

MOLDOVA'S NEW GOVERNMENT

Parliament of Moldova approves pro-EU cabinet headed by Natalia Gavrilița

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Almost a month after the Party of Action and Solidarity (PAS), supporting pro-EU Moldovan President Maia Sandu, scored a landslide victory during Moldova's long-awaited snap parliamentary vote on July 11th, Natalia Gavrilița, an economist and former Finance Minister, has been confirmed as the country's new Prime Minister. Facing extremely high expectations from the Moldovan public, the Gavrilița Cabinet has already outlined a number of plans for the country's immediate future, as Moldova continues its recovery from the COVID-19 crisis. Both the European Union and Russia have taken initial steps towards future cooperation with Chisinau, which so far appear to be constructive and focused on the economy rather than politics.

Below we provide an introduction into the current state of Moldovan politics, prospects for the country's political stability, the priorities of the Gavrilița Government, likely future post-election scenarios, as well as initial reactions to the change of government from the EU and Russia.

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POST-ELECTION LANDSCAPE

On July 11th, Moldova held much-anticipated snap elections to elect the country's new parliament. The parliamentary vote came as a follow-up to last November's Presidential elections, when former Prime Minister Maia Sandu, the then-leader of the pro-European Party of Action and Solidarity (PAS), defeated¹ her long-standing political rival, Igor Dodon, the country's former President who was backed by the pro-Russian Party of Socialists of the Republic of Moldova (PSRM). While Sandu won the Presidential vote by a surprisingly wide margin, the new President was unable to deliver on her pro-European and anti-corruption agenda without the backing of the country's parliament, which – at the time – was led by Dodon's PSRM and its allies.

Recognizing the need for legislative support to implement her agenda, Sandu vowed to push for snap parliamentary elections after Ion Chicu, the country's former Prime Minister (and one of Dodon's allies) stepped down from his position in December last year to avoid a no-confidence vote. Following months of political debates and legal struggles with the country's Constitutional Court, Moldova's new President managed to secure her goal, with snap parliamentary elections scheduled for mid-July.

Proceeding in line with pre-election forecasts², Sandu's PAS capitalized heavily on the popularity of the country's new President and the public's dissatisfaction with the performance of the PSRM-led government under Dodon. Accordingly, the elections have completely reshaped Moldova's multi-party politics in favour of the pro-EU PAS, which emerged as the country's largest parliamentary formation. Sandu's party secured 52.8% of the popular vote and, thus, secured 63 of the 101 parliamentary seats, clearing the way for a government without the need for coalition partners. The main electoral rival PSRM, which this time ran as part of the Electoral Bloc of Communists and Socialists (BECS), scored only 27% and secured 32 seats.

In addition to the defeat of the Dodon-led Socialists, the new elections have completely redrawn Moldova's political map. Once controlling a quarter of parliamentary seats only, PAS now has a close-to-constitutional majority in the country's legislation that can serve as a facilitator of the President's political agenda. The parliamentary opposition has been reduced to two main formations: the BECS bloc and the ȘOR party. The once dominant Democratic Party of Moldova (PDM), the party of Vlad Plahotniuc, a Moldovan businessman, widely believed to control the Moldovan state through parliament, almost entirely lost its popular support and received only 2% of the popular vote.

THE « INTEGRITY » GOVERNMENT

As expected, President Sandu – following consultations with the three parliamentary parties – nominated **Natalia Gavrilița for Prime Minister**. One of the President's closest allies, Gavrilița led PAS together with Sandu, while the two also served briefly together in the PAS-PSRM coalition government in 2019. In a bid to keep the Plahotniuc-affiliated PDM away from power, the PAS and the PSRM – following the 2019 parliamentary elections – formed an unlikely alliance to form a government in June 2019, with Sandu serving as PM and Gavrilița as Finance Minister. In November 2019, however, the experimental government was eventually toppled by the PSRM to prevent Sandu from carrying out her judicial reform plans.

