EU standards. Ethnic minorities enjoy full civic equality albeit limited linguistic rights. Immigrants are offered generous programs of integration at the expense of the state. For quite a long time, the sole limitations to freedom of speech - those regarding a ban on neo-Nazi or anti-Semitic propaganda, or a Holocaust denial – were explained by historical reasons. Lately, other kinds of racist hate speech are also criminalized. Exactly that was, in June 2017, in case of Dutch far right politician Geert Wilders, the point of dispute between Austria's and Netherlands' judiciary. Former wanted to put Wilders on trial for his offensive anti-Islam speech as of 2015, while the latter refused to cooperate, maintaining different criteria of what constituted hate speech. Aside of would-be felonies, there is an increasing campaign of xenophobic speech against refugees or other migrants from Muslim countries, by the far right groups and individuals. There were several violent attacks on asylum seekers' shelters. The climate is so tense that the government itself recently had and probably again would submit to demands to limit some EU-established freedoms, such as of movement without border control within the Schengen zone. Another recently raised problem is slavery. Domestic-bred one is of course unthinkable, but rich tourists from countries with meagre human rights record often bring with themselves servants, whom they smuggle and/or otherwise treat in the way unacceptable by Austrian laws. Between the pressure of human rights NGOs and the economic interest to develop high-end tourism, Austria and other West European tourist countries struggle to find a reasonable balance.

## C. ECONOMIC FREEDOM



### SECURITY OF PROPERTY RIGHTS

Property rights in Austria are well secured. Expropriation of property in Austria is extremely rare, limited to cases where public interest is at stake, and that on the basis of legal justification and followed by a market value compensation to the owner. Judiciary is independent from the executive branch of government or other out-of-the-court interests, thus securing the overall high integrity of the legal system. However, sensitive cases must be reported to the Ministry of Justice, which could then issue instructions. There are no special commercial courts apart from the one in the capital Vienna, so most commercial cases are administrated by regional courts. Effective bankruptcy procedures allow for a very high recovery rate, within reasonable time frame; most companies are not sold through liquidation procedure but as going concerns. High remuneration for attorneys and a long procedure of enforcement of judgment elevate litigating costs. Court efficiency could thereby be increased by introduction of adjournment regulation, limiting them to exceptional circumstances as well as limiting their maximum number. Further court automation services would also shorten some procedures. Transferring real property could also be lengthy, depending on the performance of district courts and respective land registry, with significant costs due to registration fees and a high transfer tax.

### SIZE OF GOVERNMENT

Government in Austria is characterized by high public expenditure of 51% of GDP in 2016, due to high social transfers, especially in the field of public pensions and healthcare, which are projected to continue growing substantially due to demographic changes. Pension system is already unsustainable due to high dependency ratio coupled with high substitution levels and an activity level in the labour market much below the one in comparative countries. Economic growth has recently picked up, due to good economic developments in the main partner countries and a rise in private consumption after the tax reforms. The deficit increased to 1.4% of GDP in 2016, while the public debt is still at an elevated level of 84% of GDP, slowly declining but calling for further efforts to comply with the Maastricht criteria. Profligate government consumption needs to be sustained by high tax rates. Austrian significant changes in its taxation system since 2016 functioned as a small fiscal stimulus, lowering taxation of labour and somewhat lowering the progression of the personal income tax, as well as changing the tax mix to the detriment of consumption taxes, with increases in VAT (with 10% and 20% alongside

the new 13% rate). Corporate income tax remains 25%, but there are plans for its decrease to 20%. Social security contributions still remain high, which, coupled with the income tax, keeps the labour tax wedge much above the OECD average, at 47%. State-owned enterprises (SOE) are mostly concentrated in the utility and infrastructure sector, but the government holding OBIB holds significant minority stocks in many other companies where government presence in many countries is not considered necessary - post office, telecommunications, etc. SOEs abide by the same rules in the market as private companies, not distorting competition, except in areas considered as government monopolies, but close political connections between managing boards and political elite could in some cases be attested.

## **REGULATION OF CREDIT, LABOUR AND BUSINESS**

Business regulation in Austria is generally considered as business friendly. Starting a business is not well organized, with long procedures at local courts and especially at the tax office. There is a very high paid-in minimum capital of 5,000 euro. Obtaining a construction permit is associated with several very long procedures, taking up to 7.5 months on average; on the other hand, getting electricity is relatively simple, but very expensive. Tax procedures are not overly burdensome, with low annual number of tax payments and widespread use of electronic services. Labour regulation is a mixture of flexible and restrictive practices: working hours are flexible and there are no limitations to fixed-term contracts and their duration, thus lowering difficulties in hiring. Low severance pay and short notice periods also bring flexibility to the labour market, but this is often offset by priority redundancy rules or reemployment obligations. Trade unions play a strong role. Social dialogue is widespread in many industries. There is no general minimum wage, but due to the history of social dialogue, as well as strong trade unions, minimum remuneration in specific industries is determined through collective bargaining which covers a high share of workforce. Obligatory military conscription lasts for six months.

## **FREEDOM TO TRADE INTERNATIONALLY**

Freedom of trade is generally respected in Austria, which is very important for its economic ties to other EU markets, German especially. Being an EU member, Austria implements the common European trade policy with overall low tariff rates. However, some non-trade barriers regarding product standardization and certificates continue to obstacle free trade. Customs service is professional and very efficient, requiring only 4 documents, both for export and import of goods. Trade is facilitated by good public transport infrastructure, which considerably reduces freight costs, but port infrastructure quality is lagging behind railways and roads. The railway sector is controlled by the government, i.e. by the public-owned enterprise which is relying on public subsidies, thus reducing competition and stifling innovation. That was visible in discriminatory policies towards a private rail company. Main Austrian trade partners are its advanced EU neighbours Germany and Italy, as well as Switzerland. Since the latter is neither an EU nor a European Economic Area (EEA) member-state, trade relations with it are maintained via series of bilateral treaties. Austria is one of the five countries within the EU that still requires work permits for Croatian nationals, but the restriction is expected to be lifted in 2018 (although it could be prolonged for another two years). Broadening the scope of Red - White - Red program to introduce start-ups and third country nationals with a university degree is expected to attract

young professionals, by lowering bureaucratic hurdles. Foreign diploma nostrification and professional licensing pose restrictions to other EU nationals in some professions.

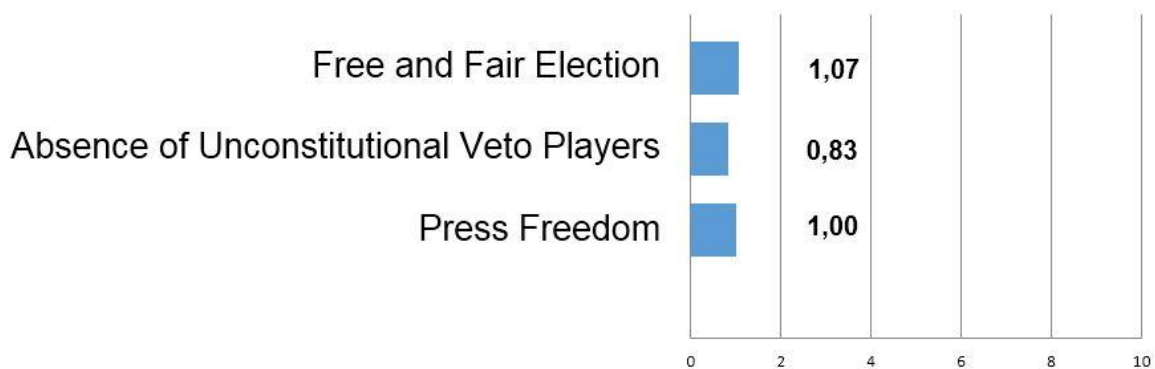
# Azerbaijan

GDP in 2016: EUR 33,957 million

annual growth rate: -3.8%	per capita: 3,580 EUR	by sector:
		agriculture 7.2%
		industry 49.6%
		services 43.3%

Population: 9,492 thousand	Human Development Index	Government position in 2016
Unemployment rate: 6.0%	HDI: 0.759 (rank 78)	-6.76% of GDP

## A. POLITICAL FREEDOM



### FREE AND FAIR ELECTIONS

Elections in Azerbaijan are held in highly restricted environment, where parties and politicians are often prevented from competing, in an already unfair process. President Ilham Aliyev combined various methods of dealing with critical voices, from imprisoning of politicians and activists, physical violence and intimidation, to restricting access to media or from holding rallies. Due to that, there is no freedom and fairness of elections in the country. Same environment accompanied constitutional referendum as of September 2016. After the coup in Turkey, the President wanted quickly to further empower his position in the system by calling for a referendum, which had strengthen his powers over legislative branch and prolonged his term in office from 5 to 7 years, besides other changes. Campaign against proposed changes was suppressed by all means, triggering a new wave of repression toward activists who opposed the changes, while at the same time the voting process abounded with irregularities.

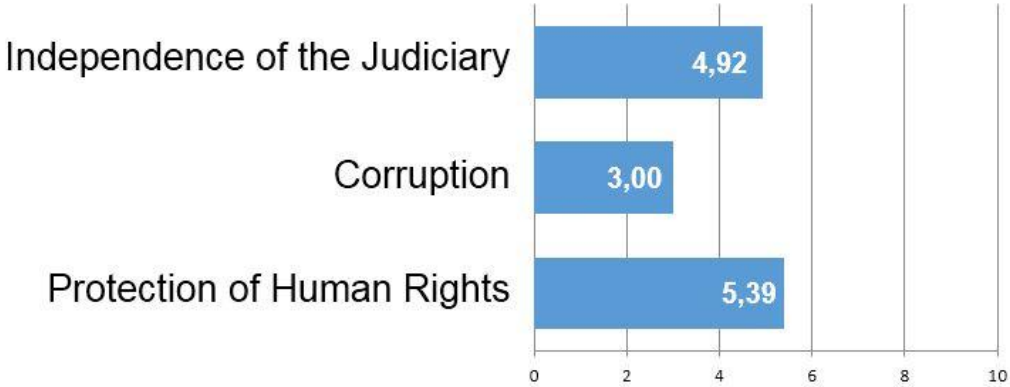
# ABSENCE OF UNCONSTITUTIONAL VETO PLAYERS

Having a situation in which elections are not free, where the President controls the executive, judicial and legislative branches of power, and corruption is orchestrated by the highest ranking politicians, means that autocratic authorities are those actors who hinder the rule of law in Azerbaijan. There are several players, though, who are able to challenge President’s monopoly on power, such as oligarchs or other influential officials in the government or security apparatus. However, for the time being they are cooperating closely, simultaneously abusing the state for their own private interest.

## PRESS FREEDOM

Media freedom continued to deteriorate in Azerbaijan, resulting in the lowest score among all the countries in the Freedom Barometer 2017 index. Landscape has been characterized by the lack of any kind of diversity, since either media outlets are reporting with a pro-government attitude or they are facing constant repressive measures. Objective, critical and independent journalism struggles to survive. It is censored, using extensive legislation to shoot down media outlets or even imprison journalists. Both physical and verbal attacks on reporters are common in Azerbaijan, contributing to high level of self-censorship among them. Government released several journalists from prison in 2016, although after that it didn’t stop with arrests. Private television station ANS was terminated broadcasting license due to their intention to air the interview with Fethullah Gulen. It was done allegedly to maintain good relations with Turkey after the failed coup in it. After the arrest of their director, the Azadliq outlet stopped with its print edition, since it was unable to access its bank account. Defamation remains punishable by the law, while its definition was expanded in November.

## B. RULE OF LAW



### INDEPENDENCE OF THE JUDICIARY

Year and again, the level of judicial autonomy decreased. Corruption, as well as governmental influence on courts in the politically relevant trials, is destroying independent judiciary. The number of political prisoners is in the rise parallel to decreasing political and media freedom, in spite of occasional amnesties. Their treatment worsens, with torture becoming more present and unchecked and even lawyers coming under pressure. An important indicator of the state of rule

of law in 2017, as Freedom House has noticed, is the shrinking of the pool of lawyers willing to take domestic or ECHR-addressed human rights cases. Constitutional changes as of September 2016 provided for de facto supremacy of the President over Parliament in appointing members of the Constitutional Court or Supreme Court, at his right to appoint Prosecutor General.

## **CORRUPTION**

Besides (or because of) having a clearly authoritarian political system, Azerbaijan is overwhelmed by corruption. The situation is far worse than in nearby Armenia or Turkey, not to mention the rapidly reforming Georgia. Corruption starts at the top of the government, where the President's clan enjoys privileges and drains out enormous wealth, springing down to numerous ordinary public servants who expect, demand and receive bribes. Government anti-bribe measures are superficial and limited in scope. Pressure on media and shrinking public access to information further diminish opportunities to discover concrete cases of corruption. There was almost no improvement during the past year. Moreover, a huge scandal broke out in summer 2017 – “Azerbaijani Laundromat” - showing that government cronies, between 2012 and 2014, bribed out favourable treatment by Western politicians, journalists and businessmen, including their blind eye turned at human rights violations. Transparency International has put Azerbaijan, in its Corruption Perceptions Index 2016, to the (shared) places 123-130 of 176 countries. Similar as in the mainland, authoritarianism and corruption by provincial leaders could be found in the Azerbaijan's geographically isolated exclave of Nakhchivan.

## **PROTECTION OF HUMAN RIGHTS**

State of human rights is very bad. The all-out attack on many of those and on civil liberties has resumed during 2016 and 2017. Freedom of expression is further limited, as in May 2017 Azerbaijan has blocked access to critical websites. Freedom to move abroad has been limited by denying passports to some political dissidents. Religious freedom is limited as 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. National minorities are experiencing pressure in cultural and political life. In its 2016/17 report, Amnesty International warned that despite massive pardons in May 2016 some political prisoners were not released, that new ones are meanwhile arrested and that banned organizations were not allowed to re-establish. Torture in detention and arbitrary arrests of government critics are widespread, while international human rights observers are denied access to the country. Moreover, in May 2017, a dissident Azerbaijani journalist living in the neighbouring Georgia since 2015 was suddenly arrested (and tortured) in Baku, which rose serious suspicion of a cross-border abduction.



## C. ECONOMIC FREEDOM



### SECURITY OF PROPERTY RIGHTS

Private property rights are not well protected in Azerbaijan. Out of court influence of political elite over judicial processes remains a major obstacle. Court proceedings are not considered fair and professional. Out-of-the-court procedures, such as arbitration or mediation are not developed. The law on expropriation can be easily misused for private economic gains, by unnecessary appropriation or low compensation, in spite of its legal provisions. Contract enforcement is mostly effective, with reasonable time frame, and there are specialized commercial courts. However, there are no automated processes within courts and no adjournment rules. Insolvency procedures are complicated and lengthy, with low recovery rates estimated to stand at 40% on average. Registering property is very easy, with just 3 procedures, and with very low costs. Land ownership is restricted to domestic nationals, but foreign nationals can lease land for long periods of time. There are also broad restrictions on foreign ownership in different industries, more stringent than the usual provision of majority equity that is reserved for domestic nationals: in Azerbaijan, foreign ownership in media outlets is limited to 33%, while in insurance companies to just 10%. Furthermore, majority equity in companies dealing with oil and natural gas must be in state ownership. The privatization process conducted in the country is not considered transparent and is prone to political dealings and corruption.

### SIZE OF GOVERNMENT

Government spending in Azerbaijan stood at 36% of GDP in 2016, mostly in line with other Commonwealth of Independent States (CIS) countries. After a 6% of GDP deficit in 2015, a small consolidated fiscal balance surplus of 0.3% of GDP was recorded, but further changes in fiscal policy are necessary in order to make public finances sustainable. This fiscal result stems from higher revenues, due to customs reorganization and higher oil prices, but also due to the fall in capital expenditures. The economy experienced contraction of 3.8% in 2016, not just due to energy prices, but more importantly, due to the fall in non-oil industries. Inflation remains high, mostly due to pass through effects of the national currency devaluation, peaking at 12.4%. The government approved a Strategic Road Map in December 2016, a broad development plan, covering areas from macroeconomic stability and exchange rate policy to investment plans in chosen industries deemed as competitive, which may have a strong influence on future economic freedoms depending on its implementation. Non-tax revenues stemming from oil and gas

allowed for a high degree of public investment and large-scale welfare programs, leading to high social transfers, but these revenues are dwindling. Unreformed state pension system is a drain on public finances. Public debt has been tripled since 2014, to almost 40% of GDP. Numerous state owned enterprises (SOE) are present in the economy, not just in the oil or utility sector and many of them have a near-monopoly status, with unclear separation between regulatory bodies and SOE corporate interests. An ambitious plan of privatization of public companies that was drafted in 2016 is lagging in implementation. Azerbaijan's Sovereign Wealth Fund, that was set up with exceeding oil revenues, has been linked to corruption of high state officials and bad investment policy. Corporate tax is set at 20%, while VAT is at 18%. Personal income tax is progressive, being 14% up to a high threshold and 25% above it, while social contributions stand at 25% of the gross wage (22% paid by the employer and 3% by the employee).

## **REGULATION OF CREDIT, LABOUR AND BUSINESS**

Business environment in Azerbaijan is not considered as business friendly. The biggest obstacles remain in the field of regulatory enforcement, equal treatment of businesses and corruption. Complicated bureaucracy keeps administrative cost for conducting business activities elevated. Getting an electricity grid connection proves to be lengthy and expensive, but it was recently made less burdensome with the introduction of electronic capacity maps which reduced the necessary time for determining new connection points. Issuance of construction permits is very inefficient, burdened with many processes, lasting up to 7 months, which creates a corruptive environment. On the other hand, starting a business is quick and inexpensive, and without minimum paid in capital requirements. Tax compliance is easier than in many neighbouring countries - total number of payments is low and they are paid mostly online, but the actual compliance is burdensome. Shadow economy in the country is widespread, with many people working in undeclared activities. Labour regulations are mostly flexible: fixed term contracts can last up to 60 months without restrictions, while notice periods and severance pay for redundancy workers do not increase with their years in tenure. However, the relatively long mandatory military service (18 months for general male population, while 12 months for university students) is burdensome to businesses, but also for the young workers, due to disruption in human capital accumulation.

## **FREEDOM TO TRADE INTERNATIONALLY**

Azerbaijan is not a champion of free trade. It is one of the rare countries that are not members of the World Trade Organization (WTO), therefore its international trade is conducted under General Agreement on Trade and Tariffs (GATT), or bilateral agreements. Although the WTO accession negotiation has been ongoing since 1997, and the last meeting of the WTO Working Party was held in July 2016, there were little, if any, advances in this regard. Tariffs remain high, with simple average Most Favoured Nation (MFN) applied rate of 9%, and even higher for agriculture products. Border compliance costs are high, but the electronic system for submitting export and import documentation is expected to improve the situation. Customs administration is perceived as often having a partial stance in dealings with enterprises, whereby corruption remains an issue. Standardization procedures, which are still not in line with the international practice, serve as non-tariff barriers to trade. The national currency manat, now in the float

regime, currently remains relatively stable when compared to its recent sharp depreciation. Poor state of the infrastructure poses yet another burden to trade, lowering not only volume of imports and exports but also the volume of transit goods. Azerbaijan is making efforts to increase its connectivity with the surrounding countries, in order to benefit from an increased volume of exports. The Baku - Tbilisi - Kars railway and Trans - Anatolian and Trans - Adriatic pipe lines are among the most important infrastructure projects in this regard.

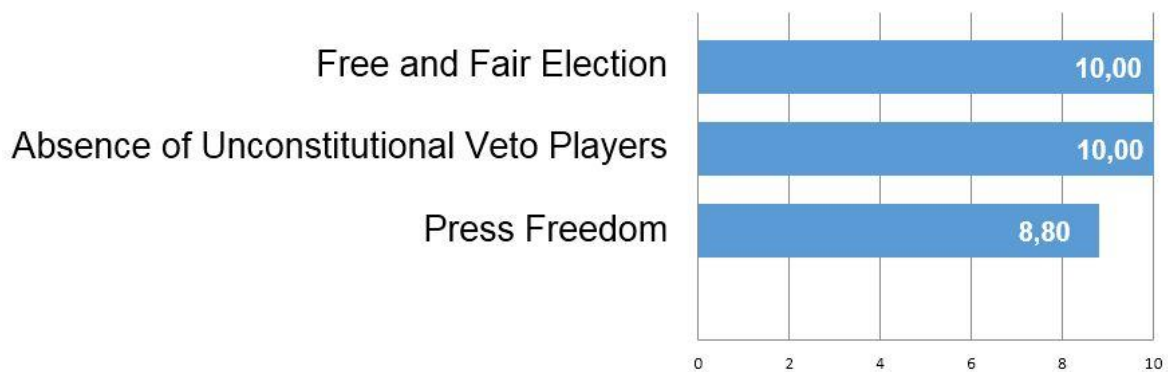
# Belgium

GDP in 2016: EUR 421,974 million

annual growth rate: 1.2%	per capita: 37,300 EUR	by sector:
		agriculture 0.6%
		industry 21.8%
		services 77.6%

Population: 11,311 thousand	Human Development Index	Government position in 2016
Unemployment rate: 8.0%	HDI: 0.896 (rank 22)	-2.68% of GDP

## A. POLITICAL FREEDOM



### FREE AND FAIR ELECTIONS

Free and fair elections in Belgium are granted by the constitution and largely upheld in practice at all levels - local, regional, national and European. Large turnout in all elections is mainly due to compulsory voting, since refusing to vote subjects one to a small fine. Belgian electoral process allows political parties to operate and compete only among linguistic compatriots, except in the bilingual Brussels region. Current government, comprised of New Flemish Alliance, Movement for Reform, Christian Democratic and Flemish party, and Open Flemish Liberals and Democrats, managed to remain united during observation period, despite security tensions and several incidents that occurred. Parties were preparing for local elections which were going to take place in October 2017. Belgium is a constitutional monarchy with a bicameral federal parliament consisting of the 150-member Chamber of Representatives and the 60-member Senate.

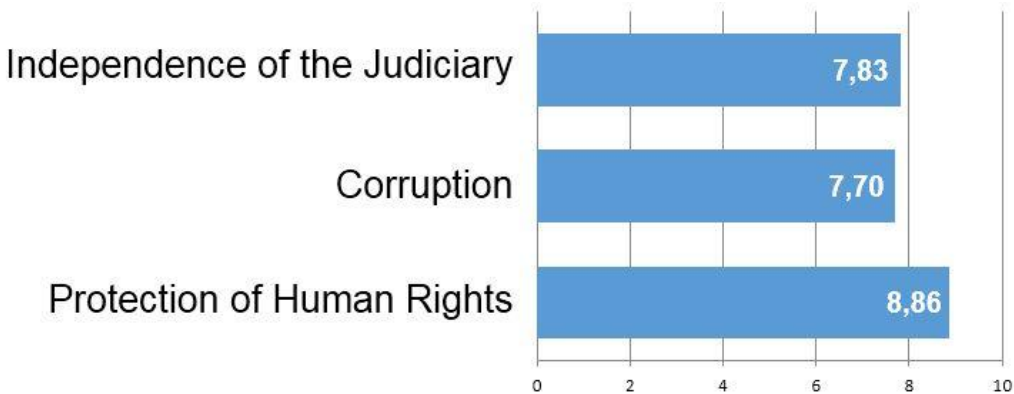
# ABSENCE OF UNCONSTITUTIONAL VETO PLAYERS

Belgium doesn't have unconstitutional veto players. The authorities have effective power to run the country without interference. There is almost no corruption in the country, due to efficient mechanisms set in place. Despite all those, the biggest threat to the country's safety and security is coming from terrorism. After the terrorist attack in March 2016, several more of the radical attacks happened, including a few stabbings of police officers and the Brussels Central Station bombing - without casualties – as of June 2017.

## PRESS FREEDOM

Press is free and protected in Belgium. Media outlets are separated on two linguistic regions, Flanders and Wallonia, and each of them has its own public broadcaster. In both of them, media landscape is pluralistic and diverse. Problem regarding ownership of the media and especially press, which is highly concentrated, remained active. Defamation is punishable by the law in Belgium. Country is ranked on a high 9<sup>th</sup> position in Reporters without Borders 2017 World Press Freedom Index.

## B. RULE OF LAW



### INDEPENDENCE OF THE JUDICIARY

Independence of judiciary from the executive is a principle developed in Belgium since its state independence in 1830. It was later enshrined by the Constitution. It is highly respected. Since federalization, Constitutional Court has become vital in peaceful resolution of conflicts of interest between the constituent regions or communities and in preventing discrimination. Another judicial body, Council of State, is the highest administrative court in the country, playing an important role in the peaceful settlement of inter-regional or inter-communal disputes. It also deals with legislation affecting human rights, freedom of commerce or other interaction between state bodies and private actors. Interviews with citizens fail to detect anybody who had paid a bribe to a judge, even though 25% think that there exists corruption in the courts. There certainly are sporadic outside influences by public opinion and/or political interference. According to GAN portal, efficiency or even efficacy of courts is but problematic. Judiciary is experiencing shortage of judges, hence backlog and even expiry of some important cases (such as those regarding transnational corruption).

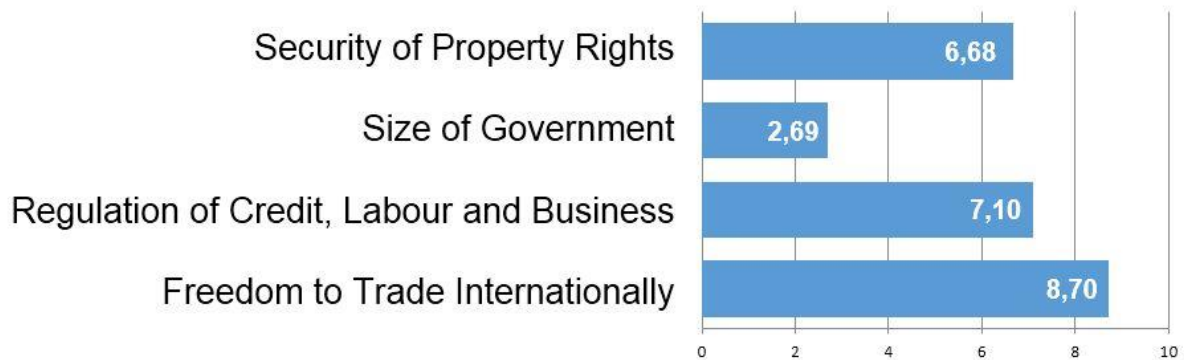
## **CORRUPTION**

For several years now Belgium has been stagnating in its battle to eliminate corruption. The situation is very good, yet the final steps to make it excellent (such as in comparable Netherlands or Luxembourg) are missing. In the Transparency International's Corruption Perceptions Index 2016, Belgium was ranked 15 (of 176). Social market economy, long experience in building anti-corruption mechanisms, trained professional administration and a highly developed citizens' awareness have narrowed the ground for - and led to relative rareness of - corruption. The main fields left to tackle with are bribery abroad (by Belgian companies or via Belgium), infrastructure (especially huge EU funded projects) and public procurement (especially at the regional or local level). Since 2015, Belgian federal parliament has undertaken a broad reform of the civil and criminal legislation, in the framework of which also first changes after many years were made regarding bribery. In 2016, the definition of "passive bribery" was severed, as were also mandatory sentences for international corruption.

## **PROTECTION OF HUMAN RIGHTS**

Level of protection of human rights in Belgium is very high. In many fields the situation is excellent, while in others there is still a lot of room for improvement. Academic freedom and freedoms of expression, association or gathering are respected according to the highest EU standards. Country is multi-ethnic and its multi-layer federal structure is designed so as to provide equal opportunities to members of all native ethnicities. However, even they face obstacles outside their ethno-linguistic habitats. State and societal support to multilingualism is still insufficient. Treatment of immigrants of all walks could improve. One category of visitors or temporary migrants was recently included into protection – the servants of the super-rich foreign tourists. They were often treated below the minimum standards while in Belgium, and sometimes even smuggled into and out of the country. In June 2017, eight United Arab Emirates princesses were sentenced by Belgian court to suspended jail sentences and huge fines for mistreatment of their servants while on tourist visits to Belgium. This landmark case could be a strong anti-dot on a broader scale, because it was a warning to all employers who used trafficked workers, thus sometimes facilitating modern kinds of slavery. In Belgium, high respect is paid to women's and girls' rights, whereby domestic violence is ever more successfully pushed back, as well as to the equal rights of LGB persons, whose discrimination is almost eradicated. In May 2017, with lifting sterilization as a legal prerequisite for change of gender, also trans-gender persons reached some of the desired equality and dignity.

## C. ECONOMIC FREEDOM



### SECURITY OF PROPERTY RIGHTS

Property rights in Belgium are overall well protected. Judiciary is independent from out-of-court influences and the government and its proceedings are respected. However, Belgian courts suffer increasing backlogs, resulting in delays and slow proceedings (on average trial and judgment takes 400 days); since the court system is decentralized, duration of local dispute can vary significantly between different regions of the country. There are no adjournments restrictions, so they can be long and used often. There are no automation processes - not even in case of payments of fees, which affects the level of court management quality. There are specialized commercial courts, but this has not improved the situation significantly. This also leads to high costs in the shape of attorney fees. In some particular cases, freedom of change of real estate ownership is somewhat restricted, calling for a third party authorization (such as the right of pre-emption of local authorities in the case of agricultural land, social or residential housing). Process of property registration, which is the first step in ensuring any property rights, is a very expensive procedure due to high notary fees and especially the high transaction tax levied on the purchasing price, which varies between regions. Private property expropriation by the government is rare - only for public infrastructure projects, and it is always followed by adequate market-price remuneration.

### SIZE OF GOVERNMENT

Total government consumption in Belgium is among the highest in Europe, due to generous welfare and redistribution programs, reaching almost 54% of GDP in 2016. Continuous public deficits have led to an elevated level of public debt of 106% of GDP in 2016. The ongoing fiscal consolidation delivered some results in curbing the growth of public spending, but fiscal slippages were evident in 2016 due to fall in projected revenues and rise in expenditures. Although recorded fiscal deficit in 2016 of 2.7% is below the Maastricht criteria, it is still too high, especially having in mind fiscal pressure stemming from demographic changes and the already high debt. Public sector in Belgium is both extensive and expensive, since almost a quarter of the overall population is employed in the public sector. State owned enterprises (SOE) are mainly concentrated in the fields considered as natural monopolies such as utilities, railway and postal system and telecommunications. However, SOE management quality is dubious, as compared to the best international practices of OECD. The European Commission in 2017 declared that sea port tax exemptions for Belgium ports are illegal state aid, similar to its ruling in

2016 regarding the telecommunication SOE, Proximus. High expenses need high tax rates: corporate tax rate is the third highest among OECD countries, standing at 33.99%, although a reform is planned to decrease the rate to 20% or 25%. Income tax is very progressive: 25% for the low earners, and even 50% for the highest earners. General VAT rate is 21%, while two preferential rates are 12% and 6%. Very high tax wedge, which stood at 54% on average wage (the highest among OECD countries), due to high social security contributions and personal income tax, has created obstacles to further job growth.

## **REGULATION OF CREDIT, LABOUR AND BUSINESS**

Business regulation in Belgium is overall business friendly, but bureaucracy costs could be high, stemming from complicated government levels whose competences could overlap. Setting up a new business enterprise is easy, but it is costly, due to high notary fees and high paid in minimum capital. However, obtaining a construction permit is a slow procedure due to inner municipality urbanization departments, whose capacities can strongly differ across the country. Tax administration is professional, with widespread use of electronic services, thus decreasing time and cost of regulatory compliance. Low labour mobility, coming from linguistic and administrative fractionalization of the country (with very different unemployment levels in Wallonia and Flanders), is also mitigated by high transaction tax on purchase of private property instead of recurring annual property tax. Mandatory licensing in areas such as network industries and regulated professions decrease competition, accruing rents to insiders. Labour code is characterized with both flexible and inflexible traits. Working hours` regulation is not restrictive due to high number of working days and there are no limits of permanent contracts duration. Severance pay obligations differ by sector, stemming from collective agreements, while the firing regulations are restrictive due to very long redundancy notice periods, which increase in line with longevity of the tenure, reaching up to 7,5 months. This measure provides more job security, especially to seasoned workers, but also makes their future employment less likely due to associated costs in case. Tripartite negotiation via centralized collective bargaining is prevalent in certain industries and could pose constraints to businesses, due to increased wage bills. The minimum wage, although slightly differentiated by age and industry, is among the highest in the EU, leading to low activity rates among the young and low skilled immigrants.

## **FREEDOM TO TRADE INTERNATIONALLY**

As a small and open economy, Belgium has always been open to international trade. Belgium is one of the founding nation members of the EU, and it applies the EU common trade policy. Therefore, overall applied tariffs for imported goods are low, but tariffs on agricultural products are higher. Non-tariff or other regulatory trade barriers, such as accreditation and standardizations of import items are not prevalent but can have negative impact on trade. It heavily relies on the EU common market, especially on the market of the neighbouring industrial countries (Germany, France, the Netherlands), since Belgium is a major transport hub due to its geographical location and good infrastructure. Customs and border and documentary compliance are very expeditious (with only 4 documents, the same ones both for import and export purposes). The World Bank, in fact, cites Belgium as the most efficient country providing an efficiency frontier for benchmarking other countries. On the other hand, international freight is



one of areas in which competition is not fierce, due to regulation restrictions, which burdens international trade, increasing transportation costs. This is also connected to areas in which SOEs operate, such as railways. But public transport infrastructure is of high quality, which diminishes costs arising from international trade. Obtaining a working permit for workers that are not EU nationals is a burdensome administrative procedure. There are still some controls on movement of short term capital. Movement of labour in services is restricted, due to licensing procedures, limiting supply and increasing prices.

# Bosnia and Herzegovina

*GDP in 2016: EUR 15,014 million*

*annual growth rate: 2.5%*

*per capita: 3,900 EUR*

*by sector:*

agriculture 7.8%

industry 26.8%

services 65.4%

*Population: 3,854 thousand*

*Human Development Index*

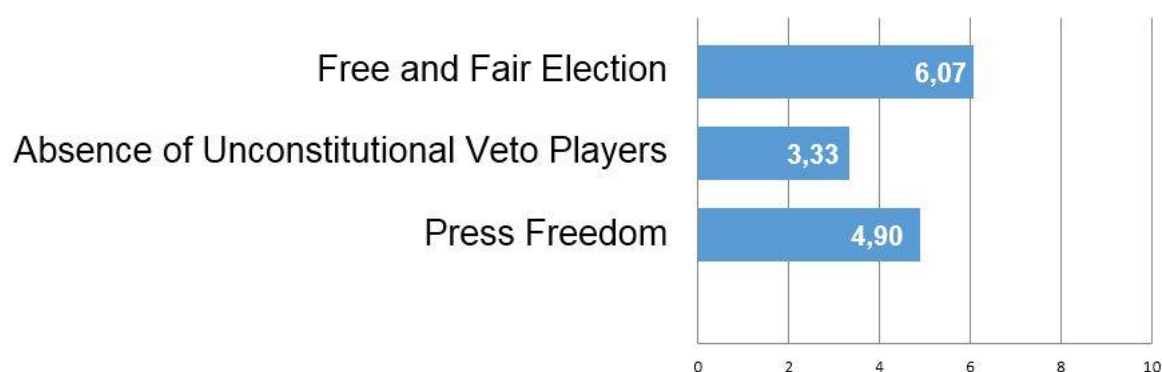
*Government position in 2016*

*Unemployment rate: 25.4%*

*HDI: 0.750 (rank 81)*

*0.03% of GDP*

## A. POLITICAL FREEDOM



### FREE AND FAIR ELECTIONS

All recent elections in Bosnia and Herzegovina (BiH) were organized in democratic manner, although certain technical shortcomings and fraudulent activities threatened to endanger freedom and fairness of the process. Political landscape is pluralistic and political parties are able to operate freely. However, only Bosnian Serbs, Bosnian Croats and Bosniaks are entitled to run for the Presidency of BiH and for the House of Peoples (upper chamber) of the Parliamentary Assembly of BiH, due to constitutional provisions contested by the European Court of Human Rights. Local elections took place on the 2<sup>nd</sup> of October 2016 and were held amid strong ethnic tensions in the country. Seven days prior, an entity Republika Srpska (RS) held an unconstitutional referendum on the establishing of the Day of RS, which sparked harsh rhetoric by nationalists in both entities, the RS and the Federation of BiH (FBiH). In such environment, ruling Party of Democratic Action (SDA) and Alliance of Independent Social Democrats SNSD dominated local elections results in FBiH and RS, respectively.

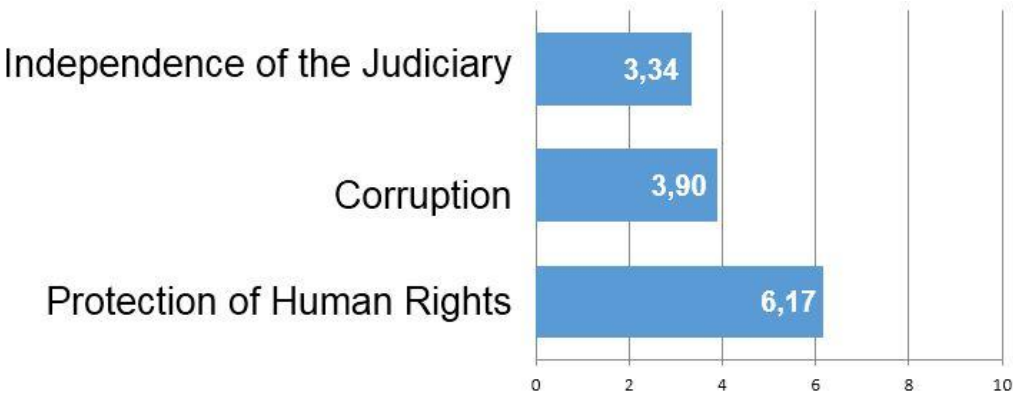
# ABSENCE OF UNCONSTITUTIONAL VETO PLAYERS

Decision making process in Bosnia and Herzegovina is inefficient and often interrupted by politicians themselves. Power to veto legislation, given by the Constitution to each of the three acknowledged “constituent” ethnicities (“nations”), is often used rather for personal, clanship or political party benefit than as a control mechanism and consensus-building tool over the most sensitive (primarily identity) issues in the country. Such situations often spark inter-ethnic tensions and seriously endanger democratic process. System of checks and balances is weak, particularly due to poor ability of judiciary to impose rulings on the executive. This was especially evident after the Constitutional Court had ruled a ban on a referendum on the Day of RS, while the Government of RS ignored it and held the vote. After the referendum go-ahead, it celebrated the Day on 9<sup>th</sup> of January 2017. Religious institutions in BiH are very influential in shaping public opinion. They often use their position to interfere or navigate country’s politics. Also, legislative veto power is given to the Office of the High Representative, which in the name of UN monitors the implementation of the Dayton Peace Agreement.

## PRESS FREEDOM

Media scene in Bosnia and Herzegovina is highly pluralistic and diverse, while freedom of the media is only partly upheld in practice. Strong informal ethnic-gravitation or political party pressure reflects on media outlets and journalists, decreasing their objective reporting. Informal political or economic pressure is often used to silent critical journalism and influence editors. Numerous media are dependent on the public sector for advertising or subsidies, whereby government in return receives more favourable treatment. This is especially highlighted among the public broadcasters, who use to favour the government or even serve as its propaganda tool, such as Radio and Television of the Republika Srpska (RTRS). Journalists might face intimidation or violence due to their critical reporting.

## B. RULE OF LAW



### INDEPENDENCE OF THE JUDICIARY

Constitutional Court (CC) of Bosnia and Herzegovina (BiH) has for several times during 2015 and 2016 ruled that certain laws or regulation in the BiH’s entity Republic of Srpska (RS) were unconstitutional, often contradicting the rulings of the entity’s CC. The most drastic case was the

referendum held in RS on 25 November 2016, over the issue of an RS's public holiday. While the CC BiH's ruling to cancel the referendum was ignored by RS authorities, the vote took place, so far with no subsequent legal consequences for the main perpetrators. In daily practice, bribing out from a court a favourable or at least expedient ruling or sentence, or a delay of the process, is often practiced. Political interference is also present. Backlog of cases is huge. War crimes' trials often produce results in contrast with common wisdom and/or basic sense of justice. Recently, an improvement was noticed in the certain category of war crimes' trials – those for rape, whereby a number of internationally recognized professional standards, good practices and experience of the Hague-based ICTY were applied. Even that is perceived by victims' associations as neglect, as compared to the huge unmet demands of the transitional justice.

## **CORRUPTION**

State capture by political parties at all six tiers of government, huge public sector, high public spending and unclear division of responsibilities, plus poor coordination between anti-corruption actors, are the main factors that facilitate a very high level of corruption in Bosnia and Herzegovina (BiH), placing it behind all its neighbours. In its Corruption Perceptions Index 2016, Transparency International has put BiH, with the score 39/100, to the place 83 (of 176 countries), together with Albania, Jamaica and Lesotho. Bribery rate is very high, 27%. The situation has been stagnant for years now. High level corruption and other misuse of power by politicians is normalcy. Politicians' or their families' or proxy's assets are often in visible discrepancy with their long-term declared income. As GAN portal noted in August 2016, in most of the observed fields relevant for doing business, from public procurement and public services to police, customs, tax administration and judiciary, with only land administration as a partial exception, corruption risks were high. FNF has noticed that illicit political party financing, misuse of public office or funds for party activities and partisanship in employment considerably undermined political freedom and pluralism. Freedom House noted that citizens were especially worried about corruption in political parties, in health care and in the police, while being increasingly cynical about the prospects of improvement. As many as 83% citizens find the government performing "badly" when fighting corruption. Especially demoralizing is the fact that politicians often enjoy impunity for corruption, or get away with short prison sentences. Meanwhile, institutions in charge of corruption (APIK) or of conflict of interest (special commission for it) experience administrative problems and/or lack of authority.

## **PROTECTION OF HUMAN RIGHTS**

The heaviest burden on human rights in Bosnia and Herzegovina (BiH) is its recent past, with many unresolved war crimes and divergent interpretations thereof. The denial of the judicially established qualification of the July 1995 crime in Srebrenica as genocide, widespread in the Serb entity RS (as well as in neighbouring Serbia), is hindering reconciliation. Ethnocentrism goes beyond the treatment of past events. Hate speech might be found everywhere and extremism is in the rise. Schools are segregated, and so are the curricula. BiH's citizens who do not belong to any of the three "constituent nations", or those who live in ethno-religious environment different from their own, face hardships. Amnesty International, in its report for 2017, noticed some improvement in access of Roma to IDs or to housing, but it warned that discrimination in

education, health care and employment continued, while recent government actions to lessen it were void. Human trafficking remains as a huge problem. In the District of Brčko (itself with a special status within BiH), an important transit point for traffickers, several raids and subsequent trials were conducted. In July 2016, a small improvement in the anti-discrimination legislation in BiH was made regarding LGBTI persons, by redefinitions thereof and inclusion of inter-sex persons. Nevertheless, homophobia is very strong and widespread, while the capital Sarajevo is still without its own official annual Pride Parade.

**C. ECONOMIC FREEDOM**



**SECURITY OF PROPERTY RIGHTS**

Private property rights in Bosnia and Herzegovina are not adequately protected. Judiciary is weak and it often succumbs to out of court influences by politicians and powerful private interests; their decisions therefore can be partial and are not necessarily aligned with the existing practice. Corruptive practices within the judiciary are also present. Judicial processes are slow and inefficient, as well as enforcement of their rulings. Courts do not uphold the stipulated time standards, and the number of adjournments is not prescribed. There are also many backlogged cases, which further aggravates the situation. A number of judges in commercial cases also lack specialized knowledge or experience for specific cases, which prolongs court procedures. Although there are specialized commercial courts, commercial cases are not always regarded as those to which priority should be given. Bankruptcy procedures do not put sufficient emphasis on rehabilitation or reorganization of companies so they are mostly sold through a piecemeal sale. Insolvency procedures are also extremely long and lead to very low recovery rates. Registering property is a very long procedure, which could be expensive in some Federation`s cantons due to high property transfer taxes. This tax, however, is not applied in the entity Republika Srpska. Great proportion of land does not have a clear title, due to an inefficient and slow restitution process and weak administration capacities. The entities have different real property cadastre services. The role of municipality courts in land registry further complicates the situation. The question of property rights of internally displaced persons and refugees remains open, due to inefficient proceedings of the Commission for Real Property Claims of Displaced Persons and Refugees. There are ownership restrictions to foreign citizens, mostly in areas of defense industry, media and electricity transmission; land ownership is also restricted but on a reciprocal basis.

## **SIZE OF GOVERNMENT**

Size of government in Bosnia and Herzegovina is high for a country with such a low level of economic development, with government expenditures reaching 43% of GDP in 2016. Government bureaucracy is omnipresent, with several different layers of government, which is a direct legacy of the war. All of them compete for authority and resources. In September 2016, the IMF approved an Extended Government Facility program, offering more than half a million euro in loans if necessary. The program goals are to lower the blatant wage bill and non-targeted social spending, increase capital expenditures to alleviate infrastructure bottlenecks, and strengthen the common economic structure of the country. These measures are a part of the broader Reform Agenda, whose main aim is increase in competitiveness of the country. Government gross debt is on a downward path, standing at a moderate level of 44% of GDP in 2016. Although a wide scale privatization process was conducted, there are many state owned enterprises (SOE), but most of them are in possession of the two entities, which further lessens their efficiency since it disables the economy of scale. Many of these SOEs are inefficient, heavily relying on government indirect or direct subsidies, and with high arrears. Privatization plans have been drafted in both entities, but were more implemented in the Federation, which sold its full or minority stake in several important companies in pharmaceuticals, insurance, tobacco and petrol retail sectors. Economic growth is sluggish, barely reaching 2% in 2016. Corporate and personal income tax have been harmonized and flat and both set at the low rate of just 10%. However, social security contributions differ among the entities, leading to different labour tax wedge - 40% in Federation (in line with other Western Balkan countries) and 34% in Republika Srpska (below the regional average). VAT is low for European standards, and consists only of one standard rate of 17%, without preferential rates.

## **REGULATION OF CREDIT, LABOUR AND BUSINESS**

Business environment in Bosnia and Herzegovina suffers from excessive red tape and prevalent corruptive activities. Starting a business is a very slow procedure, burdened with bureaucracy and includes not only notaries but also municipal courts and other various bodies; it also incurs high costs not only due to high fees but also due to a high minimum capital requirements. This procedure also differs between entities, with Republika Srpska establishing a more efficient one stop shop. Obtaining a construction permit and getting electricity also incur high costs due to high fees involved, as well numerous and slow procedures. Compliance with tax regulation involves a high number of payments, with complicated and inconsistent procedures, of which VAT regulations are considered the most burdensome. Both entities introduced labour code changes in 2016 in order to make labour market more flexible, easing the process of hiring and firing. Fixed term contracts are not prohibited for permanent contracts anymore, while their duration was increased to 36 instead of just 24 months. Severance pay still increases with years in tenure, thus protecting more seasoned workers, but notice periods have been significantly shortened. Minimum wage in the country is high relative to the average wage, which encourages activities in the shadow economy. Significant obstacles to a better business environment stem from unstable political situation and overly complex government structures which impede much needed reforms. This is further exacerbated by inefficient government bureaucracy and

corruption, while economic space of the country is not unified due to different regulation on both entities` (Republika Srpska and Federation of BiH) and cantonal levels.

## **FREEDOM TO TRADE INTERNATIONALLY**

Freedom to trade internationally is generally respected in Bosnia and Herzegovina (BiH). Tariffs are mostly low, but somewhat higher than in the region, with the average applied tariff rate of 6.3%. BiH is, alongside Serbia, the only country from the South East Europe that is not a member of the World Trade Organization (WTO). Its accession process has been put to a halt since 2013. The most important foreign market for BiH`s goods is the European Union, most notably Croatia and Germany. Therefore, majority of trade is conducted under the Stabilization and Association Agreement (SAA) that in 2015 supplanted the Interim Agreement on Trade. The Protocol on Trade to the SAA was signed in December 2016, which was adapted to take into account the fact that Croatia had joined the EU. Its implementation started in February 2017 and it further liberalized trade in agricultural products. Two countries from the region, Serbia and Montenegro, also play an important role in trade flows, under the Central European Free Trade Agreement (CEFTA). Regulatory trade barriers in the field of certification and quality standardization pose significant burden on international trade. Furthermore, custom service is not well organized, with inefficient or complicated procedures, while corruption and partial treatment are still present. Further EU or WTO accession processes would liberalize trade, both the tariffs and the standardization requirements. However, BiH is still only a potential, and not an official candidate country. The WTO`s work group last met 4 years ago. Amendments to the Law on Internal Trade would finally erase the discriminatory measure by which at least 50% of all items in retails chains had to be of domestic origin.

