



FREEDOM BAROMETER

Europe Edition 2018

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FOREWORD

Dear reader,

The new edition of our Freedom Barometer 2018 covers 30 European and Central Asian countries. The Friedrich Naumann Foundation for Freedom is dedicated to promoting freedom and open societies worldwide. Current political climate imparts a widespread perception that the universalism of liberal democratic norms is under threat and in fact many of our partner organizations can attest to the fact that spreading liberal democratic norms is far more difficult than it used to be two decades ago. In this context of exacerbated confrontation between ideas and concepts relevant to the advancement and the protection of our freedoms and responsibilities, it is of tantamount importance to have good measurements and assessment tools for the debate.

Thirty scrutinized countries ranging from Belgium to Tajikistan may give you a mosaic of successful approaches and failures in old and new democracies. Since 2013 Freedom Barometer shows how non-action of politics and civil society alike might confirm stagnation, might lead to the erosion of democratic standards such as in Hungary and Poland or to further alienation between the citizen and the state as in many Western European Countries.

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 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.

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. For the 2018 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 2018.

Dr Rainer Adam,

December 2018, Sofia, Bulgaria

Regional Director for East and Southeast Europe

Friedrich Naumann Foundation for Freedom

TRENDS IN 2018 FREEDOM BAROMETER EDITION

A. POLITICAL FREEDOM: Going Down

To put a famous thought into the framework of the Freedom Barometer 2018 Europe Edition and its Political Freedom section, it would sound – Absence of “freedom decline” is merely an existence of “positive freedom development”. Really, if someone would take a look at the political freedom developments in the countries we were following over the course of the year, they would unequivocally conclude that the biggest success in the region is actually an absence of an overall decline of freedom. Taken the long-term importance of political freedom, the above conclusion sounds equally worrisome as the fact that political freedom deteriorated in 15 countries out of 30, while it was improved in only one. And these results do not include developments in Press Freedom scores, due to delayed date of publishing of the primary data (for more information on Press Freedom score see Methodology section of this publication). Press freedom is the field where we could expect the most serious decline. Having said the above, political freedom in general is currently in retreat, while the trends caused by the citizens’ dissatisfaction with democracy, such as populism, false information propaganda and autocracy are in upswing. Elections are ever more frequently held in an unfair environment, from funding to media coverage. Democracy and politics are increasingly manipulated by “one man shows”, rather than being controlled by the system of checks and balances. And media ... Well, as an informal instrument of control of the government which can cause serious “problems” to the ruling elites, they are at the “first line of fire”, making media environment ever more restrictive and controlled.

Undermining Fairness, Spreading Fear

Role of elections as an institution whose aim is to protect, strengthen and foster democracy has been increasingly and continuously undermined for years in many of the Freedom Barometer analysed countries. Whereas in most of the Central Asia countries this isn’t “news” having in mind decades of autocratic regimes, a gradual decline from many democratic standards (which in some countries have gone down to a serious low) in Central and Eastern Europe mark a worrisome trend. Populism and propaganda pave the way towards an unfair political process. Hungary and Turkey, for example, became role models for Europe-wide autocratic tendencies. Elections in those countries, held during the reviewed period, were characterized by an environment repressive towards political opponents, civic activists or critical journalists, by abuse of power and blurred separation between campaigning and governance activities of the public officials, and by partisan media coverage in favour of the ruling elite. If “unfair” is the most common word in this area, the second one would be “fear”. A climate of fear is used for shaping outcomes of the electoral processes. Sometimes this divisive environment of fear in societies is created through confrontations with an imagined “enemy” within, while in others with an outside “enemy”. Ethnic confrontations and tensions caused for domestic political purposes are shaping the life of the people in Western Balkans region. It is a formula which proved as successful so

many times in the past that ruling elites would hardly abandon it, no matter whether we spoke about Serbia and its relations with the entire Western Balkans region, or about inter-ethnic, inter-entity or inner-entity relations in Bosnia and Herzegovina, or about the abyss of political divisions in Macedonia or in Montenegro, or about carefully fed nationalistic tendencies in an EU-member Croatia. Such extensive control over all spheres of society and an abuse of power and of patriotic rhetoric had triggered massive protests in Armenia, which subsequently led to the shift of government in May 2018, in an event which could expectedly be perceived as a positive development in years to come.

Presence of Constitutional Veto Players

Unconstitutional veto players and informal groups which can influence the political decision making process are present more or less in every country. However, as identified by Freedom Barometer 2018 Europe Edition, they do not pose the biggest threat to democratic standards and procedures. It is but ruling structures themselves who do so. Deterioration of independence of justice sector (as explained below) goes hand in hand with domination of the executive over all other branches of power, leading in many cases to state capture. Tajikistan, Azerbaijan, Kyrgyzstan, Russia, or Turkey, are followed by countries such as Armenia, Moldova, Hungary, Poland, or Serbia, at least in this regard. Some leaders are even controlling governance in their country from outside the constitutionally stipulated positions of real power, such as Vladimir Plahotniuc in Moldova, Jaroslaw Kaczynski in Poland or Aleksandar Vučić in Serbia. Wealthy oligarchs, business elites, or in some cases religious and security instances, are also labelled as influential players in many FB 2018 countries however their influence is rather subordinate to interests of the ruling political elites.

Press Freedom – at “the first line of fire”

As primary data from the Freedom House “Freedom of the Press Report” hasn’t been published prior to the launch of the Freedom Barometer 2018 Europe Edition, hereby found figures are not reflecting the most recent developments in media freedom. However, comments are there to fill the gap, but unfortunately there is nothing good to tell. Media reporting is increasingly subject to political and economic pressure, mostly through public financing and/or state advertising. Crackdown on journalists goes often in line with government intentions to capture the state. As informal watchdogs, media are perceived as a possible threat to anti-democratic tendencies. In Slovakia, an investigation journalist was murdered while researching into would-be connections between Italian mafia and politicians in power, including the-then Prime Minister Robert Fico. Hostile climate towards media is frequently sparked by harsh rhetoric by politicians, which is a practice common in majority of the observed countries. Physical and verbal violence against journalists, together even with the imprisonment or other maltreatment of their families, are tools used to silent criticism, especially in Central Asia, Turkey or Russia. Currently, around 140 journalists are in prison in Turkey, while more than 100 media outlets have been shut down in that country since 2016. Also, a pressure on journalists when reporting on sensitive issues is coming from citizens too, themselves using or misusing social networks as well. Internet plays a significant role in informing citizens in almost all countries to an ever higher degree. But, while having hard time censoring Internet and controlling the online narrative, some regimes resorted to orchestrated online campaigns of scaring online or other journalists. The concentration of

ownership in the hands of a few companies or a couple of people is becoming an ever bigger problem, especially since the big broadcast media conglomerates are often used as mouthpieces for certain political parties.

B. RULE OF LAW: Serious setbacks in the overall rule of law

In most (38 out of 45) countries monitored by the Freedom Barometer in 2017/2018 there was a decline in rule of law. The worst decline (by more than a point out of 30 possible total) was in Turkey, Slovakia, Poland, Latvia, Greece, Croatia, Georgia, Belgium and Sweden (in the last two cases, however, from a very high to a lower yet still high level). Improvements, mainly small, were noted in Cyprus, Finland (which was in 2018 the freest among Freedom Barometer countries), Norway, Portugal, Russia, Ukraine and Azerbaijan (in the last three cases, however, from a very low to a bit less worrisome yet still quite low level).

Independence of judiciary as the main obstacle

Among 38 countries that witnessed a decline in rule of law, in 34 of them the worsening of the independence and/or efficiency of judiciary or other parts of the law enforcement sector was the main contributing factor to the decline. In a few cases, an increase in corruption also contributed (such as in Hungary and Tajikistan). The decline in judiciary independence was often so sharp that it annulled the improvements in protection of human rights and/or fighting corruption even in countries that have achieved either of the latter two (such as in Czech Republic or Greece).

Judiciary usually suffers from the tendency of the executive to directly, or more often indirectly (via parliament), control all state institutions, government agencies as well as supposedly independent bodies. The influence is exercised through control of the appointments of judges or, in a more subtle way, via control of the training and licensing institutions, or via control over bodies supervising judiciary, or via concealed pro-government actors (crony businesses, bribed lawyers, pro-government media, or alt.), or through the connected organized crime or (in transition countries) non-reformed parts of secret services or other similar “deep state” actors.

The influence of the executive on the police and prosecutors is even stronger than on the courts, with equally detrimental effects on the rule of law, leading to de facto impunity of state officials or of other people close to the government. At its least bad edition, these amounts to certain individual cases of corruption or favouritism in courts, or police stations, or prisons. In the worst cases, entire regimes are turned into corruption machines, whereby the role of judiciary is merely to secure that the laws apply only to outsiders and never to the insiders of the regime.

Stagnating corruption

Lack of reforms that would enhance the independence of judiciary, but also lack of economic reforms that would diminish the role of state in the economy thus narrowing the ground for corruption, contributes to the situation where there is no overall advance in fighting graft. Countries that liberalize their economies, build independent institutions and modernize administration, as well as provide fertile ground for the work of the civil society whistle blowing organizations, generally manage to keep corruption limited or even suppressed. On the other hand, putting judiciary under the control of the political leaders or their political parties or

business cronies, together with other acts of state capture, and together with crackdowns against NGOs, usually coincides with spreading corruption from the top to the bottom of society.

Mottled human rights record

Human rights have been endangered more than in any other time since the fall of Berlin Wall. They are under attack by populism of all colours, to the degree that civil society remains as their last and ultimate protector. However, the situation in various countries, as well as within most of them regarding various aspects of human rights, is mottled.

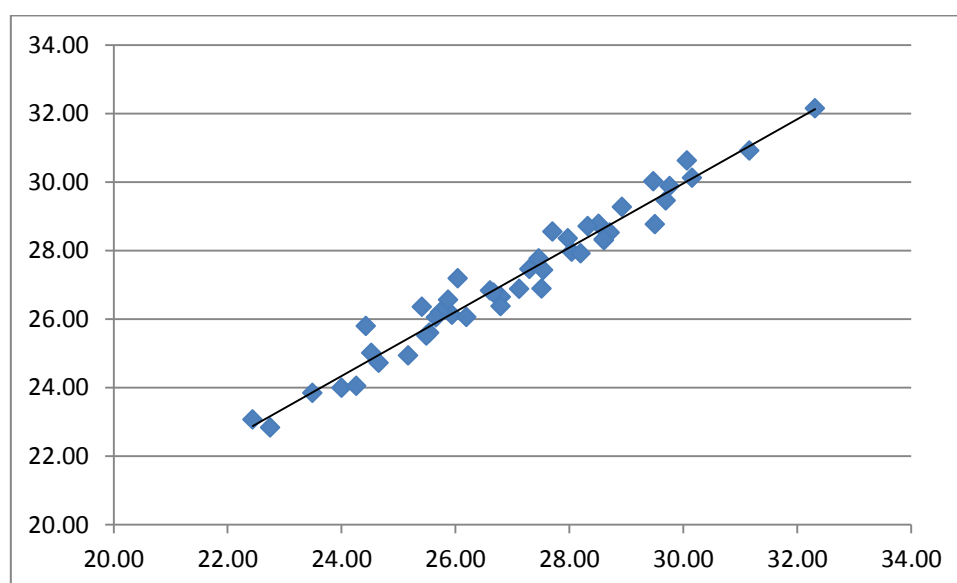
Freedom of speech is endangered due to declining media freedom, or to cacophony of fake news, as well as due to wrongly applied or deliberately misapplied political correctness. Right to privacy is also heavily endangered, not least in the authoritarian regimes but also in the most developed democracies. Human trafficking, as a form of modern slavery, is not in retreat. Migrations cause many controversies, whereby rising populism wants to stop or minimize them. Terrorism endangers security and safety of citizens, but also causes backlashes in human rights – even in the most developed democracies there are new limitations that narrow various freedoms and lower the quality of life for the sake of keeping terrorism at bay, while authoritarian regimes use any opportunity to label all their opponents, as well as peaceful minorities, as extremists and terrorists, so as to be able to prosecute them.

On the other hand, there are fields where there is an overall improvement in human rights. One of such is LGBT rights. In many EU-member or EU-leaning countries, various measures (legalization of same-sex unions, or new anti-discrimination laws, or similar) are bringing this group of citizens closer to the ideal of full equality under law and in everyday life. Yet in a few authoritarian regimes (Turkey, Azerbaijan, Tajikistan, parts of Russian Federation, etc.) the situation is worsening and LGBTs are on a verge of being criminalized. Another field where there were recently at least no major setbacks, while in some countries there was an improvement, has been ethnic minority rights.

C. ECONOMIC FREEDOM: No major setbacks, but also no improvements

There were little changes in the economic freedom score of the countries included in the Freedom Barometer. Most countries fluctuate near the same level they achieved in previous years – which means that they are at a stable point in political economy, meaning that reforms either to increase or decrease economic freedom have got proponents less powerful than the opponents.

Changes in the level of economic freedom: 2018 score (X axis) vs 2017 score (Y axis)



The graph shows that the changes which occurred, if any at all, were very small indeed: the average score change was just 0.15. Only two countries had an improvement higher than 1 score point: Serbia and Cyprus. Serbia's rise is almost completely attributed to the increase in Freedom to Trade Internationally; while Cyprus improved in Security of Property Rights, Size of Government and Business Regulation. Russia also increased its score by 0.95 score points, with improvements in the Freedom to Trade Internationally and Size of Government. On the other hand, countries like Armenia and Sweden experienced a fall in the level of economic freedom for more than a half of a score point. Their respective fall of 0.73 score points (Armenia) and 0.62 score points (Sweden) is solely attributed to the decrease of score in the Security of Property Rights.

Preconditions for change

However, big political shocks (most usually through regime change in the non-consolidated democracies) can disturb this equilibrium point and create a window of opportunity for deep reforms that could significantly alter the situation and move the equilibrium point to a different position. This is the current situation in Macedonia, with the new coalition government led by Zoran Zaev, which has boldly taken significant steps in this direction. However, the impact of these reforms on the level of economic freedom is yet to be evaluated.

Strong international pressure could also lead to changes in the political economy: in the case of Western Balkans countries, the EU accession process, with its policy of implementation of EU rules and regulations, can lead to huge social, economic and political transformation, as is witnessed in all post-transition countries that joined the EU since 2004. Albania, Serbia and Macedonia are the countries that should be closely monitored, to see if this really comes to pass. However, external pressure needs also to rely on the strength of local stakeholders, in order to achieve deep changes and make these reforms viable. The illiberal rise in Hungary and Poland, but also in some other CEE countries, shows how vulnerable and prone to setbacks this policy could be.

But external pressure can also lead to changes that are not positive. The situation in Ukraine is a clear example of how using hard power instead of soft power to achieve political goals can have terrible consequences. External threat is also a good argument for not doing any reforms at home, as in the case of Azerbaijan in regards to the situation in Nagorno-Karabakh. Having huge reserves of natural mineral resources might also lead to ossification and entrenchment of strong elites – Azerbaijan and Russia are fine examples of this "resource curse".

Property rights are mostly secure

Property rights are a prerequisite for market economy activities. This means that state institutions such as police and judiciary should be effective in providing an environment in which property rights are secure and enforced. Although in majority of monitored countries this is the case, it may not be the case everywhere, especially in the east of the continent. In many cases there is no effective rule of law: judiciary is under strong influence of the executive branch of power or of connected business people, state institutions are unreliable and rules do not apply to everyone in the same way. In these circumstances, rule of law is present only for those that are close to the regime, but it can hardly be found if otherwise. Therefore, if one rocks the boat or infringes on some vested interests, then they might face consequences not only by private parties but also by state authorities.

Better institutions go hand in hand with higher expenditures

Freedom Barometer data once again confirmed that there were strong regional patterns across the European continent. Transition countries, on average, have a significantly lower level of public expenditures and thus lower taxes, as compared to their counterparts from Western Europe, but at the same time they have significantly lower level of property rights security. This correlation does not mean causation: if a country increases public expenditures, it will not necessarily obtain efficient judiciary and a functioning public administration. We could conclude that countries that were able to develop these characteristics were also able to experience sustainable economic development in the long run, which enabled them to finance high public expenditures later on.

Business regulation continues to improve

On paper, business regulation has somewhat increased. But its actual implementation in practice remains as an open question. Favouritism by government officials, extortion or bribes are still present and have a detrimental effect on businesses. There is more and more use of online ICT

services by the government institutions. Business regulation can also be a powerful tool for political goals, as different regulatory practices in Hungary and Poland have recently showed – discriminatory regulatory practices could be, and often are, challenged in front of common European institutions, but the threat posed by this practices can significantly influence local stakeholders. Legal procedures are also often changed, to it with too little consultation with private sector representatives, due to the "government-knows-best" policy. However, structural changes in legislation that are quick, unpredictable and pose significant regulatory burden on businesses decrease the possibility of entrepreneurial calculation, which leads to high sunk costs and lower investments.

There is no alternative to globalization

Although populism has opened the jar which contained the genie of protectionism, it seems that the lid was quickly put back on. EU trade policy remains unchallenged among its member states so far, and other countries covered by this publication show a significant level of trade freedom. Even Russia, which has been using its trade policies to gain political favours for a long time now, seems now more open to international trade.

Illiberal threats are here to stay

Illiberal regimes in many SEE and CEE countries are here to stay. Even in developed countries such as Germany there are strong illiberal forces. Illiberal regimes tend to undermine economic freedom because they perceive independent entities, such as businesses, as dangerous to their regime. They also have a need to put under their wing all independent state institutions, increasing their clientele network and patronage system in order to engulf the whole public sector. Private sector simply cannot function well in the situation when courts or other institutions cannot function freely. However, the case of Macedonia shows that there is always hope for a change.

RANKING OF THE COUNTRIES IN 2018

FREEDOM BAROMETER

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.

Ranking	Country	Total score	Distance to Frontier
1.	Switzerland	86,36	0,00
2.	Finland	83,45	2,91
3.	Norway	83,37	2,99
4.	Netherlands	82,58	3,78
5.	Ireland	82,38	3,98
6.	United Kingdom	82,00	4,36
7.	Denmark	81,56	4,80
8.	Sweden	81,19	5,17
9.	Iceland	80,80	5,56
10.	Luxembourg	80,58	5,78
11.	Germany	79,67	6,69
12.	Estonia	79,01	7,35
13.	Austria	75,49	10,87
14.	Belgium	75,22	11,14
15.	Lithuania	74,13	12,23
16.	Czechia	73,42	12,94
17.	Portugal	72,83	13,53
18.	France	71,47	14,89
19.	Spain	71,32	15,04
20.	Cyprus	71,19	15,17
21.	Slovenia	70,87	15,49
22.	Malta	70,31	16,05
23.	Latvia	69,29	17,07
24.	Romania	67,79	18,57
25.	Poland	67,37	18,99
26.	Slovakia	65,85	20,51
27.	Italy	64,99	21,37
28.	Georgia	64,11	22,25
29.	Bulgaria	63,14	23,22
30.	Croatia	62,69	23,67
31.	Hungary	60,39	25,97
32.	Greece	60,04	26,32
33.	Montenegro	59,08	27,28
34.	Albania	58,99	27,37
35.	Serbia	57,36	29,00
36.	Macedonia	56,57	29,79
37.	Armenia	52,92	33,44
38.	Ukraine	51,88	34,48
39.	Moldova	51,80	34,56
40.	Bosnia and Herzegovina	51,22	35,14
41.	Kyrgyzstan	47,43	38,93
42.	Turkey	46,54	39,82
43.	Azerbaijan	44,67	41,69
44.	Russia	41,78	44,58
45.	Tajikistan	40,27	46,09

POLITICAL FREEDOM RANKING

Ranking of Freedom Barometer countries according to the level of political freedom.

Ranking	Country	Political Freedom	Distance to Frontier
1.	Norway	29,20	0,00
2.	Netherlands	28,90	0,30
3.	Sweden	28,90	0,30
4.	Denmark	28,80	0,40
5.	Finland	28,80	0,40
6.	Switzerland	28,34	0,86
7.	Belgium	27,97	1,23
8.	Germany	27,64	1,56
9.	United Kingdom	27,50	1,70
10.	Portugal	27,47	1,73
11.	Estonia	27,21	1,99
12.	Luxembourg	26,93	2,27
13.	Slovenia	26,87	2,33
14.	Ireland	26,67	2,53
15.	Cyprus	26,51	2,69
16.	Iceland	26,48	2,72
17.	Lithuania	26,23	2,97
18.	France	26,21	2,99
19.	Spain	26,01	3,19
20.	Czechia	25,88	3,32
21.	Austria	25,78	3,42
22.	Malta	25,32	3,88
23.	Italy	24,76	4,44
24.	Slovakia	24,54	4,66
25.	Latvia	24,19	5,01
26.	Croatia	23,88	5,32
27.	Romania	23,46	5,74
28.	Poland	23,27	5,93
29.	Greece	21,91	7,29
30.	Bulgaria	21,40	7,80
31.	Hungary	18,93	10,27
32.	Serbia	18,43	10,77
33.	Albania	18,23	10,97
34.	Montenegro	17,86	11,34
35.	Georgia	17,62	11,58
36.	Ukraine	16,84	12,36
37.	Moldova	16,07	13,13
38.	Bosnia and Herzegovina	14,30	14,90
39.	Macedonia	13,96	15,24
40.	Armenia	10,96	18,24
41.	Kyrgyzstan	9,85	19,35
42.	Turkey	9,54	19,66
43.	Russia	4,44	24,76
44.	Azerbaijan	2,90	26,30
45.	Tajikistan	2,13	27,07

RULE OF LAW RANKING

Ranking of Freedom Barometer countries according to the level of rule of law.

Ranking	Country	Rule of Law	Distance to Frontier
1.	Finland	26,68	0,00
2.	Norway	25,87	0,81
3.	Switzerland	25,86	0,82
4.	Sweden	25,40	1,28
5.	Netherlands	25,35	1,33
6.	Denmark	25,31	1,37
7.	Ireland	24,98	1,70
8.	Luxembourg	24,87	1,81
9.	United Kingdom	24,62	2,06
10.	Iceland	24,30	2,38
11.	Germany	24,26	2,42
12.	Austria	23,06	3,62
13.	Belgium	22,31	4,37
14.	Estonia	21,68	5,00
15.	France	21,27	5,41
16.	Portugal	19,76	6,92
17.	Czechia	18,84	7,84
18.	Slovenia	18,49	8,19
19.	Spain	18,47	8,21
20.	Lithuania	18,45	8,23
21.	Malta	18,43	8,25
22.	Cyprus	17,49	9,19
23.	Italy	17,39	9,29
24.	Poland	17,23	9,45
25.	Latvia	16,57	10,11
26.	Romania	15,97	10,71
27.	Georgia	15,57	11,11
28.	Hungary	15,33	11,35
29.	Slovakia	15,25	11,43
30.	Greece	15,07	11,61
31.	Montenegro	15,02	11,66
32.	Croatia	14,76	11,92
33.	Bulgaria	14,32	12,36
34.	Macedonia	13,35	13,33
35.	Azerbaijan	13,22	13,46
36.	Armenia	13,19	13,49
37.	Serbia	13,14	13,54
38.	Albania	12,84	13,84
39.	Bosnia and Herzegovina	11,91	14,77
40.	Tajikistan	11,76	14,92
41.	Ukraine	11,19	15,49
42.	Moldova	11,01	15,67
43.	Russia	10,98	15,70
44.	Turkey	10,95	15,73
45.	Kyrgyzstan	10,82	15,86

ECONOMIC FREEDOM RANKING

Ranking of Freedom Barometer countries according to the level of economic freedom.

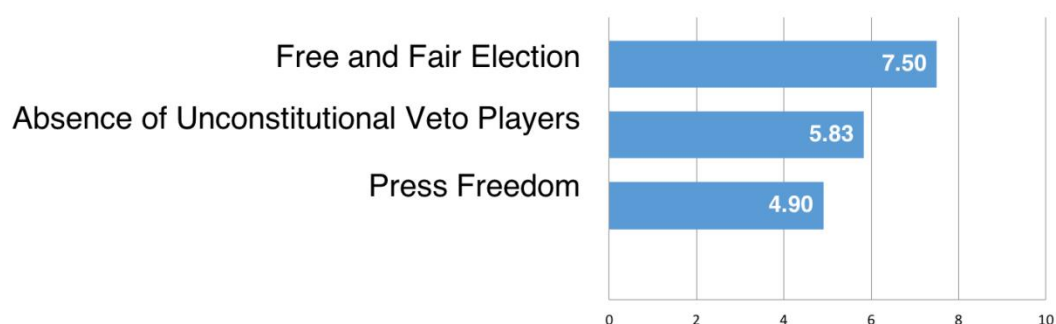
Ranking	Country	Economic Freedom	Distance to Frontier
1.	Switzerland	32,15	0,00
2.	Georgia	30,92	1,23
3.	Ireland	30,63	1,52
4.	Estonia	30,12	2,03
5.	Iceland	30,02	2,13
6.	United Kingdom	29,88	2,27
7.	Lithuania	29,46	2,69
8.	Macedonia	29,27	2,88
9.	Luxembourg	28,78	3,37
10.	Armenia	28,77	3,38
11.	Czechia	28,71	3,44
12.	Azerbaijan	28,55	3,60
13.	Latvia	28,53	3,62
14.	Romania	28,36	3,79
15.	Netherlands	28,33	3,82
16.	Norway	28,30	3,85
17.	Finland	27,97	4,18
18.	Albania	27,92	4,23
19.	Germany	27,77	4,38
20.	Denmark	27,46	4,69
21.	Bulgaria	27,43	4,72
22.	Cyprus	27,19	4,96
23.	Sweden	26,89	5,26
24.	Poland	26,88	5,27
25.	Spain	26,84	5,31
26.	Kyrgyzstan	26,77	5,38
27.	Austria	26,65	5,50
28.	Malta	26,56	5,59
29.	Tajikistan	26,38	5,77
30.	Russia	26,36	5,79
31.	Montenegro	26,20	5,95
32.	Hungary	26,13	6,02
33.	Slovakia	26,06	6,09
34.	Turkey	26,05	6,10
35.	Serbia	25,80	6,35
36.	Portugal	25,60	6,55
37.	Slovenia	25,52	6,63
38.	Bosnia and Herzegovina	25,01	7,14
39.	Belgium	24,94	7,21
40.	Moldova	24,72	7,43
41.	Croatia	24,05	8,10
42.	France	24,00	8,15
43.	Ukraine	23,85	8,30
44.	Greece	23,07	9,08
45.	Italy	22,84	9,31

COUNTRY SCORECARDS

Albania

<i>GDP in 2017: EUR 10,884 million</i>		
<i>annual growth rate: 3.8%</i>	<i>per capita: 3,800 EUR</i>	<i>by sector:</i>
		agriculture 21.7%
		industry 24.2%
		services 54.1%
<i>Population: 2,876 thousand</i>	<i>Human Development Index</i>	<i>Government position in 2017</i>
<i>Unemployment rate: 13.8%</i>	<i>HDI: 0.785 (rank 68)</i>	<i>-1.4% of GDP</i>

A. POLITICAL FREEDOM



FREE AND FAIR ELECTIONS

Politics is a divisive element in Albanian society. Divisions culminated prior to parliamentary elections in June 2017, when international instances mediated over the opposition's dissatisfaction with the overall political climate and with the lack of fairness ahead of elections. Electoral process in Albania is on a track of improvement, with last parliamentary elections having had been more competitive and fairer than the previous ones, however it was rather a result of foreign mediation than of home-born institutional improvement. Nonetheless, many problems with elections, such as voting irregularities and abuse of administrative resources, remained an issue. Central Election Commission is often criticized for its alleged lack of impartiality. The ruling Socialist Party (SP) led by Prime Minister Edi Rama captured single majority in the National Assembly, with 74 seats out of 140. New government was inaugurated in the middle of September 2017. Members of Albanian unicameral parliament are elected based on party proportional representation, in 12 constituencies.

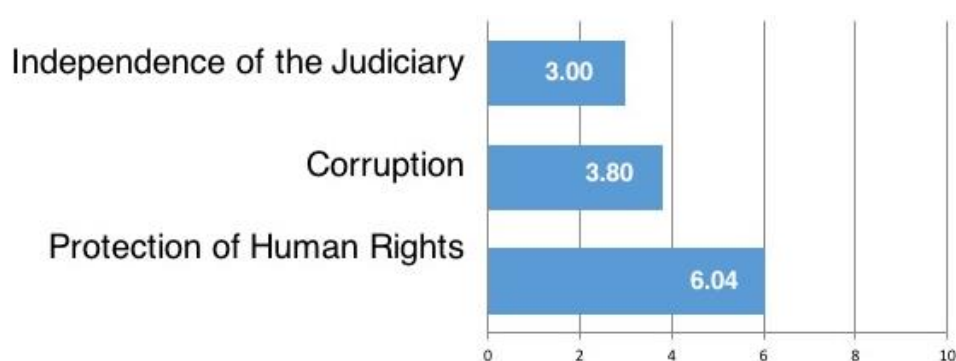
ABSENCE OF UNCONSTITUTIONAL VETO PLAYERS

Democratically elected government in Albania has effective power to govern the country without interference from unconstitutional veto players. However, there are several actors with potential to undermine independent institutions and democratic decision making in the country. Most notably, it is the ruling political elite itself, including their close ties with business and criminal groups. With weak separation of powers in practice, with current strong domination of the SP over legislative and executive, and with SP's capabilities to influence the judicial sector, their actions can often go by with impunity. Business or criminal leaders can influence decision making process as well. Corruption in the country is widespread over all political layers.

PRESS FREEDOM

Press in Albania is partly free. There is a huge number of printed, broadcast and online media outlets whose independence is limited by the pressure coming from politicians and media owners. They imposed control over both public and private media outlets, using poor economic situation in the journalist profession to manipulate their political and business interests through and to transform the media into their personal mouthpieces. To it, concentration of media ownership in Albania is high. Deep political polarization in the country is reflected on the media landscape as well, with many outlets providing a reporting biased in favour or against the dominant political parties. Additionally, journalists are often targets of verbal harassment coming from politicians in power. For instance, the PM Edi Rama labelled some of them as public enemies and a poison of the society. Thus, hostile environment and extensive political and economic pressure contributed to high level of self-censorship among journalists. Defamation remained punishable by the law.

B. RULE OF LAW



INDEPENDENCE OF THE JUDICIARY

Entire system of law enforcement in Albania has been under heavy burden of political influence and pressure, corruption, nepotism or incompetence, resulting in impunity, or selective justice, or even police or judicial vendettas. Some improvements are notable regarding police treatment of detained persons, with less complaint put against alleged ill-treatment. Poor infrastructure and overcrowding still weigh on prisons, especially affecting detained juveniles. Implementation of the constitutional reforms adopted in 2016, including those aimed at improving the poor state of

judicial independence from the executive, has lagged behind schedule because of the boycott by opposition and stalemate in the parliament, itself ended in spring 2017. Establishment of new bodies in charge of judiciary and adjacent nominations started in October 2017, alas, also with difficulties. In March 2018, the Justice Reform Commissioner, in charge of clearing the system of incompetent or corrupt judges and prosecutors, was himself fired. Later the same month, Vetting Commission has fired a Constitutional Court judge, for failing to provide sufficient information on his assets and their origin. The vetting process continued throughout mid-2018.

CORRUPTION

Albania is a highly corrupt country, despite efforts, energized by the EU, to improve. Corruption and organized crime are the main stumbling blocks to her EU-accession. Bribery rates are high. Corruption among judiciary, police, customs, land administration, tax authorities and in public procurement is marked by the business portal GAN as either very highly or highly present. Long-time present impunity of the high-ranking state officials opened space for illegalities to numerous among them. In 2017-2018, the rules for scrapping immunity of MPs have even been toughened. Ruling majority had thus sheltered an MP and former Minister Interior from investigations into alleged drug smuggling, all until he, under pressure put from the EU onto the PM, voluntarily resigned his MP seat in May 2018. A couple of MPs were banned entry into the USA because of seeming corruption. On the positive side, improved protection of whistle blowers, noticed also by the EU monitors, is expected to eventually increase the reporting on corruption. In the Transparency International's CPI 2017 list, Albania is ranked 91-95/180, same as, for instance, BiH, with 38/100 points.

PROTECTION OF HUMAN RIGHTS

During communist times, Albania's regime was among the most brutal in the world. In the post-communist era, citizens' desire has been strong to reach the highest standards of the free and democratic world. But attempts to derail or make shallow the lustration and restitution process are also strong. Thus there is so much gap and paradox in various aspects of human rights. Recovery of mass graves from pre-1991 era (hiding the remains of estimated 6.000 victims), removing impunity of the-then perpetrators, enabling free access of survivors into the secret police files, or restitution of the private property nationalized after 1944, all face occasional serious obstacles and setbacks, and are still on. Cooperation with ICMP was established in June 2018, after eight years of negotiations. Assistance to recent victims, such as those of human trafficking, is improving, but the practice is still a major security threat. Some minorities enjoy high level of protection and acceptance by majority, while others (such as Roma) remain discriminated. Freedom of religion is highly respected and tolerance is practiced. Once (during communism) officially an atheist country where religion was banned, Albania is nowadays a role model of a secular country in which everyone's worldview is respected. Not so tolerant is the attitude regarding sexual minorities, who on one hand face loud proclamations of equality, anti-discrimination laws and legalization of their NGOs and public gatherings by the authorities, yet on the other hand feel pressure from within conservative society (or from hypocrite politicians), suffer occasional homophobic violence and still live in a climate of fear. Nonetheless, the improvement in this field has been enormous during this decade. In 2018, a furious debate was

opened in Albania over protection of privacy, e.g. on how to protect the data on citizens, collected by public schools or health care centres, against political, pre-election manipulations.

C. ECONOMIC FREEDOM



SECURITY OF PROPERTY RIGHTS

Private property in Albania is not adequately protected. The biggest problem is low judicial independence from powerful political and business interest groups connected to the executive branch of government. The judicial reform that is a prerequisite for EU accession negotiations has been under implementation since 2016, but its effects are unclear. Contract enforcement is ineffective due to very long legal procedures – 1.5 year on average, high fees involved and corruption that is still present within the judiciary. There are no specialized commercial courts, but there are such departments among district courts. Automated procedures are not well developed and there is a large body of backlogged cases, all of which undermine efficiency of the judiciary system. Recent amendments to the code of civil procedure established a simplified procedure for small claims. Bankruptcy procedures are long, lasting 2 years on average, and lead to a moderate recovery rate of 44% through piecemeal sale of assets of the bankrupt company. A new bankruptcy law was introduced in May 2017, with the aims of dealing with the existing loopholes, reducing fraud and easing recover procedures. 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 is slow, and involves very high fees, while there is also corruption within the cadastre service. Public notaries were recently given access to registries and can now confirm ownership of land and real estate. Private property expropriation is rare, restricted mostly to infrastructure projects, but the level of compensation offered is lower than the perceived fair market value. Another problem in the area of property rights are illegal buildings, whose number is estimated at 440 000. The wide demolition campaign of the construction inspectorate does not involve due legal process, ignores citizen complaints and is partial in choosing targets. Foreign nationals face restrictions in owning agricultural land, but they can lease it for a period of up to 99 years. Commercial property, on the other hand, can be purchased but only with a guarantee of a threefold investment against the value of the acquired land. These restrictions can easily be avoided through registering a local company in Albania. There are few restrictions on foreign ownership in the country, the most notable ones regarding air transportation, electricity transmission and television broadcasting, in which foreign ownership is restricted to minority equity. The process of restitution, which started in 1993, is yet to be fully implemented. Property restitution claimants are facing many challenges in practice,

due to slow judicial procedures or corruption, leading to unclear property rights. The new property compensation legislation was recently introduced in order to provide a solution to the pending claims. This legislation envisages three methods of compensation (property restitution, compensation with a property of similar value and pecuniary compensation) and a 10 year long timeframe for resolving the restitution claims. Political changes can have a significant impact on businesses and investments, due to attempts of the new government to revoke or renegotiate already settled concessions, licenses or contracts, thus significantly negatively influencing property rights.

SIZE OF GOVERNMENT

Size of government in Albania is modest as compared to many other European countries, with low levels of government expenditures, slightly below 30% of GDP in 2017. Public deficit has been put under control following the fiscal austerity program introduced in 2015, but high public deficits during previous years piled up a substantial public debt, itself reaching 72% of GDP in 2017. High level of debt poses a significant fiscal risk in case of another recession, but here are also problems arising from a slowdown in reforms and piling up arrears, including VAT refunds and unbudgeted investment projects. SOEs operate in so called strategic industries, such as transport, energy generation and distribution, postal services and hydrocarbon sector. The state also owns significant minority equity in big companies that operate freely in the market, such as the Albtelekom. SOEs in the energy sector, KESh and OShEE, still pose a significant risk for public finances due to inefficient management and operational policies. Both companies declared losses in 2017 due to droughts, but systematic problems within their operation persist. Privatization of Albpetrol, the state oil company, has been postponed several times, and the company has recently announced restructuring. Low public consumption makes room for low taxes. Personal income tax is slightly progressive, with the rates of 13% and 23%, and a high non-taxed threshold. Corporate tax is flat and set at 15%, but there are also 5% and 0% rates for small companies with turnovers below certain thresholds. The general VAT rate is set at 20%, while the preferential rate is 6%. 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 for doing business in Albania. Corruption and favouritism among public officials, in their dealings with business entities, remain widespread, undermining impartial implementation of regulations. Corruption is especially visible in the process of public procurement. Legislation is often difficult to interpret, being ambiguous, inconsistent or outright contradictory, which can be used for manipulation and extortion, while regulatory changes are made without proper consultation with the business community. Starting a business is relatively easy and quick, with low number of procedures and no paid-in minimum capital, but it is tied to high administrative fees. In order to boost registering of new businesses, 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 finally resumed and gained momentum after the moratorium that had been enacted in 2013 in order to combat illegal construction. However, this process is complicated by numerous

procedures and long time limits, lasting 10 months on average. The process of getting electricity is, on the other hand, not burdened with numerous procedures, yet it is very expensive. Tax regulations are overly complicated, with high number of annual payments. The newly introduced online system for filing and paying taxes has somewhat improved the situation, but it remains burdensome. Tax rates and corruption remain among the top problems for doing business in the country. 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' regulation has recently been made less flexible through the decrease in the maximum number of workdays during a week. Notice periods and severance pay for redundancy workers rise significantly with the years in tenure, thus protecting more seasoned workers. The minimum wage is relatively high as compared to the average wage. There are two types of it: the minimum wage for private and for public sector (the latter being higher by a half). Collective bargaining is mostly concentrated in public sector, while outside it is prevalent in just a few industries.

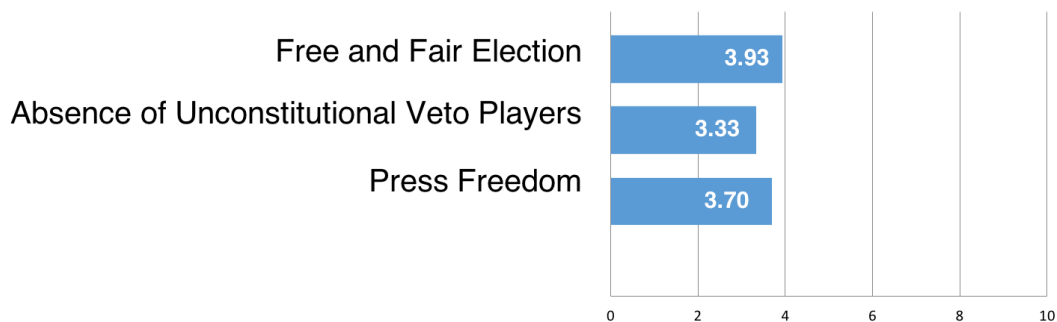
FREEDOM TO TRADE INTERNATIONALLY

Freedom of international trade in Albania is generally respected. Tariffs are low, with the average MFN-applied rate of 3.6%, but product standardization procedures serve as significant impediments to free trade, incurring high costs to importers. Poor quality of transport infrastructure, especially of the railroads, also increases freight costs and impedes international trade. Border and documentary custom procedures also pose difficulties. Mandatory scanning inspections for exports and imports increase both time and costs for border compliance. Corruption in the customs office and unequal treatment resulting from it also pose problems. Main Albania's trade partners are EU member countries (most notably Germany and Italy), closely followed by China and Turkey. Therefore, majority of the Albanian trade is conducted under the Stabilization and Association Agreement (for the EU countries) and the CEFTA for the countries from the region. 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. The European Commission (EC) recommended to the European Council to open accession negotiations with Albania, which may start next year, and which will have a significant impact on its trade policy, since it will have to align its technical standards and tariffs with the acquis. 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 for foreign nationals is streamlined, but the legislation stipulates that foreign workers cannot encompass more than 10% of the total workforce of a company.

Armenia

GDP in 2017: EUR 9,606 million		
annual growth rate: 7.5%	per capita: 3,200 EUR	by sector:
		agriculture 16.7%
		industry 28.2%
		services 54.8%
Population: 2,991 thousand	Human Development Index	Government position in 2017
Unemployment rate: 18.9%	HDI: 0.755 (rank 83)	-4.8% of GDP

A. POLITICAL FREEDOM



FREE AND FAIR ELECTIONS

A year after parliamentary elections in Armenia, peaceful revolution led to the transition of power and appointment of Nikol Pashinyan as the new Prime Minister, marking an end of the longstanding political domination of the former President Serzh Sargsyan. This came as a result of country's transformation from a semi-presidential to parliamentary republic, a process started in 2015 and finished with an end of Sargsyan's second presidential term. First, parliamentary elections, through the complex party list proportional representation, took place in the mid of 2017 with Republican Party of Armenia (HKK) winning the majority of seats and only one opposition political party entering the parliament. On the 2nd of March 2018, presidential elections were held, when for the first time president was elected by the parliament. Armen Sarkissyan, HKK backed candidate, became the new president of Armenia. After that, Serzh Sargsyan intended to formalize his power by becoming a PM of Armenia, which he did, but that event triggered intensive protests in the whole country, led by an opposition MP Nikol Pashinyan. Few weeks later, Sargsyan resigned, while Pashinyan was given mandate to govern the country. Freedom and fairness of electoral process in Armenia is limited. Elections abound with irregularities and fraudulent practices. Prior to revolution, ruling HKK haven't constraint itself

from taking leverage of the ruling position and abusing power, thus highly undermining political pluralism in the country. It is expected that most recent developments make political life in Armenia more vibrant and pluralistic.

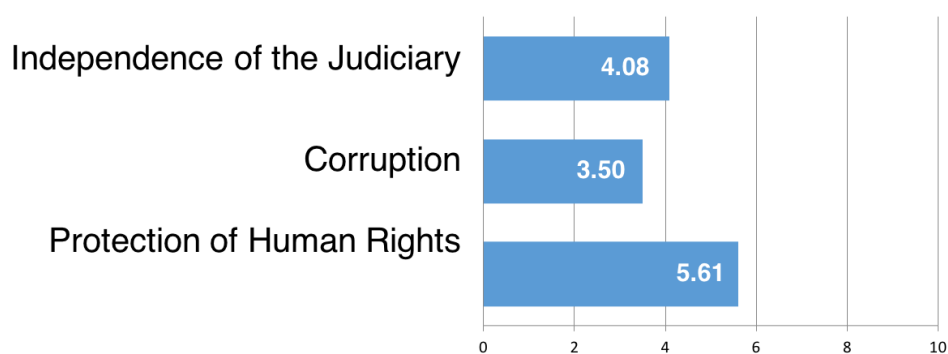
ABSENCE OF UNCONSTITUTIONAL VETO PLAYERS

There are no unconstitutional veto-players in Armenia, however democratic institutions and rule of law are often undermined by politicians in power themselves. Executive branch was dominating over legislative and judiciary ones for years, paralyzing the system of check and balances. Exactly that extensive control over all institutions and abuse of power triggered massive protests, which ultimately led to the shift of government in May 2018. Decision making process in the country is often influenced by close ties between political and business elites, mutually manipulated to serve their own personal benefits. There is a widespread practice of having businessmen in politics, to be used as a tool for meeting business interests. Significant influence in society is imposed by war veterans` formal or informal associations, and by the Armenian Apostolic Church, who are able to put informal pressure on the decision making process. PM Nikol Pashinyan, although previously a successful leader of protests, has got very weak representation in the parliament by his own party, which made his position prone to future changes and turbulences on the political scene.

PRESS FREEDOM

Mechanisms for protection of media freedom and independence in Armenia are very weak, as democratic institutions and the system of checks and balances in the country are dominated by the executive. Journalists are facing political and economic pressure, attacks, threats and legal suits. Reporting on abuse of power by HKK during parliamentary elections in 2017 led to 30 defamation charges towards an online platform in an allegedly orchestrated action. All charges were dropped the same day. Impartiality in many institutions, even regarding physical or verbal harassment of journalists, was dubious, creating a climate of fear in media. Broadcast media outlets in Armenia are mostly owned by the businessmen with close ties to politicians in power, influencing editorial independence to a large scale. In a search for objective information citizens are rather turning to online sources than to traditional media outlets which are often expressing bias toward ruling HKK and government.

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 is hardly better than several years ago. In politically sensitive human rights cases, courts have several times submitted to the government expectations. In commercial cases, courts often lacked expertise, effectiveness and/or efficiency, or were bribed or politically influenced to favour one or another company. Constitutional changes as of late 2015 have too slowly translated into laws and by-laws. The establishment of the Supreme Judicial Council in 2017 was welcomed by the Venice Commission and relevant domestic NGOs, but it also had in-built shortcomings. After the Velvet Revolution in spring 2018, many judges felt obliged to respect the wishes of the new government, so a balance of power between various branches is yet to be made.

CORRUPTION

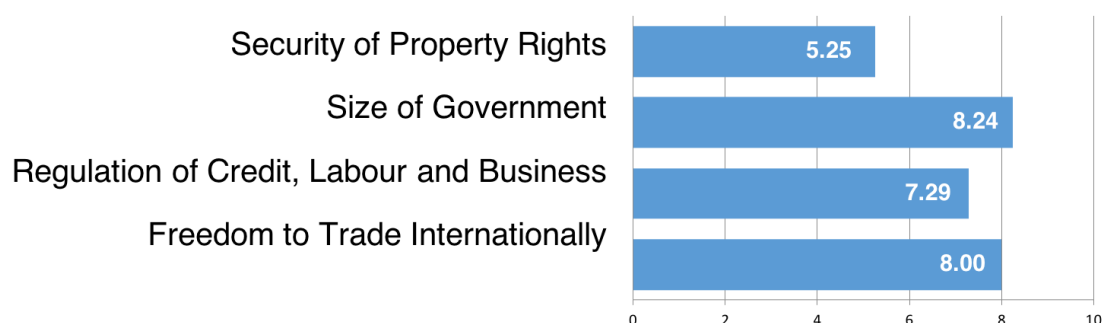
In 2017, the situation regarding corruption slightly improved according to Transparency International's CPI (from 33 to 35/100 points), while it slightly worsened according to Freedom House's NiT evaluation (from – negative - 5.25 to 5.50/7.00 points). Armenia is thus better than Azerbaijan or Iran, worse than Turkey and far worse than Georgia. There are many clues that high level corruption, rather than petty one, poses a bigger challenge. GAN portal reported about close relationship between oligarchs, political and business circles, which impeded other companies' business planning and operation. Corruption risk has also been high in judiciary, police, customs and tax administration. In spite of a number of government promises, new programs, etc., Freedom House noted that until the end of 2017 “very little progress was made”. Even exposed corrupt public officials managed to escape prosecution. Anti-oligarchy sentiments and desire for fairer economic and societal conditions led in April-May 2018 to a thorough change of government in the “Velvet Revolution” and subsequent elections. Although not the main ones, the motives of pushing back corruption and nepotism, while affirming the need for more accountability and responsibility of politicians, played a considerable role. It's to be seen if or how civic activism as of spring 2018 might translate into an enduring civic watch over transparency in Armenian politics and public life.

PROTECTION OF HUMAN RIGHTS

Described by Freedom House as “semi-consolidated authoritarian regime”, Armenia had for most of its post-Soviet period been neglecting human rights. With a very bad situation in Iran, deteriorating one in Turkey and Azerbaijan and just slow improvements in Georgia, it had few role models in the neighbourhood. Besides, there is a constant influence from Russia with its laws and practices that openly reject the very idea of rule of law and consequently demean human rights. April-May 2018 Velvet Revolution might be a game changer with its strong orientation on values, instead of oligarchy interests, as a guideline for policies. Meanwhile, civil society organizations grew, also owing to the law as of 2016, and have provided solid framework for citizen activism. For that, there might be a lot of need in the current state of human rights in the country, from lack of civil liberties and protection of citizens under the law, and a need to limit

law enforcement services to a constitutional and legal framework, via issues of gender inequality, domestic violence, LGBT discrimination and homophobia, to the need for more religious and ethnic inclusion.

C. ECONOMIC FREEDOM



SECURITY OF PROPERTY RIGHTS

Property rights in Armenia are not sufficiently well protected. Powerful external interested parties sway a significant power over the courts, their procedures and rulings, and corruption within the judiciary is still present. Judicial procedures are slow and inefficient, and there is a high number of backlog cases. A case on averages lasts longer than a year and a half; adjournment regulations do not stipulate their maximum number and time standards are not reasonably upheld, so slow court procedures effectively 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 have not yet decreased the number of new court cases. There are no specialized commercial courts, and all commercial cases are resolved in general jurisdictions courts. Lack of expertise of judges in commercial areas can be a negative factor in court dealings. Unpredictability in verdicts, which can vary from court to court in similar cases, is another problem. The big improvement was the recent law that stipulated that court cases should be assigned to judges randomly, so this procedure is done automatically, alleviating some of the pressure on courts. Registration of property is easy, inexpensive and can be done in just a week, while majority of the land has a clear title. The land dispute resolution mechanism of the land administration was recently improved, which would have a positive impact on the property registration process. Insolvency procedures are also slow and complicated, lasting on average almost two years, and resulting in low recovery rates, below two fifths of the claim, mostly through piecemeal sale of the business at stake. Foreign nationals cannot own land, unless they acquire a residence permit, but they can lease it freely.

SIZE OF GOVERNMENT

Government expenditures in Armenia are very low as compared to other European countries, even those from the CIS region, standing at 26% of GDP in 2017. General government deficit is high, reaching -4.8% of GDP in 2017 but is expected to subside significantly this year, due to high economic growth rates and rising tax receipts. Public debt is elevated compared to previous

years, reaching 53% of GDP in 2017, which is relatively high for a country on this level of economic development. Economic growth rebounded after the 2016 slowdown, due to rising consumption supported by higher remittances from Russia and due to a strong increase in the price of the number one export commodity, copper, but these one-off effects are probably not going to last beyond 2018. Since the debt level passed the 50% of GDP threshold, the unofficial fiscal rule is now binding the government, calling for a strong deficit reduction. There are positive efforts to enact a new PPP law, as a safeguard from fiscal risks stemming from these arrangements. Majority of former state owned companies has been privatized since the beginning of the transition in the country; the privatization process is generally considered to have been neither transparent nor fair. SOEs are still active in specific areas, such as public utilities, infrastructure and energy. These companies do not operate efficiently, and their operations can pose fiscal risks to the government, especially those in the energy sector. Overall low government consumption has led to moderate tax rates: VAT and corporate profit tax rates are set at 20%. Income tax is progressive, with rather high rates of 23%, 28% and 36% above the set threshold. Social tax is 5% of the gross wage, which coupled with the income tax leads to a moderate labour tax wedge of 27% on the average wage.

REGULATION OF CREDIT, LABOUR AND BUSINESS

Regulation in the country is mostly business friendly. However, major fields of the Armenian economy are controlled by business people whose close political affiliation with the government provides them with protection from the competition on the market. Informal entry barriers in these fields serve as a deterrent to companies that would try to enter the market, while tax authorities and different inspections are used to harass possible competitors. Accusations of unfair tender procedures are still present. Government institutions can give preferential treatment to certain companies with good political liaisons. The level of corruption in the country is high. On the other hand, there is no minimum paid-in capital requirement, and starting a business is easy and cheap, as is also the process of obtaining a construction permit, however being burdened with as much as 19 different procedures. This process was eased through exemption of lower-risk projects from the need of having approval of architectural drawing by an independent expert. The process of connecting to electricity grid has been recently improved and expedited by imposing new, shorter deadlines for connection procedures and setting up a new GIS system within the public utility company, the Electrical Networks of Armenia. Although there are not many annual tax payments, compliance with tax procedures involves lengthy and complicated procedures. Access to finance, tax rates and tax regulations are perceived as the most problematic factors in doing business in the country. Labour regulation is flexible. Although fixed term contracts are prohibited for permanent tasks their length is not restricted. Total number of working days is set at 6. There are retraining and reassignment obligations in case of redundancies. The length of notice periods and the level of severance pay do not increase with the years in tenure, so they incur low costs. However, almost half of the working force works without contracts, or in the informal economy. Centralized collective bargaining is mostly restricted to public sector, whereby trade unions are closely connected to the government. Long mandatory military service proves to be burdensome for individuals and private enterprises alike.

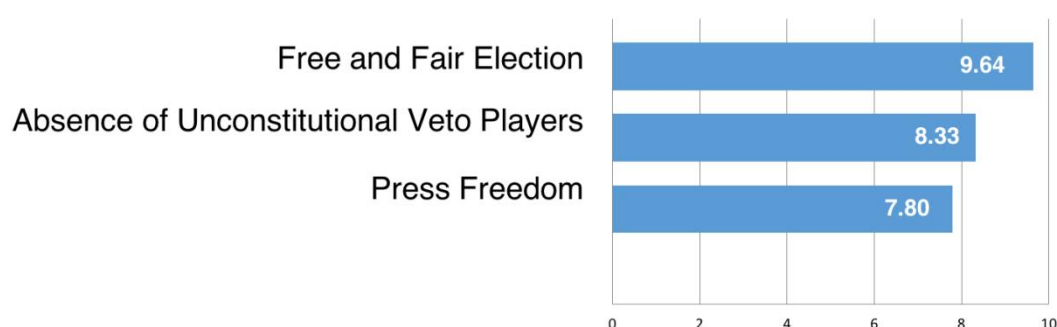
FREEDOM TO TRADE INTERNATIONALLY

Freedom of trade in Armenia is generally respected. Tariffs are not high, with the Most Favoured Nation (MFN) average applied rate of 6%, but tariffs are higher for agriculture goods and foodstuffs. Non-tariff barriers, such as technical, sanitary and phytosanitary standards, still pose obstacles to free trade. The use of reference prices during custom clearance was recently reduced, but custom procedures remain non-transparent and prone to corruption, while custom clearance and inspections take a lot of time. Those procedures have recently been improved through a reduction in use of reference pricing, but manipulation with goods' classification and demands for pre-payment of custom duties still prevail. Armenia has been a member of the World Trade Organization (WTO) since 2003. It has signed the Trade Facilitation Agreement, and requirements for categories A and B have been put in place. Armenia joined the Eurasian Economic Union (EEU) in 2015, which granted Armenian goods easier access to EEU markets and vice versa, as well as more opportunities for Armenian migrant workers through their preferential treatment. However, this also entailed changes in trade policy, by increases in tariff rates and new regulatory requirements for imported goods, in order to comply with the existing regulation of the EEU. In November 2017, Armenia signed a Comprehensive and Enhanced Partnership Agreement with the European Union. This treaty will not affect customs or tariffs rates, however, but it will, over time, align Armenian regulatory system and standards with the EU. Main problems facing Armenian involvement in 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 confrontations with Azerbaijan and Turkey. The only open borders are those with Georgia and Iran, but they lack good infrastructure. That significantly burdens international trade, by imposing high freight costs. Main Armenian trade partners are the Russian Federation and the European Union, which combined cover one half of its international trade.

Austria

GDP in 2017: EUR 369,615 million		
annual growth rate: 3.0%	per capita: 41,900 EUR	by sector:
		agriculture 1.3%
		industry 28.4%
		services 70.3%
Population: 8,815 thousand	Human Development Index	Government position in 2017
Unemployment rate: 5.5%	HDI: 0.908 (rank 20)	-0.7% of GDP

A. POLITICAL FREEDOM



FREE AND FAIR ELECTIONS

Despite the irregularities that had led to the repeat of the runoff of the Austrian presidential elections in 2016, elections in this country have been free and fair. Turbulent years of Austrian politics continue throughout the observing period. Disagreements in the ruling coalition between Social Democratic Party of Austria (SPÖ) and Austrian People's Party (ÖVP) led to early parliamentary elections on 15th of October 2017. Political parties enjoyed free and fair competition at the elections for the Parliament's lower house - Nationalrat. Political narrative in the country is dominated by the migration policies, with divisions alongside political lines and within society. Although the far-right nationalist party - Freedom Party of Austria (FPÖ) was defeated in the presidential elections, it found its place in the newly built Government of Austria, coalescing with the winner of the elections, the ÖVP. Government was formed in December 2017, with Sebastian Kurz from the ÖVP as the Chancellor (Prime Minister), marking a start of more conservative times in Austrian politics.

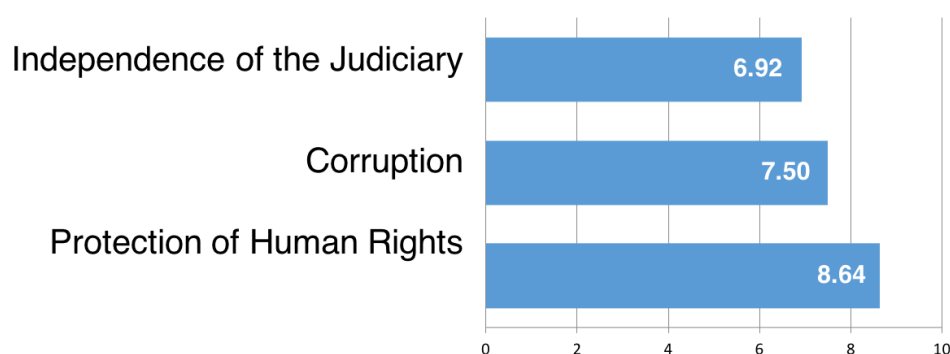
ABSENCE OF UNCONSTITUTIONAL VETO PLAYERS

Austria doesn't have unconstitutional veto players, which is reflected through clear capacity of elected representatives to shape the country's politics. Individual cases of corruption among public officials threaten to undermine the trust in democracy, however mechanisms for prosecuting corruption are efficient and in place. Most prominent such case was the one of a former Minister of Finance, charged for embezzlement. Separation of powers, on legislative, executive and judicial branch, is clear, preventing any threats to undermine democracy.

