

Moldova Country Report

A Society Under Pressure: Internal Vulnerabilities and Multiple External Risks

The Russian full-scale aggression against Ukraine has severely affected the Republic of Moldova. The consequences of this war influenced the country both economically and socially, the situation being exacerbated by the energy crisis and inflation, which in August 2022 reached the highest values in the region. Energy prices have doubled and food prices have increased by over 30%. Accelerating inflation significantly undermined the purchasing power of the population and reduced household final consumption. This has led to a significant increase in poverty rates, with 31% of the Moldovan population now living below the poverty line compared to 25% before the war¹. There are extremely large differences in poverty rates between rural and urban areas: 40,1% and 17,1%, respectively².

The increase in energy prices has put considerable pressure on the national budget. To mitigate the effect of these increases, the Government offered direct bill compensation for household energy consumption. Almost 30% of the compensations for the cold season 2022-2023 were covered by the state budget, while development partners' contribution reached 70%. Among the most important donors to "The Help at the Meter" program were the European Commission - 75 mln euros, Germany - 40 mln euros, World Bank Multi-Donor Trust Fund (US Government and Norwegian Government contribution) – 40,4 mln euros. 75% of all households in Moldova benefited from compensation for their invoices.

In the last five years, the share of expenses financed from external sources has increased from about 5% in 2018 to 20% in 2022. In 2023, external grants constituted 10,4% of state budget revenues. In 2024, they will have a weight almost three times lower, of 3,6% of revenues. This is one of the consequences of Moldova's transition from a group of low-income countries to that of middle-income countries, which implies a decrease in the volume of grants and the attraction of more external credits in the country.

Overall, the state budget for 2024 is an austere budget, with a deficit above the admissible norm and with very modest potential for ensuring sustainable development in the Republic of Moldova. In practical terms, this means less spending on health, education, social protection, and infrastructure for citizens. To maintain social resilience, the state needs to continue to invest in human capital and implement social protection programs, while improving their targeting towards the most vulnerable.

Demographic Issues, Migration, Refugees

Demographic problems and migration are Moldova's biggest economic and social challenges. Over the last 2 years, Moldova faced record decreases in population, with a 2,35% decrease in

¹ „Moldova Brief”(World Food Program, 2023). Available at: <https://www.wfp.org/countries/moldova#:~:text=This%20has%20led%20to%20a,between%20refugees%20and%20host%20communities>.

² „Raport de Stare a Țării 2023”(Expert-Grup, December 2023). Available at: <https://www.expert-grup.org/ro/biblioteca/item/2619-raportul-de-stare-a-%C8%9B%C4%83rii-2023&category=182>

2021 and a 2,4% decrease in 2022³. The decrease in population is driven by a lot of complex factors but the largest drivers are a negative natural increase of the population and people leaving the country for economic opportunity abroad. Fewer people are born while life expectancy in the last 15 years has increased by about 5 years. Population aging and declining replacement rates will have negative implications for two dimensions: labor availability and the sustainability of the pension fund.

According to the Moldovan labor market forecast⁴, in the medium term, the demand for labor will grow faster than the supply, exacerbating labor shortages. By 2026 the demand for labor will exceed one million people, so the gap between labor demand and supply will reach 18-25%. The workforce deficit could also be aggravated by the expected end of the war in Ukraine since the post-war reconstruction of the infrastructure will increase the demand for labor in the region, which will affect the rate of work emigration from Moldova to Ukraine. When domestic labor force reserves are exhausted, the employment of foreign workers may be analyzed as a possible solution to the deficit problem, particularly in terms of policies aimed at culturally and socially integrating the population arriving from abroad. The Moldovan Government moved in this direction in January 2024 by expanding to 47 countries the list of countries whose citizens can work in Moldova for up to 90 days without a work permit.

Since February 2022, Moldova has welcomed the highest rate of Ukrainian refugees per capita. Refugees enjoy assistance and social services from the state, as well as international and non-governmental organizations, but their employment rate remains low. In February 2024 only 1,314⁵ of the approximately 65,000 Ukrainian citizens staying in the Republic of Moldova for more than 90 days⁶ were officially employed. A set of factors prevent the employment of Ukrainian citizens in the Republic of Moldova, such as salary levels in Moldova, insufficiency of childcare facilities, and lack of language skills. Thus, the economic inclusion of refugees from Ukraine remains weak, and the increased level of poverty in Moldova contributes to an increased risk of tensions between refugees and host communities.