Similar to Sandu, Gavrilița holds extensive international and governmental experience. Holding degrees from international law and public policy, the Harvard-educated politician previously worked as an expert for several international organizations, including the World Bank, the IFC and UNICEF. Between 2015 and 2019, she worked as the director-general of the Global Innovation Fund, a London-based organization. Prior, she served as Secretary of State in the Ministry of Education of Moldova for two years, the Head of the Macroeconomic Development Department within the country's Economic and Trade Ministry and Head of the Department of Policy and External Aid Coordination within the State Chancellery of Moldova.

¹ Please see [here](#) for Kesarev's analysis of the 2020 Presidential elections

² Please see [here](#) for Kesarev's analysis of the 2021 snap parliamentary elections

As the favourite to be nominated to lead the next government at the time, Gavrilița was put forward as a candidate for PM in January after Ion Chicu stepped down from the position. Her candidacy, which essentially was a push for snap elections, was refused by Dodon's party and their allies in the former parliament. Accordingly, Sandu again nominated her for the position, knowing that the second refusal of the parliament would ensure early elections, a political objective PAS had been working for.

A month after the snap parliamentary vote, the new Moldovan parliament, now dominated by PAS MPs, confirmed Gavrilița as Prime Minister, whilst approving her government and its working program. Her Government, the Cabinet of Ministers, will have 16 ministries³, with four portfolios – digitization, infrastructure and regional development, European integration and the reintegration of Transnistria, the country's breakaway region in the east – run by Deputy Prime Ministers.

Among the **key stakeholders of the Gavrilița Cabinet** are the Ministers responsible for probable priority areas, including economic recovery, anti-corruption and justice reform, investment promotion, as well as the country's relations with the European Union and Russia. A returning face in the new Government is **Nicu Popescu, the new Minister of Foreign Affairs and European Integration** who held the same position in the short-lived Sandu Government in 2019. Popescu, who previously worked as a Program Director at the European Council on Foreign Relations and as a foreign policy advisor to the Moldovan PM (2010, 2012-2013), is also serving as Deputy PM in addition to **Iurie Turcanu (responsible for digitization)**, **Vladislav Kulminski (responsible for the reintegration of Transnistria)** and **Andrei Spînu (responsible for infrastructure and regional development)**. Popescu will be a central figure in managing the country's relations with the European Union as Moldova is likely to redefine and strengthen its cooperation with the bloc.

Another key figure in the country's new government is **Justice Minister Sergiu Litvinenco**, who has been among those tasked with leading Sandu's anti-corruption fight and the clean-up of the Moldovan judiciary. From the viewpoint of public support, the anti-corruption drive will ultimately be the first major domestic political test for the new Government, which appears determined to remove Alexandr Stoianaglo, Moldova's Prosecutor-General, who is widely criticized for leaving major graft-related cases unresolved. The key ministers also include **Economy Minister Sergiu Gaibu** and **Finance Minister Dumitru Budianschi**, both focused on ensuring the country's economic recovery in the aftermath of the COVID-19 crisis. To support the recovery, the government aims to boost annual foreign direct investment to 4% of GDP through making improvements in the regulatory framework.

GOVERNMENT PRIORITIES AND IMPLICATIONS FOR INVESTORS

The near-constitutional majority secured by PAS will allow the new Government to proceed with its agenda almost uninterrupted. While this means practically no obstacles from a parliamentary point of view, high public expectations of the Gavrilița Cabinet will likely push the new PM to **focus on anti-corruption initiatives and the still ongoing pandemic situation rather than socio-economic progress and structural reforms**. This is also reflected in Gavrilița's working program, which includes **health crisis management and justice reform as top priorities** – in addition to increasing wages, protecting socially vulnerable groups and restoring the country's external financing.

Below we outline the likely post-election scenarios, as well as the likely priorities in the short-term.

- › **Symbolic and practical moves on tackling corruption** will be one of the key factors in terms of securing public support for the new government. As well as aiming to dismiss Stoianaglo, the country's top prosecutor, the Justice Ministry is preparing Romanian-modelled reforms, while PAS will prepare legislative initiatives to create new evaluation mechanisms for Stoianaglo and other head prosecutors by the end of 2021. While the anti-corruption drive could maintain popular support for

³ Please see [here](#) for the full composition of the Gavrilița Cabinet

Gavrilița and her Cabinet, legal resources to deliver on one of the key promises, that is confiscating stolen wealth, remain limited, with the process likely to last through the Cabinet's term. A less promising field where the government aims to make immediate progress, is the **fight against COVID-19**. To date, Moldova received close to 1.6 million vaccine doses from various sources, with the vaccine coverage standing at 19% and vaccine hesitancy a key challenge.