PRESS FREEDOM

Freedom of the press, granted by the Austrian Constitution, is respected in practice. Journalists are free and independent in their work. However, lack of legislative reforms, turbulent times in politics and country's more conservative orientation definitely had an impact on media environment in Austria. Both political and economic pressure is present, and used to pressurize media reporting. Deterioration of trust in media as a credible source of information, a trend widespread across Europe, allowed politicians, even those from governmental circles, for harsher rhetoric towards journalists. State advertising is a tool which both sides try to take advantage of, resulting in biased reporting in favour of ruling structures. Concentration of media ownership is high. Austria also faces a growing trend of fake news, widely distributed by using social media to shape public opinion and discredit politicians.

B. RULE OF LAW



INDEPENDENCE OF THE JUDICIARY

Austrian judiciary has proven as independent from the executive branch in numerous politically sensitive cases, from the request for a re-vote at presidential elections in 2016 to a few recent proceedings for alleged corruption or other misuse of office, against Ministers or other high-ranking members of both currently or previously ruling political parties. Finally, in December 2017, Constitutional Court has suspended discriminatory provisions in the laws on marriage and on registered partnerships, thus de facto allowing same-sex marriages after 1 January 2019. Criminal and civil courts are largely free of favouritism, discrimination or corruption, and trusted by citizens.

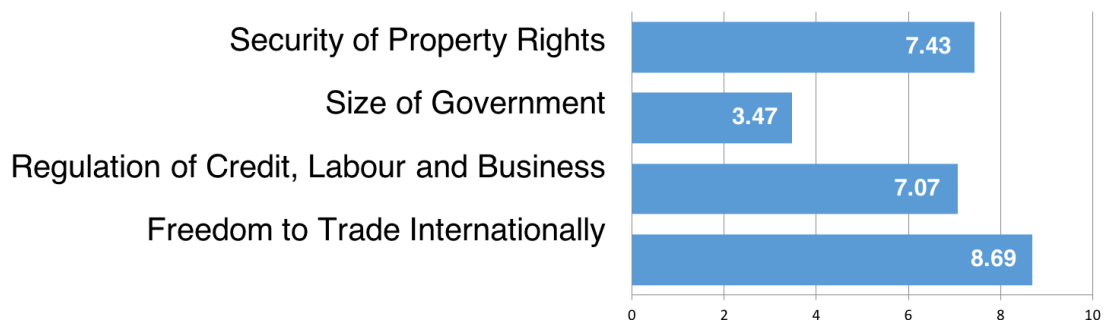
CORRUPTION

Many citizens perceive the entire political class in Austria as corruption-vulnerable and suspicious. Public sector, as being traditionally larger than in comparable countries, provides a fertile ground for it. Recent investigations showed that even Ministers might not be immune – from military procurement to real estate management there were scandals which are currently a matter of judicial proceedings or trials. Politics and banking are more intertwined than in the neighbouring Germany. In the past, there were corruption scandals involving huge Austrian banks. Partisanship is present also in the public sector employment. Added the deficiencies in transparency, i.e. in public access to information (there is no political consensus on removing the obsolete “state secrecy” rules), it is very difficult for - otherwise free - press and active NGO sector to cover and analyse numerous dubious decisions by the governments at various levels and whistle blow at the most questionable ones. But, generally, the situation is far from bad, especially taken that petty corruption is very rare. Austria is relatively highly ranked – sharing the places 16-18/180 with Belgium and USA - by the Transparency International in its CPI 2017 report.

PROTECTION OF HUMAN RIGHTS

There is a multiple, legal and societal, protection of human rights in Austria. As Freedom House noted, academic freedom is generally upheld and “educational system is free from extensive political indoctrination”. Limitations to free speech are mainly in place to deter hate-speech. In spite of the latter, xenophobic and immigrant-sceptic rhetoric is widely and increasingly present in public discourse, especially upon the entrance into Government by the far-right party FPÖ (as a junior partner). Lots of efforts are put by provincial or local governments to integrate people of immigrant background (language training, cultural exchange, etc.), but some of them (such as Roma) still face discrimination in housing, or by service providers. Religious communities are treated differently, whereby foreign funding is allowed to some and restricted to others (such as Muslims). US State Department noted human (forced-labour, or sex) trafficking as a problem in Austria (it is mainly a transit country), but also government efforts to fight it. Gender pay gap is still wide. In 2017, there were changes in the regulation of street demonstrations, such as longer announcement period (48h instead of 24h), larger safety zones between rival groups and restrictions for the participation of foreign politicians.

C. ECONOMIC FREEDOM



SECURITY OF PROPERTY RIGHTS

Property rights in Austria are well secured. Expropriation of property in Austria is extremely rare, limited to rare cases of public interest, and even that on the basis of legal justification followed by 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 legal instructions. Since there are no special commercial courts (apart from the one in the capital Vienna), most commercial cases are administrated by regional courts. Effective bankruptcy procedures allow for a very high recovery rate of 80% of the liabilities, within a reasonable time frame; most companies are not sold through liquidation procedure but as going concerns. High attorney and court fees, and long procedure of contract enforcement, substantially elevate litigating costs. There are no strict adjournment rules, which impede court efficiency: adjournments should be limited to exceptional circumstances, same as their maximum number. New cases are assigned randomly to judges, but manually, and not through court automation services. 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. Legality of 12 Bilateral Investment Agreements (BIT) with the new EU member states are considered dubious by the European Commission; in March 2018 the European Court of Justice called arbitration clauses in these treaties incompatible with the EU law. These BITs will, therefore, have to be changed or abolished. For acquisitions of enterprises in strategic industries above the threshold of 25% one needs approval from the Ministry of economic affairs.

SIZE OF GOVERNMENT

Government consumption in Austria reached 49.7% of GDP in 2017, mostly due to high social transfers through redistribution schemes, but also for public pensions and healthcare. These costs are projected to continue growing substantially due to demographic changes. As in many other countries, pension system is unsustainable due to high dependency ratio. High substitution levels and an activity level in the labour market much below the one in comparative countries also pose problems. Economic growth has picked up, due to good economic developments in the main partner countries and a rise in private consumption after the tax reforms, doubling from 1.4% in 2016 to 2.9% in 2017. The deficit has been halved from 1.5% of GDP in 2016 to 0.8%, while the public debt is on a downward path, although still at the high level of 79% in 2017, well above the Maastricht criteria. State-owned enterprises (SOE) are mostly concentrated in the utility and infrastructure sector, but the government holding OBIB holds significant minority or even majority stocks in many other industries, such as the post office, gambling casinos, telecommunications, etc. Majority equity of energy providers is in state ownership, which can have negative effects on investments and competition. SOEs mostly 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 parties can be attested. These political ties could in some cases be misused to prolong legal disputes and their implementation. High tax rates are necessary to finance high government expenses. Corporate income tax is still 25%, but the newly elected government vouches to

decrease it through the tax reform scheduled for 2020. Social security contributions remain high, which, coupled with the income tax, keeps the labour tax wedge much above the OECD average, at 47%. The changes in the tax rates in 2016 somewhat lowered this from the starting point of 49.6% in the previous year, but to the detriment of the consumption taxes which were increased through implementation of the new 13% VAT rate (alongside the 10% and 20% rates).

REGULATION OF CREDIT, LABOUR AND BUSINESS

Business regulation in Austria is generally considered to be business friendly. However, bureaucracy is extensive and regulations are complex. Starting a business is not well organized, with long procedures including local courts, the tax office and even the chamber of commerce. All those procedures make setting up a new business in Austria last up to three times longer than the EU average. Furthermore, there is a 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; and it could be prolonged due to strict environmental protection regulations. Getting electricity is relatively simple, with only 7 procedures, but it is 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. Hiring is flexible since there are no limitations to fixed-term contracts and their duration, and there are low severance pay and short notice periods. However, there are high premiums for overtime and restrictive regulation on the length of overtime, coupled with priority redundancy rules and reemployment obligations. Social dialogue and collective bargaining are widespread in many industries. There is no legal overall minimum wage, and there is a widespread collective bargaining system concerning minimum wages according to different industries. However, in June 2017, an agreement was made through social dialogue that from 2020 on no collective agreements should offer less than 1 500 euros per month, which in fact has the same effect as a general minimum wage. Sectors with wages below this threshold have, until 2020, to alter their collective bargaining agreements accordingly. Many professional services are strictly regulated via certificates of competence or education requirements, limiting new entrants to the market, especially those from other EU countries. Although it was expected that the reform of the Business Licence Act in 2017 would alleviate this problem, effectively no liberalization took place. Restrictive labour regulation, inefficient government bureaucracy and high tax rates have been identified as the most problematic business factors in 2018.

FREEDOM TO TRADE INTERNATIONALLY

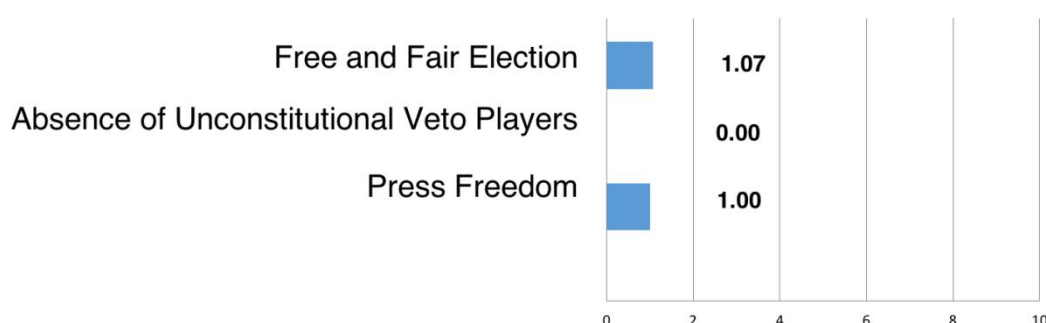
Freedom of trade is generally respected in Austria. As an EU member state, Austria implements the common European trade policy with overall low tariff rates, with the average applied MFN rate of 5.1%. However, tariffs on agriculture products could be significantly higher. Also, non-trade barriers, such as product standardization and certificates, continue to pose obstacles to free trade. Customs service is professional and very efficient, requiring only 4 documents, both for export and for import of goods, while a good quality of public transport infrastructure reduces freight costs and facilitates trade. The railway sector is under government control though an SOE, which is relying on public subsidies. Main Austrian trade partners are its advanced EU neighbours Germany and Italy, as well as Switzerland. Austria is one of the rare countries within

the EU that still requires work permits for Croatian nationals, prolonging this restriction until the end of the transition period in 2020, after which these restrictions would not be feasible anymore. Immigration procedures for foreign workers are slow and restrictive, while foreign diploma nostrifications and professional licensing pose restrictions to other EU nationals in some professions. Austria ratified the Trade Facilitation Agreement of the WTO in 2015, but it has not yet taken actions to implement it.

Azerbaijan

<i>GDP in 2017: EUR 33,862 million</i>		
<i>annual growth rate: 0.1%</i>	<i>per capita: 3,450 EUR</i>	<i>by sector:</i>
		agriculture 6.1%
		industry 53.5%
		services 40.4%
<i>Population: 9,822 thousand</i>	<i>Human Development Index</i>	<i>Government position in 2017</i>
<i>Unemployment rate: 5.0%</i>	<i>HDI: 0.757 (rank 80)</i>	<i>-1.7% of GDP</i>

A. POLITICAL FREEDOM



FREE AND FAIR ELECTIONS

Freedom and fairness of elections in Azerbaijan are highly restricted, with no pluralism in political life of the country. Political landscape is dominated by the ruling New Azerbaijan Party and the president Ilham Aliyev, who prevent any competition and criticism, by means of imprisonment, verbal and physical violence, censorship and abuse of institutions for making a play unfair. Azerbaijan has a long history of fraudulent elections, those which abound with crackdown on opposition politicians by placing them behind bars or restricting them from participating in elections, with abuse of state resources and power without clear distinction of the political party and governmental positions, and with irregularities on the voting day such as ballot stuffing or carousel voting. Although regularly due in October 2018, the president called for snap elections in February, leaving no space to opposition candidates to prepare, in less than two months' time. In the first presidential elections after the constitutional changes adopted in 2016, which extended the presidential term in office to 7 years, the incumbent president was re-elected in "restrictive political environment and under a legal framework that curtails fundamental rights and freedoms, which are pre-requisites for genuine democratic elections", as OSCE observation mission stated. Limiting public and media space for opposition parties and candidates is a norm

in Azerbaijan, but recently government has also taken steps to impose limitations on Internet, as the only source of critical and independent views.

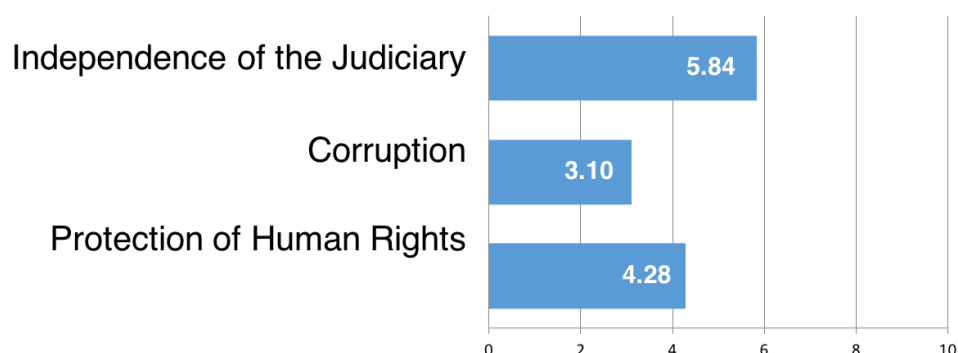
ABSENCE OF UNCONSTITUTIONAL VETO PLAYERS

Political decision making in Azerbaijan is solely in the hands of the president Ilham Aliyev and the close circle of his allies. There are no unconstitutional veto players who could force president and ruling elite to do anything unwillingly, but undermining of the rule of law and of democratic principles is coming exactly from this group of people. Very narrowly limited political pluralism, tight control over all branches of power which leaves the country with no mechanism of checks and balances, deeply entrenched high level corruption and abuse of power to serve private interests - all those are characteristics of the Azerbaijani authoritarian regime. Other powerful people exist in the country as well, but they are rather close partners of the president than the ones representing a challenge to his rule. Introduced constitutional changes allowed president to appoint vice-presidents. The only appointment during the past year was of his wife, as the First vice-president of Azerbaijan, thus further tightening his own control of the state. The eyes of the international community were redirected onto the country also due to the “Laundromat” international bribery scheme, itself aimed to influence decision making in Europe in favour of Azerbaijan, for which purposes 2,9 billion dollars were spent by the president’s clan.

PRESS FREEDOM

Freedom of the press in Azerbaijan is limited by all means. President Ilham Aliyev imposed extensive control over all media sources, reducing criticism of the regime, and independence and objective reporting, to the very minimum. With score of 1 out of 10, the country remains on the very bottom in regard to Press Freedom in the Freedom Barometer 2018 Index. Reporting is censored through political and economic pressure, while also by ceasing operations of the media outlets on fraud allegations and tax charges. Perceived as the last independent outlet, the operation of the news agency Turan was also at risk, after its director had been arrested. However, strong pressure from international community resulted in his release. Journalists are living and operating in an environment of constant fear, unless they are supporting governmental stance. Those who do not obey this are faced with physical and verbal violence, defamation charges, imprisonment and torture. Many dissenting journalists left the country so as to provide independent reporting from abroad, no matter that in such cases their families and relatives were targets of harassment by the state apparatus. Understanding that Internet became the dominant space for criticism, government pushes through legal amendments allowing them to censorship the online content, with numerous websites already having had been blocked.

B. RULE OF LAW



INDEPENDENCE OF THE JUDICIARY

Not least national judicial institutions but courts, prosecutors and even many solicitors are under heavy political influence by the executive. Freedom House claims that “both ... the judicial system and bar association are under the de facto control” of the government. Trials against political opponents or independent journalists are staged, verdicts often determined in advance and defence lawyers deprived of much of the procedural tools, while the latter are often subject to intimidation, pressure or losing their licenses. Ever more solicitors refuse to counsel in politically sensitive trials. Situation in detention facilities is bad, characterized by torture or even unexplained deaths of detainees. Inmates in prisons lack basic necessities and have to ask families to fetch them. Taken Azerbaijani financial capabilities, that has obviously been due to deliberate neglect and not to scarcity.

CORRUPTION

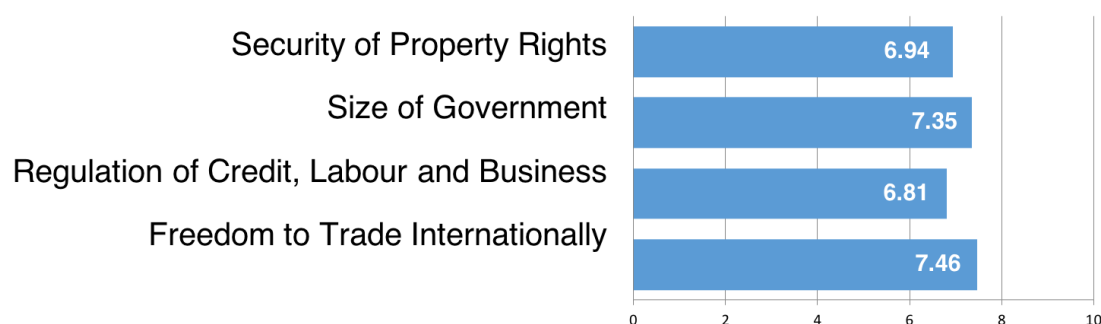
Azerbaijan is a place of grand corruption. Large portions of national wealth, gained mainly via oil or other extraction industries, are channelled into private hands of the President’s clan or to lower, also highly corrupted public officials. With media freedom and access to public information being very low, details cannot reach the public, or be the ground for investigations (except for show-trials purposes). Moreover, corruption spills across the border, whereby it was, in the framework of the “Azerbaijani Laundromat” scandal in 2017, revealed that the government was bribing foreign, including EU, politicians, bankers and journalists to turn a blind eye at its plunder, or at breaches of human rights. In Italy, investigation was opened against a member of the Parliamentary Assembly of the Council of Europe allegedly corrupted by Azerbaijani government. PACE president resigned, while PACE investigates the allegations that several of its members received cash, gifts or various favours by Azerbaijani government so as to protect it from being criticized or sanctioned. On the Transparency International’s CPI 2017 list, Azerbaijan shares places 122-129/180 with seven other countries.

PROTECTION OF HUMAN RIGHTS

Respect for human rights is at low level. Amnesty International reports about intensified crackdown against freedom of expression in 2017, through prosecution, imprisonment and unfair trials against critics of government or independent media workers. Human Rights Watch

reported on politically motivated arrests – of 18 political or NGO activists and 7 journalists – as well as on closing down or blocking of 5 media outlets. A number of Internet sites are meanwhile blocked. In early 2018, arrests continued, encompassing yet another prominent opposition leader. Right on fair trial in many of those cases has been fundamentally jeopardized. Freedom of association and gathering is also restricted. Besides more or less limitations put to religious or ethnic minorities, sexual minorities face an all-out crackdown. Massive round-ups of LGBTs (more than 100) were taken in September 2017 in Baku, with the aim of extorting data, by threats or torture, on their contacts, and thus filing a comprehensive black-list of LGBT citizens. In attempts to get hold of dissident expatriates and to summon them, Azerbaijani government misuses Interpol warrants, or engages in cross-border abductions. At least in one such case – that of the exiled investigative journalist Afgan Mukhtarli who disappeared in Tbilisi, Georgia, in May 2017, to be sentenced in Baku to six years in prison in January 2018 – it was allegedly done in cooperation with the secret services of the neighbouring country.

C. ECONOMIC FREEDOM



SECURITY OF PROPERTY RIGHTS

Private property rights are not well protected in Azerbaijan. The most important problem is the level of control that the ruling elite has over the courts. Court proceedings are not considered fair and professional. There is limited level of transparency regarding court procedures and there is inconsistent enforcement of rules. The law on expropriation can be easily misused for private gains by the members of the political elite, by unnecessary appropriation or low compensation, in spite of its legal provisions. This was further complicated by the 2016 constitutional amendments which enabled authorities to expropriate private property in dubious instances, when necessary for social justice and effective use of land purposes. Contract enforcement is mostly effective, executed within a reasonable time frame. There are specialized commercial courts. However, there are no automated processes within courts and no adjournment rules. Recent changes introduced an electronic system for payment of court fees. Insolvency procedures are complicated and lengthy, with low recovery rates estimated to stand at 40% on average, and lasting 1.5 year on average. Registering property is very easy, with just 3 procedures, and with very low fees, yet not all land titles are clear, especially in the rural areas. Land ownership is restricted to domestic nationals, but foreign nationals can lease land for long periods of time. There are broad restrictions regarding foreign ownership in different industries. Majority equity is reserved for domestic nationals in the case of mining, oil and gas; while in the media sector foreign equity in newspapers is capped at 33% and outright prohibited in the TV broadcasting.

Furthermore, companies in the oil and natural gas sector must be in majority state ownership. The privatization process conducted in the country is not considered transparent and is perceived as prone to political dealings and corruption. Public procurements are also prone to corruption.

SIZE OF GOVERNMENT

Government spending in Azerbaijan stood at 36% of GDP in 2017, which is mostly in line with other Commonwealth of Independent States (CIS) countries but significantly lower than in most European countries. After high deficits in the previous year, the budget was balanced in 2017, and the level of public debt finally stabilized at 54% of GDP, which may look moderate but is still four times its size in 2012. The economy finally overcame recession and recorded a robust growth of 4% in 2017, due to increasing oil prices in the second half of the year and high public investments in infrastructure. Inflation, that was higher than 15% in 2016, finally lost some of its momentum, but remained high, i.e. 10% in 2017. The pension reform initiated in 2017 increased the number of years necessary for retirement from 63 to 65 for men and from 60 to 65 for women, albeit via several annual smaller increases. Numerous state owned enterprises (SOE) are present in the economy, not just in the oil or utility sector but also in power generation, communications, passenger and cargo transport. The largest bank in the country, the International Bank of Azerbaijan, accounts for almost 40% of the total banking assets, and has received several substantial money infusions, since non-performing assets that were transferred to the Agrarkredit reached the level of 25% of GDP. Many of these SOEs have a near-monopoly status, with unclear separation between regulatory bodies and SOE corporate interests. Although facing the same rules and obligations as the private sector companies, SOEs informally enjoy a privileged status as regards government procurements or external financing. Powerful SOEs have also been able to use their influence and block new market entrants. An ambitious plan of privatization of public companies that was drafted in 2016 is slowly under implementation, aiming at attracting foreign investments. Azerbaijani Sovereign Wealth Fund (SOFAZ), which was set up in 1999 with exceeding oil revenues, has been linked to corruption by high state officials and bad investment policies. 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). This leads to tax wedge of 35% on the average wage.

REGULATION OF CREDIT, LABOUR AND BUSINESS

Regulatory framework in Azerbaijan is not business friendly. Regulatory enforcement is weak, with unequal treatment of businesses and rampant corruption. Complicated bureaucracy also exerts high administrative cost for conducting business activities, but recent sector specific regulatory changes improved the situation in some areas. The law that was introduced in 2015, which suspended inspections of entrepreneurs for 2 years, was further extended in 2017 for another three years. The licensing regime in the country has also been simplified, and licenses are now issued for an indefinite time period while the number of activities that required a license was reduced. Starting a business is cheap and quick, with no paid-in minimum capital. The process of construction permit issuance has been made more effective, through the introduction of a single window service, which reduced the necessary time from 7 to 4 months on average, although the

overall number of procedures remains high. New investments in the power grid and setting up a national regulatory body for power grid monitoring is expected to increase the quality of power supply. Tax compliance has also been recently improved through the introduction of the electronic invoicing and unifying the tax returns for social security contributions. Shadow economy in the country is widespread, with many people working in undeclared activities. Labour regulations are mostly flexible, with fixed term contracts that can last up to 60 months without restrictions and with short notice periods and low severance pay. 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. Social dialogue is not established, since labour unions are controlled by the government. Therefore, collective bargaining is restricted.

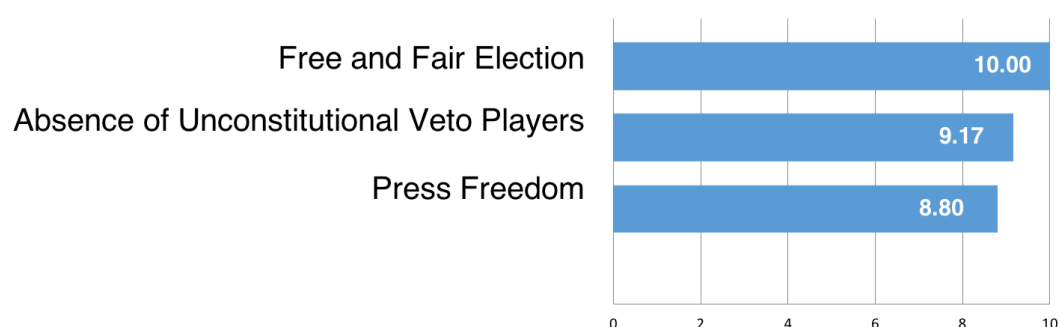
FREEDOM TO TRADE INTERNATIONALLY

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), although its accession talks have been conducted since 1997, but with little success. Trade with other countries is conducted through the General Agreement on Trade and Tariffs (GATT), or bilateral agreements. Import tariffs remain high, with simple average Most Favoured Nation (MFN) applied tariff rate of 9%, but those on agriculture products could be even higher. Border compliance costs are high, and it involves significant time. Recent introduction of an electronic system for submitting export and import documentation has just partially improved the situation. Corruption and partial treatment by the custom administration is still evident. Standardization procedures, which are still not in line with the international practice, serve as non-tariff barriers to trade. In 2016 the government introduced new tariffs on imported goods from several industries, including agricultural products, in order to boost domestic production through import substitution. The national currency, the manat, has been in the float regime since 2016, after two major depreciations that occurred in recent years, but this arrangement is still in its “interim phase” and looks rather like a managed float than a free float. Poor state of the infrastructure is another burden to trade, lowering not only volume of imports and exports but also the volume of transit goods, while the closed border with Armenia poses significant problems in this regard. Three quarters of the Azerbaijani exports are fossil fuels, such as crude or refined oil and gas, and its main trade partners are the EU, Russian Federation and Turkey.

Belgium

GDP in 2017: EUR 437,204 million		
annual growth rate: 1.7%	per capita: 38,500 EUR	by sector:
		agriculture 0.7%
		industry 22.1%
		services 77.2%
Population: 11,352 thousand	Human Development Index	Government position in 2017
Unemployment rate: 7.1%	HDI: 0.916 (rank 17)	-1.0% of GDP

A. POLITICAL FREEDOM



FREE AND FAIR ELECTIONS

Elections in Belgium are organized and performed in a free and fair manner. Belgium is a constitutional monarchy with a bicameral parliament – Chamber of representatives and Senate. Complicated and asymmetric state structure - which by Constitution has three linguistic communities and three geographic regions, which are not overlapping – has made a sharp division among political parties that operate in Belgium, along linguistic lines. Therefore, political scene is highly pluralistic. Greece and Belgium are the only countries measured by the Freedom Barometer where voting is compulsory, and citizens who don't vote at Belgian elections are in theory subject to financial fines, however this measure is not implemented in practice. For this reason, turnout of voters is very high. Changes in the composition of the ruling coalition in two regional governments and in Francophone community happened after a corruption scandals involving Walloon Socialist Party, with the Mayor of Brussels having had withdrawn from his position.

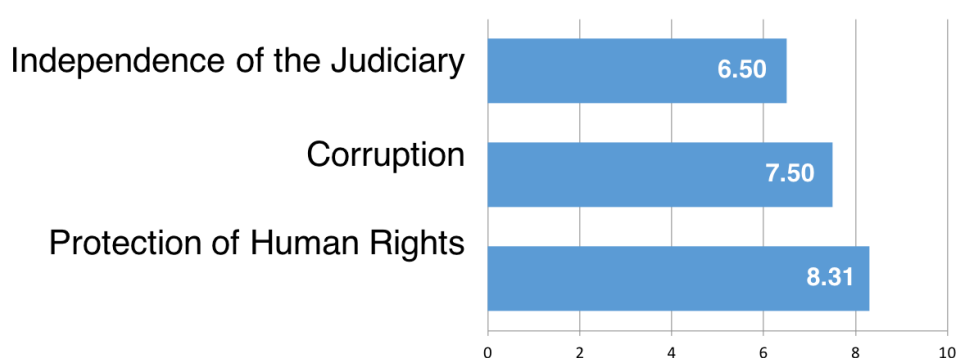
ABSENCE OF UNCONSTITUTIONAL VETO PLAYERS

Democratically elected government in Belgium has virtually unchallenged power to rule the country. There are no unconstitutional veto players who would be able to undermine the decision making processes, although informal groups such as trade unions hold some influence. However, Belgian score in the „Absence of Unconstitutional Veto Players“ section has deteriorated from the previous year due to corruption scandals implicating many politicians and their ties to business sector. Apparently, several politicians were holding multiple positions in public-private companies. For several years now, environment of fear from terrorism has been widespread among the citizens, due to several radical attacks happened recently, targeting Belgium and mostly Brussels, including a failed bombing in June 2017.

PRESS FREEDOM

Printed, broadcast and online media outlets in Belgium are in general free and independent in their work. Citizens are able to obtain wide spectrum of opinions coming from pluralistic media environment in the country. Likewise the complex administrative system, state media are also fragmented. Media outlets are separated on Flanders and Walloon linguistic regions, with their own public broadcasters. In cases of sensitive issues journalists more often than before practice self-censorship. Problem of ownership concentration remained unresolved until the end of the observing period, with several companies dominating the media market. Investigative journalism plays an important role in providing political accountability. A huge political scandal involving multiple positions in various public bodies and private companies broke upon the reports published by a media outlet.

B. RULE OF LAW



INDEPENDENCE OF THE JUDICIARY

Independence of judiciary is a sacrosanct constitutional principle in Belgium since its independence in 1830. Judiciary plays key role in managing disputes between numerous different layers of power in the compound Belgian federation. In a politically sensitive case of Carles Puigdemont, a fugitive warranted by Spain for his separatist activities in Catalonia, in March 2018 a Belgian court refused to allow extradition. The efficiency of courts in Belgium suffers due to lack of judges and backlog of cases. To it, during the past two years there were setbacks in the law enforcement sector. Allegations about extortion of money from refugees led to investigations

or even arrests of policemen in Antwerp and Brussels. Freedom House noted in late 2017 that “although conditions in prisons and detention centres meet most international standards, many facilities continue to suffer from overcrowding.” Council of Europe’s anti-torture committee warned in July 2017 that overcrowding was becoming “intolerable” and posed a risk of inhuman treatment of the detainees during the prison staff strikes.

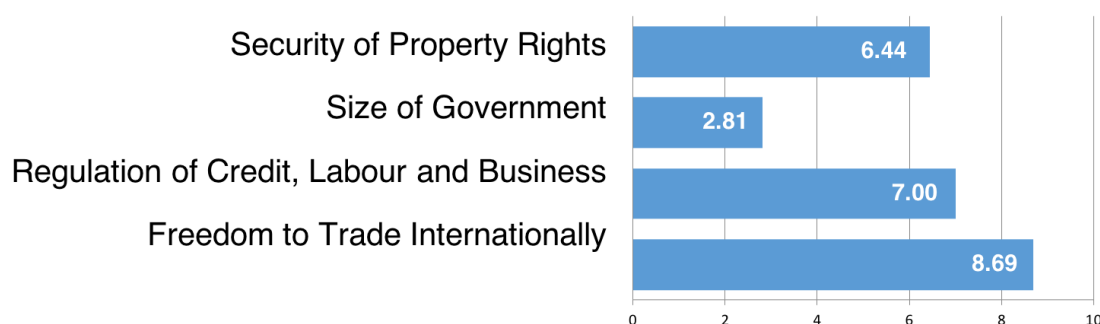
CORRUPTION

Belgium has since 2011 been stagnating in eradication of corruption, lagging somewhat behind its Benelux neighbours, or Germany, or UK, and sharing places 16-18, with Austria and USA, on the Transparency International’s CPI list of 180 countries. Yet it is ahead of neighbouring France. 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. However, in international trade, regarding tax evasion and money laundering, public procurement, large infrastructure projects and local or regional government financing, there is a lot of space for improvement. Upon a few corruption scandals at the regional level in late 2016 and June 2017, Mayor of Brussels resigned while the regional government majority in Walloon was reshuffled. Panama Papers have revealed that a Brussels subsidiary of a foreign bank was circumventing international regulation against money laundering. The beneficial results of the administrative reforms in 2015-2016, with their stricter definition of bribery, are yet to be seen on the ground.

PROTECTION OF HUMAN RIGHTS

Human rights in Belgium are highly protected in many fields. Freedoms of academic research, education, expression, association or gathering are respected according to the highest EU standards. High respect is paid also to women’s and girls’ rights. Domestic violence is ever more successfully pushed back. Following May 2017 reforms, the anyway remarkable rights, equality and dignity of LGBT persons were further strengthened. Belgium is multi-ethnic, including three-lingual. Its multi-layer federal structure reflects that, so as to provide for equal opportunities of members of various communities. However, people still face obstacles outside their own ethno-linguistic habitats. Multilingualism has only recently met a bit more encouraging societal climate. Treatment of immigrants of all walks could improve. Their integration into the labour market is slow and meagre. A lot has to be done to curb sex and other human trafficking (for which Belgium is mainly a destination country). Amnesty International reckons that the situation in prisons and detention facilities is bad, from overcrowding and understaffing to inadequate treatment of some detainees, such as those with mental or other health problems.

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 executive branch of government. Court proceedings are generally respected. There are specialized commercial courts, and several levels of appeal. However, Belgian courts suffer from backlog of cases, resulting in delays and slow proceedings (on average, trial and judgment takes 400 days). Since the court system is decentralized, duration of a local dispute could vary significantly between different regions of the country. This leads to high costs in the form of attorney fees. There are no restrictions on adjournments, neither on the number of cases when they are permitted, so they can be long and they are often used. There is no legal process automation - not even in case of payments of fees. Court judgments in commercial cases are not made publicly available. There are plans for the establishment of Brussels International Business Court, which would handle international commercial disputes in English. In some particular cases, a third party authorization is a prerequisite for real estate ownership change (such as the right of pre-emption of local authorities in the case of agricultural land, social or residential housing). Property registration, a first step in the process of ensuring any property rights, could be very expensive due to high notary fees but most notably due to high local transaction tax levied on the purchasing price. The procedures involved are also lengthy. Insolvency procedures are very efficient, with low cost and very high recovery rates. 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, standing at 52% of GDP in 2017. The long history of budget deficits has led to a very high public debt, reaching 103% of GDP in 2017. But, it has recently been put on a slow downward trajectory. However, it will take years for Belgium to reach Maastricht public debt criterion of 60% of GDP. Economic growth, based on rising private consumption and exports, reached 1.7% and is expected to pick up. Budget deficit has been halved, from 2.5% to 1.1% of GDP. There are strong fiscal pressures stemming from demographic changes, which encouraged the government to introduce the very first pension

system change since 1956, by increasing the retirement age from 65 to 67 (although in steps, until 2030). Public sector in Belgium is overwhelming, since it employs almost a quarter of the overall population. State owned enterprises (SOE) are mainly concentrated in the fields considered as natural monopolies, such as utilities, railways, and postal system and telecommunications. Although they comply with the business regulation, there have been reports on unfair competition by these former monopolies. The quality of SOE management is dubious as compared to the best international practices in OECD. There are plans for minority equity privatization of the state bank Belfius, while the telecom company Proximus remains in state ownership. High expenses need high tax rates, thus the income tax is very much progressive: 25% for the low earners and even 50% for the highest earners, whereby there are also communal income taxes, of 7% on average. General VAT rate is 21%, while two preferential rates are 12% and 6%. Very high tax wedge, which stood at 54% on an average wage (the highest among OECD countries), has been reduced by decreasing the social security contributions paid by employers in order to make workforce more competitive. There was also a big change in corporate income tax in July 2017, with the rate being decreased from 33.99% to 25%. That is expected to support new investments.

REGULATION OF CREDIT, LABOUR AND BUSINESS

Business regulation in Belgium is overall business friendly. However, bureaucracy could be quite burdensome, due to inefficient government administration and the necessity for cooperation between government agencies in case of shared competencies within a very complicated government structure. Since small companies face less bureaucracy requirements, many businesses limit their number of employees at 49 in order to keep these exemptions. Setting up a new business enterprise is easy and done in just a couple of days, but it is costly, due to notary fees and high paid in minimum capital of more than 6 000 euro. A simplification of the company law is underway. Obtaining a construction permit is a slow procedure due to inner municipality urbanization departments, whose capacities could strongly differ across the country, but associated costs are low. Getting electricity, on the other hand, is not only slow but also very expensive. Tax administration is professional, with widespread use of electronic services, thus decreasing time and cost of regulatory compliance, but tax regulations are often cited as difficult. Linguistic and administrative fractionalization of the country leads to low labour mobility with very different unemployment levels in Wallonia and Flanders. Mobility is also hindered by high transaction tax on purchase of private property, instead of a 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, but labour regulations are often considered as problematic business factors. There are no restrictions on the number or duration of fixed term contracts, and working hours` regulation is not restrictive due to high number of possible working days. Firing regulations are restrictive due to very long redundancy notice periods, which increase in line with longevity of tenure, reaching up to 7.5 months. This measure provides more job security to seasoned workers, but also makes their future employment less likely. Severance pay differs by sector, stemming from collective agreements, reached during tripartite agreement, which is well organized throughout most of the economy. 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.

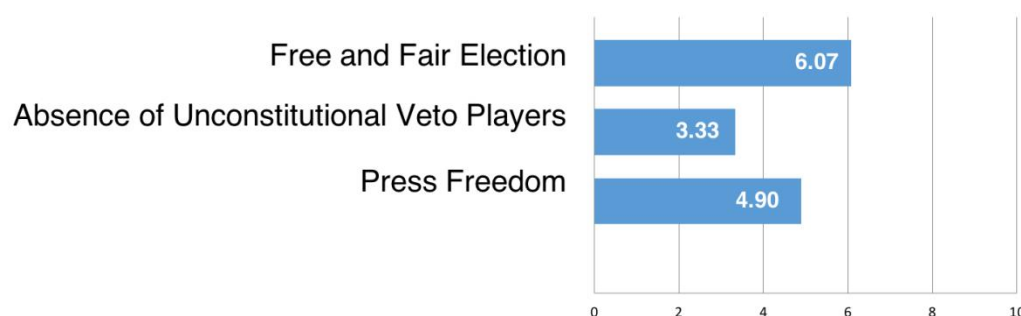
FREEDOM TO TRADE INTERNATIONALLY

International trade is of great importance for small open economies such as Belgium. As one of the 6 founding members of the EU, it applies the EU common trade policy with overall low tariffs. Simple average MFN applied tariff rate is 5.1%, but tariffs on many agricultural products are much higher. Non-tariff or other regulatory trade barriers, such as accreditation and standardizations of imported products are still present and can have negative impact on trade. The Belgian economy relies on the EU common market. Its main trade partners are the neighbouring industrial countries (Germany, France and the Netherlands). Belgium is also 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). On the other hand, international freight is one of the areas in which competition is not fierce, due to the regulation that restricts market entry by increasing transportation costs. This issue is also connected to areas in which SOEs dominantly operate, such as railways. But public transport infrastructure is of high quality. Obtaining a working permit for non-EU nationals is a burdensome administrative procedure. There are still some controls on movement of short term capital. Labour mobility in service sectors is restricted due to licensing procedures, thus limiting supply and increasing prices.

Bosnia and Herzegovina

<i>GDP in 2017: EUR 15,127 million</i>		
<i>annual growth rate: 3.0%</i>	<i>per capita: 4,300 EUR</i>	<i>by sector:</i>
		agriculture 6.8%
		industry 28.9%
		services 64.3%
<i>Population: 3,507 thousand</i>	<i>Human Development Index</i>	<i>Government position in 2017</i>
<i>Unemployment rate: 20.5%</i>	<i>HDI: 0.768 (rank 77)</i>	<i>+2.1% of GDP</i>

A. POLITICAL FREEDOM



FREE AND FAIR ELECTIONS

Political life in Bosnia and Herzegovina (BiH) is shaped by the strong division in society alongside ethnic lines and by use of inflammatory nationalistic rhetoric by political parties so as to dominate the electoral process. Political parties are able to freely compete at the elections however this process often abounds with electoral violations and irregularities, such as fraud on the election-day, misuse of state resources, or unfair coverage in media, which all question the fairness of elections. Also, the process remains restricted for BiH's citizens who are neither ethnic Serbs nor Croats nor Bosniaks, since only these three constitutional ethnicities are eligible to run for the Presidency of BiH and for the Houses of Peoples (parliamentary upper chambers on various tiers of government). European Court of Human Rights declared this constitutional provision as a violation of human rights, but it nevertheless remained unaddressed during the period under review. Political system is characterized by large, complicated and asymmetric state apparatus, separated into two entities – Federation of BiH and Republic of Srpska, and numerous other tiers of government. Country's tripartite collective Presidency is represented by one elected representative from the ranks of each of the constitutional – “constituent” - ethnicities: Bosniaks, Serbs and Croats. General elections in the country were scheduled for autumn 2018, whereby in

mid-2018 all political parties were already largely in the campaign. Still it is perceived that divisive rhetoric will benefit nationalists, with the outcome similar as during several previous electoral cycles.

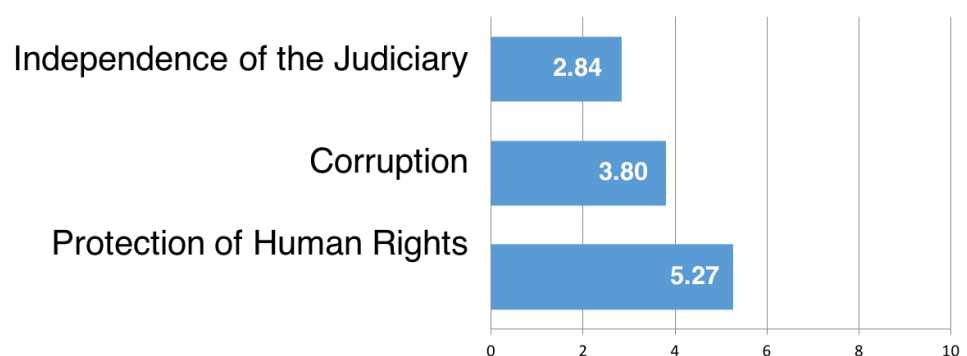
ABSENCE OF UNCONSTITUTIONAL VETO PLAYERS

Democratic institutions and procedures in Bosnia and Herzegovina (BiH) are influenced but often also undermined by constitutionally empowered veto players. According to Dayton Peace Agreement as of 1995, each constitutional ethnicity has been given power to veto legislation in order to protect its “vital national interests”, which is often abused, so as to benefit narrow interests of political parties or their leaders. Weak system of decision making makes any progress in various aspects of life very difficult, creating a fertile soil for ethnic nationalism. Constitutional veto powers are also granted to the Office of the High Representative, an international institution in charge of overseeing a peace treaty. However, in practice, OHRs have recently ever more restrained from interfering into country’s political decision making. Deadlock in BiH is additionally instigated by the lack of independence and impartiality of judiciary, itself proving unable to hold politicians accountable for their actions. Religion is separated from the state. However, religious institutions play an important role in shaping public opinion and have got significant influence on decision making.

PRESS FREEDOM

Freedom and independence of the press in Bosnia and Herzegovina is limited by numerous factors. Media market is highly pluralistic and diverse however the reporting is often shaped by strong ethnic and political divisions in society. Problem of the lack of transparency of media ownership remained unresolved. Journalists are exposed to strong economic and political pressure, thus practicing self-censorship and contributing to partisan reporting of the media. Bad market conditions left media outlets dependent on state funding, while the unclear process of financing made them prone to political pressure. Both state and entities’ public broadcasters are showing clear bias in favour of ruling parties and often serve as propaganda tools. Besides pressure, journalists face physical and verbal harassment, often as a result of insults coming from politicians. Reporting on sensitive cases, such as war-related stories, many times led to death threats against journalists.

B. RULE OF LAW



INDEPENDENCE OF THE JUDICIARY

Freedom House, in its Nations in Transit 2018 report, noted a decline in the anyway low level of independence of judiciary in Bosnia and Herzegovina (BiH), due to dysfunctions across the system, widespread political pressure and non-implementation of Constitutional Court decisions. Not least courts of the BiH's entity Republic of Srpska, but state-level ones as well, are unable to address obvious highhandedness of the entity's strongman Milorad Dodik, be it the anti-constitutional referendum as of 2016, or grand corruption in his inner political circle, or hate speech against either ethnic Bosniaks or inner-RS political opponents or NGO-based critics. Elsewhere in BiH, political class, or at least its highest echelons, is also protected by de facto immunity and impunity. An OSCE report, published in February 2018, based on an extensive research into corruption trials in BiH in 2010-2017, has revealed numerous shortcomings of the system, from lack of competence or integrity to systemic deficiencies such as overlaps of responsibilities between courts at different levels, or else judicial vacuums thereof. The fierce debate over the participation of foreign judges in the Constitutional Court is still on.

CORRUPTION

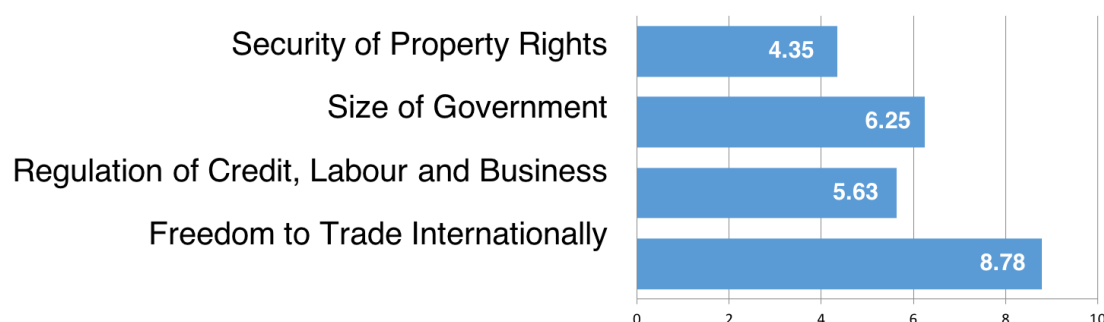
State capture by political parties at all six tiers of government, huge public sector, discrepancy between promised and realistically achievable level of welfare state protection of citizens, high public spending and unclear division of responsibilities between various tiers of government, plus poor 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 her neighbours. Namely, in its CPI 2017 listing, Transparency International put BiH, with the score 38/100, to shared places 91-95/180, together with Albania, while behind Kosovo. Corruption is present country-wide and across public life. Many researchers find financing of political parties and de facto impunity of the political class as main factors of its persistence. Bribery rate is very high, 27%, according to the Global Corruption Barometer 2016. Portal GAN finds the public procurement sector as particularly vulnerable to corruption, while the risks are quite high also in judiciary, police and tax administration.

PROTECTION OF HUMAN RIGHTS

Selective approach to war crimes of the 1990s, whereby one's ethnic compatriots' are whitewashed while others' are vilified, is commonplace in Bosnia and Herzegovina (BiH). Ruling SNSD majority in Republic of Srpska (RS) entity - and their leader Milorad Dodik - are leading the way in revision of history as determined by ICJ and ICTY and even once conceded by RS institutions. Ethnocentrism in BiH goes beyond the treatment of past events. Hate speech might be found everywhere and extremism is on the rise. Schools are segregated along ethnic lines, and so are the curricula. BiH's citizens who don't belong to any of the three "constituent nations", or those who live in an ethno-religious environment different from their own, face various hardships. Especially Roma are in dire position. Human trafficking remains as a huge problem. With the rise of a new migrant route, which passes through BiH, there is a new, dangerous dimension to it - migrant smuggling by cross-border organized criminal groups. Treatment of

refugees differs widely not least between but also within entities, cantons or ethno-national communities. On 21 May 2018, a dispute between state and cantonal police over relocation of asylum seekers led to their brief standoff at a cantonal border, quickly resolved yet frightening and ominous. RS meanwhile refuses to accept any of the migrants that recently came to FBiH. Around mid-2018, would-be legalization of same-sex unions in the BiH's entity Federation of BiH was discussed. The case of David Dragičević, 21, who died in March 2018, officially by accident, drew thousands of people in Banja Luka and other towns in BiH to the streets multiple times, in a multi-ethnic citizens' initiative against police arrogance, arbitrariness and cover-ups in this and a few other similar cases.

C. ECONOMIC FREEDOM



SECURITY OF PROPERTY RIGHTS

Private property rights in Bosnia and Herzegovina are not adequately protected. Judiciary is not independent from external influences such as politicians and powerful private interests; court decisions therefore can be partial and are not necessarily aligned with the existing practice. Corruption is also one of the problems that plague the judiciary. Judicial processes and enforcement of judicial decisions are slow and inefficient, and bear high costs. Courts do not uphold the stipulated time standards, while the number of adjournments is not prescribed. Another problem is the high number of backlogged cases, which further aggravates the situation. The level of expertise of judges in commercial cases could be dubious, especially in specific areas, leading to prolonged court procedures and uneven decisions in similar cases. Although there are specialized commercial courts, commercial cases are not always regarded as priority ones. Bankruptcy procedures do not put sufficient emphasis on rehabilitation or reorganization of companies, so the latter are mostly sold through a piecemeal sale. Insolvency procedures are also extremely long and lead to very low recovery rates, below 40% of the claim. 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. The two entities have different real property cadastre services. A significant proportion of land does not have a clear title, due to an inefficient and slow restitution process but also to weak administration capacities. This situation is further aggravated by the unnecessary role of municipality courts in land registration process. Very slow and inefficient proceedings of the Commission for Real Property Claims of Displaced Persons and Refugees in effect do not protect property rights of internally displaced persons and war time refugees, although more than two decades have passed since. Foreign nationals face few ownership restrictions, such as in

defence industry, media and electricity transmission, while land ownership is restricted but on a reciprocal basis. Yet, the latter is easily circumvented through establishment of a foreign owned legal entity.

SIZE OF GOVERNMENT

With government expenditures reaching 41% of GDP in 2016, the size of government in Bosnia and Herzegovina is moderate as compared to other European countries. However, when the level of economic development is taken into account, government expenditures are much higher than expected. As a direct legacy of the war, there are several different layers of government, meaning that the bureaucracy is omnipresent and the country does not make a single economic space. In order to put under control the public debt that was rising, the country took on the IMF backed program conditional on economic reforms. Most of the fiscal goals of the program were reached, as the budget reached a significant surplus of almost 2% of GDP in 2017, but the goal of the reform package accompanying it was not. Banking sector reform was partial, as there were no changes in the fiscal mix that would increase competitiveness of the economy (increase in consumption taxes and decrease of taxes of labour). The wage bill put expenditures under control, but there was little increase in capital expenditures in order to provide for important infrastructure. As a result, growth rates are still sluggish, with 2.7% in 2017, well below the rates necessary to reduce unemployment that is close to 25% of the labour force. Total investments are very low in regional comparison, leading to low growth rates, mostly propelled by rise of economic activities in the European core (through increase in exports and rising local consumption through higher remittances). Government gross debt is on a downward path, reaching 41% of GDP in 2017. Although a wide scale privatization process was conducted after the war, there are still many state owned enterprises (SOEs). Most of them are owned by the two entities, which further lessens their efficiency since it disables the economy of scale (with two different rail companies, for example). Many of these SOEs are inefficient, with management that is not independent from daily politics and political parties in power, leading to low business performance. Some of these companies rely heavily on government indirect or direct subsidies, and produce with high unpaid arrears. Privatization plans have been drafted in both entities, but were implemented more in the Federation, which sold its either full or minority stake in several important companies in pharmaceuticals, insurance, tobacco and petrol retail sectors during recent years. But, the privatization of the two telecom companies was put on hold. Instead of using profits of SOEs for higher investments, that have been low for years, the Federation government used it to finance infrastructure projects. At the same time, restructuring of railways in the RS continued, aimed at putting expenses under control. Corporate and personal income taxes have been harmonized between the entities. Both taxes have flat rates of just 10%. However, social security contributions are still different, since entities have their own healthcare and pension systems. This also leads to a different labour tax wedge - 40% in Federation (which is on the upper threshold of the Western Balkans) and 34% in Republika Srpska (which is slightly 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, which leads to very high bureaucracy cost to businesses. Legislation is often ambiguous or contradictory, and the business activities are overly regulated. Corruption thrives in this kind of environment, both petty corruption and centralized high corruption that stems from political influence of high officials. Inspection reform in Republika Srpska entity delivered good results in this area, by cutting uncertainty among entrepreneurs, but this is yet to be introduced in the Federation. Multilayered executive government, with the national, entity, cantonal and municipality governments leads to complex regulatory environment, often with conflicting jurisdictions or unclear borderlines. Unstable political situation and divisions across ethnic and entity lines stifle much needed reforms of the business environment, and the economic space of the country remains effectively fractured. Starting a business is a very slow procedure, lasting 2.5 months on average, burdened with bureaucracy. It includes not only notaries but also municipal courts and various other 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; since Republika Srpska established a more efficient one stop shop (registration procedure lasts for between one and two weeks only). Obtaining a construction permit and getting electricity also incur very high costs, due to high fees involved, as well as to 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 tasks, and their duration is 36 months. On the other hand, severance pay still increases with years in tenure, thus protecting more seasoned workers, but notice periods have been significantly shortened. Recent changes decreased wage premiums for overtime, weekly holiday and night work. Minimum wage in the country is high relative to the average wage, which encourages activities in the shadow economy, and was recently increased again.

FREEDOM TO TRADE INTERNATIONALLY

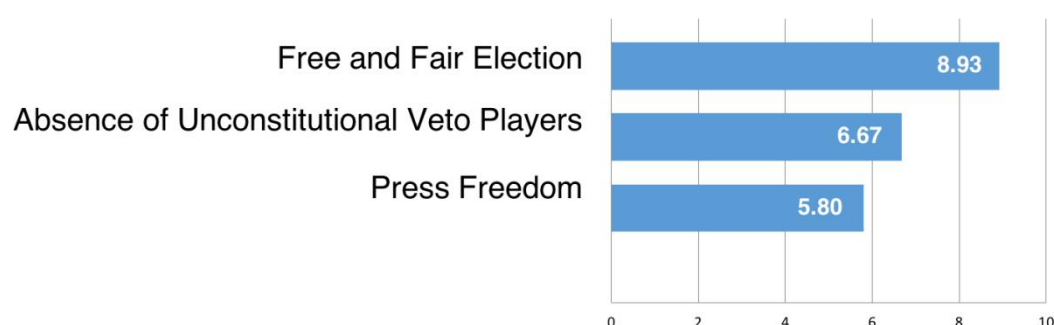
Freedom to trade internationally in Bosnia and Herzegovina is generally respected. BiH is, alongside Serbia and Belarus, the only European country that is not a member of the World Trade Organization (WTO). Although this lengthy accession process was almost finished in 2013, it was then effectively put on hold due to unwillingness of the BiH side to alter its domestic policies that were against the WTO rules. The working group met again in February 2018, after five years, and due to the reforms implemented during previous years BiH is now much closer to the WTO membership than before. However, bilateral negotiations have not yet been concluded. Tariffs are on average higher than in the region, especially as compared to the EU trade policy, with the average applied MFN tariff rate of 6.3%. Furthermore, there are also regulatory trade barriers in certification and quality standardization, which poses significant burden on international trade. Custom service is not well organized, with inefficient or complicated procedures and with outdated electronic systems. Corruption and partial treatment of different companies by the administration also remain present. Since the most important foreign market for BiH goods are EU countries, most notably Croatia and Germany, the majority of trade is

conducted under the Stabilization and Association Agreement (SAA) that supplanted the Interim Agreement on Trade in 2015. This agreement provides free access of BiH goods to the EU market, apart from some agriculture products. Regional trade is also very important for the BiH economy, since Serbia and Montenegro also play an important role in trade flows, which are conducted under the Central European Free Trade Agreement (CEFTA). However, since BiH does not recognize Kosovo as an independent state, this leads to factual discrimination of goods in specific situations, making barriers to trade with Kosovo, even though both countries are members of CEFTA. The Law on Internal Trade was finally amended in October 2017 in order to erase the discriminatory measure by which at least 50% of all items in retail chains had to be of domestic origin, which was a clear protectionist measure, against WTO and EU rules. Potential WTO accession would liberalize trade, as well as the EU accession, but these are yet to be reached.

Bulgaria

<i>GDP in 2017: EUR 47,411 million</i>		
<i>annual growth rate: 3.6%</i>	<i>per capita: 6,700 EUR</i>	<i>by sector:</i>
		agriculture 4.3%
		industry 28.0%
		services 67.4%
<i>Population: 7,050 thousand</i>	<i>Human Development Index</i>	<i>Government position in 2017</i>
<i>Unemployment rate: 6.2%</i>	<i>HDI: 0.813 (rank 51)</i>	<i>+0.9% of GDP</i>

A. POLITICAL FREEDOM



FREE AND FAIR ELECTIONS

Unlike previous years, the reviewed period was marked by political stability in Bulgaria, without major elections and subordinate to Bulgarian presidency at the Council of the European Union. Political landscape is pluralistic, and parties are able to compete and operate freely. Elections are generally free and fair, however there are many problems which raise concern in the Bulgarian electoral process yet remain unaddressed. OSCE observation mission to the last parliamentary elections pointed out on issues like restrictions to conduct a campaign in Bulgarian language only, campaign finance reporting, the use of media during campaigns or irregularities such as vote buying or controlled voting on the voting day. Right-leaning government was formed in May 2017 by the conservative Citizens for European Development of Bulgaria party – GERB and the nationalistic block United Patriots (UP), making a third government led by Boyko Borissov as Prime Minister. Changes of electoral law were often on the table or even passed the parliament in previous years, however many of them were declined. Sanctions - as a part of legislative changes adopted in parliament in regard to mandatory voting - were later declared as unconstitutional by the court. Members of the 240-seat Bulgarian National Assembly are elected by proportional

representation in multiple constituencies. Referendum on switching to a majority vote system wasn't successful due to insufficient turnout.