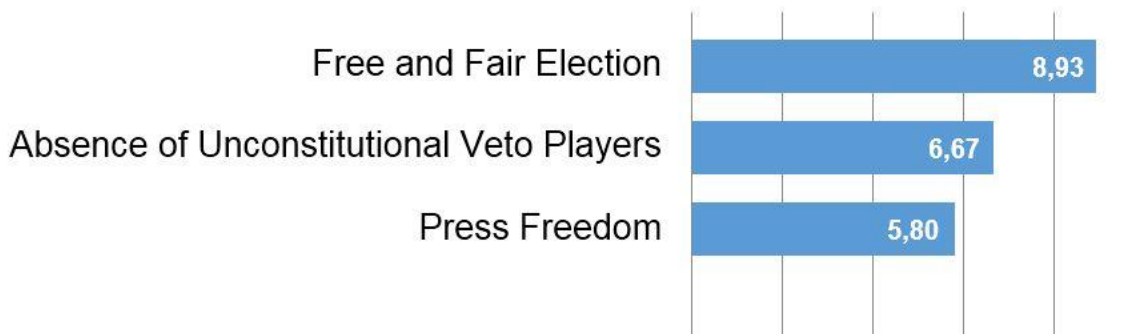
# Bulgaria

GDP in 2016: EUR 47,395 million

annual growth rate: 3.4%	per capita: 6,660 EUR	by sector:
		agriculture 5.1%
		industry 27.5%
		services 67.5%

Population: 7,114 thousand	Human Development Index	Government position in 2016
Unemployment rate: 7.7%	HDI: 0.794 (rank 56)	1.63% of GDP

## A. POLITICAL FREEDOM



### FREE AND FAIR ELECTIONS

Citizens in Bulgaria are able to choose government in free and fair elections, while political parties and politicians are free to operate, compete among themselves and express wide variety of opinions. Although the legal framework is generally conducive to holding democratic elections, the regularly deployed OSCE ODIHR election observation missions warn of a number of drawbacks in the Bulgarian election process. This applies both to certain legal provisions such as the restriction for the conduct of the campaign in Bulgarian language only, the campaign financing, and the use of media during campaigns on the one hand, as well as to procedural irregularities on the voting day on the other. The long standing issues of vote buying and controlled voting, campaign ethics etc. remain unaddressed. Political life in the country during the period under review was very turbulent. Law provision which sanction citizens who do not cast their vote in two consecutive elections by deleting them from the registry, was annulled by the Constitutional Court in February 2017. In November 2016, presidential elections were held, whereby an independent candidate Rumen Radev, supported by the opposition Bulgarian Socialist Party, won against Tsetska Tsacheva, a candidate of the ruling party Citizens for European Development of Bulgaria – GERB. Bulgaria entered another political crisis after the elections, since Prime Minister Boyko Borissov resigned. Early parliamentary elections were held



in March 2017, with GERB party - which is dominating the political life since 2009 in Bulgaria - winning 95 out of the 240 seats in the Parliament. Borissov continued his ruling by building a government coalition with United Patriots, itself an electoral fusion ticket consisted of three populist far-right parties.

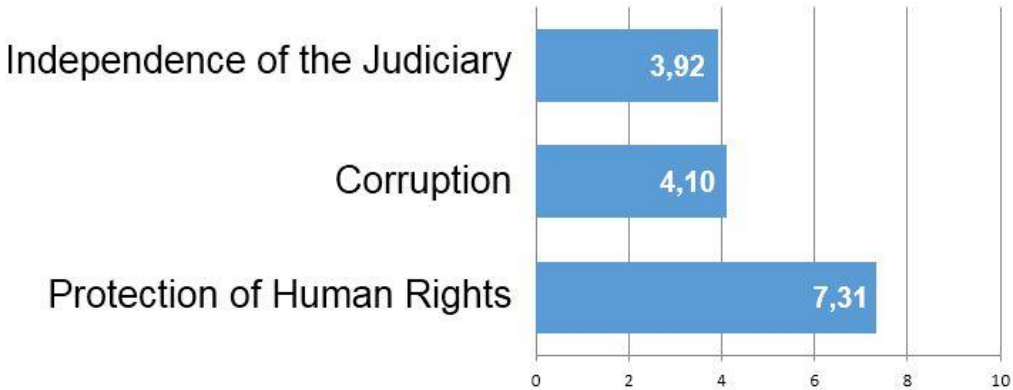
### **ABSENCE OF UNCONSTITUTIONAL VETO PLAYERS**

Bulgaria doesn't have unconstitutional veto players. Democratically elected government has effective power to rule the country without interference. System of checks and balances is set in place, although corruption cases question independency of each of the branches. Problems with wealthy business people with close ties to politicians remained. They represent a possible undermining factor for democratic procedures and democratic decision-making. Besides having a long-standing problem with high level corruption, there is also a problem with organized crime in the country, as permanently addressed by the Control and Verification Mechanism of the European Commission. Bulgaria is ranked on 75<sup>th</sup> place in the Transparency International's 2016 Corruption Perception Index.

### **PRESS FREEDOM**

Freedom of both traditional and online media outlets in Bulgaria is limited to a certain extent. There is wide variety of media outlets that operate in the country, but partisan reporting by most of them remains an issue. The biggest threat to pluralism is coming from the unclear media ownership, as well as from growing concentration of media ownership, with only few companies controlling majority of the media market. Thus, in order to be properly informed, citizens should seek for information from various sources. Journalists practice self-censorship due to strong political and editorial pressure, as well as defamation charges which are brought against them. There is a strong dependence of media on the state, while the process of state advertising and subsidizing of media is often done in non-transparent ways. Cases of verbal and physical violence against journalists do occur. Reporters without Borders ranked Bulgaria on the 109<sup>th</sup> position in 2017 World Press Freedom Index - the lowest among all EU countries.

### **B. RULE OF LAW**



## **INDEPENDENCE OF THE JUDICIARY**

Judiciary in Bulgaria, despite constitutional guarantees and EU-membership requirements for its independence from politics, is still implementing the most basic EU standards. Freedom House, in its Nations in Transit 2017 report, noted that “non-transparent and uncompetitive appointment procedures in the highest judicial bodies, as well as alleged corruption, have continued to tar the judiciary’s reputation at home and abroad”. Luke-warm judicial reforms as of late 2015 have, as expected, produced meagre results in 2016. There was, actually, “no major improvement”. Additional changes were made in July 2016, by separating the process of judicial and prosecutor appointment, increasing salaries in judiciary, etc., which is expected to provide for somewhat more autonomy of judges. Prosecutors` sector is yet to be seriously dealt with. Corruption and impunity in police and its inefficiency and/or deliberate neglect to protect citizens and companies from the organized crime remain a serious problem.

## **CORRUPTION**

In the Transparency International`s Corruption Perceptions Index 2016, Bulgaria shares the place 75 (of 176) with Kuwait, Tunisia and Turkey, following several years of lack of progress in anti-graft struggle. It lags behind the otherwise comparable Hungary, Romania, Greece, Montenegro or Serbia, albeit being better than Macedonia, Albania or Kosovo. It is the worst corrupted member of the EU. TI also noted that lobbying was poorly regulated which opened door to high level corruption. Since accession in 2007, in spite of EU-compatible laws, the state remained captured by the alliance of political and corporate oligarchy, organized crime, partially reformed secret services and biased traditional media. Foreign actors also participated in corruption, including through proxy politicians or facade companies. Freedom House has noticed a continuation of the most troublesome trends in 2016. Bribery is widespread at all levels. GAN portal noted (in autumn 2015) that the informal economy was further facilitated by the corruption in tax administration and market inspectorates. Anti-graft protests in Sofia in February 2017 were in the form of the support to similar rallies in Romania.

## **PROTECTION OF HUMAN RIGHTS**

There was a rise in xenophobia and related hate speech and violence. Amnesty International noted in 2017 that Bulgaria “failed to provide all required services and access to proper procedures for the rising number of migrants and refugees arriving in the country and failed to address the allegations of summary push backs and abuse at the border.” Vigilante migrant hunters, often coming from far right or ultranationalist milieu, sometimes also accused of abuse of the captured, face divergent response of the state. Some are praised by the police for “active citizenship”. The most notorious among them had been put under house arrest in April 2016, where after he was found not guilty in March 2017, despite self-produced video evidence of a torture of migrants. Treatment of Roma is further on discriminating. The share of Roma children in “special schools” is still disproportionate to their share in child population. Hate speech against Roma was uttered even by some MEPs. Ethno-linguistic minorities on one hand have lots of opportunities to develop their identity through education, culture and media, while on the other in some walks of life the use of their languages is banned (such as in political campaigning, with even proposals, albeit unlikely to be accepted, to spread the ban onto religious services).

Positive developments in Bulgaria include academic freedom, huge operational space for foreign and domestic NGOs, freedoms of speech, assembly and movement and, due to June 2017 successfully and so far most peacefully held Sofia Pride, a glimpse of hope that issues of LGBT discrimination and strong and persistent homophobia might start to resolve.

### C. ECONOMIC FREEDOM



#### SECURITY OF PROPERTY RIGHTS

Private property rights are not firmly protected in Bulgaria. Although legal framework is mostly in line with other EU countries, adequate implementation is often lacking. Weak judiciary that could be under out of court influences during the decision making undermines the rule of law. Judiciary is still one of the least trusted institutions in society. Perceived levels of corruption are high. Inefficient legal processes` results lead to long legal proceedings, as well as to significant backlog of cases, limiting the right to a legal proceeding within a reasonable timeframe. Enforcement of contracts is slow and inefficient, incurring high costs. Resolving insolvency is even more so, with a very low recovery rate and very long procedures. Property registration is burdened with many unnecessary procedures and high notary fees. Registration of property has been upgraded with the introduction of notaries, but the local tax administration is often slow - however, there is an expeditious procedure for a higher fee. There is no general discrimination against foreign companies in Bulgaria. Recent amendments in the Offshore Company Act stipulated that entry and operation was restricted for companies that had more than 10% registered offshore equity participation in 28 specific industries (such as mining, banking, etc.). That was one of the measures against money laundering and corruption, but its influence has been diluted by the fact that it did not apply to Bulgarian nationals or businesses whose parent companies were publicly traded. Private property can be expropriated by the Cabinet of Ministers or local governors, but at a market price, and court litigation against these acts is possible.

#### SIZE OF GOVERNMENT

Government expenditures in Bulgaria are very moderate in comparison to other European countries, reaching only 34% of GDP in 2016. Economic growth has picked up (reaching 3.4% in the previous year). Unemployment has fallen to its lowest level - due to improvement in the labour market conditions but also due to emigration to other EU countries. But Bulgaria still remains one of the poorest countries in the EU, with approximately 50% of the EU purchasing

power average. Fiscal stabilization program that was implemented during 2016 positively affected the government finance, leading to a budget surplus. Public debt is low by European standards, reaching 28% of GDP in 2016. The financial system started to recover from the KTB bank closure: the non-performing loan (NPL) stood high at 14.5% at the end of 2016, double the EU average, but banks are currently stable. Investment level has been stable in recent years, yet low. However, fiscal threats stemming from low performance of major state-owned enterprises are still significant, while indirect government subsidies to inefficient SOEs remain significant. Apart from public utilities, SOEs operate in various industries, but are mostly notable in energy sector and transportation. Another privatization attempt of the Bulgarian freight railroad company was cancelled because there were no interested parties. The Sofia airport concession was cancelled, but it is now under new consideration. Relatively low level of public spending leaves a room for lower taxation: both personal income and corporate tax are flat and are set at 10%. VAT stands at the standard rate of 20% and the preferential one of 9%. However, high social contributions make the labour tax wedge significant. Shadow economy is widespread, creating up to one third of the GDP.

## **REGULATION OF CREDIT, LABOUR AND BUSINESS**

Bulgarian regulatory framework is mostly business-friendly, but there are many problems in the field of regulation application which can in some cases be biased. Corruption in public services and administration is present, corroborated by government policy instability arising from frequent regulatory changes, and inconsistent application of laws. Starting a new business is inexpensive but not very expedient, mostly due to slow VAT registration process. The minimum paid in capital is symbolic, only one euro. Obtaining electricity connection is very expensive due to high cost of the utility company and also is a lengthy procedure, due to inefficiency of the public utility provider. Tax regulations are overly complicated and burdensome, requiring long hours to comply, but overall number of payments is not high. By introducing an automatic energy management system to monitor outages, Bulgaria has recently increased reliability of its power supply. Labour regulation in Bulgaria is flexible. Fixed term contracts are not prohibited for permanent tasks and could last for 36 months. Redundancy notification period and severance pay stay flat, not increasing with the number of years in tenure, which is coupled with the lack of reassignment obligations in case of redundancies. Collective bargaining is mostly limited to public sector employees, through the tripartite social dialogue, and is quite rarely present in private sector. The minimum wage has been increased since the last year for almost 10% nominally, reaching 460 BGL. Corruption and inadequately educated workforce are perceived as the most critical areas for doing business in Bulgaria.

## **FREEDOM TO TRADE INTERNATIONALLY**

Freedom of international trade is generally upheld in Bulgaria, which implements the common EU trade policy, which is mostly liberal, with overall low tariffs. Average applied tariff rate stands at 5.3%. However, agricultural products are on average more protected than the industrial ones. Although trade tariffs have been generally liberalized, complicated and expensive standardization requirements for imported goods often create regulatory non-tariff barriers to trade. On the other hand, customs office documentation compliance procedures are quick and inexpensive. Low

quality of transportation infrastructure - both railways and roads - increases freight costs, thus burdening international trade. Bulgaria's main export markets are fellow EU member countries, such as: Germany, Italy, Romania, France and Belgium, followed by Turkey, with similar patterns in imports. Bulgaria, alongside Romania, Croatia, Ireland, Cyprus and United Kingdom, is still not a part of the Schengen area. Not being a euro-zone country is mitigated by the fact that Bulgaria has for almost two decades been using a currency board, previously to the German mark, and now to euro. Controls on capital inflows and outflows, implemented by the Bulgarian National Bank, are still prevalent.

# Croatia

GDP in 2016: EUR 45,607 million

annual growth rate: 2.9%

per capita: 10,940 EUR

by sector:

agriculture 4.2%

industry 26.6%

services 69.2%

Population: 4,170 thousand

Human Development Index

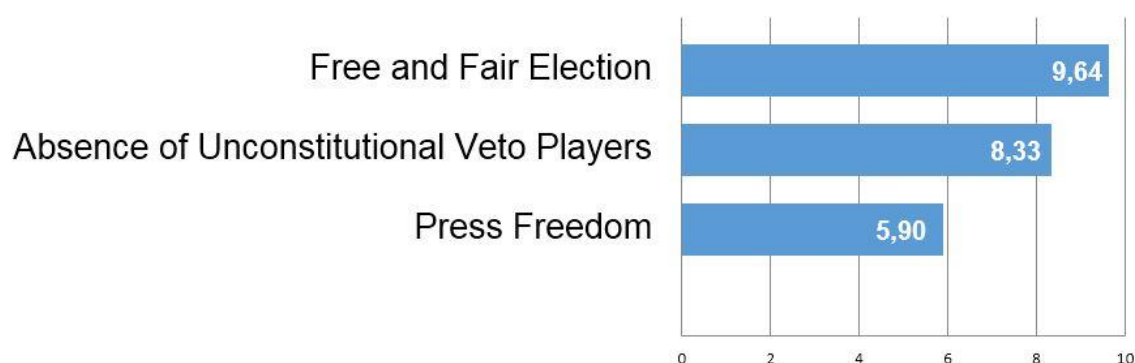
Government position in 2016

Unemployment rate: 15.0%

HDI: 0.827 (rank 45)

-1.49% of GDP

## A. POLITICAL FREEDOM



### FREE AND FAIR ELECTIONS

Croatia has free and fair elections. Political actors are free to operate and express their views without restrictions. Political landscape is pluralistic, with two dominant parties, Croatian Democratic Union (HDZ) and Social Democratic Party (SDP), although a number of other parties and movements emerged in the last few years. After dynamic political times and the dissolution of the government upon the no-confidence vote on the Prime Minister Tihomir Orešković, snap elections for Sabor – Croatian unicameral parliament - were held in September 2016. HDZ won the elections and once again formed a government with the party MOST. Although there was a perception that coalition between those two parties, led by a new leader of HDZ Andrej Plenković, would bring stability to politics in Croatia, internal disputes led to another reshuffling of the government, in April 2017. Prime Minister Plenković dissolved all ministers from party MOST after they had failed to vote against the proposal of no-confidence vote to Minister of Finance, as motioned by the opposition SDP. In June, new Government was elected, comprised of the HDZ and the Croatian People's Party – Liberal Democrats (HNS).

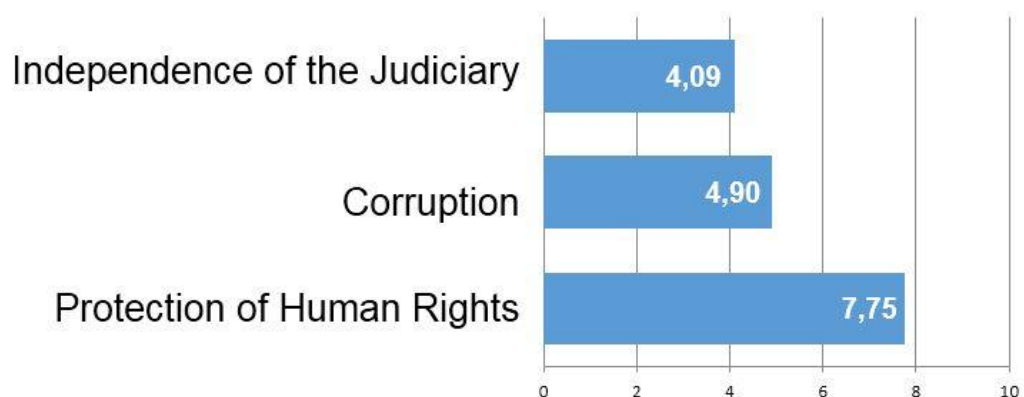
## ABSENCE OF UNCONSTITUTIONAL VETO PLAYERS

There are no unconstitutional veto players in Croatia. Democratically elected authorities have power to govern without interference. Inability to make stable government in the last two years significantly reduced efficiency of the decision making processes. Also, there are some actors who are able to influence to certain degree the political decision making. Wealthy businesses often seek to influence government decisions in their favour by establishing close relations with politicians. One such case, allegedly involving the former Deputy Prime Minister and former HDZ leader Tomislav Karamarko, led to dissolution of government in 2016. Catholic Church has significant influence in shaping public opinion and it doesn't hesitate to participate when some sensitive political issues in the country are in question. Other influential actors include war veterans who make a considerable share of population.

## PRESS FREEDOM

Media landscape in Croatia is pluralistic and diverse. Freedom and independence of broadcast, print and online media outlets is granted by the Constitution, although they are facing several challenges that are limiting this freedom. Government was accused of interfering into independence of state agencies and broadcasters, after president of the Council for Electronic Media had resigned because of the political pressure, while the director of the Croatian Radio Television HRT was dismissed. Financial dependency from advertising and lack of adequate job conditions for journalists led to more biased coverage in the media. Physical and verbal violence against journalists occur from time to time, and defamation remains punishable by the law. In such environment, journalists often practice self-censorship on sensitive issues.

## B. RULE OF LAW



## INDEPENDENCE OF THE JUDICIARY

Upon Croatia's entry into the EU, its judiciary has been more tightly monitored also by the European Network of Judicial Councils. In their latest Report on the Independence, Accountability and Quality of the Judiciary, as of 9 June 2017, ENJC especially favourably evaluated organizational autonomy, human rights trials, internal disciplinary measures and non-transferability in Croatian judiciary, while corruption and (lack of) internal independence were perceived as the biggest problems. In the field of accountability, external activities, including

those towards the press, were evaluated as especially professional. Corruption was warned at as a challenge also in the 2017 report of the portal GAN, which assessed corruption risks for businesses - when encountering the courts in Croatia - as “high”. In war crimes justice, inefficacy to complete some cases (such as of Branimir Glavaš) and occasional selectiveness sometimes overshadow the overall improvement.

## **CORRUPTION**

In the case of Agrokor, the biggest private-owned company in Croatia, a giant holding that has collapsed in 2017, all the weak points of economic transition in Croatia since 1991 could be detected, including crony privatizations, state favouritism of certain big companies which were considered as “national projects”, lots of false reporting and superficial auditing, undeserved soft loans (without proper collateral), “political banking”, unpaid rent for the leased state property, doing business as usual when it was already clear that the company was in trouble, etc., and behind all those a lot of corruption, high level and grand one, between various state and non-state actors, domestic and foreign. In politics, the Agrokor scandal revealed conflict of interest by government officials and led to the crisis of government which was resolved by reconstruction of the ruling majority. Progress which Croatia has made in fighting corruption prior and after its accession to the EU in 2013 has partly been overshadowed by this affair. Portal GAN especially sorts out police as a sector with low corruption risk for companies. Freedom House praises independent state bodies for their take on the highest ranking politicians if there be conflict of interest or corruption, which for instance led to the ousting of the ruling party HDZ’s strongman Tomislav Karamarko. But, FNF’s field research also showed some disturbing signals of the financing of political parties at county or local level by local companies with clear ties to big foreign companies, while some of the latter have actually been political projects. According to Transparency International’s Corruption Perceptions Index 2016, Croatia is, together with Malaysia, ranked as 55<sup>th</sup> in the world.

## **PROTECTION OF HUMAN RIGHTS**

Human rights` situation in Croatia, similar to most of the ex-Yugoslav space, is burdened by the legacy of wars, pressure by nationalism and clericalism, as well as lack of post-communist lustration (especially regarding the role of secret services). Ca. 1600 persons are still unaccounted for after having disappeared during the war in 1990s. Despite government actions to suppress it, hate speech, particularly against the Serb minority, parallel to attempts at revision of the WW2 history, is still widely practiced. Minorities have constitutional guarantees of equality and preferential election treatment. Over half of the Serb refugees from war times returned to Croatia, yet many face challenges regarding property rights, or employment, or an overall climate of imposing collective guilt (as demonstrated in the debate on the use of Serb Cyrillic alphabet, which was the problem only in Vukovar, a site of war crimes in 1991 by ex-Yugoslav army and Serb paramilitaries). Gender equality in Croatia is no worse than in neighbouring Slovenia or Hungary. LGBT citizens are protected against discrimination, including by legalized unions (vis-a-vis constitutionally banned marriage) and relaxed climate in which Pride rallies are held annually in several towns. During the past year, more financial resources were spared for fighting human trafficking. Croatia accepted some of the asylum seekers assigned by the EU quota. Regarding



Roma, there is still discrimination in education, access to healthcare, housing and employment, which sometimes has to do with the problem of statelessness.

## C. ECONOMIC FREEDOM



### SECURITY OF PROPERTY RIGHTS

Private property rights are more or less adequately protected in Croatia. However, judicial independence is not always guaranteed due to out-of-court influence and corruption, as well as to occasional partiality in court proceedings. Contract enforcement is not effective due to unreasonable delays, which makes court litigation very slow (almost two years on average) and incurs high costs, though judicial processes are well established. There is no maximum number of adjournments. Automation of court procedures is in its inception. There is still a significant backlog of unresolved cases, which further fuels duration of legal processes, although non-disputed cases were detached to public notaries so as to alleviate the problem. Procedures for resolving insolvency are also very slow, with low recovery rates. Corruption within the state sector remains present, but it is not widespread. It is mostly concentrated in public procurement. The new law on public procurements will expectedly increase their efficiency, introducing the economically most efficient offer as the prioritized one in determining the outcome of the bid. The cadastre service improvement has been a process, underway for some time now, aiming at improvement of the situation regarding proprietorship of real estate and at strengthening the property rights. Land Registry Courts are inefficiently slow, burdening the process of property registration. High real estate transfer tax also poses a burden. Property rights over land and over buildings are separated, which creates complex situations. Acquisition of agricultural land for foreign nationals is restricted, although this does not apply to EU nationals. But, the land can be leased or obtained via legal entity registered in Croatia. There are some restrictions on foreign ownership or control in several industries in the country, the most important ones being in transport and freight sectors, as well as in publishing, education and broadcasting.

### SIZE OF GOVERNMENT

Size of government in Croatia is excessive. General government consumption reached 48% of GDP in 2016, which is more in line with advanced EU countries than with those at a comparable level of development. Croatia is one of the countries that experienced several recession waves since 2008, now with a solid growth reaching 2.9% due to a good tourist season, growing

consumption and rise in investments. High public deficits during previous years accumulated a huge debt, reaching 84% of GDP in 2016, but which was finally put on a downward path. Due to previously recorded high deficits, Croatia was put under the Excessive Deficit Procedure of the European Commission in 2014, with the aim of curbing the deficit below the Maastricht criteria. Current positive fiscal results made the EC issue a recommendation for Croatia's early exit from the EDP. SOEs in the country are still numerous - more than 400 active companies - in many sectors, not confined just to public utilities or transportation. These companies more often than not suffer from inefficient and politically appointed management, with inefficient operation, thus posing a drain on public finances. Ongoing tax reform has slashed taxes on income, decreasing the corporate tax rate from 20% to 18% (with even lower rate, of 12%, for SMEs) as well as the progressive personal income tax rate from 25% to 24% and from 40% to 36% (for the highest earners). The lowest rate of 12% was not reduced, but tax deduction was raised by almost 50%. VAT is set at a very high level of 25%, the highest one allowed in the EU, with lower rates for certain products, of 13% or 5%. The reform raised VAT for hospitality and tourism from 13% to 25%, while the rate was in like manner lowered for electricity. High social contributions, coupled with income tax, lead to a high labour tax wedge, higher than the OECD average.

## **REGULATION OF CREDIT, LABOUR AND BUSINESS**

Business environment in Croatia is not really considered as entrepreneur-friendly. Partial treatment by government officials remains a problem, while corruption, although not omnipresent, is still widespread. Starting a business takes some time, with high notary fees and paid-in minimum capital. Getting electricity also incurs high cost, due to high fees by the public utility company HEP. Otherwise it is a streamlined and rapid procedure. Obtaining a construction permit is both slow and expensive, with as many as 18 necessary different procedures. Although taxes are mostly administered online, tax regulations are also considered complicated and difficult to implement in practice, with a high number of annual payments. Para-fiscal surcharges are widespread in the economy, contributing to a high tax burden. Little progress has been made in easing licensing restrictions for professional services, and these barriers bar entry to many professions. The educational system, as in many other countries of the region, is inefficient, providing little human capital accumulation, which is especially visible in the field of adult education. Labour code has been amended several times now, which increased labour market flexibility. The latest changes, as of 2014, introduced flexible working hours, eliminated maximum duration of fixed-term contracts and redundancy obligations. But they did not lift all remaining rigidities, since the duration of notice periods and severance pay package increased with the years in tenure, protecting seasoned workers, while fixed contracts have still been prohibited for permanent tasks. Collective bargaining is mostly concentrated in the public sector industries. The biggest obstacles to a more entrepreneurial friendly environment are inefficient government bureaucracy, policy instability and tax regulations.

## **FREEDOM TO TRADE INTERNATIONALLY**

Freedom of international trade is mostly respected in Croatia, as a member of the World Trade Organization since 2000 and of the European Union since 2013. Therefore, it has mostly liberalized its trade, through implementation of the common EU trade policy. Tariff rates are

overall low (average applied one is 5.2%), whereby more pronounced only for agricultural products. However, imported goods` standardization, or other regulation, continues to pose impediment to free trade. Efficient customs office does not burden import and export process with complicated procedures. The quality of road and port infrastructure is satisfactory, but the railroads that are operated by the public company are in a worse condition, creating considerable bottlenecks, hindering trade and elevating freight costs. Main Croatia`s trade partners are EU member states of geographical proximity, or neighbouring Central Europe Free Trade Area (CEFTA) countries: Italy, Germany, Slovenia, Serbia, and Bosnia and Herzegovina. Trade with CEFTA countries is now conducted under respective Stabilization and Accession Agreements. Controls on the flow of short-term capital remain in action by the National Bank, which is mostly connected to the exchange rate policy of the national currency, the kuna (HRK). Croatia is expected to join eventually the Schengen Area and the Euro-zone, which is expected to further liberalize flows of people and capital. For that, there are still no clear deadlines set.

# Czechia

GDP in 2016: EUR 174,497 million

annual growth rate: 2.4%

per capita: 16,530 EUR

by sector:

agriculture 2.5%

industry 37.5%

services 60.0%

Population: 10,554 thousand

Human Development Index

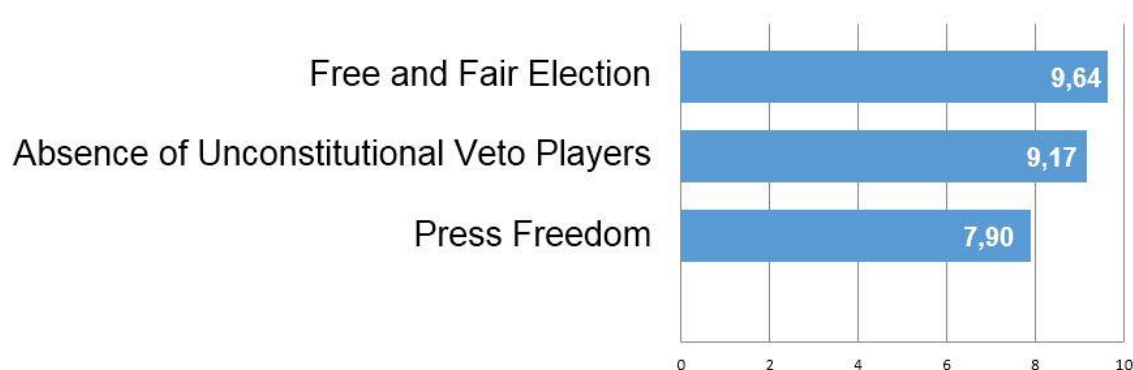
Government position in 2016

Unemployment rate: 4.0%

HDI: 0.878 (rank 28)

0.17% of GDP

## A. POLITICAL FREEDOM



### FREE AND FAIR ELECTIONS

Citizens in the Czech Republic are able to choose government and other officials at free and fair elections. In October 2016, regional elections and elections for one third of Czech senate seats took place. They occurred in a professional manner, without serious electoral irregularities. Several disputes and harsh rhetoric between Prime Minister Bohuslav Sobotka and former deputy Prime Minister and Minister of Finance Andrej Babiš led to serious crisis in the Government in May 2017. Sobotka called Babiš to resign after he was accused of financial irregularities. By the end of the month, Andrej Babiš was dismissed by Sobotka, but ruling coalition remained intact, itself consisting of Social Democratic Party, Movement Alliance of Dissatisfied Citizens (ANO) and Christian Democratic Party. During summer, parties started to prepare for October 2017 parliamentary elections. Turnout of around 15% at the Senate elections incited discussion on whether this political body should be abolished or not. Two laws which aim to increase transparency of funding of political parties were adopted in 2016.

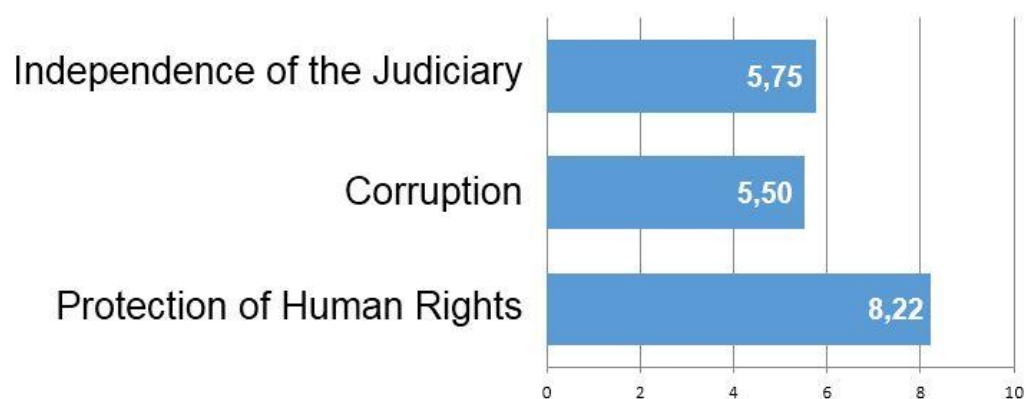
## ABSENCE OF UNCONSTITUTIONAL VETO PLAYERS

There are no unconstitutional veto players in the Czech Republic and elected officials have unchallenged power to rule the country. Country doesn't have a problem with close ties between politicians and businessmen since some of the most influential ones are in politics. A law was adopted in 2016, which limited public subsidies and incentives to companies with a share of ownership by a member of government higher than 25%. Several high profile corruption allegations happened during a period under review, including one which led to dismissal of the deputy Prime Minister, pointing out at a problem which the Czech Republic still has with the issue of corruption by officials.

## PRESS FREEDOM

Freedom of the press is granted by the constitution in the Czech Republic and mainly upheld in practice. Aside of pressure by the media owners, journalists are independent in their work. Ownership of majority of media outlets is concentrated in several media houses, the biggest one being MAFRA group of Andrej Babiš, which owns several most influential daily newspapers and a radio station. The contents of MAFRA media are being significantly influenced by the owner Andrej Babiš. One of the latest media-connected scandals was the leak of alleged recorded communication between Andrej Babiš and MAFRA journalist, where Babiš is choosing which articles should be withheld and at what time they should be published in order to harm his political opposition the most. An amendment which refers to conflict of interest and prohibits government ministers from owning media was adopted in parliament in late 2016. Defamation remained a criminal offense. Czech media and society in general are also facing extreme increase of disinformation, mostly by the pro-Russian media. Around 25% of Czech population choose to trust rather such disinformation than the country's traditional media broadcasters.

## B. RULE OF LAW



## INDEPENDENCE OF THE JUDICIARY

Judiciary in Czech Republic enjoys a high degree of independence from politics or other illegitimate outside influences. Occasionally, there are tensions between various parts of judiciary, or the latter and the prosecutor sector. In one case of different judgment by different branches of judiciary, Constitutional Court supported the government, contrary to the ruling of the Supreme

Court, on an issue of judges' salaries. Besides growing awareness and interest for their own position, Czech judges, together with the Ministry of Justice, showed interest for judicial independence elsewhere in the EU, such as by protesting against political takeover of judiciary in the neighbouring Poland. In summer 2017, they called the judicial overhaul in Poland "an attack on freedom".

## **CORRUPTION**

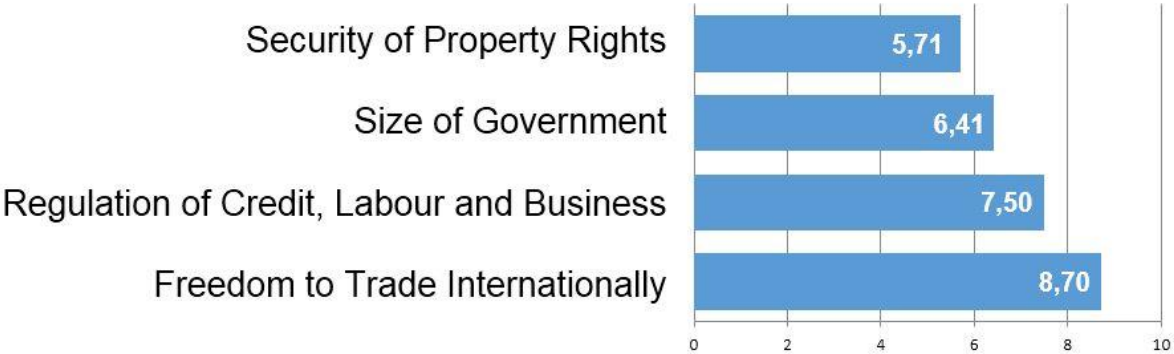
Czech Republic is, together with Cyprus and Malta, sharing the place 57 in the Transparency International's Corruption Perceptions Index 2016. For a country that used to be a leader in transition during the early 1990s, that is a fall, especially taken that it fell below the ratings of Poland, Slovenia, all three Baltic states and Georgia. It reflects the actual situation where corruption is still a serious problem of Czech society and politics. Presence of high ranking rich businessmen, not least around but in the heart of Czech politics, makes many people and CSOs uneasy. For instance, Andrej Babiš, a former vice-PM and Minister of Finance, and the leader of the party ANO that participates in the Government, has been at the same time a billionaire and the owner of some of the biggest companies and the second wealthiest and the most powerful man in the country. Numerous investigations were opened or suspicious deals protested over by the public while he was in public office between January 2014 and May 2017. Several other government ministers or their closest aides also had to leave office during the past few years because of perceived conflict of interest. Finally, in September 2016, amendments to the law on the conflict of interest were passed, prohibiting companies with more than 25% ownership by a member of government of getting subsidies, investment incentives or tenders. The legislation was nicknamed "Lex Babiš" for obvious reasons. Unfortunately that did not improve the situation, whereby the ownership of big companies became even less transparent. For instance, instead of giving up the control over his companies, Babiš just transferred the ownership to his closest family members.

## **PROTECTION OF HUMAN RIGHTS**

Respect for human rights has been an important goal shared by most of the population in Czechia after the deconstruction of communist system (wherein this country had suffered, especially in this field, more than other similar countries). From personal safety, freedom from arbitrary arrest, decent level of legal certainty, or access to education and academic freedom, or freedom of speech, assembly or movement, through religious freedom and tolerance, to the basically individualistic, liberal approach to the issue of freedom, post-1989 improvements have been substantial. Civil society got a lot more space, even though its deficiency still is its dependence on public funding, while its main inner risk recently has become the growth of organizations that preach intolerance. Intolerance or hate speech might be found also in some politicians' narratives. President Miloš Zeman has verbally abused refugees, Muslim immigrants, Remain Brits, EU enthusiasts, alcohol-abstainers, vegetarians, and many other groups, time and again. However, with more or with less decent justification, all the biggest political parties in Czech Republic share a refusal to participate in the EU quotas for asylum seekers or refugees. Another problem is Romany-phobia, itself very strong across society. In June 2017, Amnesty International warned that Czechia did not follow AI's (as of 2012) and btw. also not EU's (as of

2015) recommendations to have eliminated discrimination of Romany children in education. During the summer 2017, some preparations were taken to correct this in the following school year. During 2016 and 2017, measures were also taken aiming at elimination of human trafficking. In foreign politics, where Czechia had a long tradition of advocating and protecting human rights, President Zeman has jeopardized this, especially regarding China.

### C. ECONOMIC FREEDOM



#### SECURITY OF PROPERTY RIGHTS

Property rights in the Czech Republic are mostly protected. Private property expropriation is possible but only in cases of public interest followed by an adequate monetary compensation. However, there are still problems present within the judiciary, such as the perceived low judicial independence and partiality in court dealings. Although judiciary is clearly separated from the executive power, there are informal ways of influencing some court proceedings. Another problem is that court decisions in similar cases can vary from court to court, which is attributed both to the fact that judges often lack specialized knowledge in commercial disputes and to the new Penal and Civil Code which were adopted without a new procedural law to clarify their implementation. Very slow enforcement of contracts is a big problem, both in trial and judgment and its enforcement - a process could take up to almost two years, while the procedures are also very expensive, up to one third of the claim. There are no special commercial courts but only general courts, nor small claims courts. Also, there are no effective procedures regarding adjournments, making such long procedures possible. Insolvency procedures are also long, but with high recovery rates, while most cases are settled as going concern sales. Registering property involves high fees and procedure, due to inefficient cadaster office. The Czech Republic liberalized agricultural land and real estate, enabling their acquisition by foreign nationals. The EU nationals were already free from the existing ban earlier. There are some limitations on foreign ownership or registration requirements in areas such as banking, insurance, media etc.

#### SIZE OF GOVERNMENT

Size of government in the Czech Republic is not excessive as compared to other European countries, mostly in line with other post-transitional countries. Both government revenue and expenditures are reaching 40% of GDP in 2016, leading to a small budget surplus. Public debt has been sharply reduced in recent years, reaching only 37% of GDP, mostly due to higher

revenue. Since the recession, which ended in 2013, growth rates have become robust, relying on high investments, EU cohesion funds on infrastructure and exports. Unemployment is at its historic low - just under 4%. State owned enterprises (SOEs) are present in several sectors considered as strategic: energy, postal service, information and communication, and transport, but they are not numerous and do not dominate the economy. They are prominent also in the utility sector. Although SOEs follow the same rules as private companies and are not in a privileged position on competitive markets, there are accusations that big SOEs use their political connections to gain unfair advantage and privileges. Since not all SOEs are functioning efficiently, the Czech Republic pays high subsidies, second highest among the EU countries, reaching 2.6% of GDP in 2016. Corporate tax in the Czech Republic is 19%, while personal income tax is basically flat at 15% (there is an additional 7% rate, called solidarity tax, for high earners but with a very high threshold of 48 average salaries). VAT stands with one standard rate of 21% and two preferential rates of 15% and 10%. Social contributions are high, leading to an overall high labour tax wedge of 43%, strongly above the OECD average, and among post-transition countries second only to Hungary.

## **REGULATION OF CREDIT, LABOUR AND BUSINESS**

Regulation in the Czech Republic is mostly business friendly. Starting a business is generally not expensive and with no minimum capital requirements; this procedure has recently been made easier by involving the notaries that can directly register companies to the courts via an online system. Getting electricity is also inexpensive and streamlined, lasting little over than two months. It was made more efficient with new efforts to access all incoming applications in a timely manner. But, obtaining a construction permit is burdened with as much as 21 procedures. Although many of them are simultaneous, the whole process could last more than 8 months. Although tax payments are mostly on an annual basis, tax procedures are complicated and require long hours to comply with. In fact, complicated tax regulations are often considered among the most important obstacles to a better business environment, closely followed by inefficient government bureaucracy and restrictive labour regulation. Deregulation of the licensing in services and specialized professions stated in the previous National Reform Program (2016) have not been fully implemented, lowering competition in services. Labour regulation is mostly flexible, which is visible in working hours' regulation allowing 6 working days a week, and relatively low increase of the severance payments with the years in tenure. However, fixed contracts' duration is set at only 36 months while fixed term contracts are prohibited for permanent tasks. The minimum wage was increased by ca. 10% in 2017.

## **FREEDOM TO TRADE INTERNATIONALLY**

Freedom to trade in the Czech Republic is mostly upheld. As a full member of the EU since 2004, the country has applied the EU common trade policy. Therefore, tariffs for imported goods are low and mostly concentrated in the field of agricultural products, with the overall applied mean tariff rate of 5.3%. But non-tariff barriers, in the shape of necessary certifications or standards, remain present, undermining free trade. Efficient export and imports procedures, requiring only 4 documents, as well as good transport infrastructure, support free trade. Czech economy is very outward oriented, with high exports, reaching approximately 80% of GDP,



second only to the Slovak Republic among post-transition countries, which is partially a consequence of the high stock of FDIs in the country, since the Czech Republic received on a per capita basis the highest FDI level of all transitional countries. The Czech Republic is not a Eurozone member state. Although most of the Maastricht criteria have been met, the Czech government decided in December 2016 once again against the entry into the ERM II mechanism, which is a precondition for the adoption of euro, putting these plans at hold. The Czech national bank left the crown floor, enabling the exchange rate to fluctuate more than it previously allowed, when the exchange rate limit was set at 27 crowns per euro. But controls put on capital account are yet to be more liberalized. With shortages of skilled labour, some measures were introduced to encourage skilled migrants to move to the country, with streamlining visa processes and introduction of a pilot program for Ukrainian citizens. The main Czech trade partners are other EU countries, predominantly the ones in the euro zone, Germany accounting for a third of the overall trade flows.

# Estonia

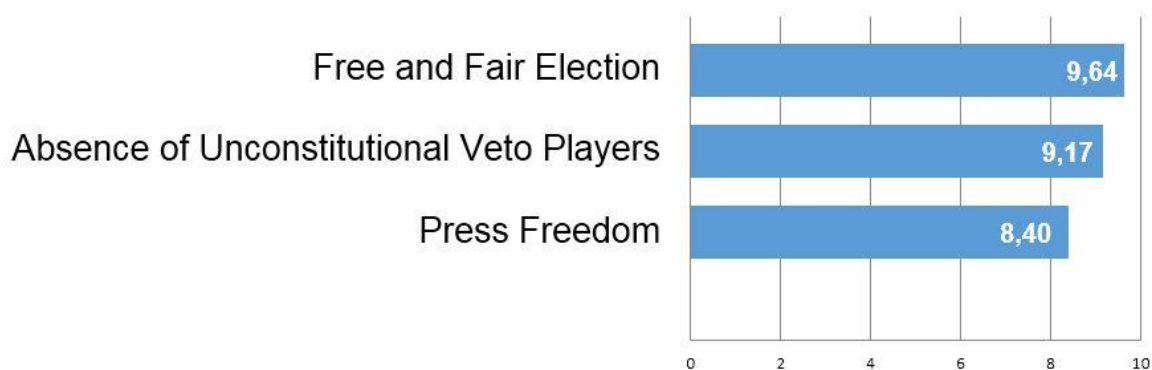
*GDP in 2016: EUR 20,916 million*

<i>annual growth rate: 1.6%</i>	<i>per capita: 15,950 EUR</i>	<i>by sector:</i>
		agriculture 3.5%
		industry 28.1%
		services 68.4%

*Population: 1,312 thousand    Human Development Index    Government position in 2016*

*Unemployment rate: 6.9%    HDI: 0.865 (rank 30)    0.27% of GDP*

## A. POLITICAL FREEDOM



### FREE AND FAIR ELECTIONS

There were no elections during the reviewed period, thus Estonia maintained its very high score regarding level of freedom and fairness of the electoral process. However, political life in this country was very turbulent during the previous year. First, parties had very hard times to elect new President, through indirect elections, failing to approve any of the candidates in several attempts. Agreement was reached in the parliament in early October 2016, electing Kersti Kaljulaid for the next president of Estonia. Internal disputes that followed Government from the very beginning were even more deepened during this presidential race. Together with increase of the coalition potential of the Centre Party, by replacing their long time leader Edgar Savisaar, these disputes led to a no-confidence vote to the Prime Minister Taavi Roivas in November. A new government was created, consisting of Centre Party, Social Democratic Party and Union of Pro Patria and Res Publica. Law still prohibits non-citizen residents from obtaining office at any level, or voting at national elections. This way, ethnic Russian minority of around 7% of population, whose citizenship remained undetermined, have limited access to political life in Estonia. They are allowed to vote only at local elections.

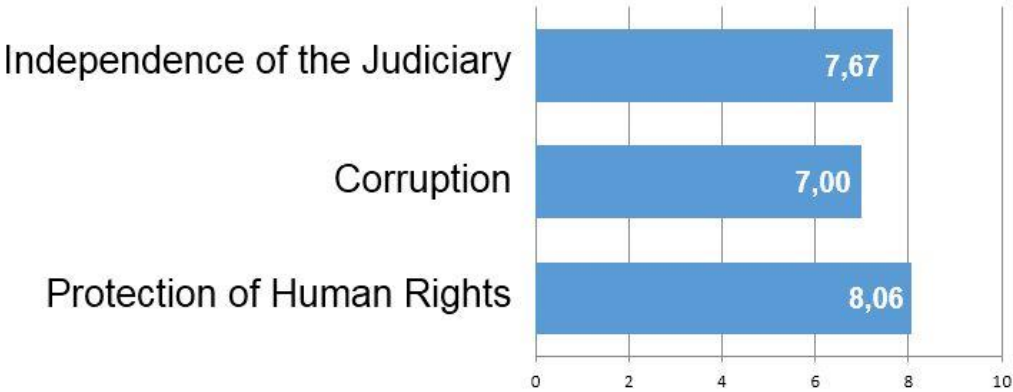
## ABSENCE OF UNCONSTITUTIONAL VETO PLAYERS

Estonia doesn't have unconstitutional veto players which could influence the decision making process. System of checks and balances is in place and democratically elected government has power to govern. Estonia is scoring very well in corruption indexes, which emphasize efficient tools for combating graft. However, there are still some cases of corruption by the authorities. Investigation of Edgar Savisaar, Mayor of Tallinn and former leader of the Centre Party, for taking bribes, led to the criminal charges against him in November 2016.