New Geopolitical Realities

The courage and resistance of the Ukrainian people to Russian aggression accelerated the process of integration into the EU of both Ukraine and Moldova. President Maia Sandu outlined her vision for the Republic of Moldova as a member of the EU by 2030. Moldova has moved swiftly from applying to join the EU on March 3, 2022, to the decision of the European Council to open accession negotiations on December 14, 2023. The EU also intensified its cooperation with Moldova through launching its Partnership Mission under the Common Security and Defence Policy in the country in 2023. Its main mission is to contribute to the strengthening of Moldova's crisis management structures and to enhance its resilience to hybrid threats, including cybersecurity, and countering foreign information manipulation and interference.

³ Veaceslav Ionita, "Populația Republicii Moldova astăzi este similară cu cea din 1956". Available at:

<http://www.viitorul.org/en/node/2710>

⁴ "Prognoza pieței muncii pe termen mediu (2024 – 2026)". Available at: https://www.anofm.md/view_document?nid=20474

⁵ "Informații actualizate privind angajarea cetățenilor din Ucraina" (National Employment Agency, February 2024). Available at: <https://anofm.md/ro/node/20103>

⁶ „Protecția temporară a persoanelor strămutate din Ucraina” (Ministry of Internal Affairs, September 2023). Available at: <https://www.mai.gov.md/ro/node/8107>

Holding the Summit of the European Political Community in Moldova in June 2023, the establishment and coordination of the Support Platform for Moldova by Romania, France and Germany, as well as the intensification of the bilateral political and sectoral dialogue with the institutions of the EU, USA, NATO, G7, have strengthened the external image of the country. At the beginning of 2024, Moldova signed a defense deal with France to boost military cooperation. France is increasingly interested in making Moldova more of a priority for the West; Moldova was specifically mentioned in the deliverables following an international summit initiated by Emmanuel Macron in February 2024⁷.

In the new National Security Strategy, which was adopted by parliament on 15 December 2023⁸, states for the first time since the Republic of Moldova gained independence that the Russian Federation represents the most dangerous threat to the country's security. An important consequence of the war is the freezing of the status of negotiations in the 5+2 format regarding the settlement of the Transnistrian conflict, where Russia and Ukraine were mediators. Russia's war against Ukraine also made Moldova vulnerable in terms of its energy security, since until 2022 it was completely dependent on the Russian energy resources. Since December 2022, the right bank of the Dniester has already used gas exclusively from European suppliers, while natural gas from Gazprom is used only by the Transnistrian region. In this context, Ukraine's upcoming decision regarding the fate of the transit of Russian gas through its territory and of its contract with Gazprom, which expires in December 2024, will be crucial for future scenarios for the possible reintegration of Moldova.

Security thinking

In 2024, a budget of 15,6% more than in 2023 and four times higher than in 2013 is planned for the defense sector. It is one of the three areas where allocations in 2024 will increase. In 2022, the defense budget was slightly more than 0,3% of GDP, in 2023 the figure was approximately 0,5-0,6% of GDP⁹. This trend gives space to public discussions about the relevance of increasing the allocation of resources for the modernization of the Moldovan army and the country's defense potential while simultaneously reducing costs for human capital in conditions of the impoverishment of the population. Supporters of Moldovan militarisation are convinced of the need for careful preparation for a possible Russian attack, while supporters of the welfare state

⁷ Conférence de soutien à l'Ukraine, 27 February 2024. Available at: <https://www.elysee.fr/emmanuel-macron/2024/02/27/conference-de-soutien-a-lukraine>

⁸ New National Security Strategy of the Republic of Moldova, 15 December 2023. Available at: <https://www.parlament.md/ProcesulLegislativ/Proiectedeactenormative/tabid/61/LegislativId/6749/language/ro-RO/Default.aspx>

⁹ Cât de 'apărată' intră Moldova în 2024 și cum și-a modernizat armata în 2023. Available at: <https://moldova.europalibera.org/a/cat-de-aparata-intra-r-moldova-in-2024-si-cum-si-a-modernizat-armata-in-2023/32737083.html>

insist that it is poverty that gives rise to corruption and voter bribery, through which Russia can influence the results of elections and gain control over government without weapons.

The status of neutrality is enshrined in the Constitution of the Republic of Moldova. But in the new National Security Strategy, there is not a single mention of it. The previous National Security Strategy of 2011¹⁰ stated that „the cooperation of the Republic of Moldova with NATO fits into the framework of the Euro-Atlantic Partnership Council and the Partnership for Peace, without violating or going beyond the framework of the constitutional provision on the status of permanent neutrality of our country”. That is, the authors of the new Strategy in 2023 deliberately excluded Moldovan neutrality from the text.