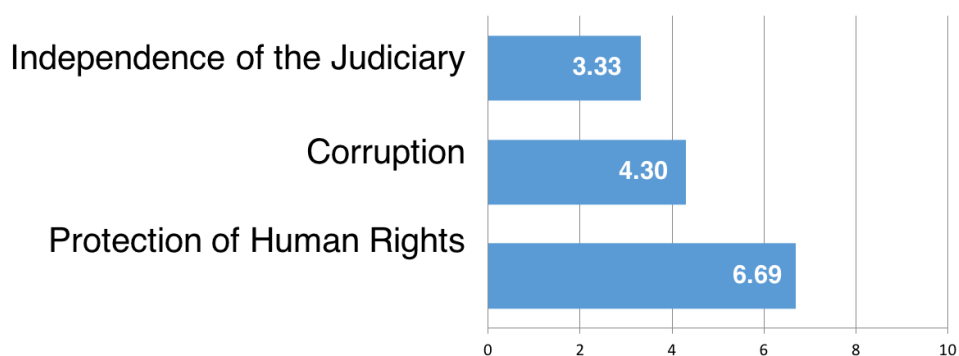
ABSENCE OF UNCONSTITUTIONAL VETO PLAYERS

There are no unconstitutional veto players in Bulgaria. Elected officials are provided with a legal framework which allows them to effectively govern the country. Despite that, organized crime, influential oligarchs and high-level corruption among politicians can undermine democratic procedures and decision-making processes. Although formally independent, judiciary is often subject to extensive political pressure, or one by wealthy businesses. Corruptive practices are not rare in this branch of power. According to Transparency International, Bulgaria is the most corruptive country in the EU. Weak system of checks and balances allows for manipulation of democratic institutions. After his appointment, president Rumen Radev didn't hesitate to exercise his powers and to veto certain legislative amendments, ensuring limits upon and a degree of control over legislative and executive.

PRESS FREEDOM

Media landscape in Bulgaria is only partly free and independent, with country deteriorating further in the Reporters Without Borders 2018 World Press Freedom Index, holding 111th place, lower than any other EU-member state, and being at the fourth last place in Europe (just before Russia, Belarus and Turkey). Serious concern and threat to pluralism is caused by growing concentration of media ownership and opaque media structures. Journalists' independence is hindered by growing pressure by politicians and media owners, who nurture close relations with those in power. Budgets for communicating EU programs in Bulgaria are used as a tool for the influence over the media environment in the country. Namely, EU funds are relocated in a way so as to fund government-friendly media outlets. An environment of intimidation and harassment surrounds journalists, often leading them into self-censorship when reporting on delicate issues. Most prominent such case was at the end of 2017, when Deputy Prime Minister and an MP openly threatened a journalist due to his reporting, which resulted in the resignation of the MP only. Practicing fake news is widespread, whereby citizens are exposed to manipulations.

B. RULE OF LAW



INDEPENDENCE OF THE JUDICIARY

Despite more than a decade of EU membership, Bulgaria has seen very little progress in independence of its judiciary. There was stagnation, or oscillations. Stalemate thereof considerably hinders improvement in other areas of rule of law, e.g. fighting corruption, or safeguarding human rights. As Freedom House noted in Nations in Transit in 2018, “Bulgarian justice system continued to face [...] a high level of politicization, a statist approach with [...] inefficiency and lack of administrative capacity”. EU has, via CVM reports, closely monitored Bulgaria and noted “significant progress” during 2017. While the election of the new Supreme Judiciary Council was encouraging, the rest of the recent judicial appointments were marked by political parties’ trade-offs instead of merit-based selection. Improvements were recently noted in the prison system, yet still burdened by problems of overcrowding, police abuse and poor living conditions.

CORRUPTION

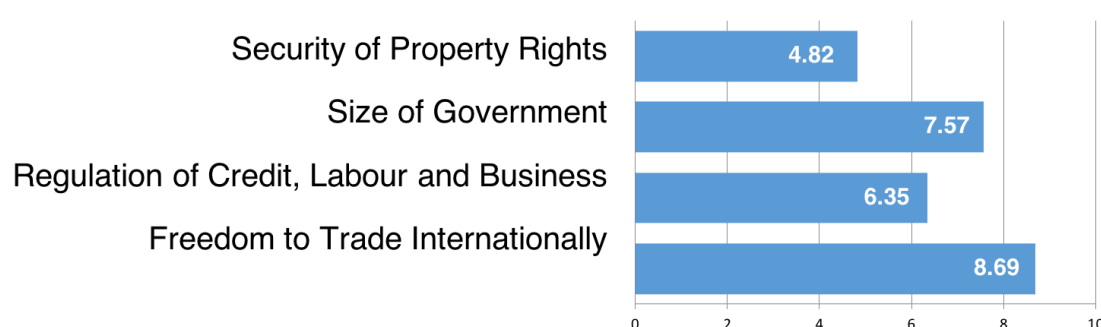
Bulgaria is the worst corrupted EU-member, behind the otherwise comparable Hungary, Romania, Greece or Croatia, so much so that it is among major obstacles to its accession to Schengen Area and the anticipated rapid economic development. Transparency International ranked it 71-73/180 in its CPI 2017 report – a bit better than in 2016. The corruptive environment stimulates the growth of the grey market in Bulgaria, which is the largest in the EU and accounts to nearly 30% of the GDP. State capture by the informal alliance of political and business oligarchy, organized crime, only partially reformed secret services, and biased media, has remained as the main catalyst of corruption. Thereby, foreign, non-EU influences are also non-neglect. In January 2018, a new law went into force, combining provisions on anti-graft and on prevention of conflict of interest. In March 2018, new law against money laundering was carried. Earlier, in October 2017, a new Law on Public Administration was adopted, inter alia standardizing internal inspections in the administration. Frank implementation of all those, throughout the government structure and public administration, itself having had been so often missing in the past, will be a crucial factor for would-be improvements. As a part of the government anti-corruption efforts, a specialized anti-corruption body was established to investigate high level corruption. With its president appointed by the national parliament, however, its true independence from established political elites is put into question. Atop all those, fighting the widespread petty corruption remains a giant task.

PROTECTION OF HUMAN RIGHTS

As Amnesty International again objected in 2018, ill treatment of refugees (summary detentions, push-backs and abuse) continued, necessary services were not provided even to some unaccompanied children, while a climate of xenophobia and intolerance sharply intensified. AI also noted that “marginalization and widespread discrimination against Roma persisted”, as manifested through systematic obstacles in access to education, health care, housing and employment. Most of the ethno-linguistic minorities in Bulgaria on one hand enjoy lots of opportunities to develop their identity through education, culture and media while on the other hand in some walks (e.g. political campaigning) the use of their languages is banned. Positive developments in Bulgaria include academic freedom, huge operational space for international, foreign or domestic NGOs and think-tanks, and a decent level of freedom of assembly and

movement. Media and journalists, however, suffer enormous pressures, especially when investigating corruption. Sofia Pride, held in June 2018, was the biggest Pride so far and showed an annual progress in the attitude of the City administration towards LGBT citizens. Police managed to prevent homophobic extremists from disrupting the manifestation. Same-sex unions (in as much as they are recognized EU-wide), inheritance rights, adoption of children, etc., were the main demands this year. Extremely populist and biased debate was led throughout the first half of 2018 over the ratification of the Convention on preventing and combating violence against women and domestic violence (Istanbul Convention). Critics interpreted it as promotion of gay issues and thus alternation of the established social norms. They also challenged its constitutionality.

C. ECONOMIC FREEDOM



SECURITY OF PROPERTY RIGHTS

Private property rights in Bulgaria are mostly protected. Although legal framework is mostly in line with other EU countries, its adequate implementation is often lacking. Rule of law in Bulgaria rests on weak foundations due to the weak judiciary that is often considered to be under external influences. Judiciary is still one of the least trusted institutions in the society. It is also perceived as highly corrupt. Regulatory enforcement is also weak or arbitrary. There is a significant number of backlog cases in courts, which further impedes court dealings. Court proceedings are generally long, effectively limiting the right to a legal proceeding within a reasonable timeframe, since these last 1.5 years on average and incur very high costs. There is also little use of automated procedures. Resolving insolvency lasts longer than three years on average and results in a very low recovery rate of just a little over one third of the claim. Furthermore, some other issues in this area pose challenges: there are no rules for granting a second chance to entrepreneurs in a reasonable timeframe following a bankruptcy. Although most of the land has a clear title, property registration is burdened with many unnecessary procedures and high notary fees, while property taxes vary from municipality to municipality. 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, but in specific cases regulatory obstacles can be used to benefit important market players. The Offshore Company Act stipulates restrictions for companies that have more than 10% registered offshore equity participation in 28 specific industries (including banking and insurance, natural resource exploitation, 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, while court litigation against those acts is possible.

SIZE OF GOVERNMENT

Government expenditures in Bulgaria are very moderate in comparison to other European countries, reaching only 33% of GDP in 2017, due to rising exports and domestic demand. Economic growth is robust, reaching 3.5%. Unemployment has fallen to its lowest level, nearing only 6%. However, Bulgaria remains the poorest country in the EU, as measured by GDP per capita, with approximately 50% of the EU purchasing power average. The country recorded fiscal surpluses after the fiscal stabilization program that was implemented during 2016, but its fiscal position recently changed to a minor deficit. The already low level of public debt by European standards is on a downward spiral, reaching 24% of GDP in 2017. Wage increases due to a shortage of labour ended the deflation that was present since 2013. However, the performance of major state-owned enterprises still poses significant economic and fiscal risks, stemming from their inadequate corporate governance structure that is under strong influence of political parties in power. Although direct government subsidies to inefficient SOEs are below the EU average level, this figure is inflated through indirect ones, such as tolerating arrears. Apart from public utilities, SOEs operate in various industries, but are mostly notable in energy sector, transportation and infrastructure. The Sofia airport concession, which was initially cancelled, has once more been given a new consideration with the new tender call. Shadow economy is widespread, creating up to one third of the GDP, and although the tax collection has increased there is still much to be done in the field. Relatively low level of public spending leaves room for lower taxation: both personal income and corporate tax are flat, and set at 10%. The standard rate of VAT is 20%, while 9% for tourism. However, high social contributions make the labour tax wedge significant, approximately 36% on the average wage, which is comparable to the OECD average.

REGULATION OF CREDIT, LABOUR AND BUSINESS

Bulgarian regulatory framework is mostly business-friendly, but the biggest obstacles remain in the area of favourable treatment of different business entities and partial application of rules. 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, being just one euro. Obtaining electricity connection is very expensive, due to high costs 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. Automatic energy management system which monitors outages increased reliability of the power supply. Labour regulation in Bulgaria is flexible. Fixed term contracts are not prohibited for permanent tasks and can last up to 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 the private sector. The minimum wage has been increased in July last year by almost 10% nominally, from 460 to 510 BGL (i.e. from 235 to 260 euro), whereby the process of its determination is not transparent. Inefficient government bureaucracy, corruption and tax rates are perceived as the most critical areas for doing business in Bulgaria.

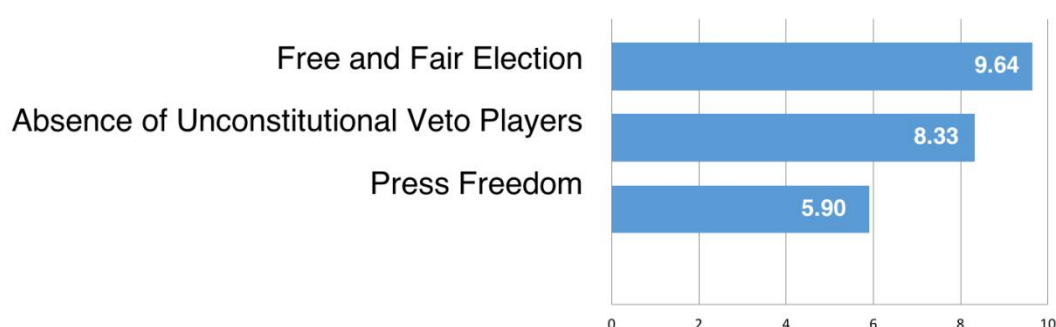
FREEDOM TO TRADE INTERNATIONALLY

Freedom of international trade in Bulgaria is generally guaranteed. Since its EU accession in 2007, Bulgaria implements the common EU trade policy, with overall low tariffs. Average applied MFN tariff rate for manufactured goods is 5.1%, while those on agriculture products are double that level. 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, but corruptive practices within the custom office remain a concern. 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 and France, followed by Turkey, with similar patterns in imports. Due to rising exports, Bulgaria has almost doubled its current account surplus from 2.3% to 4.5% of GDP in the previous year. Bulgaria, alongside Romania, Croatia, Ireland, Cyprus and United Kingdom, is among few EU countries that are 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 pegged to the German mark, while now to the euro. Controls on capital inflows and outflows, implemented by the Bulgarian National Bank, are still present.

Croatia

<i>GDP in 2017: EUR 45,591 million</i>		
<i>annual growth rate: 2.8%</i>	<i>per capita: 11,050 EUR</i>	<i>by sector:</i>
		agriculture 3.7%
		industry 26.2%
		services 70.1%
<i>Population: 4,126 thousand</i>	<i>Human Development Index</i>	<i>Government position in 2017</i>
<i>Unemployment rate: 12.4%</i>	<i>HDI: 0.831 (rank 46)</i>	<i>+0.8% of GDP</i>

A. POLITICAL FREEDOM



FREE AND FAIR ELECTIONS

After a few turbulent years, with several snap elections and government reshufflings, the situation in Croatia stabilized to great extent. Despite enjoying a tiny margin of majority in the Parliament, the Government comprised of Croatian Democratic Union (HDZ) and Croatian People's Party – Liberal Democrats (HNS), built in June 2017, led the country without major disturbances. Citizens are able to cast their votes in a free and fair process based on universal and equal suffrage. Some violations occur during elections, however none that could endanger the integrity of the process. Political landscape is pluralistic and diverse, with several new parties emerged in recent years, providing citizens with a wide spectrum of political views. Representatives in the 151-seat Sabor, the Croatia's unicameral national assembly, are elected by proportional representation in 12 constituencies.

ABSENCE OF UNCONSTITUTIONAL VETO PLAYERS

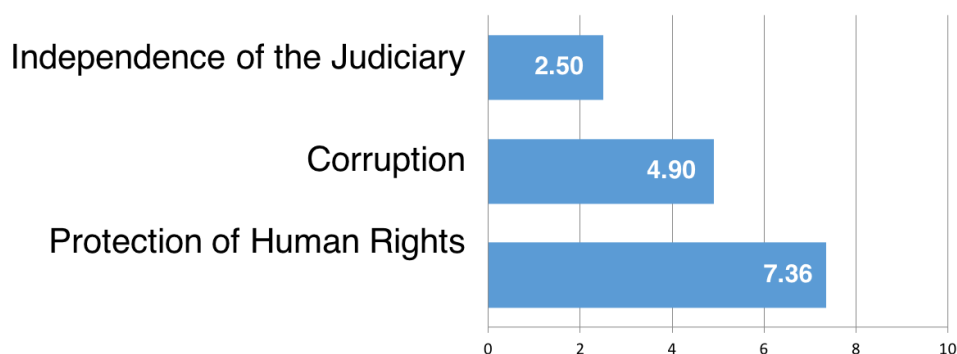
Croatia doesn't have unconstitutional veto players hence elected officials have effective power to govern the country. System of checks and balances among all three branches of power is in place,

although in practice the executive dominates the legislative and politicization of judiciary is not rare. The latter provides space for high level corruption, with many cases remaining unresolved, implicating an influential role that wealthy businesses have on political decision-making process. Besides, there are other influential actors in Croatian society. Catholic Church has significant influence on public and political life, and quite often does not refrain from interfering into the political decision making, usually by propagating social-conservative standpoints. While comprising a large proportion of society, war veterans exercise certain influence on politics as well.

PRESS FREEDOM

In the light of decline of general press freedom across Europe, according to the Reporters without Borders situation in the media in Croatia is on a track of improvement, with the country holding 69th position in the 2018 World Press Freedom Index, against the previously held 74th. Citizens are provided with a wide range of opinions. Media scene is pluralistic. Still, there are many limitations, to be removed in the upcoming period. Government does not restrain from seeking influence on the most important public and private media outlets, especially on the Croatian National Radio Television (HRT), by trying to interfere into the program management. Journalists are operating in poor market conditions. Physical and verbal harassment is not rare. These developments led to the practice of self-censorship among them. Defamation charges, often brought against journalists, only serve to additionally spark fear among them, further limiting their objective reporting.

B. RULE OF LAW



INDEPENDENCE OF THE JUDICIARY

Following improvements during the previous couple of years, in 2017-2018 the judiciary in Croatia again, and to it sharply, decreased in its independence from outside influences. High-profile trials in general, be it against ex-politicians or other VIPs, including for corruption or other financial misdeeds, saw unexpected turnabouts, with rejection of some previous indictments or rulings, repeated trials, illogical acquittals, escapes of high-level defendants from Croatia across the EU border to neighbourhood or further (or vice versa), or suddenly changed testimonies of key witnesses. The increased pressure by various (not least political) lobbies was obvious. Also, Freedom House noted the politicization of the National Judicial Council, which is

the body in charge of choosing judges, as well as controversial appointments to the Constitutional Court in October 2017. Business portal GAN, in November 2017, warned that there has been, further on - for companies suing or being sued in Croatian courts - a high risk of encountering corruption (e.g. in a form of bribery).

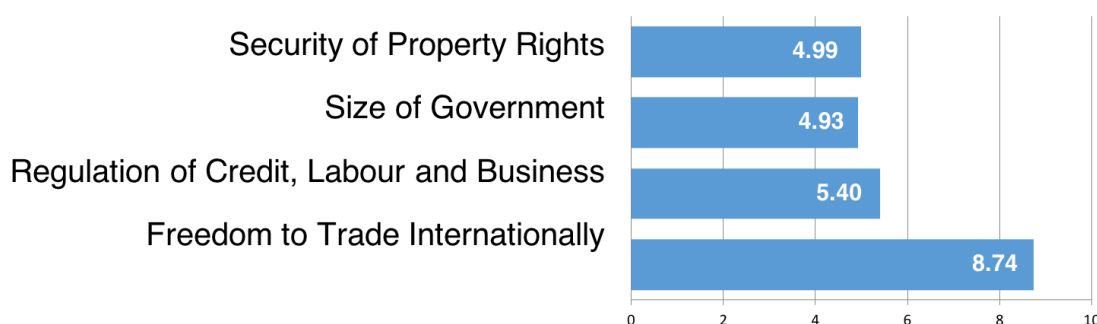
CORRUPTION

Croatia is ranked, together with Saudi Arabia, at places 57-58/180 on the Transparency International's CPI 2017 list. With 49/100 points, it is a bit above the average world score of 43. Freedom House, in the report NiT 2018, maintained that "corruption remained at comparable levels with previous years" and retained its (negative) 4.25/7.00 points' mark. In 2017-2018, a giant Agrokor scandal emerged – the collapse of a business empire, which since independence had been a concealed state project (supported or tolerated by governments of all colours) of promoting Croatian economy in the SEE region, but has later turned into a giant liability that endangered considerable parts of that very economy. Multiple corruption activity in various directions and/or other misuse of public resources or public authority seemed to have had occurred, by various actors, much prior (perhaps even during late 1970s) as well as during and after the collapse. Investigation was launched against the owner Ivica Todorić, who tried to hide, first in the neighbouring countries and then in the UK. The clarification of all aspects of this case, if or when it occurs in the court of law, might have considerable, long-lasting effects on the economic policies and public opinion in Croatia.

PROTECTION OF HUMAN RIGHTS

Hate speech has been in rise in Croatia overall, as Council of Europe warned in its May 2018 special report. It manifests through racism (mostly against Roma, or migrants), ethnic hatred (mostly against Serbs), homo- or trans-phobia, or praising of the WW2 quisling Ustasha regime. As US State Department warned, there is occasionally vandalism against the property of the hated groups, e.g. against Serbian Orthodox Church. Laws against all those were recently tightened, but are still selectively applied. A new form of extremist clerical-conservative activity emerged - intimidating the patients or staff of the abortion clinics, for which purpose networks of hospital-insiders, online activists and volunteer street preachers were created in several towns in Croatia and northern Serbia. Those groups usually have a broader agenda, of reducing sex education in schools and reversing the legal recognition and protection of same-sex unions. Many other freedoms, such as of thought, expression, association, education and scientific research are well maintained in Croatia, even though the most provocative pieces of art (such as some anti-nationalist theatre plays) might encounter violent or prohibitive response. Participation of women in politics or on other leading positions is in the rise and is higher than in neighbouring EU countries. In contrast to these, Amnesty International warns that cases of domestic violence are still inadequately processed hence the victims remain under-protected. According to Balkan Insight, between 2012 and 2016 Croatia was the largest - among Central and Southern Europe countries - exporter of arms and military equipment to MENA countries, whereby final users and modes of use were just superficially controlled.

C. ECONOMIC FREEDOM



SECURITY OF PROPERTY RIGHTS

Private property rights in Croatia are mostly protected. However, there are many problems stemming from the judiciary, which leads to many problems in practice. Although judicial independence is mostly attested, the influence of strong politically connected groups can have a strong impact on courts. Corruption within the judiciary is still present. Contract enforcement is not efficient due to slow processes and unreasonable delays, which makes court litigation long lasting - almost two years on average. There is also an issue of the high number of back logged cases, although some non-disputed cases were transferred to public notaries. There is no maximum number of adjournments. Automation of court procedures is still in its inception. Procedures for resolving insolvency are also very slow, lasting for more than three years and leading to recovery rates slightly above one third of the claim. There are some restrictions on foreign ownership or control in several industries, the most important ones being in transport and freight sectors, as well as in publishing, education and broadcasting. The cadastre service improvement has been a lengthy reform, which would expectedly improve the situation regarding proprietorship of real estate and strengthen property rights. The land registry has recently been digitalized and land titles can be assessed online. But there are still problems: although most of the land has a clear title, this is less orderly updated in rural areas since people try to avoid the transfer tax, itself set as high as 4%. Property rights over land and property are separated, which in practice could pose many technical and legal problems. Land Registry Offices are still inefficiently slow, burdening the process of property registration. Non-conforming to local zoning rules in coastal areas, and turning a blind eye on it by the authorities until recently, have made the solution to this problem rather complex. There were cases of clearing the land of these objects without compensation and at the same time cases of political promises that built objects would be legalized retroactively. Acquisition of agricultural land is restricted to local and EU nationals, since the EU accession. But this restriction can easily be circumvented through a long-term lease or through a local legal entity in foreign ownership. The property of legal entities from other former republics of Yugoslavia is often disputed and was recently under attack through the legislation that would put them in lease by the state instead of handing them back to their rightful owners.

SIZE OF GOVERNMENT

Size of government in Croatia is excessive. General government consumption stood at 46% of GDP in 2017, which is a minor moderation as compared to previous years when it had reached almost half of the GDP. After several waves of recession that hit the economy since 2008, Croatia is now recording solid growth rates, that reached 2.8% in 2017, due to a good tourist season, growing consumption and growing exports. This had positive consequences on the public finances as well: Croatia finally experienced a strong fiscal surplus, after years of chronic deficits. The public debt was significantly reduced in 2017, from 84% to 78% of GDP, due to the rising economy and new fiscal revenues, but this level is still too high for an economy at this level of development. SOEs are numerous - more than 400 companies – themselves operating in almost all sectors. These companies suffer from low efficiency and generate substantial fiscal costs, contingent liabilities included, to the state. Their management is not depoliticized and professional, thus enabling political considerations to enter the daily business. Too many of those companies are considered as strategic, which prevents their privatization. On the other hand, operational restructuring of the highway companies is under way, although slower than anticipated. But, a part of their debt was successfully refinanced. Although the recent tax reform somewhat decreased taxes on income, taxes in Croatia remain high. Corporate tax rate is set at 18% (with a lower rate, of 12%, for SMEs below a certain threshold). The personal income tax is progressive, with two tax rates, of 24% and 36%, and with a relatively high tax deduction. 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 hospitality and tourism industry is now taxed with the standard VAT rate, instead of the preferential one. Social contributions on labour are high, which, coupled with the personal income tax, lead to a labour tax wedge higher than the OECD average.

REGULATION OF CREDIT, LABOUR AND BUSINESS

Business environment in Croatia is not too conducive to business activities. There are frequent changes of legislation that make significant alterations in the regulatory environment, with strong impact on terms of doing business in sector-specific industries. Bureaucracy and red tape are widespread, increasing costs of doing business, even though the regulatory reform in recent years has increased the use of electronic resources in this area. Partial treatment by government officials and corruption remain present, albeit not omnipresent. Inefficient government bureaucracy, policy instability and tax regulations remain to plague the business environment. Starting a business is unnecessarily long, with a high number of procedures and a relatively high notary fees and paid-in minimum capital. Obtaining a construction permit is a poorly conducted process, both slow and burdened with a high number of administrative tasks, with as many as 22 different procedures that need to be tackled with, but also being expensive due to high local utility fees. Getting electricity is a streamlined process, but very expensive due to high fees charged by the public utility company HEP. 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 also widespread in the economy, contributing to a high tax but also administrative burden. Little progress has been made in easing

licensing restrictions for professional services, whereas these barriers bar entry to many professions. The educational system, as in many other countries of the region, is inefficient, providing little actual links between classrooms and labour market needs. Although several waves of labour code reforms took place in order to increase flexibility of the labour market, the legislation remains very rigid concerning hiring and firing procedures. Duration of notice periods and severance pay package significantly increase with the years in tenure, while fixed contracts have still been prohibited for permanent tasks, which protects seasoned workers to the detriment of younger ones. On the other hand, working hours are flexible, and there is no maximum duration to fixed-term contracts and redundancy obligations. Collective bargaining is mostly concentrated in industries where SOEs play a dominant role and in public sector.

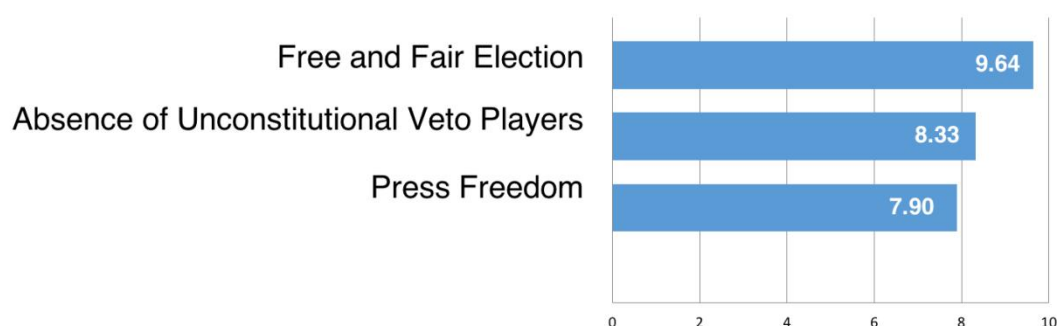
FREEDOM TO TRADE INTERNATIONALLY

Freedom of international trade in Croatia is mostly respected. As a member of the European Union since 2013, Croatia implements the common EU trade policy. Therefore, the tariffs applied on imports are low, with the MFN applied rate of 5.1%, but those for agricultural products could be more pronounced. But non-trade barriers in the form of technical standardization and certification pose effective barriers on goods coming from abroad. Customs office is efficient, without lengthy or complicated procedures neither for imports nor exports. The quality of road and port infrastructure is satisfactory, but the railroads, operated by a state company, do not follow this trend, creating considerable bottlenecks, which increases freight costs. Main Croatia's trade partners are EU member states from its proximity such as Germany, Italy and Slovenia, followed by Central Europe Free Trade Agreement (CEFTA) countries from the region, e.g. Serbia, or Bosnia and Herzegovina. The National Bank continues to exert control over the flow of short-term capital, which is mostly connected to the exchange rate policy of the national currency, the kuna (HRK). Croatia is expected in due time to join the Schengen Area and the Euro-zone, which would further liberalize flows of people and capital. However, there are still no clear deadlines set.

Czechia

GDP in 2017: EUR 177,501 million		
annual growth rate: 4.3%	per capita: 16,780 EUR	by sector:
		agriculture 2.3%
		industry 36.9%
		services 60.8%
Population: 10,579 thousand	Human Development Index	Government position in 2017
Unemployment rate: 2.9%	HDI: 0.888 (rank 21)	+1.3% of GDP

A. POLITICAL FREEDOM



FREE AND FAIR ELECTIONS

Freedom and fairness of elections is granted by the constitution and mainly upheld in practice. During the period under review two elections were held – in October 2017, parliamentary elections for 200 seats in the Chamber of Deputies, which is the lower house of the Czech bicameral parliament, and in January 2018, presidential elections. With some minor violations in vote counting, both elections were regarded as free and fair by domestic and international instances. In the latter one, Miloš Zeman was re-elected as the President of Czech Republic, with a small margin in the run-off. But, the parliamentary elections and their aftermath have attracted much more attention. Disputes in the government of former Prime Minister Bohuslav Sobotka, between him and former deputy Prime Minister Andrej Babiš, had led to political crisis, which resulted in Babiš's dismissal with the composition of the governing parties remaining the same. A month prior to elections the parliament lifted Babiš's immunity for fraud accusations involving EU subsidies. However, that move hardly harmed Babiš's ANO party, which won the parliamentary elections, taking 78 seats. His mandate to form a government proved as a very hard task in the fragmented parliament, since almost all parties refused to coalesce with ANO, due to the said fraud allegations. Minority government was formed on the 13th of December 2017, but

as early as in January 2018 Babiš lost a confidence vote and resigned. Re-elected President Zeman, who has often backed Babiš, prior as well as after elections, gave him once again a mandate to form a government. Finally, in the middle of 2018, the second minority government of the PM Babiš was formed, as an ANO's coalition with the Czech Social Democratic Party, and with necessary external support from the Communist Party of Bohemia and Moravia.

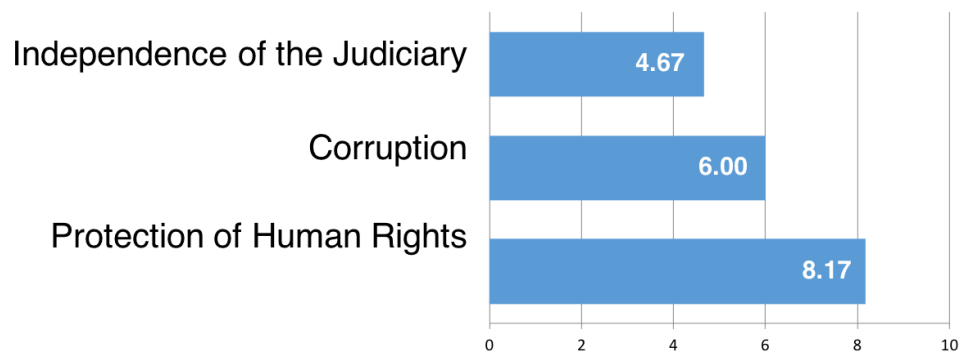
ABSENCE OF UNCONSTITUTIONAL VETO PLAYERS

Democratically elected government of Czech Republic has effective power to govern without interference. In this regard, major concerns in the observed period were weak legislative and executive authority of the incumbent government, strong involvement of businesses into politics and corruption scandals involving high-ranking officials. Political instability throughout the year, as well as dependence of minority government on the benevolence of the Communist Party, represented a huge obstacle to functioning of democratic institutions and brought uncertainty about the upcoming period. Ties between business and politics became even more visible in the previous years, with the dominant role in politics played by a super-wealthy businessman Andrej Babiš. Several corruption scandals recently pointed out at a big problem which Czechia encounters, with the most prominent case of fraud with EU subsidies involving PM Babiš. Besides, there were alleged attempts of Chinese and Russian interference into Czech politics.

PRESS FREEDOM

Printed, broadcast and online media outlets in Czech Republic are free and independent, expressing a wide variety of views. However, increased concentration of media ownership and transfer of ownership from international to domestic companies somewhat deteriorated the media landscape in the country. Politicians and media owners do not restrain from influencing editorial policies. One of the largest media houses, MAFRA group, is owned by the Prime Minister Andrej Babiš, who was involved in the scandal, as a recorded and leaked communication documented his influence over editorial policy. This was exercised by selecting which articles should be published and which should not, thus using his media power to strengthen his political position. Journalists were also targeted, in some more President Zeman's rhetoric, on multiple occasions. Defamation remains punishable by the law. Russian and Chinese influence on Czech media, through spreading their propaganda, have become a growing concern during the last couple of years. Country deteriorated 11 places and now holds 34th place in the Reporters without Borders' 2018 World Press Freedom Index.

B. RULE OF LAW



INDEPENDENCE OF THE JUDICIARY

After a serious rise in 2017, Czech Republic fell in 2018 as regards independence of judiciary. The data as of several recent years indicated at the lack of enduring efforts to improve. Freedom House notes that although courts are independent their decision-making is slow and their rulings sometimes contradictory in similar cases. Inconsistent laws contribute, especially when determining legitimacy of certain law enforcement procedures. In a notable case of a former regional governor David Rath, accused of corruption and bid rigging, different courts (Regional vs. Supreme) confirmed or overturned initial sentence of 8 and half years prison one after another between 2013 and 2016, where after in June 2018 he again received the same sentence, and subsequently appealed again. Political influence on judiciary in high profile cases was noted by Bertelsmann in 2017. Portal GAN noted “a moderate risk of corruption” and occasional “very sophisticated” methods used to bribe out favourable court decisions.

CORRUPTION

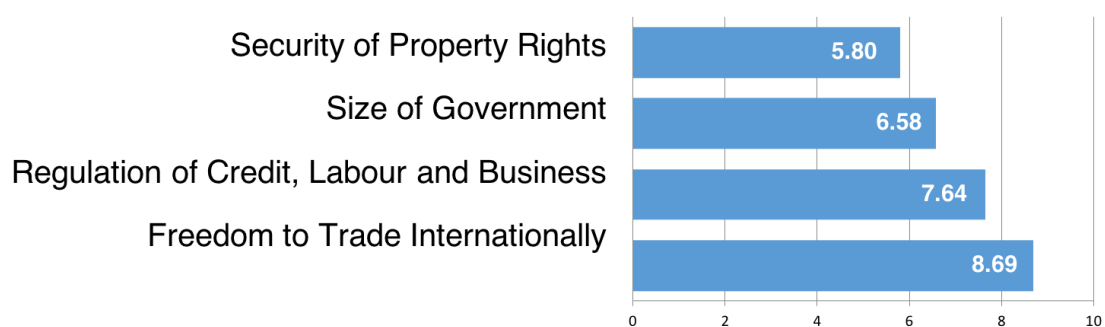
Czech Republic is stagnant in fighting corruption. Problems rest both in insufficient legal background and in inefficient and - in high profile cases - biased or influenced judiciary. Failure to achieve full transparency of ownership and consequential merger of economic and political power in the same persons and misuse of one to support another and vice versa, is described by civil society as the biggest impediment to transparency in politics and fair market competition in the economy. Czechia's rating in the Transparency International's CPI 2017 slightly improved, putting it, together with Cyprus, Dominica and Spain, in places 42-45/180, with 57/100 points. Yet, for a country that once used to be the leader and trend-setter in the post-1989 transition, this is far from being praiseworthy.

PROTECTION OF HUMAN RIGHTS

Protection of human rights has been a strong point of the rule of law in Czech Republic. 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. However, hate speech is also common, including by President Zeman, who occasionally practices it while rejecting or even mocking the standard EU rules of “political correctness”. Various minorities, such as Roma, or immigrants, often face verbal abuse in public. Amnesty International, while assessing that Roma continued to

be discriminated, noted both some improvements, e.g. in attempts by education authorities to reduce the number of ethnically segregated schools, and some new challenges, e.g. in the occasional misuse of authority to protect public order given to the local governments, for an ethnic discrimination in housing. The number of refugees accepted under the EU relocation scheme is neglect. Xenophobia is less visible in the streets than at its peak in 2015, but it is not in retreat, as manifested also by the increased number of MPs from the Islamophobic far right (from 8 to 22) after October 2017 elections. According to Balkan Insight, between 2012 and 2016 Czechia has been the second largest (after Croatia) among Central and Southern Europe exporters of arms and military equipment to MENA countries, whereby final users and modes of use were just superficially controlled.

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, judicial independence and impartiality in court dealings, although mostly present, are not always attested. Even though judiciary is clearly separated from the executive power, there are informal ways of influencing some court proceedings. Another issue is the existing level of variation of court decisions in similar cases, which is due to the fact that judges often lack specialized knowledge in commercial disputes, but also due to the new Penal Code and Civil Code adopted without a new procedural law which would clarify their implementation in practice. Very slow enforcement of contracts, sometimes lasting for up to two years, is a serious impediment (in trial, judgment and enforcement process), while these procedures incur very high costs, on average up to one third of the claim. There are no special commercial courts, nor small claims courts, but only general courts. Also, there are no effective procedures regarding adjournments: their maximum number is not set as well as their use as an extraordinary measure only. Insolvency procedures are also long, but with relatively high recovery rates (2/3 of the claim on average), while most cases are settled as going concern sales. Bankruptcy laws were amended in June 2017 with the aim of making this process more predictable and less prone to misconduct that would affect creditors. Registering property involves long procedures at the cadastre office, but vast majority of land has a clear title and that can be checked electronically. Since 2012, non-EU foreign nationals can purchase real property and agricultural land, although they could have acquired it legally earlier through a locally registered company. As in other European countries,

there are limitations on foreign ownership, or registration requirements in areas such as banking, insurance, media etc., but these are relatively rare.

SIZE OF GOVERNMENT

Size of government in the Czech Republic is comparable to other CEE post-transitional countries. Total government expenditures stood at 39% of GDP in 2017, with a recorded surplus of 1.3% of GDP. The public debt level has been falling ever since 2013, now being 35%, due to low deficits and higher growth rates, e.g. 4.3% in 2017, on the back of growing investments, exports and private consumption. Inflation is within the targeted band. Unemployment is the lowest in the EU - below 3% - which is pushing wages up. 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, since they count for just a small fraction of employment and output. Utility companies, as in most other countries, are mostly controlled by the local governments. Although SOEs conform to the same rules as private companies and are legally not in a privileged position on competitive markets, there are indications that big SOEs use their political connections or influence to gain unfair advantage and privileges. Since not all SOEs are functioning efficiently, the Czech Republic pays high subsidies, with their level reaching 2.3% of GDP in 2017, more than twice the average level in the EU transition countries. Corporate tax in the Czech Republic is 19%, while personal income tax is basically flat at 15% (except that there is an additional 7% rate called solidarity tax, for high earners, applied over 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%, significantly 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 requires no minimum capital; this procedure, since recently, introduces notaries, who can directly register companies to the courts via an online system, while the fees for simple limited liability companies were decreased. Obtaining a construction permit is burdened with as much as 21 individual procedures: although many of them are simultaneous and incur low or no fees at all, the whole process could last more than 8 months on average. On the other hand, getting electricity is inexpensive and well streamlined, lasting little over than two 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 better business environment, closely followed by inefficient government bureaucracy and high tax rates. New requirements for filing VAT control statements are expected to further complicate the situation. Much more needs to be done regarding deregulation of the licensed professional services, since many of them effectively remain closed to competition. Although corruption is perceived as low, there is favouritism in dealings of government officials, while government regulation and policy instability also have a negative impact on businesses. Labour regulation is mostly flexible: fixed contracts are not prohibited for permanent tasks. Their duration is set at 36 months. Working hours' regulation allows 6 working

days a week and comparably low salary increase for working in shifts. While notice periods are the same, the severance payments increase only slowly with the years in tenure. The minimum wage has increased by 10% since last year; it is not uniform, but there are 8 levels of occupational minimum wage, alongside their reduced level for workers with disability.

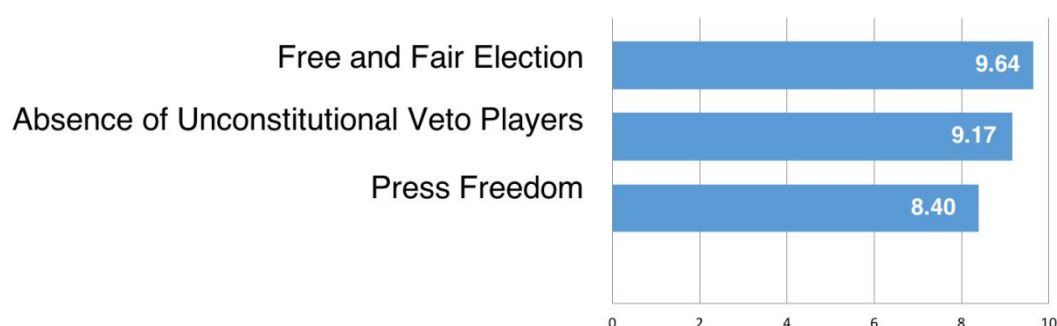
FREEDOM TO TRADE INTERNATIONALLY

Freedom to trade in the Czech Republic is mostly upheld. As a full member of the EU since 2004, the country applies the EU common trade policy, with relatively low tariffs for manufactured goods, with the Most Favoured Nation rate standing at 5.1%. On the other hand, tariffs on agriculture products are high, especially for sugar and dairy, while non-tariff barriers such as necessary certifications or technical standards remain present. Custom procedures - both for imports and exports - are efficient, requiring only 4 documents, while transport infrastructure is of good quality, which all boosts free trade. Due to its geographical position and proximity to the European core, the Czech Republic is also an important transit country; infrastructure development has not been able to follow closely the rise in trade flows due to economic growth and transit, and more time and resources are necessary to increase the quality of infrastructure. The Czech economy is very open, with exports surpassing 80% of GDP, the highest among the former transition countries after Slovakia. Czech Republic holds the highest per capita FDI in CEE countries. The economy has been experiencing small trade surpluses in recent years, while the main trade partners are other EU countries, most important of all Germany, which was the recipient of 40% of overall Czech exports. Although most of the Maastricht criteria have been met and the country is obliged to join the Eurozone in the future, the Czech government has decided against joining the ERM II mechanism which would be the first step in adopting the euro, since this policy is unpopular among the electorate. The Czech national bank left the crown peg in April 2017, which capped the exchange rate at 27 crown per euro, enabling the exchange rate to float freely, which led to a small appreciation of the crown. Very low unemployment and skilled labour shortages have become a burden to many industries in the country, which encouraged more flexibility in the policy of foreign workers attraction – streamlining visa procedures and introduction of a pilot program for Ukrainian citizens, which was recently broadened to include Serbian nationals too.

Estonia

GDP in 2017: EUR 23,002 million		
annual growth rate: 4.0%	per capita: 17,450 EUR	by sector:
		agriculture 2.8%
		industry 29.2%
		services 68.1%
Population: 1,316 thousand	Human Development Index	Government position in 2017
Unemployment rate: 5.8%	HDI: 0.871 (rank 30)	-0.3% of GDP

A. POLITICAL FREEDOM



FREE AND FAIR ELECTIONS

Elections in Estonia are continuously considered as free and fair, scoring 9,64 out of 10, from the beginning of the Freedom Barometer – Europe Edition, until today. During the period under review political life in this country was less turbulent and much stable than during the previous one. Citizens of Estonia faced local elections in October 2017. These elections were marked as generally free and fair and were important due to several other reasons. Most notably, this was the first local election successfully held in the new administrative setting, approved in the middle of 2017, when, in the framework of broader reforms, some local municipalities were merged. Also, Estonia, as one of the world leaders in e-voting, scored the highest online turnout in these elections, of almost 32% of all votes cast. Although overall turnout was little lower than in the previous local elections, young people ageing 16 and 17 were able to cast their votes for the first time. Local elections are the only place where non-citizen residents of the country can cast their votes, meaning that large Russian minority of around 7% still have limited access to politics, restricting them from holding office and from a vote at parliamentary elections.

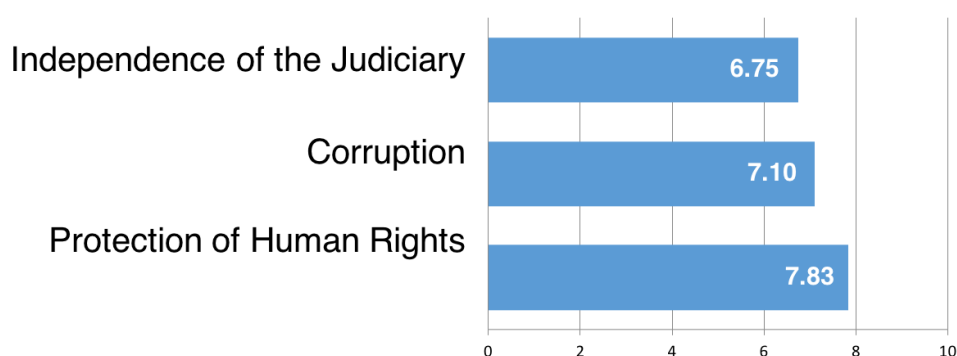
ABSENCE OF UNCONSTITUTIONAL VETO PLAYERS

Democratically elected authorities in Estonia have full and effective power to govern without any interference from non-state actors. Separation of powers is clear and in place, allowing for efficient functioning of all three branches - judicial, legislative and executive. Although several corruption scandals emerged in previous years, involving high ranking officials of the state, e.g. former mayor of the City of Tallinn Edgar Savisaar, the suspects were prosecuted. In general, businesses are not able to shape the country's politics.

PRESS FREEDOM

Media outlets in Estonia are largely free and independent, expressing a wide variety of views. This pluralism of the media landscape ensures citizens' access to the diverse spectrum of opinions. Public broadcaster is characterized with unbiased approach, no matter that the Public Broadcasting Council is composed by parliamentary party representatives or other people appointed by the parliament. Still, high presence of political figures in this body should be noted. Journalist reporting is mostly not influenced by economic and political pressure, however reporters could face imprisonment if they refused to reveal their sources of information in cases of serious crimes. Ownership of the media is transparent and controlled by the few companies. As a response to Russian propaganda through some media outlets seeking to influence Russian speaking minority in the country, state has launched and run a public television in Russian language. This was often criticized by advocates of media freedom and independence. TV channel and newspaper run by the City of Tallinn, capital of the state, showed biased practices in favour of ruling Centre Party.

B. RULE OF LAW



INDEPENDENCE OF THE JUDICIARY

Freedom House in its recent reports praises Estonia for judicial independence and efficiency. A number of indicators, from the sharp decrease in backlog of cases to the opinion polls among judges or broader public, prove that positive changes have occurred throughout this decade and that there is optimism regarding future. Reforms as of 2014 seem to have already produced more merit-based selection of judges and better environment for their work once in office. According to portal GAN, the risk to encounter corruption when dealing with Estonia's judiciary is "very low". Only one in seven citizens think there is such a risk. Some political parties' and media

pressure on judiciary is still felt, but it has increasingly been futile. There is a space for improvement in settling disputes between companies, in challenging regulation and (as FH noted) in domestication of various foreign court or administrative decisions (such as regarding same-sex couples).

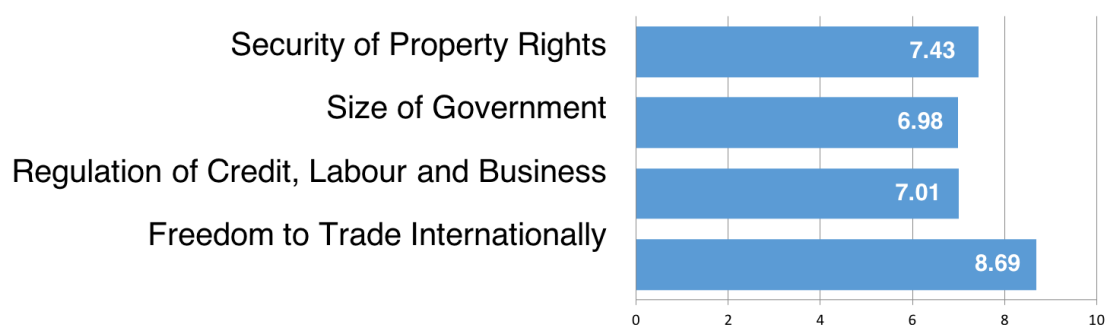
CORRUPTION

Estonia is the least corrupted of all ex-communist countries in Europe, taking the astounding 21st place among 180 countries ranked by the Transparency International's Corruption Perception Index 2017 (after being 22/176 in 2016). TI attributes the success to [bold] political leadership in post-Soviet era, radical reforms of the judiciary and public administration, relatively clean and rapid privatization process and introduction of e-government with adjacent rights of citizens to access information of public interest. Earlier FNF research also showed that bold and smart deregulation of economic life, as well as strong civil society, have largely contributed. A landmark case against the former Mayor of the capital Tallinn Edgar Savisaar, accused of serial bribery, saw ups and downs in 2017-2018, with the first-degree court acquitting him (on the grounds of poor health), where after the second-tier court overran that and asked the county court to resume the proceedings. In October 2017, two vice-Mayors of the second biggest city Tartu had been summoned because of alleged taking bribes and have subsequently resigned from their posts.

PROTECTION OF HUMAN RIGHTS

Human rights are further on highly respected in Estonia, while the positive trends have occurred throughout entire 2010s. Various personal freedoms, as well as civil liberties and autonomy of a citizen vis-a-vis the government could comfortably be compared with other EU, rather than with other post-Soviet countries. As a manifestation of those, and in support of it, civil society organizations are numerous and active in many fields, from community building, culture and education to social care and citizens' watch. Estonia accepted EU quotas for refugees. Acceptance has been slow yet highly caring. LGBTs face better climate than elsewhere in Baltic countries. Same-sex civil unions were legalized in 2014 (effective since 2016), while same-sex marriages concluded abroad are recognized since 2017 (even though there are still problems in judicial implementation of the rule). Some 7% of population (mainly from the Russian-speaking minority) are still stateless, while on the other hand some recent government policies (such as in the media sphere) have become more inclusive towards them. The position of Roma is marred by discrimination in certain fields of life.

C. ECONOMIC FREEDOM



SECURITY OF PROPERTY RIGHTS

Property rights in Estonia are well respected. Although the government has the right of expropriation in certain cases, in public interest (mostly for building public infrastructure), expropriation cases are very rare and they entail market-price compensation. Foreign ownership and investments, which also includes ownership over land, face no limitations nor investment screening, but conducting business in some industries, such as banking, transportation, mining, etc., is preconditioned by obtaining a license. The restitution of the nationalized property is almost complete, apart from some complicated cases. The judiciary is independent from the government influence and is considered to maintain a high level of integrity. However, courts are often overburdened, leading to prolonged trials, which on average last for 15 months. Court automation is well used in streamlining paperwork, but the lack of stand-alone commercial courts and the maximum number of adjournments could 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, while notary and state fees for these transactions are low. The police are mostly reliable and business costs of crime are low. Insolvency procedures are not efficient - they are lasting up to 3 years on average, with low recovery rates of only 40%. Non-EU nationals also have the right to own land, but this could 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 defence policy. Similar it is for agricultural land of a size above 10 ha.

SIZE OF GOVERNMENT

General government expenditures in Estonia stood at 40% of GDP in 2017 - lower than in most European welfare states. After the recession in 2009, Estonia has introduced a strong fiscal stabilization program and since then has experienced a balanced budget. Public debt is therefore low, among the lowest in the world - below 9% of GDP in 2017. Economic growth has significantly picked up from its previous low rates, reaching 4.8% in 2017, based on rising exports and domestic demand. Unemployment is falling, standing near 6%, much lower than the Eurozone average. Future demographic changes and high emigration rate could pose constraints on future growth. Estonian privatization program might be considered as completed, since there are only 31 companies left in predominant or sole state ownership, mostly in electricity production and transmission and transport (railways and port). Their management is appointed through an

independent committee. Subsidies are very low, below the EU average. Estonia was the first country in Eastern Europe to adopt flat tax system, but minor progressive characteristics such as non-taxable exemptions make Estonian tax system stand in between proportional and progressive. The flat rate for the personal income tax, corporate tax, as well as the standard VAT rate (the preferential one is 9%), is set at 20%. The overall labour tax wedge reaches 39%, which is slightly above the OECD average, due to high social security contributions of 33% for pensions and healthcare.

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. They are evenly applied to all business entities. Widespread use of electronic procedures has significantly cut the amount of red tape. Since late 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. Estonia has one of the highest numbers of entrepreneurs per capita. Starting a new business is easy and cheap, lasting only a couple of days, but it still involves a relatively high paid-in minimum capital of 2500 euro. Obtaining construction permits is a short procedure, but it is coupled with high fees of the public utility. 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. Corruption in administration has been held back by a widespread usage of ICT among public institutions. Labour regulations are depicted as strict, and courts often consider employees as the economically weaker side in labour disputes. Fixed term contracts are prohibited for permanent tasks, but these contracts can be long (up to 10 years in total). Maximum work week is set at only 5 days, albeit with prolonged workweeks in case of increased workload. Notice periods increase with the duration of worker tenure (one to three months), and there are redundancy rules and reassignment priorities. Monthly minimum wage is high. It was increased in January 2018 to 500 euros, high above the growth rate of the economy and above inflation, reaching half of the average wage. The threshold for VAT payer status has recently been increased from 16 000 to 40 000 euros, which is expected to alleviate many bureaucracy hurdles for SMEs. Tax rates and inadequately educated workforce are considered as the most problematic factors for doing business.

FREEDOM TO TRADE INTERNATIONALLY

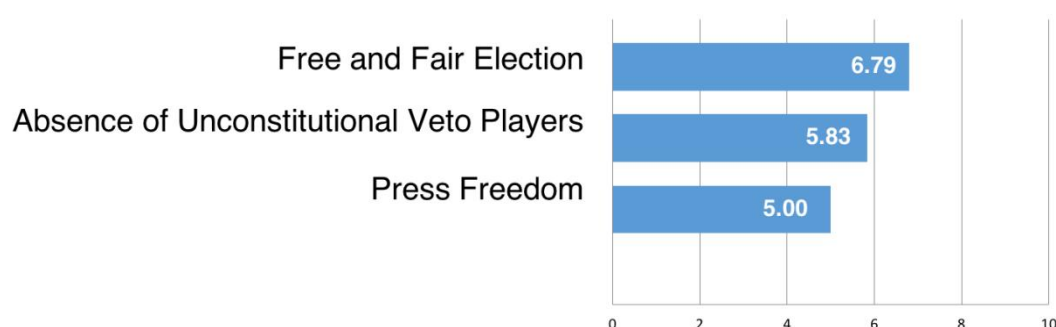
Since its independence, Estonia has been open to foreign trade. Estonia was the only country that had to increase (and not decrease) its import tariffs upon its EU accession. Efficient border administration allows goods to be imported or exported timely and cheaply, due to the minimum paperwork and costs. This is further supported by high quality transport infrastructure, which decreases freight costs. Estonia's main trade partners are its Nordic and Baltic neighbours, as well as Germany and the Russian Federation. Export oriented industries are an important part of the Estonian economy, which has been experiencing a small trade surplus in the recent years. Mostly owing to demographic developments and net emigration to other EU countries, Estonia has experienced shortages of labour. In order to mitigate this problem, the government has been

amending its immigration procedures in order to allow for easier hiring of qualified immigrant workers. The latest changes are to enter into force by late 2018. Capital controls on the movement of capital are considered as too strict.

Georgia

<i>GDP in 2017: EUR 12,621 million</i>		
<i>annual growth rate: 5.0%</i>	<i>per capita: 3,400 EUR</i>	<i>by sector:</i>
		agriculture 8.2%
		industry 23.7%
		services 67.9%
<i>Population: 3,710 thousand</i>	<i>Human Development Index</i>	<i>Government position in 2017</i>
<i>Unemployment rate: 13.9%</i>	<i>HDI: 0.780 (rank 70)</i>	<i>-0.5% of GDP</i>

A. POLITICAL FREEDOM



FREE AND FAIR ELECTIONS

Georgia is a parliamentary democracy with the 150-seat National Assembly. Citizens in Georgia are able to cast their votes in largely free and fair electoral process, although vote frauds and irregularities, intimidation and abuse of public resources have been an integral part of all previous elections. Political parties are free to organize and operate. Several new parties emerged recently, albeit mostly due to the fragmentation of the United National Movement (UNM). During the review period, local elections were held, marked by international observers as free and competitive. The trend of strengthening its position, shown by the ruling party Georgian Dream, continued after their winning of the supermajority in the Georgian unicameral national parliament at the last years' elections. In order to improve the quality of the electoral process, legislative changes were carried in 2017. Changes involved abandoning of a mixed proportional electoral system for the fully party proportional system, while president will be elected in an indirect way, by the local, regional and state level representatives, with his powers further limited. Nevertheless, these changes will enter into effect in 2024, which was criticized as too lengthy.

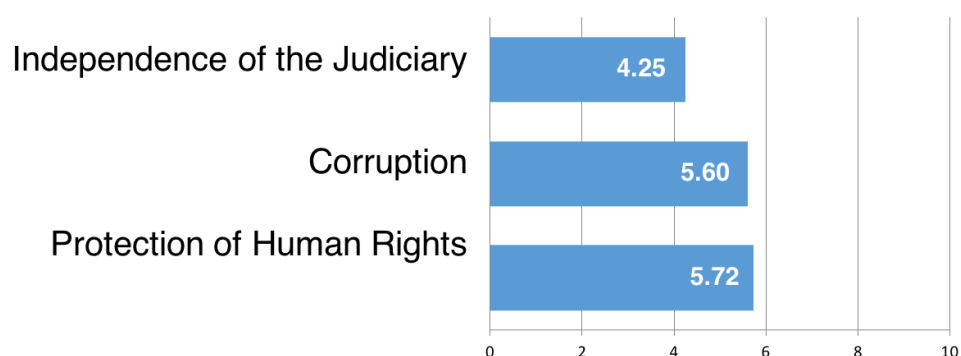
ABSENCE OF UNCONSTITUTIONAL VETO PLAYERS

Democratically elected officials in Georgia have effective power to govern the country. However, their decision-making is mostly influenced by the founder of the GD, a former prime minister and wealthy businessman Bidzina Ivanishvili. After his party slowly and successfully took full control over the institutions in the country, from prime minister and president to local governments, he officially withdrew from politics but has continued to pull the strings. With supermajority in the parliament, government can hardly be held accountable by the system of checks and balances. President Margvelashvili, previously supported by the GD and Ivanishvili, took more independent role over time and on many occasions tried to veto bills coming from Parliament, however his decisions were overruled by supermajority. As most trusted institution, Georgian Orthodox Church wields significant influence on social and political life of the country.

PRESS FREEDOM

Democratization of the country positively affected media environment in Georgia: ensured freedom of the press, improved quality of journalism and provided diversification of opinions. Deep political polarization in the past made reporting fragmented along political division lines, but more objective approach and coverage of events could be found in the media today. Dispute over ownership of an opposition leaning Rustavi 2 television channel attracted most of the attention throughout the observed period. Supreme Court of Georgia ruled in favour of the former owner of the outlet, triggering criticism and protests, however this decision was suspended after European Court for Human Rights had intervened. Still, the whole situation reflected negatively on the financial sustainability of the Rustavi 2. In an unclear event, a fugitive Azerbaijani journalist had been deported back to Azerbaijan, where he was later sentenced by the authorities, in the country known for its journalist-hostile environment. Informal power of Bidzina Ivanishvili reaches the media sector in Georgia. Appointment of his close ally on the top of the Georgian Public Broadcaster and change of editorial policy draws concerns over its independence.