## PRESS FREEDOM

Freedom of the press is granted by the Estonian constitution and largely respected in practice. Wide range of media outlets in this country allows citizens access to diverse spectrum of opinions. Although concentrated in the hands of a few companies, ownership of the privately owned outlets is transparent. Body that supervises public service broadcasting – The Public Broadcasting Council, is marked as impartial and professional, but the presence of the government in this body remains high. Journalists could be imprisoned by the law if they refused to reveal their sources in cases of serious crimes, thus putting pressure on independent journalism. A state-supported television channel in Russian language was launched in 2015 and has remained active since. This move was often characterized as a government response to Russian propaganda which had targeted Russian speaking minority in the country. On the other side, two print editions of national newspaper in Russian language were closed at the end of the last year, due to company's business strategy.

## B. RULE OF LAW



## INDEPENDENCE OF THE JUDICIARY

Following regain of its independence in 1991, Estonia tremendously advanced in changing the Soviet-era system of full submission of judiciary to the executive power towards one of judicial independence from daily politics. Reforms as of 2014 have further improved the performance of courts, accelerated law enforcement and eased the problem of overcrowded prisons. Simplified regulation and reliance on self-regulation of the economy and civil society enabled judiciary to better deal with the tasks necessary for maintenance of the rule of law. In nomination of judges, checks and balances are kept between President, Parliament and judicial bodies. Political changes

in 2016 that allowed centre-left political parties, for the first time since independence, to dominate government, did not seem to have endangered the established position of judiciary. The reforms resumed, aiming at more mobility and flexibility within the legal sphere. As Freedom House noticed, the citizen trust in the judicial system has remained high.

## **CORRUPTION**

Estonia is advancing towards the status of a country where corruption is a small problem, at least as compared to any other Central European country in transition. Transparency International Corruption Perceptions Index 2016 put it to the place 22 of 176 countries of the world. It is 11<sup>th</sup> best within the EU-28, ahead of, for instance, France, Spain or Italy. Bold liberalization of the economy, as well as simplification of administrative procedures by introduction of e-government, have both largely contributed to this success, atop the classic institutional anti-corruption mechanisms and raised anti-graft awareness in society. However, a few big scandals, especially in the remaining public sector at the local level of government, still shake its image as the corruption-rid place. One of such were corruption charges against the Mayor of the capital Tallinn, which have dragged on for long, yet finally ousted him from the top of his political party. Charges included bribery, money laundering and illicit party financing. Another scandal involved two officials of the Port of Tallinn, whose investigation for graft committed since 2009 has started in 2015, while the trial (or a plea bargain) was about to take place during 2017.

## **PROTECTION OF HUMAN RIGHTS**

Estonia maintains high standards regarding human rights. Freedom of thought and expression, or of the media, or of religion or art or academic research, is well respected. The entire relationship between a citizen and the state is ever more built on democratic and liberal principles. Serious attempts are made to keep security forces checked by society and to protect the privacy of citizens along with their right to access to information. Moreover, in September 2016, changes to the Code of Criminal Procedure mandated that criminal searches must be court-approved and reduced the maximum time in custody from six to four months. In December 2016, Estonia became the first EU country to legally ban human rights violators of entering the country. The gesture was symbolic, but since Estonia belonged to the Schengen zone it was more far-reaching than it seemed at the first glance. Sexual minorities enjoy better protection than in other two Baltic countries, e.g. Civil Cohabitation Act was carried in 2014 and went into force in 2016, while, also, same-sex marriages concluded abroad have been, since January 2017, recognized as valid in Estonia. Amid heated debate and opposition by far-right activists, the country accepted a small number of refugees, yet it made serious and costly efforts (mainly by local governments and civil society) to integrate them. Gender wage gap in Estonia is the highest in the EU (ca. 30%).

## 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 public interest (mostly for building public infrastructure), but expropriations are very rare and the property is exchanged for a market-price compensation. The judiciary is independent from the government influence. The legal system is considered to have a high level of integrity. However, courts are often overburdened, leading to prolonged trials, which on average last for 425 days. Court automation is well used in streamlining paperwork, but the lack of stand-alone commercial courts and the maximum number of adjournments can impact process length. Arbitration is often used, because it is both less time consuming and more affordable. The use of e-services, especially in the cadastre, enables efficient and transparent process of property registration. The police are mostly reliable and business costs of crime are low. There are no limitations to foreign ownership and investments, which also includes ownership over land. However, conducting business in some industries, such as banking, transportation, mining, etc., is preconditioned by obtaining a license. Non-EU nationals also have the right to own land, but this can be restricted due to necessary permission by local authorities, as well as due to the bans on acquisition of small islands or plots of land alongside the Russian border, which is justified by reasons of defense policy.

### SIZE OF GOVERNMENT

Government expenditures in Estonia stood at 40% of GDP in 2016, much lower than in most EU countries. Public debt is among the lowest in the world - below 10% of GDP - due to prudent fiscal policies with balanced government budgets. Robust economic growth that came to effect after the recession in 2009 came to a halt, resulting in sluggish economic growth rate of 2%. Labour force developments due to demographic changes and high emigration rate are considered as strong constraint factors on future growth. Estonia was the first country in Eastern Europe to adopt flat tax system, but minor progressive characteristics such as non-taxable exemption make Estonian tax system stand in between proportional and progressive. Personal income tax has been steadily decreasing during the previous decade, from 26% in 2004 to current 20%. The overall tax wedge is slightly above the OECD average, due to high social security contributions of 33% for pensions and healthcare. Estonian privatization program might be considered as completed, since there are only 31 companies left in predominantly state

ownership. The biggest among them are the electricity provider, electricity grip transporter and transportation. Subsidies are very low, below the EU average - for example, the state rail company subsidies have decreased almost by half. However, it remained as an open issue if the Nordic Aviation Group, which in fact has been the rebranded post-bankruptcy Estonian Air, could operate without subsidies.

## **REGULATION OF CREDIT, LABOUR AND BUSINESS**

High level of economic freedom in Estonia has translated into an overall business-friendly environment. Regulations and restrictions on businesses are not burdensome, and they are evenly applied to all business entities. Starting a new business is easy and cheap, itself lasting only three days due to waiting for the designated VAT number (the online registration takes just a couple of minutes). Estonia continued cutting bureaucracy by allowing for the minimum capital required to be deposited at the time of company registration. Estonia has one of the highest numbers of entrepreneurs per capita. Tax regulation is considered to be among the most efficient in the world, with simple procedures and high usage of electronic tax filing, both for corporate tax and VAT. Obtaining construction permits is quick and inexpensive, but fire department rules in practice prolong this process unnecessarily. Corruption in administration has been held back by a widespread usage of ICT among public institutions. In fact, since December 2014 electronic residency has been the way of exporting Estonian business-friendly environment abroad: entrepreneurs that are foreign nationals residing abroad can easily register and run a company under Estonian laws. Third party notification in redundancy cases has been lifted, but notice periods increase with the duration of worker tenure (one to three months), and there are redundancy rules and reassignment priorities. Fixed term contracts are prohibited for permanent tasks, but these contracts can be long (up to 120 months in total). Maximum work week is set at 5 days, albeit with prolonged workweeks in case of workload. Monthly minimum wage is high, being increased for more than 10 percentage points, from 430 to 470 euro in January 2017. The increase of the threshold for a VAT payer status is envisaged, from 16 000 to 40 000 euros, which will further streamline bureaucracy for SMEs.

## **FREEDOM TO TRADE INTERNATIONALLY**

Estonia has always been, as a small country, oriented to foreign trade more than many other European countries. This is well depicted by the fact that Estonia was the only country that had to increase (and not decrease) its import tariffs when joining the EU. Good transport infrastructure contributes strongly to fostering trade links and free trade, significantly decreasing transportation costs. This is followed by efficient border administration, which is allowing goods to be imported or exported timely and cheaply, due to the minimum paperwork and costs. Estonia's main trade partners are its Nordic and Baltic neighbours, as well as Germany and the Russian Federation. The main vehicle of Estonia's economic growth have been, traditionally, export oriented industries - exports significantly helped in alleviating the recession in 2009. Due to shortages in labour, mostly by demographic developments as well as net emigration to other EU countries, Estonia has recently streamlined its immigration procedures in order to allow for easier hiring of qualified immigrant workers, with implementation that started in January 2016. Capital controls on movement of capital are often considered too stringent.

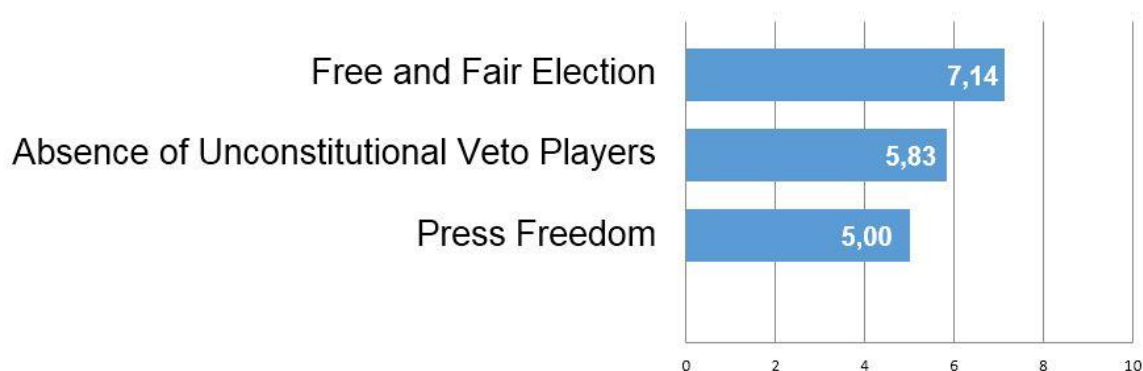
# Georgia

GDP in 2016: EUR 12,859 million

annual growth rate: 2.7%	per capita: 3,470 EUR	by sector:
		agriculture 9.2%
		industry 21.6%
		services 68.3%

Population: 3,701 thousand	Human Development Index	Government position in 2016
Unemployment rate: 11.8%	HDI: 0.769 (rank 70)	-1.62% of GDP

## A. POLITICAL FREEDOM



### FREE AND FAIR ELECTIONS

Georgia held its parliamentary elections on the October 8<sup>th</sup> and 30<sup>th</sup>, 2016, first and second round respectively, which were considered as free and fair by the international community. However, the process didn't run without flaws. Cases of violence, alleged intimidation of voters or opposition politicians, or vote frauds on the election-day, were reported. A Member of Parliament on behalf of the opposition United National Movement (UNM) was a target of a car-bomb attack few days prior to elections. Ruling Georgian Dream cleared a huge victory, winning 115 seats out of 150 in the Georgian unicameral parliament, and allowing Prime Minister Giorgi Kvirikashvili to continue governance. Situation in the country has stabilized to a certain extent after repeated changes of Prime Ministers in the recent past. Georgia has got a mixed electoral system, with 77 seats elected through proportional representation and 73 seats in majoritarian constituencies. The strongest opposition party UNM won 27 seats in the elections, but internal party disputes led to its split, where after most of the MPs formed a new party at the beginning of 2017, called Movement for Liberty – European Georgia, which now represents the largest opposition in the parliament.

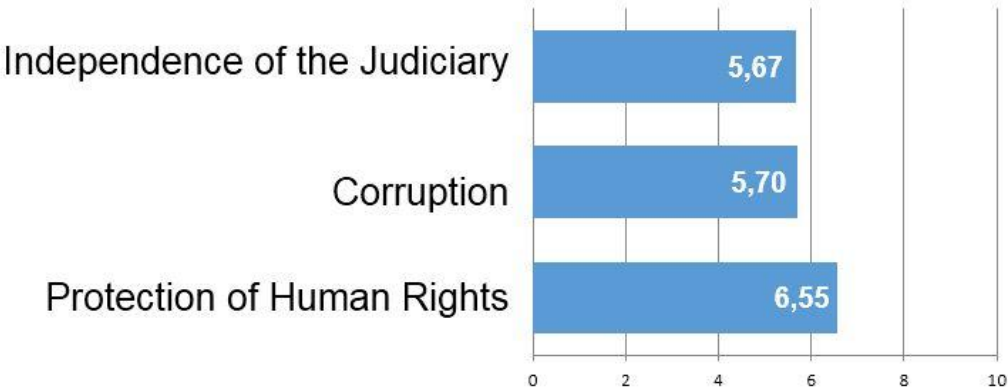
# ABSENCE OF UNCONSTITUTIONAL VETO PLAYERS

There are no unconstitutional players in Georgia who could undermine decision making process by the government, although some players are seen to enjoy certain influence on politics and public. Founder of Georgian Dream and businessman Bidzina Ivanishvili allegedly still holds significant power in the party, making him a potential influencer on the government decisions. As a very influential institution in the country, Georgian Orthodox Church is also one of the players who are able to shape public opinion and thus influence politics. Close ties between political actors and wealthy businessmen, as well as lack of independency of the parliament and of the judiciary from the executive, present a danger for democratic processes in the country.

## PRESS FREEDOM

Traditional and online media outlets are free in Georgia. Citizens are able to enjoy a wide range of views and opinions, which is a result of improvements in media sphere during the recent years. However, media outlets are divided along political lines, which can threaten objective reporting. Also, the problem of political pressure has intensified with the case of ownership dispute of Rustavi 2 television channel, which has been one of the most popular TV channels in the country and which aligned with opposition stance. In March 2017, Georgian Supreme Court ruled the case in favor of a former co-owner Kibar Khalvashi, resulting in protests of citizens, journalists and opposition politicians. This move was criticized by international instances as a threat to pluralism and media freedom. Violence and intimidation against journalists are rare, but due to a political pressure they are sometimes practicing self-censorship.

## B. RULE OF LAW



## INDEPENDENCE OF THE JUDICIARY

As Freedom House has reckoned in its Nations in Transit 2017 report, “the areas of greatest concern for Georgia’s democratic consolidation in 2016 were the independence of its media and judiciary.” On one hand, a number of foreign or international observers, such as European Commission, US State Department, or Council of Europe, have noticed considerable improvements in independence, effectiveness and accountability of Georgian judiciary, as a result of successfully implemented systematic reforms. Freedom House has noticed an increase of acquittal rate, as an indicator of a decrease of the improper influence of prosecutors on the courts



and more professionalism along the court procedures. In some politically sensitive cases, the rulings were not in government's favour. On the other hand, there is a subtle political struggle for the control over the Constitutional Court. A few of its members complained about public protests staged in front of their homes. Also, there were allegations that high profile defendants were kept in custody for unnecessary long time in order to blackmail them into testifying against other - also high profile - members of the pre-2012 government. In general, the policies of post-2012 government regarding justice and rule of law are often under suspicion of being biased, to the detriment of the members of the "old regime".

## **CORRUPTION**

Gigantic steps that Georgia has taken after the "Rose Revolution" in suppressing corruption - through economic liberalization, bold measures to clean the most vulnerable parts of the public sector (such as police) and letting freer media, civil society and international organizations do their part of the work - materialized in its ever better score in the Transparency International's Corruption Perceptions Index. In 2016, Georgia rose to the position 36 (of 176), with huge improvement in just a year (from 52 to 57/100 points), now matching Latvia and leaving 10 other EU member states behind. No Black Sea region or Caucasus country is even near it. Aside of just "petty", even the high level ("elite") corruption is decreasing. As Freedom House noted in its Nations in Transit 2017 report, nepotism and not bribery anymore is becoming the most important field of concern and the main target in anti-corruption struggle. According to GAN portal, favouritism and not outright bribery anymore became a matter of concern in public procurement.

## **PROTECTION OF HUMAN RIGHTS**

The human rights` situation in Georgia is better than in any neighboring country. Freedom of thought, assembly and association is reasonably well maintained. Civil society is well developed, with existing and active NGOs or think tanks that advocate a variety of political or policy options. However, as Freedom House noticed, some ultranationalist NGOs "border or breach normal standards of civic activism" by harassing sexual, religious or ethnic minorities. Government's regulatory approach in this field is cautious, avoiding to carry any laws that could backfire against either minorities or majority (such as avoiding to make "insult to religious feelings" an administrative offense, or refusing to constitutionally ban - anyway non-legal - same-sex marriage). The right to privacy became an important topic. In April 2016, the Constitutional Court ordered Parliament to reform the regulation on the monitoring of telephone and Internet connections by secret services until March 2017. Subsequent draft bill was rejected by many CSOs and vetoed by the President, while the Parliament overrode the veto. A broad debate on the issue resumed throughout 2017.

## C. ECONOMIC FREEDOM



### SECURITY OF PROPERTY RIGHTS

Property rights in Georgia are mostly secured. However, there are still many deficiencies within the judicial system that limit their full protection, since court proceedings might be biased in favour of the side with good political connections. The process of registering property is very efficient and inexpensive, but regions outside the capital are not covered with clear titles - approximately only one quarter of agricultural land has a clear title. There have been some recent improvements in this area, at least in raising coverage of the capital. Expropriation disputes are uncommon, but there have been cases of illegal land appropriation in newly created tourist zones, or illegal seizure of property even in Tbilisi at unfairly low prices, connected to Tbilisi Railway Bypass project. Acquisition and possession of agricultural land is largely restricted for foreign nationals and private entities registered by a foreign national, to 20 and 200 hectares respectively. Property rights in two separatist regions of Abkhazia and South Ossetia are hard to be secured, which is detrimental to the high number of internally displaced persons. Although trial and judgments are usually done within a reasonable timeframe, the process of contract enforcement is mostly lengthy. The number of adjournment is not limited, and another weakness of the system is that there are no specialized commercial courts.

### SIZE OF GOVERNMENT

Government expenditures in Georgia are very low, compared to other European and even post-transition countries, reaching 30% of GDP in 2016, which has been stipulated by one of legal fiscal rules since 2014. Although faced with weakening of foreign demand due to economic downturn among trading partners and lower remittances, the economy is still recording growth, albeit at a slower pace than previously. Public debt is moderate, standing at 45% of GDP, having grown from 35% since 2014, but still within the prescribed fiscal rules stipulating that public debt may not be higher than 60% of GDP. Fiscal deficits are still recorded, reaching 1.6% of GDP in 2016, which threatens the imposed fiscal rules. The government entered an Extended Fund Facility (EFF) program by the International Monetary Fund (IMF), in order to provide backing for the envisaged fiscal austerity program with the aim of diverting resources from current to capital expenditures. Low public expenditure allows for moderate tax rates. Taxation system relies on flat taxes: 20% for income tax, 18% for VAT and 15% for corporate tax; however, in 2017 the government exempted from income taxation corporate profits that were undistributed, reinvested

or retained. Major remaining government-owned companies operate mostly in utility services and transport, while those in other sectors are not significant. The most important government companies (railways, oil and gas corporation and electro system) are combined to a Partnership Fund in order to improve public asset management. Georgia has constitutional breaks on public expenditures and introduction of new taxes, for which a popular vote is necessary.

## **REGULATION OF CREDIT, LABOUR AND BUSINESS**

Business environment in Georgia is positively oriented towards entrepreneurial activities. Georgia was twice designated as the Reformer of the Year by the World Bank. Improvements in business environment, alongside high levels of economic freedom, are the main drivers of Georgian growth. Starting a business is quick and inexpensive, conducted in only 3 days and without minimum paid in capital. Obtaining a construction permit is also a well streamlined process, with only 7 procedures and low costs stemming from it. On the other hand, getting electricity is considerably expensive due to high fees set by the electrical distribution company. Recently imposed regulatory changes stipulate penalties for utilities whose quality of services, measured by outages index, is worse than in the previous year. The online system for VAT refunds has recently been updated and additional annex for corporate income tax returns was abolished. Inadequate supply of key infrastructure, and inadequately trained workforce, especially outside the capital Tbilisi, pose a significant burden on businesses. Labour regulation is overall flexible. The minimum wage is very low, and it is not really applied in practice. Severance payments and notice periods are low and equal for all workers regardless of their years of tenure, while collective bargaining is applied mostly among public sector employees. However, long mandatory military conscription of 18 months poses significant burden, on businesses and citizens alike. The Georgian government launched the program of de-dollarization in 2016 in order to increase the influence of its monetary policy on money supply, but this measure made domestic currency less stable towards foreign currencies, causing reasonable fall in the exchange rate and rise of consumer prices.

## **FREEDOM TO TRADE INTERNATIONALLY**

Freedom to trade is well respected in Georgia. Import tariffs are among the lowest in the world, with the applied Most Favoured Nation (MFN) tariff of just 1.5%. As in other countries, tariffs are higher for agricultural products than the industrial ones. Although regulatory trade barriers in the area of standardization of imported goods have been decreased, they still create problems regarding free flow of goods. Border and documentary compliance have recently been made more efficient by the improvements in the electronic system for document processing and an advanced document submission system. Georgia has recently ratified the Trade Facilitation Agreement (TFA), which is expected to further ease custom clearances and border controls once it is implemented. The World Trade Organization (WTO) has finalized its trade policy review process regarding Georgia without finding any significant problems, confirming Georgia's free trade orientation. After the recent Russian embargo, trade relations with Russia have by now mostly been normalized, albeit affected by the strong currency devaluation of the Russian ruble. Due to its geographical location and also the political conditions in the Caucasus region, Georgia remains an important country for transit of goods. Georgia remains as one of the most visa free

countries for foreign nationals to visit, encouraging cultural and economic ties, as well as the booming local tourism industry. Main Georgian trade partners are the EU countries, followed by countries from the region, such as the Russian Federation, Turkey, Ukraine, Azerbaijan and Armenia. Economic relations with the EU are conducted via the Association Agreement and the following Deep and Comprehensive Free Trade Area (DCFTA), whose full implementation commenced at the beginning of July 2016, while the Generalized Scheme of Preferences (GSP+) was terminated in the end of 2016.

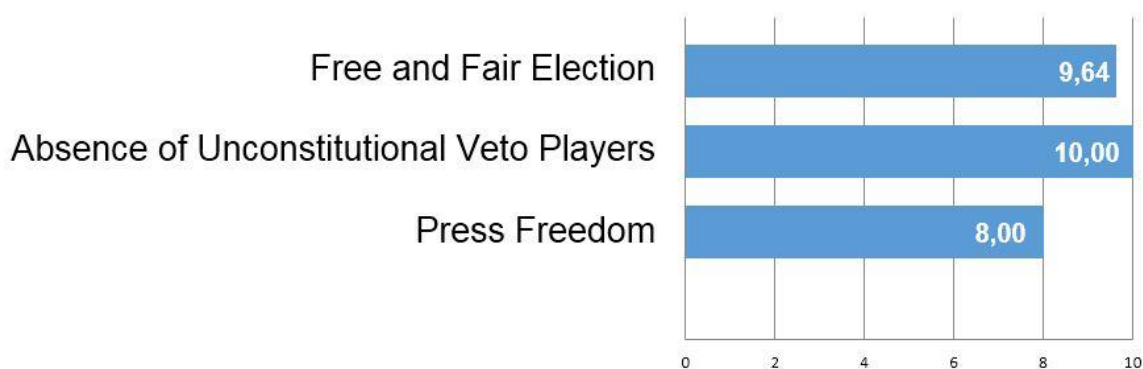
# Germany

GDP in 2016: EUR 3,132,670 million

annual growth rate: 1.8%	per capita: 37,900 EUR	by sector:
		agriculture 1.4%
		industry 24.2%
		services 74.3%

Population: 82.732 thousand	Human Development Index	Government position in 2016
Unemployment rate: 4.2%	HDI: 0.926 (rank 4)	0.76% of GDP

## A. POLITICAL FREEDOM



### FREE AND FAIR ELECTIONS

Germany has a tradition of free and fair elections. This continuity was confirmed on several federal-state elections during the period under review, all in the light of September 2017 Bundestag elections. German multi-party system allows political parties to compete in a free and unrestricted manner, unless their activities are posing threat to the constitution. Largely ceremonial figure in the country's political life, President of Germany, was elected on 12<sup>th</sup> of February 2017 by the Federal Convention, after the Grand Coalition had announced that they would have one joint candidate, Frank-Walter Steinmeier from the Social Democratic Party - SPD. Beside certain disputes in the Government, between SPD and Angela Merkel's Christian Democratic Union – CDU, due to migration crisis, it remained stable in 2017, with parties shifting their focus on parliamentary elections. Germany has a bicameral parliament which consists of the lower house – Bundestag, and the upper house – Bundesrat. The latter represents the country's 16 federal states.

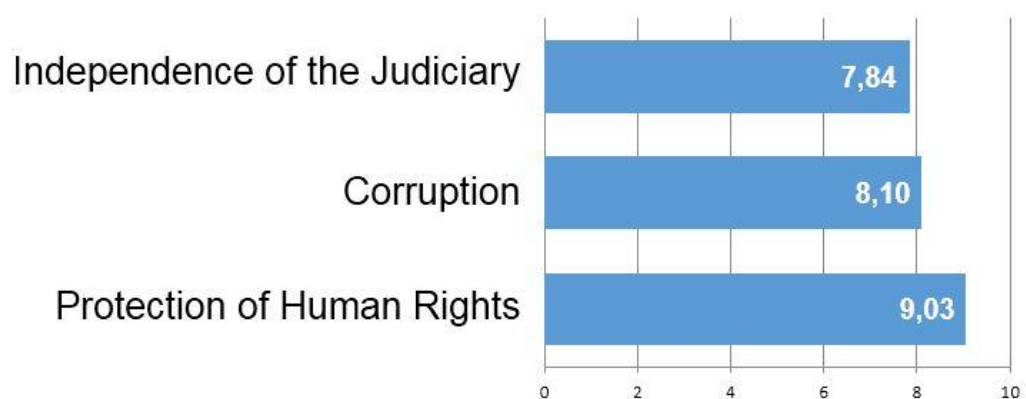
## ABSENCE OF UNCONSTITUTIONAL VETO PLAYERS

Germany doesn't have unconstitutional veto players and democratically elected authorities have unchallenged power to govern the country. Mechanisms for dealing with the corruption are efficient, thus corruption among public officials is very rare. However, threat to country's security is coming from extreme terrorism. Attack with massive injuries and 12 deaths happened in December 2016 in Berlin, for which ISIS claimed responsibility.

## PRESS FREEDOM

German media landscape consists of wide range of print, online and broadcast media outlets that enjoy high level of freedom. Journalists are independent to freely express their views, however they are sometimes faced with a violence and intimidation by radical groups in society. The amendments that were put into practice at the end of 2016 gave Germany's foreign intelligence service – BND - a right to survey foreign journalists. Also, according to Reporters without Borders, economic crisis of print outlets and publishing houses started to slowly undermine media pluralism in the country.

## B. RULE OF LAW



## INDEPENDENCE OF THE JUDICIARY

Judiciary in Germany is truly an independent third branch of power. There are just a few examples in the world where the constitutional court plays such a huge role in limiting (thus to a degree also shaping) political decisions by lawmakers or the executive, or checking the terms of the country's accession to bilateral or international treaties. At the federal states' or local level, judicial intervention against government's tendency towards omnipotence is not that robust, but anyway citizens enjoy high level of protection. Portal GAN asserts that "German judiciary is characterized by a high degree of professionalism and independence from political interference", while corruption is thereby not a problem. Citizens put huge trust into courts. Police is not corrupt, even though there are occasional complaints over its excessive use of force. Prison system is exemplary, often described by experts from the older democracies as a role model for them (besides Nordic systems). Intelligence services have considerable powers, yet they are subject to rigorous scrutiny by several layers of civic control.

## **CORRUPTION**

Based on three pillars – social market economy with no excessive state intervention into the economy, developed legislation and institutions and sense of rule of law shared by most citizens, and the strong civil society with free and curious media – anti-corruption immunity in Germany is very strong. The country is, together with Luxembourg and United Kingdom, ranked 10-12 (out of 176 countries) in the Transparency International's Corruption Perceptions Index 2016, same as in 2015. Occasionally, some public procurement deals or huge state-sponsored infrastructure project raise suspicion. The rules against conflict of interest are sometimes circumvented. Big companies that earn tens of billions euro through exports and employ tens of thousands workers sometimes experience a blind eye by the government, over internationally accepted ecological or other rules, or over bribery abroad. Even the latter set of problems is increasingly well dealt with. Far more German politicians lately have been ousted because of plagiarism and unearned PhD diplomas than of even most remote suspicion of corruption.

## **PROTECTION OF HUMAN RIGHTS**

Germany has faced a miraculous transformation from a country that had experienced centuries of autocracy and the two biggest totalitarian systems of the 20<sup>th</sup> century into one of the freest countries of the world, where human rights enjoy the highest level of protection. Through basic as well as life-long political education (e.g. via “Stiftung” network), a notion of traditional human rights such as life, security, safety, individual autonomy, property, movement, education, information, or association, is embedded in society and political culture. In some areas Germany has recently emerged as a “conscience of the EU”, such as in its treatment of refugees. Not least that it opened the gates for the victims of wars or dictatorships, but it has put considerable efforts and resources into their integration. Opposition to such attitude has, however, also increased in Germany. There is more hate speech against certain religious or ethnic groups, as well as attacks on asylum seekers, than before. Populism is in the rise in Germany too. Dealing with this new wave of intolerance requires wisdom. Each and every new legal limitation - such as June 2017 law that required social networks to have censored hate speech messages - bears a risk of limiting other, completely legitimate freedoms. Another law carried in June 2017 has but leveled Germany with the freest countries in the world regarding LGBT equality. Same-sex marriages were fully recognized, whereby conservative plurality in Bundestag was allowed a free vote. Germany is occasionally facing the same problem as other West European countries regarding slavery – namely smuggling and illicit treatment of servants by the rich tourists from less free countries. Human trafficking is robustly fought against, while this kind of mistreatment requires moderation, so as to prevent serious abuse of people while saving high-end tourism as an important part of the economy.

## C. ECONOMIC FREEDOM



### SECURITY OF PROPERTY RIGHTS

Property rights in Germany are well protected. Judiciary is an efficient and functioning system, independent from out-of-court influence or of the executive power. Even though court dealings are lengthy, they are both predictable and reliable. Bankruptcy regulation provides legal environment that enables very high recovery rates, within a reasonable timeframe. Insolvency procedures are mostly implemented as a sale of a going concern, since this maximizes the sale value; reorganization procedures are often too costly and complex. There are specialized courts, such as for commercial, administration, labour and tax law, which provide an efficient framework in difficult cases. Out-of-court mechanisms, such as mediation or arbitration, exist and are commonly used. Court procedures could be upgraded via more automation in the process. On the other hand, property registration, a major prerequisite for protection of property, requires a complicated and lengthy procedure, incurring high cost due to notary fees and very high transfer tax of 6% of the property value. Property transfer could also be hurdled by pre-emptive rights of local municipalities. Obligatory public notary services, although inflating costs, increase security of the dealings. Foreign ownership is restricted only in several industries. Restrictions are mostly applied to transportation sector. Some of them stem from the EU legislation. German authorities recently re-examined the case of acquisition of the German semiconductor company Aixtron by the Chinese company Fujian Grand Chip Conductor, on the basis of national security, which led to annulment of the deal.

### SIZE OF GOVERNMENT

Government expenditure in Germany is stable, standing at 44.5% of GDP in 2016. It is close to the European average, between frugal countries in transition and lavish public spending in Scandinavian countries. Unlike most European countries, Germany has recorded low budget surpluses since 2012. Public debt has been decreasing slowly but steadily, to 67% of GDP in 2016, which is near the pre-crisis level. Unemployment is slightly above 4%, less than half of the Euro-zone level, while growth, although modest, is based both on higher domestic demand and external demand for exports. German government, apart from its regulatory role, is mostly not active in the economy. Majority of state-owned enterprises (SOE) are restricted mostly to public utilities. They are operated by municipalities, but there are several important companies in which federal government has majority (train transportation) or minority stakes (post offices, or



telecom). This is evident in the banking sector where the state still holds equity in banks that encountered difficulties during the financial crisis almost a decade ago. Although SOEs comply with the same rules as private companies, and are faced by hard budget constraints, the rail company has a record of investigations by the European Commission or by the Federal Cartel Office for possible market power abuse. In order to sustain the overall high tax consumption, high tax rates are necessary. Corporate income tax is 15%, while VAT is set at 19%, with the reduced rate of 7%. Income tax is progressive, with rates from 14% to 45%. There is also a "solidarity tax" of 5.5% on both corporate and personal income. Coupled with high social contributions, this leads to the overall high labour tax wedge - Belgium is the only European country with a higher tax wedge than Germany.

## **REGULATION OF CREDIT, LABOUR AND BUSINESS**

Regulation in Germany is overall business friendly. Starting a new business is not burdensome, nor expensive, but it requires as much as 9 procedures. The minimum paid-in capital of 12 500 euro is very high. On the other hand, getting electricity is very efficient, and inexpensive, the same as obtaining a construction permit. All regulations are generally upheld, and corruption or favouritism by government officials in Germany is very rare. Although there are only 9 annual tax payments, taxation regulation proves to be very complex and burdensome for businesses, posing obstacles to their unhindered functioning. Licensing procedures remain effective obstacles to entry, limiting competition and increasing prices in many sectors of professional services, which also affects other EU nationals. Labour regulations pose another area in which there are serious constraints on private entities. Regulation of working hours is flexible, but in other areas it is not: maximum length of fixed contracts is limited to just 24 months, while redundancy regulations impose high costs, in that notice periods for redundancy staff and their severance pay increase with their tenure, leading to a higher protection of more seasoned workers. The role of trade unions and especially of the workers' councils is very prominent in those procedures. Social dialogue is strongly developed in Germany, with strong industry-specific collective bargaining. The general minimum wage that was for the first time introduced in 2015, abandoning prior industry-specific minimum wages determined through collective bargaining, was slightly increased in 2017 to 8.84 euro per hour.

## **FREEDOM TO TRADE INTERNATIONALLY**

Freedom of trade is generally respected in Germany. As one of the founding members of the European Union, Germany implements the common European trade policy with its low tariff rates that remain considerable only for some agricultural products. However, non-tariff barriers remain in place, in the shape of different standards and certifications. Customs administration is very efficient, keeping cost of border and document compliance low. Good public transportation infrastructure successfully lowers freight costs, allowing for higher volume of trade. Railway transportation is still under dominant influence of SOEs. Federal railways were several times under supervision for breaching competition regulation. Foreign trade is immensely important for German economy, with robust exports led by manufacturing goods and a high current account surplus. Main trade partners of Germany are other European countries, such as France, Belgium, the UK and the Netherlands. Future political and economic ties (especially trade

arrangements) between the UK and the EU after Brexit will have strong influence on German trade. Germany, alongside France and Italy, filed a request to the European Commission in 2017 for the ability of EU member states to block FDI on the basis of reciprocity. The high net immigration rate has recently halted due to a fall in recorded refugees and asylum seekers.

# Greece

*GDP in 2016: EUR 175,535 million*

*annual growth rate: 0.01%*

*per capita: 16,200 EUR*

*by sector:*

agriculture 4.1%

industry 15.0%

services 80.9%

*Population: 10,851 thousand*

*Human Development Index*

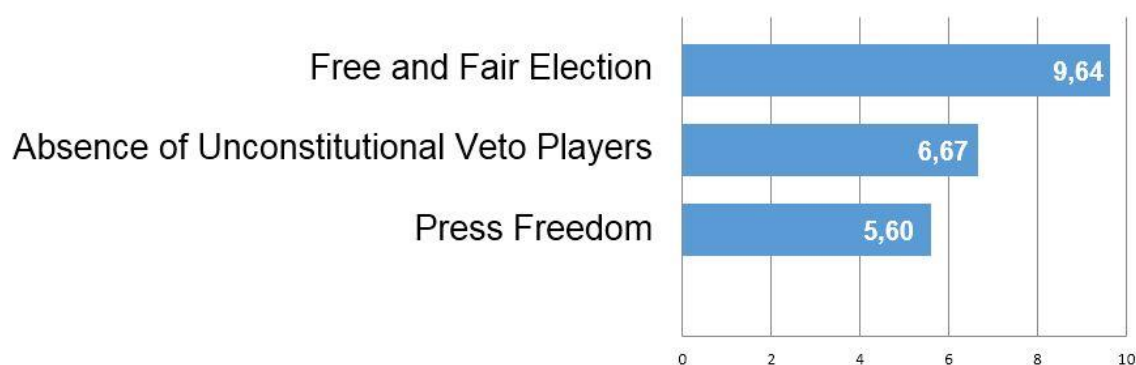
*Government position in 2016*

*Unemployment rate: 23.8%*

*HDI: 0.866 (rank 29)*

*0.04% of GDP*

## A. POLITICAL FREEDOM



### FREE AND FAIR ELECTIONS

Greece nurtures a long tradition of free and fair elections, which is a right granted by the constitution. After a very dynamic period, the political life somewhat stabilized. Still, the biggest political issues for the Government led by Prime Minister Alexis Tsipras have been the economy and the migrant crisis. Greece is a parliamentary democracy with the 300-seat unicameral parliament. Rather specific electoral system in the country, i.e. the so called “reinforced proportional representation”, which rewards the party with the plurality of votes at the elections with 50 extra seats in the parliament above its proportional share, remains a serious issue. That way, the system favors big parties, allowing even a party which won elections with a small margin of votes to form a government, while marginalizing the role of small parties. Political parties are able to compete and operate in a free and unrestricted manner. Voting in Greece is mandatory.

### ABSENCE OF UNCONSTITUTIONAL VETO PLAYERS

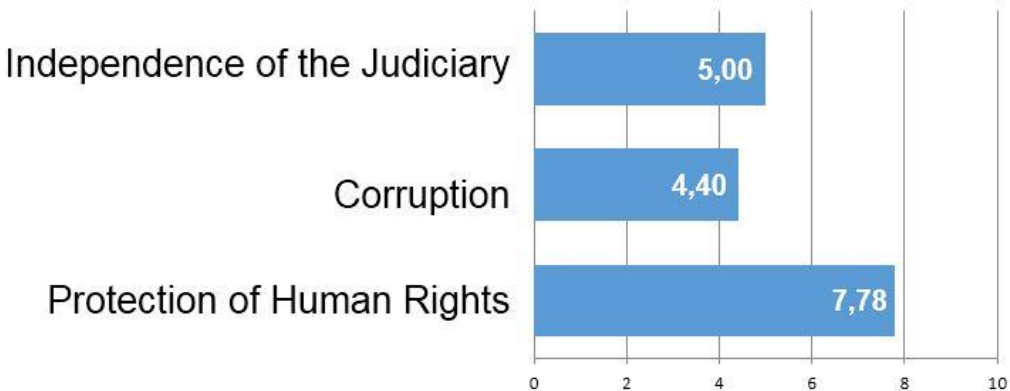
Greece doesn't have unconstitutional veto players who could undermine decision making process. This allows the government to rule effectively. Security forces are under civilian control.

Although there is a specific situation with Greek judicial system - where only the Supreme Special Court, which is not a permanent body, could decide upon constitutionality of laws - there is a clear separation of powers between judicial, executive and legislative branch. However, corruption remains a problem, while the country has gone down by 11 places, and is now ranked as 69<sup>th</sup>, in the Transparency International’s 2016 Corruption Perception Index. Greek Orthodoxy is a state religion, recognized by the Constitution as a major faith, thus Greek-Orthodox Church has a significant influence in shaping public discourse. However, it doesn’t have direct influence on political decisions.

**PRESS FREEDOM**

The country continues on its way of improving environment for journalists and for both the traditional and the online media outlets, with Freedom Barometer 2017 Press Freedom score increased. However, there is a lot on the way to make media landscape free in Greece. Journalists continue to be physically and verbally attacked because of their reporting. Economic pressure and criminalized defamation might influence journalists to practice self-censorship. Also, close relations between politicians and media owners could influence independent reporting. Issues regarding lack of transparency of media ownership remained unresolved. Government failed to license national televisions, following the Council of State ruling that the law, which was permitting Government to issue licenses instead of the National Council for Radio and Television, was unconstitutional. Situation remained unresolved during the entire period under review.

**B. RULE OF LAW**



**INDEPENDENCE OF THE JUDICIARY**

Justice system in Greece is free from direct control by the executive branch of power. By many reports, including FNF’s own field interviews, courts are, however, sometimes subject to outside indirect influence, by political or business circles. Corruption is also a serious problem, as well as is bias in politically sensitive cases. Portal GAN in December 2015 described Greek judiciary as “inefficient, slow and vulnerable to corruption and political influence”. Throughout summer 2017, a verbal skirmish was on between a number of government officials and the highest representatives of the judiciary. Senior judges accused Syriza-led government of trying to introduce Hungary- or Turkey-style political control over judiciary, so as to be able to pursue

authoritarian goals. On the other hand, government officials accused courts of being politically biased, by protecting the corrupt officials of the previous governments and by spreading fear among leftist groups by arresting their members on terrorism charges.

## **CORRUPTION**

Business portal GAN describes corruption in various departments in Greece as “widespread” in public services, public procurement and police, very high in forest or construction inspectorates, “high” in judiciary, “serious” in tax administration and widely present in custom administration. Analyses by FNF and/or Greek scholars often conclude that oligopolies, professional licenses or otherwise closed markets, crony business activities, furnished public procurement, tax evasion or numerous other manifestations of inequality at the market are in the core of the Greek corruption problem. Some reforms of the enumerated have started after the Greek agreement with creditors in summer 2015, but the process is still slow, superficial and divergent. Government is opening one after another chapter of corruption investigations (e.g. in March 2017, a probe was launched in health sector), foreign companies are often rightfully blamed, but there are too little systematic changes that would narrow the very ground for (and tackle the structural domestic causes of) corruption. In the Transparency International’s Corruption Perceptions Index 2016, Greece was ranked 69 (of 176 countries), with a score 44/100 (lower than the historic-best 46 in 2015).

## **PROTECTION OF HUMAN RIGHTS**

Academic freedom has been well preserved in the university classrooms in Greece, but in campuses occasional attacks by the far-left or ultra-conservative extremists against the liberals, or against vulnerable groups advocating equality, have reduced it. Yet, universities and adjacent think tank NGOs are still the true places of innovative scientific and social thinking. Freedom of religion and secular character of the state are officially guaranteed, but in reality Greek Orthodox Church is favoured and ready to go political if their privileges decreased. A real breakthrough in religious tolerance was the permission, in August 2016, after long delay, to the Islamic Community to build a mosque in Athens. Along the management of the indeed challenging refugee crisis (encompassing many tens of thousands of stranded migrants), Greek authorities showed both their bright and dark sides, from serious endeavour to provide shelter, education and healthcare for those who temporarily stayed in Greece to arbitrary detention and/or police brutality against some of them. A case of torture of three Roma by the police in Athens was reported in October 2016 by the Greek Helsinki Monitor, while in August 2016 the UN Committee on the Elimination of Racial Discrimination expressed concern over cases of discrimination of Roma in accessing education or housing, or in contacts with the police. In December 2016, the Parliament introduced new mechanisms of protection against police brutality. Despite persistent social conservatism on some other issues, the most recent opinion polls, such as Dianeosis` of April 2017, showed that homophobia was in retreat (50% approved same-sex marriages and 80% pledged for equal access of LGBTs to employment). The living conditions of LGBT citizens in Greece, however imperfect, are better than in any of the four neighbours. There is a strong legal protection against discrimination. Free and open pride rallies are held in two biggest cities, while civil unions are legalized. Gender equality is a challenge,

especially taken the low participation of women in company boards and a neglect participation of men in paternity leave schemes.

## C. ECONOMIC FREEDOM



### SECURITY OF PROPERTY RIGHTS

Private property rights in Greece are not sufficiently respected. Weak institutions remain at the core of the problem of property rights. Judicial impartiality in court proceedings is sometimes under question. Corruptive practices within judiciary are still present. Enforcement of contracts is extremely difficult due to the very long court procedures, taking on average as much as 4 years, which is next to the worst in the world. This problem has recently been tackled by introducing tighter rules on adjournments and imposing deadlines for court procedures, but the impact of those reforms is yet to be evaluated. There are no specialized commercial courts, so commercial cases are heard before general courts. Obtaining real property in Greece is a complicated and expensive process, since there are multiple layers of authority in issuance and approval of land use and zoning, coupled with a number of different fees and a high transfer tax. In certain areas, a prerequisite for obtaining real property is permission from the local council. Furthermore, there are restrictions on acquisition of land in border areas or on small islands, due to national security reasons. Comprehensive national land register has not still been finished. There are also restrictions on foreign equity ownership in numerous industries, more pronounced than in other OECD countries, most notably in public utilities and energy, areas which the Greek government considers of strategic importance.

### SIZE OF GOVERNMENT

Although several waves of austerity measures have been implemented since the beginning of the debt crisis, general government expenditure is still blatant, reaching 49% of GDP in 2016. Political turmoil still poses a significant obstacle to business apart from the bad economic environment due to austerity. The economy recorded neither boom nor recession in 2016, but growth is expected to pick up next year, although the potential growth rate is estimated at just 1.5%. Public finances finally recorded a small surplus in 2016, but public debt remains enormous, at 184% of GDP. It is probably still unsustainable, so possible further actions should be taken to tackle this question. Public transfers remain at a very high level: even with the implemented downsizing, public sector in Greece is oversized, with dubious efficiency, while pension system is

not sustainable with annual transfer of 17% of GDP. State-owned enterprises (SOE) are still present in the country, especially in industries considered to be of strategic importance. Some of them enjoy privileged or quasi-monopoly status. The implementation of the privatization program that was designed in 2015 as a prerequisite for public finance bailout by international community has been slow due to political considerations, whereby the Greek government has tried to evade some of its obligations, most evidently in the area of the energy market and the national energy producer Public Power Corporation (PPC). But there are positive examples, such as the minority equity in the power grid company ADMIE and the railway company Trainose. The former Directorate General for Public Revenue that used to be a part of the Ministry of Finance was transformed to a more independent tax agency, with the aim to increase revenue collection (mostly through an expected decrease in the very high rate of tax evasion) and prescribe tax code reforms, as stipulated in the 2015 bailout agreement with the international creditors. High government consumption requires high tax rates: personal income tax is progressive, with rates of 22%, 32% and 45%, while corporate tax is set at 29%. High social security contributions lead to the overall high labour tax wedge, reaching 40% of the total labour costs. VAT is set at 6%, 13% and 23%.

## **REGULATION OF CREDIT, LABOUR AND BUSINESS**

Regulatory environment overall is not too business-friendly. Political and economic instability led to a freeze in new investments, standing as low as only 10% of GDP, and even pushed some investors out of the country. Starting a new business is easy and inexpensive, done within two weeks and with a symbolic minimum paid-in capital of just one euro. However, rules and regulations are complicated and sometime competing, creating surroundings prone to corruptive activities of public officials, while regulatory burden measured through licenses and restrictions remains heavy, even after reforms implemented under the austerity package. Tax procedure is also a weak point: although the number of annual payments is low, and they are filed online, actual compliance with regulation is burdensome. High tax rates, complicated tax procedures and inefficient government bureaucracy are cited as major obstacles. Labour regulation has many built-in inflexible areas: fixed term contracts are restricted to just 36 months and are prohibited for permanent tasks, and severance payments increase with the years in tenure, protecting more seasoned workers, on the top of the strict redundancy rules. Minimum wage is still relatively high as compared to the median wage, but it has not been increased since 2012. Collective dismissals are considerably limited due to low threshold limit applied and restrictive pre-approval requirement. Centralized collective bargaining is dominant in the public sector, while in private sector it is present only in industries with a strong history of trade unions. The government is considering a return to sector agreements with extensions through collective bargaining, which would considerably limit the freedom of conducting business and would also increase labour market frictions and unemployment.