The term „neutrality” appears only in the paragraph of the new National Security Strategy about how countries neighboring Russia with a long tradition of neutrality are now showing a tendency to abandon this status and join NATO. At the same time, Moldovan authorities did not consider it necessary to indicate that these decisions were made primarily based on broad support from its own citizens. Thus, after the start of Russian full-scale aggression against Ukraine, the idea of joining NATO was supported by 78% of Finnish citizens and 64% of Swedish citizens, while in the Republic of Moldova only up to 30% of citizens are ready to support the accession of the country to NATO¹¹. At the same time, 55% of citizens recognize that they are not ready to fight with a gun in hand in defense of Moldova in case of a defensive war against a Russian invasion¹², and 54% of citizens consider that „Moldova is a neutral country and this will protect it from war”¹³.

Public perceptions point to the need for broad internal debate regarding what Moldova’s neutrality means in the current geopolitical realities and whether there is any possibility of achieving its international recognition, since the current self-declared neutrality is weak, especially given the presence of Russian troops in the Transnistrian region. At the same time, taking public attitudes into consideration, the EU could consider extending its security commitments to Moldova as a separate security player from NATO. The EU could publicly emphasize that the status of neutrality is compatible with its membership, citing the examples of Austria, Ireland, Finland, Sweden, Cyprus and Malta, which joined the EU as neutral or non-aligned states. The EU could follow the example of NATO¹⁴ and the US¹⁵ by officially declaring respect for Moldova’s constitutional neutrality, thereby undermining Russia’s narrative about the correlation between EU and NATO membership.

Democratic Values

¹⁰ National Security Strategy of the Republic of Moldova, 15 July 2011. Available at:

https://www.legis.md/cautare/getResults?doc_id=17629&lang=ro#

¹¹ Public Opinion Barometer, August 2023. Available at: https://ipp.md/wp-content/uploads/2023/09/BOP_08.2023.pdf

¹² WatchDog.MD, January 2023. Available at: <https://watchdog.md/en/polls/206024/comunitatea-watchdog-md-a-prezentat-rezultatele-unui-sondaj-de-opinie/>

¹³ WatchDog.MD, June 2023. Available at: https://watchdog.md/wp-content/uploads/2023/06/ENG_Survey-nr.4-WD_CBS-AXA_full-version_June-2023-1-1_compressed.pdf

¹⁴ NATO Vilnius Summit Communique, 11 July 2023 (p.81). Available at:

https://www.nato.int/cps/en/natohq/official_texts_217320.htm

¹⁵ Secretary Blinken’s Joint Press Availability with Moldovan President Maia Sandu, 6 March 2022. Available at:

<https://www.state.gov/secretary-antony-j-blinken-and-moldovan-president-maia-sandu-at-a-joint-press-availability/>

President Maia Sandu and the current government have publicly declared their commitment to strengthening good governance and advancing the reform process. This follows a long period of effective state capture, with oligarchic interests exerting illegal control over the Moldovan justice system, the General Prosecutor's office, the National Anticorruption Centre, the Central Electoral Commission, the Information and Security Service, the National Bank, etc. According to the EU Commission Report¹⁶, in 2022-2023 the government worked actively on the EU reform agenda and ensured a good level of coordination and policy planning. In 2023 Moldova improved its performance in the international press freedom rating¹⁷ and corruption perceptions index¹⁸.

Starting with the energy crisis in October 2021 until the end of 2023, Moldova has been governed under a state of emergency, with the war in Ukraine used as a political justification to continue it for two years. The Commission for Extraordinary Situations has adopted several doubtful decisions. For example, it suspended the broadcasting licenses of 12 TV channels and canceled the registration of all the candidates of a political party two days before the local elections. While recognizing the need to take immediate measures to ensure the informational security of the country, Moldovan civil society organizations have expressed concern¹⁹ regarding the inability of the authorities to explain the motivation behind the decision to suspend the broadcasting license, which raises suspicions that the restrictive measures went against the diversity of political views expressed as well as against freedom of expression. According to the OSCE's Office for Democratic Institutions and Human Rights²⁰, the suspension of these media outlets was a disproportionate restriction of freedom of expression. It also concluded that the de-registration of all candidates of the Chance Party on the eve of the local elections through an executive decision of the Commission for Exceptional Situations lacked effective legal remedy.