B. RULE OF LAW



INDEPENDENCE OF THE JUDICIARY

After considerable improvements during the past few years, there were setbacks regarding independence and neutrality of judiciary. Failure of courts to equally protect foreign citizens

(such as an abducted and extradited Azerbaijani journalist, or some other foreign political dissidents who were denied further stay in Georgia), or foreign companies (when in litigation with a domestic actor), as well as bias in politically sensitive cases among purely domestic parties, largely contributed to this assessment. Besides, in one case of excessive use of police force which subsequently led to suicide of the defendant, the first instance court failed to address the responsibility of police. In several other cases, including a killing of two youngsters near the school in Tbilisi by still unknown assassin(s) and a death of a young man during the police operation in Pankisi Valley, law enforcement authorities have vastly underperformed. In the former case there were suspicions of a politically motivated cover-up by the prosecutors and/or courts, which was later corroborated by the conclusions of a subsequent parliamentary task force. A new judicial reform launched during 2017 suffered criticism from Venice Commission, EU and local think tanks, in particular for the lack of depoliticizing of the judicial system. Prosecutors' offices have been mostly criticized, whereby, according to a survey quoted by Freedom House, only 13% of citizens maintained a positive opinion on them. Constitutional Court is active and plays an important role in re-shaping the legislation so as to match constitutional requirements.

CORRUPTION

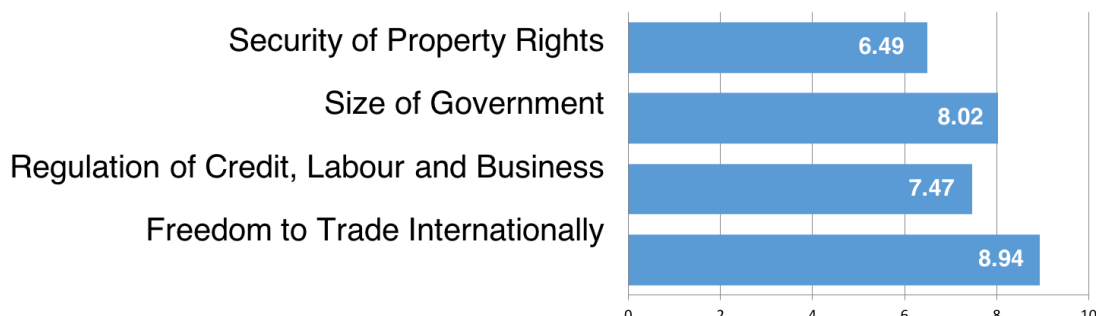
Being 46th among 180 countries surveyed, Georgia equals Malta and leaves behind six EU-members and all Western Balkans EU candidates in curbing corruption, according to the Transparency International's CPI 2017 ranking. No other Black Sea region or Caucasus country is even near. This miracle owes to robust post-2003 economic liberalization which narrowed the power of government, bold measures to clean the remaining public sector of graft and thriving civil society as a watchdog. In as much as petty corruption became a relatively small problem, the high level one is still a serious issue. Among elites, favouritism and nepotism are still common. Strict laws against graft and conflict of interest are not always applied consistently. Freedom House found out that "public confidence in anticorruption institutions declined slightly in 2017."

PROTECTION OF HUMAN RIGHTS

Respect for human rights in Georgia is higher than in most of the ex-USSR, yet considerably lower than in the EU. Freedoms of thought, assembly and association are reasonably well maintained. Civil society is vibrant. Amnesty International objected at impunity of law enforcement officials for human rights abuse. The row over monitoring of citizens' telecommunication connections by the state secret service has intensified since April 2016, while in December 2017 the Constitutional Court provisionally rejected the complaints against the amended legislation on secret surveillance. In another human rights' relevant case at the CC, Georgian Orthodox Church was denied its taxation and property-ownership privileges over other religious organizations. To it, Georgia is heading towards decriminalization of the use and possession of small amounts of cannabis. Police anti-drug raids in youth clubs in Tbilisi in May 2018 (in 2017 also in Batumi), widely discussed and criticized for anti-LGBT and anti-techno bias, have been a catalyst of the change. In July 2017, CC ruled that it was unconstitutional to ban gay people from donating blood. Meanwhile, as AI reported, in the breakaway regions of Abkhazia and South Ossetia Russian troops and local authorities continued to restrict freedom of movement across the "borders", thus considerably disrupting economic activities of the local

population. Furthermore, Russian troops occasionally trespass into Georgian mainland and arrest Georgian citizens for interrogation, in some cases under torture and/or resulting in killing.

C. ECONOMIC FREEDOM



SECURITY OF PROPERTY RIGHTS

Property rights in Georgia are mostly secured. Although courts are perceived as mostly independent from the government, in important cases political considerations can influence court decisions and lead to favouritism in rulings. Recent introduction of an automated process for case assignment to judges is hoped to increase judicial independence and decrease opportunities for mismanagement. There are no specialized commercial courts, which can often have repercussions on the quality of rulings in these matters. Contract enforcements through courts last up to 10 months on average, but more than half of this time frame is dedicated to enforcement of court rulings. The number of adjournment in court cases is not limited, which may prolong them. Expropriation disputes are not common, 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. In these cases powerful interest groups were able to take advantage of legal loopholes or low land coverage in the cadastre. Insolvency procedures last two years on average, with a recovery rate of 40%. Recent changes improved provisions on treatment of contracts through insolvency and granted creditors greater participation in decision making during the process. The process of registering property is very efficient and inexpensive, done through an electronic registry, but regions outside the capital are mostly not covered with clear land titles - approximately only one quarter of agricultural land has a clear title, which may lead to insecure property rights. Acquisition and possession of agricultural land is largely restricted for foreign nationals and private entities with foreign capital, to 20 and 200 hectares respectively. The Georgian government does not exert de facto control over the two separatist regions of Abkhazia and South Ossetia, therefore many internally displaced persons and businesses face challenges in asserting their property rights. There are a few industries in which foreign capital is restricted. Government is legally obliged to retain a controlling equity share in air, shipping and rail traffic control, defence and armaments industry and nuclear energy.

SIZE OF GOVERNMENT

Government expenditures in Georgia are very low, compared to other European and even post-transition countries, just below 30% of GDP in 2017, in line with one of the legal fiscal rules

adopted in 2014. Georgian economy experienced robust growth in 2017, of 4.8%, due to increasing foreign demand that led to a high rise in exports, and due to rising private consumption. Recorded inflation was high, reaching almost 7% in 2017, but it has been since then put under control. The government entered a three year Extended Fund Facility (EFF) program by the International Monetary Fund (IMF) in April 2017, in order to provide backing for the envisaged fiscal austerity program with the aim of diverting resources from current to capital expenditures, which has been successful so far. Current spending has been put under control, while capital spending on infrastructure was significantly increased and tax mix somewhat altered (corporate tax was changed from profit to dividend taxation and these revenues were supplanted by a rise in excise duties). Public debt is at 45% of GDP, which is within the fiscal rule limit of 60%. After the thorough privatization process, major remaining government-owned companies operate mostly in utility services, energy sector and transportation (airports, railways). 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, but some of these companies suffer from inadequate management and incur losses that require budget transfers. Low public expenditures allow for moderate tax rates. Both corporate and personal income taxes are flat, with the rates of 15% and 20% respectively, while VAT is set at 18%. Undistributed corporate income is not taxed. The Economic Freedom Act stipulates that an increase in tax rate or introduction of a new tax must be approved at a national referendum, which significantly restricts additional tax revenues.

REGULATION OF CREDIT, LABOUR AND BUSINESS

Business environment in Georgia is mostly positively oriented towards entrepreneurial activities. Georgia was twice designated as the Reformer of the Year by the World Bank, and is consistently ranked high in the Doing Business research. However, local government capacities and their decision making process can pose obstacles to entrepreneurial activities. Rule enforcement is not uniform, although low level corruption has mostly been eradicated. Starting a business is quick and inexpensive, conducted in only 2 days and without minimum paid in capital. This process was further streamlined with the recent change that enabled VAT registration at the time of business incorporation. 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. Connection fees for new customers were reduced. The online system for VAT refunds has recently been updated and additional annex for corporate income tax returns was abolished: online procedures are used, but it is still time consuming. Inadequately trained workforce (especially outside the capital Tbilisi) and low access to financing, pose significant burden on businesses. Labour regulation is overall flexible. Severance payments and notice periods are low and do not rise with years in tenure of the workers at hand, and collective bargaining is mostly restricted to public sector employees. The maximum duration of fixed term contracts is 30 months. The minimum wage is very low, and it is not really applied in practice. However, the 18 months mandatory military conscription poses significant burden both on businesses and citizens. 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 has not yet had a significant impact.

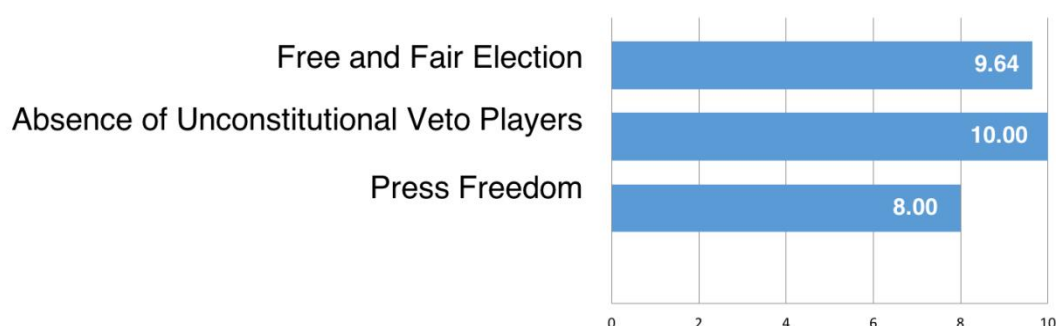
FREEDOM TO TRADE INTERNATIONALLY

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 rate of just 1.5%. As in other countries, tariffs are higher for agricultural products than for the manufactured 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 are efficient and pose little administrative burden on trade through the use of an electronic system for document processing and an advanced document submission. Georgia has been a member of the World Trade Organization since 2000. It ratified the Trade Facilitation Agreement (TFA) in January 2016, which is expected to further ease custom clearances and border controls, once implemented. The World Trade Organization (WTO) conducted Georgian trade policy review without finding significant problems, confirming Georgia's free trade orientation. The TFA would also benefit Georgia's role as an important transport corridor, which has already been acquired due to its geographical position and political conditions in the Caucasus. 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), signed in 2014. This agreement stipulates a gradual introduction of the EU standards in the economy and increase the rate of standard harmonization in areas such as sanitary standards. A free trade agreement with the European Free Trade Association (Norway, Lichtenstein, Iceland and Switzerland) was signed in 2017, while a free trade agreement with China was completed in 2018.

Germany

GDP in 2017: EUR 3 277,340 million		
annual growth rate: 2.5%	per capita: 39,650 EUR	by sector:
		agriculture 0.7%
		industry 30.7%
		services 68.6%
Population: 82,660 thousand	Human Development Index	Government position in 2017
Unemployment rate: 3.8%	HDI: 0.936 (rank 5)	-1.0% of GDP

A. POLITICAL FREEDOM



FREE AND FAIR ELECTIONS

German citizens enjoy a right to free and fair elections. Long awaited - not just in Germany but all over Europe as well - regular Bundestag (the lower house of Parliament) elections took place on the 24th of September 2017. As expected, they were administered and performed in a free and fair manner. A fear of fake news manipulation was widespread, even though such manipulations weren't able to shape public opinion to a decisive degree. Within EU and beyond, Germany is perceived as the leader when it comes to inclusive policies on migrations, a topic which also dominated months of political campaigning in the country. Years before, provincial elections saw a strong rise of the far right nationalist, populist and xenophobic party Alternative for Germany (AfD), which this time managed to enter the federal parliament, to it as the third strongest party, after the Christian Democratic Union - CDU (with its Bavarian sister party CSU) and the Social Democratic Party - SPD. Angela Merkel got the opportunity to form a new government, but this process proved as very complicated and lengthy. It took until 14th of March 2018 to form an old-new Grand Coalition government, between CDU/CSU and SPD. As SPD was reluctant at the beginning to continue governing with CDU, due to decreasing support among their core voters, Chancellor Merkel first turned to Greens and liberals (FDP - Free

Democratic Party), but disagreements during coalition negotiations and subsequent withdrawal of the FDP thereof prevented her intentions and deepened a political uncertainty in the country. As pressure on all sides was rising, also on the SPD as a party which could be the only one to have prevented new, snap elections, they decided to once again form a government of a similar party fabric and to support Angela Merkel as the new-old Chancellor (i.e. PM) of Germany. Thus she has been holding that post from 2005 up until now.

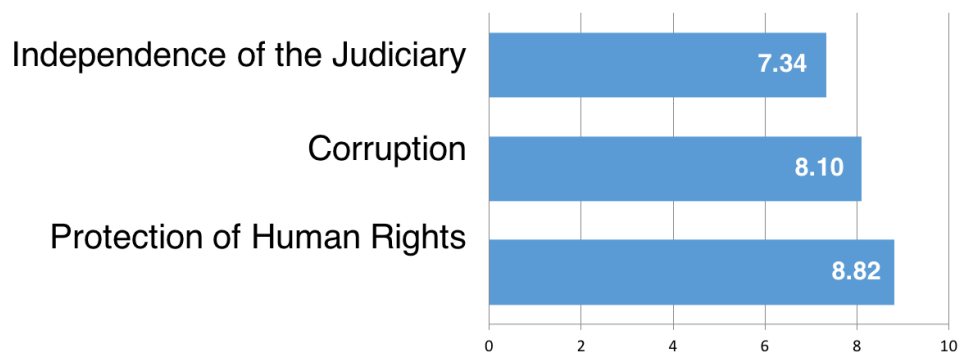
ABSENCE OF UNCONSTITUTIONAL VETO PLAYERS

There are no unconstitutional veto players in Germany. Democratically elected governments have effective power to rule the country without interference. Although there are some organized and influential interest groups such as trade unions or various business associations, they are not posing a threat to democratic procedures in the country. A debate is on whether or not too extensive written and signed coalition agreements (themselves a specific of German democracy) interfere with the constitutional rights of the elected bodies and their members (such as MPs). Corruption in the country is rare, which places Germany at a very high 12th place at the Transparency International 2017 Corruption Perception Index. Security forces are under effective civilian control. Violent extremism is the only major threat to security in the country, with several terrorist attacks occurred during the last few years.

PRESS FREEDOM

German constitution (“Basic Law”) and principles of the rule of law are in place to provide and protect freedom of the media. Media scene is highly pluralistic and diverse, enabling access to wide spectrum of opinions. Although journalists or other media workers are independent in their work, physical and verbal violence and attacks became more common during the last 12 months. On several occasions journalists were targeted by far right political groups. Political party AfD often labels journalists and media as a biased source of information, spreading across society the mistrust in media. To their part, associations of journalists often accuse police and state structures for slow and inefficient prosecution of perpetrators. Unlike other Western European countries monitored by the Freedom Barometer, media ownership in Germany is diversified, with some of the biggest media operators based over there. Legal permission for overseeing an international journalist by the secret service continues to be an issue in discussions about the freedom of the press. In July 2017, numerous journalists were prevented from reporting during the G20 summit in Hamburg, by the government, on alleged security grounds.

B. RULE OF LAW



INDEPENDENCE OF THE JUDICIARY

Judiciary in Germany might in many respects be considered as an example of a truly independent “third branch” of power. Federal Constitutional Court (as well - although to lesser extent - similar courts at the regional level) plays a key role in limiting (thus to a degree also shaping) political decisions by lawmakers or the executive, or in checking the terms of the country’s accession to bilateral or international treaties. Judiciary is very active in protection of privacy of citizens and calibration of laws so as to allow just minimal and necessary intrusion therein by the law enforcement agents. As portal GAN repeats, the “judiciary is characterized by a high degree of professionalism and independence from political interference” and trusted by citizens, while corruption in courts is hardly heard of. There were a few cases in 2017 of suspected excessive use of force during violent demonstrations, or of the neglect of detainees’ rights by the police, which have been investigated. As Amnesty International objects, independent complaint mechanisms for those are still missing.

CORRUPTION

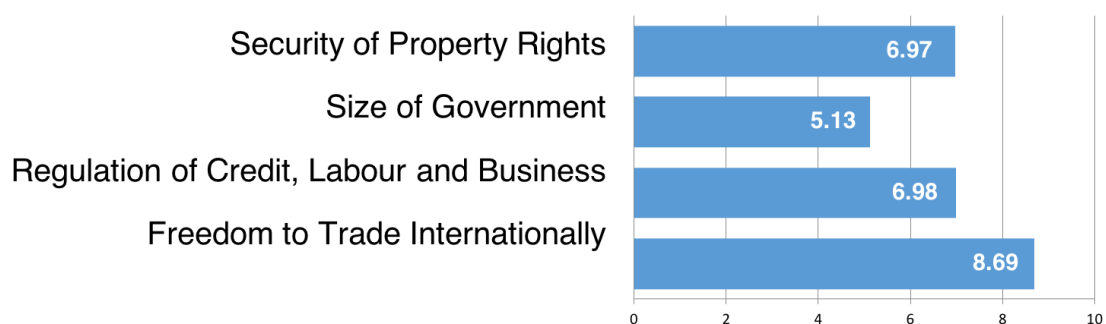
Classified as a country where citizens rarely encounter corruption, Germany is, similar to 2016, ranked very high – as 12th (out of 180 countries) - in the Transparency International’s Corruption Perceptions Index 2017, with the same score, 81/100. Immunity against graft is very strong, due to social market economy with no excessive state intervention, developed legislation and institutions, and a sense of rule of law shared by most citizens and practiced through strong civil society with free and curious media. Rules against nepotism are very strict at all tiers of government. Public procurement, construction and huge infrastructure projects are often quoted as vulnerable to fraud, corruption or favouritism. The unfinished Berlin-Brandenburg International Airport witnessed, during its long completion, a few prison sentences against people who took, paid or attempted bribes so as to have the safety regulations circumvented. Bribery, or a (corruptive) neglect of environmental rules or other standards of quality abroad are sometimes turned a blind eye at by the government, especially in regard to big companies and employers.

PROTECTION OF HUMAN RIGHTS

Germany has thoroughly transformed, from a country which had experienced centuries of autocracy, Nazi regime 1933-1945, and communism in its eastern part 1945-1989, into one of the freest countries of the world, where human rights are highly protected. Through both formal and informal (such as via political “Stiftungs”) education, a notion of human rights such as life,

security and safety, freedom, individual autonomy and responsibility, property, information, voluntary association, or other, is embedded in society and political culture. In some areas Germany has emerged as a “conscience of the EU”, e.g. in its treatment of refugees. Not least that the gates were opened to the victims of wars or dictatorships but considerable efforts and resources were put into their integration. For instance, recent data show high level of their integration into the labour market, while there are deportations of rejected asylum-visa seekers. Opposition to such attitude has, however, also increased during the past year. There is a lot of hate speech against certain religious or ethnic groups, as well as attacks on asylum seekers (more than a thousand in 2017), while an anti-immigrant political party AfD has entered Bundestag at the last general election. Online fake news mainly target immigrants. Populism is in the rise and its narrative is highly visible in public. Meanwhile, strong efforts are put to curb human trafficking of all kinds. LGBT citizens enjoy equality in ever more fields. First same-sex marriages were concluded in October 2017. Under-representation of women in politics (in spite of a woman Chancellor), again demonstrated at general elections 2017, as well as a formidable gender pay gap, are tried to be overcome by quotas. Citizens of immigrant background are still seriously under-represented in high politics. Taken the 20th century history, various hate speech is outlawed, but critics find some limitations excessive, such as the obligation of social networks to do the censorship. The law allowing secret services to use spyware against encrypted electronic messages was criticized as too broad and has been challenged at the Federal Constitutional Court.

C. ECONOMIC FREEDOM



SECURITY OF PROPERTY RIGHTS

Property rights in Germany are well protected. Although legal and accounting procedures could be complex, they are generally transparent and consistent. Judiciary is efficient and independent from out-of-court influence or from the executive power. Even though court dealings are lengthy, they are both predictable and reliable, while judges are deemed as competent. Bankruptcy procedures enable very high recovery rates (above 85% of the claim), within a reasonable time frame. Insolvency cases 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 use little automation in the process and judges are assigned cases randomly, yet not through an electronic system but by hand. Property registration, however, involves a string of complicated and lengthy procedures,

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. These restrictions are mostly applied to transportation sector. While some restrictions stem from the EU legislation (such as those in air travel), some others, such as on foreign ownership, are justified by national security. German political leadership supports the 2017 EU legislative proposal for an EU-wide framework regarding national security threats stemming from FDIIs.

SIZE OF GOVERNMENT

Government expenditure in Germany is comparable to other continental European welfare states, standing at 44% of GDP in 2017. Unlike most European countries, Germany has been recording budget surpluses in recent years, e.g. in 2017 reaching 1.1% of GDP. This fact, coupled with economic growth, put public debt on a decreasing trajectory. It is expected that public debt level will decrease below the Maastricht criteria threshold of 60% of GDP until the end of 2018. Unemployment is well below 4%, less than half of the Euro-zone level, with only Czech Republic and Malta having better labour market results. Growth, although envisaged to reach a modest 2.5%, is inclusive and based on increasing domestic demand and 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 operated by local governments. However, there are several important companies in which federal government has majority (train transportation) or minority stakes (post office or telecom). This is more evident in the banking sector, where the central government (e.g. in Commerzbank), but also local governments (e.g. in Sparkasse) or federal states (e.g. in Landesbank), still hold equity in banks that encountered difficulties during the financial crisis almost a decade ago. Existing SOEs comply with the same rules as private companies, and are mostly faced by hard budget constraints. In order to sustain the overall high tax consumption, high tax rates are necessary. VAT is set at 19%, with the reduced rate of 7%. Income tax is highly progressive, with the rates ranging from 14% to 45%. There is also a "solidarity tax" of 5.5% on both the corporate and the personal income. Coupled with local trade tax, this leads to a high effective corporate income tax 30-33%, from the nominally modest 15% tax rate. The overall labour tax wedge reaches almost 50% of the total labour costs, due to high social contributions - Belgium is the only European country with a higher labour 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. However, the minimum paid-in capital of 12 500 euro is very high. On the other hand, getting electricity and obtaining a construction permit are efficient procedures, but they can incur high costs. All regulations are generally upheld. 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, even though most tax procedures are done online. 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 maximum length of fixed contracts is limited to just 24 months, while redundancy regulations impose high costs. 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 these procedures. A significant proportion of the work force is therefore employed through mini and midi contracts. 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, is effectively 8.84 euro per hour since January 2018. The most problematic areas for doing business have recently been identified as high tax rates, complicated tax regulations and restrictive labour regulations.

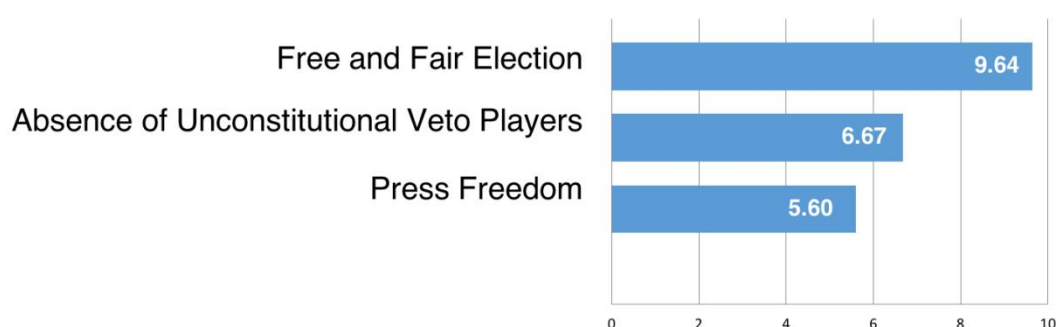
FREEDOM TO TRADE INTERNATIONALLY

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. Tariffs are mostly low, with the average MFN applied rate standing at 5.1%, but tariffs on agriculture products are much higher (especially for dairy products and sugar). On the other hand, non-tariff barriers remain in place, creating obstacles to trade in a form of different technical standards and certifications. Customs administration is professional and efficient, making border and document compliance quick and its costs low. Transportation costs are also low due to excellent public transportation infrastructure, allowing for higher volume of trade: through its ports Germany serves as transit country for many other European countries. Railway transportation is still under dominant influence of SOEs, with accusations of anti-competition practices. Foreign trade is immensely important for German economy, with a high current account surplus of 8% of GDP, led by exports of manufacturing goods. Main trade partners of Germany are other European countries, such as France, Belgium, the UK and the Netherlands. Therefore, the manner in which Brexit would be concluded could have an important impact on the German economy. High immigration of skilled workers is of great importance for matching the demographic changes and low fertility rates. This is, however, a sensitive political issue, especially in the wake of a potential refugee crisis. Burdensome bureaucratic obstacles make the process of hiring workers coming from outside the EU very costly.

Greece

GDP in 2017: EUR 177,735 million		
annual growth rate: 1.4%	per capita: 16,500 EUR	by sector:
		agriculture 4.1%
		industry 16.9%
		services 79.1%
Population: 10,768 thousand	Human Development Index	Government position in 2017
Unemployment rate: 21.5%	HDI: 0.870 (rank 31)	+1.1% of GDP

A. POLITICAL FREEDOM



FREE AND FAIR ELECTIONS

Elections in Greece are regarded as free and fair. Political landscape is pluralistic and diverse, allowing citizens to choose among wide range of political ideas, while political parties are independent and free to compete for votes. Still, everyday politics strongly divides society. Electoral system in Greece is specific, often debated and questioned in regards to accuracy of political representation. Designed in a way to favour the winning political party, “enhanced proportional representation” provides the winner of the elections with 50 bonus seats in the Greek unicameral parliament, itself consisting of the total of 300 MPs, thus facilitating the formation of single-party governments. This issue of voters’ misrepresentation reached the national parliament and the changes gained support of 179 MPs, but fell short of the needed supermajority of 200 MPs for an immediate change of the electoral law. This way, with simple majority, changes will enter into effect at the second elections from now, effectively leaving to the next government to decide on their future. Voting is mandatory in Greece, and from the next election on young people age 17 will be allowed to vote.

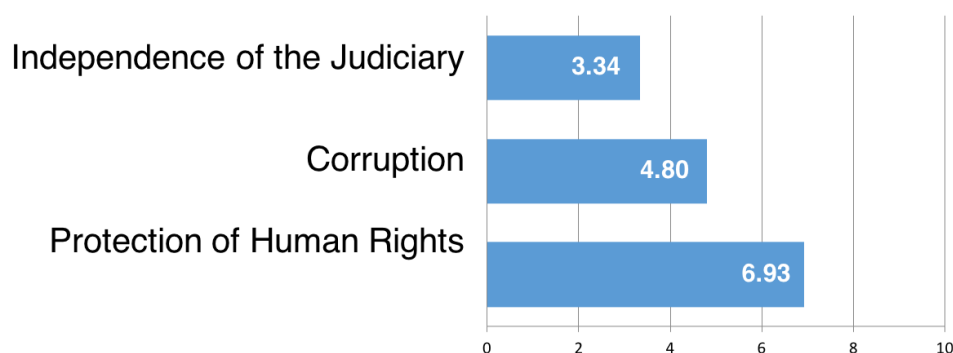
ABSENCE OF UNCONSTITUTIONAL VETO PLAYERS

Democratically elected government has effective power to govern the country without interference, thus there are no unconstitutional veto players who are able to undermine democratic procedures in Greece. Corruption among public officials remains country's unresolved problem. Greek Orthodox Church is not separated from the state, but it cannot directly influence political decisions. However, Greek Orthodoxy is recognized by the constitution as the state religion and enjoys certain influence in shaping public opinion. Its strong position was evident in the disputes over the name of the Former Yugoslav Republic of Macedonia. Generally, the church pursues its own political agenda, however during recent years it has not been very successful in doing so.

PRESS FREEDOM

Media outlets and journalists are partly free to operate in Greece. Trend of improving media landscape has moved the country 14 places up on the Reporters without Borders 2018 World Press Freedom Index, capturing the 74th place. Still many problems in regard to media have not vanished. Although pluralistic and diverse, ownership of media outlets is not transparent, leaving reporting to be subjected to business and political interests. Environment of fear, on one side economic, of losing job, and on the other side of physical and verbal threats they were facing, led some journalists to practice self-censorship. The quality of journalist reporting is low also due to economic crisis. Defamation is a criminal offense. Crisis on issuing licenses for national televisions, after the Council of State had ruled that this was constitutionally a task of the National Council for Radio and Television (NCRTV) and not of the government, ended up with appointment of the new members of the NCRTV, including opposition candidates as the chairman and deputy chairman. NCRTV is a body in charge of supervision and regulation of the broadcast media market. State-owned public radio and television broadcaster ERT was often accused of biased reporting, i.e. of supporting pro-government stance on many issues.

B. RULE OF LAW



INDEPENDENCE OF THE JUDICIARY

In March 2018, Greek courts have for the third time in a row rejected the demand by Turkey for extradition of eight fugitive Turkish soldiers, alleged conspirators in the 2016 failed coup against President Erdogan, on the ground that those would not be granted a fair trial in Turkey. The fact

that this one, or some other even more complex extradition dilemmas in Greece were handed over to judges to decide have told of a certain degree of autonomy of judiciary vis-a-vis the government and daily politics (with all its tit-for-tats). Nevertheless, many refugees were returned to Turkey in accordance with its agreement with the EU. According to the Freedom House's report *Freedom in the World 2018*, Greek judiciary is "largely independent", though this is sometimes undermined by corruption. Other problems include backlog of cases, too long pre-trial detention and cases of physical abuse of detainees, particularly those from vulnerable groups (minorities, migrants, etc.).

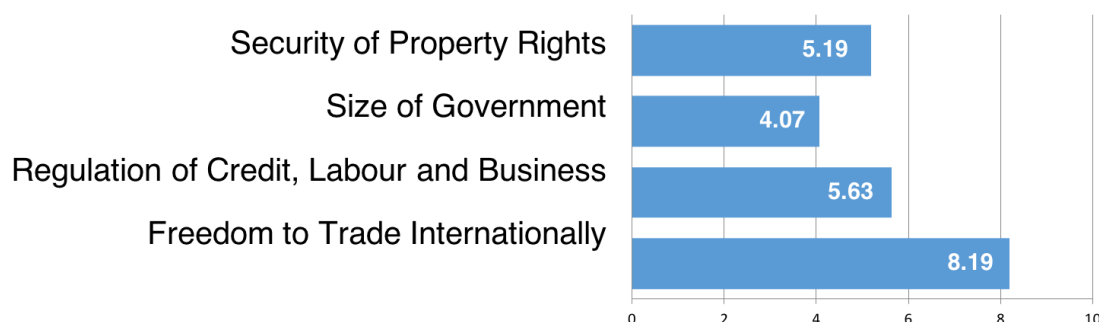
CORRUPTION

In comparison to 2016, Greece has notably improved in 2017 regarding anti-graft struggle. In just a year it climbed up 4/100 points (from 44, to the historic high of 48) and has been ranked 59/180 (in 2016 it was 69/176) on the list of the Transparency International's Corruption Perception Index. This – together with an improved credit rating - has been yet another fruit of the post-2015 orientation of the country towards painful economic reforms coupled with anti-corruption campaign. But to exchange the status of a seriously corrupt country with the one where corruption is just medium present, Greece will have to reform its economic system further, by cutting crony ties between politics and business, by de-monopolization of further fields of economy, by curbing tax evasion, etc., in short: by minimizing the still existing market inequalities.

PROTECTION OF HUMAN RIGHTS

Freedom of expression and association in Greece are fairly well respected. Academic freedom is further on perhaps the best protected one, of all forms of expression. However, ethnic minorities and their associations face considerable limitations, even regarding recognition thereof. Religious tolerance and pluralism have advanced under the post-2015 left-wing government, and parallel to it also secularism, seriously challenging the previously privileged position of the biggest religious community, the Greek Orthodox Church. Influx of new refugees has decreased and the resettlement of those present is on, yet dozens of thousands are still trapped on Ionian Sea islands in bad living conditions. Greece is an important transit point for human trafficking. Government fights it with varying success. Military service is mandatory, while conscientious objectors still face legal troubles. Hate-speech and hate-motivated attacks (such as against migrant workers) are not rare. Strong legal protection of LGBTs against discrimination and regulated same-sex unions largely neutralize the inherited strong albeit gradually decreasing homophobia in society. Gender equality level has been lower than in much of the EU. To combat the violence against women and domestic violence, in June 2018 Greece ratified the Istanbul Convention.

C. ECONOMIC FREEDOM



SECURITY OF PROPERTY RIGHTS

Private property rights in Greece are mostly respected, but there are many areas for concern. Most of the problems lie in weak government institutions. Judicial impartiality is not perceived as high, and corruptive practices within judiciary are still present. The court system is extremely time consuming, with contract enforcement lasting more than 4 years on average. Recently introduced reforms in this area, such as tighter rules on adjournments and deadlines for court procedures, so far have not born expected results. Since there are no specialized commercial courts, commercial cases are presented 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. Also, 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, and many homes, especially outside big cities, are not yet registered. Insolvency procedures are long lasting, and lead to very low recovery rates (approximately one third of the claim), mostly through piecemeal sales. Greece also keeps its restrictions on foreign equity ownership in many industries, more than in other OECD countries, thus hindering investment and decreasing competition. This is mostly visible in the sectors of public utilities and energy, areas which the Greek government considers as being of strategic importance. After several delays during 2017, government electronic auction program for collateral and foreclosed platform is now functioning, which could lead to more secure and efficient processes in this delicate area.

SIZE OF GOVERNMENT

General government expenditure in Greece reached almost 49% of GDP in 2017. Due to the great political upheaval regarding the 2015 referendum on the ESM agreement, investments had come to a halt and the economy had gone through another recession, but it finally recorded a growth, of 1.4% in 2017. Investments are slowly rising, but are still low, and the output gap is slowly closing. Unemployment is still extremely high, but also slowly decreasing, having fallen below 20% recently. Government budget is balanced, but the public debt remains among the highest ones in the world, standing at 182% of GDP in 2017. Although Greece successfully terminated the ESM program in August 2018, its public debt level is almost certainly still unsustainable. Public transfers remain very high, and pension expenditures are the highest in

Europe, reaching the remarkable level of 17% of GDP. State-owned enterprises (SOE) are still present in the country, especially in industries considered to be of strategic importance, such as utilities, transportation, energy and defence. Most of them are supervision of the HCAP, an independent holding company for state assets, whose board is independent from the state, since it was partially elected by the international creditors. Some of the SOEs still enjoy privileged or quasi-monopoly status. The implementation of the privatization program, designed in 2015 as a prerequisite for the financial assistance by the international community, has yet to be fully implemented and to harvest high expected proceedings. The most important recent privatizations are the railway company Trainose, a major hotel complex in Athens, the Thessaloniki port, railroad services company Rosco, and the residual of government equity in the OTE telecommunication company. The international tender for the gas transmission system company DESFA is yet to be completed. Former Directorate General for Public Revenue, which used to be a part of the Ministry of Finance, was transformed into a more independent tax agency, with the aim to increase revenue collection (mostly through an expected decrease in the – currently still very high - rate of tax evasion) and prescribe future tax code reforms. High government consumption requires high tax rates: personal income tax is progressive, with rates of 22%, 32% and 45%, and there is a special solidarity tax, also progressive, ranging from 2.2% to 10%. On the other hand, 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, which is above the OECD average. The standard VAT rate is set at 23%, with two preferential rates of 6% and 13%, with a special case of some Greek border islands where the VAT rates would be lower by 30% until the end of 2018.

REGULATION OF CREDIT, LABOUR AND BUSINESS

Regulatory environment in Greece is not overall business-friendly. Political and economic instability led to a freeze in new investments, which only recently surpassed 10% of GDP. Furthermore, corruption and burdensome bureaucracy continue to make barriers to new market entrants, leading to the low level of competition in many industries. Regulations could be competing, creating a level of business uncertainty. This situation is also evident in professional services – pharmacists, lawyers, notaries, etc. – where regulation creates quotas and similar entry barriers. On the other hand, starting a new business is easy and inexpensive, done within two weeks and with a symbolic minimum paid-in capital of just one euro. A unified social security institution was created, in order to make registration of new companies an easier task. Obtaining a construction permit and getting electricity, although demanding due to a high number of procedures involved, are overall streamlined processes. 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 considered as burdensome. Labour regulation has many built-in inflexible areas: fixed term contracts are prohibited for permanent tasks and restricted to just 36 months, while severance payments increase with the years in tenure, protecting more seasoned workers. Redundancy rules are strict, if the process involves more than 20 workers – in that case it requires consultations through the Supreme Labour Council (with worker, employer, and government representatives), and finally the authorization of the Ministry of Labour. Minimum wage is still relatively high as compared to the median wage, but it has not been increased since 2012. There is a lower minimum wage (84% of the national one) for young workers below the age of 25.

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. Shadow employment in the economy is widespread. Since September 2017, the law stipulates temporary closure of businesses in cases where employers repeatedly violate the law concerning undeclared work or safety. Employers are obliged to declare in advance overtime work or changes in their work schedules. High tax rates, inefficient government bureaucracy and tax regulations are cited as problematic factors for doing business in the country.

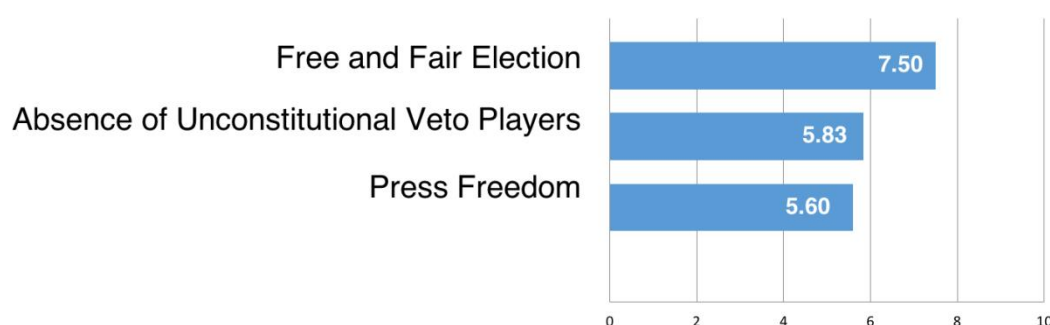
FREEDOM TO TRADE INTERNATIONALLY

Freedom to trade in Greece is generally respected. As an EU member state, Greece implements the common EU trade policy, with overall low trade tariffs. The Most Favoured Nation tariff rate on manufactured goods stands at 5.1%, while many agriculture products, such as sugar and dairy, face substantially higher tariffs. On the other hand, non-tariff obstacles to trade remain present mostly due to the complicated process of product standardization. Customs service is not well organized, with expensive or slow procedures and widespread corruption practices, which further hinders trade. High freight costs are partially attributed to the deteriorating public transport infrastructure, since there is a lack of resources for its maintenance and resolving of the transportation bottlenecks. The railroad infrastructure is of particularly low quality, while roads and ports are in a better shape. Some of the latter were privatized. Working permits for non-EU nationals are generally difficult to obtain, although recent legislation somewhat eased the position of non-EU immigrant workers by lowering the number of years necessary to obtain a residence permit. There is a “golden visa” program, which allows foreign nationals who buy property above a 250 000 euro threshold to obtain a five year residency permit. This program was widened to include buyers of Greek bonds. Although the most restrictive controls on the capital outflow from the country, that were set in 2015 during the negotiation process with the “Troika”, were waived after the agreement with the European Stability Mechanism (ESM), some of them remain to this day. For example, the daily limit for commercial payment abroad stands at 250 000 euros. 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 2017: EUR 115,913 million		
annual growth rate: 4.0%	per capita: 11,800 EUR	by sector:
		agriculture 3.9%
		industry 31.3%
		services 64.8%
Population: 9,798 thousand	Human Development Index	Government position in 2017
Unemployment rate: 4.2%	HDI: 0.838 (rank 45)	-2.0% of GDP

A. POLITICAL FREEDOM



FREE AND FAIR ELECTIONS

Constant efforts by the ruling party to undermine democracy in Hungary are backed by the deterioration of fairness of the electoral process. Although citizens are free to elect their representatives, recent developments in Hungarian politics made this process largely unfair. During the period under review, parliamentary elections were held on 8th of April 2018. Political parties entered electoral year in an environment shaped by the governmental divisive politics on issues such as migrations, or “Western influence”, by hindering of political pluralism, by abuse of power and by increasing control over media sphere. All those were set up, to have secured a clear victory at the parliamentary elections for the ruling Fidesz party. Therefore, election results weren’t a surprise, seeing Viktor Orbán and his right-wing coalition regaining a supermajority in the National Assembly, by winning 133 seats out of 199, and allowing them to avoid constitutional obstacles for most of their pro-authoritarian decisions in future. OSCE ODIHR noted in their report a number of voting violations. According to National Election Commission those couldn’t endanger the validation of the process. But, more importantly, they stressed a lack of level playing field for political parties to compete for voters, coupled with abuse of state resources, often blurring a dividing line between a party and the state, narrative of fear and

restrictive media environment. Abuse of legislative process and media is often used to discredit opponents of the government. Unequal voting rights remained a problem with the electoral law, making the voting easier to ethnic-Hungarian minority members in neighbouring countries than to expatriate Hungary-proper citizens.

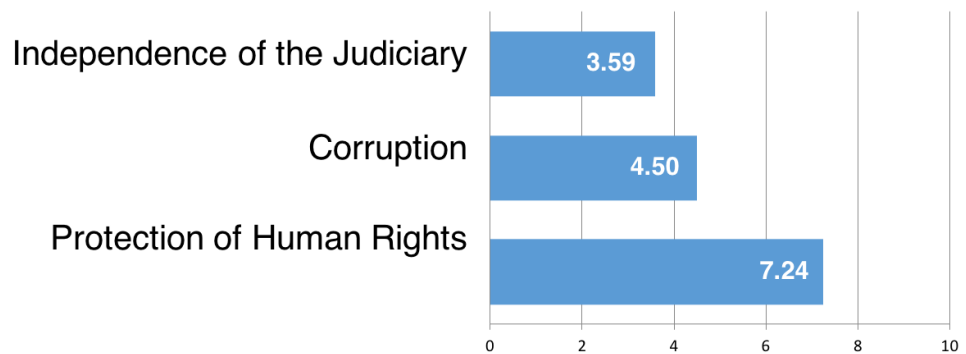
ABSENCE OF UNCONSTITUTIONAL VETO PLAYERS

The biggest threat to democratic institutions in Hungary isn't coming from unconstitutional veto players, but from the ruling political elite, on their authoritative path, along which they have already gained an almost ultimate power over the state. Regaining a supermajority in the parliament - having had been previously lost "down the road" during the previous mandate - has allowed Fidesz party to overrule constitutional decisions and tie up domination over all branches of power. At the middle of 2018, one such step was made when parliament adopted the "7th Constitutional Amendment", which included provisions increasing political control over judiciary. Having separation of powers dismissed, government focused, throughout the year, on weakening the CSO sector as an informal institution for protection of democracy, using harsh rhetoric and exclusive narrative and policies. State capture in Hungary is also reflected through close ties between political and business elites in the country, dividing businesses to those pro and those against the government, with former ones clearly benefiting from their position.

PRESS FREEDOM

Government took control over almost complete media landscape in Hungary, limiting its freedom and independence and transforming it into a mouthpiece of the regime. While the state-owned media outlets are firmly under Fidesz control, themselves (ab)using legal means and implementing a politics of fear towards their employees, a new, arising problem during the last 12 months was a concentration of media ownership into the hands of Viktor Orbán's friendly oligarchs. Numerous media outlets were acquired by them, immediately changing their editorial policy and showing a clear bias in favour of the ruling regime, while firing journalists critical of the government. State advertising proved to be an efficient tool to expel media outlets from the market, with Magyar Nemzet, popular Hungarian newspaper, ceasing its work due to financial issues, immediately after the parliamentary elections as of April 2018. Such tight control has transformed the media in Hungary into "fake news factories". Needing support in their politics against "enemies", such as migrants, or George Soros, government used media outlets to spread fake news propaganda and shape public opinion, which intensified in the months prior to elections, securing a clear victory of Fidesz coalition. Journalists are not free or independent in their work, being censored by editorial policies and practicing self-censorship due to widespread and justified fear of losing jobs and verbal attacks which go by with impunity.

B. RULE OF LAW



INDEPENDENCE OF THE JUDICIARY

Since coming to power in 2010, ruling party Fidesz has put all national judicial institutions, one by one, under its de facto control. In high-profile cases independence of judiciary is indeed low, while in lower courts the situation is still not that bad. However, according to portal GAN, among the companies operating in Hungary the trust in the independence of courts and/or their capacity to efficiently resolve disputes or challenge laws sharply fell recently. Freedom House noted a difference in efficiency of the Constitutional Court in various cases. While some not-strictly daily-politically relevant laws were promptly challenged, the ones that Government has advocated most loudly (such as those limiting NGO activities) have been pending CC evaluation for a very long time now.

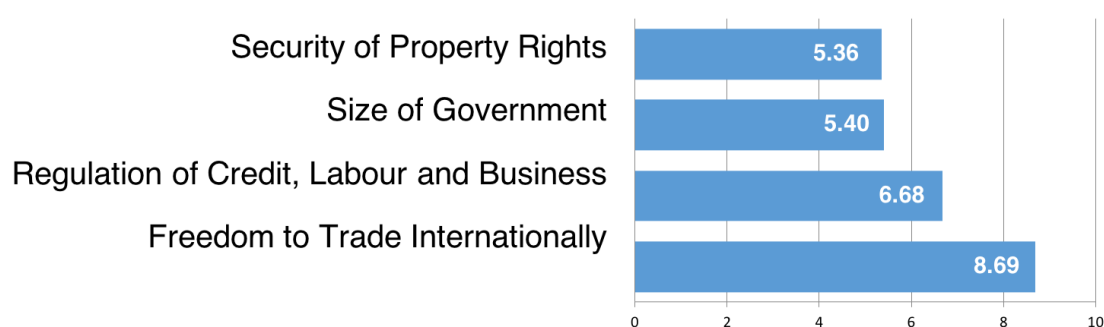
CORRUPTION

Freedom House reports about “large scale and unpunished corruption” in Hungary, “involving not just government-friendly oligarchs but also high ranking politicians and officials”. Year and again since 2012 Hungary has fallen in the Corruption Perception Index of the Transparency International. In 2017, it fell to the position 66/180, below once upon a time outspoken EU members Romania and Greece and EU-candidate Montenegro. It is estimated that 70% of the public procurement involves corruption. The government continues to reject the creation of the European Public Prosecutor’s Office. A company owned by PM Orbán’s son-in-law was found - by OLAF, as a result of months-long investigation - to have had used EU funds in a wrongful manner. It was threatened with having to pay back those funds. Yet Hungarian police declared that nothing suspicious had been found during their investigation. Political campaigns (such as “Stop Soros” or those against illegal immigration) are often used as a smoke screen to hide favouritism towards crony media, NGOs, sporting associations, housing projects or even academic research institutions. Non-transparency spills in or out all over the borders, with involvement in the Azerbaijani scandal of bribing EU politicians and journalists, revelations of corruptive oil industry’s operations in Croatia, lavish share of Hungary in “Golden Visa” schemes (estimated more than 10.000 EU residency permits sold), or starting of a nuclear power plant program with Russia without a proper tender procedure. Meanwhile, petty corruption is systematically repressed.

PROTECTION OF HUMAN RIGHTS

The situation is becoming worrisome, taken the constant deterioration of human rights throughout this decade. Access to the country of refugees and asylum seekers is severely restricted and those are subject to cruel and hateful rhetoric of the government officials, arbitrary detentions, excessive use of force by the police, labelling their riots as “acts of terror”, lack of legal remedies, or other mistreatment, all in sharp contrast with even average EU standards. “Helping illegal immigration” has become a criminal offense, whereby the definition of “help” is very wide. In spite of the case lost at the EU’s Court of Justice, Hungary continued to reject relocation of asylum seekers under EU-assigned quotas. A constitutional ban (as described in the 7th amendment to the Constitution) on rough sleeping enabled the government to criminalize homelessness, with often dehumanizing treatment of homeless people both by the police and later in court. In spring 2018, the so-called “Soros Law” further limited opportunities by NGOs or universities to seek foreign funding, thus limiting their freedoms of association, civic activism and academic work. A centralization in education on one hand eliminated loopholes that allowed segregation of Roma, while it on the other hand generally limited school autonomy and school choice. Hungary on one hand has a low gender pay gap, yet protection of women is not improving, such as against mobbing or sexual harassment. Ratification of the Istanbul Convention against domestic violence is uncertain. On the positive side, position of LGBTs is better (e.g. there are legalized partnerships and anti-discrimination laws) and homophobia in public discourse weaker than in the other three “Visegrad” 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 entities with political ties to it. In some cases the laws were retroactively implemented, which posed a significant threat to the rule of law and property rights. Although EU rulings were able to create safe haven for some sectors, as was visible with the advertising tax and retail store working hours, their influence has been rather limited regarding market discrimination or illegal state aid. There are allegations that several foreign owned banks were persuaded to leave the market through unfriendly regulation or taxation. Resolution to Swiss franc mortgage disputes was thereby notable. Furthermore, legal enforcement of contracts is very slow, lasting for more than 20 months on average; adjournment process is not regulated and there is little court automation. 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 – court cases are still assigned manually, which is easier to manipulate than electronic assignments. Enforcement of contracts was recently made somewhat easier, by introducing a system that allows its users to pay court fees electronically. Registering property is relatively 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 up to two years on average and with a low recovery rate of below 50% of the claim. 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, while purchases should be confirmed by a local land committee.

SIZE OF GOVERNMENT

The size of government in Hungary is exuberant, taken the level of economic development, with public expenditures reaching 50% of GDP in 2017. Growth has recently picked up, reaching 4% in 2017. However, there is a clear pro cycle fiscal policy due to relatively high deficits recorded even in the time of economic boom: they are under the Maastricht criteria of 3%, being 1.8% and 2% in the previous two years. The high level of public debt has been steadily in decline, reaching 73.6% in 2017, with further although slow decrease. It is planned to reach the EU public debt rule (below 60% of GDP) in 2022. Government renationalization programs increased the role of the state in the economy in certain industries – foreign bank subsidiaries and energy companies; furthermore, there is a strong political preference for a higher market share of local companies in industries dominated by the multinationals, such as retail trade. Needless to say, local private companies in these industries are often politically connected to the powerful political circles. The total number of SOEs is close to 500, whereby more than 60 of them are considered as strategic, meaning that the government should keep its shares. Employment in the SOEs at the central tier of government is near 5% of the total employment in the country. Another significant intrusion into the market by the state is a very broad program of public works, set up during the last recession, which is to be phased out slowly, due to rising employment. There were changes in tax policy: in accordance with the wage agreement with the employers, social security tax was reduced in January 2018 from 22% to 19.5% with possibilities for further reduction, while family tax allowance was increased. The corporate tax rate is among the lowest in the EU, at 9%. VAT rates are 27% (standard rate, still above the 25% maximum rate for EU countries) and 18% (preferential rate). On the other hand, income tax is 15% flat (but with certain allowances that enable progressivity), which coupled with the high social security contributions leads to the highest labour tax wedge (46%) among the transition countries, surpassed by only a couple of advanced European countries.

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 used as political vehicles, through unfair treatment of businesses. 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 in retail shops. There is limited transparency and quality in policy making, while social dialogue is underdeveloped, which leads to policy uncertainty and burdensome regulation. 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. Starting a business is inexpensive and quick, but with a high minimum paid-in capital. Obtaining a construction permit involves as many as 20 procedures and takes almost 7 months on average, but is not costly. On the other hand, getting electricity is both long and expensive. Labour market regulations are mostly flexible, with fixed term contracts that can last for up to 5 years, and few restrictions on redundancy procedures. Notice periods and redundancy costs increase with the years of tenure, protecting more seasoned workers, but they are relatively meagre. Several reforms of the business regulation were recently introduced in order to boost the competitiveness of the SMEs: mandatory registration of the company seat at the local government was waived (making a one stop shop for business registration) and online land registry map was introduced. The procurement system has recently been upgraded through changes in legislation, but also by introducing an Electronic Procurement System whose use has become mandatory for all contracting authorities. However, any improvements in this area are yet to materialize. Although significant changes regarding the VAT and personal income tax administration have been introduced in order to alleviate administrative burdens of tax collection, the tax system is still overly complex, with presence of sector-specific taxes. There is only a limited impact of reforms in the area of regulatory requirements for professional services, many of which effectively remain closed to competition.

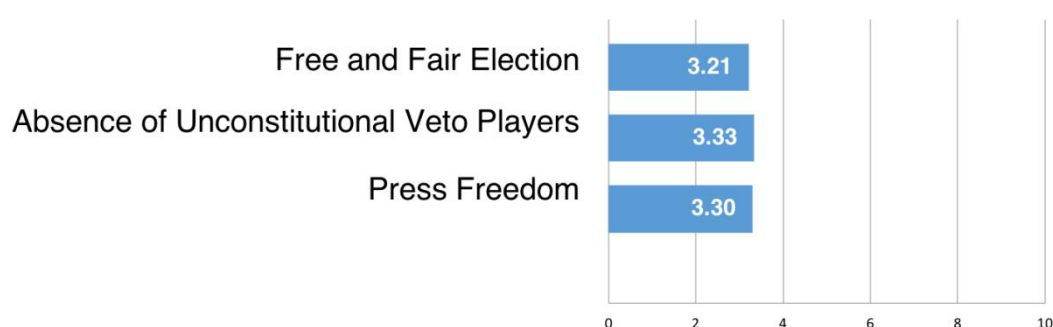
FREEDOM TO TRADE INTERNATIONALLY

Freedom of trade in Hungary is generally upheld. Since its EU accession in 2004, the country has been applying the common EU trade policy. Tariffs on manufactured goods are moderately low, with Most Favoured Nation average rate of 5.1%, while tariffs on agriculture products are more pronounced, especially on dairy and sugar. Non-tariff barriers are more important as trade obstacles, with complicated and expensive certification and standardization for products coming from outside the EU. Geographical features, as well as high quality public transport infrastructure significantly lower freight cost hence due to geographical position Hungary is a very important transit hub. Customs office is efficient and uses mainly online services, which reduces time and pecuniary costs for border procedures: there are only 5 documents needed both for exports and imports. Hungary is well positioned within global supply chains in automotive and machinery industry. Its main trade partner is Germany, followed by neighbours: Austria, Slovakia and Romania. Although obliged to join the Euro-zone in the future, Hungary has yet to make any steps in that way. A number of capital controls on short term transactions are still in place, which is connected to exchange rate regime of its currency, the forint, which is in free float.

Kyrgyz Republic

GDP in 2017: EUR 6,299 million		
annual growth rate: 4.6%	per capita: 1,005 EUR	by sector:
		agriculture 14.6%
		industry 31.2%
		services 54.2%
Population: 6,263 thousand	Human Development Index	Government position in 2017
Unemployment rate: 7.1%	HDI: 0.672 (rank 122)	-4.4% of GDP

A. POLITICAL FREEDOM



FREE AND FAIR ELECTIONS

Turbulent political year is behind Kyrgyzstan. Often perceived as the only democracy in Central Asia, the country experienced regression, resulting in decline of the free and fair elections section of the Freedom Barometer 2018 Index. Electoral process abound with irregularities, vote buying, or intimidation of candidates, while abuse of power and partisan media coverage undermined fairness of the electoral race. Government often abused legal tools to confront critical opposition, charging them on criminal bases, which was widely perceived as politically motivated. During the observed period several opposition politicians were sentenced to jail. Prime Minister Sooronbai Jeenbekov resigned in order to compete at the presidential elections in October 2017, where after Sapar Isakov, also from the ruling Social Democratic Party of Kyrgyzstan (SDPK), was appointed as the new PM. Although seen as pluralistic, presidential race was reduced to two names – Sooronbai Jeenbekov as the ruling party candidate and the opposition candidate Omurbek Babanov. In an unfair process, Jeenbekov was elected as the new president of Kyrgyzstan, by winning 54,7% of votes. Although the process resulted in democratic shift of government, international observers reported many instances of vote buying, violence and pressure on voters, as well as of abuse of state resources. Former president Almazbek Atambayev

showed open support to Jeenbekov during the campaign, also undermining fairness. After elections, Babanov was charged of alleged criminal activities and ordered to terminate the work of an (allegedly his) media outlet, resulting in his resignation as an MP and leaving the country. A no-confidence motion against the government was triggered by the opposition in April 2018. Unexpectedly, it was supported by the ruling party, who then replaced PM Isakov and his government, appointing Mukhammedkalyi Abylgaziev for the new Prime Minister of Kyrgyzstan.

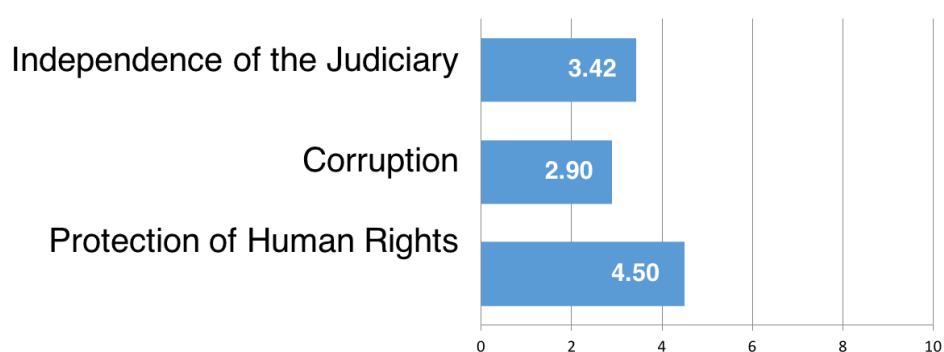
ABSENCE OF UNCONSTITUTIONAL VETO PLAYERS

Elected officials in Kyrgyzstan are able to govern without interference from unconstitutional veto players. However, constitutional players coming from the state are those often undermining democracy and rule of law. The executive holds the control over legislative and judicial branch. Constraints put on critical voices in politics and society make such control easier, besides serving to promote personal economic gains of the ruling elite. Several opposition politicians who openly criticized government were arrested, sentenced or charged throughout the year. All cases showed political bias and abuse of state resources. Former president Atambayev is still perceived as the dominant figure in political life of Kyrgyzstan, although he doesn't hold any official position. Corruption among high level officials is widespread, with politicians having close relations with businesses.