## **FREEDOM TO TRADE INTERNATIONALLY**

Freedom to trade in Greece is generally respected. Being an EU member state, Greece implements the common EU trade policy, with overall low trade tariffs for manufactured goods, while those on agriculture products might be substantially higher. Non-tariff regulatory trade

barriers remain present mostly due to the complicated process of standardization. Customs service is inefficient, with expensive procedures, further hindering free trade. Working permits for non-EU nationals are generally difficult to obtain, while the new law regulating non-EU immigrant workers is generally considered to have alleviated some ambiguities and lowered the number of years necessary for illegal immigrants to obtain residence permit. A “golden visa” program allows foreign nationals that buy property above a 250 000 euro threshold to obtain a five year residency permit, and this program was widened to include buyers of Greek bonds. Capital controls on the capital outflow from the country are still present, although their scope was somewhat limited after August 2015 agreement with the European Stability Mechanism (ESM). High freight costs are partially attributed to the deteriorating public transport infrastructure, since there is a lack of resources for the maintenance and resolving of the bottlenecks in transport. The quality of railroad infrastructure is low, unlike roads and ports. Main Greek trade partners are other EU member countries, most notably Italy, Germany and Bulgaria, followed by non-EU countries such as Russia and Turkey.



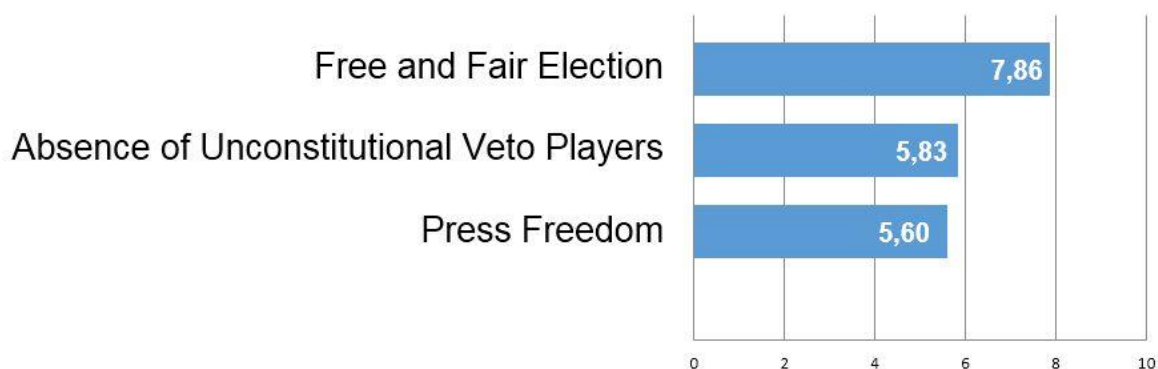
# Hungary

GDP in 2016: EUR 113,632 million

annual growth rate: 2.0%	per capita: 11,550 EUR	by sector:
		agriculture 3.5%
		industry 31.8%
		services 64.7%

Population: 9,835 thousand	Human Development Index	Government position in 2016
Unemployment rate: 4.9%	HDI: 0.836 (rank 43)	-1.82% of GDP

## A. POLITICAL FREEDOM



### FREE AND FAIR ELECTIONS

All previously held elections in Hungary were generally free and fair. However, the score in the Free and Fair Elections section of the Freedom Barometer index declined drastically in recent times, due to the constant undermining of political pluralism and fairness of political playing field by the governing coalition. Means for doing so vary from limited access to media and difficulties in submitting referendums to intimidation or physical prevention. In June 2017, Parliament passed the “Billboard law”, which aims to tighten regulation on political advertising on billboards. According to opposition, it will further limit their opportunities for campaigning. Opposition representative was physically prevented from submitting a request for referendum on law which obliged stores to close on Sunday. Eventually, government revoked the law. In October 2016, a referendum was held on whether EU was allowed to allocate migrants on Hungarian territory without Parliament’s approval, but it wasn’t successful due to insufficient voter turnout. Also, fairness of political process deteriorated because of biased media reporting, gerrymandering in favour of ruling party and abuse of office. Whether someone is a Hungarian resident or a citizen without residency in Hungary affects the voting procedure, highlighting unequal voting rights for all citizens.

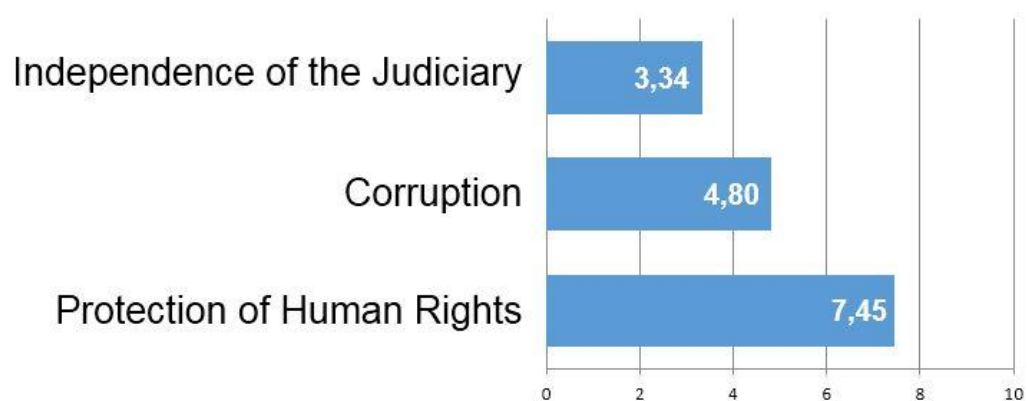
## ABSENCE OF UNCONSTITUTIONAL VETO PLAYERS

Elected authorities in Hungary have unchallenged power to govern the country without interference of veto players. Loss of supermajority in the parliament by Viktor Orbán's Fidesz party and its coalition partner, brought back certain control over democracy, since they are not able any more to overrule constitutional decisions. It was a practice that was exploited numerous times during the last couple of years. Relations between wealthy businessmen and politicians are intense, orchestrated by governing officials to serve both sides' private interests. Many people with close ties to Viktor Orbán, including his son-in-law, have benefited from such partnerships. However, corrupt practices which involve high ranking politicians are often let go with impunity.

## PRESS FREEDOM

Decline of political fairness and freedom in Hungary went hand by hand with deterioration of media freedom. Diversity of views is rapidly shrinking, since public media outlets are showing clear bias toward government's actions and its politics, while in the private sector there are numerous acquisitions of traditional outlets by the people with close ties to the ruling elite. Those acquisitions are often backed up by state financial support. Shutting down of a country's largest daily newspaper "Népszabadság", which had often been critical of the government actions, has had a huge impact on media freedom and diversity. Despite the claim that it was justified by economic and profitability reasons, many believed that strong political influence stood behind the move. This triggered mass protests in Budapest, with several thousand people protesting against unsatisfactory level of press freedom in the country. National Media and Info-communications Authority (NMHH) and Media Council are the main regulatory and supervision bodies, composed of members appointed by the ruling parties or their proxy outlets. State advertising is often used for navigating a more pro-government stance of the particular media.

## B. RULE OF LAW



## INDEPENDENCE OF THE JUDICIARY

Hungary is a fine contemporary example of the strategy of autocracy-minded politicians on how to subvert liberal democracy and (re)build authoritarianism. Constitutional Court was the first victim of the ruling party Fidesz in its post-2010 attempts to gain unlimited power. Once the CC came into the hands of loyalists, numerous laws might have been approved without much care of

their constitutionality. Currently, 11 out of 15 members of CC are government-loyalists, while the remaining 4 seats were filled in November 2016 following an agreement in the Parliament. The National Office for the Judiciary is also led by a loyalist (Tünde Handó, the wife of a Fidesz's MEP József Szájer), who has power to appoint the highest ranking judges in the country, thus influencing the outcome of the most important court cases. However, according to the Freedom House's Nations in Transit 2017 report, lower courts "can be considered mostly independent". Overcrowding of prisons is still at 129%, according to the survey by the Council of Europe as of March 2017.

## **CORRUPTION**

High level corruption in Hungary has (re)taken firm roots. Downward trends were present throughout the last ten years, visible even before Fidesz took power and accelerated them. Corruptive engagement is more often initiated by political factors than by businesspeople. Freedom House has called it a "reverse state capture". It goes unpunished, except at middle or local levels. Due to strong civil society and public sensitivity numerous scandals broke out during the past year, including MFA and state-sponsored institutions for various goals abroad, oligarchs close to the government, or suspicious deals with Russian companies. But the number of court cases processing corruption is plummeting, which coincided with the appointment of a Fidesz loyalist Péter Polt as the attorney general. In the Transparency International's Corruption Perceptions Index 2016, Hungary again fell, from the place of 50 (out of 168) in 2015 to the place 57 (out of 176), with its score in fall year and again since 2012 (now 48, equalling Romania's). That means Hungary is (again) more corrupt than not.

## **PROTECTION OF HUMAN RIGHTS**

Academic freedom, till recently one of the brightest aspects of human rights situation in Hungary, was endangered in March 2017, by the draft amendments to the law on higher education, which jeopardized the existence of foreign-founded universities, primarily Central European University sponsored by the American philanthropist of Hungarian descent George Soros. The attempt by the government to close down the CEU (or at least hinder its work) was a continuation of a verbal campaign, whereby PM Orbán and other leaders of Fidesz accused Soros of the whole range of political and social evils world-wide. True reason for a take against Soros by so many autocrats in various countries is in that NGOs or schools which he had sponsored gave tremendous contribution to building more open and free societies in transition countries. For instance, CEU is among 200 best universities in the world and some of its alumni are leaders in their countries. Recent reports indicated that a campaign was spreading also to NGO publications supported from anywhere abroad, which had to be indicated on all the printed copies. The desire is to stigmatize NGO activities. Other breaches of human rights in Hungary also multiplied, as seen through a dramatic rise of applications to the European Court of Human Rights (more than tenfold during the past 7 years). Hungary defiantly refuses to participate in the EU schemes of sheltering Syrian or other MENA refugees, while PM and other officials openly link migrations to the spread of terrorism. Women rights still need lots of improvement. There are too few women in management boards, or in politics. As a positive detail in the field, the survey by The Economist as of 8 March 2017, on the overall position of

working women in OECD countries, placed Hungary to the fifth place (as the best non-Nordic country), due to a very low gender pay gap (just 3.8%) and generous maternity leave (with a possibility of opting for some of the parental leave benefits for even up to three years). As for the equality of LGBT citizens, Hungary, with the same-sex unions legalized, is thereby better than other Central Europe transition countries.

### C. ECONOMIC FREEDOM



#### SECURITY OF PROPERTY RIGHTS

Property rights are mostly protected in Hungary. However, judicial independence is not secured from the influence of the executive power or political or economic elite connected to it. In some cases the laws had retroactive implementation which posed a significant threat to the rule of law and property rights. Government policies on increasing share of domestically owned enterprises in certain industries (banking, media, energy and retail) have again been confirmed. Although EU rulings could create safe haven for some sectors, as was visible with the advertising tax and retail store regulation, their influence has been rather limited in regards to market discrimination or illegal state aid. There are allegations that several foreign owned banks were persuaded to leave the market through specific regulation and taxes, such as Swiss franc mortgage holders' regulation. Furthermore, legal enforcement of contracts is very slow, lasting for more than 20 months on average - adjournment regulation is very lax and there is little court automation. There are no specialized commercial courts, so these disputes are taken on by general courts. An electronic filing system was recently introduced, with the aim of alleviating at least some of these problems, but its implementation remains to be seen. Registering property is quick but it includes high costs due to the transfer tax of 4% of the property value. On the other hand, bankruptcy procedures are very long, taking two years on average and with a low recovery rate of only 40%. Acquisition of agricultural land is restricted to Hungarian citizens and EU nationals that have resided at least three years in the country and that have adequate education in the field; all the others could only lease the land. Even then, the plots are limited to 300 ha and purchases should be confirmed by a local land committee.

#### SIZE OF GOVERNMENT

The size of government in Hungary is exuberant, with profligate expenditures reaching 48% of GDP in 2016. Large public sector stifles growth with high taxes necessary to finance it: the

general VAT level is set at 27% (with preferential rates of 5% and 18%) which is the highest in the EU and higher than the maximum level approved by the European Commission, of 25%. Although corporate tax rate is mere 9%, the total tax wedge on labour is standing at 48%, the highest among post-transition countries and third after Belgium and Germany among the OECD countries, due to high social contributions while personal income tax is flat and set at 15%. Although growth rates are strong, the government still keeps high deficits, although within the Maastricht criteria of 3%. Bad fiscal performance led to piling up of public debt, which recorded a level of 74% of GDP in 2014, to it not declining. Government renationalization programs increased the role of the state in the economy in certain industries – foreign bank subsidiaries and energy companies; and, large scale public works were introduced with the intention to curb unemployment. This process is most visible in banking and energy sector. The total number of SOEs is close to 500, and more than 60 of them are considered as strategic, meaning that the government should keep its shares. Another significant intrusion to the market by the state is a very broad program of public works.

## **REGULATION OF CREDIT, LABOUR AND BUSINESS**

Business regulation in Hungary is mostly favourable for conducting business. However, the biggest problems arise from policy instability and corruption - public institutions have increasingly been accused of unfair treatment of businesses, having in mind their relation to politicians in power. There are regulations which are purposefully written in a way so as to provide rents to private companies with ties to influential politicians. However, some of these were challenged by the European Commission and revoked, as was the limit on working hours of retail shops. Starting a business is inexpensive and quick, but with a high minimum paid in capital. Obtaining a construction permit involves many procedures and takes almost 7 months on average, but is inexpensive. Getting electricity is also long process and involves high fees for the services of the utility company. Tax procedures are complicated and burdensome to businesses, requiring long hours to administer it properly, but new deductions for new land and buildings acquisition were recently added. Still, foreign companies are often considered to be in a less favourable position regarding public tenders due to favouritism of the government and SOEs. Non-transparent business practices raise suspicion of high level corruption and favouritism - which is tied to the policy of "hungarization" of certain sectors and industries. On the other hand, labour market regulations are mostly flexible, but the total number of working days is limited to only 5 per week and notice periods and redundancy costs increase with the years of tenure, protecting more seasoned workers. However, fixed-term contract can last up to 60 months and there are no restrictions on their use.

## **FREEDOM TO TRADE INTERNATIONALLY**

Freedom of trade in Hungary is generally upheld. The country has been an EU member since 2004 and it applies its common trade policy. Tariffs are overall low, more prominent only in the agricultural sector, where they could be considerable. Non-tariff barriers in trade are more important, with complicated and expensive certification and standardization for exports from outside the EU. Geographical features, as well as high quality public transport infrastructure significantly lower the cost of freight. Due to geographical position, Hungary is a very important

transit hub. Export and import procedures do not pose obstacles to trade, due to an efficient customs office and use of online services. There are only 5 documents needed both for exports and imports. Main trade partners of Hungary are found on the EU internal market, the most important being Germany, followed by countries from the region such as Slovakia, Austria and Romania. The Russian Federation is another important partner due to Hungary's reliance on imported energy sources, especially natural gas. Hungary still keeps a number of capital controls on short term transactions, which is mostly connected to exchange rate regime of the forint, its currency.

# Kyrgyz Republic

GDP in 2016: EUR 5,923 million

annual growth rate: 3.8%

per capita: 970 EUR

by sector:

agriculture 17.9%

industry 25.9%

services 56.2%

Population: 6,107 thousand

Human Development Index

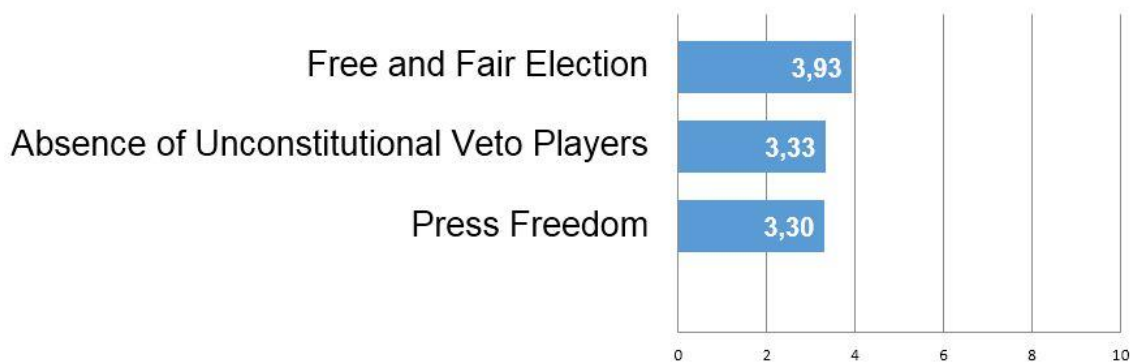
Government position in 2016

Unemployment rate: 7.5%

HDI: 0.664 (rank 120)

-4.55% of GDP

## A. POLITICAL FREEDOM



### FREE AND FAIR ELECTIONS

After years of slight improvement of electoral process in Kyrgyzstan, the country experienced certain setbacks due to environment in which the December 2016 constitutional referendum was held, together with municipal elections. Short period of time for public discussion on the constitutional amendments and for establishing of an international monitoring system, abuse of authorities and fraudulent activities on the voting day, pointed out at weaknesses of elections in the country. Turnout threshold for referendums has been 30%, thus the amendments were adopted regardless of the low turnout of 42%, further empowering the role of Prime Minister, while weakening the judicial branch. Due to disagreements among ruling coalition partners on the referendum, the Government was reshuffled, whereby the dominant Social Democratic Party of Kyrgyzstan built a new majority with Kyrgyzstan and Bir Bol parties. This was the second time in 2016 that Government changed its composition, since PM Temir Sarieyev and his cabinet had resigned in April.

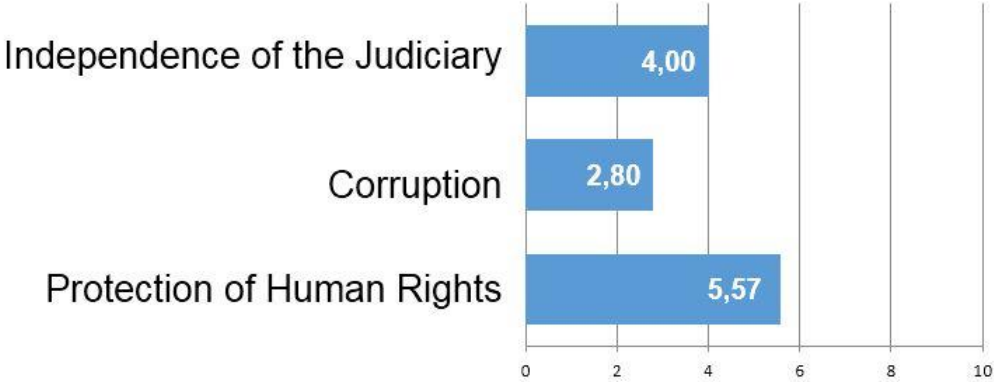
# ABSENCE OF UNCONSTITUTIONAL VETO PLAYERS

Major obstacle to democratic governance and rule of law in Kyrgyzstan are elected officials and public authorities, due to their close ties to the business elite. The influence of unconstitutional veto players on decision making process in politics is deteriorating and it's rather contained to seeking joint personal benefits. Approved constitutional amendments as of end-2016 weakened the position of the judicial branch in the system of checks and balances in the country, giving more power to the executive. President Almazbek Atambayev remains the dominant figure in the political life of Kyrgyzstan, often using his power to undermine the anyway weak system for balance of power. Former Prime Minister Temir Sariyev resigned in the light of a high profile corruption scandal.

## PRESS FREEDOM

Despite constitutional guarantees for the freedom of the press, media outlets are operating in a surrounding which can't be declared as free. Weak system of checks and balances is unable to protect journalists from pressure and threats. Politicians are trying to directly or indirectly - through relations with owners - influence reporting. Feared of pressure and possible prosecutions for critical reporting, journalists commonly practice self-censorship, especially on some sensitive topics. Although defamation is not a criminal offense, "false accusations" of office holders are. Two media outlets, Zanoza and Azattyk, have been prosecuted on this ground, accused of spreading false accusations about the President.

## B. RULE OF LAW



## INDEPENDENCE OF THE JUDICIARY

Kyrgyzstan saw a decrease in independence of its judiciary during the past year. The worst affair, itself with long-lasting effects, was failure of the Constitutional Chamber of the Supreme Court (in October 2016) to stop the unconstitutional procedure in which the country's constitution was changed (at the referendum on 11 December) and to prevent the amendments from subverting her international obligations. In another watershed case, Supreme Court refused to drop charges against a tortured ethnic-Uzbek activist Azimjon Askarov, of alleged murder during the ethnic violence in 2010, despite a recommendation by the UN Human Rights Committee to do so. New constitutional amendments allowed parliament to selectively apply international rulings on human



rights. It could be comfortably assessed that the process of freeing the judiciary from political or other special interests, launched in 2010, is now in reverse. In Bertelsmann's BTI 2016 report, it read that judiciary remained the weakest and most corrupt part of the state.

## **CORRUPTION**

Corruption is widespread. The latest Transparency International's Corruption Perceptions Index, as of 2016, showed stagnation at a low level (of 28/100) and ranked Kyrgyzstan as 136 (of 176 monitored countries), together with Guatemala, Lebanon, Myanmar, Nigeria and Papua New Guinea. TI's Global Corruption Barometer 2016 found out that bribery rate in the country was as high as 38%. Anti-corruption bodies were for long being accused of putting graft charges only against local leaders from political parties which didn't participate in the national government, or against pre-2010 politicians. A few fresh and notable exceptions to the rule included a Prime Minister and two subsequent ministers of transportation, who were ousted between April and November 2016 over suspicions of bribe taking. As for petty corruption, judiciary is often cited as the worst part of the state. Portal GAN reckons that "corruption in the judicial system is a very high risk for companies" and that many court decisions are influenced by bribe or by political pressure. Freedom House warns that "corruption is rife among law enforcement agencies".

## **PROTECTION OF HUMAN RIGHTS**

The situation is mottled. Human Rights Watch noted that there were "few meaningful improvements ... in 2016". Ethnic violence as of 2010 did not receive legal response, except prolonging of the disputed trials against minority activists such as Azimjon Askarov. Regarding NGOs, after the successful toppling of the "foreign agent law" (shaped over Russian one as role model) in May 2016, Parliament has adopted, in March 2017, a softer, yet also limiting Law on Social Procurement. Coupled with President's occasional verbal tirades against (foreign funded) CSOs, all those have increased the pressure on Kyrgyz civil society. However, the relevant legislation is still more permissive than in neighbouring countries. In April 2017, after a long debate, a watershed law was adopted against domestic violence, providing for simplified reporting, more protection of victims and a diversity of correctional measures for perpetrators. Concurrently, new law as of late 2016 has further limited legal loopholes for child marriages. The issue of presence of declared LGBTs in public life is still a taboo even for some human rights activists. Not even all activities "within the four walls", such as running a private gay club, are tolerated by the authorities. Kyrgyzstan did not accept relevant UN declarations and there is no legal protection against discrimination of sexual minorities, while gender identity rights are seriously limited.

## C. ECONOMIC FREEDOM



### SECURITY OF PROPERTY RIGHTS

Private property in Kyrgyzstan is not adequately secured. Courts are not independent in their dealings - political influence of government or interests of its associated groups could make courts serve as mere executors of outside will. The case of Kumtor Gold mining company - where officials had stormed the premises on, later dropped, accusations of financial irregularities, while the company was fined 100 million dollars for alleged environmental damages – showed how state institutions could be misused. Legal processes are long, costly and ineffective, especially on appeal, since the rules on overall time standards are not respected and there are no limitations to adjournments. Political elite can misuse government power in order to acquire property for their own personal, political or economic gains. Although private owners are reimbursed, the sum offered usually substantially differs from the perceived fair market price. Several high profile cases regarding private property expropriation (in mining and tourism industry) still remain to be resolved. There are no official limits on foreign control, but in certain specific areas regulation stipulates a high percentage of the local workforce or a minimum number of board seats for local nationals. Privatization procedures are not transparent and pose a serious possibility for high level corruption and political dealings. Land possession is limited, excluding foreign nationals from owning any agricultural land.

### SIZE OF GOVERNMENT

Government consumption in Kyrgyzstan reached 40% of GDP in 2016, comparable to many more developed transitional countries in Europe - a sharp increase from its pre-crisis level. Public debt, which saw a strong growth to 65% of GDP in 2015, fell in 2016, but it is expected to rise again. A fiscal consolidation program is under way, in order to put the deficit under control and slow down debt growth. Improvement of customs office efficiency in collecting revenues has been under way. Capital expenditures were lower than expected, due to the delays in investment projects. Economic growth prospects are sluggish, because of negative economic situation in partner economies (mainly in the Russian Federation) and to subdued consumption due to fall in remittances. The three-year arrangement program with the IMF is expected to improve fiscal situation and make ground for sustainable growth in future. Ambitious plans for public infrastructure investments were revised due to debt sustainability issues. State-owned enterprises (SOEs) are numerous, the most important ones operating in the fields of banking, mining,

electricity, natural gas and transportation. Some of the companies are by and large inefficient and operate at financial losses, thus creating fiscal risks. However, the review of subsidies for this sector has still not been made. There are deliberations regarding privatization of some big state companies, such as the telecommunication company Megacom, but three public auctions flopped, since there were no interested parties.

## **REGULATION OF CREDIT, LABOUR AND BUSINESS**

Kyrgyzstan has more business-oriented environment than some other countries in the region. However, the issue is not mere regulatory quality, but implementation practices. Regulatory requirements are often contradictory, leading to a bureaucratic standstill or opening windows for corruption. Unequal implementation of the law also poses a problem. In 2016, several important regulatory bodies were dissolved in order to improve the situation in the monitored areas. Starting business is easy, quick and cheap, without a necessary paid-in minimum capital. Registering a property is one of the strong sides of the regulatory framework, with majority of land titles marked in the registry and with online services that lead to efficient procedures. On the other hand, the process of licensing and providing permits is not transparent and could easily be manipulated. The biggest problems for private enterprises are in the field of corruption, which is omnipresent, followed by policy instability and inefficient bureaucracy. All those are complicated and plagued by inconsistent regulation. Furthermore, getting electricity is inefficiently slow and expensive, mostly due to Sevelektro public company. Tax regulations are also burdensome, with high number of payments and complicated procedures. Their actual implementation is also problematic due to low quality work of the tax authorities. Banking regulation is not in line with international standards, and while the new law on the central bank is envisaged to increase its independence from the government, it has been hard to break informal structures already in place. Labour regulations are mostly flexible: fixed-term contracts are not allowed for permanent tasks, but the maximum length of a fixed-term contract is relatively long. The mandated minimum wage is relatively low. Amendments attached to the Labour Code in January 2017 have strengthened the protection of young (under-18) working people.

## **FREEDOM TO TRADE INTERNATIONALLY**

Kyrgyzstan was the first in the Commonwealth of Independent States (CIS) to have had joined the World Trade Organization (WTO), in 1998, which substantially lowered tariffs. They remain low as compared to the other countries of the region. Average MFN applied tariff is 6.9%. However, obtaining customs` certificates for import or export operations remains a lengthy and complicated procedure, e.g. with as much as 14 different documents necessary to export goods. Standardization requirements prove to be complicated and expensive due to underdeveloped or incomplete technical regulation; the recent Kyrgyzstan accession to the Eurasian Economic Union (EEU) in 2015 further aggravated the situation, since new technical, even more stringent rules had to be applied. Inconsistent enforcement and interpretation of regulation and weak enforcement of rules in the custom bodies create room for corruption. The bad state of infrastructure serves as an impediment to international trade, significantly increasing freight costs. The Chinese infrastructure investments are envisaged to alleviate at least some of those problems, especially the North - South motorway. Kyrgyzstan has recently ratified a Trade

Facilitation Agreement of the WTO, which would in future further liberalize trade flows. Furthermore, the country has continued its involvement in the negotiations under the WTO framework for accession to Government Procurement Agreement (GPA), envisaged to liberalize procurement procedures and open them to more competition from international actors. Main trade partners of Kyrgyz Republic are Switzerland, Kazakhstan, Russia and China.

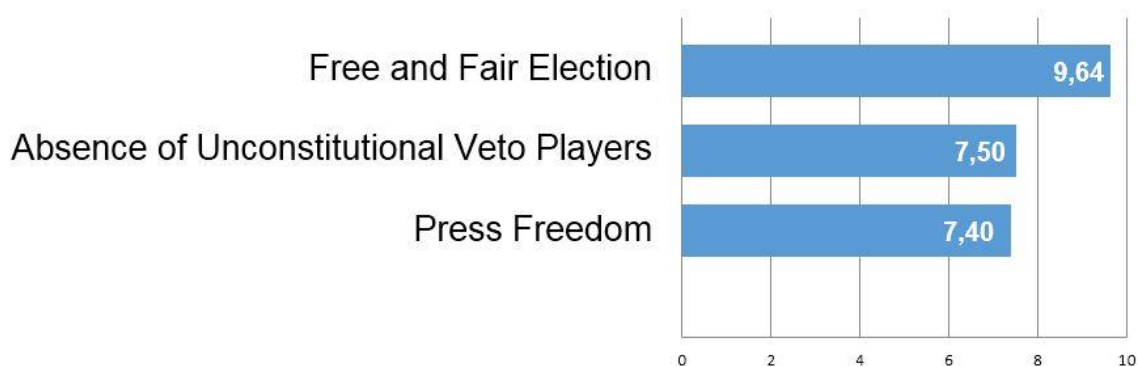
# Latvia

GDP in 2016: EUR 25,018 million

annual growth rate: 1.9%	per capita: 12,700 EUR	by sector:
		agriculture 4.8%
		industry 24.4%
		services 70.8%

Population: 1,969 thousand	Human Development Index	Government position in 2016
Unemployment rate: 9.6%	HDI: 0.830 (rank 44)	-0.41% of GDP

## A. POLITICAL FREEDOM



### FREE AND FAIR ELECTIONS

Free and fair elections became practice in Latvian parliamentary democracy. Political landscape in the country is pluralistic and diverse. However, this freedom applies only to Latvian citizens. Around 12% of residents who still do not have citizenship have limited access to political life, which mostly hits the large Russian ethnic minority. They are not able to vote or run on elections at any level. After turbulent beginning of 2016 and change of Prime Minister, government remained stable by the mid-2017. Local elections were held on 4<sup>th</sup> of June 2017 with a turnout of a little bit over 50%. Most of the incumbent representatives remained on their posts after elections, including mayor of Riga, capital of Latvia. A result of the change in the country's electoral regulation was a cut of state funding for ruling liberal-conservative Unity party due to their overspending during the last parliamentary elections.

### ABSENCE OF UNCONSTITUTIONAL VETO PLAYERS

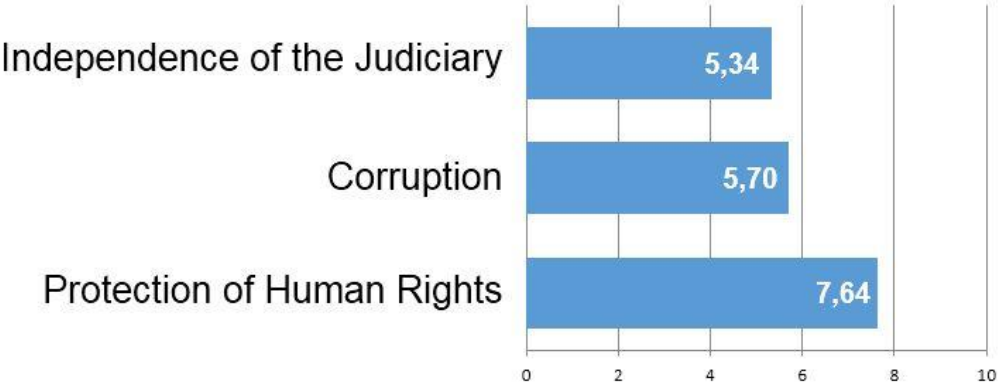
Once upon a time very influential unconstitutional veto players in Latvia - wealthy oligarchs - largely lost their power to undermine democracy and rule of law in the country. Therefore, today

there are no challenges to elected representatives to effectively govern the country. Mechanisms established to deal with corruption in Latvia are showing progress, however the disputes among the leadership of KNAB – Corruption Prevention and Combating Bureau - were damaging for the country’s image and efforts. KNAB started several criminal investigations against officials, including Minister of Healthcare, for abuse of office.

**PRESS FREEDOM**

Freedom and independence of journalists and media outlets in Latvia is at a high level. Printing, broadcast and online media outlets are offering a wide range of views. However, some legislative restrictions, like criminalization of libel or most recent adopted amendments that criminalize nonviolent acts against the state, bound this freedom and indirectly influence journalist independence. National Electronic Mass Media Council (NEMMC) requested from the police to find a leaker of secret information to a journalist, regarding future members of the board of Latvian Television. This body was often target of accusations of being politicized, due to the fact that the Parliament appoints its members. NEMMC banned broadcasting of Rossiya RTR for six months, on the ground of inciting hatred and sharing partisan information, until October 2016. Following the example of Estonia, Latvia too is preparing to launch a national television channel in Russian language, as a response to the Russian media influence in the country.

**B. RULE OF LAW**



**INDEPENDENCE OF THE JUDICIARY**

The organization European Justice has assessed in 2016 that Latvia had an independent judiciary. Many other reports suggested that this independence was only partially respected. Portal GAN warns at a moderate risk of corruption in courts, besides highlighting problems of their inefficiency and politicization. Domestic arbitration and voluntary mediation, introduced in 2015, have eased the proceedings in commercial cases, thus increasing efficiency. European Commission has noted progress along the judicial reforms as of 2015. Selective measures to improve conditions in overcrowded prisons (e.g. new programs, following experience from Norway, of re-socialization of drug addicts and prevention of drug abuse in prisons) were applied during 2016. Freedom House enumerated the changes to the Criminal Code, demographic factors and the construction of a new, more modern prison (to be completed in 2018) as factors that were or would be contributing to the lessening of the overcrowding problem.

## **CORRUPTION**

Improvements regarding corruption in Latvia are small and slow yet steady, thus promising on the long run. Transparency International, in its Corruption Perceptions Index 2016, put Latvia to share the place 44 (with Georgia), among 176 monitored countries. Attempts to catch up with the neighbouring Lithuania and if possible also Estonia are visible, e.g. through more cooperation between law enforcement agencies and whistle-blower NGOs in curbing cross-border corruption. A few organizations (e.g. GAN in 2015, or Bertelsmann in 2016) noted that more had to be done regarding high-level, rather than petty corruption. Recent examples, put by Freedom House or other monitors, indicated to a liberal analyst that lobbying by special interest groups and/or excessive presence of state in the economy were important catalysts of some forms of high level corruption. On the positive side, the public mood is decisively turning against graft, while the election of the head of the main anti-corruption body KNAB (itself not much trusted) was understood as a serious task in October 2016. None of the 10 candidates was chosen. Among them also the incumbent was rejected, thus forced to subsequently resign. In March 2017, the Government approved the long-awaited, fiercely debated and often amended draft law on protection of whistle-blowers and re-sent it to Parliament.

## **PROTECTION OF HUMAN RIGHTS**

Human rights in Latvia are decently protected in some, while they increasingly lag behind EU's average standards in other fields. For instance, freedom of religion is kept up to the highest EU standards. Gender pay gap has been smaller than in comparable countries and lower than EU average. CSOs enjoy a considerable freedom and opportunities for their activities. Academic freedom is upheld. On the negative side, populism is in the rise and with it xenophobia, homophobia, hate speech or other manifestations of closed society. Freedom House noted in 2017 that "coinciding with Donald Trump's election in the United States in November" 2016 "anti-globalization and anti-Muslim views became more common and stronger." Issue of citizenship is still unresolved. In December 2016, Council of Europe criticized the position of Latvian government. Namely, ex-Soviet citizens without Latvian citizenship, mainly Russian-speakers, make 11% of the population. Their children cannot automatically get citizenship status either. Besides, CoE advocated more action to further narrow gender equality gap and protect women, children and LGBTI persons. As for the latter, transnational gay rights organization ILGA has named Latvia, together with Poland and Lithuania, as the worst places in the entire EU for LGBTs to live in. However, FNF's own research, in the framework of the Human Rights Index, showed that Cyprus was the worst in the EU regarding LGBT equality as evaluated from a liberal perspective, followed by mutually equal Latvia, Poland, Romania and Slovakia.

## C. ECONOMIC FREEDOM



### SECURITY OF PROPERTY RIGHTS

Private property in Latvia is overall secure. Expropriation of private property is limited to extraordinary cases of public interest, and even in those cases market-value compensation is determined, which can be challenged in court. Judicial independence is not always upheld, and court partiality is not fully attested since similar cases can face different rulings. Legal procedures are usually long, in violation of the standard of reasonable time for court proceedings, leading to high numbers of backlog cases. At the same time, public procurement process is not perceived as fully fair and transparent, giving advantage to “preferred” contractors. There are no restrictions on possession of real property for foreign nationals, but non-EU nationals cannot legally own land although it can be leased for a period of up to 99 years. However, new amendments to the law on privatization in rural areas lifted some (necessary professional education in the field and a certain income arising from agriculture activities) but introduced new barriers (a registration certificate in Latvia and Latvian language requirements) for foreign nationals. Property registration is quick and inexpensive. There are no significant obstacles to foreign investment, apart from several industries considered as strategic (aviation, auditing, media, defence etc.) In 2017, the government introduced new regulations that made government approval necessary for transfer of significant ownership share in energy and media outlets, due to defence concerns over Russia’s involvement in the national politics.

### SIZE OF GOVERNMENT

As in other Baltic states, government is frugal as compared to other EU countries. Total government expenditure stood at 37% of GDP in 2016, with a small deficit of 0,4% of GDP. Government debt remained stable below 35% of GDP. Weak external position, due to a slowdown among trade partners, as well as prevailing geopolitical tensions, led to a decrease in economic growth, below 2% of GDP in 2016, but it is expected to pick up. The authorities recently proposed a tax reform, with the aim of lowering taxation on below-average wages through broad tax exemptions, and introducing higher marginal tax rates, as well as changes in corporate income tax. This reform is envisaged to provide more incentive to work and investments, and to decrease the high rate of shadow economy in the country, which may have fiscal consequences. Legally, there are six joint companies that cannot be privatized, in sectors of energy and mining, transportation, postal services and forestry. The number of SOEs in the



country is not high - the state fully owns 69 companies, but there are many more where it is a minority shareholder. Total employment in SOE sector exceeds 6% of the total employment. Some of these companies, such as the national air carrier Air Baltic, could pose significant fiscal risks to public finances. However, private companies are able to compete with SOEs on the market under same terms and conditions. Latvia became a fully-fledged OECD member in July 2016, which was expected to increase accountability and management practices of SOEs in the country, through implementation of OECD rules in this area. Corporate income tax is set at 15%, while the standard and preferential rates of VAT are 21% and 12% respectively. However, the overall tax wedge on labour is high, due to high social contributions (11% of the gross wage on behalf of the employee, and 24% on behalf of the employer) and flat personal income tax of 23%.

## **REGULATION OF CREDIT, LABOUR AND BUSINESS**

Regulatory environment in Latvia is overall business friendly. Starting a new business is easy and inexpensive, and the minimum paid in capital is just 1 euro. Getting electricity is relatively easy but expensive (and prolonged due to public tenders of the utility for independent contractors), and obtaining a construction permit is also an efficient and low cost procedure. Getting credit has been made easier by introducing a private credit bureau, which is to eliminate information asymmetries. Tax compliance, which had been considered complicated, has recently been streamlined through improvement in the online filing system for corporate income tax and VAT. Low number of annual payments and efficient post filing procedures further give strength to the tax regulations. However, partisan treatment by government officials and corruption in some cases still remain as obstacles to a better business environment. Labour regulations are mostly flexible, without restriction on working hours, and with fixed term contracts length of 60 months. However, there is retraining or reassignment obligation of the employer for the workers prior to redundancy and severance pay increases with the years in tenure, making jobs more secure for seasoned workers, but also making them less employable. The minimum wage is set very high (and there are plans for its increase, as a part of the tax reform), relative to the average wage, which can have negative employment prospects for long term unemployed and those with the lowest qualifications. The new Start-up Law, producing significant waivers on this business community, is envisaged to attract new investors in this area.

## **FREEDOM TO TRADE INTERNATIONALLY**

Freedom of international trade is generally respected in Latvia, which imposes tariff and non-tariff trade barriers in accordance with the common EU trade policy. Therefore, tariffs are overall low (4.2% for Most Favoured Nation MFN), and mainly focused on agriculture (11.1% MFN). International trade is also of great importance for the Latvian economy, as in other Baltic states, due to its transport hub status. Border and documentary compliance is efficient, posing little burden on trade, with only 4 documents necessary both for import or export procedures. The international trade integration has also been fuelled by introduction of the euro as the national currency, eliminating foreign exchange risk costs. However, non-tariff trade barriers still pose hurdles to imports, mostly in the field of certifications and quality standards. Good public transportation infrastructure enhances international trade, by lowering freight costs. While ports

and road network are well developed, railroad is not, and Latvia is connected by rail only with its neighboring ex-Soviet countries, which poses restraints on future trade development. Main Latvian trade partners are other EU countries.

# Lithuania

*GDP in 2016: EUR 38,631 million*

*annual growth rate: 2.3%*

*per capita: 13,450 EUR*

*by sector:*

agriculture 3.3%

industry 30.4%

services 66.4%

*Population: 2,871 thousand*

*Human Development Index*

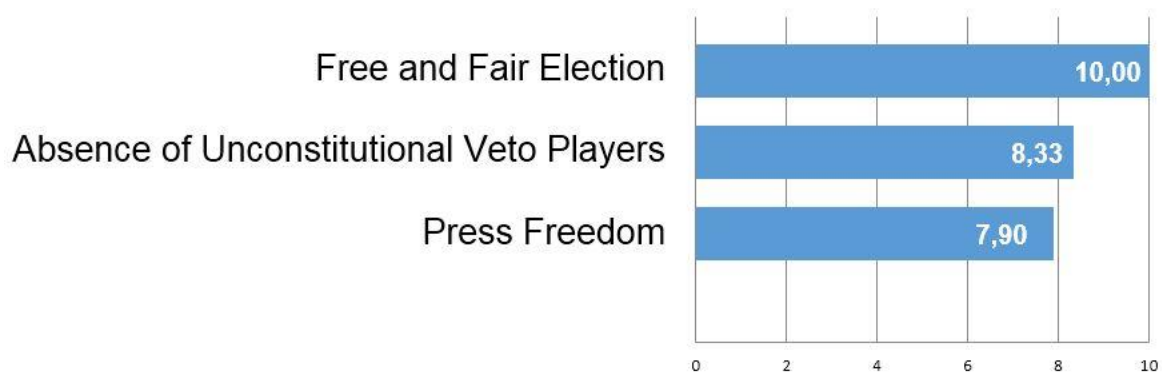
*Government position in 2016*

*Unemployment rate: 7.9%*

*HDI: 0.848 (rank 37)*

*-0.01% of GDP*

## A. POLITICAL FREEDOM



### FREE AND FAIR ELECTIONS

Citizens in Lithuania enjoy high level of freedom and fairness of electoral process. According to OSCE ODIHR, most recent parliamentary elections, held in October 2016, took place in a competitive and pluralistic environment, with respect to fundamental freedom and fairness of the process. Number of reported electoral frauds is in decline, while one case of vote buying by Order and Justice Party led to their party leader having lost his parliamentary mandate. Result of this election was driven by mistrust in entrenched political parties, due to corruption scandals by the main ruling and opposition parties, wherefore the voter turnout was low. Lithuanian Peasant and Green Union, that had previously had only one MP in the parliament, now took 56 seats, out of 141, and created a technocratic government in coalition with the Social Democratic Party of Lithuania.

### ABSENCE OF UNCONSTITUTIONAL VETO PLAYERS

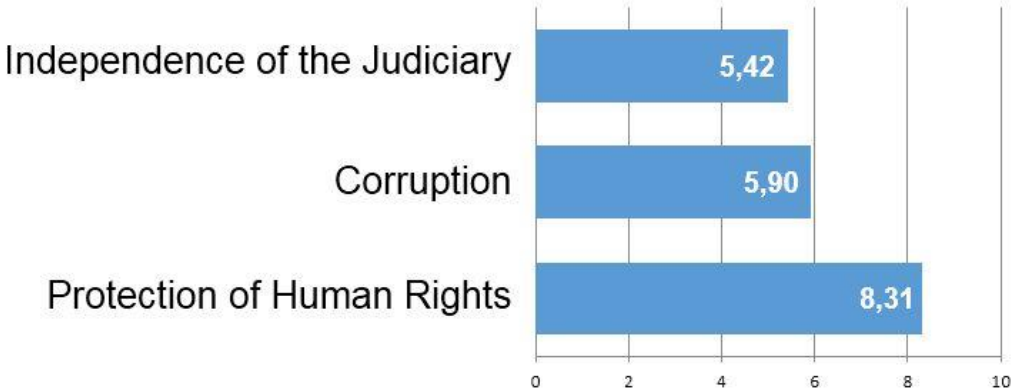
There are no unconstitutional veto players in Lithuania; however certain powerful people from media and business sector are seeking to influence political decisions in the country. Although

authorities have got effective power to govern, corruption among officials has posed a major problem for democracy. Several cases of high level corruption by the politicians, both ruling and opposition, came to light during 2016. Representatives of 4 out of 6 political parties in the parliament were accused of engaging in corrupt practices. Civilian authorities hold control over security forces.

### **PRESS FREEDOM**

Press is free in Lithuania. This country continues to slightly improve its score in Freedom Barometer index, from 7,70 last year. Media scene is pluralistic and diverse. However, some notable problems haven't been changed yet. Ownership of the majority of media outlets remained concentrated and controlled by a few media groups. This power was often used to influence and bribe politicians in charge. Defamation is punishable by the law. Like all other Baltic countries, Lithuania is also faced with partisan reporting by Russian media outlets. Radio and Television Commission of Lithuania lift its restrictions to two TV stations on Russian language. Sustainability of many media, especially the local ones, is very low, making them dependent of state-allocated resources.

### **B. RULE OF LAW**



### **INDEPENDENCE OF THE JUDICIARY**

Judiciary has remained among weak points of the rule of law in Lithuania. On one hand, businesses mainly perceive judiciary as inefficient, ineffective or opaque, rather than bribed or directly influenced by politics. Opinion polls suggest that citizens view law enforcement sector in general in a more positive and optimistic way than before. There were improvements in the prison system. Crime rates are in sharp decline. On the other hand, there are doubts whether the main anti-corruption agency Special Investigation Service of the Republic of Lithuania (itself already with two decades of experience) performs its task in a politically neutral way. Further reforms might thus focus on raising the professionalism and integrity of parts of the law enforcement system that deal with corruption or other misuse of public office. Meanwhile, in May 2017, Judicial Council of Lithuania expressed solidarity with judges in Poland over their struggle to maintain judicial independence from the executive power.

## **CORRUPTION**

Although a bit less than the year before, Lithuania has dealt relatively successfully with the task of fighting corruption, better than Latvia while worse than Estonia or Poland. Getting rid of Soviet heritage in economy (liberalization and overall modernization) after independence in 1991, building anti-corruption and other state institutions in accordance with EU standards prior and upon accession to the EU in 2004 and inclusion of civil society into the anti-corruption struggle have delivered respectable results. Recently, according to Transparency International, Lithuania proved to be the second best in the EU (after Slovenia) in regulating lobbying, itself a considerable catalyst of corruption if unchecked. Alas, regarding bribery rate, of 24%, it is the second worst in the EU (after Romania). TI has put Lithuania to share the rank 38 at the Corruption Perceptions Index 2016 list of 176 countries of the world. Portal GAN states that corruption “is not a major impediment to business”, although red tape in administration leaves SMEs vulnerable to bribe or extortion. Various parts of public sector grossly differ. Public services and public procurement carry the highest risk, which takes it to the issue of high corruption. Freedom House noted that in 2016 corruption was a major theme in Lithuania. Corruption scandals largely contributed to the political changes at the elections. Debate is ongoing over the best way local communities could deal with transparency of their Mayors after the latter started being elected directly. Role of political parties in public sector is also in the focus of public attention.