- › With a pro-European President and Government in office at the same time, the PAS victory is almost certain to provide the **country's EU membership bid** with new impetus. Already a member of the EU's Eastern Partnership (along with five other former USSR states) and having a Deep and Comprehensive Free Trade Agreement (DCFTA) with the European bloc under an Association Agreement between the two sides, Moldova is likely to join forces with Georgia and Ukraine – also members of the Eastern Partnership – to push their integration goals to the next level. While appetite for enlargement within the EU remains low, bilateral cooperation is likely to be revitalized now that the new government will be welcomed in Brussels (Dodon's ideological proximity to Russia prevented the Chicu Cabinet from building ties with Europe). The two sides are expected to come up with a new Association Agenda that will set the priorities for cooperation for the next seven years. These objectives are expected to be adopted during the next EU-Moldova Association Council in late September when the new Moldovan PM will visit Brussels.
- › In the meantime, the Moldovan Government will actively **court international financial support** to the pandemic recovery through the EU. According to Gavrilița, immediate government priorities include the adoption of laws necessary to access the next tranche of EU macro-financial assistance worth €50 million. In practice, this will likely mean changes such as the adoption of a new Customs Code more in line with EU standards. Even more important to Moldova is an EU-proposed recovery package (modelling the EU's own NextGenerationEU funding scheme) from which the Gavrilița Cabinet aims to receive €600 million between 2022 and 2024. Similar to the NextGenerationEU scheme, the funds – if used properly – could be a significant element in supporting and expanding the country's post-pandemic economic growth. **Moldova's GDP suffered a 7% contraction last year** due to the global economic downturn, however, the latest EBRD forecast predicts GDP will increase by 4.5% in 2021 and by 4% in 2022. In addition to the EU, external financing also appears to be a possibility from the International Monetary Fund. On July 30th, Sandu confirmed that the IMF is considering the provision of €198 million in special financing, with the IMF board expected to make a decision by the end of August.
- › While both Sandu and PAS promised to maintain pragmatic relations with Russia, the situation of the breakaway region of Transnistria in the country's east will likely present the new government with a major geopolitical challenge. Throughout both recent election campaigns, Sandu has refrained from discussing geo-politics. However, it remains a possibility that the pro-EU government will move to internationalize the case of Transnistria with an attempt to settle the political status of the disputed region. At present, Transnistria holds an estimated 2,000 Russian peacekeepers and lacks basic international recognition.

Although the situation of the breakaway region remains a highly sensitive issue in the country's relations with Russia, the initial reaction from Moscow gives room for optimism in terms of political stability. On August 11th, Senior Russian Presidential Advisor Dmitry Kozak made a surprise visit to Chisinau and agreed with Sandu to lift existing trade restrictions (in 2013, Russia banned the imports of Moldovan wines and spirits, the country's main export earners when Chisinau moved closer to the EU). Further, Kozak also endorsed settling the Transnistria conflict via peaceful means, adding that a dialogue on all issues between the two countries will begin soon. While the circumstances of the Transnistrian case still include the risk of an intensified reaction from Moscow now that support for pro-Russian parties has seriously decreased, the initial approach suggests pragmatism from both sides.

CONCLUSION

Given the historic mandate PAS received during the snap parliamentary vote, there is a strong chance that Moldova will emerge from a prolonged period of political instability. Supported by Sandu, the Gavrilița Cabinet will focus heavily on courting Western political and, even more importantly, financial support. With an anti-corruption government in office, this seems certain – as suggested by the EU proposals of a Moldova-specific recovery package and the prospects for further financial aid from the IMF. While the lack of a need for a governing coalition – in contrast with the previous years – will significantly support Gavrilița in implementing her agenda, a failure to deliver on key election promises such as tackling systemic corruption presents a key risk to our forecast going forward, as is the case of the possibility of worsening relations with Moscow should the issues around Transnistria come back on the international agenda.

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