PRESS FREEDOM

Freedom of the press in Kyrgyzstan deteriorated further throughout the observed period, due to alleged abuse of legal tools to suppress critical reporting on the ruling elite. Although defamation is decriminalized, journalists and media outlets can be charged for “false accusations”, with huge financial fines and seizure of the property. In all such cases during the last year media was found guilty for false accusation of president Atambayev. Also, a travel ban was imposed to reporters of those outlets. Journalists are often facing political pressure, thus practicing self-censorship when reporting on sensitive issues. Although media landscape appeared as pluralistic, especially as compared with other countries in Central Asia, the closure of one media outlet and a threat to have closed another one have undermined such image. Namely, media outlet Sentyabr TV, belonging to a critical opposition leader Omurbek Tekebayev, previously imprisoned to eight years, was closed down. Due to all these, Kyrgyzstan deteriorated by nine places on the Reporters Without Borders 2018 World Press Freedom Index, currently holding 98th position.

B. RULE OF LAW



INDEPENDENCE OF THE JUDICIARY

According to the Freedom House's report Nations in Transit 2018, there is a "continuing dependence of the judiciary on the executive and the weakness of rule of law in Kyrgyzstan", despite claims by authorities that progress is made. Courts demonstrated political bias in several top cases, with easily decided and/or harsh sentencing against various dissenting individuals (minority or other NGO activists, opposition or former government politicians, journalists, lawyers) or media. In spite of judicial reforms as of 2010 and 2016, selection of judges still goes along the lines of political affiliation. As Bertelsmann and portal GAN jointly estimated in 2016, "the judicial branch ... remains the weakest and most corrupt part of the state."

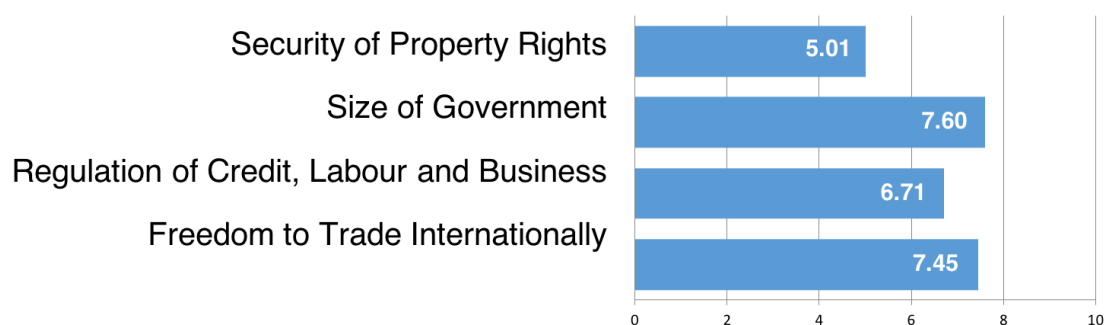
CORRUPTION

With only Tajikistani corruption worse, while being alongside Russia, Kyrgyzstan stays near the bottom among countries monitored by the Freedom Barometer. On the Transparency International's CPI 2017 list, it ranks 135-142/180, with meagre 29/100 points. Government's anti-corruption activities are still selective, i.e. they are missing their own ranks. As a rule, ex-politicians are re-investigated in case they voice dissent against current authorities. Petty bribery - such as in judiciary or other law enforcement services (e.g. to road policemen), or (especially) in obtaining various licenses or permits for utilities - is widespread. Anti-graft attitude gets stronger among citizens, with 95% of the interviewed marking corruption as a huge problem of the country. On 5 March 2018, there were demonstrations in Bishkek against corruption in courts. Parallel to that, the President and other highest officials of the country launched a number of activities to decrease corruption in public sector, in the framework of existing legislation. They called upon CSOs to help them on the way.

PROTECTION OF HUMAN RIGHTS

There are more worrisome than encouraging trends as regards human rights in Kyrgyzstan. After improvements in 2016, recent hostile rhetoric by top politicians or by non-state actors against CSOs, or outright bans put on a few foreign human rights workers, led to shrinking of NGO activities. As a contrast, President called upon civil society to take a more active role in the fight against corruption. Freedom of gathering and public demonstrations also meets growing challenges. Ethnic violence as of 2010 did not receive legal response, except harsh yet dubious prison sentences for minority Uzbek activists, e.g. Azimzhan (Azimjon) Askarov. Conditions for media in minority languages (Uzbek or Russian) are worse than for others. Internet access is fairly free, but marred by technical shortcomings. Observance of non-official religious cults is restricted. LGBTs, especially transgender people, are not protected against discrimination or intimidation. While the legislation against home violence was strengthened in April 2017, results are still to be seen. Increasing number of women go out to public with demands for more freedom of personal choice in various areas, from education and employment to dressing codes.

C. ECONOMIC FREEDOM



SECURITY OF PROPERTY RIGHTS

Private property rights in Kyrgyzstan are not adequately secured. Courts are not independent from the political influence of government or other vested interests groups. 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. Registering property is a fast and inexpensive process, but it has recently been made less transparent, since official statistics on property transfers are no longer available to public. Most of the land has a clear title. Insolvency procedures are very slow, being 1.5 years on average, and lead to a low recovery rate of just 35% through piecemeal sale. Political elite can misuse governmental power to acquire property for their own personal, political or economic gains. Although private owners are reimbursed, the sum offered is usually substantially smaller than the perceived fair market price. The two most important cases regarding private property expropriation (in mining and tourism industry) are now close to be resolved: in December 2017, the Kyrgyz government agreed to return four Uzbek-owned resorts on Lake Issyk-Kul, which had been expropriated in April 2016; and in September 2017, the government and the Centerra Gold mining company reached a comprehensive agreement, resolving outstanding disputes. The government dismissed its claims against the company in exchange to a 60 million USD lump sum payment in addition to a tenfold increase in annual environmental damage payments. 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 reserved for local nationals. In 2017, the Parliament adopted a new law on mass media, which limited foreign ownership of television broadcasters to just 35 percent, but this law does not affect print media or radio stations. Privatization procedures are not considered as transparent and make room for high level corruption and political dealings. Land possession is limited to local nationals only, while foreigners could only lease it. In 2017, the Kyrgyz Parliament created a Business and Entrepreneurship Development Council under the Speaker of the Parliament with the aim to strengthen cooperation between the country's legislative body and business entities.

SIZE OF GOVERNMENT

Government consumption in Kyrgyzstan stood at 41% of GDP in 2017, comparable to many more developed transitional countries in Europe - a sharp increase from its pre-crisis level. Public debt, which reached 60% of GDP, was recently reduced due to the Russian debt write off, but significant efforts need to be done in order to stabilize public finances. The economy has experienced robust growth in 2017, of 4.7%, but it has recently slowed due to the sharp fall of gold prices, the main export commodity. But economic growth in Kazakhstan and Russia, its main foreign market, is expected to have beneficial effect on the Kyrgyz economy through rise in exports and on domestic consumption through rise in remittances. The three-year arrangement program with the IMF since November 2015 has helped to improve fiscal situation and make ground for sustainable growth in future. The fiscal consolidation program, that has been implemented since 2015 in order to put the deficit under control and slow down debt growth, is now in jeopardy due to spending increases connected to the presidential elections in late 2017. 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 for the government, which needs to subsidize their operation. SOEs are under authority of the State Property Management Fund, which executes corporate governance of SOEs and appoints members of the SOE boards of directors. But in many cases, elected officials appoint company board members based on political loyalty instead of professional managerial skills and expertise. This leads to poor performance of the SOEs and low quality of public services. In 2017 the Government decided to liquidate non-operating SOEs, i.e. those that mainly existed only in paper. Out of the 8 banks under conservatorship of the National Bank, four were liquidated in 2016 and one in 2017, with the remaining three expected to be liquidated in 2018. Privatization program is mostly stopped. After years of deliberation regarding privatization of the telecommunication company Megacom and the announcement of the auction in July 2017, this did not come to pass. Tax rates in Kyrgyz Republic are moderate. Corporate and personal income tax rates are flat and low, standing at 10% each. The standard VAT rate is also low, just 12%. On the other hand, social security contributions are high, which, coupled with the personal income tax, leads to a labour tax wedge of approximately 32% on the average wage, much more than in other Eurasian countries. It is somewhat high for countries on this level of development and it encourages shadow economy.

REGULATION OF CREDIT, LABOUR AND BUSINESS

Business environment in Kyrgyzstan is not overly business friendly. Although the quality of regulatory framework in some cases poses problems, the most important deficiency is its partial implementation. Regulation can be contradictory, leading to a bureaucratic standstill or opening windows for corruption. The biggest problems for private enterprises are in the field of corruption, which is omnipresent, followed by policy instability and inefficient bureaucracy. On the other hand, starting business is easy, quick and cheap, without a necessary paid-in minimum capital, but the process of licensing and providing permits is not transparent and could easily be manipulated. Getting electricity is inefficiently slow and expensive, mostly due to Severelektro public company. Tax regulations are also burdensome, with high number of payments and

complicated procedure. The new banking law as of 2016, which was adopted in order to make regulation in this area more in line with the current international standards, has been implemented since June 2017. The National Bank is not considered as effectively independent from the executive branch and politicians in power. The biggest obstacles to a better business environment stem from corruption and policy instability. Labour regulations are flexible: fixed-term contracts are not allowed for permanent tasks, but the maximum length of a fixed-term contract is 60 months. There are no increases in severance pay or notice period in cases of redundancy with the increase of years in tenure. Reassignment and retraining regulation is also lacking. Recent amendments to the Labour Code increased the protection of underage workers.

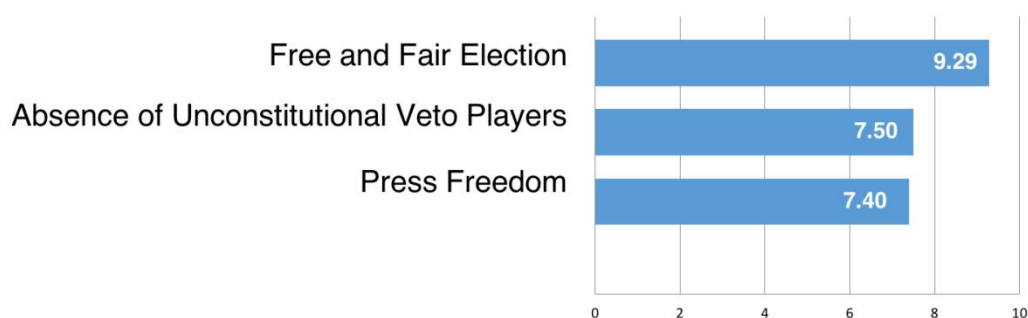
FREEDOM TO TRADE INTERNATIONALLY

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. Since 2015 and its accession to the Eurasian Economic Union (EEU), Kyrgyzstan has been applying the common trade policy of this economic and trade block. Tariffs are somewhat higher than in other European countries, but overall not high, with the average MFN applied tariff rate of 6.6%. Tariffs on agriculture products, however, are often substantially higher. Inconsistent enforcement and interpretation of regulation and weak enforcement of rules in the custom bodies create room for corruption, while custom procedures are overly complicated, with as much as 12 different documents necessary to export or import goods. Standardization requirements are complicated and expensive due to underdeveloped or incomplete technical regulation; and the recent Kyrgyzstan accession to the Eurasian Economic Union (EEU) further aggravated the situation, since new technical and even more stringent rules have had to be applied. Low quality of infrastructure serves as an impediment to international trade, significantly increasing freight costs, both regarding roads and railroads. The Chinese infrastructure investments are envisaged to alleviate at least some of those problems, especially the North - South motorway, but these projects have not yet been finished. Border crossing problems, arising from political tensions with Kazakhstan from October to December 2017, which included increased controls of goods or other delays, have had a significant impact on exports from Kyrgyzstan. Kyrgyzstan has been experiencing high trade deficits for years, due to the large inflow of remittances which reached one third of its annual GDP in 2017. The country ratified the Trade Facilitation Agreement of the WTO in 2016, 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 by international actors. Main trade partners of Kyrgyz Republic are Switzerland, Kazakhstan, Russia and China.

Latvia

<i>GDP in 2017: EUR 26,857 million</i>		
<i>annual growth rate: 4.5%</i>	<i>per capita: 13,800 EUR</i>	<i>by sector:</i>
		agriculture 3.9%
		industry 22.4%
		services 73.7%
<i>Population: 1,950 thousand</i>	<i>Human Development Index</i>	<i>Government position in 2017</i>
<i>Unemployment rate: 8.7%</i>	<i>HDI: 0.847 (rank 41)</i>	<i>-0.8% of GDP</i>

A. POLITICAL FREEDOM



FREE AND FAIR ELECTIONS

Elections in Latvia are regarded as highly free and fair. The topic of October 2018 parliamentary elections dominated political life in the country during the year. After local elections, held in June 2017, which had served as a test for many political actors, focus shifted to the elections for state parliament. Previous change of law, allowing political parties to run at the elections only if formed at least a year prior to them, led to establishment of many parties in the second half of 2017. Political parties are operating freely, while political life remains restricted for around 12% of non-citizenship residents, mostly ethnic Russians who are not eligible to run for offices or to vote. Voters in Latvia are divided along ethnic and linguistic lines and this division is expressed in program and narrative of political parties. While Latvians diversified in their support to different political parties, Russian speaking citizens are mostly focused on the pro-Russian party Harmony, which by the end of the observed period remained as the strongest individual party in Latvia. There is an ongoing discussion on a change of the rules for the election of the President of Latvia and on expanding of the powers of this position.

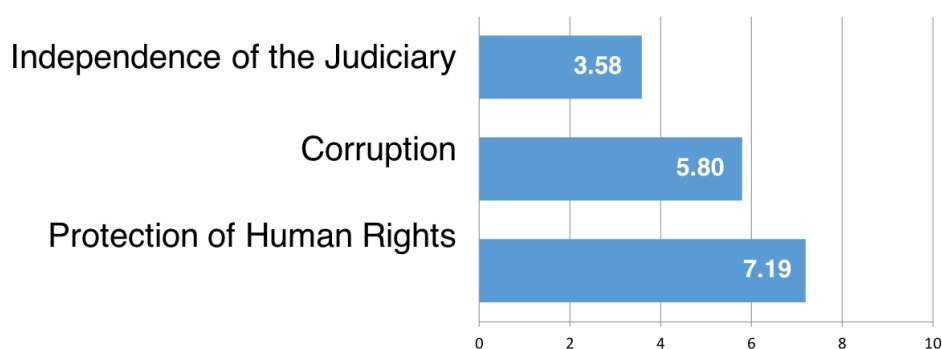
ABSENCE OF UNCONSTITUTIONAL VETO PLAYERS

Democratically elected government has mechanisms in place to govern the country without interference. However, most recent “Oligarchs Talk” scandal brought to light once again the informal power of wealthy individuals over Latvian political system. One Latvian magazine published leaked transcripts of conversations (during the period 2009 - 2011) between the Mayor of the City of Ventspils Aivars Lembergs, former Prime Minister Andris Skele and former deputy PM Ainars Slesers, revealing their intention to abuse power for personal business interests, to restrict freedom of the press and to interfere into democratic processes. This scandal triggered protests in the country, weakening the trust of citizens in Latvia`s state institutions.

PRESS FREEDOM

Both traditional and online media outlets in Latvia are in general free to operate, offering diverse spectrum of opinions. Nevertheless, certain problems in media remained throughout the year, casting a shadow on government efforts to improve situation by funding many journalistic projects, supporting investigative journalism and spreading media literacy in the country. Above mentioned “Oligarchs Talk” scandal, published by a Latvian weekly magazine, pointed out at the opaque media ownership structures and practices of putting political pressure on media through state advertising and preferential hiring of journalists ready to provide favourable coverage, which all led to biased reporting in certain media. Body in charge of media monitoring, the National Electronic Mass Media Council (NEMMC), is perceived as politicized, due to parliamentary appointments and due to alleged political pressure put on media independence. Freedom of the press is also worsened by the spread of fake news and disinformation campaigns in media, coming mainly from neighbouring Russia.

B. RULE OF LAW



INDEPENDENCE OF THE JUDICIARY

Citizens` confidence in the independence and efficiency of judiciary is still below the EU average, despite the improvements (noted also by the European Commission) such as shorter time until the first instance ruling, or technological advance e.g. extended use of electronic communication. Lack of substantial reforms, corruption cases in the judicial system and poor implementation of

court decisions (such as in insolvency cases) all make it that 55% of citizens are sceptical about this branch of power. As Freedom House noted, there has been a small positive shift in public opinion very recently, yet huge problems still exist in the treatment of high level corruption. In spite of the recent reforms and investments, prison and detention system still faces problems, whereby Amnesty International, in its 2017-2018 surveys, complained about inter-prisoner violence in jails, as well as unfair trials regarding past police violence.

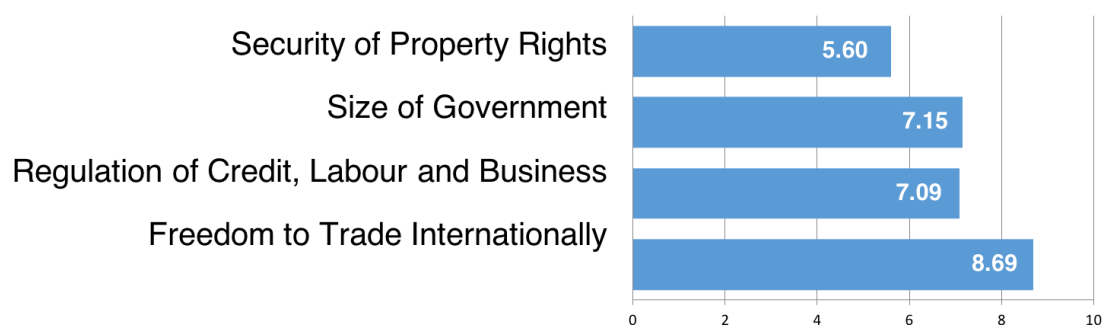
CORRUPTION

Latvia lags behind comparable EU neighbours regarding corruption, while trying to catch up. It ranked 40/180 in the Transparency International's Corruption Perception Index 2017, just one point and one place behind Lithuania. In June 2017, the main anti-corruption body KNAB has got a new head, an experienced counter-intelligence officer Jekabs Straume, expected to revive the once important role of the Bureau. Meanwhile, a number of mid-level politicians, public officials or judges were investigated or tried. Portal GAN even noted "a number of high-profile cases" dealt with. However, a major shift is still waited for, towards fighting the worst aspects of corruption such as illicit ties between the super-rich and political parties and political deals that include trading of influence or redistribution of the captured public resources.

PROTECTION OF HUMAN RIGHTS

Human right situation in Latvia has been stagnant for a few years now. In some areas, high standards are reached, such as in freedoms of religion, or association, or academic activity. Gender pay gap is low. On the other hand, Istanbul Convention on prevention of domestic violence is still pending ratification. Education in minority languages (notably of young ethnic Russians) might suffer decrease due to a political decision by the Ministry of Education to reduce the number of classes. The issue of non-citizens (those born in Latvia to non-citizen yet legally resident parents) is also unresolved. The EU-assigned quotas of refugees are accepted (and 308 of the refugees settled), yet a 90-km wall has been built at the eastern border to prevent new arrivals. Refugees occasionally face threats by the extremist far-right groups. Xenophobia, including Islamophobia is generally in rise. Same goes for homophobia, whereby the same-sex partnership issue is ignored, while various other discriminatory rules or narrative (such as in the - new - school curricula) make Latvia one of the least LGBT-friendly countries in Europe.

C. ECONOMIC FREEDOM



SECURITY OF PROPERTY RIGHTS

Private property in Latvia is mostly secure. Expropriation of private property is limited to extraordinary cases of public interest, and is followed by determined market-value compensation. Judiciary is considered as mostly independent, but similar cases could face different rulings. Legal procedures are usually long, especially in the cases of lower courts, which often violate the standards of reasonable time for court proceedings, leading to high number of backlog cases. This contributes to the growing popularity of arbitration institutions. On the other hand, property registration (a prerequisite for its security) is quick and inexpensive. Public procurement procedures are not perceived as fair and transparent, but as providing advantages to “preferred” contractors. Another point of concern is the process of resolving insolvencies, which lead to low recovery rates of just 40%, and strong allegations of corruptive practices in the insolvency administration. There are no restrictions on possession of real property for EU nationals, but non-EU nationals cannot legally own land, although the land can be leased for a period of up to 99 years. Since 2014, EU nationals can own agricultural land, but only if they are permanent residents of Latvia and can meet high Latvian language knowledge requirements. There are no significant obstacles to foreign investment, apart from several industries considered as strategic (aviation, defence industry, auditing, media, defence, etc.). Since 2017, government approval is necessary for transfers of significant ownership shares in energy, telecommunications and the media sector, due to political concerns over Russia’s involvement in the national politics. There is a serious problem concerning the banking and financial sector in the country, due to the lack of their full compliance with anti-money laundering procedures, which led to several fines by the local authorities and international attention.

SIZE OF GOVERNMENT

Latvian public sector is frugal as compared to other European welfare states. General government expenditures stood at 37% of GDP in 2017, with a minute deficit. Government debt remained low, and slowly decreasing, standing below 35% of GDP in 2017. Economic growth picked up again, reaching 4.5% in 2017, due to increasing investments, rise in domestic consumption and exports. Legally, there are big 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 slightly exceeds 6% of the total employment, which is broadly in line with the EU average. Some of these companies, such as the national air carrier Air Baltic, continue to pose significant fiscal risks to public finances. However, private companies are mostly able to compete with SOEs on the market under the 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. The year 2018 started with big changes in the taxation regime. The corporate tax rate was increased from 15% to 20%, but the tax was waived for all reinvested profits. There is a special preferential tax treatment of micro enterprises (up to 5 employees and 40 000 euro in revenues). The previous flat income tax of 23% was changed with

a new progressive system 3 tax brackets: 20% (up to 20 000 euro), 23% (20 000 - 55 000 euro) and 31.4% above the 55 000 threshold. The “solidarity tax” (social contributions paid above the maximum cap) will be split to cover the increase of the tax rate while the smaller amount will be allocated to the pension fund. VAT rates remain 21% and 12% respectively and tax wedge on labour is above the OECD average.

REGULATION OF CREDIT, LABOUR AND BUSINESS

Regulatory environment in Latvia is overall business friendly. Starting a new business is easy and inexpensive, with the minimum paid in capital of just 1 euro. Getting electricity is relatively easy but expensive (and prolonged due to public tenders of the utility for independent contractors). Obtaining a construction permit is unnecessarily long process due to the high number of procedures involved, but it is not costly. Getting credit has been made easier by introducing a private credit bureau, which is to eliminate information asymmetries. Tax procedures have been streamlined through improvement in the online filing system for corporate income tax and VAT. Although low number of annual payments, joint online payments and efficient post filing procedures raise the quality of tax regulations, they are still cited as overly burdensome for the businesses. On the other hand, 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 although fixed term contracts are prohibited for regular tasks, their duration is 60 months. However, there are retraining or reassignment obligations 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 subsequently also making them less employable. The minimum wage is set very high relative to the average wage, which can have negative employment prospects for long term unemployed and those with the lowest qualifications. It was increased by more than 10% in January. The new Start-up Law, producing significant waivers on this business community, is envisaged to attract new investors in this field. The biggest problems in the field of business regulations are inefficient government bureaucracy, level of tax rates and corruption.

FREEDOM TO TRADE INTERNATIONALLY

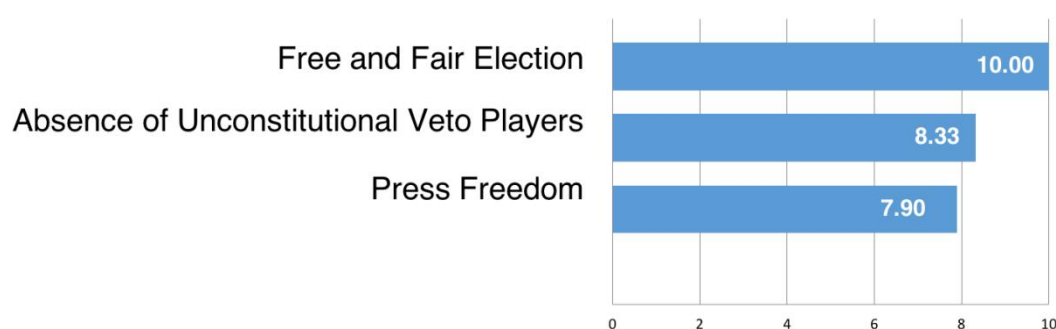
Freedom of international trade in Latvia is generally respected. As a member of the EU since 2004, Latvia implements the common European trade policy. MFN average applied tariff rate is 5.1%, but tariffs are much higher for agriculture products, reaching double digits. Due to its geographical position, Latvia is an international trade hub, as are other Baltic states. Border and documentary compliance is efficient, posing little burden on trade, with only 4 documents necessary both for import and for export procedures. Latvia adopted the euro in 2014, eliminating foreign exchange risk costs, which further fostered trade. 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 are well developed, the quality of the road and railway network is more dubious. Latvia is connected by rail only with its neighbouring ex-Soviet countries, which might pose restraints on future development of trade. Main Latvian trade partners are its Baltic neighbours, the UK, Germany and the Russian Federation. Obtaining a residence permit is a burdensome

procedure. The start-up visa program was initiated in order to attract new start-up founders and professionals with specialized knowledge.

Lithuania

<i>GDP in 2017: EUR 41,858 million</i>		
<i>annual growth rate: 3.9%</i>	<i>per capita: 14,800 EUR</i>	<i>by sector:</i>
		agriculture 3.5%
		industry 29.4%
		services 67.2%
<i>Population: 2,825 thousand</i>	<i>Human Development Index</i>	<i>Government position in 2017</i>
<i>Unemployment rate: 7.1%</i>	<i>HDI: 0.858 (rank 35)</i>	<i>+0.5% of GDP</i>

A. POLITICAL FREEDOM



FREE AND FAIR ELECTIONS

Elections on all levels in Lithuania are free and fair. Individual fraudulent activities are indeed happening, but they are in decline and when they happen they are prosecuted in a timely and legal manner. Electoral framework is in place, which allows for efficient work of the CEC. Upon the October 2016 parliamentary elections, technocrat government of the Lithuanian Peasant and Green Union (LVSZ) and the Social Democratic Party of Lithuania (SDPL) was formed. However, disputes within SDPL led to their split in parliament and to resignation of the Minister of Economy. MPs who had left the party continued to support the minority government, itself supported by 69 MPs out of 141. Party system in the country is shaped through fragmentations. Electoral system is a combination of single-seat constituencies (71 MPs) and proportional representation (70 MPs). Recent change in electoral law allowed mayors to be elected by popular vote. Many doubts were cast on the functionality of this system, having in mind subordinate position of a mayor to his municipal council, but aside of a few examples of disputes between these two, the system appeared to be working.

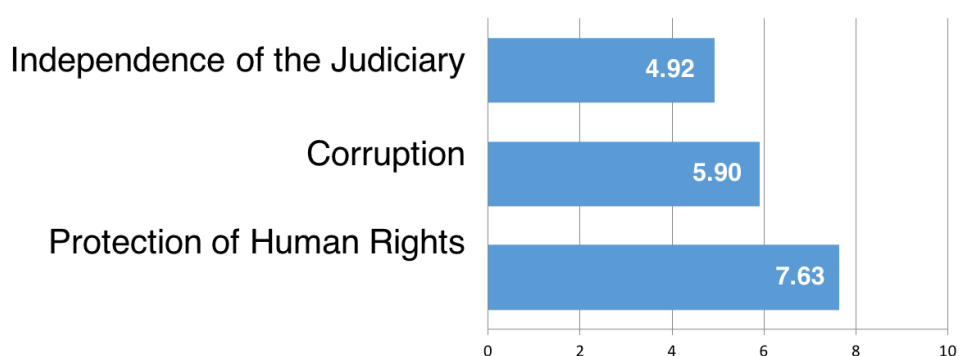
ABSENCE OF UNCONSTITUTIONAL VETO PLAYERS

There are no unconstitutional veto players who are able to undermine democratic procedures in Lithuania. Main problem for democracy still remains the corruption among high-ranking officials and adjacent intentions of wealthy businesses to influence politics. A corruption scandal as of 2016, which involved representatives of the 4 out of 6 parliamentary political parties led to formal indictments against the Liberal Movement and the Labour Party in September 2017. Business influence on politics is notable at the local level as well, which itself is in charge of energy policy. Russia is also perceived as an actor striving to interfere into politics in Lithuania, either through businesses or through propaganda. Rule of law is safeguarded by a clear system of mutual checks and balances.

PRESS FREEDOM

Freedom of the press is granted by the constitution in Lithuania and largely up-held in practice. There is a wide range of online, broadcast and print media outlets, offering citizens a diverse spectrum of opinions. However, ownership of those outlets is mostly concentrated in the hands of few companies. A positive move in this direction was made by selling Alfa media company shares by MG Baltic, company that controls large portion of broadcast media outlets with a national reach. Still, the issue of ownership concentration in the media remains as a burden, to be resolved in order to weaken influence of the businesses on politics. Defamation became harder to pursue due to legal changes, although it isn't yet fully decriminalized. Journalists may face political and economic pressure, especially at the local level, leading to self-censorship by some. Efforts to over-regulate media by using legal tools are "in the air" from time to time, however none of which was put through the parliament. Lithuania wasn't spared from Russian propaganda. It is thus continuing the practice of media restrictions, justified by hatred narrative which is thereby promoted.

B. RULE OF LAW



INDEPENDENCE OF THE JUDICIARY

Judiciary continues to be weak point of the rule of law in Lithuania. Trends during previous years were divergent, thus various monitoring organizations' narrative reports and indexing oscillated. Freedom House, on the basis of the World Economic Forum's research, has noted improvements. Same did the public in the country, which has increasingly trusted the law

enforcement sector in general, including the judiciary and police. Crime rates and the total number of prisoners are dropping, while conditions in prisons have improved (despite a few corruption cases). According to portal GAN, on the other hand, companies still rate poorly the efficiency of the legal framework when it comes to settling disputes and challenging regulations. The risk of bribes influencing court decisions in companies' disputes is still "moderately high". Respect of the international and European law has been high, whereby Lithuania did not lose any cases at the ECHR in 2017.

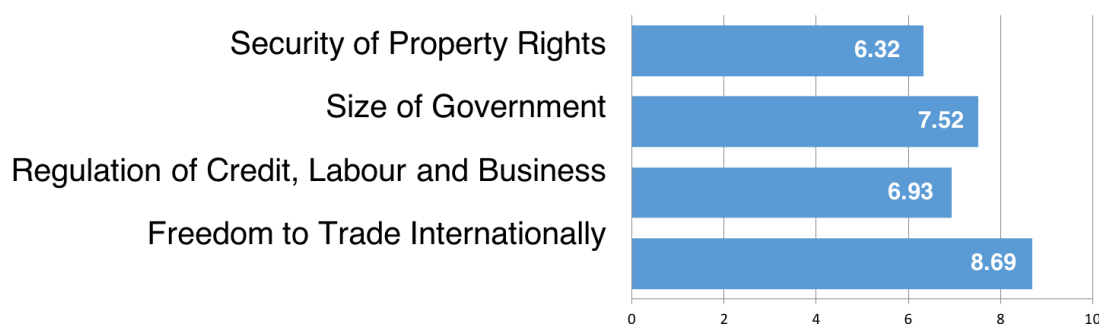
CORRUPTION

According to Freedom House, corruption is "the major problem for Lithuania's democracy". Numerous scandals shook the country in 2017. Political party financing and related public procurement irregularities topped the list. Several energy companies seem to have illicitly influenced MPs or government officials, where after an MP had to resign in March 2018. In two other cases, two officials of the Prison Department were suspended, while the head of the National Opera was dismissed. New law on whistle-blowers, carried in November 2017, might help provide for more evidence on corruption. Various other sources tell that sporting associations and events are still corruption-vulnerable, although obvious match-fixing cases seem to be history. Transparency International's Corruption Perception Index showed stagnation in 2017 (59 points, same as in 2016), yet a small relative rise in ranking (38th among 180 instead of among 176 countries). Other monitors, such as GAN portal, are mainly portraying corruption-risks in Lithuania as "moderate". Earlier FNF research showed that economic liberalization in the post-Soviet period, building of the democratic institutions along EU-accession, very well regulated lobbying, and civil society activism, have mostly helped Lithuania advance in anti-graft struggle, more than majority of other transition countries.

PROTECTION OF HUMAN RIGHTS

Lithuania has maintained a decent record on human rights. Personal safety, quality of education and equal opportunities of access to it, as well as freedom of expression and association have been aspects most protected and advanced, reaching the highest EU levels. The protection of minorities, as well as readiness to accept immigrants, has also improved recently. Lithuania has accepted the EU system of quotas for refugees. However, the number of actually settled has been small (309 in 2017), plus that many of them subsequently moved to more affluent EU countries. Throughout 2017 and 2018, LGBT people (and the government) were struggling to get the bill regulating same-sex unions pass the parliament. On the contrary, legislation was approved that actually strengthened the traditionalist definition of family. Transgender people faced two court decisions that enabled them to change legal documents without undergoing surgery but legally they are still under-protected. A conservative campaign to limit some reproductive rights, such as access to abortion, is on, but for the time being with no success.

C. ECONOMIC FREEDOM



SECURITY OF PROPERTY RIGHTS

Private property is relatively well respected in Lithuania. Judiciary is mostly independent from the executive government and impartial in its dealings. Nevertheless, political influence could still be identified in high corruption cases. There are no courts that are specialized in commercial cases only, so these cases are assigned to local or district courts. However, the administrative courts adjudicate in administrative cases that often involve regulatory agencies and private or business entities. Court automation is used to a high degree, in order to efficiently and randomly assign cases to judges. The Commercial Court of Arbitration, as a non-governmental independent institution, is becoming increasingly popular for legal resolution of conflicts, due to shorter procedures and lower fees, as well as to specialized knowledge that is often lacking in public courts. Legal enforcement of contracts is expensive due to high enforcement fees, as well as slow procedures regarding filling a claim. Private property registration is very efficient and inexpensive, due to professional notary services coupled with electronic systems and low fees. Insolvency procedures are inadequate, as compared to the other EU countries, leading to low recovery rates of just 45% on average, and lengthy procedures (insolvency lasts for well above 2 years). During insolvencies, the assets at stake are mostly sold piecemeal, using auctions. Since 2014, non-Lithuanian nationals are free to purchase agricultural and forest land. However, the law stipulates excessive safeguards, which in practice restricts land purchase.

SIZE OF GOVERNMENT

Lithuania is characterized by frugal public consumption, like other Baltic countries, reaching 33% of GDP in 2017. Public debt is moderate, standing at 36.5% of GDP, and slowly falling. Deficits have been put under control in the last couple of years, and now Lithuania even shows a small surplus. Economic growth accelerated to 3.8% in 2017, supported by rising exports and domestic consumption but is expected to slow down. Unemployment is now below 7%. EU cohesion funds are not fully utilized, which lowers the total investments and growth. The moderate level of government spending is a result of low government involvement in the economy and relatively low social transfers that are almost one half of the EU average. Lithuanian tax system is flat, with some minor progressive characteristics – personal and corporate income tax is set at 15% (or 5% for micro companies). 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 above 40%. The Lithuanian state has largely left the market to private companies, and most of the state-owned enterprises were privatized. However, SOEs remain present in the economy in certain strategic industries, such as the energy (electricity and gas) and transportation (railways, airports, the post office). Their number stood at 130 in 2017, but was scaled down through the bureaucratic consolidation so as to meet OECD recommendations. Private companies, as a rule, do not face restrictions in their competition and dealings with the SOEs; however, SOEs management is often not up to the high professional standards, with cases of misconduct. Lithuania completed the accession process for the Organization of the Economic Cooperation and Development (OECD) in 2018, whereby this is expected to improve the SOE management practices – several new laws in this regard have been recently introduced, but their full implementation is yet to be discerned.

REGULATION OF CREDIT, LABOUR AND BUSINESS

Regulatory framework in Lithuania is overall business friendly. However, interpretation of existing regulation is not consistent or is unclear; and regulatory predictability is also an issue. Corruption, although at a low level, still exists but is mostly restricted to public procurements and licenses. Starting a business is fairly quick and inexpensive and efficiency of the process was further mitigated by introduction of online VAT registration. However, paid in minimum capital is high, standing at 2500 euro. Obtaining a construction permit is a very streamlined process, neither time consuming nor expensive. This procedure has recently improved by reducing the amount of time necessary to obtain technical conditions and building permit. Getting electricity is also an efficient procedure: apart from recent introduction of time limits on connection works by the utility company and lowering of the connection tariff, streamlining procedures and imposing deadlines for internal wiring inspections also improved the process. Tax procedures are characterized by a low number of annual payments and recently introduced online electronic system for filing and paying the VAT, CIT and social security contributions. In July 2017, the new Labour Code was introduced, in order to encourage foreign investments and spur job creation. The new law decreases the advanced notice required when employers terminate an employment contract, and adds new contract options for employers, such as project-based and job-sharing contracts. The law also requires non-union employers to form workers councils to represent employee interests, while employers have to establish and publicize standard company compensation policies. Fixed term contracts are not prohibited for permanent tasks, and their maximum length is up to 5 years, but there is a law on maximum weekly working days, while reassignment or redundancy rules are also present. Severance pay costs increase with the number of years in tenure, but prior notice periods do not. The minimum wage (set at 400 euro a month in January 2018) is considerably high in comparison to the average wage, encouraging shadow employment and increasing unemployment level among older workers with lower qualifications. High tax rates and inefficient government bureaucracy are considered major obstacles to operating businesses in the country.

FREEDOM TO TRADE INTERNATIONALLY

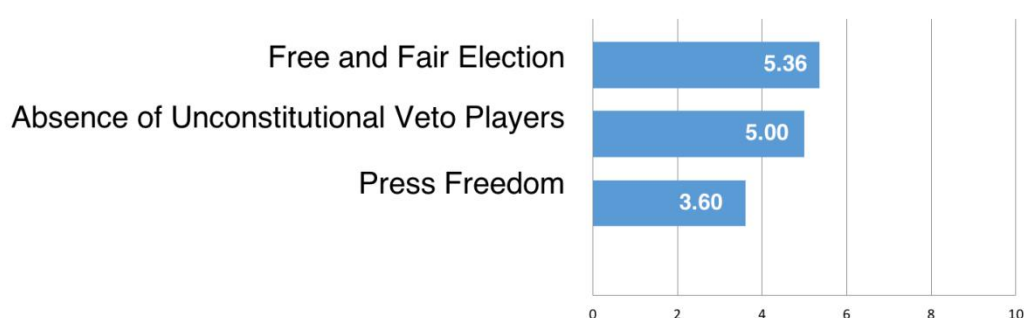
Lithuania mostly upholds the freedom of international trade. Trade has always been important for the country, as a small and open economy, and Lithuania due to its geographical position also

serves as a transit trade hub in the Baltic region. Being an EU member since 2004, Lithuania implements the common EU trade policy, with overall low tariffs for manufactured goods – the Most Favoured Nation tariff rate is set at 5.1%. However, agricultural products face much higher tariffs (11.1% on average applied for Most Favoured Nations). Border and documentation compliance for exports and imports do not pose a burden to trade, due to efficient custom office and widespread electronic filing system. 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: quality railroad connections to the rest of Europe are missing and most of the tracks are not electrified. Lithuanian accession to the Euro-zone in 2015 has further facilitated trade, eliminating currency-exchange costs. Although most of the capital transactions are not under stringent control, short-term capital still faces restrictions, in order to eliminate temporary shocks. 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

<i>GDP in 2017: EUR 9,463 million</i>		
<i>annual growth rate: 0.0%</i>	<i>per capita: 4,560 EUR</i>	<i>by sector:</i>
		agriculture 10.9%
		industry 26.6%
		services 62.5%
<i>Population: 2,076 thousand</i>	<i>Human Development Index</i>	<i>Government position in 2017</i>
<i>Unemployment rate: 22.4%</i>	<i>HDI: 0.757 (rank 80)</i>	<i>-2.7% of GDP</i>

A. POLITICAL FREEDOM



FREE AND FAIR ELECTIONS

The building of new government of Macedonia in the mid of 2017 has ended years of political crises and uncertainties, somewhat normalizing political life in the country. Electoral process is partly free and fair. Many problems which undermine fairness remained unaddressed. Political campaigns are characterized by abuse of power by the politicians in power, politicization of the State Electoral Commission (SEC), non-transparent campaign financing and vote frauds and irregularities on the election day. Local elections in Macedonia were held in October 2017, after being postponed due to late election of the Speaker of Parliament. They were marked by huge losses of the Internal Macedonian Revolutionary Organization – Democratic Party for Macedonian National Unity (VMRO-DPMNE), whereby the ruling Social Democratic Union of Macedonia (SDSM) won in the vast majority of places. However, fraudulent activities on the voting day, cases of political violence, politicized decisions by the SEC over complaints and unclear separation between state and party positions, were addressed by the OSCE observation mission to local elections. After police arrested 6 MPs of VMRO-DPMNE on the ground of allegations for being involved in the violence in Macedonian parliament, party started to boycott assembly sessions, until they have submitted a no-confidence vote against government of PM

Zoran Zaev, which unsuccessfully took place in April 2018. Strong societal division along political lines triggered several protests in 2018, such as over introduction of Albanian as another official language and over agreement with Greece on their longstanding dispute over the name “Macedonia”.

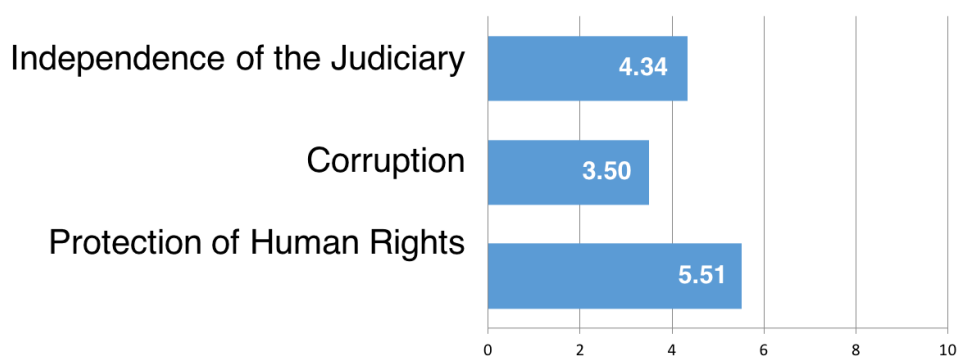
ABSENCE OF UNCONSTITUTIONAL VETO PLAYERS

Macedonia improved its score in this section due to democratic shift of government and stabilization of democratic institutions. However, politicization of the institutions still remains an undermining factor. President Gjorge Ivanov, supported by VMRO-DPMNE, continued to use extra-legal tools to obstruct the work of the Government and shape public opinion, deepening the divisions in society over politics. His decisions are often ethnic based, the last one being his refusal to sign the law on introducing Albanian as an official language, even after the law was carried in the second reading in parliament. VMRO-DPMNE focused, throughout the year, all their efforts to obstruct the work of the National Assembly, through creation of tens of party clubs in the parliament, boycott of sessions or a no-confidence motion. Corruption among high ranking officials is high.

PRESS FREEDOM

Democratic transition of the government in Macedonia paved the way for more positive developments in media, although it is still to be seen how effective the new government will be on this. The work of media outlets is not independent, while it is often impeded with political interference and pressure, resulting in biased coverage on the most important social and political issues. However, the situation regarding polarization of the media is slightly improving, with some outlets, previously highly politicized, having started reporting in a more balanced way. Government cut down state advertising in media. Subsequently, many outlets closed, or remained active while reporting on their financial obstacles. Those events clearly indicated at strong relations between media and previous regime. Strong editorial, political and social pressures arising from deep societal division influence journalists` independence, thus self-censorship is widespread. Also, physical and verbal attacks against journalists are not rare. Poor job conditions in media sector make this independence even more difficult to achieve.

B. RULE OF LAW



INDEPENDENCE OF THE JUDICIARY

Macedonia's judiciary has been stagnating for several years now. Strong political influence, as part of a broader state capture during the decade 2006-2015, has prevented it from its role of safeguarding constitutionality, being a corrective factor against any government's attempts to put institutions under political party control, and checking on crime wherever it came from. However, judiciary (and similar services, e.g. SJO – Special Public Prosecutor Office) made it to launch a number of investigations against politicians from the most important parties, from both sides of the left-right aisle. Several politicians of the previous government (including ex-PM Nikola Gruevski) were sentenced to prison on corruption or embezzlement charges, while a number of other cases are still in progress. However, activities of SJO face tremendous obstacles, whereby many previously (politically) appointed judges refuse to sufficiently cooperate, which led to escape attempts by some of the suspects (later caught abroad) and various procedural difficulties in processing others.

CORRUPTION

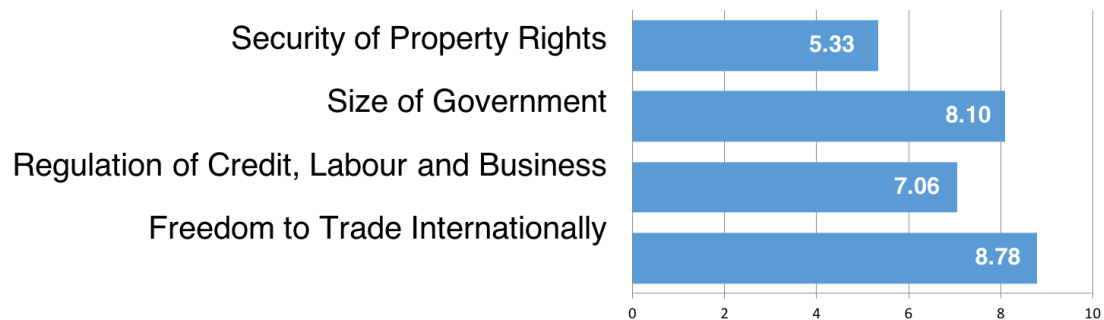
Grand scale misuse of office and attempts to create a party-state that would control not just the entire public but indirectly also the private sector of the economy, as the policy during the VMRO-DPMNE government, together with its peculiar type of nationalism and misspending on the “antiquization” project, all were topped by increasing and ever less hidden corruption, which, after the release of “wiretap bombs” in 2015, led to mass protests and change of government. New centre-left government and its leading party SDSM promised, prior to 2016 elections, substantial reforms, of the sort that would forever, and institutionally, prevent state capture as seen during the past decade. Afterwards, while trying to make sure no corruption culprits from the old government escape prosecution, and while negotiating the name-deal with Greece, it failed to implement enough of the promised institutional change. Some promising developments included renewed government cooperation with civil society organizations, which could help final shaping and implementing of the reforms and fighting corruption. In the Transparency International's CPI 2017 ranking, Macedonia fell to the place 107/180, far below all other Western Balkans countries. In the Freedom Houses' reports Nations in Transit, a setback regarding corruption was spotted in 2016/2017 (from 4.50 to 4.75), while stagnation in 2017/2018.

PROTECTION OF HUMAN RIGHTS

New SDSM-led government promised a lot, from renewed sense of legality and making sure that no perpetrators of the 2006-2015 state capture and corruption escape prosecution, via settling the dispute with Greece, to reversal of all those policies of the last decade that were limiting human rights. Re-traditionalizing of family relations, including restrictions on abortion, changes to inheritance law, or keeping LGBT community out of any legal protection, were among VMRO-DPMNE policies to be revoked first. So far, almost two years after the change of majority in Parliament, new family law is still pending adoption. Once carried, it will certainly better protect women, and introduce anti-discrimination clauses hence mitigate homophobia, but the fate of same-sex unions is still undecided. While, it is certain that, this time, same-sex marriages will not be legalized. However, ethnic-Albanian political parties in government made it to pass through a

new legislation on the use of languages, making Albanian more present in public and de facto the second official language of the country, alongside Macedonian. The negative attitude towards migrants has not changed, whereby various illiberal groups are stepping up their campaign against them.

C. ECONOMIC FREEDOM



SECURITY OF PROPERTY RIGHTS

Private property rights in Macedonia are mostly respected. Yet, there are still many problems within the judiciary, stemming from the strong executive influence which could be depicted as state capture. The political changes - with the new government which has been in charge since June 2017 - provided hope for some changes in this area as well, especially because of high profile corruption cases against leading members of the previous government. However, the judicial environment still protects property rights fully only for those with good political connections while laws are not applied equally to all. Namely, corruption and favouritism still plague the judiciary. 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 the legal processes. Insolvency procedures are also slow, taking on average 1.5 year. They deliver very low recovery rates of less than 50% of the initial claim. Recent changes in voting procedures for the reorganization plans and greater participation of creditors in insolvency proceedings are expected to provide positive results in this area. Private property registration is a long process, due to inefficient local tax office procedures which determine the level of transfer tax, which could be substantial. Not all land has a clear title, but urban areas are mostly covered. The 2016 legislation which requires obligatory mediation between companies for all disputes up to 15 000 euro of value as a precondition for going to court has imposed additional costs to businesses and prolonged contract enforcement, although its initial intention was to promote mediation and decrease pressures on the judiciary. 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 with limited public consultations. Foreign investors can be active in almost all industries, but in certain ones (such as banking, insurance, energy and transport, etc.) they must meet licensing requirements. Foreign resident cannot acquire agricultural land in Macedonia, but this is easily avoided through establishment of a local company.

SIZE OF GOVERNMENT

Government consumption in Macedonia is relatively smaller as compared to other countries of the region, with public expenditure reaching just 32% of the GDP in 2017. Economic growth in 2017 was nil, since political uncertainties regarding the elections and possible regime change had put investments on hold. This was especially pronounced since recent economic policy was focused mostly on attracting FDIs. Under execution of capital expenditures, the problems in infrastructure projects (mostly in road construction) have been somewhat alleviated. A rise of the former, from a very low level, has been recorded. But current public expenditures on the wage bill and pensions system are high, leading to a high budget deficit of 2.7% of GDP in 2017, although public revenues have started to rise. The level of public debt was recorded to be 40% of GDP in 2017, but it is expected to rise due to an active spending agenda of the new government which is not followed by an increase in revenues. Government pension system is unsustainable, with huge deficits, which transferred to the state coffers. As in other countries in the region, demographic changes will further create stress to the public finances. After the full scale privatization programs during the previous two decades, the number of SOEs in the country is estimated to stand at 120, most of which are public utility companies owned by the central government, but SOEs are also present in energy, banking and transportation. Management appointments are connected to political influence, as are their wage and employment policy. They mostly have a weak business performance, and their operations are tied to purchasing social peace. The two biggest public-owned companies, operating in road infrastructure (PESR) and electricity (ELEM) could pose a significant financial challenge for the public finance if their efficiency is not assured. Low government spending results in a relatively lower tax burden than in other European countries, with VAT rates of 18% (standard rate) and 5% (preferential rate), while personal income and corporate taxes are both flat and both at the low 10%. However, high social security contributions put the overall labour tax wedge slightly below the OECD average. There is a significant exemption from social contributions for employment of young workers, decreasing their relative costs, but this contributed only slightly to the decrease in their unemployment rate.

REGULATION OF CREDIT, LABOUR AND BUSINESS

Regulatory environment in Macedonia is mostly business friendly, so the country is ranked very high on the Doing Business list. Although regulation is mostly in line with the EU or other international standards, there are serious deficiencies in the area of its actual implementation, bureaucracy capabilities and favourable treatment of different parties. Furthermore, regulatory changes are frequent, without due process and proper consultative mechanism with the public. Businesses, the public and NGOs play a limited role in the legislative and regulatory development process. Inconsistent interpretations of the legislation also create an unpredictable business environment and foster corruption. In February 2018, the government adopted a new Strategy for Public Administration Reform and Action Plan, which focus on policy creation and coordination, strengthening of public service capacities, and increasing of accountability and transparency, which is expected to alleviate at least somewhat these problems. Public procurement is prone to corruption, although usage of an automated electronic customs clearance process is widespread. Due to its weak performance and extended procedural delays,

the government abolished the Council for Public Procurement in 2018, in order to make the public procurement system more efficient. Starting a business is expedient, without a 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, although they still require significant workload, but the VAT refunds take a lot of time. Obtaining a construction permit and getting electricity are also quick, but very expensive, due to high fees by the public utilities 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. It was further increased in September 2017 by 20%, and there is a further political commitment for its growth. 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.

FREEDOM TO TRADE INTERNATIONALLY

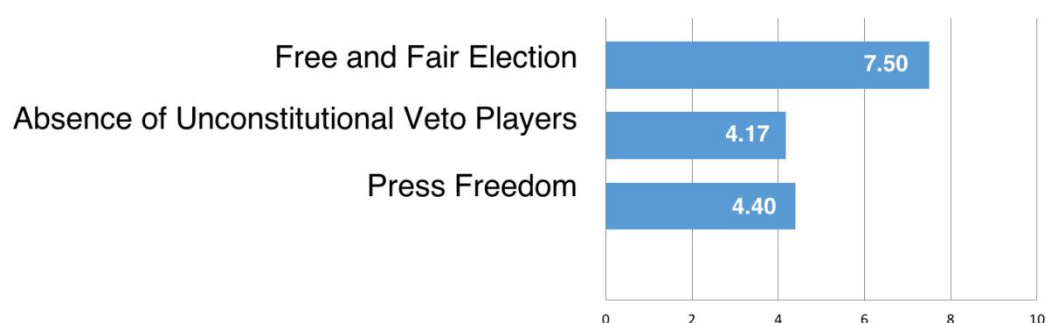
Freedom of foreign trade in Macedonia is mostly respected. Since 2003, Macedonia has been a World Trade Organization (WTO) member, which liberalized its foreign trade. Trade tariffs are moderate, with the average MFN applied tariff rate of 6.7%. However, tariffs on agriculture goods (12.8%) are double that of those on manufactured goods (5.7%). 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. Poor state of the transportation infrastructure, most notably the poor quality of roads and railways, is yet another obstacle, itself imposing increased freight costs. Full liberalization of the capital accounts is yet to be carried, since there are capital controls on movement of short-term capital. Macedonia ratified the WTO Trade Facilitation Agreement (TFA) in July 2015, which is expected to further liberalize trade flows after its implementation that is pending; and in October 2017 the government formed a National Trade Facilitation Committee in order to identify areas that need harmonization with the TFA. Macedonia is also an observing member to the Government Procurement Agreement (GPA); and in February 2018 the government sent its bid to the WTO to upgrade its status from observer to a fully-fledged member. Macedonian main trade partners are the EU countries Germany, Italy, Greece and Bulgaria, followed by neighbours 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 has recorded a low negative current account balance of 1.3% of GDP in 2017, but export growth rate of 13% is almost double than that of imports (7%). In March 2018, the government passed its “Plan for Economic Growth”, which provides substantial incentives to foreign companies operating in the 15 free economic zones (Technological Industrial Development Zones - TIDZ). These incentives

include a variety of measures including job creation subsidies, capital investment subsidies, and financial support to exporters.

Moldova

<i>GDP in 2017: EUR 7,956 million</i>		
<i>annual growth rate: 4.5%</i>	<i>per capita: 2,240 EUR</i>	<i>by sector:</i>
		agriculture 17.7%
		industry 20.3%
		services 62.0%
<i>Population: 3,547 thousand</i>	<i>Human Development Index</i>	<i>Government position in 2017</i>
<i>Unemployment rate: 4.1%</i>	<i>HDI: 0.700 (rank 112)</i>	<i>-0.8% of GDP</i>

A. POLITICAL FREEDOM



FREE AND FAIR ELECTIONS

Citizens of Moldova are able to cast their votes and elect representatives in a free electoral process however the fairness in the political playing field has been a matter of concern ahead of the parliamentary elections next year. After switching presidential elections from indirect to direct ones, electoral system for 101-seats parliament was also changed, from a party-list proportional representation to mixed member proportional representation. Adopted changes of the electoral law were backed by the ruling Democratic Party of Moldova (PDM), the European People's Party of Moldova (EPPM) and the main opposition Socialist Party of Moldova (PSRM). The move was widely criticized by domestic and international observers, as it would mostly benefit the position of the PDM and PSRM amid the rise of new political forces. Uneven access to media and political financing are also undermining factors of the electoral fairness. In mayoral elections for the City of Chisinau - capital of Moldova - in the mid of 2018, opposition leader from Dignity and Truth Party (DA) Andrei Nastase won in the second round of elections, defeating a candidate backed by President Igor Dodon. However, results were annulled by the court on the ground of technical irregularity of alleged use of Facebook for canvassing voters on the election-day. This outcome triggered protests in Chisinau and was condemned by the EU,

raising concerns that there was political background of the decision. After the Liberal Party (PL) withdrew from the ruling coalition, government was reshuffled several times, while the process was in many cases blocked by the President Dodon. After blocking the process two times, he was suspended by the Constitutional Court and replaced by the parliamentary Speaker, who signed a decree of appointing new ministers in the Prime Minister Pavel Filip's cabinet.

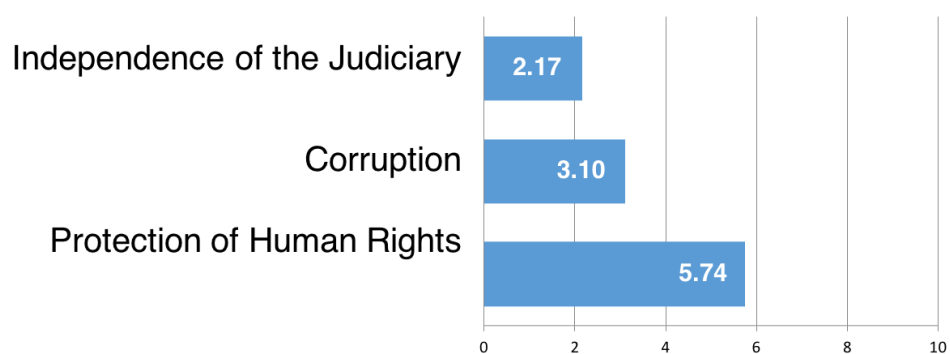
ABSENCE OF UNCONSTITUTIONAL VETO PLAYERS

Constitution provides legal framework to elected public officials in Moldova to govern without interference. However, the decision making processes and democratic procedures are often influenced and hindered by close ties between business and political elites, high level corruption among officials, weak system of checks and balances, or influential non-state actors. The executive and the legislative are dominated by the leader of PDM – Vladimir Plahotniuc - an oligarch and media mogul who is often accused of “pulling the strings from behind” and of having a decisive role in country's politics. Independence of judiciary was questioned on several occasions, pointing at a politicization of court decisions. Most notably - in the case of annulling election results in the City of Chisinau. Orthodox Church has got a significant influence on shaping public opinion in Moldova. It does not restrain from interfering into political decision making.