## **PROTECTION OF HUMAN RIGHTS**

Good record and progress in the field of human rights is due to bold post-1991 democratization, EU accession in 2004 and - especially - development of civil society organizations or initiatives, which encompass almost half of the country's population. CSOs contribute to electoral integrity, community building, minority rights, integration of vulnerable groups (lately especially the rare accepted refugees), whistle blowing over corruption, legislation advocacy, preservation and advance of civil liberties and numerous other social goals. In April 2017, upon a fact-finding visit in December 2016, Council of Europe has issued a special report on Lithuania with recommendations on how to advance human rights. Focus was on women, children and persons with disabilities. Lithuania was advised to ratify the Istanbul Convention and to do more in prevention and fighting domestic violence. Broader deinstitutionalization of children or adults with disabilities was also advised. Widespread social conservatism, rather than the mood of the political elites, puts a heavy weight on the struggle for human rights in Lithuania, inter alia making obstacles to more equality of LGBT citizens, or questioning further legality of abortion in any circumstances.

## C. ECONOMIC FREEDOM



### SECURITY OF PROPERTY RIGHTS

Private property is relatively secure and respected in Lithuania. However, judicial independence and court impartiality are not always upheld, especially in high corruption cases where political influence could still be observed. There are no courts that are specialized in commercial cases only. Although court automation is used to a high degree so as to efficiently and randomly assign cases to judges, the maximum number of adjournments is not stipulated. Shorter procedures and lower costs, as well as specialization, made the Commercial Court of Arbitration, a non-governmental independent institution, increasingly popular for legal resolution of conflicts. Legal enforcement of contracts is expensive due to high enforcement fees, as well as slow procedures regarding filling a claim. Inadequate insolvency procedures lead to low recovery rates and longer procedures as compared to other EU countries. Assets are mostly sold piecemeal, using auctions. Private property registration is efficient and inexpensive, due to professional notary services and utilization of electronic systems and low fees. Since 2014, non-Lithuanian nationals are free to purchase agricultural and forest land. However, law stipulates excessive safeguards, which in practice restricts land purchase. These provisions were challenged by the European Commission in 2015. Legal changes are expected to be made in order to alleviate this problem. Interpretation of the existing regulation could be inconsistent or unclear. Regulatory predictability also remains as an open question.

### SIZE OF GOVERNMENT

Lithuania is characterized by frugal public consumption, like other Baltic countries, reaching 34% of GDP in 2016. Public debt is moderate, standing at 40% of GDP, and on a moderate downward spiral. Deficits have been put under control, and now Lithuania has got a balanced budget. Economic growth accelerated after the 2015 slowdown, but is still sluggish as compared to its previous levels. Low level of European funds` utilization considerably contributed to low growth rates, through lower investments. The moderate level of government spending is a result of low government involvement in the economy and relatively meagre social transfers (reaching 11.5% of GDP in 2016, as compared to the EU average of 19.2%), allowing for more favourable taxation levels. Lithuanian tax system is flat, with some minor progressive characteristics – personal and corporate income tax is set at 15%. VAT has a standard rate of 21%, as well as the reduced rate of 9% or 5% for certain products, while the excise duties on tobacco, alcohol and

energy are among the lowest in the EU. However, overall social contributions are high, leading to a considerable tax wedge on labour. The Lithuanian state has largely exited the market, and most of the state-owned enterprises were privatized. However, the government remains involved in the economy through its 118 SOEs in 2016, mostly public utility companies (electricity and gas) and transport enterprises (the railway company, the postal service and 3 international airports). Private companies, as a rule, do not face restrictions in their competition and dealings with the SOEs; however, management of the latter is not fulfilling high professional standards and is sometimes politicized. That is envisaged to change eventually, since Lithuania has considered joining the OECD, which would expectedly lead to the improvement of SOE management practices. The introduction of independent SOE board members is a step in right direction, but the institution still needs to gain strength.

## **REGULATION OF CREDIT, LABOUR AND BUSINESS**

Regulatory framework for doing business in Lithuania is overall business friendly. Starting a business is fairly quick and inexpensive. Efficiency of the process was further mitigated by introduction of online VAT registration. However, paid in minimum capital is high, as compared to other EU countries, standing at 2500 euro. Obtaining a construction permit requires numerous procedures, but they are not time consuming or expensive. Getting electricity is also an efficient procedure, which was further improved by introduction of time limits on connection works by the utility company and lowering the connection tariff. Tax procedures are characterized by a low number of annual payments, and although they are predominantly online, they can still be considered as complicated and time consuming, especially for SMEs. Social contributions paid by the employers involve longest operational hours. Labour Code has recently been significantly altered, with its implementation starting from July 2017, with the aim of further flexibilization of industrial relations, mostly by recognizing new types of employment relations, such as job shadowing, project based employment, sharing employer etc. Novelty is also the obligation of establishing worker councils in all companies that are lacking a trade union. Labour regulations are rigid in hiring and firing section and working hours, with a very low number of maximum weekly working days, and reassignment or redundancy rules. Severance pay costs increase with the number of years in tenure, but notice periods do not. The minimum wage is considerably high in comparison to the average wage, encouraging shadow employment and increasing unemployment level among older workers with lower qualifications. Some low level or petty corruption and favouritism are still present in the country, mostly in the areas of awarding government contracts and granting licenses. High tax rates and inefficient government bureaucracy are considered major obstacles to operating businesses in the country.

## **FREEDOM TO TRADE INTERNATIONALLY**

As other countries from the region, and as a small economy, Lithuania has been open towards international trade. Lithuania, being an EU member, implements the common EU trade policy, with overall low tariffs for manufactured goods. However, tariffs on agricultural products in some cases remain high (11.1% on average applied for Most Favoured Nations). Border and documentation compliance for exports and imports do not pose a burden to trade (only 6 export or 4 import documents are needed). Electronic filing system is frequently used. Good

transportation infrastructure significantly lowers importing or exporting costs associated with international freight. However, as elsewhere across the Baltic region, railroads are not developed as much as other forms of transport, due to historical and political reasons. A good quality railroad connection to the rest of Europe is clearly missing. Lithuanian accession to the Eurozone has further facilitated trade, eliminating currency-exchange costs. Short-term capital flows still face certain restrictions, but most of the capital transactions are not under stringent control. Although EU citizens have the same legal rights and obligations in the labour market as nationals, the procedure of obtaining a working permit for a third party national is complicated, which is not in line with the expected future labour shortages.



# Macedonia

GDP in 2016: EUR 9,866 million

annual growth rate: 2.4%

per capita: 4,760 EUR

by sector:

agriculture 8.4%

industry 25.2%

services 66.5%

Population: 2,073 thousand

Human Development Index

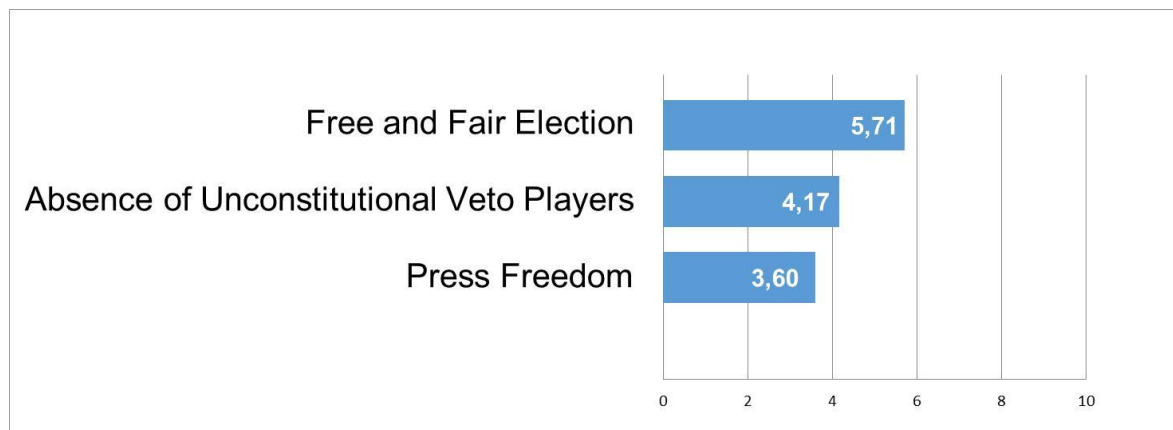
Government position in 2016

Unemployment rate: 23.6%

HDI: 0.748 (rank 82)

-2.65% of GDP

## A. POLITICAL FREEDOM



### FREE AND FAIR ELECTIONS

Political crisis and turbulences in Macedonia have intensified throughout the last year, occasionally paralyzing the functioning of the state and dividing society along political lines. At the mid of 2016, through mediation by the EU, a transitional government had been established and further steps were agreed between political parties for ensuring a road map for free and fair elections, needed so as to bring stability to the country. After two postponements, elections were finally held on 11<sup>th</sup> of December 2016. International observers marked them as relatively free and fair. They result in high polarization of votes between two dominant Macedonian political parties who passed the threshold together with several parties of the Albanian minority. Some irregularities have been observed. According to OSCE ODIHR report, State Election Commission and number of representatives of the resident diplomatic community were accused of electoral interference by ruling party Internal Macedonian Revolutionary Organization – Democratic Party for Macedonian National Unity (VMRO-DPMNE). Although VMRO-DPMNE won the biggest share of MPs, 51 out 120, they didn't manage to find any partner who would participate with them in the government. However, opposition did manage to do so and ensured majority of seats. Subsequently, the President of Macedonia, himself coming from

VMRO-DPMNE, refused to give a mandate for creation of government to the Social Democratic Union of Macedonia (SDSM), due to alleged concerns for protecting ethnic integrity of Macedonia and concerns of participation of Albanian parties in the majority coalition. That brought the political life in the country to the point of boiling. That refusal was followed by months of negotiations, uncertainty and use of legal and extra-legal tools for facilitating or preventing the formation of the new government. That ultimately led to the ethnic based violence in the Macedonian parliament, after an ethnic Albanian was elected as the President of the Parliament. New government was finally formed at the end of May 2017, led by the Prime Minister Zoran Zaev from SDSM.

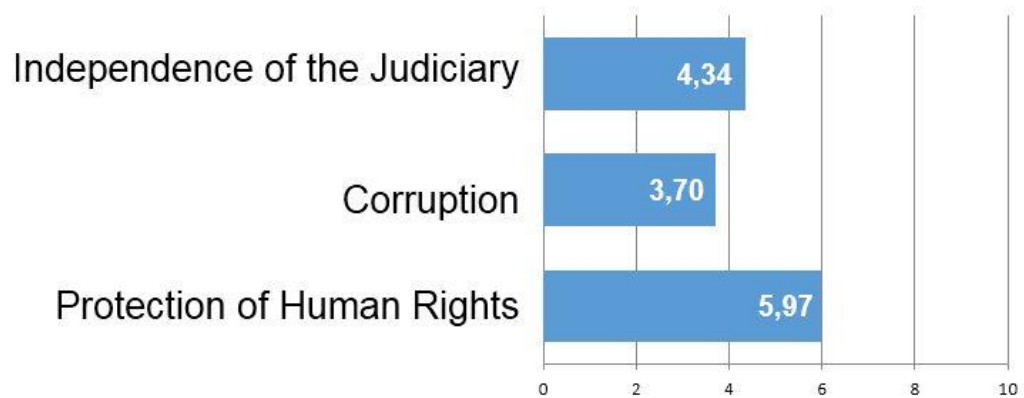
## **ABSENCE OF UNCONSTITUTIONAL VETO PLAYERS**

Macedonia doesn't have unconstitutional veto players. However, democracy, rule of law and governance in the country had been often undermined and ineffective. During the time of transitional government, deep political polarization made the functioning of the institutions very hard. Activities of leading representatives of the former ruling party VMRO-DPMNE, especially of the President of Macedonia Gjorge Ivanov, posed a particular threat to democracy. By refusing to hand over the mandate for building the government to the SDSM, which had a majority support in the parliament, merely because he disagreed with policies they wanted to implement in the country, Ivanov supported the appeals by the former Prime Minister Nikola Gruevski and created a climate in which violent attacks on SDSM and on Albanian politicians in the Macedonian parliament were the next step. Weak mechanisms of the civil control over intelligence services also present a possible threat to the system of checks and balances. Their influence came into the focus of attention during the so called Wiretapping Scandal, which revealed a high profile corruption in the country. President Ivanov had initially pardoned 56 people, implicated to be involved in corruption, but after strong street protests and pressure he revoked his decision.

## **PRESS FREEDOM**

Freedom of the media is not respected in Macedonia. Strong government pressure on media reporting, high control and self-censorship over state advertising, intimidation of journalists, violent attacks, or alleged imprisonment by security forces, were what has characterized media landscape during the observed period and what has created an atmosphere of fear. Due to those, Press Freedom score of Macedonia in Freedom Barometer index declined further. Deep political division in society and adjacent political tensions didn't bypass media landscape, where outlets have been divided on more pro-government or more pro-opposition ones, with the former ones been dominant. Journalists were targeted by the protesters or by security forces on several rallies. That included both verbal and physical attacks. The violence especially escalated in the first half of 2017, when the struggle for changing the government heated up. Relations between media outlets and politicians, to some extent revealed in the Wiretapping scandal that included eavesdropping of more than 100 journalists, remained intense, enabling a strong influence by politicians on media reporting. In order to ensure fair representation of political parties prior to and during the parliamentary campaign, four major political parties agreed to form a provisionally body with a power to sanction biased reporting.

## B. RULE OF LAW



### INDEPENDENCE OF THE JUDICIARY

Unlike other countries where the government demonstrated authoritarian tendencies by taking away the independence of the judiciary and law enforcement sector first, Macedonia's decade-long rule of VMRO-DPMNE and PM Nikola Gruevski actually ended up by the attempted capture of those. In other words, the democratically established state structures that were being developed during the first 15 years of transition have proved viable enough to survive a whole decade of attempted state capture by conservative authoritarians. After the order established in 2006 fell apart in 2015, Special Prosecutor was named in 2016, to investigate serious breaches of law, i.e. major abuse of power, committed mainly by the central government. Those included illicit party financing, staged tender procedures for the biggest infrastructure projects, initiating violence against non-compliant local government politicians, money laundering, trading of influence, nepotism, etc. VMRO-DPMNE tried but failed to derail those investigations. After December 2016 elections, subsequent post-election crisis and building of a different (SDSM-led) ruling majority, ordinary prosecutors and judges will be more willing – or at least will not be scared - to push on with those investigations.

### CORRUPTION

Macedonia saw a dramatic fall in both its ranking and its score in the Transparency International's Corruption Perceptions Index 2016. In just two years its score fell from 45/100 to 37/100. In 2014 it was 64th (of 175), while in 2016 it was 90th (of 176 countries). Between spring 2015 and spring 2017, the country has been heavily polarized along political party lines, basically over corruption issue. The tapes that Macedonia's opposition released showed massive scale corruption or other abuse of power at the highest level - taking "cuts" of the major infrastructural projects or of procurement for the security sector, fixing tenders, bribing journalists, extorting donations to the party from companies, illicit favouring of party activists regarding employment in public sector, etc. Far more than other manifestations of authoritarianism, corruption was a catalyst for public anger that led to street protests, interim government, independent investigations, early elections and subsequent change of the ruling majority in spring 2017. New government so far has not agreed to pardon its predecessors. It

faces not least corruption at the top but also clientele system from top to bottom, at the local level even reaching out into the private sector.

**PROTECTION OF HUMAN RIGHTS**

During the 2015-2016 street protests, Macedonia`s riot police have demonstrated bias: they occasionally used excessive force against opposition rally participants, while they, on 27 April 2017, defaulted on defending the Parliament building from pro-government protesters who stormed it and wanted to prevent by force the establishment of a new majority and the change of government. The toll was more than 100 injured people, including several MPs. Arbitrary behaviour of the police anyway became common. Tensions are high in Macedonia even aside of party politics. Islam-o-phobia is in the rise and hate speech, on the grounds of religion or ethnic origin, is more common than before. The new centre-left government promised a repeal of the conservative family legislation which had limited women`s and child rights and re-traditionalized family, as well as a comprehensive improvement of the position of LGBT citizens. Currently, Macedonia is, after Turkey, the second most homophobic country on Balkans peninsula. On the top of it, the treatment of refugees or other migrants was bad – police several times beat or used tear gas against them at the southern border, while those accepted into the country have been kept detained in refugee camps.

**C. ECONOMIC FREEDOM**



**SECURITY OF PROPERTY RIGHTS**

Private property rights in Macedonia are mostly protected. However, there are many problems within the judiciary, stemming from strong executive influence which can be depicted as state capture. This leads to an environment in which property rights are protected for those with good political connections, and the law is not applied equally. Court impartiality is also affected by corruption. Furthermore, judicial processes are very slow, lasting on average almost 2 years, which is more than enough to diminish the public trust in judiciary. Administrative courts often fail to deliver verdicts in accordance to judicial precedents, therefore requiring parties in the process to appeal to appellation courts, increasing their workload substantially and prolonging legal processes. Insolvency procedures are also slow, on average lasting 1.5 year, and with low recovery rates of less than 50% of the claim. Private property registration is a long process, due to inefficient local tax office procedures to determine the level of transfer tax. Legislation in

effect since February 2016 requires obligatory mediation between companies for all disputes up to 15 000 euro of value as a precondition for going to court. This measure, although intended to promote mediation procedures in order to decrease workload pressures on the judiciary, in fact only imposed additional costs and prolonged contract enforcement. There are signs of the lack of policy stability and predictability in designing and enacting regulation, which is usually done in a non-transparent way and without public consultations.

## **SIZE OF GOVERNMENT**

Government in Macedonia is relatively thriftier if compared to other countries of the region, with public expenditure reaching only 30% of the GDP in 2016. Economic growth significantly slowed down in 2016, being only 2.4%, due to political instability that was reflected in lower private investments and corporate loans. Current public expenditures were also increased to bolster consumption, but at the expense of capital investments, which subdued budget deficit, itself standing at 2.6% of GDP. The level of public debt reached 40% of GDP in 2016, which is moderate taken the level of development. Government pension system is unsustainable, with huge deficits, which transferred to the state coffers. That calls for a substantive fiscal reform program in order to contain costs stemming from demographic changes, especially when already sizeable public deficits are taken into account. Full scale privatization programs during the previous two decades strongly decreased the level of influence of the state over the economy through state-owned enterprises (SOE). Those remaining are active mostly in the field of public utilities, but also in energy, banking and transportation. Their business performance is meager - management appointments are connected to political influence, while their operations are tied to purchasing social peace. The two biggest public-owned companies, themselves operating in road infrastructure (PESR) and electricity (ELEM) could pose a significant financial challenge for the public finance if their level of debt continued to rise. Low government spending resulted in a relatively lower tax burden, with VAT rates at 5% (preferential) and 18% (standard rate), while personal income and corporate taxes are both set at the low 10%. However, high social security contributions put the overall labour tax wedge slightly above the OECD average. There is a significant exemption from social contributions for employment of young workers, decreasing their relative costs, but it contributed little to decrease their unemployment level.

## **REGULATION OF CREDIT, LABOUR AND BUSINESS**

Regulatory environment in Macedonia is mostly favourable to entrepreneurial activities, which is depicted by its high rank on the Doing Business list. However, the main problem in this regard was not the quality of regulation, but its actual implementation, which remained weak due to partial dealings of government officials and corruption. Furthermore, regulatory changes are frequent, without due process of proper consultative mechanism with the public, and sometimes even retroactively applied. Starting a business is among the most efficient processes, without a registration fee or paid in minimum capital, and is done in only two days, all due to the compulsory electronic online registration. Tax procedures are not overly burdensome, due to widespread electronic filing system, but they still require significant workload. Obtaining a construction permit and getting electricity are very expensive, due to high fees of public entities in charge of these processes. On the other hand, labour regulation is mostly flexible - due to

flexible working hours and hiring procedures: fixed term contracts are not prohibited for permanent tasks and their duration is limited to a very long period of 60 months. Collective bargaining is mostly concentrated in the public sector, so it does not incur high costs to private entities. But the minimum wage is relatively high, reaching almost two thirds of the average wage, which encourages activities in the shadow economy and unemployment. Firing workers could be costly due to the prescribed levels of severance pay, which rises with the years in tenure, protecting more seasoned workers. Macedonia levied the obligation of paying social contribution for natural persons on professional contracts, if they are not employed in the entity, which boosted freelancer and professional activities. The new law on misdemeanours somewhat harmonized fines and linked the gravity of the offense to financial resources of the company which alleviated many problems for SMEs that were put in worse conditions than big companies. Energy market liberalization continued in July 2016, where after yet another group of companies could have chosen their own electricity provider. This process is expected to gradually continue until 2020.

## **FREEDOM TO TRADE INTERNATIONALLY**

Freedom of trade in Macedonia is mostly respected. Since 2003, Macedonia has been a World Trade Organization (WTO) member, which liberalized its foreign trade. Trade tariffs are not high, with the average MFN applied tariff rate of 6.8%, but tariffs on agriculture products could be much higher, reaching 12.8%. Regulatory trade barriers are still a hindrance to foreign trade, due to complicated procedures for standardization of products. Bureaucracy procedures at the Customs Office also hinder free movement of goods, with long procedures and allegations of misconduct and partial dealing with different companies. The poor state of the transportation infrastructure, most notably the quality of the roads and railways, is another obstacle, itself imposing increased freight costs. Full liberalization of the capital accounts is yet to be carried, since there are capital controls on movements of short-term capital. Main Macedonian trade partners are the EU countries Germany, Italy, Greece and Bulgaria, followed by neighbors from the region, such as Serbia and Kosovo. Therefore, bulk of its trade is conducted through Stability and Accession Agreement (SAA) with the European Union, signed in 2001, and Central European Free Trade Area (CEFTA) agreement as of 2006. Macedonia ratified the WTO Trade Facilitation Agreement (TFA) in 2015, which is expected to further liberalize trade flows after its implementation that is pending; it is also an observing member to the Government Procurement Agreement (GPA). The process of issuing of work and residence permits for foreign nationals is very slow and coupled with complicated procedures in practice.

# Moldova

GDP in 2016: EUR 6,103 million

annual growth rate: 4.0%

per capita: 1,720 EUR

by sector:

agriculture 14.1%

industry 21.2%

services 64.7%

Population: 3,551 thousand

Human Development Index

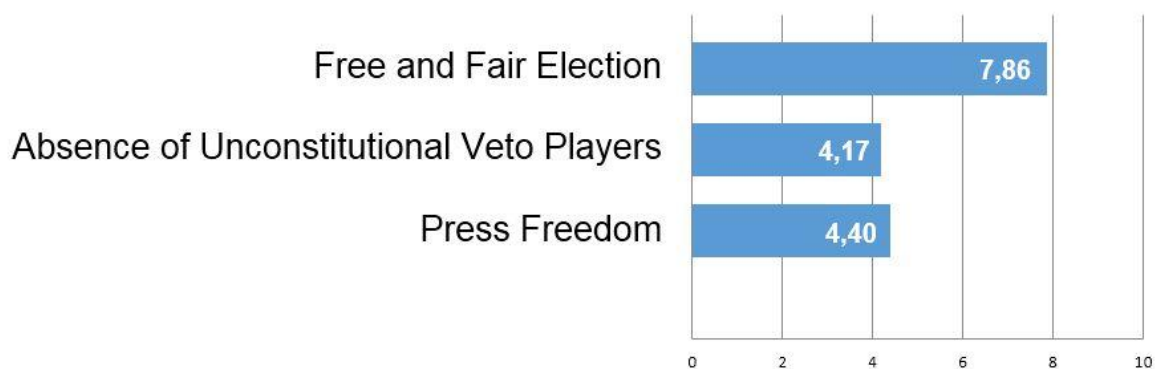
Government position in 2016

Unemployment rate: 4.2%

HDI: 0.699 (rank 107)

-2.10% of GDP

## A. POLITICAL FREEDOM



### FREE AND FAIR ELECTIONS

Elections in Moldova are considered as free and fair. However, certain irregularities, which repeated from one to another election cycle, have been undermining the process. In the mid of 2016, new amendments were adopted, reintroducing a provision of direct elections for the President of Moldova. Two rounds of presidential elections were held on October 30<sup>th</sup> and November 13<sup>th</sup>, in a process which was, according to the OSCE ODIHR office report, marked by widespread abuse of administrative resources, lack of campaign finance transparency and unbalanced media coverage, as well as insufficient polling stations and ballots for citizens living abroad. Like almost all recent elections in Moldova, this one too was characterized by polarization on pro-European and pro-Russian parties and candidates. Igor Dodon, who ran on the idea of closer cooperation with Russia, was elected as the President of Moldova. Also, an increase of harsh and inappropriate rhetoric, targeting opposition candidate Maia Sandu, could be noted on the media coverage. By the end of observation period, June 2017, another set of amendments to electoral law was under discussion, aiming to change from proportional to mixed electoral system. This draft electoral law was negatively reviewed by the Venice Commission and by the OSCE ODIHR.

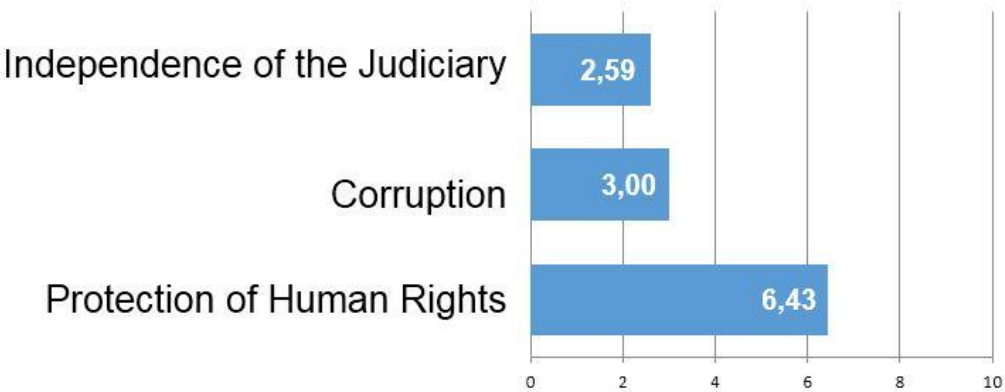
# ABSENCE OF UNCONSTITUTIONAL VETO PLAYERS

Elected government in Moldova has the power to govern the country, but there are a number of players whose influence and interference can undermine the decision making process. One of them is oligarch Vladimir Plahotniuc, leader of ruling Democratic Party of Moldova (PDM), who controls the parliamentary majority and who is able to navigate country's politics via Prime Minister Pavel Filip, who is his close friend, as well as through the President of the Parliament, Adrian Candu, his godson. The Presidential elections also proved the very important and influential position of the Orthodox Church in Moldovan society and politics, where the Church supported Igor Dodon and opposed his contestants. Corruption among public officials remained a problem. Former Prime Minister Vlad Filat was sentenced to prison due to corruption. Transdnestria, a part of Moldova which is de facto controlled by Russia, is often used to influence politics in the country and its citizens were, according to some sources, organized to go and vote for Dodon at presidential elections.

## PRESS FREEDOM

Press in Moldova is partly free due to the strong influence of media owners on journalists reporting, to political pressure, to concentration of ownership and to an increase of verbal intolerance towards journalists. Media landscape is pluralistic, but diversity of opinions is limited. Independent reporting is often subject to revision by wealthy businessmen and politicians in power, who own the majority of media outlets in the country. Vladimir Plahotniuc, a leader of the PDM, controls the television market with an ownership share of 70%, representing 4 out of 5 TV channels with national coverage, according to Freedom House. Those outlets are serving as his political tool, which could be noticed through biased reporting on the latest presidential elections. New legal framework allows one person to own two broadcasters, but this doesn't apply to broadcasting licenses issued before this provision came into power. Verbal violence towards journalists in Moldova and threats that they might be criminally prosecuted became more frequent throughout the year, mostly due to their critical reporting on the political and business elites.

## B. RULE OF LAW





## **INDEPENDENCE OF THE JUDICIARY**

Lack of independence of judiciary is the main obstacle to the implementation of the rule of law in Moldova. The state of judiciary is obsolete and ruinous. Incompetence, nepotism, selective justice and corruption are widespread. Political pressure on judges or removal of non-compliant or critical ones is a visible and repeated practice. A reform of judiciary is under way, albeit very slowly and so far superficially. Civic control over police is insufficient, thus the occasional use of unnecessary force during street protests, or abuses in custody. Detention and penitentiary facilities are overcrowded. Laws allow for non-consensual detention of people with disabilities in psychiatric institutions.

## **CORRUPTION**

Moldova is by far the worst corrupt member of CEFTA. Among 176 countries of the world, it is ranked 123-130 in the Transparency International's index CPI 2016, matching e.g. Azerbaijan and being by just a hair's breadth better than Ukraine or Russia. Soviet-system heritage, slow post-independence transition into democracy and market economy, as well as the burden of separatism in the east, have left widespread public ownership in the economy, or enabled oligarchs to grasp it, especially in media. Thus both the high level and petty corruption are widespread. High level one includes participation of the financial authorities in the international money laundering schemes. Petty one is most present in education, healthcare and police. Bribery rate is very high, 42%. Anti-corruption and integrity-enhancing independent bodies are weak, even though - in 2016 - efforts were made by lawmakers to establish new ones (e.g. NIA) and to narrow the ground for possible corruption via liberalization of parts of the economy. In the eastern Transnistria region, similar to other territories of unclear jurisdiction, corruption, contraband and money laundering additionally flourish, in spite of the attempts at economic integration with the rest of the country.

## **PROTECTION OF HUMAN RIGHTS**

Human trafficking is the gravest threat to human rights and freedom in Moldova. The country is both one of origin and one of transit. According to the Trafficking in Persons Report June 2017 by the US State Department, situation has worsened. Even though laws stipulate high penalties for traffickers, less are prosecuted, whereas law enforcement is marred by corruption, disorganization and lack of expertise in dealing with victims. Secularism, treatment of ethnic minorities and anti-discrimination of LGBTs are below even those meagre standards in the neighbourhood. Non-voluntary institutionalization of people with disabilities is also warned at by the UN Special Rapporteur and by the Amnesty International. In the Transnistria region, held by Russia-backed separatists, human rights' situation is worse than in the mainland, especially regarding personal security, education and minority rights. Forceful conscription into the self-proclaimed republic's armed forces is supported by huge fines for draft-dodgers and followed by degrading treatment of those who join.

## C. ECONOMIC FREEDOM



### SECURITY OF PROPERTY RIGHTS

Property rights in Moldova are mostly secure. As in many other countries with weak institutions, the problems are not due to regulatory environment but mostly to low judicial independence and strong influence of politically and economically connected groups. There are no courts that are specialized in commercial cases only. Fresh changes within the judiciary are yet expected to bear any results. Reliability of the police is very low, thus the business costs of damages caused by crime are perceived as high. Regulatory enforcement impartiality continues to pose significant problems, due to regulatory capture in which uneven enforcement is used as a tool for extortion and gaining favours. The new mediation law, that was recently introduced, provided financial incentives for parties that attempted mediation, with the aim of promoting these new resolution techniques in order to decrease the pressure on the judiciary system. Insolvency processes are very slow due to the high number of procedures, and could last up to 3 years, with very low recovery rates of only 28% on the average. Contract enforcement is also plagued with the same problem. At the same time, registering a property is inexpensive and efficient, due to reformed cadastre and notary services. Division of ownership of public assets between the central and the local governments is not always clear, leading to under-utilization of public resources. Foreign nationals face restrictions in ownership of the agriculture and forest land. Those are reserved to Moldovan citizens only, while foreign nationals can acquire land through inheritance only, even though they can lease it freely.

### SIZE OF GOVERNMENT

The size of government in Moldova is near the average level of Eastern Europe, with public expenditures reaching 36% of GDP in 2016. Public deficit has until recently been high, but it is expected to be put under control, partially in line with the IMF backed program, but also due to higher growth rates, which were recorded at 4% last year. Public debt is still moderate, standing at 38% of GDP in 2016, but fiscal position of the public sector is increasingly unsustainable, exacerbated by an increase in the already high pension transfers and high arrears of the local government and SOEs. Public pension system is unstable due to demographic changes and the high emigration rate. Recent changes that increased compulsory retirement age are envisaged to alleviate some of the problems in this regard; the changes also included all the public sector employees in the general contributions system. Inflation rate has not yet been put under effective

control. SOEs are still present in many areas and in several cases hold monopoly status (for example, the postal services). The most important government-controlled companies are public utilities and electrical distribution, but also the largest tobacco company, the air carrier, the railway company and the fixed line telephone operator. Private companies are not legally discriminated, but SOEs can use close political connections for obtaining preferential treatment in the market. Income tax is progressive, with tax rates of 7% and 18%, while corporate income tax is set at the low level of 12%. General VAT rate is 20%, while a limited number of products are taxed by the reduced rate of 8%. There are many incentives and tax deduction plans, which are not coherent or organized. The new law on information technology, in place since January 2017, established a special single tax for IT employees, much lower than it would have been otherwise.

## **REGULATION OF CREDIT, LABOUR AND BUSINESS**

Business regulation in Moldova is not overly too business-friendly. Starting a business is easy and may take just a couple of days. Paid-in minimum capital is symbolic, just one Moldovan leu (MDL), but the registration fees have recently been increased, although not substantially. Tax-compliance red tape is not excessive, with little annual payments and high incidence of online services, enhanced by recent elimination of submitting social security documents in hard copy. On the other hand, getting electricity is a lengthy process due to many expensive procedures, even though the new legislation eliminated inspection by the state energy inspectorate for smaller electricity consumers. Obtaining a construction permit is also a long process, due to inefficiently high number of procedures, which could involve not only many documents as a prerequisite but also discretionary decisions. Such an environment, with many bureaucratic hurdles, leads to high levels of corruption and extortion by the public administration. In fact, corruption, as well as policy instability, is perceived as the most important deterrent to a growth-conducive business environment. Labour code has both flexible and inflexible characteristics: allowing for longer working periods in case of increased workload, with a 6-day work a week as possibility, but also restricting work during the night or on public holidays. Firing regulations are burdened with trade union notifications in case of redundancies and with retraining or reassignment rules. Redundancy rules protect more seasoned workers, with severance pay increasing according to the years in tenure. Another significant burden is the 12-month obligatory military conscription.

## **FREEDOM TO TRADE INTERNATIONALLY**

Freedom of trade in Moldova is generally upheld. Tariffs are relatively low, with the simple average Most Favoured Nation (MFN) applied rate standing at 5.4%, but regulatory non-tariff trade barriers are burdening imports. Custom documentation could be a lengthy procedure, especially regarding exports, although only 7 documents are needed. Corruption and partial treatment with the customs department are still present. Although national treatment for foreign companies is secured, public officials might favour domestic companies through regulation, a clear example being the environmental tax on bottles from imports, while this tax isn't levied on bottles produced in Moldova - leading to the only case in front of the WTO with Moldova as a defendant. Poor transport infrastructure also hinders international trade, by increasing freight costs. Main Moldovan trade partners are EU countries (the most important ones being Romania,

followed by Italy and Germany), and Commonwealth of Independent States (CIS) countries, most notably the Ukraine and the Russian Federation. Moldova has been a World Trade Organization (WTO) and Central Europe Free Trade Agreement (CEFTA) member since 2001 and 2007 respectively. The Association Agreement (AA) between the EU and Moldova, which had been provisionally applied since 2014, has been now, after its ratification, fully implemented. In June 2016, Moldova ratified the revised Government Procurement Agreement (GPA) of the World Trade Organization, lowering barriers towards foreign companies competing in public contracts in the country, while also creating more opportunities for Moldovan companies in public contracting abroad. The Trade Facilitation Agreement (TFA) was also ratified in June by Moldova, but this program, that is envisaged to enhance the clearance of trade flows and transit, is yet to come to force after the required WTO majority ratifies it.

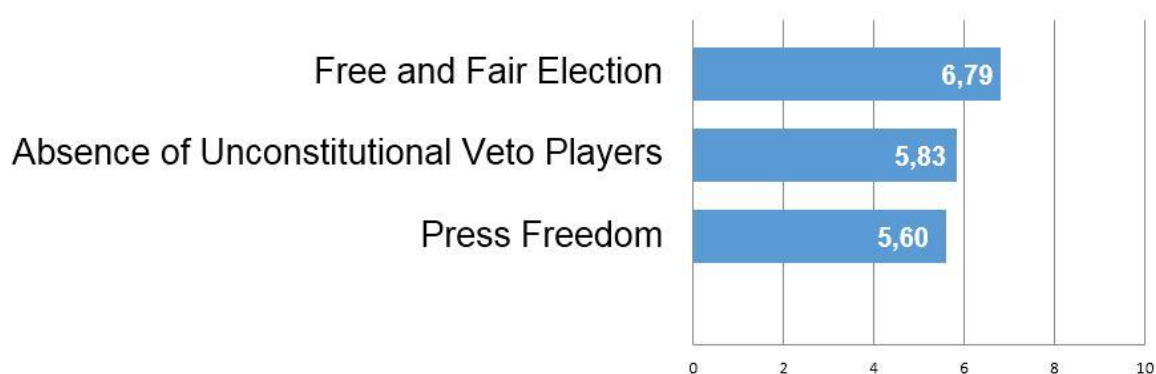
# Montenegro

GDP in 2016: EUR 3,730 million

annual growth rate: 2.4%	per capita: 5,990 EUR	by sector:
		agriculture 8.3%
		industry 21.2%
		services 70.5%

Population: 0,623 thousand	Human Development Index	Government position in 2016
Unemployment rate: 17.7%	HDI: 0.807 (rank 48)	-5.33% of GDP

## A. POLITICAL FREEDOM



### FREE AND FAIR ELECTIONS

Like many other Western Balkans countries, deep political division across society and political turbulences didn't bypass Montenegro as well. In order to ensure free and fair elections, a caretaker Government was elected in May 2016, giving several ministerial seats to opposition parties. Parliamentary elections were held in October and numerous mechanisms to increase transparency of the process and ensure better gender representation were implemented. Although OSCE ODIHR described the elections as competitive and respectful of fundamental freedoms, some irregularities were reported. Government was blocking social media applications for hours during the elections day. Also, a group of people was arrested while voting was still in process, on the ground that they planned to organize a coup. Ruling Democratic Party of Socialist (DPS) won plurality of 36, out of 81 seats in the Parliament, and managed to build Government with some minor partners. Long standing DPS party leader, former Prime Minister and former President of Montenegro Milo Djukanović didn't take part in the new government, allowing Duško Marković to be elected as the PM. Immediately after elections, all opposition parties started boycotting parliament sessions, accusing the government of taking advantage of allegedly "fake coup" on the

election day, which according to them spread a fear among voters. By July 2017 those protests were still ongoing.

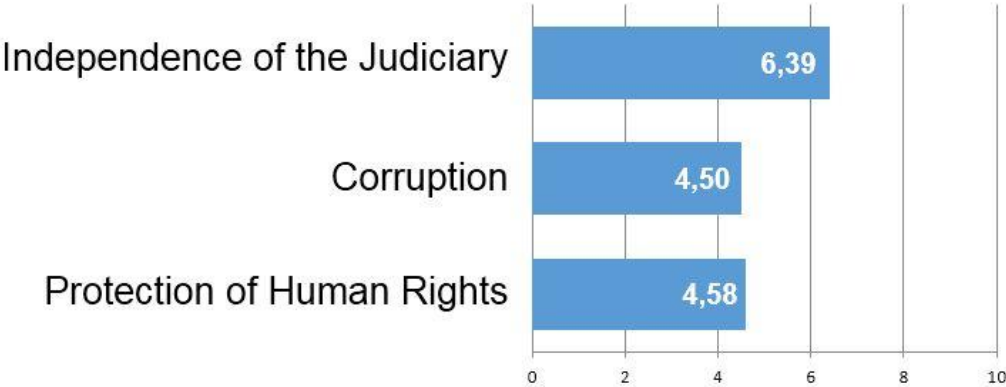
### **ABSENCE OF UNCONSTITUTIONAL VETO PLAYERS**

Government in Montenegro has effective power to unrestrictedly and without interference rule the country. Threat for democracy and rule of law is coming from the fact that already weak system of check and balances, where executive dominates legislature and allegedly influence judiciary, was further weakened by opposition boycott of the parliament sessions. During the period under review all laws were adopted without serious opposition voices, thus control function of the Parliament lost in its importance. Although Milo Djukanović withdrew from the state functions, it was expected that he would retain his influence on the key decisions made by the Government. Some players, such as wealthy businessmen, or the church, could try to influence politics, but it has rather been politicians` decision than their urgencies that mattered most.

### **PRESS FREEDOM**

Print, broadcast and online media outlets are partly free to practice their job in Montenegro. Media landscape is pluralistic and diverse, although highly politically polarized, following social divisions along political lines in the recent years. Media outlets are subject to political and editorial pressure and influence, as reflected by partisan reporting. Government influence on the private media is mostly imposed through state-sponsored advertising, a process which remained blurred throughout the year, and in return led to more positive coverage of governmental activities. Montenegro has also got a problem of high concentration of ownership, located in the hands of a few companies, and with the lack of ownership transparency in the printed media sector. Problem of media self-regulation is expected to be resolved in the upcoming years, since the adopted Code of Ethics for journalists aims to increase professionalism among them. There were cases of both physical and verbal violence against journalists.

### **B. RULE OF LAW**



## **INDEPENDENCE OF THE JUDICIARY**

Montenegro's judiciary showed a modest improvement as compared to the previous two years. Freedom House noted its better efficiency and transparency while the whole system is just "moderately prepared for EU accession" (for which Montenegro, btw, is regarded as least far away among all Western Balkans countries). Better quality of rulings plus smaller backlog of cases older than three years are grounding this optimistic assessment. Training of judges has improved, where after the trust in courts by the citizens is in the rise. However, portal GAN warns at still high corruption risks for companies, interference by politicians or by organized crime and problems in the implementation of court decisions.

## **CORRUPTION**

In the Transparency International's Corruption Perceptions Index 2016, Montenegro is sharing the place 64 with Oman, South Africa and Senegal. It received the best score ever – 45/100. It is the least corrupt of the six CEFTA members. Citizens are still very worried about corruption and perceive it as the biggest challenge to democratic development. Portal GAN identifies public procurement, police, judicial system and land administration as areas of the highest corruption risk for companies. CSOs mostly worry about corruption in education, or in political party financing. Recently founded Agency for Prevention of Corruption received both praise (by the Freedom House, for successful handling of the case of former federal Serbia-Montenegro President Svetozar Marović) and criticism (by the corruption monitor MANS, for prioritizing investigations towards CSO activists instead of against ruling politicians).

## **PROTECTION OF HUMAN RIGHTS**

In spite of the mortal danger that October 2016 failed coup had posed for the country's further democratic development and for its highest officials, Montenegro did not resort to unlawful methods of defence against the "hybrid war", but more or less preserved the already reached modest level of rule of law and respect for human rights. The main trial against perpetrators was broadcast live by several TV stations. Plea bargain was offered to, and accepted by some of the defendants. Otherwise, there is a divergent record on human rights. Some freedoms are highly valued, such as academic, or religious (aside of the row between two Orthodox churches), or of ethnic minorities (although more has to be done for Roma, especially those among them that lived in Montenegro as refugees since they had fled Kosovo in 1999), or of movement. Judicial finale to serious human rights violations of the past (e.g. abductions during the wars of the early 1990s, or assassination of a renowned journalist in 2004) is but missing. In the latter case also revelation of the political background is missing. LGBT groups still face obstacles in organizing their rallies, while various laws that would lessen their inequality are missing.

## C. ECONOMIC FREEDOM



### SECURITY OF PROPERTY RIGHTS

Private property in Montenegro is mostly secure. As in many transition countries, legal framework is mostly well established but its actual implementation is often dubious. There is a strong connection between the political elite and the judiciary, undermining the independence of the latter. Corruptive practices among the judiciary pose another significant difficulty to judicial processes, making the overall integrity of the legal system uncertain. Judicial processes are slow, lasting 1.5 years on average. There are many backlogged cases. There is a lack of capacity or knowledge among judges involved in specialized cases. Enforcing contracts is a lengthy process, partially due to the high number of backlog cases. Court decisions are not always clearly and consistently reasoned or enforced. Low level of court process automation remains as a weak point of the system. The process of property restitution is slow, due to administrative constraints and lack of political will - many cases are yet to be resolved. Bulks of appeals that are filed against the Government of Montenegro in front of the European Court of Human Rights concern long legal procedures which diminish the right to a trial within a reasonable time frame. Registering private property is also a slow process, due to inefficient work of the Real Estate Agency and local tax authorities that determine the level of taxes due. Municipalities also often lack detail urban plans, which makes procedures for obtaining construction permits more complex and lengthy. As in other countries in the region, actual implementation and enforcement of existing legislation is not consistent. There are no limits to foreign ownership in industries, and foreign nationals can also own land.

### SIZE OF GOVERNMENT

Government expenditures in Montenegro are high, more in line with highly advanced European countries than with its transition peers. Total public spending reached 50% of GDP in 2016, a significant proportion of it for capital investments for the Bar - Boljare motorway, whose first section Podgorica - Kolašin is under construction. This infrastructure project alone accounts for the public deficit, itself reaching 6% of GDP in 2016, since project costs are estimated at 25% of GDP. Public debt in 2016 stood at 70% of GDP. Public expenditures for the public wage bill and pensions are unreasonably high. Pension fund is unsustainable, creating fiscal drain. To make public debt more sustainable, the government started implementation of a fiscal consolidation plan, by lowering expenditures, including the freshly adopted benefits for mothers of three or



more children (“Mother Law”) and keeping the 11% “solidarity tax” on high earners. Majority of SOEs were privatized in previous rounds of privatization, but SOEs still have a significant role in the economy, since they are not restricted only to utilities, but are found in industries considered as strategic such as energy, transportation, ports, railway, air carrier, tourism or even agriculture. They rely not on direct state aid (subsidies) but on indirect aid (tax or other arrears) due to their inefficient operation. Further privatization plans were mostly put away with the cancellation of privatization of the Port of Bar. The tax system consists of flat corporate tax set at 9% rate, while VAT levels are 0% (only for medicine), 7% and 19%. Corporate tax and personal income tax rates are flat, with 9% tax rate (but also with 11% surcharge rate on earners above the average wage). However, high social contributions, reaching approximately one third of the gross wage, lead to high overall labour tax wedge, thus encouraging shadow employment. Favourable tax policies established at the national level are often overlooked at the municipality level with their local taxes and surcharges.

## **REGULATION OF CREDIT, LABOUR AND BUSINESS**

Regulation in Montenegro is mostly business friendly. By-laws are often inconsistent, ambiguous or outright in collision with each other, which decreases certainty and creates confusion. This makes inconsistent implementation due to partiality of government officials easier. Starting a business is relatively easy, with low associated costs, with a symbolic paid-in minimum capital of just 1 euro. However, obtaining a construction permit or getting electricity is much more complicated, with long procedures and very high costs, due to inefficiencies in municipalities and to high fees. Tax procedures are overly complicated, although with a relatively low number of annual payments. VAT compliance rules are expected to be eased with the introduction of the electronic system for filing and paying VAT, similar to the system used for labour taxes. Inefficient government bureaucracy, as well as corruption and low quality of infrastructure, are among the most problematic areas for conducting business activities. Rigidities in the labour code further exacerbate this situation: although fixed-term contracts are not prohibited for permanent tasks, their maximum length is set to just 24 months, while severance pay is increasing with years in tenure, favouring more seasoned workers. However, working hours are mostly flexible. Centralized collective bargaining, although prevalent in some industries, is mostly restricted to public sector. New labour law has been under discussion for quite some time, which would increase flexibility in the labour market, but these changes are yet to be put to paper and materialized.