The above-mentioned decisions were made as a result of a request from the Security and Intelligence Service (SIS) in the absence of clear arguments to justify the restrictive measures. SIS has also published its assessment of Russia's influence on the electoral processes in Moldova for 2024-2025²¹. According to this document, one of Russia's main operational goals is to discredit the referendum on EU integration initiated by President Sandu. For part of Moldovan society, this formula gives rise to fears that any criticism of the referendum will be perceived by state institutions as a commitment to Russian influence. After all, there may be reasonable arguments to criticize the initiative to hold a referendum on EU accession on the same day as the presidential elections, since it comes from Maia Sandu as a future candidate in the elections and this gives her an advantage over others candidates in a situation when the subject of European integration is one of strategic public interest for Moldova, which should not be "adopted" for electoral

¹⁶ EU Commission Report on the Republic of Moldova, 8 November 2023. Available at: https://neighbourhood-enlargement.ec.europa.eu/document/download/d8ef3ca9-2191-46e7-b9b8-946363f6db91_en?filename=SWD_2023_698%20Moldova%20report.pdf

¹⁷ Index 2023, Reporters Without Borders. Available at: <https://rsf.org/en/index>

¹⁸ Corruption Perceptions Index 2023, Transparency International. Available at: <https://www.transparency.org/en/cpi/2023/index/mda>

¹⁹ NGOs express their concern related to the lack of transparency regarding the suspension of licenses for TV broadcasters, 30 October 2023. Available at: <https://cji.md/en/cji-apel-si-centrul-acces-info-isi-exprima-ingrijorarea-in-raport-cu-suspendarea-licentelor-posturilor-tv-in-conditii-de-lipsa-de-transparenta/>

²⁰ Preliminary conclusions of the international election observation mission, Local election in Moldova, 5 November 2023. Available at: <https://www.osce.org/files/f/documents/d/2/557406.pdf>

²¹ Assessment of the SIS of Russia's influence on the electoral processes in Moldova for 2024-2025, 5 March 2024. Available at: <https://sis.md/sites/default/files/comunicate/fisiere/Scenarii%20de%20influen%C8%9B%C4%83%202024-2025.pdf>

purposes by a certain political force²². Overall, the strategy of presenting any critics of the government as the „fifth column of Russia” does not look convincing to a significant part of the population and could undermine democratic values in Moldova.

Social Cohesion

Moldova’s internal vulnerabilities, together with multiple risks, overlapping with the war in Ukraine, the refugee crisis, economic recession and high inflation, are generating unprecedented pressure on society, local communities and institutions, which may pave the way for a complete change of the political landscape, undermining the continuity of Moldova’s European integration process. Due to the resistance of the Ukrainian people, it will not be Russian tanks that will prevent the EU accession of Moldova, but rather a lack of support from the population which fluctuates around 50%²³. So, the path to the EU could change as a result of democratic elections for the next Parliament in 2025.

The lack of social cohesion and lack of national consensus regarding the accession of Moldova to the EU are the main country’s security risks. The monopolization of the EU integration idea by one political party and the labeling of the critical part of society as pro-Russian elements discredits EU principles and values. An inclusive dialogue with different parts of Moldovan society, including from the Gagauzian autonomous territorial unit and the Transnistrian region, is necessary to make the process of European integration of the Republic of Moldova irreversible.

An optimistic scenario is the regaining of permanent support for another 15-25% of citizens toward EU integration, based on the experience of 2005 – 2009 when the lowest level of EU support was 64% and the highest was 76%. But one cannot rule out the pessimistic scenario of 2012 – 2019 when the lowest level of EU support was 38% and the highest was 55%. In the case of the second scenario, Moldova could follow the example of Norway, where 52% voted against EU membership in a national referendum. Unlike Norway, Moldova’s failure to join the EU will mean a gray zone with endless corruption, poverty and the revival of the oligarchic system.

Inna Şupac, expert at the Institute for Strategic Initiatives (Republic of Moldova)

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²² Opinion of the Promo-LEX Association on holding the republican referendum on the same day with the parliamentary or presidential elections, 17 January 2024. Available at: <https://promolex.md/25038-opinia-asociatiei-promo-lex-cu-privire-la-desfasurarea-referendumului-republican-in-aceeasi-zi-cu-alegerile-parlamentare-sau-prezidentiale-2/?lang=en>

²³ Public Opinion Barometer, August 2023. Available at: https://ipp.md/wp-content/uploads/2023/09/BOP_08.2023.pdf