PRESS FREEDOM

Freedom and independence of media in Moldova are limited. There is a wide range of printed, broadcast and online media outlets, whereas diversity of views they are expressing is undermined by unclear media ownership and extensive control over media market by wealthy businesses. Weak democratic institutions prove to be unable to put adopted legal framework of ownership limitations (to two outlets) into practice. Although not on paper, Vladimir Plahotniuc dominates the television media market, while around 70% of the outlets are estimated to be clearly serving his personal business and political interests. Economic and political pressure is used to shape editorial policies of the outlets, resulting in their biased reporting. Journalists are often targeted by harsh rhetoric and verbal violence coming from public officials. They are subject to separation on pro-government media and those critical of the government. Thereafter, self-censorship is often practiced by reporters.

B. RULE OF LAW



INDEPENDENCE OF THE JUDICIARY

In August 2017, portal GAN reported that Moldova's "judiciary is one of the weakest in the world in relation to independence from the political elite" and that "judges and prosecutors regularly extort bribes in exchange for reducing charges or imposing milder penalties". Freedom House notes that courts are politically biased or pressurized when judging in politically relevant cases, to the benefit of the ruling vs. opposition party people, or the central vs. local governments. Several of such cases were held behind the closed doors. Meanwhile, conditions in prisons are deteriorating, with a sharp rise of the number of detainees and increased mortality rate among them. Since 2011, each government has launched its own reform of judiciary, promising to change the obsolete, inefficient, biased and corrupt system, but none of those went much far. Lack of progress regarding the most recent reforms led EU, in October 2017, to cut its budgetary support to those and stop the payment of the last tranche.

CORRUPTION

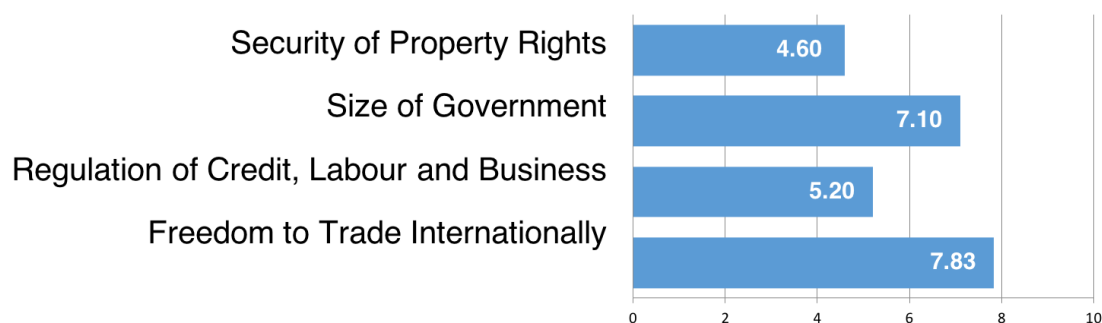
Slow post-Soviet era transition to democracy and market economy, as well as the burden of separatism in the east, have left widespread public ownership in the economy, or enabled oligarchs to grasp it cheaply, without proper institutions built to provide for transparency. Thus, both high level and petty corruption are pervasive. Former also includes participation of the financial authorities in the international money laundering schemes. Latter is mostly present in education, healthcare and police. Few of the corrupt are exposed while even fewer get convicted, because corruption is widespread in courts as well. Official anti-graft initiatives and campaigns have failed to reduce it. The main anti-corruption body NIA has slowly transformed according to the 2016 reform and remained dysfunctional until end-2017. Portal GAN claims that "Moldova's public officials commit acts of corruption with impunity." Freedom House has warned of a selective justice and excessive politicization of the anti-graft struggle in 2017 - namely, none of the recently accused were from the ruling party. Transparency International, in its CPI 2017 ranking, put Moldova to share places 122-129/180 with just 31/100 points. It is just a bit better than neighbouring Ukraine (30), or Russia (29), while far worse than another neighbour, an EU-member Romania (48 points). Moldova is the worst corrupt country of all seven members of CEFTA.

PROTECTION OF HUMAN RIGHTS

Human rights' situation worsened during the past year. Unfair trials and ill-treatment in detention are common, with judges being obvious accomplices. The position of ethnic minorities such as Roma, or Gagauz, is a matter of concern despite government efforts to improve it. Anti-discrimination laws to protect LGBTs as individuals, let aside their partnerships' equality, are lacking. Homophobia comes straight from the presidential office and spreads throughout – anyway predominantly conservative and traditionalist - society. But the gravest threat to women's (and other human) rights in Moldova is human trafficking. The country is both the one of origin and the one of transit. Moldova signed the Istanbul Convention on prevention of violence against women and vulnerable groups as late as in February 2017, while ratification is still

pending. On the positive side, civil society is active despite occasional attacks on CSOs. In autumn 2017, the latter managed to stop the draft law on NGOs which discriminated against recipients of foreign financial support for their projects or against those who dealt with politically relevant themes.

C. ECONOMIC FREEDOM



SECURITY OF PROPERTY RIGHTS

Property rights in Moldova are mostly secure. As in many other countries with weak institutions, the problems in this area are not due to the quality of the regulatory environment but mostly to low judicial independence and strong influence of politically and economically connected groups. Judiciary lacks integrity and favouritism and corruption are still present. Enforcement of contracts is very slow, lasting more than a year and a half on average, and litigation costs are very high. There are no courts that are specialized in commercial cases only. Recent changes in the judiciary, such as the optimization of court network and encouragement of the mediation, are yet expected to bear any significant results. Insolvency processes are also 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. At the same time, registering a property is inexpensive and efficient, due to reformed cadastre and notary services, but the coverage of land with clear titles is restricted mostly to urban areas. 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, since it can only be owned by the Moldovan citizens, while foreign nationals can only lease the land. There is also a rule that restricts land ownership to local companies without foreign capital.

SIZE OF GOVERNMENT

The size of government in Moldova is near the average level of comparable countries of Eastern Europe, with public expenditures reaching 36% of GDP in 2017. The economy is experiencing a robust growth of 4.5% in 2017, which is supported by a strong private consumption and rise in exports, but it is expected for growth to moderate in the following years. Fiscal discipline in the election year remains an open question, but rise in fiscal revenues and decrease in subsidies and interest payments provide a solid foundation for it. The deficit therefore was decreased to -0.8% of GDP in 2017, but it is envisaged to surpass -3% in 2018 while public debt would be kept near the level of 44% of GDP, which is in line with the 3 year IMF backed program approved in

November 2016. Main fiscal risks stem from the unsustainable pension system and demographic changes that are expected to increase these expenditures, but also from unreformed local government system and SOEs. Recent parametric changes that increased compulsory retirement age were envisaged to alleviate some of the problems in this regard (these reforms also included all the public sector employees in the general contributions system) but for a real impact more efforts are needed. Unification of different tax administrations into a single public entity – the State Tax Service - has led to a significant reduction in shadow economy and increase in revenues as compared to previous years. SOEs are still present in many areas and 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. The Moldovan government plans to register SOEs as joint stock companies in order to increase the transparency of their conduct. Privatization stalled after 2013 – but the government held three big rounds of privatization for state assets in 16 companies. The privatization has historically been perceived as rigged and prone to corruption. Income tax is progressive, with tax rates of 7% (approximately up to the half of the average wage) and 18%, while corporate income tax is set at a low level of 12%. General VAT rate is 20%, while a limited number of products, such as foodstuffs, are taxed by the reduced rate of 8%. High social security contributions coupled with the PIT lead to a high labour tax wedge of 40% on the average wage. The tax system is not well organized and coherent, with many tax incentives and deductions, including the special single tax on IT employees, in place since 2017.

REGULATION OF CREDIT, LABOUR AND BUSINESS

Business regulation in Moldova is not overly too business-friendly. Corruption among the public administration, inconsistent government policies and uncertainty in implementation of the rules and procedures continue to burden the business environment. The government has a wide program of regulatory changes, but their record of execution is not flawless. Recent positive changes are establishment of the Agency for Public Services in 2017 as a one stop shop for businesses and citizens in their dealings with the administration, by merging the State Registration Chamber, Licensing Chamber, Land Registry and other entities; and the New Banking Law that came into force on 1 January 2018, which was passed in order to strengthen bank governance and risk management after the massive bank fraud in 2014. Starting a business in Moldova is easy and may take just a couple of days, and there is no paid-in minimum capital. Tax-compliance red tape also is not excessive, with few annual payments and high incidence of online services. On the other hand, obtaining a construction permit is a long process, due to inefficiently high number of procedures, which could involve not only many documents as a prerequisite but also discretionary decisions of the public administration. Getting electricity is also lengthy, due to many expensive procedures, even though the new legislation eliminated inspection by the state energy inspectorate for smaller electricity consumers. Corruption and political instability are perceived as the most important deterrent to a better business environment. Labour code has both flexible and inflexible characteristics. On one hand, the maximum length of a fixed term contract is as long as 5 years, enabling a 6 day workweek in the case of increased workload, and fat notice periods; while on the other there are restrictions on night work or on public holidays,

firing regulations are burdened with trade union notifications in case of redundancies and with retraining or reassignment rules. Redundancy rules also protect more seasoned workers, with severance pay increases as years in tenure rise. Another significant burden is the 12-month obligatory military conscription.

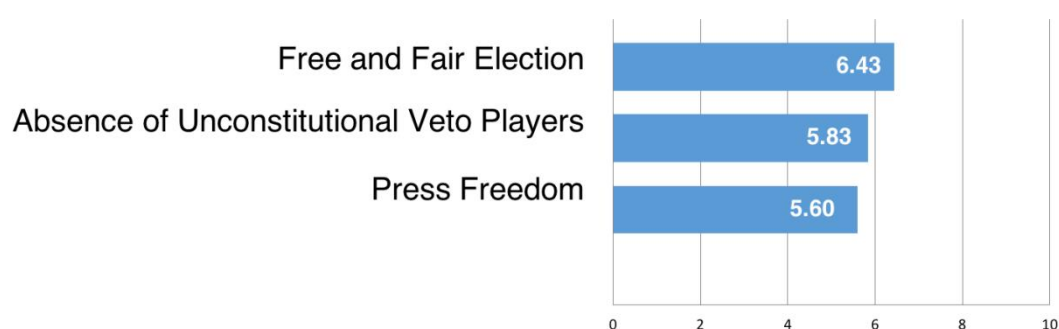
FREEDOM TO TRADE INTERNATIONALLY

Freedom of trade in Moldova is generally respected. Apart from other countries in the region which are members of either the EU or of the EEU, Moldova conducts its own trade policy. The country has been a member of the WTO since 2001 and of the CEFTA since 2006. Tariffs are relatively low, with the simple average Most Favoured Nation (MFN) applied rate standing at 5.3%, which is almost at the same level as the EU. However, regulatory non-tariff trade barriers such as technical standards impede trade and burden 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. Poor transport infrastructure also hinders international trade, by increasing freight costs, especially the poor quality of roads, but one of the 7 reform pillars of the government concerns capital investments in this regard. 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. Main Moldovan trade partners are EU countries (the most important one being Romania, followed by Italy and Germany) which comprise more than 55% of the overall trade. Trade with the EU is conducted via the Association Agreement (AA) signed in 2014, which stipulates creation of the Deep and Comprehensive Free Trade Area between them. The government adopted the national 2017-2019 plan for adoption of the necessary trade rules for its implementation, and a significant reform in the area of sanitary and phytosanitary regulations has been made. In June 2016, Moldova ratified the revised Government Procurement Agreement (GPA), lowering barriers towards foreign companies competing in public contracts in the country, and the Trade Facilitation Agreement of the World Trade Organization that is envisaged to enhance the clearance of trade flows and transit.

Montenegro

<i>GDP in 2017: EUR 3,983 million</i>		
<i>annual growth rate: 4.3%</i>	<i>per capita: 6,400 EUR</i>	<i>by sector:</i>
		agriculture 7.5%
		industry 15.9%
		services 76.6%
<i>Population: 0,623 thousand</i>	<i>Human Development Index</i>	<i>Government position in 2017</i>
<i>Unemployment rate: 16.1%</i>	<i>HDI: 0.814 (rank 50)</i>	<i>-7.0% of GDP</i>

A. POLITICAL FREEDOM



FREE AND FAIR ELECTIONS

While the Constitution of Montenegro provides a legal framework for free and fair elections, many limitations to freedom and fairness of this process still exist in practice. Political parties are free to organize, operate and compete at elections. However, political arena has for decades been dominated by the ruling Democratic Party of Socialists (DPS). Although all recent elections were deemed by OSCE ODIHR as “with respect to fundamental freedoms”, flaws such as blurred separation between state and political roles, unfair representation in media, pressure on public employees and persistent vote-buying allegations are continuously repeating. They are advancing DPS’s position. In April 2018, presidential elections were held. Although he had previously announced that he would not run for President, former prime minister, former president and long-standing leader of the DPS Milo Djukanović was nominated as the DPS frontrunner. He secured a clear victory, winning around 54% of votes in the first round. Besides elections, parliamentary crisis shaped political life in the country throughout the period under review, with majority of the opposition boycotting parliament sessions. However, in the mid of 2018, several opposition parties and their leaders announced their return to Parliament.

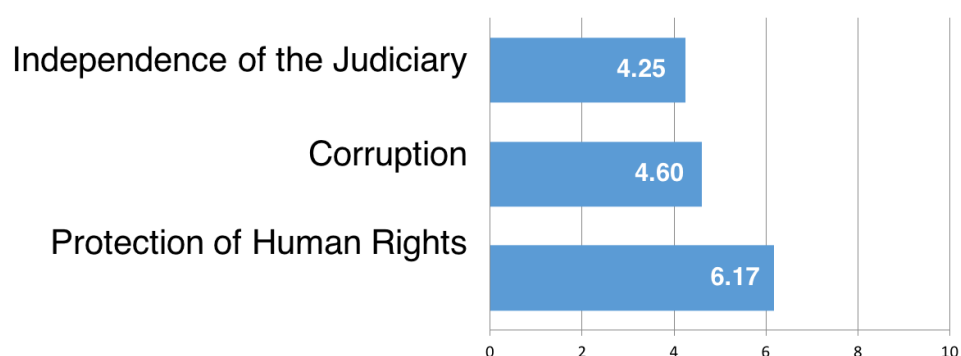
ABSENCE OF UNCONSTITUTIONAL VETO PLAYERS

Outside the political arena there are no unconstitutional veto players in Montenegro who are able to undermine democratic procedures and decision-making processes. However, weak separation of powers in practice created space for influential role of certain politicians, serving their private business and political interests. Most notably, Prime Minister Milo Djukanović, a DPS leader, demonstrated his dominant role in the country even during a period when he was without any state function. Even then he apparently controlled the decision-making process. This practice hindered democratic spirit in the country, same as the deep political division between governing and opposition political parties which lasts for years. Opposition boycott of parliament additionally contributed to the weakness of the existing system of checks and balances.

PRESS FREEDOM

Freedom and independence of the press in Montenegro is only to a certain degree respected in practice. There are number of print, broadcast and online media outlets operating in Montenegro, however media scene is lacking diversity of views and - to even more significant degree - objectivity. Two main reasons are behind such a situation: the concentration of media ownership in the hands of a few companies and deep political divisions within society which are reflected also in media sphere. While often supporting either the government or the opposition side, media outlets are showing clear bias on most significant political topics in the country. Ruling DPS does not hesitate to influence editorial policy of the RTCG – Montenegrin public radio and television service, e.g. through parliamentary appointments into broadcaster bodies, while the most common tool for influencing private media outlets is state advertising. Journalists' everyday working environment is marked by poor job conditions, physical and verbal threats, political pressure and large defamation fines. All these contribute to large degree of self-censorship among journalists and lack of their objective reporting.

B. RULE OF LAW



INDEPENDENCE OF THE JUDICIARY

Judiciary in Montenegro is more independent than in any of its neighbours – Albania, Kosovo, Serbia, BiH, or even EU-member Croatia. In the politically most sensitive cases, such as the process against alleged October 2016 coup-d'état conspirators (some of which being key opposition figures), the due procedure has been so far respected and the trial has remained fair.

However, some analysts, including Freedom House commentators, also noticed that the trial put in question the professional competence of some of the judges and prosecutors. Besides already achieved, more is to be done in the training of judges. In war crimes` trials, Montenegro has been comparatively more agile than neighbours. As for the level of autonomy of prosecutors from the executive branch in their daily work, it is lower than courts`, while the one of the police is even lower. In July 2017, Constitutional Court found out that Prosecutor`s Office had not properly investigate complaints against alleged torture and ill-treatment by the police, put by two participants in the November 2015 violent anti-government demonstrations.

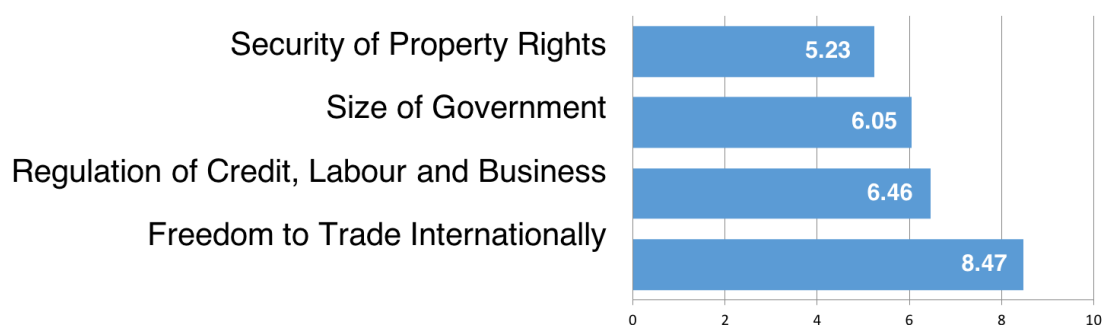
CORRUPTION

Throughout this decade, Montenegro has consistently, albeit very slowly, improved its anti-graft record. In the Transparency International`s CPI 2017 ranking, it received 46/100 points and shared places 64-65/180, surpassing countries such as Hungary, Bulgaria or Brazil, not to mention other six CEFTA members. Public procurement, land administration, police and judiciary are still the most corruption-vulnerable in the eyes of companies which operate in the country. Citizens worry more about bribery in education, and a bit less also in health care. CSOs find the financing of political parties as key unresolved issue and the fertile ground for all other corruption. Lack of depoliticized administration and public-sector corporate management, in a small, politically polarized country, where personal information on anyone is easily available, often leads to indirect vote buying through favours or blackmails facilitated by state or local government actors.

PROTECTION OF HUMAN RIGHTS

Montenegro`s human rights` record is divergent. Freedoms of movement, residence, choice of education, employment, or similar, are well respected. Academic freedom, including freedom to conduct scientific research or to express through art, is generally upheld, even though the October 2017 ousting of the rector of the University of Montenegro was a bad precedent. Freedom of expression is curtailed by the limitations to media freedom. Freedom of religion is upheld, in a multi-religious environment. The Government is neutral in the row between Serbian and Montenegrin Orthodox Churches, while also trying to stop them - especially the former - from interfering into politics, or behaving as one above the law. There is no special treatment of ethnic minorities except for their education and culture, taken that the country is constitutionally proclaimed as the one "of all its citizens". Yet, the problem of Roma refugees as of 1999 is still not resolved. Women are legally equal, but in reality facing various problems, from under-representation in politics and business management, through gender pay gap and occasional discrimination at work, to domestic violence that is still insufficiently fought against. Human trafficking (for sex slavery, or illegal migrations, or other purposes) is also a huge problem. LGBTs face a homophobic societal climate and occasional attacks against their activists, yet a support by Government through police protection of the Pride parades, ending of the subtle discrimination in the public sector including in the armed forces (through the Law adopted in June 2017, to be fully effective by 2019) and preparation of a law that would expectedly legalize same-sex unions (but not child adoption thereby).

C. ECONOMIC FREEDOM



SECURITY OF PROPERTY RIGHTS

Private property in Montenegro is mostly secure. As in many other countries in transition, legal framework is mostly well established but its actual implementation is often inconsistent. The biggest problems are found in the high level of influence that the political elite has had over the judiciary, which creates an environment for favouritism in legal proceedings. Apart from this problem of judicial independence, corruptive practices within the courts further undermine the strength of judiciary. Furthermore, judicial processes are very slow, lasting 1.5 years on average, and there are many backlogged cases. In fact, the bulk of appeals are filed against the Government of Montenegro in front of the European Court of Human Rights as regards the long legal procedures which diminish the right to a trial within a reasonable time frame. Court decisions are not always clearly and consistently reasoned or enforced. There is a clear lack of expertise by a number of judges in more specific legal areas, which is further aggravated by frequent changes in legislation. There is only one commercial court for the whole country, based in the capital. Contract enforcement is also a lengthy process, and it incurs very high costs through different fees. Low level of court process automation also remains one of the weak points of the judicial system. Registering private property is also a slow process, due to inefficient work of the Real Estate Agency, or local tax authorities that determine the amount of property tax. Bankruptcy proceedings are also slow, in line with the rest of judiciary cases. It leads to a moderate recovery rate of 50% of the claim. The process of property restitution has not yet been finished, due to administrative constraints and lack of political will. Many cases still remain to be resolved. There are no limits to foreign ownership in industries, and foreign nationals can also own land and real estate, but not those that are closer than one kilometre to the state border, nor agricultural land.

SIZE OF GOVERNMENT

Government expenditures in Montenegro are high, more in line with the developed European countries than with the peers among transitional countries. Total public expenditures reached 48% of GDP in 2017, with a considerable proportion of it for capital investments for the first phase of the envisaged Bar – Boljare motorway. This large infrastructure project alone is estimated to stand at between 20% and 25% of Montenegro's GDP. Public deficit is widened to 7% of GDP in 2017 due to high costs of this project. But, fiscal austerity program introduced during the previous year gave results in curtailing current spending: motherhood benefits were

curtailed, public wage bill was reduced, progressive income tax was upheld, and a rise in excise duties on tobacco and soft drinks was introduced. However, the level of public gross debt continued to grow, reaching the all-time high of 75% of GDP. Although demographic situation is better than in other SEE countries, projections show future rise in government expenditures, coming from rising costs of pension and healthcare system. Pension fund is already unsustainable, and at least the parametric change - which would restrict early retirement - is necessary. Public wage bill is still high, and public service is neither efficient nor professional. Majority of SOEs were privatized in previous rounds of privatization, but SOEs still have a significant role in the economy. There are SOEs that are active in the fields of transport – railways, airline and airports, ports, energy distribution and generation, tourism and agriculture. For example, the biggest exporter in the country is a state owned wine plantation. These companies are not efficiently managed, since political party interests are considered in appointment of the management, so some of these companies rely on direct or indirect grants and subsidies to stay afloat. Further significant privatization plans were mostly put on hold for the time being. The tax system consists of flat corporate tax set at 9% rate, while VAT levels are 19% (standard rate) and 7% (preferential rate). Personal income tax is slightly progressive, with 9% on the income up to the average wage and 11% on the income above it. However, social security contributions are high, leading to an overall high labour tax wedge of 39%, which is above the OECD average, which encourages undeclared employment, especially in northern, less developed areas of the country. This - mostly favourable - tax policies established at the national level are often overlooked at the municipality level, since local governments established a plethora of different local taxes and surcharges.

REGULATION OF CREDIT, LABOUR AND BUSINESS

Regulation in Montenegro is mostly business friendly. However, the quality of business regulation is not the main issue, but the lack of its full and impartial implementation, itself remaining weak and inconsistent. Also, many regulations are ambiguous or in mutual conflict, especially by-laws and directives. Favouritism and corruption within civil service remain a problem, but there is also a clear lack of resources in some important areas, such as inspectorates. Inefficient government bureaucracy, corruption and lack of key infrastructure are cited as the most problematic factors for doing business in the country. Starting a business is relatively easy and quick, with low associated costs, and with a symbolic paid-in minimum capital of just 1 euro. On the other hand, obtaining a construction permit or getting electricity is much more complicated, with long procedures and very high costs, due to inefficiencies in municipalities and high fees associated with those procedures. Furthermore, many municipalities lack adequate urban plans, which makes obtaining a construction permit more complex. The reliability of electricity supply has recently improved through implementation of an automatic energy management system, recording data regarding interruptions. Although taxes are mostly paid online and social security contributions are paid jointly with the payroll tax, tax procedures are considered as overly complicated. VAT compliance rules were somewhat eased through the introduction of an electronic system for filing and paying VAT, similar to the system used for labour taxes. 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. On the other hand,

working hours are mostly flexible and notice periods are short. Centralized collective bargaining, although prevalent in some industries, is mostly restricted to public sector. The new labour law, which has been under discussion for quite some time, was expected to be introduced in 2018 but the process is progressing very slowly, although the draft law has already been adopted. The main idea behind this reform is to harmonize existing regulation with the EU standards, but these changes are yet to be materialized.

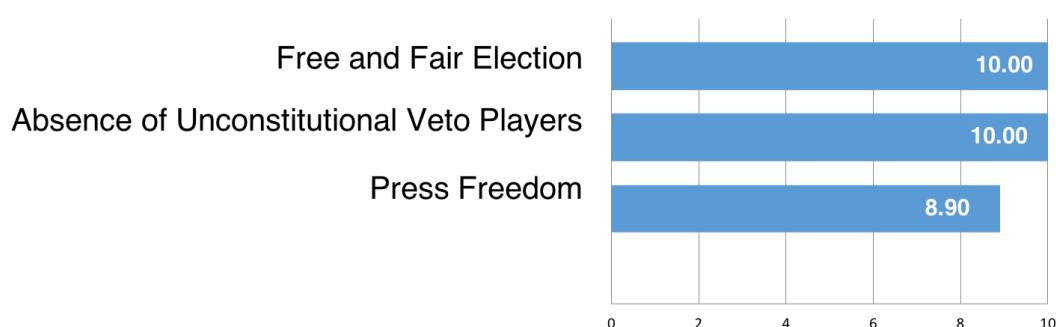
FREEDOM TO TRADE INTERNATIONALLY

Freedom of trade in Montenegro is mostly respected. Montenegro has been a member of the World Trade Organization (WTO) since 2012. It ratified the WTO's Trade Facilitation Agreement in May 2016, which is expected to further liberalize trade flows. Tariffs are mostly low, with the simple average MFN applied rate of just 3.8%. They were slightly decreased during the process of tariff alignment with the EU during the 2017. A recently conducted Trade Policy Review of the WTO did not find significant problems that would characterize Montenegrin trade policy as protectionist. However, bureaucracy procedures at the customs could be inefficient, imposing unnecessary time loss and costs. As a member of CEFTA since 2007, Montenegro mostly eliminated obstacles to regional trade in goods, but services are thereby not fully covered. In May 2017 the Additional Protocol 5 was adopted, in order to harmonize and simplify export and import procedures at the border. Negotiations on the Protocol 6, which would liberalize trade in services, are on. Low quality of transportation infrastructure – road, but most 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 in this segment. Montenegro's main trade partners are countries from the EU and Western Balkans, especially Serbia. Although it is neither an EU member state nor a euro-zone member, the country unilaterally adopted the euro, which enhanced international trade by eliminating exchange rate risks and associated costs. Legislation regarding employment of foreigners is very restrictive, effectively closing the local labour market for foreign workers. This Law on Employment of Non-residents was somewhat liberalized in 2016, waiving the obligation of companies to provide official records of their inability to employ a local resident prior to hiring a foreigner. The government has not increased its annual quota of 18 000 work permits.

Netherlands

GDP in 2017: EUR 737,048 million		
annual growth rate: 2.9%	per capita: 43,000 EUR	by sector:
		agriculture 1.6%
		industry 17.9%
		services 70.2%
Population: 17,140 thousand	Human Development Index	Government position in 2017
Unemployment rate: 4.9%	HDI: 0.931 (rank 10)	+1.1% of GDP

A. POLITICAL FREEDOM



FREE AND FAIR ELECTIONS

The institution of elections is a highly trusted mechanism in Netherlands, due to its long history of fairness and freedom. Political life in the country is diverse and pluralistic, allowing all parties to compete without restrictions. After March 2017 elections for the House of Representatives (“Second Chamber”), which were as well regarded as highly free and fair, leading People’s Party for Freedom and Democracy (VVD) had hard times building a fresh government, despite the fact that nationalistic Party for Freedom (PVV) was declared as undesirable by a majority of political parties that had entered the parliament. New government was formed in October, between VVD, Christian Democratic Appeal (CDA), Democrats 66 (D66) and Christian Union (CU), giving Mark Rutte the third consecutive term as the PM. These elections were considered, internationally, as a turning point against growing far right populism in Europe.

ABSENCE OF UNCONSTITUTIONAL VETO PLAYERS

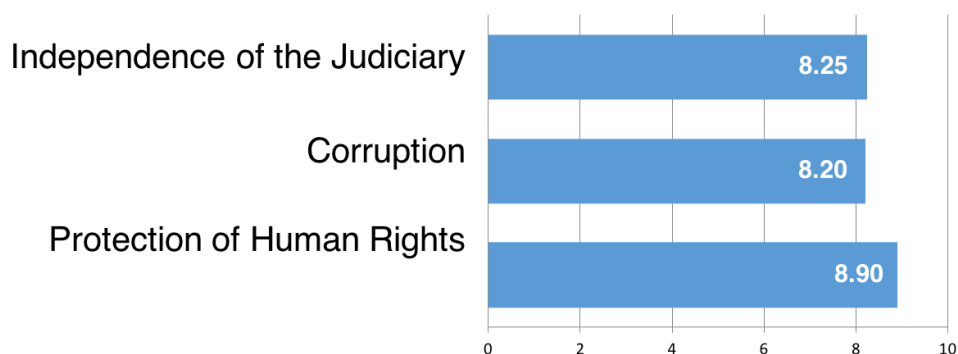
There are no unconstitutional veto players in Netherlands able to undermine democracy and rule of law. Elected officials have effective power to govern the country at all levels. Problems of

corruption among officials are very rare and mechanisms for prosecution of such cases are firmly in place. Civilian authorities maintain control over security forces of the country. Having in mind the previously said, it is clear why Netherlands has got the highest score possible in this subcategory, when it comes to freedom from the illicit influence on politics by various interest groups or other non-authorized actors.

PRESS FREEDOM

Freedom of the press is granted by the constitution in Netherlands and largely upheld in practice. By living continuously in an environment of independence of journalistic work, the country came to the 3rd place in the 2018 World Press Freedom Index of the Reporters without Borders. Still, some problems remain in the media sphere, preventing Netherlands from scoring even higher in the Freedom Barometer 2018 publication Index. Reporting on immigration issues as the dominant political topic in the country faced journalists with threats, and led towards self-censorship practices when speaking or writing about these. Legislation adopted in 2017 allowed security forces to somewhat expand their authorities. It was criticized, as a threat against the right of journalists to protect their sources. Situation somewhat calmed in 2018, when the government adopted a Source Protection Act, often recognized by the European Court for Human Rights as essential to media freedom in Netherlands.

B. RULE OF LAW



INDEPENDENCE OF THE JUDICIARY

According to the Freedom House, “judiciary is independent and the rule of law generally prevails in civil and criminal matters”. The right to free trial is guaranteed and respected, while police is under effective civilian control. Prison conditions meet international standards. During 2018, four prisons in Netherlands have been closing down, due to falling crime rates. Portal GAN noted that no citizens asked in the opinion polls witnessed any bribes to judges, while very few judges complained of any kind of pressure upon them.

CORRUPTION

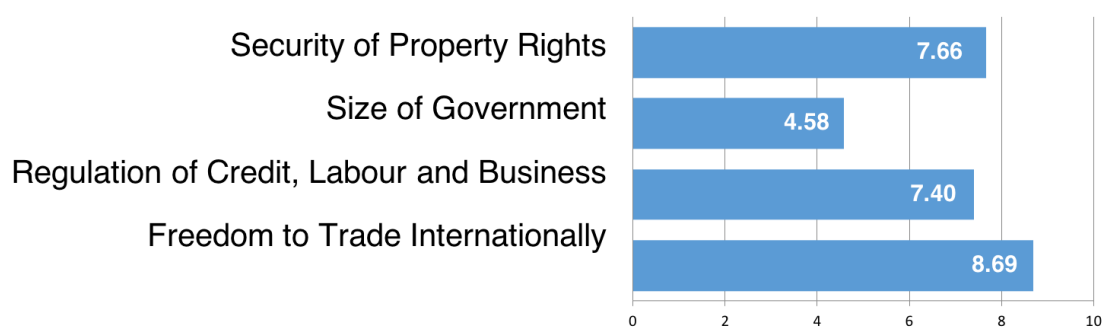
As a country with a very low level of corruption, Netherlands is a role model so much so that it spreads its huge experience in combating draft to many other countries throughout the world. The network of rules, on the integrity of the political process, on preventing the conflict of

interest, or on the transparency and accountability in public life, as well as clearly defined procedures for achievement thereof, all make a misuse of public office for illicit personal or group gains extremely difficult. Fairly liberal economic system with limited public ownership narrows the ground for many types of corruption. On the top of it, civil society, be it free press or whistle-blower NGOs (that enjoy state support) takes its part and pushes the limits further in attempts to completely eradicate corruption. Recent Panama Papers` leakages showed that, besides the previously known ca. 500, there were additional 180 Dutch clients in off-shore activities which circumvented the regulation on the prevention of money laundering. Generally, tax evasion (and legal or political loopholes that ease it) is the field on which recent anti-graft action is mainly focused. In 2017, Netherlands remained very highly ranked on the Transparency International's CPI list of 180 countries of the world: it shared places 8-11 with Canada, Luxembourg and Germany.

PROTECTION OF HUMAN RIGHTS

Individual autonomy and human rights are highly prioritized in Netherlands, making it in many aspects a role model country of a liberal approach thereto. Besides political and media freedom, and a, non-neglect, high awareness of the importance of economic freedom for the overall freedom of the individual, the Dutch way includes high respect for the freedoms of association and gathering, academic or other scientific research and discussion, art creativity, religious practices, and a free choice of the way of life. Government officials and agents are educated and trained to respect those rights, while ordinary citizens are brought up in a spirit of individual responsibility, mutual tolerance and voluntary solidarity. There are a few exceptions to the freedom of speech but limitations are less strict than in comparable countries. Hate speech is punishable and the rules against it are applied. Yet the definition of hate speech is narrower than in most of the EU. "Insulting the King" (or other heads of state) is on the way to become a minor felony, whereby sentences (anyway rare) will be sharply reduced. At a non-binding referendum in March 2018, a plurality of voters rejected a draft new law on intelligence gathering and secret services. However, some of the controversial provisions, such as the extension of the rights of ordinary police, not just secret services, to hack smart phones, laptops or navigation devices of the high-profile criminal or terrorism suspects, later became legal. Respect for LGBT rights has since already long ago become a trade mark in Netherlands. Implementation of full gender equality and balance is still on the way, including in politics.

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. Cases to judges are assigned manually, and courts use few automation processes. There is a specialized chamber within the civil courts dedicated to business disputes, the Enterprise Chamber, which is to open an English language chamber, while the National Commercial Court will offer the opportunity to litigate in English instead of only Dutch. On the other hand, bankruptcy procedures are very effective, with expedient procedures and recovery rates reaching almost 90%. Most bankrupt companies are sold as going concerns in order to maximize pecuniary proceedings. Registering property, as a major prerequisite for its legal protection, is a fast and a reliable procedure, due to the service of professional public notaries. Dutch Cadastre, Land Register and Mapping Agency offer efficient and transparent public services. However, transfer tax is as high as 6%, which poses a significant burden, even leading to a decrease in workforce mobility. 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, energy, finance, media, etc.). The new law on the process of investor screening in the telecommunication sector is expected to become active in the late 2018; investor screening in strategic sectors of the economy could become a more important process due to screening framework proposed by the EU.

SIZE OF GOVERNMENT

Public expenditures in Netherlands are similar in size to other developed welfare states in the EU, reaching 43% of GDP in 2017. A small budget surplus was recorded in 2017, due to the rebound in growth rates and frugal spending. The economy has been experiencing strong growth upon rising domestic demand and a strong rise in exports. Unemployment is low, at only 3.9%. Public debt has been in decline during the previous years, standing at 57% of GDP in 2017, which finally put the public debt level within the Maastricht criteria. 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 approximately 30), and they remain concentrated in the utility service sector (gas, water and electricity distribution), and transport (railways, ports, airports and airlines). 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 and SNS bank. There are still no plans for privatization of these assets. High expenditures need to be met by high tax rates: social contributions and income tax lead to a tax wedge on labour of 37.2%, on average wage, slightly above the OECD level; while VAT is set at 21% and 6% (with an envisaged increase to 9% in order to allow for decreases in other taxes). Income tax is progressive, with four tax brackets, from 36.5% to even 52% for the highest earners. Envisaged changes in this area propose only two tax brackets from 2019, with 36% and 49.5% rates.

Corporate tax is set at 25% (and 20% below the 200 000 euro threshold), but the government announced plans to decrease these rates in the near future to 21% and 16% respectively, hoping to boost economy, FDIs especially.

REGULATION OF CREDIT, LABOUR AND BUSINESS

Regulatory framework in Netherlands provides a friendly environment for entrepreneurial activities. Public administration is professional and there is no evidence of favourable treatment or corruption. Starting a new business is fast, through the notary services and the chamber of commerce, and there is no minimum paid-in capital required. Obtaining a construction permit is burdensome and time consuming, e.g. the process of acquiring a building permit can last up to 26 weeks. Getting electricity is also 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. Labour code could mostly be considered as 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. These features of the code were recently strengthened, since the duration of fixed contracts was recently limited to 24 months (from the previous 36), which is also the maximum length of a single contract, and severance pay introduced for workers with at least 2 years of tenure. Therefore, a high number of workers are being self-employed as independent or through one-person companies (ZZP). Among the most problematic factor for doing business are restrictive labour regulations, inefficient government bureaucracy and high tax rates.

FREEDOM TO TRADE INTERNATIONALLY

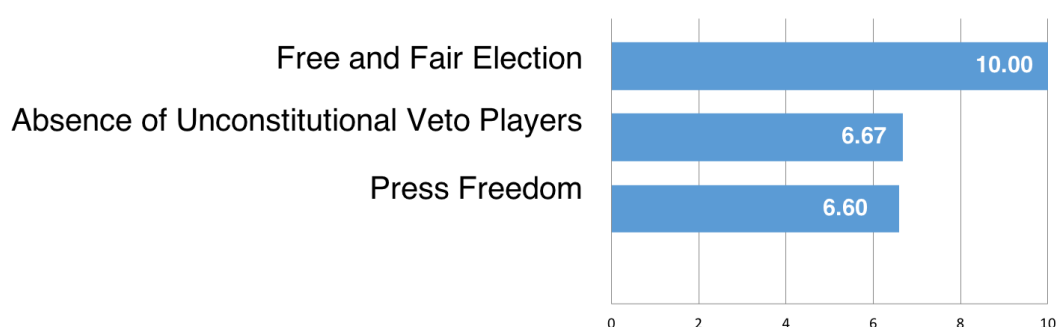
The Netherlands, as a small, open economy, has traditionally favoured free trade. The country serves as an important trade hub in this part of Europe, due to its geographical position and high quality transport infrastructure. The biggest European port (Rotterdam) is situated in the Netherlands. As one of the founding members of the European Union, the Netherlands implements the common European trade policy. Tariffs are low, with the average MFN applied rate of 5.1, but tariffs on agricultural products are much higher than those on the industrial ones. Non-tariff trade barriers in the field of standardization and certification also remain as an obstacle to trade. Border and custom administration are very efficient, with low number of necessary documents and easy border compliance. The high quality of transport infrastructure further enhances trade through lowering freight costs. 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. The restrictions on the labour market for Croatian nationals have been lifted this year, 2 years before expiration of this possibility in 2020. 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, which effectively lowers their income taxes payable, since 30% of their income is tax-exempt during a limited duration 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 2017: EUR 436,976 million		
annual growth rate: 4.7%	per capita: 11,500 EUR	by sector:
		agriculture 2.4%
		industry 40.2%
		services 57.4%
Population: 37,973 thousand	Human Development Index	Government position in 2017
Unemployment rate: 4.9%	HDI: 0.865 (rank 33)	-1.7% of GDP

A. POLITICAL FREEDOM



FREE AND FAIR ELECTIONS

Elections in Poland are regarded as free. Political landscape is pluralistic and competitive. Electoral legislation enables political parties to operate in an unrestricted environment however recent changes in electoral system and control over state media outlets have threatened to undermine fairness of the elections. Ruling Law and Justice party (PiS), although in majority control of the lower house of parliament – Sejm, and by all public opinion surveys performing much better than the fragmented opposition, still is highly under-represented at the regional or local level. Ahead of the 2018 local elections, with an intention to change this picture, government adopted legislative amendments which favoured PiS position. Widely criticized was the amendment that enabled PiS control over the National Election Commission (NEC) and thus highly politicized this institution. Previously, nine members of NEC were appointed by the three judicial institutions, while these changes introduced power to the parliament to appoint seven out of nine members. Also, mid-2018 saw additional changes, with a video surveillance of the elections and limited mail voting. Former was later removed on technical and legal grounds. In December 2017, the Government was reshuffled, with widely popular Prime Minister Beata Szydło being replaced by Mateusz Morawiecki and with a couple of changes on ministerial

positions. In general, Poland's politics is widely criticized domestically, causing several street protests during the observed period, as well as internationally. It is causing deep societal division along political lines. The score in the Freedom Barometer is expected to decline in the upcoming period.

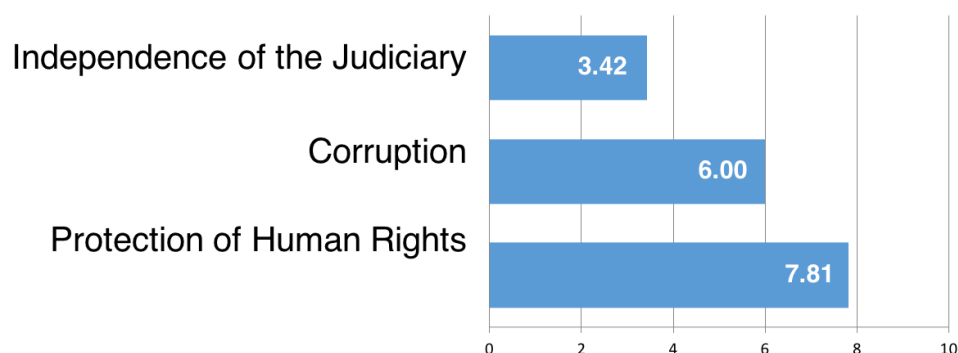
ABSENCE OF UNCONSTITUTIONAL VETO PLAYERS

The score in regard to Absence of Unconstitutional Veto Players has deteriorated in the Freedom Barometer 2018 Index, due to the constant undermining of democratic procedures and rule of law. There are no outside actors who would be able to influence decision making, meaning that abuse of democracy and weakening of the system of check and balances are coming from politicians in Poland. Both executive and legislative branches have been dominated by the PiS party chairman and leading political figure Jaroslaw Kaczynski. All political moves, including the most recent government reshuffling, were apparently directed by him. But the move which led the EU to vote on triggering Article 7 against Poland were legislative changes adopted in January 2018, themselves eroding independence of judiciary and giving control to PiS over judicial branch of power (more on it in the Independence of Judiciary section). With this, separation of power in the country exists only on paper. President Andrzej Duda, supported by PiS, from time to time vetoes legislation, but that is rather considered as a game in which both himself and Kaczynski are gaining personal political benefits, since his amendments have been rather cosmetic than profound. Roman Catholic Church imposes certain influence on the social and political life of Poland.

PRESS FREEDOM

Deterioration of freedom of the media in Poland goes in line with the government's intentions to undermine rule of law and pluralism in the country. Constitution provides for legislation that allows for freedom and independence of the media. However, with the domination of the executive over other two branches of power, mechanisms by which journalists and media could protect themselves from political influence have been weak. Media scene is pluralistic, yet divided on those supporting and the other ones opposing the government, with just first ones enjoying political and economic benefits from the state. Advertising, as an important element of economic sustainability of the press, is used to put informal pressure. Government controls state owned media and uses them as propaganda tool. National Media Council is a body created and controlled by the government. The Council is used to ensure control over public broadcasters. Journalists who fail to comply with government's stance are often fired from state or "friendly" private media outlets. Due to all these, both censorship and self-censorship are on stage in Poland. Intention to limit foreign ownership in domestic media is still present.

B. RULE OF LAW



INDEPENDENCE OF THE JUDICIARY

Judiciary in Poland is now less independent than in any other time during the ongoing decade, contributing to the overall decline in the rule of law. In 2017, a set of laws strengthened the role of the executive (i.e. Ministry of Justice), or of the Parliament or President, to the detriment of judicial autonomy. In March 2018, the Parliament, and not any more mostly judges, nominated members of the new National Council of the Judiciary (which advises on selection of new judges). But, the takeover of the Supreme Court by the ruling political party PiS's loyalists was slowed down due to the resistance of existing judges as well as strong pressure by civil society (manifested through massive street rallies). Besides, EU has thereby, in 2017-2018, taken legal actions against Poland under Article 7 of the Treaty on the European Union in an attempt to get it back to the respect of EU values of rule of law. European Commission referred Poland to the European Court of Justice to protect the independence of the Supreme Court.

CORRUPTION

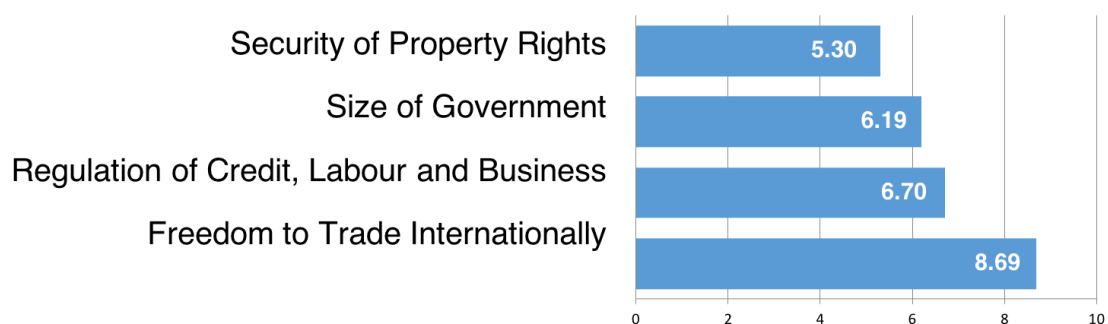
Stagnation in fighting corruption has been visible since 2013. During the last year, even a fall was noted, where after Poland in 2017, even though the best among "Visegrad" countries, fell from the place 29/176 to 36/180 in the Transparency International's CPI ranking. The Government put the fight against tax fraud and evasion as priority and issued numerous by-laws to curb it, with initial success, such as a rise of VAT income. Injustices and alleged corruption are investigated regarding the post-1989 process of restitution of private property. Government critics claim that many activities are marred by a revanchism against the previous government, while current corruption or nepotism culprits are treated more mildly. Portal GAN, in its January 2018 report, warns at "political corruption", nepotism and cronyism which use to challenge fair business practices, while the corruption risk is particularly high in public procurement, justice and land administration.

PROTECTION OF HUMAN RIGHTS

Polish government continued to refuse to accept MENA refugees under the EU quota system, though it, between 2014 and early 2017, accepted some (ca. 200) refugees from Ukraine, while

claiming that dozens of thousands of Ukrainian workers in Poland were refugees. Phobias against migrants from other continents or cultures are spread by highest officials. Within the country, pressure is rising against independent minded journalists or other non-conservative public figures. Very bad situation regarding protection of LGBTs (seen through lack of legalized unions, or proper anti-discrimination acts, or problems of transgender people) might start changing, with the EU rules of mandatory domestication of foreign marriages, pending national laws on same-sex unions and the election of the first openly gay City Mayor (in Slupsk). Thereby, homophobic (occasionally coalescing with white supremacy or other far right) groups continue to reject equality regardless of sexual orientation, as seen in their joint actions against gay pride parade in Czestochowa in mid-2018. Civil society, both in its human rights or other civic shapes and in its conservative-clericalist or far right modes, is very strong in Poland. Citizens are active and non-hesitantly express their views in public, including in street rallies. Due to favourable laws, NGOs enjoy both domestic and foreign financial support. Women are fairly equal at work (high number thereof in managerial positions, low gender wage gap, lavish maternity leave schemes), but their reproductive rights are constantly challenged by conservative groups` demands on the total ban on abortion, by reversals in sex education in schools, or by relatively poor access to contraception (whereby Poland is, according to the Europe Contraception Atlas, worse than any of its neighbours except Belarus).

C. ECONOMIC FREEDOM



SECURITY OF PROPERTY RIGHTS

Property rights in Poland are mostly secure. However, court impartiality and judicial independence score low in international or comparisons with other European countries, while recent judicial reforms are probably going to worsen the situation and make judiciary more dependent on politicians. Another problem are long judicial procedures which lead to very long enforcement of contracts, a process which on average could take up to two years. Usage of court automation processes is not widespread, and there is a significant backlog. Resolving insolvency is also lengthy, lasting up to three year on average, with modest recovery rates of just over 60% of the claim. There is a significant variation of court procedure length in different geographical areas of the country, due to different levels of efficiency and number of cases assigned. Amendments to the Civil Procedures Code introduced internationally recognized standards, since arbitration is becoming increasingly more popular as a mechanism for dispute settlement. Although foreign companies usually are not denied market access officially, foreign ownership is limited in certain sectors to minority equity, such as in air transport, media, airports and seaport

management. Although EU nationals can acquire agricultural land since 2016, the land use legislation significantly restricted this in practice. Furthermore, government has been pursuing the policy of “polonization” of some industries, considered as strategic, such as banking or retail trade, with the aim of increasing shares held by Polish citizens in cases where foreign companies hold significant market share. This policy is implemented through purchasing of private companies by state owned companies, tax treatment (special trade tax, which was later repealed after the European Commission ruling, or special tax on banks) and regulation (trade ban on Sundays has been introduced in March 2018). Recent controversial judicial reforms, such as the introduction of an extraordinary appeal mechanism in the newly established Supreme Court Law, could have impact on economic interests as well, because final judgments issued since 1997 could now be overturned, in whole or in part.

SIZE OF GOVERNMENT

Size of government in Poland is not excessive in comparison with more developed European countries, with total government spending reaching 42% of GDP in 2017. Growth has accelerated in 2017 from 2.9% to 4.6%, on the base of increased consumption and investments from EU funds, and unemployment rate fell below 5%. Although budget deficit just below 2% of GDP is still recorded, the gross public debt is on a slow downward spiral, reaching 51% of GDP in 2017. 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, especially in the banking sector, where the state controls two biggest banks and several smaller ones. Furthermore, state run Polish Development Fund was set up in early 2017 with the aim of supporting investments in the country. SOEs are also present in transport, chemical, mining and energy industries. Some of these companies do not operate efficiently, relying on direct funding from the state for their operation, via subsidies (most notably the mines), and there are currently no plans for broader privatization. Although SOEs are, legally, not favoured against private companies, there are strong indications of actual government favouring of state controlled companies in those sectors which are perceived as strategic and are providing them with pecuniary and political support. Income tax is progressive, with the lower rate at 18% and the higher one 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 and some excessive labour law regulation have led to a high share of non-fixed temporary working contracts among the working population, because of a lower social contributions scheme and less strict regulation applied to them. Total labour tax wedge is below those of other European OECD countries, standing at 35.6% on the average wage.

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 procedures at the National Court Register; the process is also costly due to the obligatory paid-in minimum capital

of over 1 000 euro. The process of obtaining construction permits has been somewhat streamlined in previous years, making it less burdensome to businesses. Economic regulation in some sectors, such as healthcare, wind energy and retailing, has had a strong negative impact on the competition and development in these fields. Policy changes in recent years have been introduced quickly and without due policy consultation, which undermined predictability of the business environment. Licensing restrictions in professional services are still burdensome, with a negative impact on competition by providing barriers to entry. Compliance with complicated tax procedures is burdensome, incurring administrative costs, although significant improvements in online services have been made. There were significant amendments to the Corporate Income Tax code, in order to harmonize its text further with the EU acquis, with changes regarding the transfer pricing documentation. Complaints regarding the tax legislation are centered on lack of clarity, strict penalties for minor offenses and frequent changes. Temporary contract employment is restricted to 33 months and the total number of workdays in a week is 5.5 since the workweek could be prolonged in case of an increased workload, with 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 role of trade-unions is significant only in certain professions in which SOEs are prominent, such as in mining and ship building, and in public sector, such as in education. The government introduced a new "Business Constitution", a package of legislation to improve business environment for the SMEs, with exemptions for start-ups and micro firms from social security contributions.

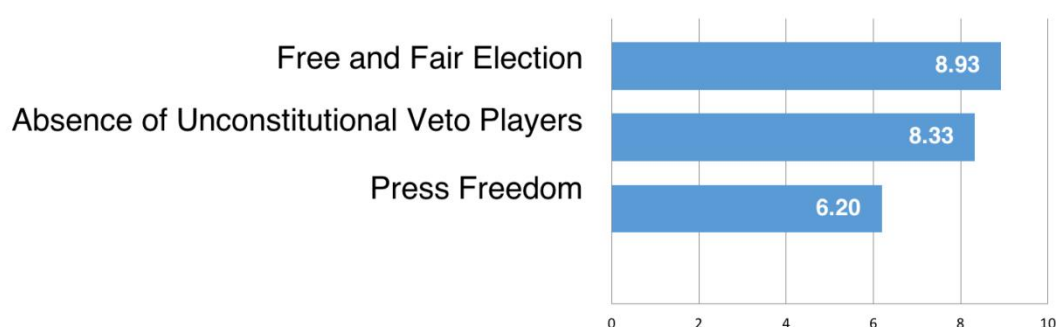
FREEDOM TO TRADE INTERNATIONALLY

Freedom of trade in Poland is mostly respected. As an EU member since 2004, Poland applies the Common European Trade policy with overall low tariffs, with the average Most Favourable Nation tariff rate of 5.3% for manufactured goods. However, agricultural tariffs are on average twice higher than these, especially for products such as dairy and sugar. Border compliance and documentation procedures are efficient, with only 4 documents, both for exports and imports, but standardization and certification procedures of goods imported from non-EU countries create effective non-tariff trade barriers. The customs and tax administration were joined together in 2017 to form the National Revenue Administration, in order to improve their effectiveness. Good public transportation infrastructure in Poland, as well as its geographic location, foster international trade by decreasing freight costs. But, the railroad quality is lower than the quality of roads and ports. The most important Poland's trade partner is Germany, followed by other EU countries, most notably the Czech Republic and the UK. Because of this, Brexit negotiations could have a strong impact on the Polish economy. 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 control the exchange rate of the national currency Zloty (PLN), which is in floating regime.

Romania

GDP in 2017: EUR 176,415 million		
annual growth rate: 6.9%	per capita: 9,000 EUR	by sector:
		agriculture 4.2%
		industry 33.2%
		services 62.6%
Population: 19,644 thousand	Human Development Index	Government position in 2017
Unemployment rate: 4.9%	HDI: 0.811 (rank 52)	-2.8% of GDP

A. POLITICAL FREEDOM



FREE AND FAIR ELECTIONS

Romania is a parliamentary democracy in which citizens have opportunities to elect their representatives in a free and fair electoral process. Local elections were held in the second half of 2017. All went without serious irregularities which might have endangered the process. Period under review was marked by the government instability and overall public dissatisfaction, bringing citizens to the streets on many occasions, to protest against the government. In the mid-2017 Mihai Tudose was elected as new Prime Minister of Romania, following the vote of no confidence against the former PM Sorin Grindeanu, who had governed for six months. Both come from the ruling Social Democratic Party (PSD). Thus, the changes reflect internal disputes within that party. However, the government of Mihai Tudose had similar “destiny” as the previous one. In October, two ministers were replaced on the PM’s initiative. When he, in January 2018, wanted also to replace the Interior Minister, who was close to the party chairman Liviu Dragnea, the PSD party turned back on him, resulting in his resignation. At the end of the same month, Romania got its third PM since the elections held in December 2016 when President appointed Viorica Dancila to lead the new government and parliament approved it. Although recently adopted legislative changes improved to certain extent the quality and

pluralism of the electoral process, the problem of high number of signatures for candidacy has remained. It requires 1% of the electorate (ca. 183.000 voters) to merely participate at the parliamentary elections. Changes also introduced thresholds for coalitions consisting of two or more than two parties, of 8% and 10% respectively. Mayors are elected through a single ballot, so at the last local elections some of them were elected, even in big cities, with less than 30% of the votes cast. At the last parliamentary elections in December 2016 only 8.889 persons registered and only 4.561 voted by mail. Over 4 million Romanians are estimated to be living abroad, but only 106.038 had voted at the diplomatic outposts.

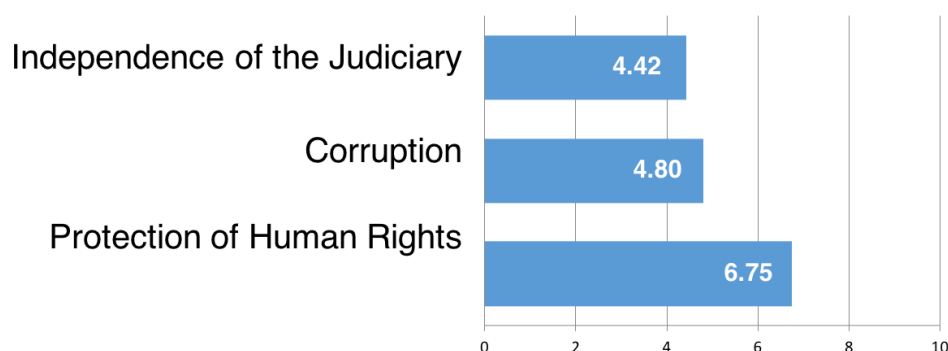
ABSENCE OF UNCONSTITUTIONAL VETO PLAYERS

Elected authorities in Romania have a power to govern without interference from unconstitutional veto players. Despite that, the work of the government is largely influenced and shaped by the PSD party chairman Liviu Dragnea, who himself, personally, is prohibited from holding office, on the grounds of past electoral frauds. By dominating party structures, he was able to use the power to change three governments in a single year, undermining independence of the parliament and executive and therefore representing the biggest threat to democratic procedures in Romania. Frequent attempts to increase political influence over judiciary led to several mass protests and loud criticism by the international community. As a country notorious for corrupt practices among public officials in the past, political decisions in Romania are still marked by strong ties between business and political elites and by intertwining of their personal interests.