## **FREEDOM TO TRADE INTERNATIONALLY**

Freedom of trade in Montenegro is mostly upheld, since international cooperation and specialization is very important for such a small economy. Montenegro has been a member of the World Trade Organization (WTO) since 2012. It ratified its Trade Facilitation Agreement in May 2016. That is expected to further liberalize trade flows after the implementation commences. However, bureaucracy procedures inefficient, imposing unnecessary time and costs. Low quality of transportation infrastructure - including roads, ports and especially railroads - hinders free trade, increasing costs of both imports and exports. Finalization of the motorway investment project would significantly alleviate this situation, while possible privatization of the port of Bar

would bring much needed investments. Main trade partners are countries from the EU and Western Balkans, especially Serbia. Trade with these countries is made under the Association Agreement (since 2010) and the CEFTA (in effect since 2007). Tariffs are low, with the mean applied most favoured nation (MFN) rate of 3.9%. Montenegro, although it is neither an EU member state nor a Euro-zone member, unilaterally adopted the euro, which enhanced international trade by eliminating exchange rate risks and other currency exchange costs. The restrictive Law on Employment of Non-Residents, enacted in 2015, which mostly closed Montenegrin labour market for foreigners, was amended in March 2016, to exclude the obligation of businesses to obtain certificates from the labour office that there were no unemployed Montenegrin nationals of the desired profile prior to hiring foreigners. But the quotas were not increased (15 000 ordinary worker permits and 3000 for capital projects).

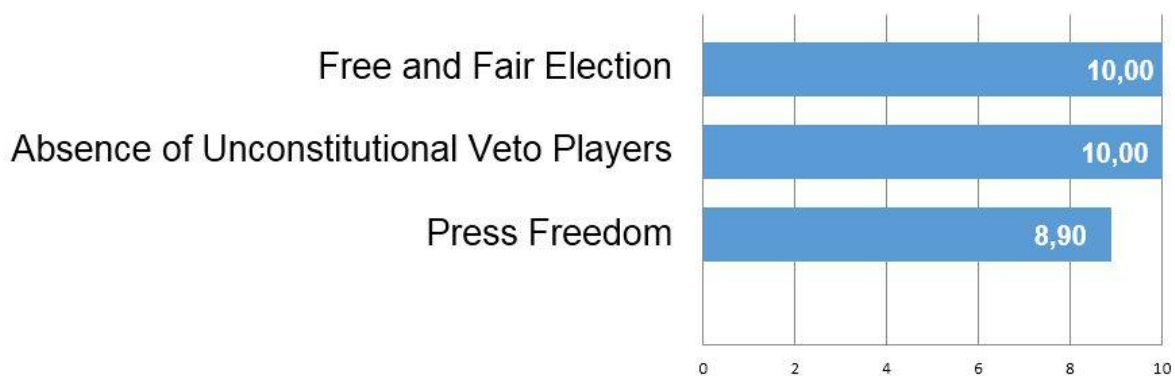
# Netherlands

GDP in 2016: EUR 696,871 million

annual growth rate: 2.1%	per capita: 40,920 EUR	by sector:
		agriculture 1.6%
		industry 17.8%
		services 70.4%

Population: 17,030 thousand	Human Development Index	Government position in 2016
Unemployment rate: 5.9%	HDI: 0.924 (rank 7)	-0.50% of GDP

## A. POLITICAL FREEDOM



### FREE AND FAIR ELECTIONS

Netherlands is among countries with the highest ranking in Freedom Barometer index in regard to freedom and fairness of its electoral process. Parties are able to compete in open and free environment, and their offer is pluralistic and diverse. On 15<sup>th</sup> of March 2017 elections for the 150 seats in the lower house of parliament, i.e. House of Representatives – also called The Second Chamber - took place. Although their total score declined, People’s Party for Freedom and Democracy – VVD - won the most of parliamentary seats, 33 of them, thus obtaining another mandate to create a Government. Since at least 4 parties were needed to participate to have created a majority, the incumbent Prime Minister Mark Rutte had hard times negotiating a political agreement between the interested partners. Until 30<sup>th</sup> of June the government has not been formed.

### ABSENCE OF UNCONSTITUTIONAL VETO PLAYERS

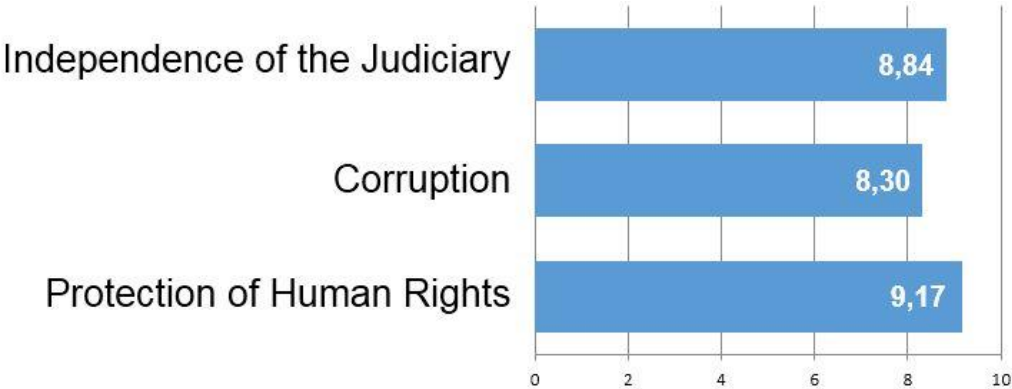
Power to govern the country is unchallenged in Netherlands. Therefore they don’t have any unconstitutional veto players who could undermine a democratically elected government. Security

forces are under effective control of civilian authorities. Netherlands doesn't have a problem of corruption at home, so the country is ranked at a very high 8<sup>th</sup> place of the Corruption Perception Index 2016.

### **PRESS FREEDOM**

Media outlets in Netherlands are free to operate and express wide variety of views. Citizens have access to pluralistic and diverse media market. However, recent social and political developments in the country, mainly immigration and security issues, have posed certain challenges to journalist independence, or security. Some journalists received death threats due to reporting on traditional children's character. At the beginning of 2017, government adopted legislative changes on the safety ground, allowing security services to expand their authorities, which could pose a threat to the protection of journalists' sources of information.

### **B. RULE OF LAW**



### **INDEPENDENCE OF THE JUDICIARY**

Judiciary is fully independent from the executive branch. Its overall performance is excellent. Judges are irremovable except for malpractice or incapacity. In contrast to most other countries, constitutionality of laws is checked only in advance, when drafted by the government - not least by parliamentary committees but also by the Council of State, a body appointed (and occasionally presided and advised) by the monarch. Monarchy enjoys a majority support, yet a law has been in procedure since 2016 that would narrow its anyway small privileges (e.g. an "insult of the majesty" would no more be illegal). Freedom House wrote in 2015 on the performance of courts in Netherlands and it further on stands: "The judiciary is independent, and the rule of law prevails in civil and criminal matters. The right to a fair trial is in place and is enforced effectively. The police are under civilian control, and prison conditions meet international standards."

### **CORRUPTION**

Transparency International's Corruption Perceptions Index 2016 put Netherlands to the place 8 of 176 evaluated countries, i.e. as one of the cleanest in the world. Global Corruption Barometer 2016 found bribery rate at just 2%. Yet, 17% of the people found it a problem and 53% thought government was not doing enough to eliminate it. Market economy with a lean public sector,

highly sophisticated anti-corruption procedures and awareness of the broad population of the social perils of corruption, together make it extremely hard for politicians to even remotely take illicit personal advantage of their policies or decisions. Efforts are made to eliminate the last pockets of irregularity – corrupt activities of Dutch companies abroad, as well as to prevent a revamp of once extinguished habit of favouritism in public procurement or infrastructure projects. Some isolated cases of corruption, however, are still discovered. In summer 2016, several police officers were arrested in Hague and Limburg on various charges, mainly for leaking information. In September 2016, a local politician from Roermond was found guilty of corruption. In February 2017, Dutch media reported about the investigation opened in the customs service. As a country with a very low level of corruption, Netherlands is a true role model. Through development cooperation and transfer of its own experience, it helps other countries increase transparency in public sector, suppress corruption and improve governance.

## **PROTECTION OF HUMAN RIGHTS**

Few other countries perceive human rights in such a liberal way, i.e. prioritizing the rights of the individual, as Netherlands. As a rule, limitations to personal freedom are put only to protect other members of society. Freedom to associate, in public or in private, to speak and express various views, beliefs, theories, or arts, is guaranteed and widely practiced. Police are carefully trained to act in a professional manner and to respect human rights. In June 2017, Netherlands` and Austria`s judiciary collided over the definition of punishable hate speech, whereby the former refused to cooperate in the judicial process against Dutch far right populist politician Geert Wilders over his anti-Islam speech in Austria in 2015. Before, in December 2016, Wilders was convicted in Netherlands for discrimination. As for minorities, native or migrant, the opportunities for integration into Dutch society are huge. But linguistic rights are not always kept to highest standards. Police did not eliminate ethnic profiling. Immigrant detention is still a problem, especially following arson in a detention centre in Rotterdam in May 2016, despite subsequently adopted new, relaxed rules. Far right groups spread Islam-o-phobia, while some extreme Islamists spread anti-Semitism or harangue against liberal democracy as such. Netherlands is a multi-religious country and freedom of religion is in general highly valued, while politics and administration are largely secularized. A lot more has to be done against human, including sex trafficking. On the other hand, 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. Struggle to preserve human rights in the environment of new technologies is ongoing. Thus, in October 2016, the new draft law on intelligence and security services was assessed by the Amnesty International as one “potentially leading to violations of the right to privacy, the right to freedom of expression and the right to non-discrimination”. An adapted version of the proposed law was later passed, to go into force in early 2018. An advisory referendum on the law has been scheduled for 21 March 2018.

## C. ECONOMIC FREEDOM



### SECURITY OF PROPERTY RIGHTS

Private property in the Netherlands is well protected. Judiciary is independent from the executive power, and there is little evidence of corruptive practices or improper influences within it. However, judicial processes could be long, which undermines effectiveness of the contract enforcement. Low level of automation is often cited as one of the reasons for the latter - cases to judges are assigned manually, and there are no solely commercial courts. These long procedures lead to high costs of attorneys at law. On the other hand, bankruptcy procedures are very effective, with expedient procedures and very high recovery rates. Most bankrupt companies are sold as going concerns. Registering property, as a major prerequisite for its legal protection, is functioning well and quickly in the Netherlands, due to the service of professional public notaries and online procedures. Dutch Cadastre, Land register and Mapping Agency offer efficient and transparent public service. However, transfer tax is as high as 6,1%, which poses a significant burden, even leading to a decrease in workforce immobility. There is a temporary tax break to 100 000 euro for monetary gifts, in order to encourage home ownership among the young people. Expropriation of corporate assets or private property is very rare, only used in special cases, for which a special act of parliament is necessary. There are a few limitations to foreign ownership in industries considered as strategic (transportation, media, etc.), but these are rare.

### SIZE OF GOVERNMENT

Government size in Netherlands has been similar to other developed European countries, with government expenditures reaching 44% of GDP in 2016, which was a small decrease following the second wave of recession in 2013. A small budget surplus was recorded in 2016, due to the rebound in growth rates and frugal spending. Public debt is declining, standing at 62.5% of GDP in 2016, with prospects of getting under the Maastricht threshold this year. Although regulatory framework is omnipresent and there are high redistributive social transfers, there is little direct government involvement in the economy. State-owned companies are not numerous (their number standing at 34), and they remain concentrated in the utility service sector (gas, water and electricity distribution), and transport (railways, ports and airports). What is more important is that SOEs are not favoured and private enterprises are free to compete with them in the market. The state has increased its share in banking by taking over bankrupt banks such as ABN Amro bank. High expenditures need to be met by high tax rates: social contributions and income tax

lead to a tax wedge on labour of 40.8% on average wage, slightly above the OECD level; while VAT is set at 6% and 21%. Taxation is progressive, especially the personal income tax rates, reaching even 52% for the highest earners. Corporate tax is set at 20% and 25% above the 200 000 euro threshold.

## **REGULATION OF CREDIT, LABOUR AND BUSINESS**

Netherlands remains one of the most competitive advanced economies, with a regulatory framework that provides a friendly environment for entrepreneurial activities. Starting a new business is quick, through the notary services and the chamber of commerce, and there is no minimum-required capital. Obtaining a construction permit is burdensome due to a high number of procedures, some of which are time-consuming. Getting electricity is not expedient since the public utility company has slow procedures regarding contracting of private companies for construction works. Compliance with tax procedures is not burdensome, due to low number of annual payments and widespread use of electronic filing. High tax rates and restrictive labour regulations posed significant cost on businesses, which led to overly high number of workers being self-employed through independent or one-person company (ZZP). Labour code could be considered restrictive, especially regarding the firing regulations, providing high employment protection for workers. Severance pay is low, but the role of third parties (workers' councils, trade unions, or the employment office) in redundancy process is excessive, with long redundancy notice periods, increasing with years in tenure, thus protecting more seasoned workers. Duration of fixed contracts was recently limited to 24 months, instead of the previous 36.

## **FREEDOM TO TRADE INTERNATIONALLY**

The Netherlands, as a small open economy, favours free trade. It hosts the biggest port in Europe (Rotterdam) and it serves as a major European trade hub, due to its strategic location, geographical conditions and excellent transport and communication infrastructure. Being one of the founding countries of the European Union, the Netherlands implements the common European trade policy, with its overall low tariff rate. However, non-tariff trade barriers in the field of standardization and certification remain an obstacle to trade. Border and custom administration are very efficient, with low number of necessary documents and easy border compliance. Trade is further enhanced by very low freight costs, partly due to the high quality of transport infrastructure. Main trade partners of the country are other EU members, such as Germany, Belgium and France. Since the UK is a significant trade partner, further EU - UK relations following Brexit will be very important for the Netherlands. Although EU nationals are considered to have the same rights as domestic ones, restrictions on Croatian nationals are still in place, requiring a work permit. Non-EU nationals face a complicated procedure of acquiring a residence permit, but there is a one-year residence permit for entrepreneurs. There is a "30% tax rule" for foreign workers residing in the Netherlands, meaning that they pay lower taxes since 30% of their income is tax-exempt, during a limited number of their stay in the country, in order to increase attractiveness of the Netherlands for highly skilled people, having in mind high domestic tax rates.

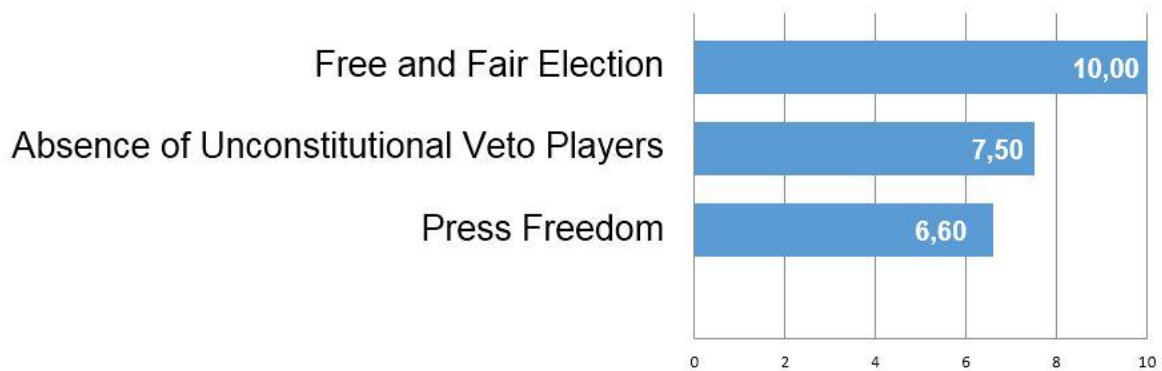
# Poland

GDP in 2016: EUR 422,782 million

annual growth rate: 2.8%	per capita: 11,130 EUR	by sector:
		agriculture 2.7%
		industry 38.5%
		services 58.9%

Population: 37,967 thousand	Human Development Index	Government position in 2016
Unemployment rate: 6.1%	HDI: 0.855 (rank 36)	-2.44% of GDP

## A. POLITICAL FREEDOM



### FREE AND FAIR ELECTIONS

Political parties in Poland are able to compete in a free electoral process and citizens have opportunity to choose a government based on universal suffrage. There is no threshold for minorities to enter the parliament, while coalitions need to gain at least 8% of support in the elections. Poland has a bicameral parliament, consisting of the lower house – Sejm, and the upper house – Senat. There were no elections during the period under review, however this country had very turbulent political period. Since Law and Justice Party – PiS won the absolute majority of seats in the Sejm, they had no obstacles in governing. Thus, this power, used through narrative and legislative activities by PiS, led to high division of society along political lines and several protests in the country. Some ideas on changing the Polish electoral system had been brought, which opposition criticized on the ground of gerrymandering in favour of the ruling party and damaging the position of the opposition at the forthcoming elections. Opposition party Nowoczesna faced serious financial challenges after being charged with very high penalties for committing procedural errors in campaign financing.



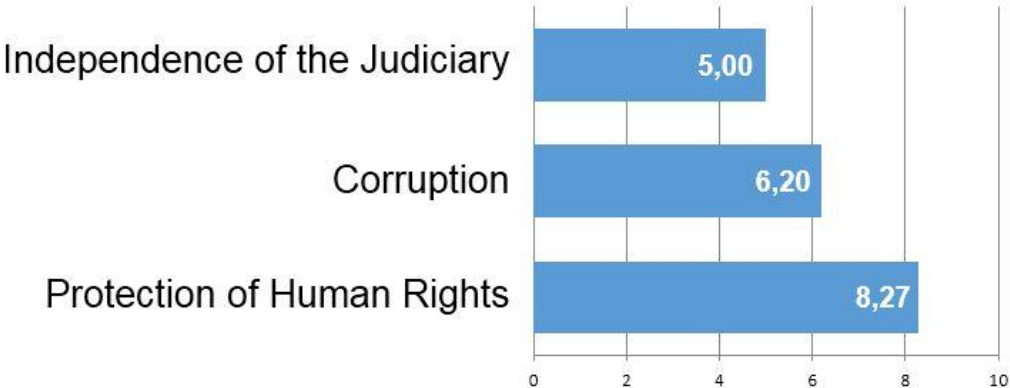
# ABSENCE OF UNCONSTITUTIONAL VETO PLAYERS

Poland doesn't have unconstitutional veto players who could influence decision-making process by the politicians. However, the biggest threat to democracy and rule of law in the country is coming from politicians themselves. Abuse of power and weakening of system of checks and balances became practice in Poland. Leading political figure Jaroslaw Kaczynski – the chairman of the PiS party, who influenced the work of the legislative and of the executive branch of power throughout the last 12 months - sought to put judiciary under control as well. Legislative amendments targeting the work of the Constitutional Tribune were adopted in the parliament, only to be later declared as unconstitutional by the same court. At the end of his term, president of Constitutional Tribune was replaced by the judge with close ties to PiS. Another actor who has certain influence on political and social life in Poland is the Roman Catholic Church.

## PRESS FREEDOM

Press freedom deteriorated further in Poland, which is thereby no longer considered as free, but rather a partly free country. Weak democracy and inefficient system of checks and balances are not able to guarantee freedom and independence of journalists. Dominant PiS party used its power and influenced media environment in the country to a large degree. In order to switch control over public broadcasting, government created a National Media Council in charge of appointments to positions in public media outlets. Broadcasters controlled by the state are showing bias reporting in favour of the ruling party. Private media which follow the same path are benefiting economically from it. By the end of 2016, the government had tried to limit access of journalists to the parliament, causing outrage and protests by media representatives, citizens and the opposition, which ultimately led to dropping of the idea. Following a letter in which CEO of Ringier Axel Springer had praised re-election of Donald Tusk as the head of European Council, which had leaked to public, the government announced their intention to have limited the ownership of international companies in Polish media at around 20% of shares.

## B. RULE OF LAW



### INDEPENDENCE OF THE JUDICIARY

In its Nations in Transit 2017 report, Freedom House noted worsening of the overall democracy score in Poland, mainly due to worse national governance and decrease of judicial independence.

Since coming to power in 2015, the PiS party has demonstrated authoritarian tendencies, including in the fields of media freedom, certain human rights and liberties and the role of judiciary as the third pillar of the (divided) power. In a series of acts that the Constitutional Court ruled as unconstitutional, Parliament tried to redraw the composition of the very CC, so as to provide for a majority of PiS loyalists. That caused a prolonged blockade of the CC's work, until PiS has taken a majority in the body. Then, between May and August 2017, Parliament adopted laws that extended political control over National Judicial Council, the CC, or other courts, by the Parliament and/or by the Ministry of Justice. President of Poland vetoed some of them, where after the controversy is still on. EU has repeatedly warned Poland on her distraction from the European values, principles and good practices regarding rule of law and is set to take action against her should the trend is not reversed.

## **CORRUPTION**

There has been no improvement lately. In the Transparency International's Corruption Perceptions Index 2016, the score was even worse than in 2015. With Portugal, Poland was placed 29 (of 176). In another corruption monitoring index, made by Freedom House, stagnation has been indicated ever since 2014. The score in 2017 is considerably worse than in 2009. State-owned enterprises are in the focus of most corruption scandals, investigations or accusations. The PiS government published an extensive report on the corruption by their predecessors in May 2016, but too little was subsequently done on prosecution. A PiS government minister was later ousted over what the public perceived as nepotism and corruption scandal, yet the government saw him off honourably. Opposition is accusing PiS - which came to power in 2015 owing to anti-graft rhetoric - of actually worsening the practice of cronyism, nepotism and corruption in the management of SOEs. Yet another corruption monitoring portal, GAN, noted (in December 2015) that public services and public procurement in Poland were "sectors most prone to corruption".

## **PROTECTION OF HUMAN RIGHTS**

Civil society in Poland is vibrant, reflecting traditions of the freedom fights of the 1970s and 1980s, and being a guardian of post-1989 democracy. That is additionally facilitated by NGO-friendly regulation which encourages private funding, not least foreign but since 2014 also domestic. Thus, attempts by autocrats in the PiS-led government to jeopardize human rights usually face prompt and massive opposition. However, together with Hungary's, Poland's government is currently among the EU's "black sheep" regarding adherence to EU values. Poland refused its EU-assigned quota for accepting refugees from MENA countries (albeit accepting ones from Ukraine). Pressure on independent-minded media and journalists is in the rise. Far right ideologies and movements are in the rise, both regarding numbers and presence in public. Very conservative policies are pursued in family legislation and regarding sexual minorities. Regarding the latter, in the entire EU only Cyprus is worse. Government nearly managed to pass a reform forbidding abortion under any circumstances. In contrast to the assaults on reproductive rights, a lot is done to advance the position of working women. A survey by The Economist as of 8 March 2017 showed that Poland was the sixth-best country within

OECD for working women, especially because of 40% of women at managerial positions, low gender wage gap and generous maternity leave.

## C. ECONOMIC FREEDOM



### SECURITY OF PROPERTY RIGHTS

Property rights in Poland are overall secure. Court impartiality and judicial independence from the influence of the executive branch are dubious. Long judicial procedures lead to the very long enforcement of contracts, a process which on average could take up to two years. Court automation and overall rules on time standards are loose, but also the high number of backlog cases is responsible for this situation. Resolving insolvency is better organized, providing high recovery rates, but also with long procedures taking up to three years. The bankruptcy regulation was further strengthened by introduction of new restructuring mechanisms, and establishment of the central register. Furthermore, there is a significant variation of court procedure length in different geographical areas of the country. Civil Procedures Code amendment provides arbitration-friendly standards, by introducing internationally recognized standards, since arbitration is becoming increasingly more popular as a mechanism for dispute settlement. Foreign ownership is limited in certain sectors, and just to a minority ownership: in air transport, radio and broadcasting, airports and seaport management. Current government has pursued a policy of “polonization” of some of those industries, with the aim of increasing shares held by Polish citizens in cases where foreign companies held the majority share. This was visible in the case of retail tax, which was envisaged to hit the big retailers. Nevertheless, it was repealed after the European Commission had ruled that it was against state-aid rules. Since May 2016, all restrictions on acquisition of agricultural land by the EU nationals were lifted, more than a decade after the EU accession. However, new land use legislation imposed new bans and restrictions on the acquisition of agricultural property by foreigners.

### SIZE OF GOVERNMENT

Size of government in Poland is not excessive, with total government spending reaching 42% of GDP in 2016, in line with most other post-transition economies. Growth rates are robust, reaching 3%. Unemployment rate is at its historical low - below 6%. However, the government is still recording significant deficits (2.5% of GDP in 2016, and even 2.9% in 2017, which is just a bit below the EU Excessive Deficit Procedure threshold). Public debt remains elevated at 54% of

GDP, but it is stable for the time being. Further fiscal austerity is therefore necessary, not only to mitigate pro-cyclical fiscal policy, but also to create buffers from future increase in spending due to demographic changes. Although a thorough privatization process took place during the 1990s, the government still owns and operates numerous enterprises in various sectors of the economy. SOEs have a more pronounced role in the economy of Poland than in any other OECD country. Some of those companies do not operate efficiently, relying on direct funding from the state for their operation, via subsidies (most notably the mines). Recent changes, as of January 2017, in the legislation covering SOE management, could pave the way to their increased role in the economy. Income tax is progressive, with the lower rate at 18% and the higher at 32%, applied above a moderate threshold. Corporate rate is 19%, while VAT level is set at 23%, with privileged rates of 5% and 8% for some products. High social security contributions have led to a high share of non-fixed temporary working contracts (“junk contracts”) among the working population, because of lower social contributions scheme applied to them. Labour tax wedge is considered as high, although it is actually below those of other European OECD countries.

## **REGULATION OF CREDIT, LABOUR AND BUSINESS**

Business regulation in Poland is mostly business-friendly. Although starting a business does not require many procedures, it takes a substantial amount of time, due to slow National Court Register; the process is also costly due to high fees and high paid-in minimum capital. The process of obtaining a construction permit has recently been streamlined, while getting electricity was eased by eliminating the excavation permit. Licensing restrictions in professional services are present, lowering the competition by providing barriers to entry. Compliance with complicated tax procedures is burdensome, incurring administrative costs. Tax regulation's complexity and labour code rigidity are still considered as areas in which more improvements are necessary in order to provide for a better business environment in the country. Transfer pricing and corporate tax procedures have been significantly altered in 2016 in order to boost revenues, but without public consultation, thus increasing the impression of policy instability and lowering entrepreneurial predictability. Employees could be hired on short term contracts up to the period of 33 months, instead of indefinitely as previously. If the time is breached, workers are considered as employed indefinitely. Total number of workdays in a week is 5.5, since the workweek could be prolonged in case of an increased workload. There are high bonuses for overtime hours. Notice periods and severance pay increase with years in tenure, making seasoned workers more secure yet also harder to be re-employed once back on the labour market. Firing regulations, mostly in the area of redundancy process, and reassignment or retraining obligation and priority rules of employment make the process of firing complicated - another reason for a high number of people working on civil contracts instead on regular labour ones, since they can easily be dismissed within a fortnight notice period. The trade-union role is significant only in certain professions, mostly in SOEs, such as in mining and ship building.

## **FREEDOM TO TRADE INTERNATIONALLY**

Freedom of trade is mostly respected. As an EU member since 2004, Poland applies its common trade policy with overall low tariffs, i.e. with simple average tariff of 5.3%. However, agricultural tariffs are higher than those for manufactured goods. Border compliance and documentation

procedure are efficient, with only 4 documents, both for exports and imports. However, standardization and certification procedures of goods imported from non-EU countries create effective non-tariff trade barriers, and are imposing costs. Good public transportation infrastructure, as well as its geographical location, foster international trade by decreasing freight costs, but the railroad quality is lower than the quality of roads and ports. Poland's most important trade partners are other EU countries, most notably Germany. The National Bank of Poland imposes a wide array of capital controls in order to manage the flow of short-term capital, in order to manage the exchange rate regime of the national currency Zloty (PLN), which is in floating regime.

# Romania

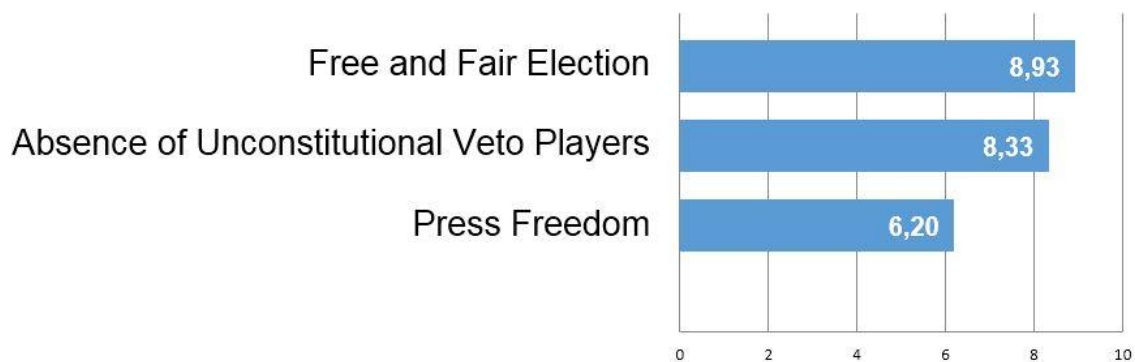
*GDP in 2016: EUR 169,115 million*

<i>annual growth rate: 4.8%</i>	<i>per capita: 8,560 EUR</i>	<i>by sector:</i>
		agriculture 3.3%
		industry 35.4%
		services 61.3%

*Population: 19,760 thousand    Human Development Index    Government position in 2016*

*Unemployment rate: 6.0%    HDI: 0.802 (rank 50)    -2.41% of GDP*

## A. POLITICAL FREEDOM



### FREE AND FAIR ELECTIONS

Environment in which elections are held in Romania is on a track of improvement, with last parliamentary elections, held in December 2016, considered largely as free and fair. Measures taken so as to reduce irregularities by improving monitoring of the voting procedures have led to progress in this regard. Positive impact on political pluralism in the country came with the introduction of new provisions on creating a political party, which lowered the mandatory number of members down to three. However, the electoral entrance threshold, i.e. required number of signatures to participate in elections, remains restrictive. Parties still need to collect 1% of signatures (around 183 000) in order to compete for the Parliament. Technocratic government remained stable until elections, although there were a lot of changes in its composition, with several ministers having had been dismissed or resigned. Dominant Social Democratic Party (PSD) won parliamentary elections with around 48% of votes and created a government soon afterwards, with Alliance of Liberals and Democrats as junior partners. However, that government didn't last long, since parliament voted no confidence to Prime Minister Sorin Grindeanu, in a motion filed by his own party PSD. Internal power struggle within

the PSD led to the shift of the government at the end of June, with Mihai Tudose becoming the new Prime Minister.

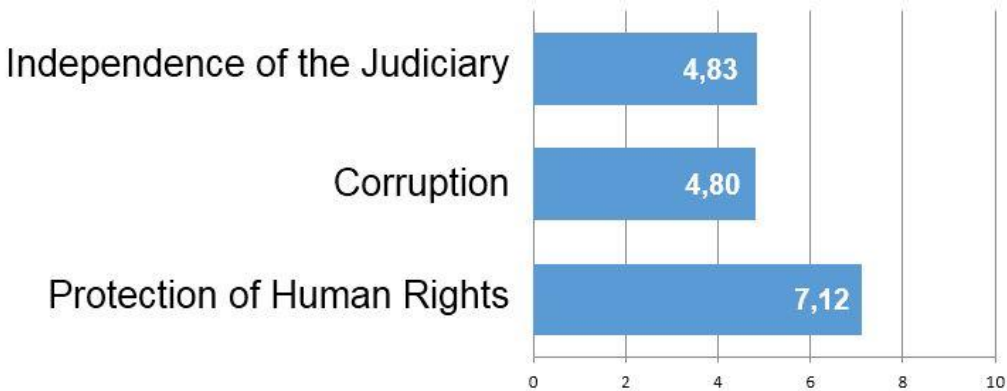
### **ABSENCE OF UNCONSTITUTIONAL VETO PLAYERS**

Generally, there are no unconstitutional veto players in Romania who are able to undermine decision making processes of the democratically elected government. Certain influence on the government decisions is exercised by Liviu Dragnea, PSD leader who is prohibited from taking office. That became apparent after shifting of government, in June 2017, only 6 months after PSD won elections. Romania decided to deal with a pervasive corruption among public officials and thus, led by National Anticorruption Directorate, has prosecuted numerous high ranking politicians throughout the year. A plan to decriminalize some corruption offenses led to the biggest anti-government protests since the fall of Communism, in February 2017. The proposal was there after withdrawn. However, initiatives by the government to bring this plan back into procedure are still present.

### **PRESS FREEDOM**

Freedom of the press is granted by the constitution in Romania, and to certain extent upheld in practice. Journalist independence and professionalism are often hindered by managerial or economic pressure, which made them practicing self-censorship. Media moguls have big influence is shaping public opinion and their ties with political elites often led to partisan reporting, which remained the biggest problem on media scene in Romania. Anti-corruption activities in the country exposed how deep those connections have been, with many media owners having been prosecuted or sentenced. Journalists are from time to time a target of verbal violence by politicians and/or citizens. Romania is one of the rare countries in which insult is not punishable. Economic un-sustainability remains a big issue and poses a serious threat to media pluralism in the country.

### **B. RULE OF LAW**



### **INDEPENDENCE OF THE JUDICIARY**

Romania`s judiciary has become more independent since the country became a full member of the EU in 2007, especially after 2013. But, in spite of the sophisticated election procedures meant

to prevent direct political influence on courts, the latter is indirectly still very much present. Fierce political fighting is on over having the judiciary in one's sphere of influence, mainly in order to get away with past or future corruption or other misuse of power. Besides, corruption in judiciary itself is far from being eradicated. Following the new regulation as of March 2016 conditions in prisons have started slowly improving, yet in April 2017 the European Court of Human Rights warned Romania of non-compliance with European Convention on Human Rights. During summer 2017, the Government was drafting new measures to ease the pressure on detention facilities by more extensive use of electronic tagging, as enabled by the 2016 law.

## **CORRUPTION**

Romania was an EU's „sick man“, as regards rule of law, when it joined in 2007. Since then, Romania considerably improved, leaving behind a few other - including some „old“ - EU members. But in one aspect it remained at the bottom in the EU – the bribery rate is still the highest, 29%, according to the Global Corruption Barometer 2016. The National Anti-corruption Directorate (DNA) is receiving excellent marks from many, for its bold take on the mighty politicians and businessmen, while some argue that DNA itself could be more accountable. Both DNA and Prosecutor General are in the midst of the power struggle between political blocks, as personified by the centre-left Government and the centre-right President. Focus of the Romanian public shifted on corruption in October 2015, when a fire in a nightclub killed 64 visitors as a result of corrupt hence negligent safety inspections. Ever since, the public has been sensitive about the issue. In March 2017, when the Government proposed a new legislation, partially decriminalizing or easing penalties for certain acts of corruption, plus pardoning past offenders including an ex-PM, hundreds of thousands took to the streets to protest. They (together with the President) managed to block the changes. However parts of the political, business or administrative elite, as well as many civil servants in Romania are still corrupt, public opinion and civil society activism promise better times. Romania is sharing the place 57 (of 176), with Hungary and Jordan, in the Transparency International's Corruption Perceptions Index 2016.

## **PROTECTION OF HUMAN RIGHTS**

Freedom of assembly, association or expression is fairly well respected in Romania, in contrast to the memories of the pre-1989 brutal treatment of dissidents. Alas, current relevant legislation has also - already – become obsolete, due to the law lacunae which enable enforcement officers to fine incommode anti-government protesters. Human trafficking, itself a serious problem because Romania is both a country of origin and of transit, is increasingly well dealt with, as it was pointed out in the Trafficking in Persons Report June 2017 by the US State Department. Better law enforcement and cooperation with NGOs led to more channels of trafficking cut and perpetrators caught and sentenced. However, “minimum standards for elimination” of trafficking are still not met. Especially important is focusing on victims, their protection, testifying and re-socialization. Other open questions of inclusion and tolerance are Romany and LGBT. Romany-phobia is deeply entrenched - discrimination in housing and education is all too slowly retreating. Very conservative attitude towards same-sex marriage, whereby there is no opportunity even for registration of unions, while those concluded abroad are not recognized, and a planned referendum to constitutionally ban them, are bringing Romania (and other similar EU members)



at odds with EU's principles of free movement and equal treatment of people. More than 2 million people signed a referendum request by conservative NGOs' regarding such a ban. As for equality of women, the legislation is to a high degree in line with EU standards, while there are opposing views on the level of implementation. While World Bank in 2014 praised Romania, World Economic Forum in 2015 considered it the worst EU member in the field. FNF found out that in spite of improvements such as increased number of women in high politics much more is to be done, starting with the issue of domestic violence (which is corroborated also by a ruling of the European Court of Human Rights as of May 2017).

### C. ECONOMIC FREEDOM



#### SECURITY OF PROPERTY RIGHTS

Property rights in Romania are relatively secure, but there are problems arising from judiciary system deficiencies that are undermining the situation. Out-of-court influences on judiciary are present, resulting in low level of judicial independence. Corruption in judiciary is also still present. Enforcement of property rights through judicial process could be lengthy, costly and difficult. Local courts often lack expertise in many specialized fields. Therefore, judgments in some instances could be very much dissimilar. Not all restitution claims have been fully addressed, thus increasing the uncertainty of property rights. Due to all those problems, mediation is slowly becoming more popular. Bucharest International Arbitration Court was established in late 2016. It was expected that the new civil procedure code would improve current court procedures, transferring some enforcement responsibilities from courts to bailiffs in order to make contract enforcement easier, but stronger positive evidence thereof is lacking. Non-EU foreign nationals face restrictions in agricultural land ownership, but they may either lease or obtain the ownership via setting up a company in Romania. Property rights might prove as ill-defined, as in the case of real estate property land ownership and the right to use the land, which are divided, resulting in uncertain or unclear property rights. Registering property is also a process that includes many procedures and is unnecessarily long. Although most urban land has clear titles, only a quarter of land in the entire country is registered in the cadastre, while the process of registration is envisaged to last for another couple of years.

## **SIZE OF GOVERNMENT**

Size of government in Romania is modest, as compared to other European countries, with total public expenditures reaching 31.5% of GDP in 2016 – a significant decrease, due to policy measures to counteract the massive tax reforms. However, this led to a rising government deficit (expected to rise to 3.7% of GDP in 2017). Economic growth rates are robust, but expected to moderate down, while unemployment is at record low. One of the reasons has been in the government policy of increasing current spending at the expense of public investments. State owned enterprises in Romania are numerous and play a notable role in the economy, especially in the infrastructure and transportation sector. SOE corporate governance is weak, with low performance and profitability, relying on different government transfers and subsidies for needed investments, or in some cases even for day-to-day operations. Such situation is one of the reasons behind under-investment in public infrastructure. After several successful rounds of SOE privatization in previous years, further privatization of big SOEs is expected. After strong revisions of tax rates that took place in 2015, general VAT rate was further lowered in 2016 by one percentage point, to 19% (the rate used to be as high as 24%). Preferential VAT rate remains 9%, or 5% for certain products. Both personal and corporate income tax rates are flat, set at 16%. On the other hand, special energy taxes imposed in 2013, that were envisaged to be scrapped in 2015, are still in place and likely to remain so until 2020. Labour tax wedge in Romania is high, approximately 42%, which is the highest in the SEE region. Social contributions cap equaling 5 gross wages was lifted in January 2017.

## **REGULATION OF CREDIT, LABOUR AND BUSINESS**

Business regulation in Romania is mostly favourable towards business activities. However, as in other countries in the region, partial implementation of existing regulations can still be witnessed. Same goes for favouritism by government officials or open corruption. Regulation could also prove as unclear and prone to divergent conclusions, while government bureaucracy is not considered as efficient. Starting a new business is relatively easy and inexpensive, with low minimum capital requirements, but these procedures have been made more burdensome with the new process of VAT application. However, obtaining a construction permit and getting electricity grid connection are very lengthy processes, with many procedures and high fees. Labour market regulations are mostly flexible, but the maximum work hours` regulation that stipulates a 5-day workweek is restrictive, disallowing longer hours in case of an increased workload. Firing regulations might impose difficulties, through retraining, reassignment or reemployment obligations of the employer towards the redundancy workers, albeit with low severance payments. The minimum to average wage ratio in Romania is much higher than in many neighbouring countries, reaching 50%. It was increased in 2017 for another 15%, over the previous increases. Although wages in the country did experience growth in recent years, this measure may not be in line with productivity growth, especially bearing in mind the number of self-employed in the agriculture sector, which may have negative impact on low wage workers` employability. Legislation on national collective bargaining agreement are still pending in the parliament.

## **FREEDOM TO TRADE INTERNATIONALLY**

Freedom to trade internationally is mostly respected in Romania. The EU common trade policy has been implemented since EU accession in 2007. Therefore, tariffs are mostly low, with applied mean tariff rate of 5.3%. While manufactured goods are mostly tariff-free, imported agricultural products usually face higher tariffs. However, necessary product standardization and certification procedures pose a significant non-tariff burden, incurring higher import costs. Low public transportation infrastructure quality, most notably of the roads and railroads, serves as another impediment to free trade, resulting in high transportation costs and limiting trade volume. Recent curbing of public investments so as to increase current spending as well as low EU- funds absorption rate are limiting improvements in the area. Better management of SOEs in transportation sector, through at least partial privatization, could boost their performance. It is very hard and expensive to obtain work permits for foreign workers that are not EU nationals. The number of work permits allotted is set each year. Currently it is 5500. Romania is mostly oriented towards the EU common market. Its main trade partners are Germany and Italy, followed by other EU countries, with Turkey being the only non-EU country on the list of important ones. Danube transport corridor and the Black Sea serve as important trade hubs in the region, connecting east and west, especially for Ukraine and Russia.

# Russian Federation

GDP in 2016: EUR 1 157 998 million

annual growth rate: -0.2%

per capita: 8,070 EUR

by sector:

agriculture 4.7%

industry 33.1%

services 62.2%

Population: 143,440 thousand

Human Development Index

Government position in 2016

Unemployment rate: 5.5%

HDI: 0.804 (rank 49)

-3.66% of GDP

## A. POLITICAL FREEDOM



### FREE AND FAIR ELECTIONS

Electoral process in Russia abounds with irregularities and mechanisms that are preventing equal playing field for all political parties and politicians. Therefore, elections are neither free nor fair. After winning a slight majority at previous elections, Government of Russia decided to change legislation with amendments adopted to go in favour of ruling United Russia, led by Vladimir Putin. Mixed electoral system was once again reintroduced, allowing ruling party to capture 343 seats out of 450 in the State Duma – the lower house of the Russia bicameral parliament, at the September 2016 parliamentary elections. According to OSCE ODIHR, the process lacked fundamental freedoms and political rights, with numerous irregularities, from abuse of office in campaigning to tabulation of results. New electoral system had added certain contribution to it, since more autocratic regional leaders didn't restraint themselves in ensuring better results, further violating election freedom and fairness. Prosecution of opposition candidates continued to be a method for preventing them from competing. It remains open whether or not the leading opposition candidate Alexei Navalny will be able to compete on presidential elections in 2018, due to corruption charges brought against him.

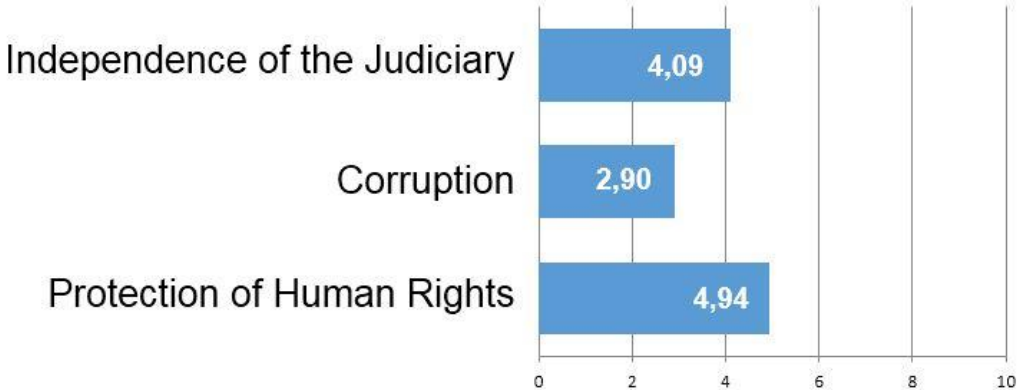
# ABSENCE OF UNCONSTITUTIONAL VETO PLAYERS

There are a few potential unconstitutional veto players in Russia, but their influence on decision making process is under control of the President Putin and his allies. Not only that the latter are in control of oligarchs, criminals or the church, but also of all three branches of power: legislative, executive and judicial. System of checks and balances exists only on the paper, in the situation often described as “state capture”. According to Freedom House, numerous changes of the appointees, prosecutions and arrests may suggest a struggle for political power among the political elite in the country. Corruption by public officials remains pervasive, often ending up in impunity. Arrest and prosecution of the Minister of Economic Development at the end of 2016 rather suggests at the previously mentioned struggle for power than at a political will to have dealt with corruption among high ranking officials.

## PRESS FREEDOM

Freedom of the media in Russia is largely restricted in practice. Extensive and repressive legislation is often used to censure media reporting, while journalists work in an environment of fear, with their freedom and independence being suppressed. There is a wide variety of traditional and online media outlets, however, Russian media landscape lacks pluralism of opinion, since majority of those outlets are controlled by government or their allies from business sector. State owned outlets show clear bias of ruling politicians and United Russia. Critical reporting on the political elite or on sensitive national identity issues is missing. In a case of RBK media group, which faced strong political pressure due to its reporting on alleged corruption in circles close to president Putin, several journalists and editors resigned. During the period under review, media workers have faced numerous intimidations, violence, prosecutions and pressures to resign, so as to narrow down their critical stance. Government increasingly restricted online freedom, and throughout the year several bloggers have been prosecuted and sentenced for their posts with content which was disallowed by Russian law, mostly referring to the occupation of Crimea.

## B. RULE OF LAW



### INDEPENDENCE OF THE JUDICIARY

Breakaway from international law continued. After the permission by the Constitutional Court of Russia to the government to selectively overrule decisions of the European Court for Human

Rights, another blow was, in November 2016, Russia's withdrawal of support to, and de facto ending cooperation with the International Criminal Court. According to the Freedom House, judicial independence in Russia decayed even further in 2016. High profile cases, especially those that affect relations to Ukraine, or deal with political dissent in Russia, are highly politicized - not least final court decisions but the course of the trails are politically controlled. At lower level, courts are increasingly inefficient, whereupon organized crime is rejuvenating and modernizing, e.g. creating nation-wide online criminal networks. Situation is even worse in some autonomous republics of the Russian Federation. In Chechnya it is the worst, with judiciary being directly controlled by the regional president. State ideologues and political and religious leaders of the country continue to explicitly reject the very idea of the rule of law, as "alien" to Russian tradition, national identity and desired way of life.

## **CORRUPTION**

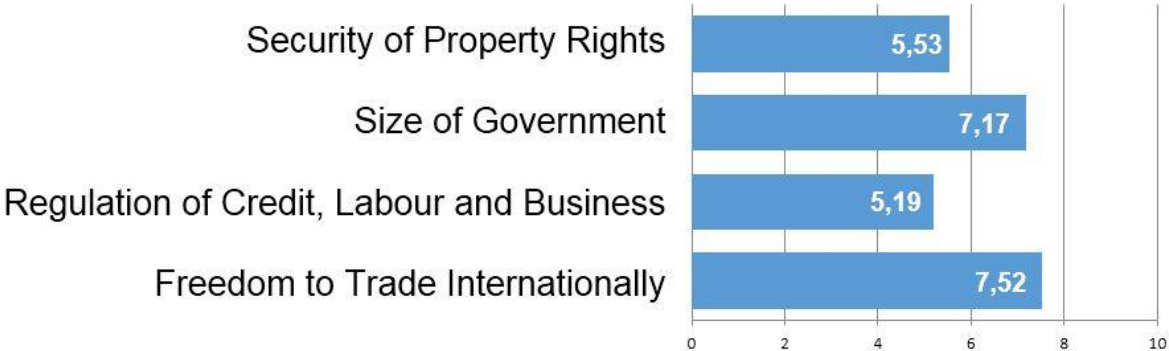
Situation has been stagnant for five years now, to it at a very low level. In 2016, Russia was ranked 131 (of 176 countries) by the Transparency International. Bribery rate is 33% - very high, however lower than in Central Asia, Azerbaijan or Ukraine. Corruption has been systemic. As Freedom House noticed, "extraction of administrative rent" is in-built at all levels of politics and administration. State controls 70% of the economy (itself dominated by extraction industries), which would make fruitless any anti-graft struggle even if there was political will for it. And there is not. However, with decreasing income from energy exports, coupled with Western sanctions, the pool for corruption shrank, misuse of office is more visible and people are more eager to point out at high level corruption. Revelations made by international or domestic non-profit organizations mount, including on the suspicious and unexplained wealth of two Deputy PMs, high officials of the Central Bank and numerous mid ranking politicians. Rallies by the political opposition, besides lack of media freedom or other purely political repression as talking points, increasingly focus on corruption. State bodies in charge of anti-graft launch corruption investigations selectively, focusing on disobedient politicians, or serving as agents of one or another competing faction or interest group within the regime.