PRESS FREEDOM

There is a wide range of printed, broadcast and online media outlets in Romania, with the latter two taking a dominant share on the media market. Despite improving its position in the Reporters without Borders 2018 World Press Freedom Index from 46th to 44th place, many problems in Romanian media landscape still remain, hindering both pluralism and diversity. While pluralism is threatened by financial problems, diversity is in decrease due to extensive politicization of public and private media outlets. There is a widespread fear that the weak system of checks and balances will prove unable to ensure editorial independence after being decided that public broadcasters are funded directly by the government. During the year, government also tried to push through the parliament a law which would enable parliament to replace the chief of the national press agency Agerpres, which was widely criticized by international watchdogs. Journalists are exposed to pressure coming from politicians and their close allies who own media outlets, limiting editorial independence. Abuse of power is used to silent the media critical of Liviu Dragnea. Due to all these, not only that reporting is censored, but also journalists often practice self-censorship. Public TV and radio stations are under the domination of the government party.

B. RULE OF LAW



INDEPENDENCE OF THE JUDICIARY

In spite of the sophisticated selection procedures designed so as to prevent direct political influence on courts, the latter is indirectly still very much present. Fierce political fighting has been on over having the judiciary in the sphere of influence of one or another political block, mainly in order to get away with past or future corruption or other misuse of office. Meanwhile, corruption in judiciary itself is far from being eradicated. Judicial reform, planned since August 2017 and in part adopted until June 2018, is still a matter of debate and opposition by the EU and by the President of Romania. In summer 2017, the Government issued by-laws to ease the pressure on - hence improve bad conditions in - detention facilities, by more extensive use of electronic tagging or early release of some prisoners.

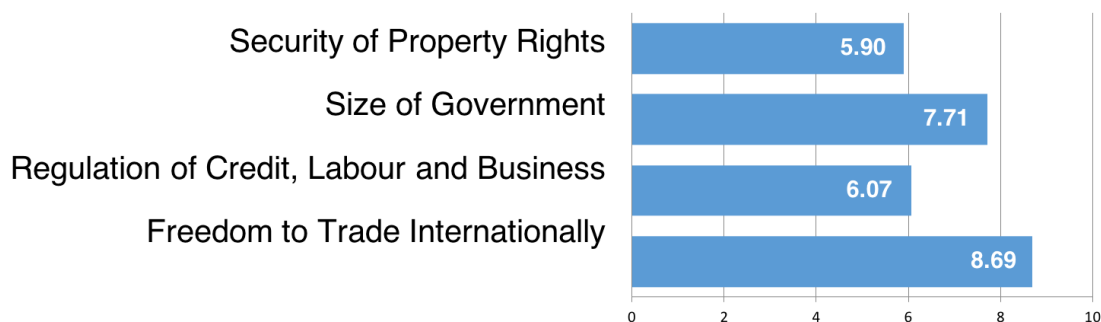
CORRUPTION

Together with Greece and Jordan, with 48/100 points (same as last year), Romania shares the places 59-61/180 on the CPI 2017 list of the Transparency International. Both TI and Freedom House have recently noted stagnation. Yet the situation is much better than in 2007, when she became a full EU member. Civic activism against high level corruption has gained momentum since 2015 and occasional mass street protests are the major obstacle to any setbacks (a few of which attempted by the government, in forms of loosening the anti-graft rules and/or de facto amnesty of the past culprits). The National Anti-Corruption Directorate (DNA) was for years at the forefront of the struggle, bold enough to charge the highest ranking officials yet vulnerable to political attacks (some of which hinting at its own alleged political bias or connections to the “deep state”, others to do with illegitimate methods of gathering information). In spring 2018, after long proceedings and delay, courts have acquitted several highest ranking politicians, including former PMs Victor Ponta and Calin Popescu Tariceanu, as well as former Mayor of Bucharest Ludovic Orban. Moreover, when Ministry of Justice decided to have fired the head of DNA Laura Kovesi, Constitutional Court overruled President of Romania Klaus Iohannis’s veto and obliged him to confirm her dismissal. However, in two other high level cases in spring 2018 courts have, at the first instance, sentenced to prison the head of the ruling party PSD Liviu Dragnea, as well as a major tycoon and media mogul Sorin Vantu.

PROTECTION OF HUMAN RIGHTS

Freedom of assembly is constitutionally guaranteed in Romania, yet the legislation needs updating, to prevent occasional arbitrariness by the police. NGOs are founded and operate freely, though their financing is uncertain, political parties try to attract them into their orbits and opponents occasionally smear or accuse them of treason. In education, a law was adopted in late 2016, which banned segregation in schools, due to ethnic origin, disability, socio-economic status and a number of other grounds. Romania tries to respect ethnic minority rights according to EU standards, but some communities such as Roma still face problems, despite ongoing governmental programs of desegregation. A rivalry seems to be on between Romanian and Hungarian nationalists, as demonstrated through the court litigation over a right to a beer brand. In psychiatric care institutions, conditions were, by the Amnesty International, described as “extremely precarious”. Romanian government is struggling hard to stop human trafficking, whereby the country is both the one of origin and one of transit. In a conservative crusade against LGBT equality, a mottled left-right civic initiative Coalition for Family, supported by all the big political parties and religious groups, made it to call a referendum in favour of a constitutional ban of same-sex “families”. Referendum failed due to a low turnout.

C. ECONOMIC FREEDOM



SECURITY OF PROPERTY RIGHTS

Property rights in Romania are relatively secure. However, the judiciary system faces many challenges. Although the courts are mostly perceived as fair, there are signs of strong external influence in important cases which restrict judicial independence. Corruption among the judiciary officials is also still present. Contract enforcement is very slow, lasting almost 1.5 years on average, and incurs high costs. Enforcement of property rights through judicial process could be lengthy, costly and difficult. There are no specialized commercial courts, and local courts often lack expertise in many commercial areas, and therefore judgments in similar cases can substantially deviate between courts. Not all restitution claims have been fully addressed, which increases the uncertainty of property rights. Due to all those problems, mediation is slowly becoming more popular and the Bucharest International Arbitration Court was established in late 2016. The new civil procedure code has recently transferred some enforcement responsibilities from courts to bailiffs in order to make contract enforcement easier, but these expectations have not yet been fulfilled. 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 and land ownership, where the rights are divided, resulting in uncertain or unclear property rights. Registering property is an efficient process that uses online procedure at the cadastre and notaries. Most urban land has a clear title, but the situation is much less favourable in the rural areas and smaller towns. National Cadastre Agency estimates that less than one third of the existing real estate assets (lands and buildings) are registered in the cadastre registry in 2018. The envisaged deadline for full registration of lands and titles in the cadastre is 2023. Insolvency procedures are not well designed, with cases lasting longer than 3 years on average, with a recovery rate of 35% of the claim.

SIZE OF GOVERNMENT

Size of government in Romania is modest, when compared to other European countries, with general government expenditures reaching 31% of GDP in 2017. The recent massive tax reforms as well as the rise in current expenditures for public sector wages (due to the Unitary Wage Law these were increased by 25%) and pensions resulted in a strong pro cycle policy and high budget deficits, reaching 2.8% of GDP in 2017 and envisaged to reach even 3.6% this year. Economic growth rates are robust, reaching as high as 6.9% in 2017, based on rising private consumption due to fiscal stimulus and increases in wages, but public investments hit annual record low due to the low absorption of the EU funds. These growth rates are expected to moderate after the influence of these policies dissipates. Unemployment has plummeted, falling below 5% in 2017. Inflation is rising. State owned enterprises in Romania are numerous, their number being close to 1200, and although a significant proportion of them are local utilities, some do play a notable role in the economy, especially in the infrastructure, energy and transportation sector. The government is the owner of just 2 smaller banks, but there are plans for establishing a new state development bank. SOE corporate governance is weak, with low performance and profitability, but SOE financial situation on average has improved due to the overall growth of the economy. Many SOEs are managed by interim boards, often with politically appointed members. The enforcement of the SOE governance code was weakened since the government exempted several SOEs from following the code in December 2017. After several successful rounds of SOE privatization in previous years, further privatization of big SOEs has been put on hold. After strong revisions of tax rates that took place in 2015 and 2016, general VAT rate now stands at 19% - the same level as before the fiscal austerity measures that took place after 2009. Preferential VAT rate remains 9%, and even 5% for certain products and accommodation. Both personal and corporate income tax rates are flat; in 2018 the personal income tax was reduced from 16% to 10%, while corporate tax remained at 16%. On the other hand, special energy taxes imposed in 2013, which had at first been envisaged to be terminated by 2015, are still in place. They were turned into permanent in December 2017. Due to high social contributions for health care and pensions, total labour tax wedge in Romania is high, approximately 43% on the average wage, which is the highest in the SEE region.

REGULATION OF CREDIT, LABOUR AND BUSINESS

Regulation in Romania is mostly business friendly. However, as in other countries in the region, there is a significant issue regarding partial implementation of existing regulations, favouritism

coming from government officials and corruption. Regulation could also prove as unclear and ambivalent, while government bureaucracy is not considered as efficient. In recent years, frequent government changes have led to rapid changes in government policies, which complicated the business climate and increased the level of unpredictability. Slow progress in e-government solutions and complex administrative procedures also have a negative impact. Although starting a new business is relatively easy and inexpensive, with low minimum capital requirements, obtaining a construction permit and getting electricity grid connection are very lengthy processes, with many procedures and high fees. The Public Private Partnership Law was once more revised in 2017, but the implementation rules have not yet been published, which made the law ineffective in practice. Labour market regulations are mostly flexible. Maximum duration of a single fixed term contract is 36 months, but it can be extended to 60. Firing regulations are cumbersome, with priority rules for redundancies and reemployment, but notice periods and severance pay are neither high nor increase with years in tenure. On the other hand, regulation of the maximum work hours stipulates a 5-day workweek, which is restrictive since it does not allow for more working hours in case of an increased workload. The minimum wage has more than doubled since 2012, surpassing the ratio of 50% to the average wage. After the 2017 rise of 15% it was increased again in 2018 by additional 30%. Such a high level of minimum wage could have strong negative effects on employment of older workers and people with low qualifications, since it was above productivity growth. Legislation on national collective bargaining agreement is still pending in the parliament. The biggest obstacles to a better business environment in Romania are high tax rates, inefficient government bureaucracy and access to financing.

FREEDOM TO TRADE INTERNATIONALLY

Freedom to trade internationally in Romania is mostly respected. As an EU member country since 2007, Romania has been implementing the common EU trade policy with the overall low tariffs on imported goods. The applied MFN tariff rate is 5.1%, but it can be much higher for agriculture goods. 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 (with the average speed of just 15 km per hour), serves as another impediment to free trade, resulting in high transportation costs and limiting trade volume. These large infrastructure needs, however, are not met due to the curbing of public investments in order to increase current spending, to low absorption rate of the EU funds allocated and to low investments of the SOEs in the transportation sector. Romania experienced a current account deficit of 3.7% of GDP in 2017, which is envisaged to increase further, due to the rise in wages and consumption. Romanian economy is well connected with the EU market: its main partners are Germany and Italy, but also Turkey. Its geographical position – especially the Danube transport corridor and the Black Sea – make Romania an important hub for transit trade. Although EU national can work and reside in the country with no restrictions, obtaining a work permit for non-EU nationals is a costly and slow procedure. The number of allotted work permits is set each year. It was recently increased from 5 500 to 7 000.

Russian Federation

<i>GDP in 2017: EUR 1 313,447 million</i>		
<i>annual growth rate: 1.5%</i>	<i>per capita: 9,120 EUR</i>	<i>by sector:</i>
		agriculture 4.7%
		industry 32.4%
		services 62.3%
<i>Population: 143,990 thousand</i>	<i>Human Development Index</i>	<i>Government position in 2017</i>
<i>Unemployment rate: 5.2%</i>	<i>HDI: 0.816 (rank 49)</i>	<i>-1.5% of GDP</i>

A. POLITICAL FREEDOM



FREE AND FAIR ELECTIONS

With an electoral system designed so as to favour the ruling party United Russia and president of the country Vladimir Putin, the authoritarian regime used its control over the state to continuously reduce democratic and civic rights. Political parties operate in a restrictive environment and compete in an unfair electoral process, whereby in many cases its outcome is known in advance. The presidential elections as of 18th March 2018 have become yet another example of such an unfair process. After preventing the main opposition leader, Alexei Navalny, from participating in the elections, on the basis of corruption charges, in a move widely perceived and criticized as politically motivated, the incumbent president Putin had no real competition, winning almost 77% of vote. He was elected for the fourth time as the President of Russia. According to OSCE, the vote took place in an environment with no genuine competition, with pressure on voters and opposition candidates, and with favourable media coverage for the incumbent president. Earlier during the period under review, in September 2017, regional elections were held, with independent observers registering irregularities during campaign and on the election-day, including during vote count. Besides, there was also a misuse of state resources.

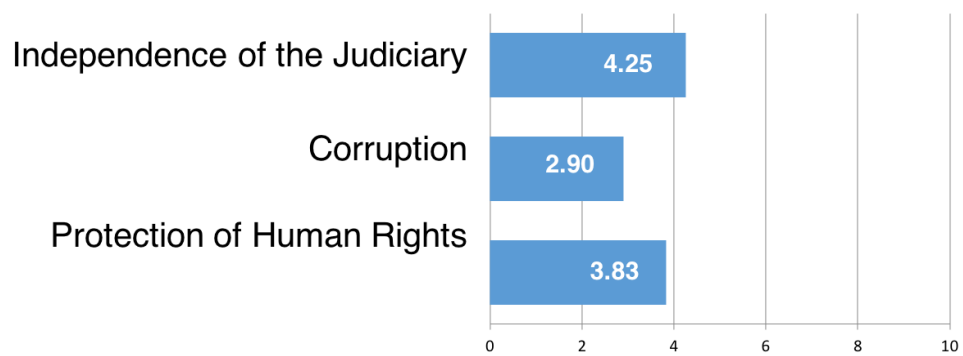
ABSENCE OF UNCONSTITUTIONAL VETO PLAYERS

Political decision making in the Russian presidential system is completely in the hands of president Vladimir Putin and a close circle of his aides. With tight control over all three branches of power, there are no institutions able to hold them accountable for their actions, thus the proclaimed “vertical of power” is the most important factor undermining democracy. Through this vertical control of the system they are able to sustain various interests of other influential players, such as oligarchs, clergy or the security apparatus. Moreover, corruption is widespread in Russia. Close ties between wealthy business people and politicians in power are used to manipulate institutions and ensure personal gains. The country is ranked as 135th at the Transparency International 2017 Corruption Perception Index. Russian Orthodox Church has significant influence on public opinion. Also, there are influential players in the Russian secret service and military, but they are all, ultimately, even when mutually competing for influence, rather subordinates to the president and to current regime than actors who could independently interfere into Kremlin’s decisions.

PRESS FREEDOM

Freedom of the press is granted by the constitution; however, extensive legal and extra-legal pressure prevents broadcast, print and online media outlets from free and independent reporting. Journalists work in an environment of fear, maintained by physical and verbal violence, imprisonment, censorship, economic and political pressure. Two journalists were murdered in 2017 as a result. There is a broad media landscape, however lacking political diversity, since most media are in the hands of people close to Kremlin or are supporting the regime on most important issues in order to avoid conflict. The RBK media group, which had provided critical coverage of the ruling political elite, was sold under strong pressure. Through partisan reporting by state-owned media outlets which are favouring the regime, citizens are generally provided with a controlled and one-sided point of view. The parliament adopted a law at the end of 2017, allowing authorities to label media outlets as “foreign agents”. Independent reporting could mostly be found online. But, that has attracted a lot of government attention recently, where after notable efforts were put to take control over Internet. A number of amendments were passed, allowing authorities to filter and block online contents, thus provoking civic protests in April 2018.

B. RULE OF LAW



INDEPENDENCE OF THE JUDICIARY

The political regime has a contradictory relation with international law, through its attitude towards international courts, by formal support to them but selective acceptance of their, e.g. ECHR's, decisions, or non-cooperation with the ICC, or smearing of the ICTY or praising some of its inmates in government-sponsored media. Meanwhile, some state ideologues and political and religious leaders of the country reject the very idea of the rule of law, as "alien" to Russian tradition, national identity and desired way of life. As Freedom House notes in 2018, the judicial framework has also "remained inconsistent with its constitutional basis". High profile cases are tightly controlled by political factors, while other cases are influenced by bribery or other non-legal factors. Amnesty International reports on a number of violations of the right to fair trial. Detentions are too long while sentences and fines, especially in administrative courts, are decided swiftly, mainly based on police reports. In autonomous regions such as Chechnya the situation is far worse in terms of total political control over judiciary, while in occupied and annexed Crimea there is an additional legal uncertainty due to the transition from Ukrainian to Russian laws.

CORRUPTION

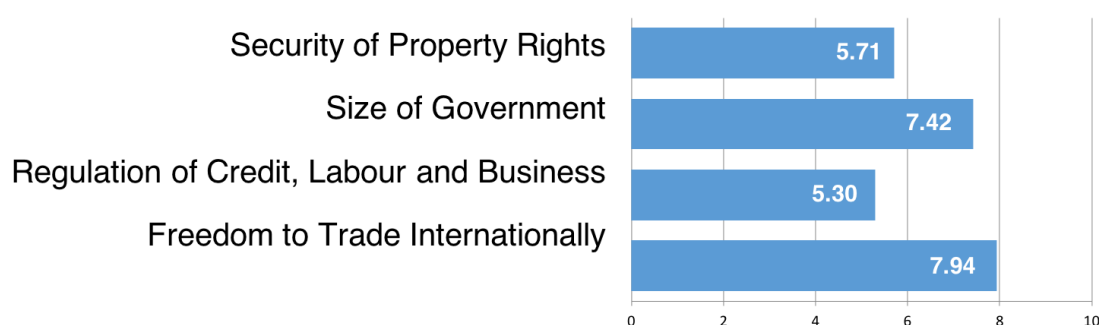
Widespread and persistent – both grand and petty - corruption is a consequence of the lack of political and economic freedom and rule of law, and of state capture by political, business, intelligence and organized-crime oligarchy, but, as Freedom House suggests in its Nations in Transit 2018 report, "the main barrier to democratization of Russia". FH's score suggests a further small worsening thereby, while Transparency International's a stagnation at a very low level. In the TI's CPI 2017 listing, Russia was ranked 135-142 of 180 countries, with 29/100 points. Grand corruption sucks up a huge percentage of national wealth and, together with petty one, changes the very fabric of society. Portal GAN finds bribery widespread especially in the judicial system and public procurement, while it is also "endemic" in the police. There are high corruption risks in tax and customs administration. Land administration in Russia-proper is somewhat better, but in occupied and annexed Crimea corruptive land grabs are on the way. FH notes that "official anticorruption activity was nothing more than a tool of political struggle within the political and economic establishment."

PROTECTION OF HUMAN RIGHTS

In spite of a (minimal) improvement of its score lately (mainly due to better education and better access to it), respect of human rights in Russia is at a low level, among the worst of all European

countries. Human Rights Watch wrote at the end of 2017 that Russia was more repressive than ever in the post-Soviet era. In the way it mistreats political opposition, CSO-based critics, or undesirable worldviews or ways of life, Russia is seen by many already as a role model for a number of illiberal, anti-individualistic, authoritarian regimes or political movements across and beyond Europe. Freedom of thought and expression is limited to a small number of online portals that are not banned or censored. Even in academia, research or approach which contradicts the government-imposed norms of patriotism or morality can be subject to censorship and/or prosecution. Freedom of association is especially curtailed by no less than 11 laws that directly and additional 35 that indirectly limit various aspects of NGOs' work (financing, advocacy, public gathering, publishing, etc.) while the definitions of key terms are either missing or are too flexible, thus allowing authorities to endlessly discriminate. In spite of that, civil society in Russia proved as stubborn and remained an important societal factor. Public gathering is restricted, while occasional mass protests over various issues (e.g. corruption, or pension reform) are followed by mass arrests and fines. The Russian Orthodox Church (and - to a degree - also other "traditional" religious communities) enjoy privileges, to the point of endangering the secular character of the state, while small or new cults are subject to prosecution of imagined (or sometimes real) extremism. While the authorities try to push back racism, anti-immigrant violence and discrimination of non-Slav ethnic groups by ultra-right wingers in mainland Russia, discrimination of ethnic Tatars and Ukrainians in the Russia-occupied and annexed Crimea continues. Moreover, during the world football championships in June-July 2018, state officials used racist and xenophobic argumentation to discourage young Russians of establishing close contacts with foreign visitors. Public display of belonging to sexual minorities is de facto outlawed in Russia. In Chechnya, an autonomous republic within the RF, authorities went even further between spring and autumn 2017, summoning and torturing hundreds of LGBT people in an attempt to black-list as many as possible. Freedom House noted that at least 31 persons were thereby killed.

C. ECONOMIC FREEDOM



SECURITY OF PROPERTY RIGHTS

Private property in the Russian Federation is not well secured. Improper government influence and corruption in the judiciary are perceived as high, while vested interest groups connected to political factors can also exercise strong influence over the judiciary. Judiciary is strongly biased in favour of state entities, either state administration or SOEs. Court decisions in similar cases can substantially differ, giving advantage to the party with political connections, leading to

unpredictability of verdicts. There are strong claims that authorities often transform civil cases into criminal cases, in order to substantially increase potential penalties, while unfounded lawsuits or arbitrary enforcement are still present. Private property could be seized by the state, while the offered level of compensation is below expectations; this can also be done indirectly, through pressuring a company to sell its assets at sub-market price and using questionable legal proceedings. On the other hand, legal enforcement of contracts seems efficient, incurring low costs as compared to the value of the claim and is settled within a calendar year. There are specialized commercial courts, but they are often overburdened with small and simple cases. Adjournment procedures are not put in place, and courts do not use automated processes. Insolvency processes are long, lasting two years on average, and are mostly terminated via piecemeal sale, contributing to a relatively low recovery rate of slightly above 40%. The July 2017 amendments to these rules expanded the list of persons who might be held liable for debts of the bankrupt company. Registering property is not lengthy, involving few procedures and incurring low costs. However, outside major cities not all land is registered in the cadastre or mapped. Foreign ownership of land in border or other sensitive areas is restricted, while in the case of agricultural land foreign ownership is outright banned, but foreign entities (natural persons and legal entities with more than 50% of foreign ownership) could lease land for up to 49 years. Government approval through Strategic Investment Commission is necessary for investing in 45 specific areas and industries that are considered as having strategic importance; July 2017 amendments tightened control over transactions of companies registered in off-shore jurisdictions.

SIZE OF GOVERNMENT

Public expenditures in Russia are moderate in international comparison, reaching 35% of GDP in 2017. After the prolonged recession in 2015-2016, due to the fall in oil prices (energy makes two thirds of Russian exports), Russian economy started to expand again in 2017, due to rising oil prices and domestic demand. Non-oil exports are also strongly growing, year and again, supported by the significant ruble depreciation. But the growth remains weak, well below 2% and fragile to international developments. The budget deficit was cut in half, from 3.6% to 1.5% in 2017. Public debt remains low by international comparisons, standing at 17% of GDP, providing substantial fiscal space if necessary. Inflation was put under control and reduced to 2.5%, which is a substantial positive achievement when previous inflation rates are taken into account. State-owned enterprises (SOE) are numerous, including more than 64 000 joint stock companies and 21 000 unitary companies. SOEs are active in many industries, not just in those that are regarded as being of strategic importance, such as public utilities, mining, energy or production of military equipment, but also those in agriculture or services. The SOEs allegedly account for 60 – 70% of GDP. Also, 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, posing a drain on the federal budget. Although there is an ambitious privatization plan by the government, it was mostly discarded or postponed, including the minority privatization of the VTB bank. In February 2018, Russia combined its previous two independent wealth sovereign funds. 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, leading to a labour tax wedge of 38% on the average wage, in line with the average of the OECD countries.

REGULATION OF CREDIT, LABOUR AND BUSINESS

Business environment in Russia is not overly business friendly. There are many unnecessary government procedures, while government bureaucracy is mostly inefficient. The level of corruption attested is high, fuelled by often vague or contradictory regulation. On the other hand, the process of starting a new business is both easy and inexpensive, without minimum paid-in capital requirement; getting electricity is also an easy procedure taking a bit more than two months. However, it takes more than 6 months on average to obtain a construction permit, since the process involves a high number of procedures. The number of annual tax payments is low and most procedures are online, but the tax rules are still considered overly complicated. Recent reforms improved access to credit by establishing a modern collateral registry. Labour regulation is mostly flexible. Although fixed term contracts are prohibited for permanent tasks, their duration is limited to a long period of 60 months. Working hours face little restrictions. On the other hand, there are redundancy rules but severance pay and notice periods are not stringent and do not increase with years in tenure. Collective bargaining is not well organized and is mostly concentrated within the public sector. After a series of gradual hikes, the federal minimum wage was substantially increased in May 2018, but its level is still low in international comparison when average wage in the country is taken into account. 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

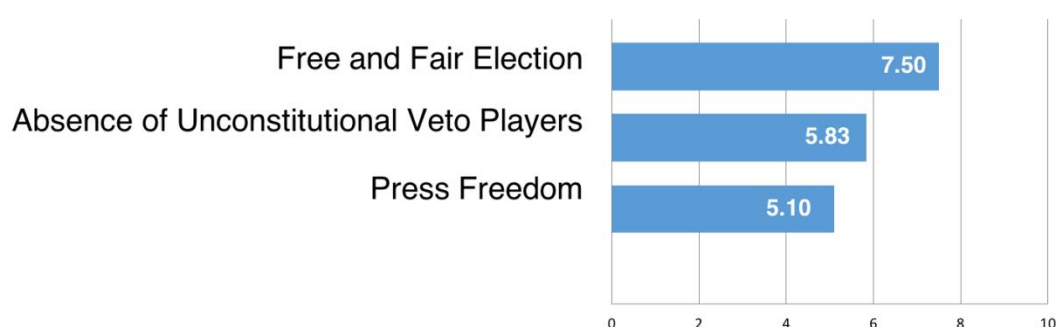
Free trade in Russia is mostly respected, but many obstacles to international trade remain present. Russia is a recent newcomer to the World Trade Organization (WTO), becoming a member in 2012. The tariffs are moderate, with the average MFN applied tariff rate of 6.7% but tariffs on agriculture products could be much higher. 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 the lack of complementarity of economies included, and due to non-alignment of sanitary and phytosanitary measures which need to be tackled. There are currently plans for free trade deals in the near future with Iran and India, while negotiations with other countries are also in place. However, Russia has frequently used economic sanctions as a tool in dealing with neighbouring countries, in order to promote its foreign policy goals. Such economic conflicts took place with Georgia, Moldova, and even Belarus, while recently also with the EU and Ukraine. The current trade sanctions on EU agriculture products are used to promote a substantial program of import substitution of foodstuffs. This field has also been known to have high technical barriers with sanitary standards. There are also significant product localization requirements, which give preferential treatment to locally produced goods or those with some local component; in cases of state funded projects equipment and machinery used must often be made in Russia. Recent

labour regulations significantly restrict 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 the labour market. Two thirds of Russian exports are fuels and minerals. Bad quality of transport infrastructure outside big cities and transport routes poses a significant burden on the transport of goods.

Serbia

<i>GDP in 2017: EUR 34,496 million</i>		
<i>annual growth rate: 1.9%</i>	<i>per capita: 4,900 EUR</i>	<i>by sector:</i>
		agriculture 9.8%
		industry 41.1%
		services 49.1%
<i>Population: 7,021 thousand</i>	<i>Human Development Index</i>	<i>Government position in 2017</i>
<i>Unemployment rate: 14.1%</i>	<i>HDI: 0.787 (rank 67)</i>	<i>+1.5% of GDP</i>

A. POLITICAL FREEDOM



FREE AND FAIR ELECTIONS

Freedom and fairness of the electoral process in Serbia deteriorated for the fourth consecutive year at the Freedom Barometer Index. Weakening democratic institution of elections, abuse of power and state resources, tight control over media and irregularities on the voting day, all mark uneven playing field for political parties. Citizens are kept in the environment of constant elections, often snap ones, used by the ruling party to consolidate power in the country and shift the focus from the governing of the state. After 2016 parliamentary and 2017 presidential elections, in 2018 elections for the city local council in the capital Belgrade took place. Like previous two mentioned, these elections were as well characterized by biased media coverage in favour of the ruling party, blurred separation between campaigning and regular activities of state officials, voter intimidation and vote frauds on the election day. Only four party lists managed to pass the 5% threshold, with ruling Serbian Progressive Party (SNS) scoring 45% of votes and securing absolute majority in the city parliament. Politicization of state institutions such as Regulatory Electronic Media Agency, or Elections Commissions, together with a hostile climate created against opposition politicians as such, critical journalists, and civic activists, and the pressure on state employees to vote for the ruling party and take part in its political activities, all

contributed to making the political arena an unfairly set battleground. The situation at the local level is often even worse regarding the above mentioned deficiencies. Despite some consolidation efforts within the opposition during the period under review, it still lacks seriousness and power to challenge the ruling party.

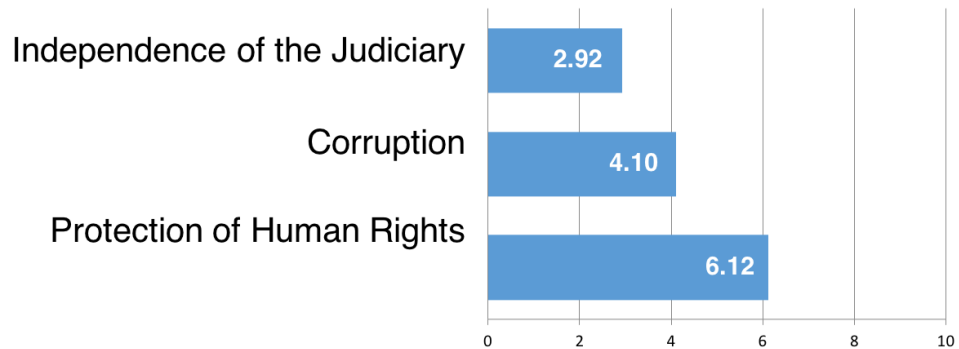
ABSENCE OF UNCONSTITUTIONAL VETO PLAYERS

Decision making in Serbia is under effective control of elected state officials. However, concentration of power in the constitutionally ceremonial role of the President and weak system of checks and balances hinder democratic institutions and rule of law. Although he moved from the Prime Minister position, Aleksandar Vučić continued to exercise almost complete control in the country, through his Serbian Progressive Party (whereof he remained the party chairman) and its parliamentary majority, dominating over both the legislative and the executive branch of power. In addition, politicization of judiciary largely prevents its oversight function. Close ties between members of the ruling elite and some businesses are established, so as to favour their personal interests. Serbia is ranked as 77th in the Transparency International's 2017 Corruption Perception Index. Secret service and organized crime are considered to have significant influence on politicians and country politics, while influence of the Serbian Orthodox Church on public opinion is weak, despite their efforts to intervene on issues such as relations between Serbia and Kosovo.

PRESS FREEDOM

Together with democratic standards, freedom and independence of the press in Serbia are in rapid decline. The country deteriorated by 10 positions on the Reporters without Borders 2018 World Press Freedom Index and currently holds 76th position, lowest among all Western Balkan countries. Warnings regarding this worrisome trend are coming from many domestic and international media instances, with European Journalist Federation having had deployed a special visit to Serbia at the end of 2017. Wide range of print, broadcast and online media outlets exist in the country however pluralism of their reporting is at stake. Ruling elite does not hesitate to abuse legal - or use extra-legal - tools to confront with those who are critical of the government and/or of the president Aleksandar Vučić. Local media outlet "Vranjske" was closed down due to such atmosphere. There are only few outlets providing objective and critical reporting. Investigative journalism, which is mostly NGO driven, plays an important role in providing checks to the regime, however their work is often targeted by physical and verbal harassment campaigns. After the KRIK – the Network for investigating crime and corruption - published an article on suspicious money used to buy the apartment by the Serbian Defence Minister, many pro-government tabloids launched a smearing campaign against its founder, aiming to discredit him and the entire network. Both economic pressure through state advertising favouring government friendly outlets and political pressure are used to ensure biased reporting, with many media houses and journalists often practicing self-censorship or becoming a ruling party's propaganda tool. Journalists are working in poor economic conditions, faced with intimidation and hostile atmosphere. An increased number of physical and verbal attacks are additionally hindering objective and independent reporting and overall quality of journalism in Serbia.

B. RULE OF LAW



INDEPENDENCE OF THE JUDICIARY

Although stipulated by the Constitution and laws, independence of judiciary in Serbia is at a very low level and deteriorating, due to non-existing, or repeated slow, shallow and inconsistent reforms, lack of political will to implement and respect the laws and various out-of-government pressures, such as by organized crime, or by unreformed parts of “deep state”, or through corruption, nepotism or cronyism. Debated constitutional and legal changes demanded by the EU and envisaged to advance the rule of law are behind schedule, while suspected by some CSOs to be introducing new ways of subjugation of judiciary to the executive, e.g. via narrowing channels of entry into profession. Occasional media campaigns, corroborated by the highest politicians’ selective criticism of the sector, pose an additional pressure. Huge backlog of cases, controversial decisions in high profile cases and slow implementation of court decisions led to a widespread mistrust in judiciary by citizens and companies. To it, police and prosecutors are even less independent than judges. As for prison conditions, by mid-2018 a new high-tech prison for the longest-serving convicts was near completion, arousing hopes of less overcrowding, more specialization and more correctional success in penitentiary facilities.

CORRUPTION

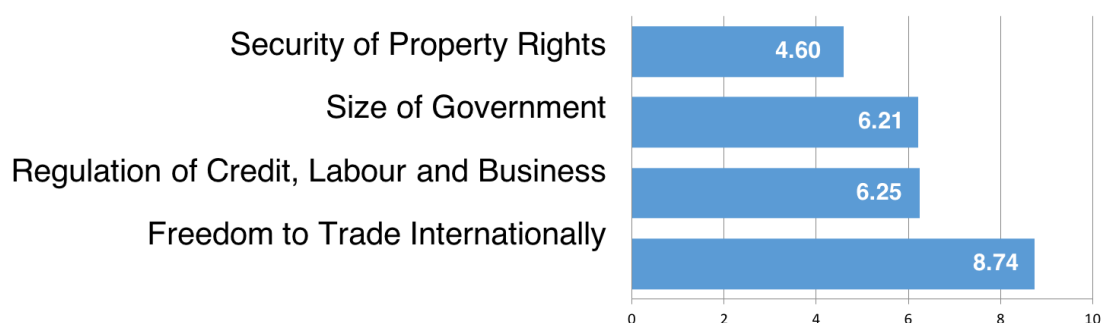
As the hopes of a corruption-free society, unrealistically awakened in 2012, have faded away, Serbia is doing even less than realistically possible to gradually decrease graft. Stagnation and small oscillations around ca. 40/100 points (e.g. 41 in 2017) at the Transparency International’s CPI list provide her each year with a bit worse ranking. In 2017 those were the shared places 77-80/180 (as compared with 72-74/176 in 2016). The capture of key institutions (including those supposed to be independent) and key positions in the public sector (itself still very big and only partially corporatized) by the ruling parties’ loyalists provides huge ground for non-transparent mega-projects while narrowing ground for investigation of would-be irregularities. Some of the biggest infrastructural projects or public-private partnerships were agreed without competitive tenders (or with those considerably manipulated), or via inter-governmental political deals (thus reducing public access to information or other tenets of transparency). According to portal GAN, corruption risks are especially high in public procurement, land management, tax administration, police and customs. Anti-corruption agency (ABPK/ACAS), almost a decade old, has never worked efficiently. Recently, it has been additionally crippled by frequent changes on the top,

coupled with neglect or ignoring by other state bodies. For several years now a new law on ACAS is being deliberated. In a daily fight against middle and low level corruption, the number of arrests and launched investigations is rising, but the number of final, applicable court verdicts is not. In March 2018, Council of Europe warned Serbia over her failure to implement any of the 13 recommendations by the GRECO, as of the year 2015, on fighting corruption among parliamentarians, judges and prosecutors.

PROTECTION OF HUMAN RIGHTS

Serbia's recent human rights map is full of divergent trends. In education, even pretty clear corruption, diploma-buying or plagiarism cases are let go, thus menacing a level playing field. On the other hand, education in languages of minorities, or school inclusion of child migrants, is exemplary well implemented. President and other officials made important symbolic gestures aimed at encouraging temporary settled migrants to attend education and creatively and productively engage with local communities. Human trafficking is still a major problem. In spite of the rise of extremism and hate speech in society, especially online, protection of minorities is in average better. Ethnic minorities enjoy, via freely elected councils, the rights to influence relevant educational and cultural policies. But they are occasionally subject to extremist pressure and threats. In spite of a privileged position of the SPC (and other "traditional" religious communities), government often successfully rejects their demands to shape policies on crucial national issues. Sexual minorities have seen the biggest breakthroughs recently, with Pride parades regularly held, homophobic narrative in media in retreat, and anti-discrimination protection strengthened (however inconsistently applied). Same-sex unions, but, still await recognition. The worst developments are in the freedom of thought and expression (to do with decreasing media freedom, and also with increasing censorship of the public-funded art works), in the position of dissenting NGOs (often smeared in the pro-government media), in access to public information, in the right of privacy (endangered primarily by concealed pro-government actors) and in treatment of war crimes and war criminals of the 1990s. ICTY convicts who had already served their sentences for war crimes, mainly without repent, enjoy government – open or covert - support and are given opportunities to influence new generations of army officers, police, or broad public, via lectures, public-funded memoir books, TV interviews, or by remaining as MPs or members of the leading bodies of political parties.

C. ECONOMIC FREEDOM



SECURITY OF PROPERTY RIGHTS

Private property in Serbia is not adequately protected. Judiciary and 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 alongside the further EU accession process. This process, however, is slow, non-transparent and used by the coalition in power to legitimize its grip over the judiciary. The Savamala affair as of spring 2016, which had demonstrated to what extent government agencies have been 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 courts, land register and inspectorates. Legal enforcement of contracts is an inefficient process due to time-consuming and expensive legal procedures, lasting almost 2 years on average and costing 40% of the claim. 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, so numerous cases are automatically transferred to appellate courts. Bankruptcy procedures are also lengthy, with low recovery rate of only around one third of the claim. Ownership of agricultural land is restricted to Serbian nationals only, but this is circumvented by registering a domestic legal entity owned by a foreign national, so the regulation affects only foreign natural persons. However, since August 2017, EU nationals have been permitted, under the Stabilization and Association Agreement, to own land, but with many obstacles attached, that in practice made this right difficult to exercise. Coverage by the land register is restricted mostly to bigger cities, while the performance of its local branches varies significantly, whereby many titles are not clear. The process of legalization of more than 2 million objects built without a permit, half of which being residential, is still ongoing, albeit very slowly and with many allegations of corruptive practices. The process of restitution has not yet been finalized. In many cases where property restitution or substitution is possible, government bonds will be offered instead, with the offered amount perceived as less than the actual value of the property.

SIZE OF GOVERNMENT

The size of government in Serbia, with overall government consumption reaching 42% of the GDP in 2017, is in line with other European countries yet above those transition countries at the similar level of development. Fiscal austerity program that was introduced in 2015 under the auspices of the IMF, with curbing the spending on the wage bill and pension benefits, delivered results in putting deficits under control and was successfully finished in February 2018. However, positive external situation with the low interest rates due to the ECB monetary policy, low energy prices, Euro-zone growth, etc., were also important in this regard, fostering growth. Although sluggish in 2017 with 1.8%, it significantly picked up in 2018, but its trend remains weak as compared to other transition economies. Public debt, reaching 61% of GDP in 2017, is on a strong downward trajectory from its 2015 peak of 76%. However, the unsustainable pension system, together with the bloated and non-reformed public wage bill, still remains at the core of the public finance problems, followed by high direct or indirect subsidies to inefficient state-owned enterprises (SOEs). Although it was initially envisaged to be completed by 2015, the process of privatization or liquidation of SOEs in restructuring is still under way, due to political

pressures. But, most important ones have already been resolved, such as the Smederevo Steel Mill, or the Bor copper mines. In privatization process, those were considered as fair and transparent. SOEs that are not envisaged for privatization are still numerous and present in many sectors, such as mining, telecommunications, energy, transportation, banking and insurance, etc. Taxes are mostly in line with other European countries. The standard VAT rate is 20%, and the preferential one is 10%. Corporate tax is set at 15%, while personal income tax is set at 10%. High social security contributions, however, lead to the total labour tax wedge of 39%, which, coupled with a weak institutional setting (of tax authorities and labour inspectorate), fosters widespread shadow-economy activities and employment.

REGULATION OF CREDIT, LABOUR AND BUSINESS

Business-friendly environment in Serbia is still evasive. The biggest challenges stem from the low level of rule of law, partial regulatory implementation and corruption. Due to the increased centralization of political power, Serbia exhibits some characteristics of a captured state in which restrictive rules apply only to those without good political connections. However, several reforms during recent years have improved the existing regulatory framework (labour code, law on investments, construction licenses regulations, inspectorate, etc.) but this has mostly improved the situation for big businesses that have the possibility of direct communication with politicians, while it has not had any impact on the conditions in which SMEs works. Regulations are often complicated and non-aligned with one another, while petty corruption is also present. The most problematic factors for doing business are considered to be high tax rates and inefficient government bureaucracy. Starting a business is an efficient process, being fast, inexpensive and without paid-in minimum capital requirements, whereby it is usually done within a week. Obtaining a construction permit was made more business friendly by significantly lowering the number of procedures and time limits, by opening one stop shops for investors and by using electronic tools. Now, this procedure lasts approximately three months, whereby electronic application system is used. Connecting to the electricity grid imposes enormous costs, due to the high fees imposed by the inefficient public-owned energy-distribution company. 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. Labour market regulation has both flexible and inflexible characteristics. Fixed-term contracts are prohibited for permanent tasks and their maximum duration is limited to just 24 months; but working hours are not overly regulated. Severance pay increases in accordance with years in tenure, protecting the seasoned workers, but notice periods do not. The firing section due to redundancy and misdemeanour is overly protective towards the workers, contributing to shadow employment and the high number of people employed through short term or other non-standard labour contracts. The minimum wage is high as compared to the average wage, reaching almost 50% of the latter, as it was further increased by 10% in 2018. This might further encourage activities in the shadow economy, especially among elderly, or people with lower education attainment.

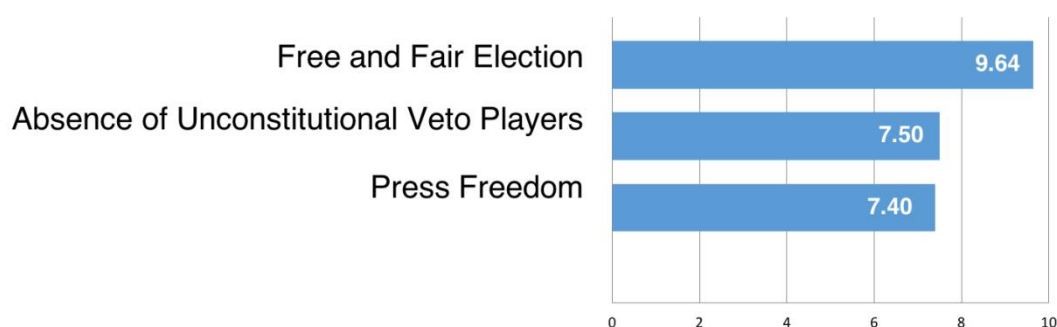
FREEDOM TO TRADE INTERNATIONALLY

Freedom to trade internationally is generally upheld in Serbia. Tariffs are mostly low, with the average MFN applied rate of 7.4%. But most of the tariff protection is dedicated to agricultural products. Besides, non-tariff trade barriers are also in place, with complicated standardization and licensing procedures. Although legislation in those areas has been reformed in order to harmonize the existing regulatory framework with the one in the EU, improvements are partial due to low capacities and weak implementation in practice. This reform will expectedly advance with the further Serbian EU accession. Serbia is one of the rare European countries that are not members of the World Trade Organization (WTO). The WTO accession talks started in 2005, but since 2013 this process has been put on hold. The main obstacles to Serbian accession are local regulations regarding the total ban on sales of GMO products and excise duties on alcohol products levied by the type of beverage and not by their alcohol content. The bulk of Serbian trade is conducted through multilateral and bilateral free trade agreements, which further suppresses the need for WTO accession. Main Serbian trade partners are the EU countries, followed by the Western Balkan members of CEFTA. Other important partners are Russia and China (as the only important partner with whom Serbia does not have a signed trade deal). While the Stabilization and Association Agreement (SAA) functions smoothly, CEFTA does not, since its dispute settlement procedures have not yet been established, which encourages frequent protectionist trade policies, which are then settled through slow and unreliable bilateral negotiations. Customs agency is considered as inefficient, with complicated regulation and obsolete computer equipment. Online tools are thus still underutilized. The customs office is also prone to corruption and political influence, which is used by people with good political connections to gain advantage over their competition in case of selling imported goods. Due to its favourable geographical position, Serbia is an important regional trade hub, and the new computerized transit system that had recently been introduced significantly reduced transit burden, since it made border controls more expeditious. However, low quality of transport infrastructure, especially the railroads, still imposes problems, since it increases freight cost. The reform of the state-owned railroad company with its corporatization into a few companies is expected to somewhat alleviate this problem and introduce private sector competition. The international E10 and E11 corridors have not yet been finished, due to inefficient state project companies and weak oversight. New infrastructure initiatives, recently launched, regarding the fast-track railroad towards Budapest, or a motorway towards Pristina, are rather politically than economically motivated, which might prove as very costly in future.

Slovak Republic

GDP in 2017: EUR 84,964 million		
annual growth rate: 3.4%	per capita: 15,640 EUR	by sector:
		agriculture 3.8%
		industry 35.0%
		services 61.2%
Population: 5,431 thousand	Human Development Index	Government position in 2017
Unemployment rate: 8.3%	HDI: 0.855 (rank 38)	-1.6% of GDP

A. POLITICAL FREEDOM



FREE AND FAIR ELECTIONS

Calm situation in Slovak politics in the middle of the term of the incumbent government has turned “up-side-down” after the murder of investigative journalist Jan Kuciak and his fiancée in February 2018. His death triggered mass protests in many cities all over Slovakia, demanding a resignation of the Prime Minister Robert Fico’s government and snap parliamentary elections. Although PM Fico resigned, the government was only reshuffled in March. The ruling coalition, consisting of Smer – Social Democracy, Slovak’s People Party and Bridge party, elected new government only a week after Fico’s resignation, with Peter Pellegrini from Smer SD as new Prime minister of Slovakia. The mandate of his government was approved by the President, himself facing a tasks to calm down the political crisis in the country and to restore public confidence in state institutions. Changes on six positions took place within the Government, including the replacement of the Interior Minister Robert Kalinak. In general, elections in Slovakia are free and fair, whereby political parties are able to organize and operate without restrictions. Regional elections took place in November 2017, resulting in a loss of support for the ruling Smer SD, due to public discontent accumulated even before the last crisis had started.

Electoral changes in 2017 extended the term in office of the regional assemblies to 5 years and introduced single round - instead of two rounds` - electoral system at the regional level.

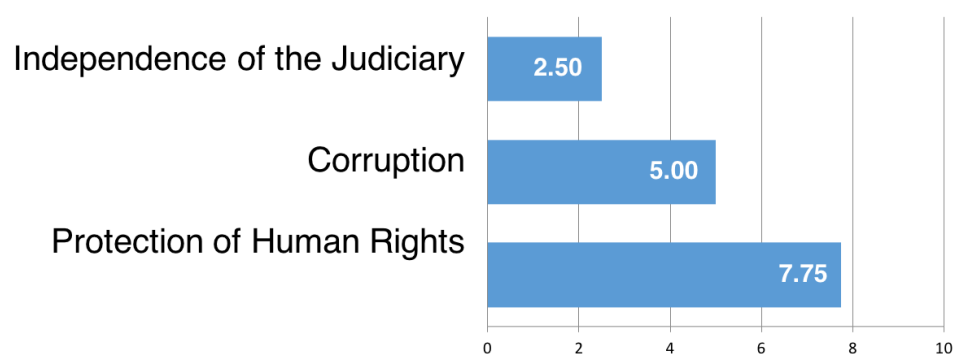
ABSENCE OF UNCONSTITUTIONAL VETO PLAYERS

Slovakia doesn't have unconstitutional veto players. Elected officials are those in charge of political decisions. However, the murder of a journalist who had investigated close ties between Italian mafia and politicians, pointing out even at the former Prime Minister Robert Fico, emphasized the corrupt practices in the country and the influence of businesses onto politics. Slovakia has got long-standing problems with corruption among high-ranking officials. Furthermore, this event led to dissolution of the government led by PM Fico, and reiterated a low public trust in democratic institutions in country. Although new PM Peter Pellegrini was appointed, many have still believed that the direction of the country politics was still managed by Fico, who remained the party president. It appears as the "model" which is "successfully" implemented in many Central European countries, at the expense of democracy. In a notable event prior to this crisis, two former ministers were sentenced to jail due to favouring friendly oligarchs.

PRESS FREEDOM

Although still not reflected through the score, due to methodology and time lag, freedom of the press has largely deteriorated in Slovakia after an investigative journalist was murdered in early 2018. Jan Kuciak investigated ties between Italian mafia and politicians, in a case implicating former Prime Minister Robert Fico. His death triggered political crisis in Slovakia and also widespread concerns over very weak institutional protection of journalists. It is expected that current climate will further contribute to self-censorship among media professionals. Even before, journalists were often targets of harsh rhetoric and verbal attacks by the former PM and his Government. Hostile environment they had created, together with political and editorial pressure, seriously jeopardized journalistic independence in the country. Defamation is punishable by imprisonment. Slovakia is facing an increasing trend of concentration of media ownership in the hands of domestic oligarchs, which is hindering media pluralism. Increasing control over state media was evident in a case of the freshly appointed director of the state-owned broadcaster Radio and Television of Slovakia, who replaced several editors and suspended a political talk show.

B. RULE OF LAW



INDEPENDENCE OF THE JUDICIARY

Independence and efficacy of judiciary, as well as consistency of court decisions in similar cases, are serious problems. According to portal GAN, corruption risk is high for companies seeking justice at Slovakian courts, whereby the trust is very low. Citizens - according to Freedom House's report Nations in Transit 2018 - are most sceptical of all EU countries about independence and quality of the judicial system. Bertelsmann noted a high level of nepotism and cronyism in the appointments in judiciary. Meanwhile, positive developments included the end of the row between Parliament and President over Constitutional Court nominations and removal of a controversial judiciary strongman Štefan Harabin, who had thereby obtained various high positions and made a number of disputed decisions.

CORRUPTION

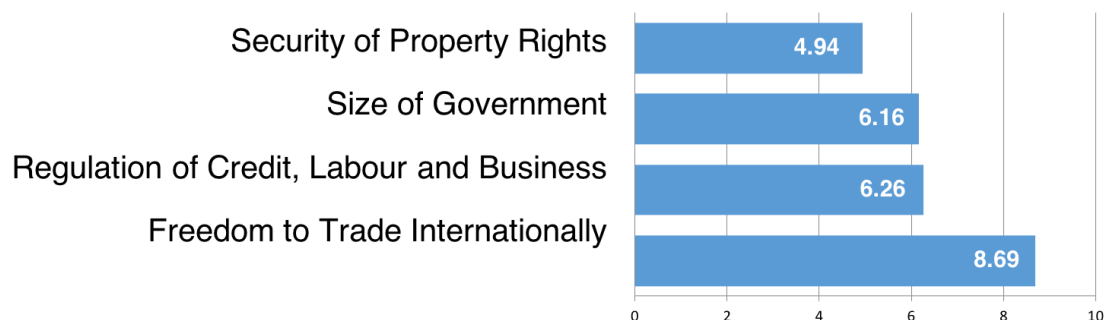
Slovakia has been stagnating regarding anti-corruption struggle for several years now, around 50/100 points in the Transparency International's CPI listing, which in 2017 put it to the place 54/180. Besides judiciary, corruption risk is high also in public procurement and public services. Between various local governments, differences are huge. According to Transparency Slovakia, the level of transparency thereof varied in 2016 between 87% (Vranov and Toplou) and 86% (Bratislava – Nové Mesto) on one and 32% (Šurany and Humenne) on the other end. Increased focus is put to the use of EU structural funds, often suspected to have had been misappropriated in the past, not least in infrastructure projects but also in education. Civil society is very active in creating a corruption-hostile social climate. In politics, it became a hot topic, which prompted government to create new anti-graft bodies and prepare new legislation. Bold economic, pro-market reforms at the beginning of this century narrowed the space for corruption but the lack of proper institutional reforms and of political will so far have prevented Slovakia from breakthroughs in anti-graft such as those seen in similar countries, e.g. in Estonia or Georgia. Thus, in October 2017, the first two ex-Ministers ever were sentenced to prison for tender fixing. In February 2018, a journalist investigating organized crime and political corruption Ján Kuciak and his fiancée were killed in Bratislava, in a first assassination of that kind in the history of the country. That led to the personal change at the top of the Government.

PROTECTION OF HUMAN RIGHTS

Human rights record in Slovakia rose to a relatively acceptable level taken its recent history, at first of communism and then of populism, all until 1998. Civil society - especially NGOs and think tanks - is very active, yet struggling to take firmer domestic roots in financing. Freedoms of association, speech and expression are well respected, although the latter suffered a blow with the murder of the investigative journalist Ján Kuciak in February 2018. On the negative side, there is a rising xenophobia, slow retreat from discrimination and segregation of Roma and uneasiness in accepting asylum seekers under EU quotas. In September 2017 Slovakia lost the case at the EU's Court of Justice and subsequently joined the resettlement process, but by the end of 2017 it received just 16 of the envisaged 902 asylum seekers. Some officials even hinted that they preferred "Christian" over other migrants coming. The draft law on same-sex partnerships has

suffered many setbacks and criticism and LGBT persons are still lacking it. Besides, conservative groups strongly oppose Istanbul Convention on prevention of domestic violence against women and vulnerable groups, wherefore its ratification is not in sight.

C. ECONOMIC FREEDOM



SECURITY OF PROPERTY RIGHTS

Property rights in Slovakia are mostly respected. However, judiciary in the country is facing problems. Judicial independence and impartiality in dealing justice are not always attested. There are strong indications of political influence in sensitive cases. Court verdicts are often poorly written and justified, leading to court unpredictability. There are signs indicating at manipulation with the case assignment system. Public trust in courts is, therefore, among the lowest in the EU. Judge selection system is not free of nepotism. There are no specific courts for commercial cases, but only general courts, which is also posing problems, since many judges lack the specialized knowledge in some specific commercial areas. Enforcement of contracts remains one of the most important problems in the judiciary, since it on average takes 2 years from the filing of the documents to the actual enforcement of the ruling. There are no rules on the maximum number of adjournments. Bankruptcy procedures are also very lengthy, lasting up to 4 years, not recovering even half of the claim, on average. The new code of civil procedure introduced pre-trial conference as a way of better managing of court procedures. The changes of the Company Code in 2017 have increased responsibilities of statutory bodies in order to strengthen the bankruptcy framework, which followed the previous amendments of the bankruptcy legislation (in 2015 and 2016) which somewhat prevented preferential treatment of creditors over the rights of the shareholders. As in other countries, there are some 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; however, there were plans for expropriation of private healthcare companies, but these are now on hold. 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. The area of public procurements is still prone to many problems, including corruption. The amendments to the Public Procurement Act as of September 2017 were carried in order to streamline and simplify procedures, in order to make SMEs more capable of bidding.

SIZE OF GOVERNMENT

Government expenditures in Slovakia are mostly in line with other CEE post-transition countries, standing at 41% of GDP in 2017. Public deficit decreased from -2.2% in 2016 to -1.8% of GDP in 2017, but the new government plans to continue using deficits to finance its political goals. The previous plan of the government to balance the budget by 2018 was postponed until 2019 and there is now a discussion to change the public debt break rule in order to make higher spending by the government possible. The coalition government intends to increase spending (pensions, infrastructure) but also to reduce some taxes (on farmers and micro businesses, even possibly the corporate income tax). Public debt is also on a slow downward spiral, reaching 50% of GDP in 2017. Vigorous growth continues, reaching 3.4% in 2017, based on rising exports, investment and domestic consumption. Although unemployment has hit historical low - below 8% this year - it is still high in the eastern part of the country. State-owned enterprises (SOE) are present in the economy and play a very important role in network industries, and in transport. The government also holds stakes in a number of energy companies. There is a potential political interest to increase state ownership over some key energy assets. There are no further privatization plans currently in place, but there is a political shift in the opposite direction. 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. The temporary special taxes on regulated services (telecommunications, healthcare, energy, insurance, etc.), reaching 8.7% of the profits, and a tax on banking, are still in place. Taxes are moderate by European standards: corporate tax is set at 21%, while income tax is moderately progressive at 19% and 25%, upon a relatively high threshold. VAT rates are 20% (standard) and 10% (preferential). Due to high social security contributions, labour tax wedge on the average wage stands at 41.6%, - above the OECD average.

REGULATION OF CREDIT, LABOUR AND BUSINESS

Business regulation is mostly conducive to entrepreneurial activities. Participatory legislative procedures are not well organized or are often disregarded, which makes legislative process less transparent and predictable. This is further exacerbated by the lack of trust in professionalism and impartiality of the existing regulatory bodies. The case of quick cancelation of changes in energy pricing and change of the head of the Regulatory Office for Network Industries (URSO) shows a politicization of this post. Court ruling repealed the obligation of energy producers to pay for distribution access in 2018, which further increased uncertainty and unpredictability of the local regulatory environment. Corruption, complex administrative procedures, fast-changing regulations and the poor quality of regulatory bodies weigh on the business environment. On the other hand, starting a business is easy and inexpensive with the one stop shop office in place. But, it takes almost a month, with the minimum paid-in capital of 2 500 euro. Obtaining a construction permit is a long process, mostly due to long and inefficient procedure at the municipality level, but it incurs very low actual costs. Getting electricity, on the other hand, is fast but very expensive. Labour regulation is often changed: in 2015 changes regulated the work through an employment agency, while the more recent changes brought limits on seasonal work and temporary posting, and increased bonuses for working in shifts. 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. Reassignment obligations in case of redundancy, as well as trade union notification, pose obstacles in case of lay off of workers. Notice periods, as well as severance pay, rise with the years in tenure, thus playing in favour of more seasoned workers. The minimum wage was increased in 2018 by more than 10%, reaching 480 euro. Inefficient government bureaucracy, corruption and high tax rates are often considered as the biggest obstacles to a better business environment.