## **PROTECTION OF HUMAN RIGHTS**

Human rights' situation in Russia is worse than in any other European country and it is further deteriorating. Freedoms of expression and association are freshly attacked through the implementation of the "foreign agent law", i.e. set of laws against any unauthorized trans-border NGO cooperation, whereby organizations were banned or blacklisted, and individual NGO activists and publishers fined, for not complying with an obligation to declare and display that they were "foreign agents". Regulation on public gatherings is restrictive, permits to dissenting groups are seldom issued and arrests of participants of the non-approved rallies (even the most renowned opposition figures) are common. Non-compliance with the index of books prohibited in public libraries leads to felony charges. Internet is censored, both formally and informally. Protection of ethnic minorities or immigrants against racist violence is shallow. The new regulation against domestic violence, carried in January and signed into law in February 2017, actually decriminalized some of its forms. Estimated 14,000 women die each year in Russia in some sort of family violence. New law might further endanger them, as well as children, and re-

traditionalize Russian family. There is no anti-discrimination protection of LGBTs. In some of the autonomous republics, the human rights situation is alarming. Especially in Chechnya, where in summer 2017 a proper concentration camp (the first one of this kind in Europe after WW2) was established, wherein most of the known gay and transgender people (at least 100) were rounded up and tortured to reveal the names of others. Some were killed, others released, while most were registered by authorities. In Russia-occupied and annexed Crimea, discrimination and mistreatment of the members of Tatar minority continues.

### C. ECONOMIC FREEDOM



#### SECURITY OF PROPERTY RIGHTS

Private property is not well secured in the Russian Federation. Improper government influence and corruption in the judiciary are perceived as high, while vested interest groups connected to political factors can exercise strong influence over the judiciary. Court decisions in similar cases differ, giving advantage to the party with political connections. That leads to unpredictability of verdicts. There are strong claims that authorities are transforming civil cases into criminal cases, leading to substantial increase in penalties. Private property could be seized by the state with the level compensation deemed unfair. Extortions committed by state officials, as well as corruption, remain present. On the other side, legal enforcement of contracts incurs low costs as compared to the value of the claim and is settled within a reasonable time limit of 340 days. The insolvency process is mostly terminated via piecemeal sale, contributing to a relatively low recovery rate of 38%. Although there are commercial courts, they do not use automated processes. Enforcing contracts has recently been made more difficult by making pre-trial resolution obligatory before filing a claim before the competent court. Foreign ownership of land in border or other sensitive areas is restricted, while in other cases foreign entities cannot own more than 50% of plots of arable land; the land could however be leased for the duration of up to 49 years. Government approval is necessary for investing in 45 specific areas and industries that are considered as having strategic importance.

#### SIZE OF GOVERNMENT

Public expenditures in Russia are moderate, reaching 36% of GDP in 2016. Russian economy experienced recession in 2016 due to low oil and natural gas prices - which accounted for two thirds of Russian exports and approximately half of the government revenues - accompanied by the EU trade sanctions and protectionist measures by the Russian government. However, energy

prices started rising from their historically low levels, almost doubling from January 2016, promising more positive economic prospects although with low growth rates. High budget deficit was recorded again in 2016 - reaching 3.6% of GDP, but public debt remains low by international comparisons, standing at 17% of GDP, providing substantial fiscal space. Inflation was substantially lowered from its very high level of 15% in 2015, but its new level of just over 7% remains high. New fiscal rules have been discussed, that would provide for a more rapid fiscal adjustment in case of lower energy prices. Taxation system uses flat rates, with minor progressive methods in determining the level of social contributions: personal income tax is 13%, VAT 18% and 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. Government activity through as many as 64 000 state-owned enterprises (SOE) is present in many sectors, not just in those that are legally considered as being of strategic importance, such as public utilities, mining, energy or production of military equipment, but also those in agriculture or services. More than half of the banking sector is in the hands of the state-owned banks. Numerous SOEs enjoy large direct or indirect subsidies so as to maintain their operation. Although government privatized 19.5% of the shares of the company Rosneft, broader privatization agenda was scaled down due to political pressure, because the return of economic growth brought back the old - loose - fiscal amenities. Therefore, further Rosneft equity privatization was postponed, as well as the privatization of the second largest bank, the VTB.

## **REGULATION OF CREDIT, LABOUR AND BUSINESS**

The Russian business environment is plagued with unnecessary administrative procedures, inefficient government bureaucracy and a high level of corruption, which is further fuelled by often vague and ill-defined regulation. Starting a business is both easy and inexpensive, without minimum paid-in capital requirement. However, it takes almost 8 months on average to obtain a construction permit, since the process involves a high number of procedures. Getting electricity is also lengthy, in part due to inefficiency of the SOE MOESK in charge of it, but the situation was made easier by eliminating the meter inspection. Costs involved are low by international comparison. The number of annual tax payments is low and most procedures are online, but the tax rules are still considered as complicated. Flexible working hours and low redundancy costs that are not increasing with the number of years in tenure make strong points in labour regulations, but firing regulations are at the same time complicated due to obligatory trade union notifications, redundancy rules and reassignment and/or retraining obligations. Centralized collective bargaining is mostly concentrated within the public sector, while the minimum wage is low as compared to international standards, set at approximately 20% of the average wage. A significant burden is the mandatory 12 months` military service. The system of comparing business climate on the regional level by the Agency for Strategic Initiatives led to an increased effort to improve business climate in several regions of the country. However, corruption and tax rates remain the most significant obstacles to a more business friendly environment in Russia.

## **FREEDOM TO TRADE INTERNATIONALLY**

Free trade in Russia is mostly respected. However, there are important exemptions: first of all, economic sanctions have been frequently used as a foreign policy tool in dealing with



neighbouring countries. Economic conflicts took place with Georgia, Moldova, even Belarus, while recently also with the EU and Ukraine. Secondly, the existing trade sanctions are used as a cover for a wide program of policy substitution, especially in the field of agriculture. The current import substitution policy is often responsible for creation of burdensome business regulation for imported goods in order to create advantage for domestic producers. For projects funded by the state, there is often a requirement that equipment is made in Russia. Russia became a World Trade Organization (WTO) member in 2012, which somewhat liberalized trade, but overall tariffs have remained elevated, with the average MFN applied tariff rate of 7.1%. Technical barriers to trade (TBT) are still not fully disclosed to the WTO and are seen as a burden to trade. Establishment of the Eurasian Economic Union (EEU) in 2015 did not significantly boost trade, due to lack of complementarity of economies included, and due to non-alignment of sanitary and phytosanitary measures, that remained outside the supranational authorities. Introduction of new labour regulations significantly restricted prospects for foreign migrant workers - inclusion of mandatory language and culture test, and, most importantly, very high license fees, have proved as a significant barrier to their inclusion into the labour market. Two thirds of Russian exports are fuels and minerals.

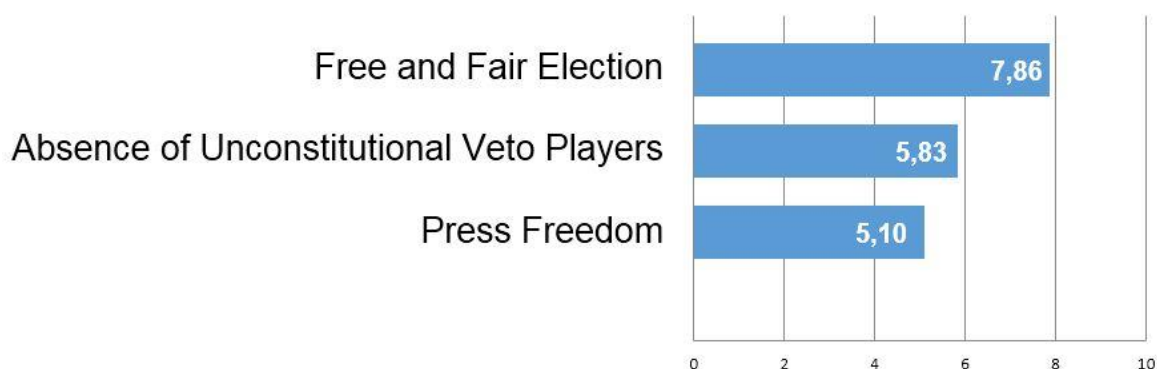
# Serbia

GDP in 2016: EUR 34,128 million

annual growth rate: 2.8%	per capita: 5,190 EUR	by sector:
		agriculture 9.7%
		industry 42.7%
		services 47.6%

Population: 7,021 thousand	Human Development Index	Government position in 2016
Unemployment rate: 15.9%	HDI: 0.776 (rank 66)	-1.28% of GDP

## A. POLITICAL FREEDOM



### FREE AND FAIR ELECTIONS

As already noted in the 2016 edition of Freedom Barometer, freedom and fairness of elections have decreased in Serbia, due to 2016 early parliamentary elections that abound with irregularities. Fraudulent voting procedures, abuse of authority and pressure on public servants were all part of the electoral process that created uneven playing field dominated by the ruling parties. Incumbent government composed of Serbian Progressive Party (SNS) and Socialist Party of Serbia (SPS) continued its ruling from August on, with Aleksandar Vučić as the Prime Minister, although lasting for less than a year. Citizens in Serbia live in an environment of constantly held elections, regular or snap. In 2017, regular elections for President of Serbia were held. PM Vučić ran as a presidential candidate, winning in the first round, with 55% of the votes. According to OSCE ODIHR, a distinction between campaign and official activities by the PM was effectively blurred, benefiting his position and allowing him to dominate in the elections. Following his assuming of the office of President, in June, a new Government was elected in the Parliament, with Ana Brnabić as the PM. She served as the Minister of Public Administration and Local Self-government during the previous term.

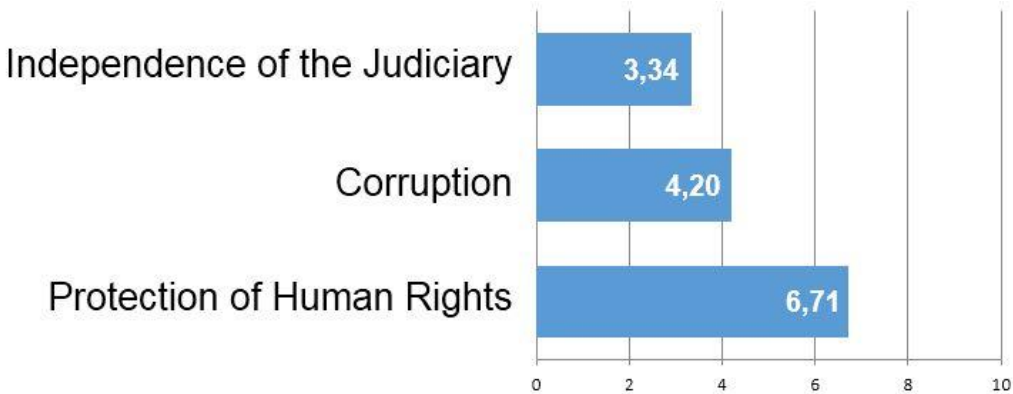
# ABSENCE OF UNCONSTITUTIONAL VETO PLAYERS

Serbian authorities have effective power to govern the country and there are no unconstitutional veto players able to undermine decision making process. However, the biggest threat to country's democracy is coming from the ruling elite and weak system of checks and balances. When elected as President of Serbia, Aleksandar Vučić shifted the informal power in the country from Prime Minister to presidential position. Both executive and legislative branch are dominated by his authority, while judiciary often goes in line with governmental stance. Corruption among officials, allegedly strong informal influence of secret services and tight connections of politicians to businesses or to organized crime, remain as matters for concern. Also, Serbian Orthodox Church often sought to interfere into politics and shape the public opinion on some sensitive issues, such as Kosovo, however their influence has been weak.

## PRESS FREEDOM

Freedom and independence of media in Serbia continue to decline due to serious challenges faced by media outlets and journalists. Government make use of both political and economic pressure to influence their reporting, thus biased coverage prevails in both the traditional and online media. Critical outlets, especially investigative journalism, are often targeted by the hostile statements of the highest officials in the country, as well as by state-controlled tabloids. Editorial policy is mostly driven by public funding, resulting in self-censorship by the editors and journalists, and in the lack of balanced reporting. Environment of fear from losing job or being a target of intimidation, threats and violence, surrounds journalists. Many of them lost their jobs or their shows have been terminated. Physical and verbal attacks against journalists are in increase. During the inauguration of the newly elected President, several journalists from various outlets were attacked by unknown civilians pretending to be security staff of the event.

## B. RULE OF LAW



### INDEPENDENCE OF THE JUDICIARY

Bad situation in judiciary is very slowly improving, if at all. Lack of independence, efficacy, efficiency and integrity of the judiciary is the most important deficiency regarding rule of law in Serbia, the biggest obstacle to freedom and the most demanding task along the reforms needed for EU-accession. Thereby, political pressure on courts (rather not to do, than to do something)

is merely a tip of an iceberg. Political influence on law enforcement sector (police, prosecutors), or on various regulators, is even stronger. Their willingness to react and their efficiency highly depend on the hints which they get from the executive branch of power. The Savamala incident as of April 2016 is thereby paradigmatic. It is officially still in the “pre-investigation” phase. Non-political illicit influences on courts (by powerful interest groups and/or via corruption) are stronger than direct political pressure and sometimes produce decisions that differ from the wishes of the executive yet also from what justice normally required (such as acquittal of tycoons or expiry of their cases in spite of the serious indications of illegalities). After years of keeping low profile, judges` professional associations recently started advocating faster reforms.

## **CORRUPTION**

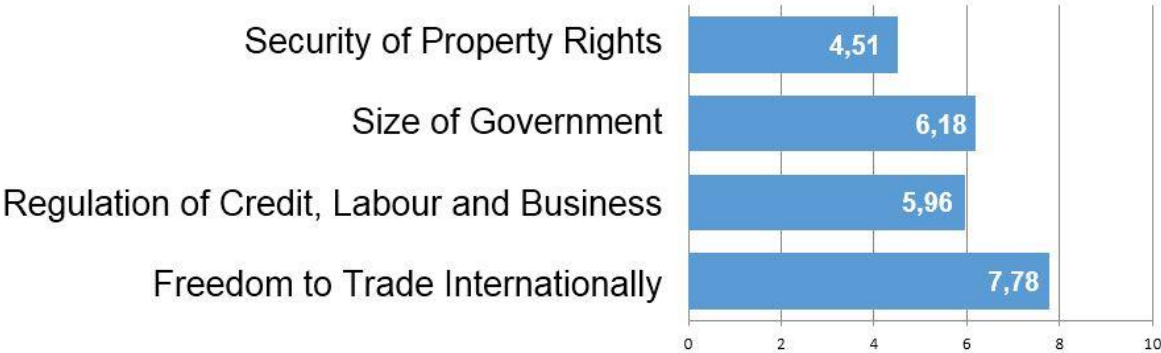
The anti-corruption campaign of 2012 - which skyrocketed the popularity of Serbia`s leader (now President) Aleksandar Vučić - is all history. Old tycoons are getting away with past irregularities (some acquitted, others having had their cases expired), while new ones are emerging. Suspected corruption cases involving the acting high officials are not investigated, while whistle blowing media or NGOs, or other critics, are smeared. Despite promises, there is even less transparency in the biggest public-funded projects. Political manipulation with the Anti-corruption Agency, its marginalization and ignoring it by the law enforcement sector intertwine each other. Other independent state institutions are listened to by the government only selectively. At the local level, it is even worse – most of the local governments do not even have proper anti-corruption bodies. Petty corruption is also widespread. As portal GAN noted, “the prevalence of bribery exceeds the regional average”. Overall, both the EU`s Progress Report 2016 and the Transparency International`s Corruption Perceptions Index 2016 showed that there was no progress in suppressing corruption in Serbia lately. The latter survey put Serbia to the place 72 of 176, together with Burkina Faso and Solomon Islands.

## **PROTECTION OF HUMAN RIGHTS**

During the past year, Serbia witnessed breakthroughs in certain fields of human rights, while push-backs in other. The only field where otherwise benevolent European Parliament resolution on Serbia as of June 2017 claimed there was no progress at all had been freedom of expression, in connection with the situation in media. Many CSOs point out also at the endangered rights (or freedoms) in the fields of privacy, legal remedy, academic honesty, access to information, secularism, freedom of gathering, political neutrality of the administration, or numerous others. War crimes investigations and trials, as well as overall getting rid of the ruling narratives of the 1990s, still lag behind the needs of regional reconciliation and EU integration. Convicted war criminals who served their terms participate in public life without repent even in places and events where the government or the ruling parties are in full charge. Hate speech is often heard or read, whereby there is practically no remedy against the worst kinds of defamation if practiced by pro-government actors. On the other hand, climate is changing for better regarding a few other aspects of human rights. In June 2017, Serbia has got the first woman and first LGBT person ever, Ana Brnabić, at the position of its Prime Minister. Women also hold positions of the Speaker of Parliament, Governor of the Central Bank, Minister of Justice, etc. Legislative and law enforcement activities to curb domestic violence are relentless. Each year around, Belgrade Pride

or some other LGBT events are taking part with less tension and slightly less need for police protection, even though homophobia is still very strong across society. Ethnic minorities (Hungarians, Bosniaks, Croats) are getting ever more space for integration into the political and social mainstream. Alas, the empowerment of Roma goes slower. Despite setbacks after the closing of the Western Balkans route (such as mixed police-army patrols at the southern border), Serbia's treatment of refugees is still decent, whereby the government skilfully neutralizes occasional outbursts of xenophobia in various walks of life.

### C. ECONOMIC FREEDOM



#### SECURITY OF PROPERTY RIGHTS

Private property in Serbia is not adequately protected. Judiciary and especially the Prosecutor's Office are not independent from the strong out-of-court influences. The executive branch of government has a constitutionally significant role in appointment of judges, which will require changes in the Constitution along the further EU accession process. The recent Savamala affair, which showed to what extent government agencies were compromised to serve particular private interests, has not yet been resolved due to obstruction and lack of political will. Corruptive practices are present within public institutions, including the judiciary and Land Register. Legal enforcement of contracts is an inefficient process due to time consuming and expensive legal procedures. Judicial rulings are often inconsistent across different courts and judges. First level courts also often lack sufficient knowledge and expertise to assess more complicated issues, thus numerous cases are automatically transferred to appealation courts. Bankruptcy procedures are long, with low recovery rate of only 33%. Ownership of agricultural land is restricted to Serbian nationals only, but this restriction is circumvented by registering a domestic legal entity owned by a foreign national, so this regulation affects only foreign natural persons. However, nationals of the EU, under the Stabilization and Association Agreement will eventually have the right to acquire land. Land Register office coverage is restricted mostly to bigger cities, while the performance of its local branches varies significantly. The one year deadline for the application of the law on the conversion of the right of usage of land to the land proprietorship, during which this process had been postponed, passed in July 2016. Since then, land proprietorship has been a prerequisite for obtaining a building permit, which would expectedly help clarify property rights.

## **SIZE OF GOVERNMENT**

Size of government in Serbia is much more pronounced than in other transition countries on the same level of development, with the government consumption reaching 43.5% of GDP in 2016. In order to curb high public deficits that had been piling up since 2008, a fiscal austerity program was introduced in 2015 with the support of the IMF. It successfully decreased expenditures through several measures, the most important thereof having had been a 10% reduction in wages and pensions. Higher revenues than envisaged, due to better performance of the economy and higher tax collection rates, were used to somewhat loosen some of the measures, but the program as such has still been on. Public debt, which had reached 74% of GDP in 2016, has now been on a downward trajectory. The unsustainable pension system and bloated public wage bill remain at the core of public finance problems, followed by direct or indirect subsidies to inefficient state-owned enterprises (SOE). The process of privatization or liquidation of SOEs in restructuring is still under way, due to political pressures, although it was initially envisaged to be completed by 2015. The process is not considered as transparent, fuelling concerns of corruptive activities. There are still numerous SOEs that are not envisaged for privatization, most notably in sectors such as mining, telecommunications, energy, transportation and banking. Corporate tax is set at 15%, while personal income tax is at 10%. High social security contributions, however, lead to a high labour tax wedge of 38.9% which, coupled with a weak institutional setting (tax authorities and labour inspectorate), fosters widespread shadow-economy activities and employment.

## **REGULATION OF CREDIT, LABOUR AND BUSINESS**

Serbia still does not pose a very much business-friendly environment. Several reforms in recent years have improved the existing regulatory framework (labour code, law on investments, construction licenses regulations, inspectorate etc.) but the biggest challenges remain in the field of partiality of government officials in dealing with businesses. Corruption remains another obstacle to a better environment. Regulations are often complicated and non-aligned with one another. Starting a business is an efficient process, being fast, inexpensive and without paid-in minimum capital requirements. Registering property is but a lengthy procedure, due to inefficient land registry, which still does not cover all land titles. Recent introduction of time limits is expected to make their dealings more expedient. Obtaining a construction permit has been made more business friendly, by significantly lowering the number of procedures and time limits, opening a one stop shop for investors and using electronic tools. Getting connection to the electricity grid imposes enormous costs, due to inefficient public-owned energy-distribution company and its high fees. Compliance with tax procedures is also burdensome, with complicated and sometimes contradictory regulations, exacerbated by the high number of annual payments and lack of expertise or resources by the public tax authority service. The most problematic factors for doing business are considered to be high tax rates and inefficient government bureaucracy. Labour market regulations are a mixture of flexible and restrictive solutions: working hours' regulation is flexible, but fixed-term contracts are prohibited for permanent tasks, while their maximum duration is anyway limited to just 24 months. Severance pay increases in accordance with years in tenure, protecting the seasoned workers, but notice periods do not. The minimum wage is high as compared to the average wage, reaching almost

50% of the latter, which is fostering activities in the undeclared economy, especially among older or people with lower education attainment.

## **FREEDOM TO TRADE INTERNATIONALLY**

Freedom to trade internationally is generally upheld in Serbia. However, the country is, alongside Bosnia and Herzegovina and Belarus, in a small group of European countries that are not members of the World Trade Organization. Serbia's main trade partners are the EU countries, Western Balkan countries and the Russian Federation. Therefore, majority of its trade is conducted under the Stabilization and Association Agreement (SAA) with the EU, Central Europe Free Trade Agreement (CEFTA) with countries of the WB region, and bilateral preferential trade agreements. Main trade disputes are thus settled on a bilateral basis, which is slow and unreliable. Tariffs are mostly low, apart from agriculture products. The simple average applied MFN tariff is 7.4%. But non-tariff trade barriers are also in place, with complicated standardization and licensing procedures. The process of EU accession will further reform Serbia's regulations in this area and get them more in line with the EU rules. Temporary variable tariffs on imported dairy products that were in place as of 2015 were finally abolished in December 2016. Customs agency is considered as inefficient, following complicated regulation. The institution lacks modern equipment that would enable it to use more online tools. The recently introduced New Computerized Transit System has significantly reduced transit burden, which is important for Serbia as a major trading hub due to its geographical position. However, low quality of transport infrastructure, especially the railroads, leads to high freight cost, hampering trade. Construction of the E10 and E11 international corridors is underway, but improvements are slow. Political uncertainty regarding Kosovo hampers trade with it, but the ongoing dialogue process facilitated by the EU, which included chambers of commerce, has somewhat improved the situation.

# Slovak Republic

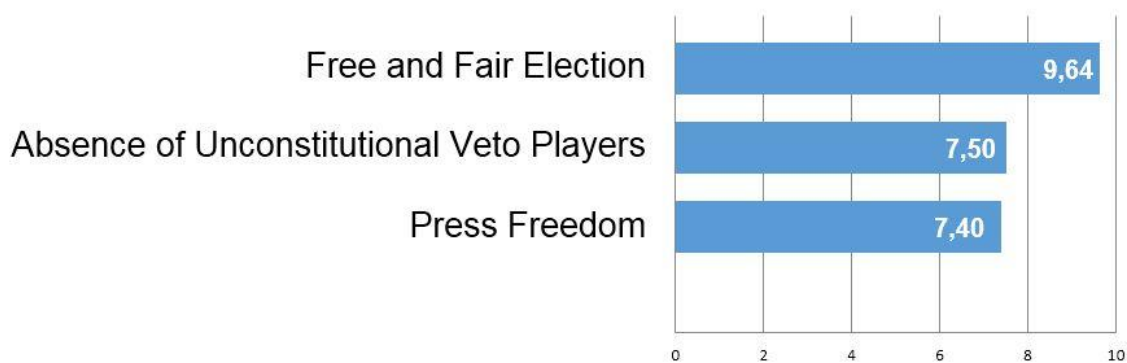
GDP in 2016: EUR 80,958 million

annual growth rate: 3.3%	per capita: 14,920 EUR	by sector:
		agriculture 3.6%
		industry 31.6%
		services 64.8%

Population: 5,426 thousand      Human Development Index      Government position in 2016

Unemployment rate: 9.7%      HDI: 0.845 (rank 40)      -1.98% of GDP

## A. POLITICAL FREEDOM



### FREE AND FAIR ELECTIONS

Freedom and fairness of the electoral process in Slovakia is on a high level. In such manner, the elections for the Slovakia's 150-seats unicameral parliament were held in March 2016. Members of parliament are elected based on proportional electoral system. Unlike previous convocations, when one single party ruled the government, this time a coalition of four parties was formed, named Direction – Social Democracy, Slovak People's Party, Bridge and Network parties, and led by Prime Minister Robert Fico. However, Network went out of the government only few months upon its formation, due to internal disputes over the party course. Prime Minister and Deputy Prime Minister faced no-confidence vote in September 2016, however only 36 MPs voted for their dismissal. Regional elections were set for the end of 2017, with ruling parties losing support according to opinion polls.

### ABSENCE OF UNCONSTITUTIONAL VETO PLAYERS

Democratically elected government has virtually unchallenged power to govern the country, since there are no unconstitutional veto players in Slovakia who could undermine the system. Cases of

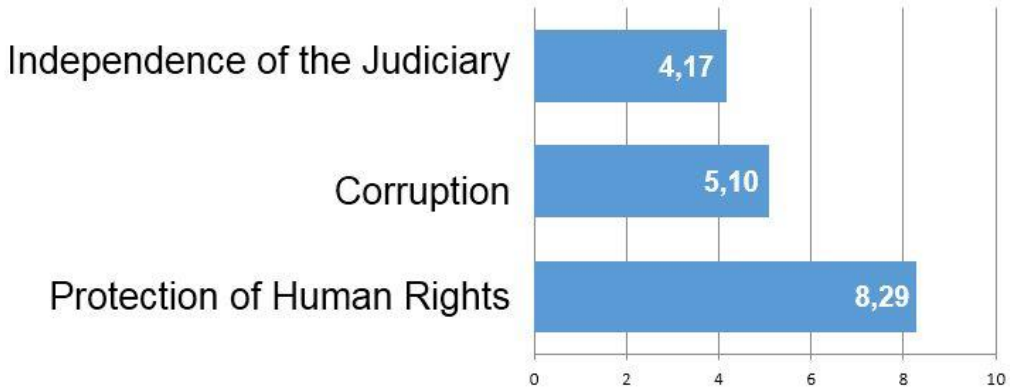


corruption among high ranking officials occur, confirming that certain illicit relations between wealthy businessmen and politicians still exist. One which brought the most of attention and which led to a no-confidence vote (see Free and Fair Elections section) was the case of Robert Kalinák, incumbent Deputy Prime Minister, who was accused of having close business ties to a wealthy businessman Ladislav Basternak and of helping the latter to avoid prosecution.

### PRESS FREEDOM

Broadcast, print and online media outlets in Slovakia are free to operate and independently express their views. Certain threats to media independence arise from a strict defamation law, often interpreted against the interests of the sued journalists. That can lead to their self-censorship. Harsh rhetoric toward critical media outlets by government representatives are common, with Prime Minister Fico dominating in creating a hostile environment for journalists. Concentration of media ownership remained an unresolved problem in Slovakia. Public broadcasters are regulated by the Council for Broadcasting and Retransmission, whose members are appointed by the Parliament.

### B. RULE OF LAW



### INDEPENDENCE OF THE JUDICIARY

Judiciary in Slovakia has become more independent during the past few years, although in comparison with neighbouring Austria and Czech Republic, or even Romania and Poland, it is more dependent on political pressure, special interests or corruption. Yet the situation is better than in Hungary or Ukraine. Judiciary is more trusted by the citizens than before, mainly due to self-purge done by judiciary itself, but also to the natural rejuvenation among judges (retirement of the old-style ones and arrival of the better educated younger ones). In 2016, Constitutional Court operated with just 10 out of 13 envisaged members, due to the row between the President and Parliament over the appointment of new members. There are tendencies, both by the CC and by the state President Andrej Kiska, to establish a genuine system of checks and balances instead of an overall domination of the parliamentary majority.

## **CORRUPTION**

Slovakia gradually albeit considerably progressed in fighting corruption during the last two decades. With a score of 51/100 in the Transparency International's Corruption Perceptions Index 2016, it has arrived to the better side of the division-line between less and more corrupt countries of the world. It is ranked as 54 (out of 176). But, among EU-28, it is 22<sup>nd</sup>. The FNF's own analyses told that progress, as compared to the utterly corrupt and failed state in the pre-1998 period, was largely to thank to the democratic orientation of the governments and civil society, EU support during the accession process, bold liberalization and deregulation of the economy and improvements in governance in general. However, not all organizations which are monitoring corruption internationally share such optimism – for instance, World Economic Forum equals Ukraine and Slovakia in levels of corruption. Despite promises to make anti-corruption struggle priority of his third term, PM Robert Fico has protected some of his Ministers exposed by CSOs as being in conflict of interest or maintaining illicit ties to business sector. In mid-2017, the accusations mounted against the Minister of Education, for his alleged mishandling of the EU funds. As for corruption in various parts of the administration, in December 2015 the portal GAN assessed the risk as high in judiciary, public procurement and public services, moderate in tax administration and low in police, land administration and customs.

## **PROTECTION OF HUMAN RIGHTS**

With its constitutional ban on same-sex marriages and complete disinterest in providing substitutes, Slovakia is in the group of members who fall below the average EU standards in the field. But, the biggest issues are still Romany and EU-assigned quotas for refugees, as well as the interconnected racism, xenophobia or religious hatred. In spite of a presence of Roma in politics (including among MPs), discrimination all too slowly retreats. Some lawsuits over forced sterilization during past decades are still dragging on. Percentage of Roma children in de-privileging “special” schools (for mildly mentally disabled) is still unusually high. A new legislation against it is still to bring results. Elsewhere, ethnic segregation persists. Atop those, new kinds of xenophobia rise with the hatred against, or distance towards refugees or other migrants, especially those from MENA or Muslim countries. Amnesty International, in its report for 2017, wrote about discrimination of customers from Turkey or Arab countries in a guesthouse in the capital Bratislava. Slovakian PM Fico verbally abused or denigrated migrants from MENA countries on numerous occasions, refusing to join the common EU system of quotas for reception of asylum seekers. New regulation on religious communities stipulates the minimum of 50.000 - instead of, so far, 20.000 - members per community to qualify as a “registered religion”. On the positive side, freedom of association, speech and expression, developed and not much disturbed civil society sector, and, non-neglect, also a remarkable level of economic freedom, all being a fruit of the post-1989 and post-1998 developments, still make Slovakia a country with acceptable record in human rights.

## C. ECONOMIC FREEDOM



### SECURITY OF PROPERTY RIGHTS

Property rights in Slovakia are mostly respected. However, there are many problems plaguing the judiciary in the country. Judicial independence and impartiality in dealing justice are not sufficiently upheld. Court verdicts are often poorly written and justified, leading to court unpredictability. Public trust in courts is among the lowest in the EU, and judge selection system is not free of nepotism. Manipulation of the case assignment system is possible for judges occupying higher posts in the hierarchy. There are no specific courts for commercial cases, but only general courts, which is also posing problems, since many judges lack specialized knowledge in some specific commercial areas. Enforcement of contracts remains one of the most important problems in the judiciary, since on average it takes 2 years from the filing of the documents to the actual enforcement of the ruling. Bankruptcy procedures are also very lengthy, lasting up to 4 years, recovering little over half of the claim in average. Amendments of the bankruptcy legislation, both in 2015 and 2016, were adopted with the goal of preventing preferential treatment of creditors over rights of the shareholders. There are restrictions on foreign ownership in certain industries, such as in air transport or energy, but these are not prevalent. Expropriation of private ownership is possible, but only in the public interest and coupled with an adequate compensation; the new law on expropriation was adopted in July 2016, since the previous one was found as unconstitutional. Since 2011, disclosure of all contracts made by public administration or by SOEs had been a pre-condition for them to become valid, which has considerably undermined corruptive practices.

### SIZE OF GOVERNMENT

Government expenditures in Slovakia are in line with other CEE post-transition countries, standing at 42% of GDP in 2016. Moderate public deficits are within the Maastricht criteria, but future spending due to alarming demographic changes should call for serious reforms. Public debt is also moderate, reaching 52% of GDP in 2016. It is expected to remain stable, or decrease. However, this level is very close to the legal public debt brake. There have already been discussions regarding amendments so as to create space for investments outside it. Slovakia has been recently experiencing strong growth rates, spurred by rising investments due to FDI and rising private demand due to decreased unemployment and rising wages, although EU structural funds allocation fall led to a lower investment level than expected. State-owned enterprises (SOE)

are present in the economy and play a very important role in sectors considered to be national monopolies, most notably transport and energy. There are no privatization plans currently in place; in fact the government confirmed in February 2017 its commitment to a ban on further privatizations in “strategic industries”. Privatization was often connected to corruption and politics, leading to its bad image. SOE management is not regarded as efficient as their counterparts in private sector or in SOEs in other OECD countries. Taxes are moderate for European standards: corporate tax is set at 21% (one percentage point decrease from its previous level), while income tax is moderately progressive at 19% and 25%, upon a relatively high threshold. Due to high social security contributions, labour tax wedge stands at 41.5%, above the OECD average.

## **REGULATION OF CREDIT, LABOUR AND BUSINESS**

Business regulation is not perfect, but it is mostly conducive to entrepreneurial activities. Starting a business is easy and inexpensive, with the one stop shop office, but the minimum paid in capital of 2500 euro is unnecessarily high. This is, actually, often circumvented by just signing a declaration that the proprietor owns this sum. Obtaining a construction permit is a long process, mostly due to long and inefficient procedure at the municipality level, but it incurs very few actual monetary costs. Compliance with tax rules is burdensome, requiring long working hours, although most of the tax compliance is done online, most visible in the recent case of VAT electronic filing. Recent improvements include lowering the total number of property tax payments. Getting electricity is expensive, but overall not a very burdensome task. Inefficient government bureaucracy, corruption and restrictive labour regulations are often considered as biggest obstacles to a better business environment. Labour regulation changes that were made in 2015 regulated work through an employment agency, which decreased flexibility, since this area was not regulated prior to this action. The minimum wage is now following indexation, in line with the rise in the overall wages in the economy, a procedure that is expected to lessen political influence in determining its level; however, there was a significant rise of almost 10% in the minimum wage in 2017. Although labour regulation is overall flexible, fixed term contracts are restricted to the duration of only 24 months. Working hours are flexible, with the maximum number of work days a week being 6. But, the total number of overtime hours is limited to 400 annually. Reassignment obligations in case of redundancy, as well as trade union notification, pose obstacles in case of firing of redundancy. Notice periods, as well as severance pay, rise with the years in tenure, thus going in favour of more seasoned workers.

## **FREEDOM TO TRADE INTERNATIONALLY**

Freedom to trade is mostly respected in Slovakia, since production specialization is very important for all small and open economies. Slovakia is the most open-to-trade country among the new post-2004 EU members, with the highest level of exports in GDP, reaching 90%. The country has a very high FDI per capita stock, and is host to a very strong vehicle industry. As an EU member state since 2004, Slovakia implements the EU common trade policy. Therefore, tariffs are low, with the average mean tariff rate of 5.3%. Tariffs are mostly focused at the agricultural sector. However, non-trade barriers remain, such as in the field of necessary product certification and standardization. Slovakia is, due to its favourable geographical location, one of

the major transit countries. Good quality of its public transport infrastructure is important to free trade, enabling timely and cheap transport, although the infrastructure in the eastern part of the country is less developed, and port facilities on the Danube are not satisfactory. Custom procedures are efficient, with low administrative procedures, requiring only 4 documents both for imports and for exports. Obtaining residence and work permits for non-EU nationals is often considered as burdensome and time consuming, and is often made more difficult by the low usage of foreign languages by the administration.

# Slovenia

*GDP in 2016: EUR 39,769 million*

*annual growth rate: 2.5%*

*per capita: 19,270 EUR*

*by sector:*

agriculture 2.3%

industry 33.6%

services 64.1%

*Population: 2,064 thousand*

*Human Development Index*

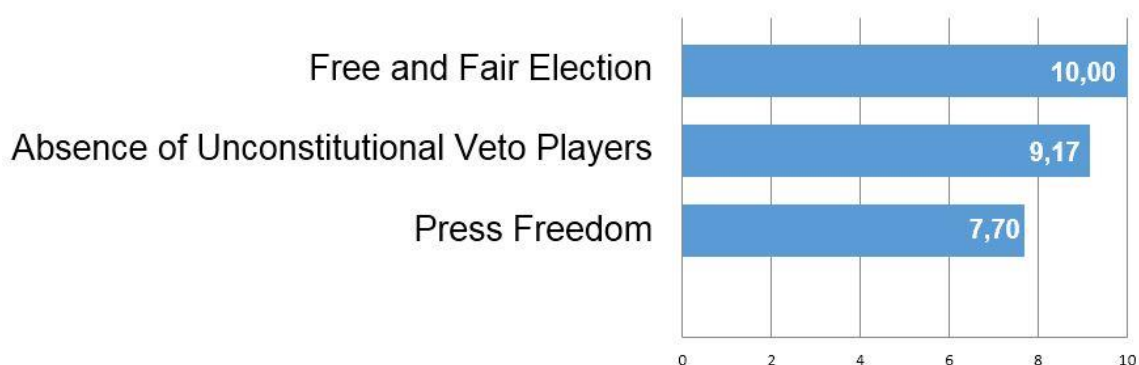
*Government position in 2016*

*Unemployment rate: 7.9%*

*HDI: 0.890 (rank 25)*

*-1.78% of GDP*

## A. POLITICAL FREEDOM



### FREE AND FAIR ELECTIONS

Free and fair elections are commonly held in Slovenia since its independence. Citizens are able to freely exploit this constitutional right and vote for parties from all sides of ideological spectrum. Throughout the last year, there were no elections or some major political happenings. Governing coalition led by Prime Minister Miro Cerar from the Party of the Modern Center remained stable, although certain disputes and dissatisfaction occur among coalition partners. Due to a weak coalition and cooperation potential of the Slovenian Democratic Party leader Janez Janša, opposition doesn't represent a serious challenge at the moment. Elections for largely ceremonial presidential position in Slovenia were scheduled for October 2017, with the incumbent president Borut Pahor running for his second term and leading in the opinion polls.

### ABSENCE OF UNCONSTITUTIONAL VETO PLAYERS

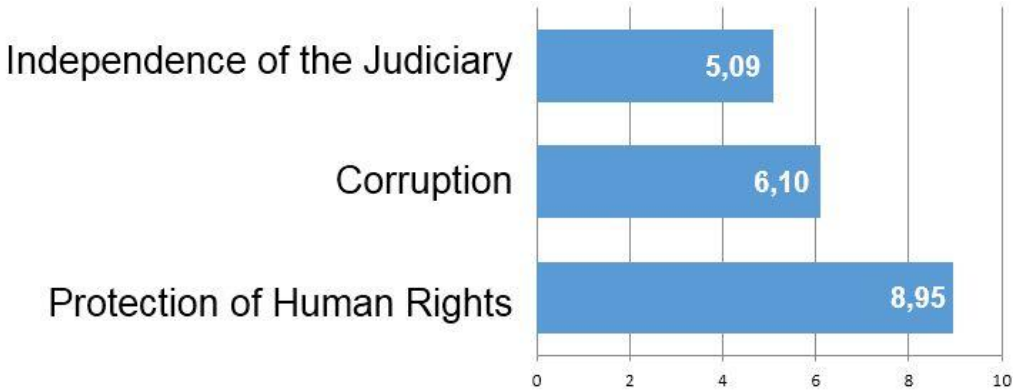
There are no unconstitutional veto players in Slovenia. All three constitutional branches of power are free and independent in their work, set in a way that provides stable and efficient democracy. Security forces are under effective civilian control. Corruption among officials is not pervasive in

Slovenia. Nevertheless, some cases of alleged high profile corruption were brought to the public. In the Transparency International 2016 Corruption Perception Index, the country is ranked as 31<sup>st</sup>, along with Taiwan, Qatar and Barbados.

### **PRESS FREEDOM**

Freedom of the press is granted by the constitution in Slovenia and to a significant degree upheld in practice. Landscape of both traditional and online media is diverse and plural, giving citizens opportunity to have access to different views and opinions. Alas, there are two bad practices in Slovenian media: defamation is a criminal offense, and media outlets which report in favor of ruling politicians are usually getting more finance through advertising of state-owned enterprises. Both practices could pose a danger to journalists` independence. The latter practice is in decline. Also, traditional media outlets are often politicized, especially at the local level.

### **B. RULE OF LAW**



### **INDEPENDENCE OF THE JUDICIARY**

In June 2017, international Arbitration Court ruled in the border dispute between Slovenia and Croatia caused by imprecise pre-1991 cadastre and land registries in communist Yugoslavia. Even though some of its demands on sea and majority regarding river-border were not met, Government of Slovenia promptly accepted the decision. In other areas too (such as investment or other commercial disputes), Slovenia accepts the principle of international arbitration. Slovenia`s own judiciary enjoys a mottled record of integrity and independence. Citizens perceive it as free of direct bribery (although companies are thereby a bit skeptical), but heavily exposed to political interference, especially in corruption cases. Court efficiency was bad for long – the backlog of cases was serious - but it has recently been improving. Constitutional Court proved its relative independence from both the government and the public opinion, but it faced objections for alleged right-wing bias. Political row over the head of the Supreme Court, as well as bipartisan political deal over nomination of two CC judges (as of July 2016) actually proved that there was a desire by politics to interfere with judiciary.

## **CORRUPTION**

Despite slow improvement, Slovenia has year and again lagged behind countries it would like to be compared with regarding corruption purity (such as Austria or Estonia). Experts disagree on whether the reason is just political (not enough will to let institutions work) or it is systematic (incomplete transition from dirigisme to market economy). Some experts even blame the alleged state capture by ex-Yugoslav secret services as the main source of corruption. Transparency International's Corruption Perceptions Index 2016 has put Slovenia to the place 31 of 176 (together with Barbados, Qatar and Taiwan), with a decent score of 61/100. Global Corruption Barometer 2016 found the bribery rate at just 3%, the smallest in ex-communist countries of Europe. Still, 59% of citizens regarded corruption as one of the three main problems of the country, 77% though that the government performed badly in fighting it, while just 25% thought that parliament was to blame for the situation. In spite of the best regulation of lobbying in the entire EU (by a TI's assessment as of 2015), a scandal erupted in September 2016 regarding illicit access of lobbyists to some ministries. Besides military procurement and urban development in the past, health care procurement has recently also come into focus of attention of the anti-corruption minded public. Privatization of the main state-controlled bank is constantly delayed, thus leaving further ground for "political loans".

## **PROTECTION OF HUMAN RIGHTS**

With accelerated payback of the "old banking deposits", Slovenia is resolving the last remaining problems regarding restitution of private property seized during communism, or blocked during immediate post-communist times. Most civil liberties in Slovenia are guaranteed and freely enjoyed. Freedoms of speech, association or religion are highly respected. While members of some minorities are well accepted by vast majority, be they native minorities or Yugoslav-times' or globalization-era immigrants (all three might be found among the directly elected Mayors), others still struggle to overcome discrimination, such as Romany, or those "erased" from citizenship after independence in 1991. In March 2017, another step was made in equaling the rights of LGBTs to other citizens', with same-sex weddings introduced. In 2015, a national referendum produced a ban on child adoption by those couples. Remarkable number of ministerial posts (8/17) or MP seats (33/90) held by women shows an improvement regarding women participation in politics. Discrimination at work is in retreat, while gender pay gap fell well below 10%. Prostitution is legalized, yet measures against trafficking of women (for forced prostitution) or children (for begging) are still insufficient. Initial Slovenia's reaction to the migration challenges as of 2015 was building a wired fence somewhat similar to Hungary's. In spite of the subsequent closing of the Western Balkans route the barrier was only partially removed. Slovenia started participating in the EU program of resettlement of asylum seekers from Italy and Greece.



## C. ECONOMIC FREEDOM



### SECURITY OF PROPERTY RIGHTS

Property rights in Slovenia are mostly respected. Government holds the right to expropriate private property in case of public interest, but it is seldom exercised, whereby monetary compensation must be in line with the perceived market value. There are certain restrictions and limitations to foreign (non-EU) ownership in several sectors, mostly in financial services and banking, gaming and air and maritime transport. Judiciary is mostly independent from out-of-the-court influences, but there are some reports regarding influence of the political elite on the judiciary in high profile cases. However, judiciary still holds very low level of trust among the broad population when compared to other civil service branches, and courts are not considered as fully impartial. Low efficiency of court dealings, which result in very long judicial processes, significantly undermines the rule of law in the country. On average, a trial lasts longer than 3 years. One of the reasons for the situation is the high number of over 100 000 old cases that still haven't been resolved, further augmented by lax adjournment regulations, with no maximum number of adjournments and a frequent use of the mechanism. On the other hand, resolving insolvency is streamlined, with relatively quick procedures, very high recovery rates and low costs. Most cases are resolved via going concern sales. Registering a property is an unnecessarily long procedure – albeit inexpensive - due to long data entry at the Land Register and tax determination at the Tax office.

### SIZE OF GOVERNMENT

Government expenditures in Slovenia are slightly below European average, reaching 41.5% of GDP in 2016. Bulk of expenditure consists of social transfers, aimed at income redistribution through welfare programs. Public debt is high, standing at 79% of GDP in 2016, but for the first time since the 2008 economic crisis the debt is on a downward spiral, mostly due to robust growth and lower deficits, which enabled Slovenia to exit the EU excessive deficit procedure by mid-2016. But the debt level still poses significant macroeconomic risk. Economic prospects for the time being are positive, with solid growth rates, but low investments compared to other ex-transition economies and still high NPLs within the banks continue to raise concerns. Since there was never a full scale privatization program in Slovenia, state-owned enterprises (SOE) are present in many areas of the economy, especially in banking and insurance, energy, transport and telecommunications, within an intricate web of cross-enterprise ownership. Troubled SOEs are

usually linked to big state banks with increasing level of NPLs, which further aggravates risks for public finances. Asset management strategy for companies in state ownership, adopted in 2015, includes detailed privatization plans: classifying SOEs to different groups, such as strategic, important and portfolio. State approach to an individual SOE will depend on its classification (majority equity, controlling equity, or non-mandatory equity). However, privatization is stalling or it was even canceled, as in the case of the biggest bank in the country, the NLB. Corporate tax was recently increased to 19%, while VAT is at 22% (standard) and 9.5% (reduced) rate. Personal income tax is highly progressive, with rates of 16%, 27%, 34%, 39% and even 50%. Social contributions paid by the employee and employer are also high, leading to overall high tax wedge, above the OECD average.

## **REGULATION OF CREDIT, LABOUR AND BUSINESS**

Regulation of business activities is overall positive towards business activities. However, there are still complicated or unclear procedures that fuel administrative costs. Starting a business is easy and does not incur any costs in fees, but this is negated by a very high minimum paid in capital of 7500 euro. Getting electricity is also relatively easy due to streamlined procedures. However, obtaining a construction permit is a durable task, due to a high number of procedures, but also due to inefficient land registry. Tax compliance is complicated, incurring a high number of hours for regulatory compliance. Corruption and favouritism in the work of civil servants is still present, although not prevalent. Working hours are mostly flexible, but hiring and firing rules are not. Maximum length of a fixed contract is 24 months, and fixed term contracts are prohibited for permanent tasks. More seasoned workers enjoy a higher level of workplace protection and other perks, such as a higher number of paid annual-leave days, while notice-period and severance-pay increase according to years in tenure, all of which puts younger workers at a disadvantage. Minimum wage is set very high, above 800 euro per month, reaching 50% of the average wage in the country. Inefficient government bureaucracy alongside high tax rates are regarded as the most important hurdles to doing business in Slovenia. A set of structural reforms was set up by the government with the objectives of reducing the red tape and of planning further regulation, tax administration and labour market reforms, but their implementation is yet to come.

## **FREEDOM TO TRADE INTERNATIONALLY**

Trade freedom in Slovenia is mostly protected. Being a small open economy, the importance of free trade is even more emphasized in the Slovenian case, for production specialization and for integration into the world economy. Since its accession in 2004, Slovenia implements the common EU trade policy, with overall low tariffs, which are mostly pronounced for agricultural than for industry products. Also, Slovenia has been a WTO member, since its establishment in 1995. However, non-tariff trade barriers in the form of mandatory and costly product standardization remain as an obstacle to trade. Slovenia enjoys a very high level of trade integration, measured through the share of imports and exports in GDP. Its main trade partners are other EU members, most notably Germany, Italy and Austria. Customs office procedures are efficient and inexpensive - with only 4 documents both for import or export goods - not posing impediments to free trade flow. Good public transportation infrastructure also provides a strong

point for free movement of goods, by lowering freight costs. However, the railroads are in a significantly less fortunate condition than roads or ports. Slovenia was the first post-transition country that entered the Euro-zone by adopting the euro in 2007; this move further facilitated trade by abolishing currency conversion costs. Obtaining work and residence permits for non-EU nationals is complicated and costly procedure. Work permits are also - still - necessary for Croatian citizens, since Slovenia was among the few EU countries that barred free access to their labour market to Croatian citizens (alongside the United Kingdom, the Netherlands, Austria and Malta). This measure is to be reconsidered in 2018.

# Tajikistan

GDP in 2016: EUR 6,259 million

annual growth rate: 6.9%

per capita: 725 EUR

by sector:

agriculture 20.7%

industry 15.1%

services 64.2%

Population: 8,655 thousand

Human Development Index

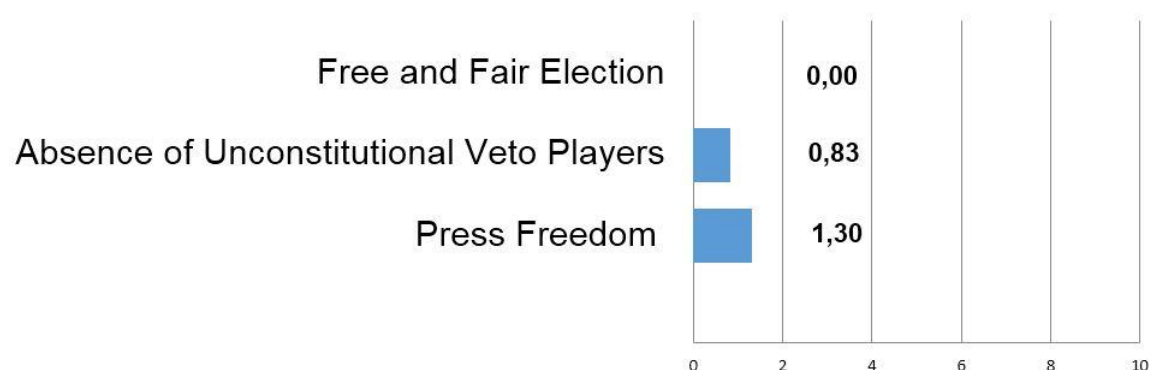
Government position in 2016

Unemployment rate: 2.3%

HDI: 0.627 (rank 129)

-4.42% of GDP

## A. POLITICAL FREEDOM



### FREE AND FAIR ELECTIONS

Tajikistan hit “the very bottom” regarding freedom and fairness of electoral process. As its score in Freedom Barometer 2017 indicates, there are not any freedoms in political life of this country. Parties are able to exist and operate unless they are not expressing criticism of government actions, and above all of President Emomali Rahmon. Methods for dealing with critical voices vary from intimidation and harassment, to physical violence and imprisoning. The repression and crackdown on opposition politicians was even expanded during the period under review, targeting associates and family members of the opposition leaders who were arrested or who fled the country. Opposition politicians from the Islamic Renaissance Party (IRPT), which was banned in 2015 on the ground of terrorism, who were arrested previously, have been sentenced to jail in 2016. Beside, constitutional referendum was held in Tajikistan, and consequently adopted, removing any limitations regarding number of presidential terms in office and restricting by the law all political parties that are based on faith – among other amendments. Although there were no elections, electoral process in the country abounds with irregularities, abuses and frauds, without space for political pluralism.

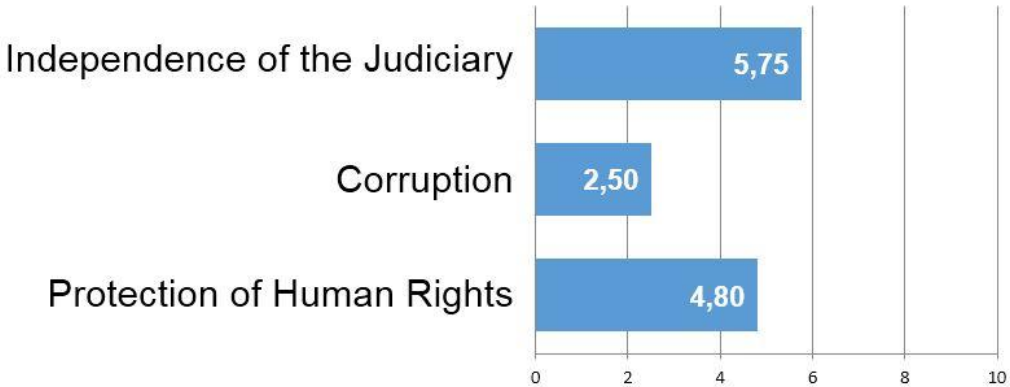
## ABSENCE OF UNCONSTITUTIONAL VETO PLAYERS

There are no unconstitutional veto players who are interfering into decision making process by the President. His dominance over executive, judicial and legislative branch of power, strict control over security forces and abuse of state offices and resources for personal interest, makes no space for democracy in Tajikistan. President is surrounded by close allies and family members, who control and dominate entire society. There are other influential people who belong to political and military elite of the country, but they are holding close relations with the President. Large scale corruption is reserved for and performed by this circle, without consequences.

## PRESS FREEDOM

There is no freedom of media in Tajikistan. Government controls and regulates media reporting through intensive political and legislative pressure. Access to independent and critical views is highly limited. It only applies to topics that are not of particular interest by the government, and certainly if they are not on corruption or on the President and his family. In August, the guideline was adopted by the government, giving the right to The State Committee on Television and Radio to censor the content of both privately and state owned broadcasting media. Physical and verbal violence is often used against journalists in order to boost their self-censorship. Insulting of the President is punishable by the law. Online content is monitored and regulated through legislation that obligates providers to use systems controlled by the government for providing their services.

## B. RULE OF LAW



## INDEPENDENCE OF THE JUDICIARY

Despite optimism by local business elite (itself being tied to the regime, yet influencing the results of many foreign sponsored evaluations), judiciary in Tajikistan has gone from bad to worse during the past years. According to Freedom House`s report Nations in Transit 2017, the justice system is highly politicized. It is used selectively, among other things also to silence political dissent, intimidate human rights lawyers and their families, or provide impunity to loyal government officials. Criminal investigation system is mainly confession-based, while conditions in custody or prisons are poor and torture and extorting of confessions are common. Instead of establishing more civic and democratic control over secret services, their privileges increased.

Amnesty of convicts in August 2016, encompassing 12,000 people, has eased the pressure on prisons. It included a few (of many) political prisoners.

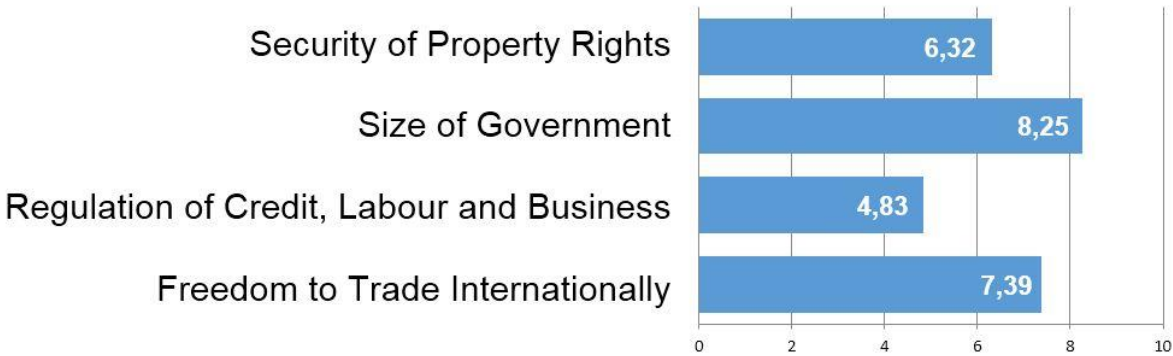
### **CORRUPTION**

Tajikistan provides a clear-cut example of grand corruption, whereby the extracted amounts of money considerably diminish the national wealth. Freedom House has labelled it “kleptocracy”. Corruption pervades all across society, from the top, where the President and his cronies control the most lucrative businesses, through nepotism, extortion or bribe-seeking by public officers, to the widespread petty corruption. Bribe is common also in politics, e.g. in the election process. It also facilitates drug smuggling from the neighbouring Afghanistan. Year and again, the situation did not improve. In its Corruption Perceptions Index 2016, Transparency International ranked Tajikistan as 151 of 176 countries, with the score 25/100, the worst one of all 45 countries monitored by the Freedom Barometer. Bribery rate is 50%. The anti-graft struggle is confined to low levels of administration (allegedly 1100 officials were arrested between 2011 and 2016) or to politicians who distance themselves from the government.

### **PROTECTION OF HUMAN RIGHTS**

Dramatic worsening of the human rights situation in the second half of 2015 and a referendum in May 2016 that, among other things, proclaimed President Emomali Rahmon as “The Leader of the Nation”, marked the entire subsequent period. In November 2016, amendments to the Penal Code stipulated that insulting The Leader was punishable by up to five years in jail. Suffocating of the NGOs, closure of non-compliant media, numerous arrests of political opponents, or other authoritarian measures are rapidly leading Tajikistan towards one-party system. The official narrative, blaming anything non-authorized coming from the West (or from other Muslim countries) as treacherous, anti-national and “extremist”, little by little takes a totalitarian shape. The only legitimate outside influence seems to be the one from Russia. For instance, the law on CSOs is shaped as a light version of the Russian “foreign agent law”, in that CSOs are obliged to report each and every donation they get from abroad. Although homosexuality as such is not illegal, authorities conducted two inquiries during 2016 with the aim of compiling a list of (preferably all the outed) gays and lesbians until autumn 2017.

### **C. ECONOMIC FREEDOM**



## **SECURITY OF PROPERTY RIGHTS**

Private property is not adequately secured in Tajikistan. Judiciary lacks independence from strong influences of government officials and politically connected groups that take interest in profitable private ventures. In several cases, government regulatory agencies were used to pressure businesses into ceding properties and business assets. Court rulings could also be inconsistent when applying laws, spelling divergent verdicts in similar cases. Poor enforcement of contracts is a matter for concern: court procedures could be lengthy and bear significant costs - most notably, of the legal enforcement of court decisions, which impedes access to justice since enforcement could take twice as much time as the trial and judgment themselves. Out-of-court settlements have not been systematically developed, since the role of Third Party Arbitration Courts was brought to minimum. Low court automation and ineffective adjournment procedures considerably weaken the judiciary process. At the same time, clientele networks, nepotism and corruption among public officials are widespread, which basically undermines the liberal stance towards foreign investments. All land is by law in state ownership, but first and second tier land use rights are leased - to Tajik natural persons and companies indefinitely, while to foreign entities up to 50 years. Weak performance of the land registry diminishes security of property rights in the agricultural sector.

## **SIZE OF GOVERNMENT**

The size of government in Tajikistan, taken the total public spending of 32% of GDP in 2016, is considerably smaller as compared to developed European countries, leaving fiscal room for lower taxes but also lower level of government services. Growth is considerable, partially led by strong exports and public investments, but economic vacillations in Russia pose a significant risk for future prospects. Especially remittances have been strongly affected, mostly by adverse economic situation in Russia, the main emigration destination of Tajikistani workers, coupled with new discriminatory measures taken by the Russian authorities towards migrant workers coming from outside the Eurasian Economic Union (EEU). Remittances have therefore decreased from 50% of GDP in 2014 to only 28% in 2016, curbing private consumption and imports. Accumulated public debt is envisaged to reach nearly 50% of GDP in 2017, almost doubling its 2014 level, and calling for a significant deficit reduction, possibly accompanied by an IMF program. The role of the state in the economy is still considerable, via numerous big state-owned companies active in many fields, even in those where state interference is obviously unnecessary (finances, food processing and mining). The most important SOEs are industrial facilities such as the largest company in the country, the aluminium company Talco. SOEs receive a large share of government procurements, and are also financed by banks via preferential loans, that can be waived or taken over by the government. Many of these SOEs have reported high financial losses during the previous years, which burdens public finances. SOEs management is not professional, due to strong political influences from the government, but being a strong part of the clientele network. Share of non-performing loans (NPL) in banks reached 54% in the end of 2016, making banking system unstable and many banks close to insolvency, which may have strong repercussion on public finance in case of bailouts. Although road tax has been decreased, this was followed by a land tax increase.

## **REGULATION OF CREDIT, LABOUR AND BUSINESS**

Business environment in the country cannot be described as business friendly due to complicated and often non-transparent regulations, involving lengthy and costly procedures, such as those in tax administration. However, arbitrary and discriminatory implementation of regulations is burdensome problem, closely related to the high level of corruption in the country. In getting electricity and obtaining construction permits, Tajikistan stands at the bottom of the world economies – on average it takes more than 8 months to get a construction permit. This regulatory framework, makes corruption an essential tool in tackling administration, leading to its omnipresence. Although starting a business has recently been made more difficult by broadening the scope of VAT registration of small businesses, and plagued by unnecessary bureaucracy, it is still a reasonable task. Labour regulations are mostly rigid: working hours are not flexible; there are redundancy rules and third party notifications. Although notice periods remain the same, severance pay increases with the years in tenure. Since trade unions are weak and mostly concentrated in the public sector, collective bargaining is not widespread. The minimum wage is rather low in comparison to the average wage, not bringing too much distortion in the economy. There is a legal requirement that at least 70% of the workforce must be domestic (75% if the CEO is a foreign national, or 80% and even 90% for projects signed by the Tajikistan government).

## **FREEDOM TO TRADE INTERNATIONALLY**

Tajikistan has since 2013 been a full member of the World Trade Organization (WTO), encouraging international trade. However, the average tariff rate is still high, standing at 8.1% (and being higher for agricultural than for manufacturing products). The action plan for full implementation of Tajikistani obligations towards the WTO that was adopted in 2014 is still under slow implementation. There are several Free Economic Zones within the country that facilitate trade and foreign investments, but their imprint has not been very significant. International trade faces hurdles, e.g. geographical position, or bad transportation infrastructure. Those are making exports and imports expensive and lengthy. However, custom procedures prove to be even a bigger obstacle than mountainous roads. Even though submitting customs declarations could now be done electronically, Tajikistani foreign trade procedures have been burdensome, requiring more than 200 working hours and 13 different documents. Obstacles in movement of goods are complemented by capital controls, which are used to maintain the exchange rate of the national currency. Procedures for obtaining residence permit for foreign nationals are also burdensome and provide for only up to one year of residence.



# Turkey

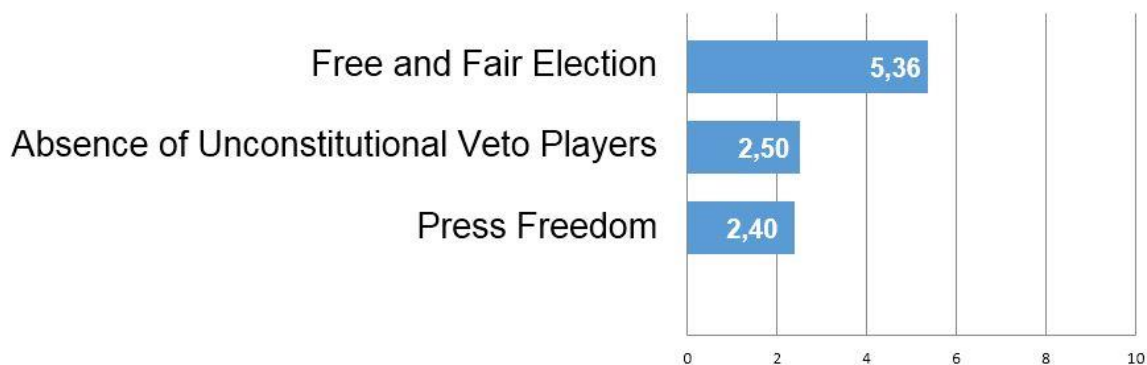
GDP in 2016: EUR 775,262 million

annual growth rate: 2.9%	per capita: 9,710 EUR	by sector:
		agriculture 6.1%
		industry 28.5%
		services 65.5%

Population: 79,815 thousand	Human Development Index	Government deficit in 2016
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Unemployment rate: 10.8%	HDI: 0.767 (rank 71)	-2.26% of GDP
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## A. POLITICAL FREEDOM



### FREE AND FAIR ELECTIONS

Political Freedom, as a subsection, has seen the sharpest declines, from 14.33 in 2016 to 10.26 this year, mostly due to the repercussions in the aftermath of the failed coup attempt (July 2016). The state of emergency - declared a week after the attempt - is still in effect as of October 2017. As noted last year, the elections in Turkey are seen as compatible with international standards. However, the image of (more or less) free and fair elections has taken a serious hit after the presidential referendum, which changed the country's parliamentary system into a presidential democracy. After a tight race (51.4% Yes and 48.6% No), the Turkish people voted to change the government system, a decision, which was highly favoured by the governing Justice and Development Party (AKP) and Nationalist Movement Party (MHP). A controversial decision by the High Election Board, whose primary task is to oversee the election process, came later on the election day, allowing to count the votes that are not stamped as "valid" despite the clear mandate of the constitution not to do so. This decision came through the end of the referendum and affected roughly 1.5 million votes, which were not stamped earlier but eventually counted as valid. The decision has been widely regarded by commentators and international observers as an electoral fraud and was taken to European Court of Human Rights by the main opposition party,

CHP. The case is still ongoing. The OSCE reported that the election was flawed. Political freedoms are further curbed through jailed politicians in Turkey. In a controversial parliamentary vote, the immunity of MPs has been suspended once (for the standing cases), and since then several opposition MPs have been jailed. Some even face lifelong sentences. Two co-chairs and the spokesperson of the pro-Kurdish HDP are in prison for some ten months. A total of 10 MPs from HDP and CHP are imprisoned at the moment. Turkey's still standing 10% electoral threshold is the highest in Europe. A bi-partisan call from most MPs to reform the electoral system was made after the system change, but there hasn't been any substantial step taken towards reform on the parliament ground.

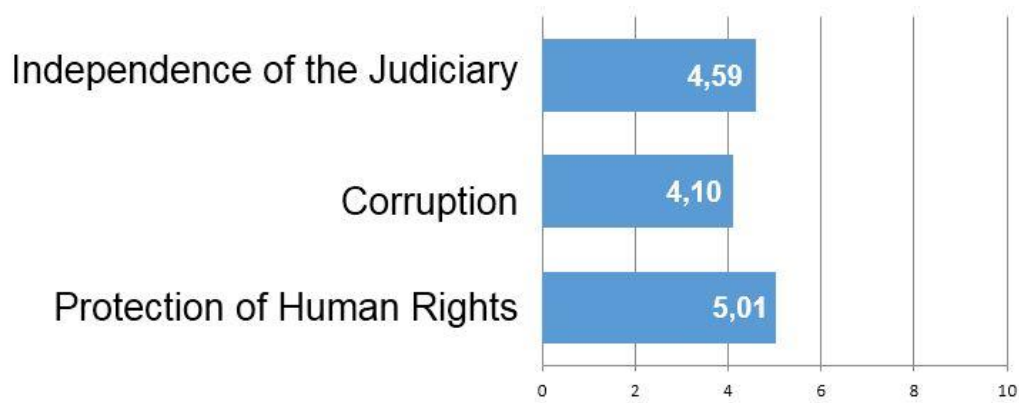
## **ABSENCE OF UNCONSTITUTIONAL VETO PLAYERS**

In terms of percentage points, Turkey received the hardest hit in this subsection, its percentage points decreasing by 50% in one year, from 5.00 in 2016 to 2.50. The failed coup attempt in June 2016 demonstrated that the Turkish military still has considerable potential to interfere with the civilian politics, in spite of the reforms in the last decade. Almost half of the superior army commanders have been suspended or dismissed, roughly a third of them are accused of involvement in the coup attempt. The index figures were already rounded when the coup attempt took place in mid-summer 2016, so the impact of the coup is better reflected this year. A second issue the coup attempt revealed was how deep an extra-legal structure had penetrated into the high halls of government and bureaucracy in Turkey. After the coup attempt, in addition to the stated number of military personnel, a total of 115.000 public officers were dismissed from duty. The Human Rights Foundation of Turkey declared in an October 2017 report that some 50.000 people were detained in the first year of the state of emergency.

## **PRESS FREEDOM**

The ongoing decline in Turkey's freedom of the press score did not slow down this year, and reached an all-time low of 2.40, from 2.90 last year. The current state of Freedom of Press in Turkey was best manifested during the referendum campaign for the constitutional amendment. The AKP Government proposed and fiercely advocated a series of constitutional amendments, which were most notorious for changing the government system of Turkey to a presidential regime. The research of the Union for Democracy (UfD) suggests that the government-backed YES campaign has enjoyed ten times more coverage than the NO campaign in the mainstream media. Most civil society and opposition groups had to restrict their campaign to social media or fringe news channels since they couldn't get any broadcast time from mainstream media outlets. Deterioration of Freedom of Press in Turkey is on par with other political freedoms. The number of journalists currently in prison reached an all-time high of 158. The government argues that those journalists are in jail because of alleged crimes irrelevant to their journalistic activities. The topic remains one of the top sources of criticism cc. democratic decline in the country. In Freedom House's Freedom of the Press 2017 report, Turkey has seen the lowest rank in the last 13 years, as 166th out of 201 countries.

## B. RULE OF LAW



### INDEPENDENCE OF THE JUDICIARY

Turkey's score increased from 3.75 to 4.59 in this area in 2017. Nevertheless, this does not correspond to the real development in independence of judiciary in Turkey. Although more than 4.000 judges and prosecutors were dismissed from office on the basis of their alleged link to the Gülenist structures, it is not possible to say that their dismissal was based on fair procedures. The administrative body of the judiciary, the High Council of the Judges and Prosecutors (HSYK), was and is under the control of the executive. Although it does not have the authority to control judicial decisions of the courts or judges, the HSYK monitors the decisions of judges and prosecutors and intervenes if they decide against the wishes of the executive. A recent constitutional amendment increased the executive control over the judiciary. The constitutional amendment adopted by public referendum on April 16, 2017, changed the parliamentary governmental system into a presidential one. It accumulated all executive powers on the President without establishing any counter balancing power. The President will continue to be member of a political party. This means that the President will have control over parliament through the party discipline if his political party gets the majority in the parliament. The mentioned constitutional amendment changed also the name and structure of the High Council of the Judges and Prosecutors (HSYK), the administrative body of judiciary. The name of the body has become "the Council of Judges and Prosecutors (HSK)". It will be composed of 13 members, seven of which elected by the parliament while six appointed by the President directly. Judges and prosecutors cannot elect any member to the council. A provisional article in the constitutional amendment law terminated the tenure of the existing members of the incumbent HSYK. The new members of the HSK have been elected in Parliament by the ruling party majority in an election process that was far from being transparent. The impact of the executive over the judicial process in many criminal cases is apparent. For example, three judges and a prosecutor who decided to release some detained journalists in İstanbul have been suspended from office by HSK following a pro-government media campaign. Judges and prosecutors, who are members of opposing associations, were appointed to small cities.

## **CORRUPTION**

Turkey's score in the area of corruption declined from 4.20 to 4.10 in 2017. Investigation of corruption allegations against government officials or local authorities who belong to the ruling party is virtually impossible in Turkey. There is no effective control of the governmental expenditure neither in parliament nor by the judiciary. Since independent media are very weak, media scrutiny over administrative expenditure and public procurement is ineffective. There is a widespread belief across society that all the public contracts are distributed to the supporters of the ruling party and of the President. Party reference plays a crucial role in public recruitments. Last year, a new law was adopted to allocate discretionary funds to the President. The Prime Minister already has a discretionary fund, misuse of which is quite possible. According to the Transparency International's Corruption Perceptions Index 2016, Turkey shares the 75th place with Bulgaria, Kuwait and Tunisia, with a score of 41 out of 100.

## **PROTECTION OF HUMAN RIGHTS**

Turkey's score in the area of protection of human rights decreased from 5.15 to 5.10. The state of emergency, which was issued following the failed coup attempt of July, 15th, 2016, was extended for the fifth time for three months and it will apparently not be lifted in near future. This means that derogation from human rights obligations will continue and government will continue to issue emergency decrees which are not subject to constitutionality control by the Constitutional Court. It also means that dismissal of civil servants from public office on the suspicion of ties with the Gülen movement or other terrorist organizations will continue. The number of the dismissed civil servants already reached the figure of 115.000. A review body (The Commission for the State of Emergency Affairs) for those dismissals has been established and started to receive applications almost one year after the first dismissals, but there are serious doubts about the independence and impartiality of the Commission. The maximum period of police custody is 14 days during the state of emergency, which increases the risk of abuse and ill treatment. There are more than 60.000 people who were detained pre-trial. Most of the prisons are overcrowded. More than 150 journalists are detained facing serious punishments such as three times life imprisonment. Too many lawyers and human rights defenders are arrested and detained on the charges of alleged link with terrorist organizations. This has made the process of monitoring human rights violations by human rights organizations and activists very difficult. Most of the human rights protection mechanisms are controlled by the executive and ineffective. Human Rights Watch recently published a report on the allegations of torture and abduction.

## C. ECONOMIC FREEDOM



### SECURITY OF PROPERTY RIGHTS

Turkey has been governed for more than a year under the State of Emergency. It was declared on 20 July 2016, five days after the failed military coup attempt. Despite the early statements from top politicians of the ruling AK Party (including President Erdogan) that the State of Emergency was a temporary measure, Turkey is still under the State of Emergency as of October 2017. The post-coup crackdown, which was carried out under the State of Emergency conditions, led to many violations of property rights. Massive amounts of property, including companies, private schools and universities, and nongovernmental organizations, which belonged to suspected Gülenists, the secretive Islamic movement behind the coup, were confiscated. The government cleansed the cadre of the judiciary by dismissing thousands of prosecutors and judges, who were thought to be linked to the Gülen movement. This, naturally, made the other prosecutors and judges more susceptible to government pressure. Furthermore, newly appointed prosecutors and judges who replaced the dismissed ones, do not yet have the necessary professional experience and skills for quick and efficient legal procedures. Due to these conditions, court procedures involving enforcement of contracts continue to be lengthy and costly.

### SIZE OF GOVERNMENT

Although direct tax rates are not very high (the top personal income tax rate is 35 %, and the top corporate tax rate is 20%), the Turkish citizens continue to pay high levels of indirect taxes. As in the previous years, most of the total tax revenue (68%) comes from indirect taxes. Direct taxes make up less than 30 % of the total tax revenue. The most common indirect taxes are the value-added tax (in most cases it is 18%, but for other items, it is either 8% or 1%) and the special consumption tax, which could be as high as more than 100% for some items. According to provisional figures, in 2016 total government expenditures were about 41.6% of GDP while total government revenues were about 41%. The ratio of total government revenues to the GDP was 31% in 2002, the first year of AKP rule. Since then, it increased by ten percentage point. It is unlikely that it could be further increased without causing a widespread slowdown in the economy.

## **REGULATION OF CREDIT, LABOUR AND BUSINESS**

Business regulation in Turkey is quite favourable towards entrepreneurial activity. Nevertheless, as compared to European and North American countries, Turkey is still far from being business-friendly. Although starting a business and registration is not complicated, administrative requirements, bureaucratic costs, market regulations and ineffective enforcement of the rules make conducting business activities costly. High level of the minimum wage and high severance pay based on the employees' seniority at the workplace, continue to be very disadvantageous for business activities and foster the informal sector.

## **FREEDOM TO TRADE INTERNATIONALLY**

Being a member of the World Trade Organization (WTO) and in a customs union with the European Union, Turkey has quite low tariff rates for manufactured products. Since the agricultural sector is not part of this customs union, some agricultural products – especially red meat - are protected with considerably high tariff rates and quotas. Unable to change tariff rates for manufactured products because of its commitments to the EU and the WTO, the Government of Turkey seems to be increasing its efforts to use non-tariff barriers to protect some industries. As a result of this tendency, the trade freedom score of Turkey dropped from last year's 8.44 to 7.94 this year, which re-categorizes Turkey's international trade as "mostly free," rather than simply "free" as it was from 2006 to 2016. Furthermore, the government uses high "special consumption taxes" especially in markets, where most of the products are imported, such as smartphones and automobiles. Although these taxes are equally applied to both domestic and foreign goods, and therefore are not regarded as barriers to trade, the effect of these taxes is a decrease in the volume of imports.

# Ukraine

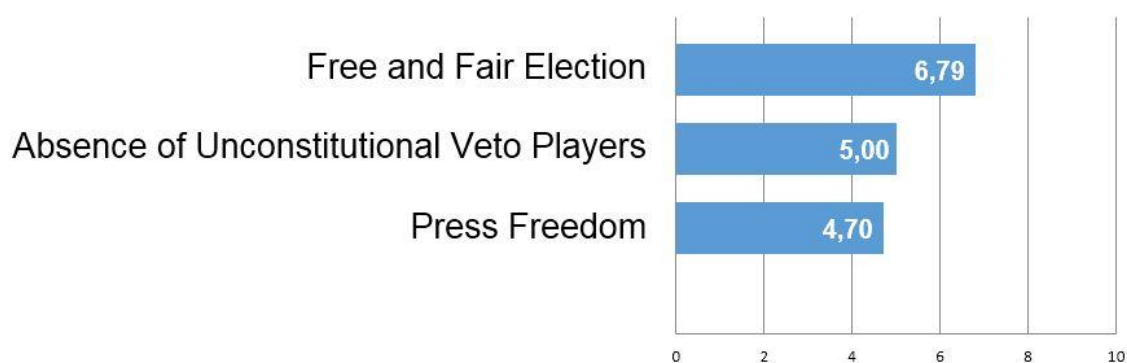
GDP in 2016: EUR 84,325 million

annual growth rate: 2.3%	per capita: 1,980 EUR	by sector:
		agriculture 14.4%
		industry 26.3%
		services 59.3%

Population: 42,501 thousand    Human Development Index    Government position in 2016

Unemployment rate: 8.8%    HDI: 0.743 (rank 84)    -2.23% of GDP

## A. POLITICAL FREEDOM



### FREE AND FAIR ELECTIONS

Elections in Ukraine are executed in a free and fair manner, with some minor irregularities in the electoral process which cannot influence the outcome. Large degree of funding political parties by wealthy oligarchs could influence fairness of the process, although government adopted measures which sought to raise transparency of campaign financing. After resignation of the Cabinet of Ministers of Ukraine in April 2016, the new government was formed and Prime Minister Volodymyr Groysman managed to stabilize political situation in the country. Under a mixed electoral system, whose efficiency and need for change was discussed in public throughout the observed period, one half of the Ukrainian parliament Verkhovna Rada has been chosen through proportional representation while another half via single mandate constituencies. Due to inability to conduct elections in several occupied and conflict affected constituencies, some seats in the parliament remained empty. Changes in the electoral law at the beginning of 2016 allowed political parties to remove candidates from their list after the elections and before Central Elections Commission verified their mandate. On the ground that it incited hatred, Communist Party has been restricted from operating and running at elections. During the last year, by-elections in 7 constituencies and local elections in 185 newly merged territories were held.

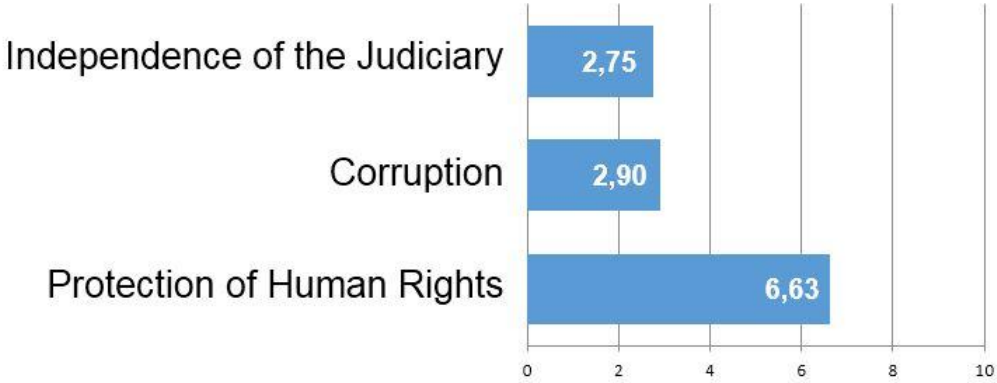
# ABSENCE OF UNCONSTITUTIONAL VETO PLAYERS

Ukrainian elected authorities have effective power to govern the country, although there are several possible threats to the country’s democracy, rule of law and sovereignty. Government doesn’t have control over some of its territory, due to Russian occupation of Crimea and conflicts in the Donbas region. Despite that executive authorities are shared between Prime Minister and President, the latter one, namely Petro Poroshenko, allegedly started to enjoy significant influence and control over executive and legislative branch. Shift of Prime Ministers in 2016 and appointing his close ally for the leader of Government was a move largely perceived as Poroshenko’s intention to strengthen the power. Undermining threat to democracy is also coming from number of wealthy oligarchs and their close ties to political elites, whose relations can influence decision making process on some issues. Also, corruption among public officials is widespread. It remains one of the most serious problems in Ukrainian society.

## PRESS FREEDOM

Freedom of the press is granted by Ukrainian legislation, but this freedom is only partly upheld in practice. Traditional and online media landscape is pluralistic and diverse, offering citizens wide range of views. However, this diversity is rather a result of different interests of wealthy owners and businessmen who dominate on the media market than of independent and objective journalism. Politicians often seek to influence reporting on certain issues in public media, such as on corruption, but likewise in the private outlets through their connections with the owners. Also, journalists increasingly practice “patriotic” reporting on the sensitive issues and publishing of fake news for money. Both trends seriously threaten objectivity of media reporting. Physical or verbal violence against journalists is not rare, whereby political journalist Pavel Sheremet was murdered by a car-bomb in July 2016. Therefore, an environment of fear made self-censorship present among reporters as well. Russian channels remained restricted in Ukraine due to its animosity towards the “pro-Russian propaganda”, in the light of recent conflicts. A positive move towards more freedom of the press was a government decision as of November 2016 to privatize a number of printing media outlets, as a part of broader reforms.

## B. RULE OF LAW





## **INDEPENDENCE OF THE JUDICIARY**

Lack of rule of law - especially poor performance of judiciary and persistent corruption - is the most serious shortcoming of the Ukrainian post-Maidan democratization process. Citizens perceive this as exhausting for the economy and for their living standards, more than the war in the east. In judiciary, the improvements have been meagre. In September 2016, constitutional changes and new legislation, adopted in June, went into effect, providing for a comprehensive reform of the judiciary system, promising more independent and competitive selection of judges to various courts, merger and rationalization of some courts, higher remuneration of judges, broader evaluation of their work and better control of their (and their families') assets so as to decrease corruption in courts. Longer term effects of those changes are yet to be monitored. As for public prosecutors, situation is more complex and their dependency on political power is still huge and hardly even touched.

## **CORRUPTION**

Russia and Ukraine are still the most corruption-struck countries in Europe. In the world, they share the place 131 (of 176 countries ranked by the Transparency International's Corruption Perceptions Index 2016), with Iran, Kazakhstan and Nepal. According to Global Corruption Barometer 2016, the bribery rate in Ukraine averages 38% (highest in Europe). An example of extension of corruption in universities or elsewhere in education was provided by Kyiv sociologists: 49% people surveyed said they had offered bribes, while 57% education workers said they had been offered. There was little improvement during the past year, whereby Ukrainian CPI score rose from 27 to 29. During 2015 and 2016, the newly created anti-corruption bureau NABU has brought 50 cases to courts and had 12 decisions implemented. Changes in the public procurement system, introduction of e-government in various fields (especially e-declarations by public officials, or opportunities to monitor much of the public spending online), as well as abolition of various subsidies (such as in the energy tariff system), might bring down corruption, because economic liberalization has in similar countries (e.g. Georgia, Estonia, or even post-2000 Serbia) already proved as key to narrowing the ground for high level corruption. Former President of Georgia Mikheil Saakashvili - upon his adoption to Ukrainian citizenship - had tried to help fighting high level corruption and misuse of power, by transferring some of his past experience, but in November 2016 he resigned his post in Odessa region over the lack of support by national authorities.

## **PROTECTION OF HUMAN RIGHTS**

Respect and awareness of human rights are the field of rule law which has most advanced after the Euromaidan. As Freedom House noted, "civil society remains the strongest element in Ukraine's democratic transition". It is mainly based on massive volunteering. It "plays a crucial role in driving reforms" aimed at establishing and strengthening of the rule of law. It also plays a vital role in implementing reforms - in countering corruption, reforming the administration, decentralization, etc. As FNF has found out through our own field research, the role of CSOs is also vital in organizing and running independent, on-the-spot, efficient and informative media, in humanitarian aid to the refugees and in community building in the spirit of democratic values as opposed to the hybrid war launched from the east. However it is suspicious or hostile towards

some critical media, the government mainly allows civil society to function autonomously, while being aware of its vital role in the post-2014 democratic development. Newly gained pluralism includes also some far right or ultranationalist groups, while also the organized crime is still present on the public scene. Thus, attacks on journalists are numerous. In July 2016, a journalist was murdered in Kyiv. LGBT rallies, tolerated and protected by the police, are occasionally attacked by extremist groups, such as in Lviv in March 2016, while otherwise police managed to keep the events uninterrupted, such as in Kyiv in June 2016 and 2017, and Odessa in August 2016. In two eastern regions held by Russia-backed separatists, Luhansk and Donetsk, human rights are in the worst shape. Disappearances are common, local elections are rigged and there are no free media or critical NGOs at all. Human Rights Watch accused both the Ukrainian government and the rebels in the east of arbitrary detention and degrading and cruel treatment of the detained political opponents (or suspected agents of the other side), noting that Ukrainian secret services held a secret detention centre in Kharkiv, while local security forces in rebel-held territories held several scattered ones which operated completely outside the rule of law.

### C. ECONOMIC FREEDOM



### SECURITY OF PROPERTY RIGHTS

Private property rights in Ukraine are not sufficiently protected. The most serious problems are in functioning of the judiciary, which is connected to political parties or could be under influence of vested interest groups such as oligarchs. Therefore, judicial independence and impartiality is not guaranteed. Enforcement of contracts is obstructed also through very high costs. However, there are specialized commercial courts and cases are assigned to judges automatically. Recent changes allowed court fees to be paid electronically. Insolvency procedures are extremely long, lasting up to 3 years on average, with low recovery rates of just 7.5%. Registering property in the country is a long process, due to inefficient land cadastre but also because of complicated valuation rules for determining the transfer tax. Although restrictions on foreign investment are mostly lifted, mandatory state registration of foreign investments was only recently abolished, i.e. in June 2016. Foreign nationals still cannot own land, but they could lease it or acquire it through locally registered companies. The privatization process has been plagued with different problems and is not considered transparent, nor fair, while Russian and off shore companies are banned from participation in it, due to political concerns.

## **SIZE OF GOVERNMENT**

The scope of government in Ukraine is comparable to other European countries, with government expenditures reaching 40% of GDP in 2016. High public deficits since 2012, as well as the recession and political turmoil, led to an elevated public debt of more than 80% of GDP, which is dangerously high for a country on such a level of development. Ukraine exited the recession in 2016, with a modest growth of 2.3% amidst tight fiscal and monetary policies, which put public finances on a more sustainable path and inflation within the National bank's target. However, unreformed and unsustainable pension fund will continue to pose a drain on public expenditures. Inflation is still in double digits. High level of corruption remains a significant problem for the functioning of government institutions. Reforms regarding this have been limited, apart from electronic government procurement becoming mandatory in August 2016, through the ProZorro platform. State owned enterprises (SOE) in Ukraine are numerous and active in many fields - from utilities to transport, energy, infrastructure and machine building. Their operation is mostly inefficient, leading to high losses and subsequent state subsidies. Recently, the government made significant changes in the energy sector prices in order to reach full cost recovery and lower the sector's reliance on subsidies. The bad management practices were tackled through the setting of new corporate management standards and making independent advisory boards mandatory, but SOEs are still considered to be under political influence, serving as a tool for corruption and political financing. Privatization has been very slow, due to different political obstacles, e.g. there were delays in transferring SOEs from respective Ministries to State Property Fund that is in charge of privatization. The reorganization of SOEs is slow. Both corporate and personal income tax rates in Ukraine are set at moderate 18%. VAT rates are 20% (general) and 7% (preferential).

## **REGULATION OF CREDIT, LABOUR AND BUSINESS**

Business environment in Ukraine has been rapidly changing, but still it is not conducive to entrepreneurial activities. Regulation is often complex and outright contradictory, while corruption and vested interest groups are present in many areas and industries. Broad deregulation policies are currently being implemented, but their reach is not always satisfactory or deep enough to deliver good results in a limited time. The new Action Plan for Deregulation of Business Activities lists more than 100 measures to improve business environment by introducing international standards. Starting a business is easy and quick, done within a couple of days, and without a paid-in minimum capital. On the other hand, this is not true for getting electricity, which is a process plagued with slow procedures and high costs stemming from inefficiencies within the public utility company. Obtaining a construction permit is very costly, although not time consuming. Tax regulations are complicated, although there are just a few annual payments which are usually done electronically. Most burdening tax regulations are those regarding VAT, so the Ministry of Finance finally launched an electronic VAT refund registry in April 2017, which was expected to bring transparency and efficiency to the refund system. Corruption, policy instability and inefficient bureaucracy are considered as the biggest obstacles to a more business friendly environment in the country. Labour regulations are a mixture of flexible and inflexible solutions: fixed-term contracts are prohibited for permanent tasks, but their length is not limited. Redundancy and reassignment rules pose stringency in determining

staffing, but severance payments and notice periods are flat and do not rise with years in tenure. Collective bargaining agreements are numerous, covering numerous industries across the economy. Trade unions, which are included in the social dialogue, are connected to political parties and use their influence as a bargaining chip for dealings other than worker rights. The minimum wage was sharply increased in January 2017, almost doubling and now reaching 50% of the average wage.

## **FREEDOM TO TRADE INTERNATIONALLY**

Freedom to trade internationally in Ukraine is generally upheld. Ukraine has been a member of the World Trade Organization (WTO) since 2008, which supported trade liberalization. Trade questions have always been politically relevant, especially as regards the relationship with the Russian Federation. Ukrainian government declined the offer to join the Eurasian Economic Union and signed a trade agreement with the EU, under implementation since 2016. The Russian ban on imports of agricultural products from Ukraine and transit ban for other products following the political clashes severely hit the economy, but trade flows shifted towards the EU. In March 2017, the government of Ukraine banned commercial trade with eastern regions controlled by the separatist forces, which again hit the economy, as imports of coal for energy and heavy industry sectors plummeted, which translated to lower exports. Low quality of transport infrastructure provides hurdles to international trade, increasing costs and time; quality of roads is especially worrisome. Custom procedures are slow and demand long hours in document processing, both for import and export. The National Bank of Ukraine has recently been carefully easing some of its capital controls that were put to action after the 2014 crisis in which the national currency, the hryvnia (UAH), had plummeted. However, those controls are still widespread even though the national currency is stable. Mandatory foreign currency sales to the National Bank were decreased from 65% to 50% in February 2017. Ukraine became member of the WTO Government Procurement Agreement in June 2016, further liberalizing the sector for foreign competition. Main Ukrainian trade partners are the EU, Russia, China and Turkey, followed by other CIS countries.

# 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 the most important contemporary problems and how to solve them 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 is 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 Election; 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.

### **Data sources and period covered**

Bearing in mind that Freedom Barometer is a composite index, it uses other freely available indices to calculate its components. These indices have been long established and are considered to have passed the test of time and are widely used both by academics and policy makers. 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 2017, mostly represent state from the previous year. 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 2017 illustrates situation from July 2016 to June 2017.

Data sources used to compute Freedom Barometer are *Freedom in the World*, *Freedom of the Press* (Freedom House), *Index of Economic Freedom* (Heritage Foundation and Wall Street Journal), *Global Competitiveness Report* (World Economic Forum), *Corruption Perception Index* (Transparency International) and *Human Rights Index* (Friedrich Naumann Stiftung).

### **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 World Economic Forum's Global Competitiveness Report, Question 1.06 Judicial Independence (A) and 1.10 Impartial Courts (B)

$$((A-1)/6*10 + (B-1)/6*10) / 2$$

### *Corruption*

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

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

### *Protection of Human Rights*

- Score from Friedrich Naumann Stiftung's *Human Rights Index*

## Economic Freedom Subcategories:

### *Security of Property Rights*

- Data from World Economic Forum *Global Competitiveness Report* and World Bank *Doing Business Report*

$$\text{Judicial Independence (A): } (A-1)/6*10$$

$$\text{Impartial Courts (B): } (B-1)/6*10$$

$$\text{Protection of Property Rights (C): } (C-1)/6*10$$

$$\text{Business Costs of Crime (D): } (D-1)/6*10$$

$$\text{Reliability of Police (E): } (E-1)/6*10$$

$$\text{Legal Enforcement of Contracts (F): } ((725-\text{score time})/(725-62)*10)+((0,823-\text{score costs})/(0,823-0)*10) / 2$$

$$\text{Regulatory Costs on Sale of Real Property (G): } ((265-\text{score time})/(265-0))*(10+(0,15-\text{score cost})/(0,15-0)*10) / 2$$

$$\text{Final score: } A + B + C + D + E + F + G / 7$$

*Size of Government*

- Heritage Foundation, *Index of Economic Freedom*, Government Spending (A) and Fiscal Freedom (B)

$$(A/10+B/10)/2$$

*Regulation of Credit, Labour and Business*

- Heritage Foundation, *Index of Economic Freedom*, Financial Freedom (A), Business Freedom (B) and Labour Freedom (C)

$$(A/10)+(B/10)+(C/10)/3$$

*Freedom to Trade Internationally*

- Heritage Foundation, *Index of Economic Freedom*, Trade Freedom (A)

$$A/10$$