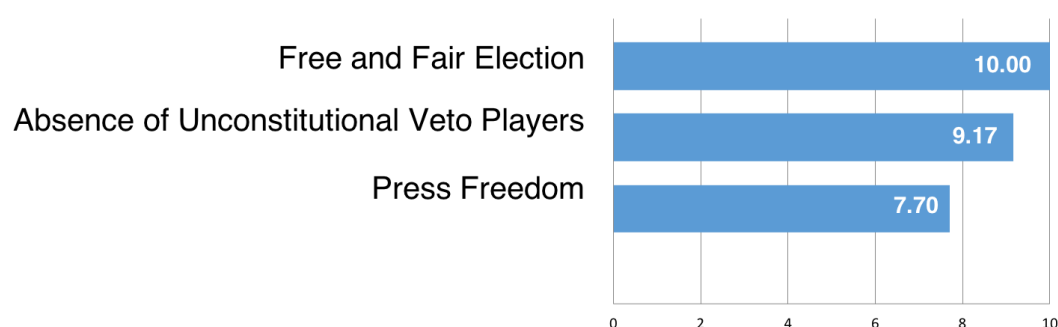
FREEDOM TO TRADE INTERNATIONALLY

Freedom to trade is mostly respected in Slovakia. 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, whose products are shipped around the world. As an EU member state since 2004, Slovakia implements the EU common trade policy. Tariffs on manufactured goods are low, with the average Most Favoured Nation tariff rate of 5.1%. But EU agricultural tariffs could be much higher, especially on sugar and dairy. Non-trade barriers also pose a problem to trade, such as product certification and standardization. Due to its favourable geographical location, Slovakia is an important transit country for goods. 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, while port facilities on the river 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 2017: EUR 43,278 million		
annual growth rate: 5.0%	per capita: 20,950 EUR	by sector:
		agriculture 1.8%
		industry 32.2%
		services 65.9%
Population: 2,066 thousand	Human Development Index	Government position in 2017
Unemployment rate: 6.8%	HDI: 0.896 (rank 25)	-0.8% of GDP

A. POLITICAL FREEDOM



FREE AND FAIR ELECTIONS

Freedom and fairness of the electoral process in Slovenia is guaranteed by the Constitution. They reflected at all recent elections. During the reviewed period regular presidential and early parliamentary elections were held, both having had gone without serious voting or campaign irregularities, thus regarded as highly free and fair. A dynamic period in Slovenia's politics started with the two rounds of presidential elections in October-November 2017, whereat the incumbent president Borut Pahor reached victory by a small margin over his contender in the run-off Marjan Šarec. Instability and weakness of the ruling coalition, brokered between the Modern Centre Party, the Social Democrats and the Democratic Party of Pensioners, led to yet another snap parliamentary election, on 3 June 2018. In the middle of March, Prime Minister Miro Cerar resigned after Constitutional Court had annulled the results of the "railway referendum". However, the move was rather perceived as strategic one, in order to retain certain support ahead of the parliamentary elections. Elections were marked by a grand comeback of Janez Janša, the leader of the Slovenian Democratic Party, and by a crisis of ruling political parties, which all resulted in Marjan Šarec's list coming as the second. Former PM Janez Janša was released of charges in 2015, allowing him to actively participate in political life further on. Until 30th of June

2018 the government wasn't formed, but due to weak coalition potential of Janez Janša it was expected that a wider block of democratic parties would form a new government.

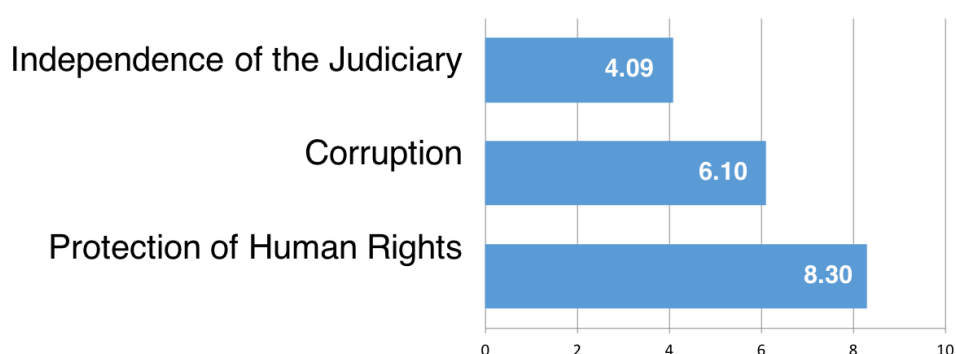
ABSENCE OF UNCONSTITUTIONAL VETO PLAYERS

Democratically elected officials have virtually unchallenged power to govern in Slovenia, hence there are no unconstitutional veto players in the country. System of checks and balances is set, providing a framework for independence and efficiency of the legislative, executive and judiciary. However, in real life, their work is not so smooth. During the past year, government demonstrated weakness in pushing through amendments through the parliament, mainly due to inner-coalition disputes. It is to be seen how efficient the next government of Slovenia will be, if, as is likely to happen, it is composed of even more political parties. Also, impartiality and independence of the judicial system was challenged numerous times on the corruption cases involving high profile politicians.

PRESS FREEDOM

Wide variety of printed, TV, radio and online media outlets in Slovenia are able to operate without restrictions and to provide citizens with diverse choice of views. Slovenia jumped by 5 places up on the Reporters without Borders 2018 World Press Freedom Index, holding currently 32nd position on the list. Still, many problems exist in the media sphere. Journalists are independent at work however extensive economic (poor working conditions) or political pressure (e.g. while covering sensitive issues) have led to increasing level of self-censorship among them. An important cause of the latter is defamation, which remains as a criminal offense. Slovenia is not excluded from the regional trend of concentration and politicization of media ownership, which is hampering pluralism. There are numerous media outlets which provide favourable coverage to certain political parties.

B. RULE OF LAW



INDEPENDENCE OF THE JUDICIARY

Slovenia's judiciary enjoys a mottled record of integrity and independence. Citizens perceive it as free of direct bribery (although companies are thereby sceptical), albeit heavily exposed to political interference, in corruption as well as in politically sensitive cases. Court efficiency had been poor for long – the backlog of cases was serious - but it has recently improved a lot,

significantly decreasing the backlog. Constitutional Court proved its relative independence from both the government and the public opinion, but it faced objections for alleged bias. Government failed to implement and tried to circumvent some of the CC's decisions (such as on equitable financing of private schools). In one case, CC overturned a referendum (on building of a railway line) due to Government's misuse of public funds in the referendum campaign. Criminal courts have meanwhile tried and/or sent to prison several former or actual politicians.

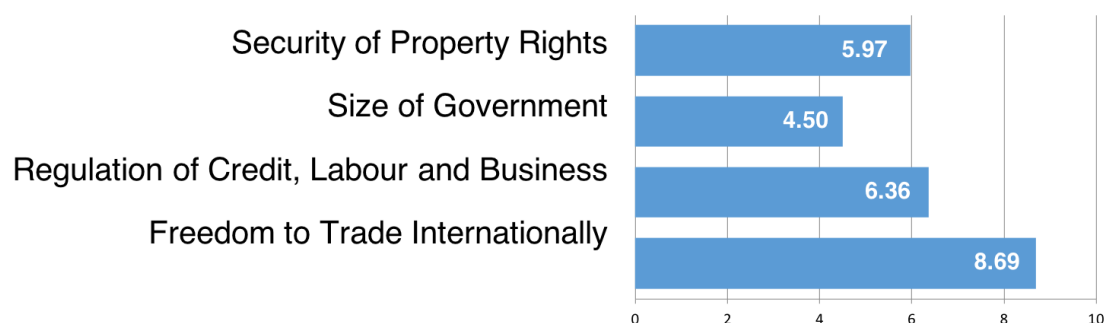
CORRUPTION

Slovenia stagnated in curbing corruption in 2017. Transparency International's latest CPI report puts it on place 34, out of 180 countries, together with Botswana, with a score 61, same as last year. Experts disagree on whether the reasons for the stalemate are just political (not enough will to let institutions work) or they are systematic (incomplete transition from economic dirigisme to market economy). Some experts even blame the alleged state capture by ex-Yugoslav secret services as the main source of corruption. Others blame the main anti-corruption institution Commission for Prevention of Corruption and its meagre activity in crucial matters. Some of the regulation in Slovenia is the best in the EU (such as on lobbying), but implementation thereof is lagging behind. There are still "political loans" by banks, or favouritism and/or price-inflating in public procurement and infrastructure building. There were speculations in media in June 2017 about alleged money laundering by two the-then state owned banks in 2009-2010, but nothing was done to investigate those.

PROTECTION OF HUMAN RIGHTS

Most civil liberties in Slovenia are guaranteed and freely enjoyed. Freedoms of speech, association or religion are highly respected. Members of some minorities are well accepted by vast majority, be they native minorities, or Yugoslav-times' or globalization-era immigrants (all three were, or are, among the - directly - elected Mayors). Others, according to Amnesty International 2018 report, still struggle to overcome discrimination, such as Roma or "erased" ex-Yugoslavs. Except child adoption, most other rights of the LGBT couples are respected (including marriage). Discrimination of women 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. Slovenia participates in the EU program of resettlement of asylum seekers, but less than half of the promised 567 were indeed resettled in 2017. The procedures for those applying for asylum in Slovenia are lengthy, while the revocation of the status was recently made easier.

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. There is a five tier court system (district, regional, appeal, supreme and administrative). There are also separate labour and social court systems, which deal with labour disputes and social welfare claims respectively. 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. Therefore, 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 results in very long judicial processes, significantly undermines the rule of law in the country. On average, a trial lasts longer than 3 years. There is a very high number of old cases that haven't still been resolved, although their number has decreased in the previous year to slightly above 70 000. Adjournment regulations are very lax, with no maximum number of adjournments and a frequent use of this instrument within the courts. On the other hand, resolving insolvency is streamlined, with relatively quick procedures, very high recovery rates (slightly below 90% of the claim) and low costs. Most cases are resolved via going concern sales. Registering a property is an unnecessarily long procedure (a month and a half on average) although inexpensive, due to long data entry at the Land Register and tax determination at the Tax office. Almost all land has clear titles. The process of denationalization of the property that was nationalized after the World War II is almost completed, with just a few cases left open. In March 2018, the Investment Incentives Act was adopted, which defined incentives, criteria and procedures for receiving them in cases of FDI.

SIZE OF GOVERNMENT

Government expenditures in Slovenia are slightly below European average, reaching 40% of GDP in 2017. Bulk of expenditure consists of social transfers, aimed at income redistribution through welfare programs. Public debt is huge, standing at 75% of GDP in 2017, yet down from its all-time high level of 83% in 2015. Slovenia was able to exit the EU excessive deficit procedure by mid-2016, since its deficits finally fell below the Maastricht threshold, and the

budget is nearing balance. But the elevated level of debt still poses significant macroeconomic risk, especially in the case of a new economic downturn. For the time being, the economy is booming, with the growth surpassing 5% in 2017, due to a rise in exports, rising consumption and investments. Unemployment is also historically low, nearing 6%. Since there has never been 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. Government is therefore involved in a significant proportion of the overall economy. Troubled SOEs are often 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). This plan was rewritten in 2017, with new company categorization. However, privatization is stalling: for example, the privatization of the biggest bank, the NLB, was cancelled in 2017 but initiated again recently alongside the Abank. Although SOEs are mostly well managed, there are signs of political appointments of their management. Corporate tax stands at 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 on average salary of 43%, which is above the OECD average and many more developed European countries.

REGULATION OF CREDIT, LABOUR AND BUSINESS

Regulation of business activities is mostly business friendly. However, there are still complicated or unclear administrative procedures that fuel bureaucracy costs. Business regulation could be contradictory or inconsistent, which is exacerbated by inefficient government bureaucracy. Although petty corruption is mostly absent, public procurement and tenders are not corruption free due to a political influence over state and local administration in charge of these processes and political appointments to SOE management. There are also informal challenges facing foreign investors in certain industries, due to political resistance against their further involvement in the economy. High tax rates, bureaucracy and restrictive labour regulations are considered to be the most important hurdles to doing business in Slovenia. The set of structural reforms that was set up by the government with the objectives of reducing the red tape and improving the quality of planning of further regulation, including on tax administration and labour market reforms, is yet to be implemented and to deliver results. However, 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, but obtaining a construction permit is a durable task, due to a high number of procedures, as well as due to inefficient land registry. Tax compliance is complicated, incurring a high number of hours for regulatory compliance. Labour regulation is mostly inflexible: fixed term contracts are prohibited for permanent tasks and temporary contracts are restricted to 24 months only. 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. There are also strict redundancy

rules, but working hours' regulation is mostly flexible. The minimum wage in Slovenia is very high, standing at 2/3 of the average wage, and was increased again in January by additional 5%.

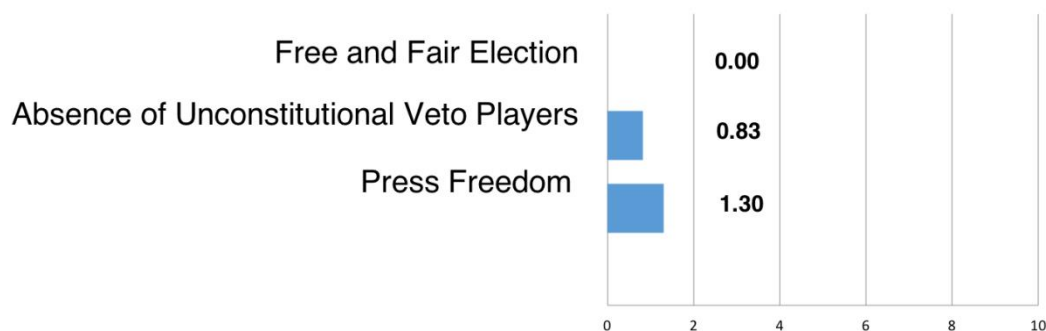
FREEDOM TO TRADE INTERNATIONALLY

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 its production specialization and integration into the global economy. Since its accession in 2004, Slovenia implements the common EU trade policy, with overall low tariffs: the average MFN applied tariff rate stands at 5.1%, but those on agriculture products are much higher. Slovenia has also 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. Customs office procedures are efficient and inexpensive - with only 4 documents both for import or export goods - not posing impediments to free flow of goods. Good public transportation infrastructure also provides a strong point for free movement of goods, by lowering freight costs, but the quality of railroads is significantly lagging behind roads and ports. Slovenia was the first post-transition country that entered the Euro-zone by adopting the euro in 2007; this move has further facilitated trade by abolishing currency conversion costs. 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. For years, Slovenia has been experiencing a trade surplus, e.g. at 6.5% of GDP in 2017. Obtaining a work or a residence permit for non-EU nationals is a complicated and costly procedure. Since July 2018, work permits for citizens of Croatia, required even after their country's accession to the EU in 2013, won't be necessary anymore.

Tajikistan

GDP in 2017: EUR 5,948 million		
annual growth rate: 7.1%	per capita: 670 EUR	by sector:
		agriculture 28.6%
		industry 25.5%
		services 45.9%
Population: 8,921 thousand	Human Development Index	Government position in 2017
Unemployment rate: 2.4%	HDI: 0.650 (rank 127)	-6.8% of GDP

A. POLITICAL FREEDOM



FREE AND FAIR ELECTIONS

Tajikistan is an authoritarian state with a highly repressed political life in which elections serve only as “formality”. Legal framework gives political parties the right to found themselves and operate, but in practice they are allowed to do so only if they don’t challenge the decades-old authoritarian rule of the president Emomali Rahmon and his People’s Democratic Party (PDP). By preventing genuine political pluralism, the regime cracks down on any critical voice in society, from opposition politicians, journalists and activists to their family members and friends, by the use of physical violence, imprisonment, verbal intimidation and harassment. In such a restrictive environment there is no space for real opposition parties to emerge. Constitutional changes as of 2016 have strengthened further the role of the president, removed limitations to his term in office, and also introduced a ban on the establishment of faith-based political parties, thence clearly targeting the Islamic Renaissance Party (IRPT), which once had stood as the opposition but was later, in 2015, declared by the state as a terrorist organization. Many leaders of the IRPT remain behind bars. A solicitor defending IRPT in the court of law was convicted to 28 years in prison on dubious charges. Constitutional referendum also lowered the age limit for taking the

presidential position, in a move allegedly done in order to allow president Rahmon's son to have run at the presidential elections in 2020.

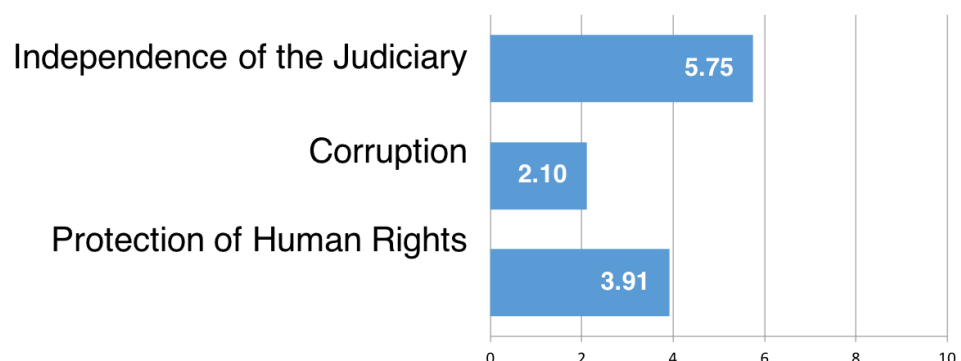
ABSENCE OF UNCONSTITUTIONAL VETO PLAYERS

Entire power and all decision-making authority in Tajikistan are in the hands of president Emomali Rahmon with his close circle of family and friends. They have captured the Tajik state and have been in complete control of all branches of power, most institutions and security forces. The core elite systematically manipulate political processes for their personal benefits. Almost all important businesses in the country are controlled directly or indirectly by the ruling elite. The country is ranked as 161st at the Transparency International 2017 Corruption Perception Index. If president Rahmon withdraws from politics in 2020, it is still to be seen whether or not his successor will be able to maintain such power, taken that there are also other influential people in the country's political and military elite.

PRESS FREEDOM

Freedom of the press is restricted in Tajikistan. Legislative and political pressure are on in practice, shaping editorial policy of public and private media outlets. Journalists are living in an environment of fear, facing the same repressive methods of prosecution as opposition politicians and activists – meaning: imprisonment based on false accusation, violence, and/or harassment. Insulting the president or other state officials is punishable by law. Having in mind that there are no institutions to protect journalists in enjoying their constitutional rights, self-censorship is regularly practiced among them, or they even decide to leave the country. Broadcast and printed media outlets are under governmental control, while online-news websites have been regularly blocked by the authorities. Legal amendments were adopted by the parliament in July 2017, allowing authorities to legally access the contents of online activities. Objective reporting is hardly found and mostly reserved for the media outlets residing abroad. In 2016, a law was introduced, that allowed the State Committee on Television and Radio to censorship the content of both private and public media outlets.

B. RULE OF LAW



INDEPENDENCE OF THE JUDICIARY

The judiciary in Tajikistan has been in far worse shape during the past years than the numeric results – mainly based on the optimism of the crony local business elite - might suggest. In reality it lacks much of the necessary independence, professionalism and integrity. Trials lack many of the principles of rule-of-law. Politically relevant trials are often held behind closed doors. Lawyers in general, particularly defence counsellors in political cases, are under increasing pressure. Many retire from the profession or even emigrate, while the licenses of the remaining ones depend on the government. Detention often includes beating and the forceful extraction of confessions. Prisons are overcrowded, while inmates are ill-treated, and poorly cared for. Aside of political monopoly of the ruling family, widespread bribing also distorts the entire justice system.

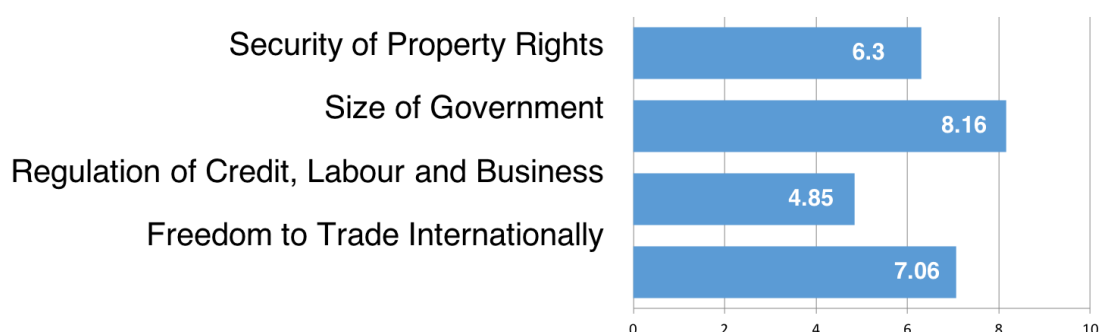
CORRUPTION

The state of corruption is catastrophic. Tajikistan provides a textbook example of grand corruption, whereby the misappropriated sums considerably diminish the national wealth. Freedom House describes the system as a “kleptocracy” and “nepotocracy”. The president’s broader family and adjacent clan control most of the key resources in the public as well as in the private sector. They are tolerated with avoiding regulation, obtaining privileges in taxation or tariffs, or simply protected by arbitrary prosecution of potential competitors. Petty corruption is omnipresent, from police and courts to enrolment in education. Country’s rating steeply falls in international indexes measuring corruption. In Transparency International’s CPI 2017, Tajikistan’s rank is 161-164/180, with only 21/100 points (of all post-Soviet and all OSCE countries, only Turkmenistan is worse). In Freedom House’s NiT 2018, its corruption score fell from (negative) 6.75 to 7.00 points (of possible 7), meaning that it can’t be worse.

PROTECTION OF HUMAN RIGHTS

Civil liberties and human rights are severely curtailed in Tajikistan. Much of the anti-government criticism and association is subject to bans, arbitrary prosecution or informal pressure. NGO activities are restricted, especially if financed from abroad. The official narrative, blaming anything non-authorized that is coming from the “West” (or from other Muslim countries) as treacherous, anti-national and “extremist”, little by little takes a totalitarian shape. Since July 2017, authorities legally monitor citizens’ online behaviour and could fine or imprison those who visited certain sites or posted critical comments. Only one brand of Islam is permitted, while all the others are suspected as “extremist” and “terrorist”, while students aren’t allowed to study Islamic theology abroad. Non-Muslim religious groups are occasionally persecuted. Trade unions are de facto dependent on authorities. Freedom House notes that “sexual harassment, discrimination, and violence against women are common, but cases are underreported and seldom adequately investigated”. Women suffer government and societal pressure to abandon foreign fashion (be it hijab or a Western-style dress) and stick to traditional folk dressing codes. LGBTs are free of criminalization but not free of stigmatization by authorities and of black-listing by the police. Black lists thereof are occasionally updated after round-ups in clubs or in the streets, now seemingly encompassing at least 367 names. The position of the biggest - Uzbek - ethno-linguistic (and to a degree religious) minority was for long marked by mistrust and sidelining. With recently improved relations between Tajikistan and Uzbekistan, that might change.

C. ECONOMIC FREEDOM



SECURITY OF PROPERTY RIGHTS

Property rights in Tajikistan are not adequately secured. Judiciary is not independent from the executive branch of government, state officials or politically connected groups. Government regulatory agencies are known to have been 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. Legal enforcement of contracts is slow and expensive – on average it lasts more than 14 months and takes up one quarter of the claim, while judgment enforcement is the weakest link in the process. There are no rules on adjournments and little automation is used: court cases are still assigned to judges manually. Out-of-court settlements have not been systematically developed, since the role of Third Party Arbitration Courts was brought to minimum. 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 in Tajikistan is in state ownership, and it cannot be sold or bought - only first and second tier land use rights can be leased: to Tajik natural persons and companies indefinitely, while to foreign entities for up to 50 years. Weak performance of the land registry diminishes security of land use rights in the agricultural sector. Property registration is a slow process coupled with high fees. Insolvency regulations also lead to long processes, which can last up to two years and result in recovery of only one third of the claim.

SIZE OF GOVERNMENT

The size of government in Tajikistan, taken the total public spending of 32% of GDP in 2017, is considerably smaller as compared to developed European countries, and more adequate for a country on this level of development. This situation leaves room for lower taxes, but also for lower level of government services and lower quality of government administration. High share of the shadow economy basically restricts higher tax receipts. Growth of the economy is robust, due to the rising consumption spurred by an increase in remittances of workers abroad (which represent a third of the economy), mostly from Russia, and rise in exports and capital spending. Government deficit was substantially reduced, reaching -2.4% of GDP in 2017, but the fiscal situation has been deteriorating again due to large infrastructure projects whereby the public debt will surpass 50% in 2018. There were negotiations regarding an IMF support program, but it has

not yet been agreed upon. The role of the state in the economy is still considerable, with numerous big state-owned companies active in many fields, even in those where state interference is mostly obsolete, such as 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 are in a de facto preferential position, since they receive a large share of government procurements, and are also financed by banks via preferential loans that could be either waived or taken over by the government, making them more a subsidy than a loan. 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, while being a strong part of the clientele network. The split of the national electric company, the Barqi-Tojik, into three companies, one each for generation, transmission and distribution, has not yet been accomplished. Tajikistan is in the process of shifting to International Financial Reporting Standards (IFRS), while in the meantime SOEs are using the national accounting standards which deviate from the best international practice. The share of non-performing loans (NPL) stood at more than 35% at the end of 2017, officially, but non-official estimates reported this to be much higher, which not only showed that the banking system was in crisis but could have strong fiscal consequences in case of bank bailouts. Personal income tax is progressive, with rates of 8% and 13% and a low non-taxable threshold. Corporate income tax is also progressive, with the rates of 13% and 23% - the lower rate is attributed to companies that produce commodities. Both rates were decreased by 1 percentage point from their previous level in January 2017. VAT stands at 18%. High social security contributions paid by the employer, coupled with the income tax, lead to a moderate labour tax wedge of 30% on the average wage in the country.

REGULATION OF CREDIT, LABOUR AND BUSINESS

Business environment in the country cannot be described as overall business friendly. Business regulations are often complicated and non-transparent, but the main problem lies in the area of their arbitrary and discriminatory implementation. Corruption in the administration is high, and political protection is important for businesses. Although the overall regulatory climate is not conducive to entrepreneurial activities, legislation in some areas could be considered as satisfactory: the cotton fiber tax was abolished in 2016; the sales tax was slightly reduced in 2017; while the simplified tax regime is now eligible for a larger share of small businesses. In obtaining construction permits, Tajikistan stands at the bottom of the world economies – on average it takes more than 6 months to get a construction permit. Getting electricity is very expensive, and the year 2017 was the first year in which the government was able to provide year-round electricity to households and businesses across the country, since electricity shortages were common. On the other hand, starting a business has been relatively quick and without the paid-in capital, but expensive. The recent increase in revenue threshold for VAT registration was also a positive step for small businesses. Foreign currency regulation, high inflation and tax rates are most often considered as obstacles to a better business environment in the country. Labour regulations are mostly rigid: fixed term contracts are prohibited for permanent tasks, but there is no limit on their length. Working hours are not flexible, with high wage premiums for non-standard hours. There are complex regulations regarding redundancy, with priority rules and reassignment obligations, but notice periods and severance pay remain flat and do not increase

with years in tenure. Trade unions are weak and mostly concentrated in the public sector, but also controlled by the government. Collective bargaining in the country is rare. The minimum wage is rather low in comparison to the average one, thus not bringing too much distortion into the economy. There is a legal requirement that at least 70% of the workforce must be local (and 75% if the CEO is a foreign national, or 80% or even 90% for projects financed by the Tajikistani government).

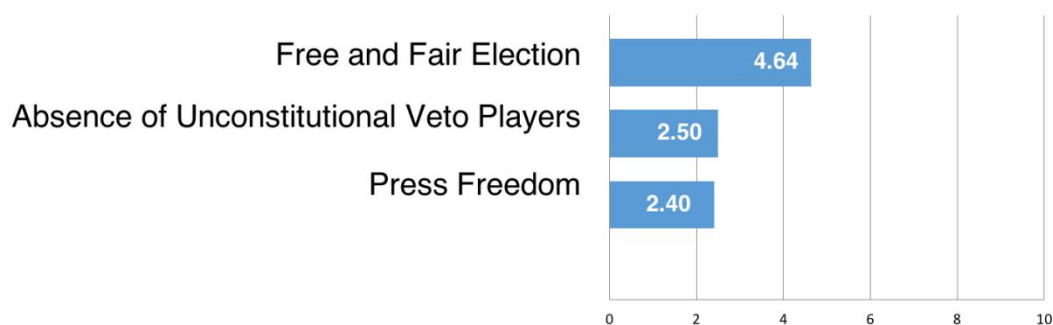
FREEDOM TO TRADE INTERNATIONALLY

Freedom of trade is mostly respected in Tajikistan, yet with many problems that remain to be resolved. The country is a late comer to the World Trade Organization (WTO), since it joined it in 2013, which boosted trade freedom. However, tariffs on imported goods are still high, with the simple average MFN applied rate of 7.7%. Agriculture products face somewhat higher tariffs than those on industrial commodities. International trade faces objective constraints such as geographical position and low quality of transportation infrastructure, railroad in particular. Recent capital investments in this field might alleviate some of the problems, but they still leave the freight of goods expensive. Custom procedures also prove to be an obstacle to trade – although submitting customs declarations can be done electronically, Tajikistani foreign trade procedures are burdensome, requiring numerous working hours and as many as 13 different documents to export. Arbitrary trade policy is also sometimes used in violation of the WTO rules, such as the ban on imported chicken meat from 2017. Obstacles in movement of goods are complemented by capital controls, which are used to maintain the exchange rate of the national currency, the somoni, which further devaluated from 8.8 to 9.4 per USD. Since 2017, these capital restrictions have been even increased, and large transactions in foreign currency are difficult to conduct. Tajikistan is still considering joining the Eurasian Economic Union, which would open Russian labour market further to local foreign workers, but would also lead to restrictions in trade with other countries. Procedures for obtaining residence permits for foreign nationals are also burdensome and provide for only up to one year of residence.

Turkey

GDP in 2017: EUR 711,474 million		
annual growth rate: 7.4%	per capita: 8,770 EUR	by sector:
		agriculture 6.8%
		industry 32.3%
		services 60.7%
Population: 80,811 thousand	Human Development Index	Government position in 2017
Unemployment rate: 10.9%	HDI: 0.791 (rank 64)	-2.3% of GDP

A. POLITICAL FREEDOM



FREE AND FAIR ELECTIONS

In 2018, the political freedom in Turkey declined for the sixth consecutive year marking the lowest score since the launch of the Freedom Barometer. This trend is in line with other major indices measuring freedom: Turkey has been categorized as “not free” by the Freedom House’s “Freedom in the World” report for the first time this year due to the erosion of civil liberties. The President of Turkey, Recep Tayyip Erdogan announced on April 18th, 2018, that snap parliamentary and presidential elections will be held in two months’ time, on June 24th, upon consultation with the Nationalist Movement Party. This decision brought forward the elections, which were due on a regular course not before November 2019, by about one and a half years. Turkey has changed its political system from a parliamentary to a - widely contested - presidential system, labelled as the “Turkish Model” by its proponents in a referendum in April 2017. This decision has been widely criticized as it didn’t provide the political parties sufficient time frame to effectively develop their campaign strategies. In January 2018, the High Election Board of Turkey announced a list of 9 political parties that are found eligible to participate in the next elections. This decision prevented another 23 political parties from taking part in the elections due to their failure in fulfilling technical conditions given by the law of elections. Turkey instituted a

nationwide State of Emergency as of July, 20th, 2016, after the failed coup attempt, which remained in effect until July, 19th, 2018. During this period, members and leaders of opposition parties were in prison for various charges including the co-chairs of the People's Democratic Party (HDP), Selahattin Demirtaş and Figen Yüksekdağ. In the run-up to the June 2018 Elections, Demirtaş has been the HDP candidate for the presidency and carried out his campaign from the prison cell with no internet access and a total of 1 hour broadcasting time by the official state TV, Turkish Radio Television (TRT). As many as 9 MPs and 68 mayors were in prison for their ongoing cases by the end of 2017. Elections took place under the State of Emergency regime. In terms of free and fair elections, the broadcasting time slots for the presidential candidates by TRT were another source of criticism. İlhan Taşçı, a member of the Radio and Television Supreme Council, the highest supervisory authority for broadcasting in Turkey, announced that TRT allocated a total of 181 hours of broadcasting to the incumbent president Erdogan while the remaining five candidates received 23(!) hours combined. The distribution of broadcasting times in private media outlets was also disproportionate among presidential candidates, highly favouring President Erdogan.

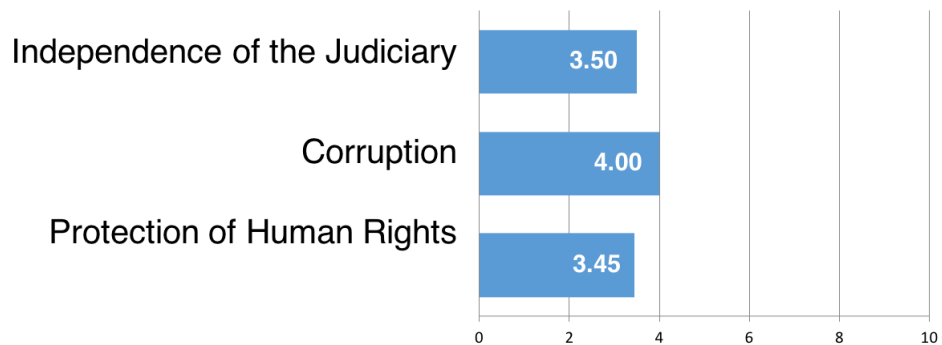
ABSENCE OF UNCONSTITUTIONAL VETO PLAYERS

Since the beginning of the Republic, the Turkish Armed Forces had been regarded as having a significant impact on Turkish domestic and foreign policy. Although this impact has been thought to be relatively diminished in recent years, the failed coup attempt in 2016 iterated that this might not be the case. In the 2017 Freedom Barometer, Turkey's score in this subfield halved from 5.00 to 2.50. During the State of Emergency, the Turkish military kept playing an important role, especially after the operations in Southeastern Turkey and Syria. After the June 2018 elections, the Chief of Staff of the Turkish Armed Forces was transferred to the cabinet as the Minister of Defence, a role traditionally occupied by civilian politicians. The State of Emergency regime provided the government with excessive powers inhibiting constitutional rights in Turkey, such as denying freedom of expression and association or arbitrary confiscation of property. Although the State of Emergency has been lifted, the Law no 7145 empowers public authorities for another three years to exercise emergency powers such as dismissing civil servants, limiting the rights of assembly and association, and limiting the right of access to a lawyer.

PRESS FREEDOM

Turkey continues to have a large number of journalists in prison. Between June 2017 and June 2018, most of the prominent journalist trials have been finalized with high penalties from 10 years imprisonment to aggravated life sentences. According to the Turkish Journalist Union, 144 journalists are in prison as of October 2018. Responding to a parliamentary inquiry, the Deputy Prime Minister declared that a total of 116 media organizations were closed down by executive decree during the State of Emergency as of May 2018. In addition to the legal challenges Turkish journalists face, the concentration of media organizations in the hands of a few large conglomerates presents another challenge to journalists. Thousands of them were fired due to their political stance and coverage.

B. RULE OF LAW



INDEPENDENCE OF THE JUDICIARY

The sharp decline in Turkey's score in judicial independence can be explained by the effect of the mass dismissals from the judiciary. In the last two years, 4,279 judges and prosecutors - in addition to two members of the Constitutional Court and five members of the then High Council of the Judges and Prosecutors - were dismissed on the basis of allegations of connection to terrorist organizations; mass arrests of judges and prosecutors took place during the State of Emergency. The Council of State (the highest administrative court which has the competence to hear appeals against dismissal decisions of the Judicial Council) has not issued any decision in this regard, yet. The Commissioner for Human Rights of the Council of Europe found that this situation created "an atmosphere of fear among the remaining judges and prosecutors". The Parliamentary Assembly of the Council of Europe (PACE) noted that the "dismissal of judges and prosecutors has had a serious impact on the capacity of the courts and a chilling effect on the willingness of judges to act independently and impartially in proceedings involving the state." Finally, the European Commission stressed that "these dismissals had a chilling effect on the judiciary as a whole and risk widespread self-censorship among judges and prosecutors. No measures were taken to restore legal guarantees ensuring the independence of the judiciary." On the contrary, the executive control over the judiciary has been increased by the constitutional amendments of April 2017, which restructured the Council of Judges and Prosecutors and established a one-man executive presidency. Among many examples of the executive interference with judicial procedures, the arrest and release of a US citizen, Pastor Andrew Brunson, can be mentioned. The judicial process seemed to develop in accordance with the statements and negotiations of the government with the US authorities. It should also be noted that local courts refused to apply the judgments of the Constitutional Court ordering the release of two prominent journalists, Mehmet Altan and Şahin Alpay. On the contrary, the local court convicted Mehmet Altan for life imprisonment without the chance of parole although the Constitutional Court and the European Court of Human Rights had ruled that there was no evidence in the case file justifying his detention.

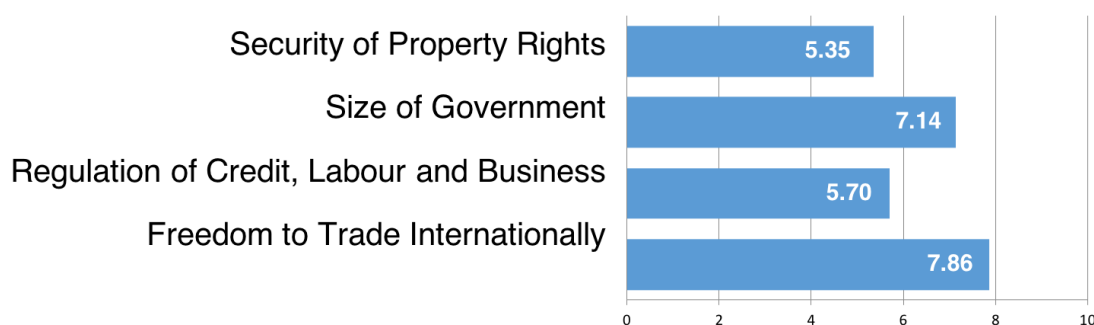
CORRUPTION

In the absence of independent judicial control and pluralistic media scrutiny of public procurements and public expenditure, the system became too fragile to misuse. Following the constitutional amendments of April 2017, the parliamentary control over government policies and public expenditure significantly weakened. All the procurements of the Office of the President were exempted from the Law on Public Procurements by a Presidential Decree. Transparency International Turkey provides that more than 40% of all public tenders are not subjected to the public procurement law. 28% of those which are subject to the law are not open tenders. Turkey created a Sovereign Wealth Fund under the State of Emergency to which all major public enterprises valued more than 40 billion US-Dollars have been transferred. The fund has not published its financial figures since its creation. On the other hand, the president's discretionary spending budget has been increased to 3.7 billion Turkish Liras (670 million \$), which is not disclosed to the public. The powers of the president significantly increased in the public recruitments and appointments. All the meritocratic requirements to be appointed to a public post stipulated in the laws have been lifted by a Decree Having the Force of Law (Decree no.703). These factors contributed to increased arbitrary decision making and unaccounted public spending.

PROTECTION OF HUMAN RIGHTS

Mass dismissals from public offices under the state of emergency continued and the total number of the purged civil servants for life exceeded 130.000 including approximately 6.000 academics without any due process. Their passports have been confiscated along with their spouses' or children's and they are not allowed to travel abroad. Neither were they allowed to work in certain private professions like legal practice, security services or accounting or working in private schools or universities. Closure of associations, foundations, newspapers, TV or radio stations continued and their assets were confiscated. A "Commission for the State of Emergency Affairs" was instituted in December 2017 under the Prime Minister's office to decide on the applications against dismissal or closures by Emergency Decrees. The commission issued more than 30.000 decisions, 95% of which constituted the rejection of the application. It is understood that the Commission did not specify the grounds of considering a person as belonging to, connected to or having contacts with the alleged Fethullah Gülen Terrorist Organization (FETO). Retrospective accusations cause legality problems. Detentions of journalists, human rights defenders and civil society activists on bogus charges continued. Osman Kavala, a prominent civil society leader, still awaits his indictment after a year in prison. Dissent on social media is under a strict scrutiny and a single social media post critical of the ruling party or the president may lead to arrests and a long detention. Most of the prisons are overcrowded with the allegations of ill-treatment. There is a substantive discrimination against LGBT persons and activities of LGBT associations have been limited.

C. ECONOMIC FREEDOM



SECURITY OF PROPERTY RIGHTS

During the two years under the State of Emergency, many violations of property rights have been witnessed. Hundreds of companies, private hospitals, schools and universities, media organizations, most of which belonged to suspected followers of US-based cleric Fethullah Gülen, were closed and their property confiscated without compensation. Since the declaration of the State of Emergency, more than 130.000 public officers, including many public prosecutors and judges, have been dismissed, which implicitly increased government influence over the incumbent prosecutors and judges. As the newly appointed prosecutors and judges replacing the dismissed ones do not have the necessary experience and skills for fast and effective legal procedures, court procedures involving enforcement of contracts tend to be lengthy and costly.

SIZE OF GOVERNMENT

The Turkish government continues to use indirect taxes as its main revenue source. Only about 30% of the total tax revenue comes from direct taxes. Indirect tax revenue makes up about 66% of the total tax revenue. The top personal income tax rate is 35%, and the top corporate tax rate is 20%. Most common indirect taxes are value-added tax and special consumption tax. In most cases value-added tax is 18%, for others, it is either 8 or 1%. A special consumption tax can be more than 100 percent for some items and it is one of the main reasons why prices of petroleum products, cars, and alcoholic beverages are exorbitantly high in Turkey. According to provisional figures, in 2017 total government expenditures were about 36% of the GDP while total government revenues were about 33%. Although total (internal and external) public gross debt stock to GDP ratio was only 30.7% of GDP in 2017, more than 30% fall of the Turkish lira's value against major currencies in 2018 will significantly increase this ratio.

REGULATION OF CREDIT, LABOUR AND BUSINESS

Business regulations in Turkey are not as business friendly as in European and North American countries. During the State of Emergency period, resolving insolvency was made more difficult because the government suspended applications for the postponement of bankruptcy procedures introduced both before and during the State of Emergency, which means bankruptcy is de facto banned. Administrative requirements, bureaucratic costs, market regulations and ineffective

enforcement of regulation continue to make conducting business activities costly. High severance payments based on the employees' seniority at the workplace and high minimum wages still constitute unfavourable conditions for business activities and foster an informal sector. Although Turkey currently has few price controls, after the recent crash of the lira and the subsequent price increases in almost all sectors, the government started to threaten companies and firms that increase prices "unnecessarily," which casts doubt on the government's commitment to free markets.

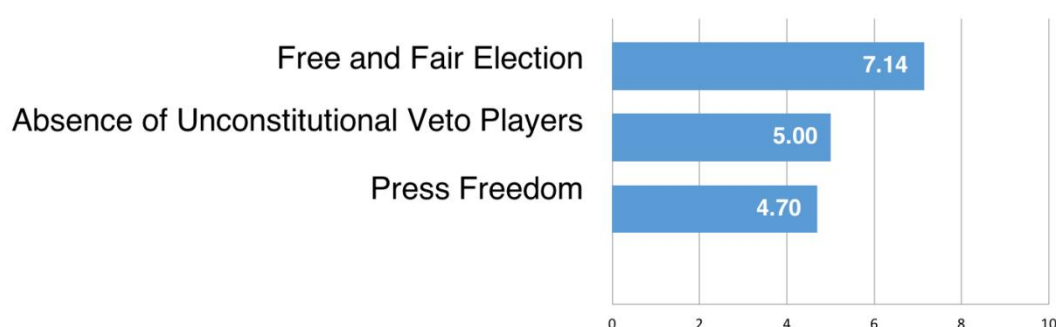
FREEDOM TO TRADE INTERNATIONALLY

For Turkey, international trade is especially important for domestic price stability and the competitiveness of domestic firms. The ratios of exports and imports to GDP were 24.8 and 29.3% respectively in 2017. The average applied tariff rate in Turkey is 3.2%, which is higher than the European average. Although Turkey has a customs union with the European Union, the customs union does not include agricultural products. Therefore, some agricultural products are protected with very high tariff rates and quotas. Red meat is a typical example of this policy, as a result of which Turkish people constantly pay higher than world prices for this product.

Ukraine

<i>GDP in 2017: EUR 93,358 million</i>		
<i>annual growth rate: 2.5%</i>	<i>per capita: 2,210 EUR</i>	<i>by sector:</i>
		agriculture 12.2%
		industry 28.6%
		services 60.0%
<i>Population: 42,217 thousand</i>	<i>Human Development Index</i>	<i>Government position in 2017</i>
<i>Unemployment rate: 9.2%</i>	<i>HDI: 0.751 (rank 88)</i>	<i>-2.2% of GDP</i>

A. POLITICAL FREEDOM



FREE AND FAIR ELECTIONS

Ukraine enjoys free and fair elections, although sometimes minor incidents occur which do not influence the outcome. The fairness of the outcome could however to some extent be influenced by Ukrainian oligarchs, who fund parties who act in line with their interests. This leads to parties who are not funded by an oligarch having a big disadvantage over oligarch-funded parties. As Ukraine is one of the poorest countries in Europe, voters are susceptible to “vote-buying”. Especially during parliamentary elections, candidates bribe voters with gifts, such as buckwheat. Once elected, these parliamentarians can easily get their investment back through corruption. Although election monitors generally call the elections competitive and credible, concerns have been expressed about the varying interpretations of electoral laws by Ukrainian courts, especially when faced with complaints regarding candidate registration and long delays in the adjudication of election-related cases. Furthermore, the current mixed electoral system for the parliament, in which half of the members are chosen through closed-list proportional representation, has been criticized for being prone to manipulation and vote-buying. However, in November 2017 the parliament has approved of a measure providing for open-list proportional representation. In March 2019, presidential elections will take place in Ukraine. For the first time in the history of

independent Ukraine, it is not only difficult to determine who will be the likely winner of the elections, but also to determine which two candidates will make it to the second round. Elections in the occupied parts of the Donbas are neither free nor fair and the winner is most likely selected in advance by the Kremlin.

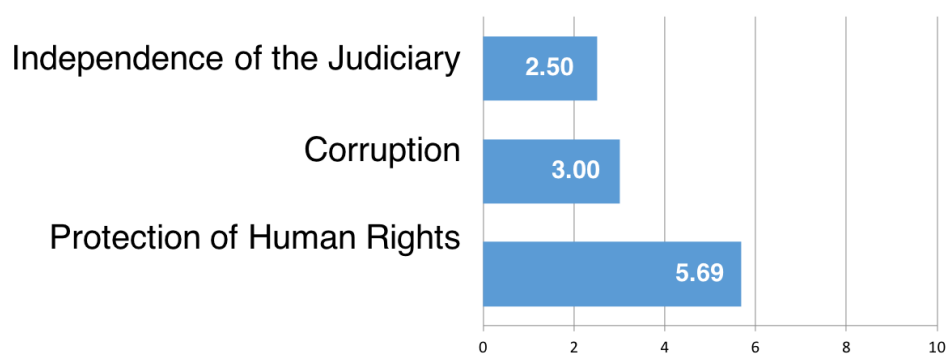
ABSENCE OF UNCONSTITUTIONAL VETO PLAYERS

In general, Ukraine is governed by its democratically elected authorities, who have sufficient power to govern the country. However, there are several threats to Ukraine's sovereignty, rule of law and democracy. First of all, the elected authorities are not in control over Russian occupied Crimea and the occupied territories in the Donbas. Second of all, oligarchs and powerful business groups who have close ties to Ukrainian officials can influence the decision making process. The widespread corruption amongst public officials also allows wealthy people to influence decision making.

PRESS FREEDOM

Freedom of press, speech and expression is guaranteed by the Ukrainian constitution. The media landscape in Ukraine is diverse and pluralistic, and criticism of the government is often featured in the media. However, the vast majority of Ukrainian media outlets are owned by oligarchs, and the diversity of the media is merely a representation of the diverse interests of the different oligarchs. Truly independent and non-aligned media are hard to find in Ukraine. A different threat to the objectivity of reporting in Ukraine is that journalists often report in a "patriotic" way about sensitive issues. Due to the conflict with Russia, most Russian TV channels are banned from broadcasting in Ukraine. Several Russian social media outlets and search engines have also been banned. Intimidation and attacks on journalists happen quite often in Ukraine. In July 2016, political journalist Pavel Sheremet was killed by a car bomb. In May 2018, Russian journalist Arkady Babchenko faked his own death with the help of the Ukrainian secret service in an attempt to capture those who allegedly have been trying to kill him, the case remained however unsolved. Press freedom in occupied Crimea is worse than in Russia, ranking fourth in the list of regions with the least press freedom after North Korea, Turkmenistan and Uzbekistan. Media in the occupied parts of the Donbas are also facing severe violations of free expression, including censorship by the de-facto authorities.

B. RULE OF LAW



INDEPENDENCE OF THE JUDICIARY

One of the biggest issues Ukraine is currently facing is its lack of the rule of law - both on the higher and on the lower level. On the lower level, wealthy individuals can escape prosecution by bribing judges. On the higher level, public prosecutors are highly dependent on political power. Ukraine suffers from corrupt and politicized courts on the higher and lower levels. In 2016, a comprehensive reform of the judiciary system went into effect. The reform was aimed at creating a more independent and competitive selection of judges, an increase in salary for judges, a broader evaluation of their work and a better control of their assets in order to decrease corruption. The reform came under heavy criticism in 2017, when NGO's criticized the lack of transparency of the selection of candidates for the Supreme Court.

CORRUPTION

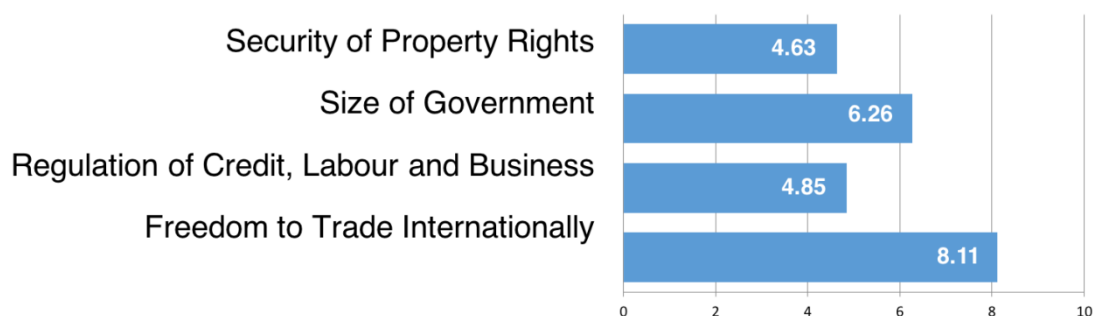
The situation regarding corruption in Ukraine has barely changed in the past few years. Ukraine is still, after Russia, the most corrupted country in Europe. Globally, Ukraine is on the 130th place out of 180 countries, together with Iran, Gambia, Myanmar and Sierra Leone. The bribery rate in Ukraine hasn't improved in recent years and is still stuck on 38%, which makes it the highest in Europe. Although politicians acknowledge that corruption is a big problem in Ukraine, there is little political will to fight corruption despite pressure from civil society. The recently created anti-corruption bureau NABU, which is tasked with investigating corrupt officials, is being obstructed by government officials and by law enforcement agencies. The latter even arrested NABU officials and seized files from the bureau. In June 2018, Ukrainian President Petro Poroshenko signed legislation to create the long-awaited anti-corruption court. The court is expected to be operational by the end of 2018; however observers warned that its operations could be obstructed by legislation. In December 2017, the Ukrainian parliament voted to dismiss the chairman of its anticorruption committee, which was criticized by the EU's ambassador to Ukraine. Furthermore, Poroshenko signed a law aimed at increasing the monitoring of anti-corruption NGO's.

PROTECTION OF HUMAN RIGHTS

The Maidan Revolution of 2014 improved the respect for -and awareness of- human rights in Ukraine. Civil society is very strong in Ukraine, with civic groups with social, political, cultural and economic agendas being able to influence decision-making in different levels of the government. The March 2017 law that increases monitoring of anti-corruption NGO's is considered to be a negative development concerning human rights in Ukraine. In general, free speech is upheld in Ukraine and Ukrainians can say whatever they want. However, the conflict in the east has made it sometimes difficult for pro-Russian Ukrainians to express their opinion. There is no free speech in Crimea and the occupied parts of the Donbas. Ukrainians are completely free to practice their religious beliefs, however the conflict in the Donbas has increased tensions between members of the Kyiv Patriarchy and members of the Moscow Patriarchy within the Orthodox Church. Furthermore, there are reports that the de-facto authorities in the occupied parts of the Donbas are persecuting members of the protestant

church. The Ukrainian constitution guarantees the freedom of assembly, and it is generally upheld. Some manifestations, such as pro-LGBT demonstrations, can be subject to violence by non-state actors. However, the Gay-Pride in Kyiv has taken place without any mayor disruptions in the past three years. The pluralism that flourishes in Ukraine after the Maidan Revolution also includes extreme-right groups. Furthermore, organized crime is still present on the public scene. Journalists and activists, especially those who research corruption, are increasingly prone to attacks.

C. ECONOMIC FREEDOM



SECURITY OF PROPERTY RIGHTS

Due to the high level of corruption within the judiciary system, private property rights in Ukraine are not sufficiently protected. Furthermore, the enforcement of contracts is hurdled by the very high costs of going to court. Registering a property in Ukraine is a very long and costly process, both due to inefficient land cadastre and complicated valuation rules for determining the transfer tax. Foreign nationals are not allowed to own land in Ukraine, however most restrictions on foreign investment have recently been lifted. The privatization process is not transparent and not fair. Russian and offshore companies have been banned from participating in the privatization process due to concerns over Russian influence in Ukraine. In the Donbas, private businesses have been “nationalized” by the de-facto authorities. The Index of Economic Freedom gives Ukraine a grade of 41.4 out of 100 in 2017, thereby falling under the category “repressed”.

SIZE OF GOVERNMENT

Government spending in Ukraine reaches around 42.8% of GDP, which is comparable to other European countries. Ukraine’s government debt to GDP decreased from 81% in 2016 to 71.8% in 2017, however this does remain a dangerously high level. The inflation rate in Ukraine was 14.44% in 2017, which is extremely high considering that the inflation rate of the Euro was 1.5% at the time. Corruption remains one of the biggest problems for the functioning of the government and it causes an incredible loss for the country’s GDP. Although reforms have been conducted, they remain limited. Ukraine still has a large amount of state owned companies, which are largely inefficient. This leads to losses and to the companies needing state subsidies. Although the privatization process has started, it remains a very slow and unfair process. The top individual income tax rate is at 20 percent, and the top corporate tax rate is at 18 percent. The overall tax burden is 35.5 percent of the total domestic income.

REGULATION OF CREDIT, LABOUR AND BUSINESS

In 2017, Ukraine was ranked 76th out of 190 countries in “doing business”. Ukraine’s position went up 20 places in two years, however there are still quite some improvements to make. The main reasons as to why Ukraine’s position improved is due to the many reforms, albeit not always successful, that Ukraine conducted over the past few years. According to the World Bank, Ukraine improved in three areas; the government made the obtainment of construction permits easier by reducing the fees and protected minority investors by requiring detailed public disclosure of related-party transactions. The World Bank noted that in 2017, Ukraine improved especially its tax system, jumping up 41 positions in the ranking by making it easier to pay taxes. A big issue for entrepreneurs in Ukraine is still obtaining electricity, which is very costly and goes hand in hand with very slow procedures. The 2016-2017 Action Plan on Deregulation of Business Activity has been received positively. The plan was aimed at reducing the regulatory burden on business by improving and especially simplifying the conditions for entrepreneurs in Ukraine. Ukraine is cancelling some tax breaks for agriculture..

FREEDOM TO TRADE INTERNATIONALLY

International trade is extremely important for Ukraine, thus the freedom to trade internationally is largely being upheld. Ukraine is the 53rd largest export economy in the world, with its main export partners being the EU, Russia, Turkey and China. Ukraine’s imports originate mostly from the EU, Russia, China and Belarus. In the years leading up to the 2014 Maidan Revolution, the Ukrainian export was already decreasing. The 2014 war worsened this trend, with export decreasing significantly. Although the Ukrainian export slightly increased in the beginning of 2017, it decreased again significantly by the end of that year. According to the Global Competitiveness Report, inflation, corruption and the political instability are the most problematic factors for doing business with Ukraine. Complicated tax regulations also form a hurdle to investing in Ukraine. The war in the Donbas is an instable factor which highly influences the Ukrainian economy. A different problem for international trade is the low quality of the Ukrainian roads, which can cause transport to be extremely long and inefficient. In the summer of 2018, the EU and Ukraine were in conflict over the Ukrainian ban on wood export. The ban came into effect in 2017 in order to prevent deforestation in Ukraine, particularly in the western region of Transcarpathia. The EU wanted Ukraine to lift the ban, declaring it a limit to free trade and stating that it is not effective in fighting deforestation, for the deforestation continues illegally. The ban has been lifted in early September 2018.

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

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

on a scale with the maximum of 100 points, where more points indicate higher degree of freedom.

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 2018, mostly represents state of affairs 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 2018 illustrates the situation from July 2017 to June 2018.

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 für die Freiheit).

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 the Transparency International's *Corruption Perception Index*

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

Protection of Human Rights

- Score from the 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)

$$A/10$$

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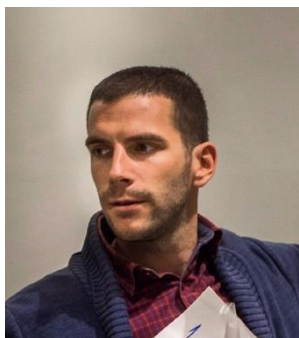
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Ivan Despotović (1989) is the analyst of political freedom within the Freedom Barometer team and the author of the Finding Freedom podcast of the Friedrich Naumann Foundation for Freedom. Although graduated from the Faculty of Transport and Traffic Engineering, he considers himself rather as a “social engineer”. He has been active in politics since early age as a member of the Liberal Democratic Party in Serbia, acting as the president of Youth of LDP and being a member of party presidency in 2015 – 2018. He works with the CSO Libero as a project manager experienced in development and management of the projects on protection and advance of human and citizen rights, as well as on embedding democratic values among young people in Serbia and in the SEE region. Ivan is the author of several manuals for youth activism and for empowering CSOs through the use of digital technologies. As a co-founder of the Smart City Education Initiative, he advocates cooperation between political and private sector (start-ups) on developing technological solutions for inciting city development and implementation of innovative local governance practices. He is a Program director of the Smart City Festival in Belgrade – an annual event gathering 2000+ guests, speakers and experts world-wide. Also, he works as strategic communication consultant and trainer in the field.