

The Economy of Transnistria: view from the outside

The assessment of the overall condition of the Transnistrian economy in the recent years allows revealing the *most important factors* contributing to the evolution of its economic development:

- deepening of the structural deformations of the real sector along with artificial maintenance/expansion of non-market services¹, that do not meet the needs/opportunities of the region;
- enhanced impact of external factors and, consequently, adaptation to unstable conditions of accessing foreign markets;
- high potential demand for investments along with lack of access to external financing and limited internal resources;
- crisis in agriculture and related processing industries, increase of food imports: transformation of the region from a net exporter to a net importer of foodstuffs;
- degradation of the demographic situation (labor migration and natural decrease of the population);
- continuously high deficit of the Government budget.

Transnistria's adaptation to the market took place despite the external shocks, such as annual adjustment to the rules of access to external markets, railway "innovations" and *at least formal* increase of gas prices, and a very limited set of internal mechanisms and instruments to influence the condition of the economy.

Exports have increased, due to revival of the external markets and the European trade preferences (for the *whole* of Moldova).

A significant flow of investments was achieved (basically a privatization program was implemented).

As a result, a six year growth (2003-2008) and a relative macro-economic stabilization was achieved.

The growth data are rather contradictory.²

▪ Gross domestic product:	9.6% (6.1%);
▪ Industry:	1.7% (2.0%);
▪ Agriculture:	-5.2% (4.1%);
▪ Investment in fixed assets:	16.8% (15.0%);
▪ Export:	16.5% (7.6%);
▪ Import:	22.3% (16.2%);
▪ Average annual inflation:	24.6% (12.7%);
▪ Average monthly wage:	9.0% (9.6%).

It seems that in Transnistria, as well as in Moldova, is implemented a model of economic growth based on exports and remittances of migrant workers. The use of this model *allowed "strengthening" and even developing* the socially oriented economy. Hence, the following problems emerged, which are difficult to solve on both banks of the Dniester River and have been overshadowed: significant wear and tear of fixed assets and lack of sufficient funds for their modernization, stagnation of the agricultural-industrial complex, low standard of living of the population, population decrease due to migration and depopulation, especially in rural areas, the deficit of qualified staff. The economic growth was accompanied by deepening of inter-sectoral imbalances, both within the industry and between the industry and the agriculture, and this has led to increased dependence on imports of raw materials, energy resources and foodstuffs.

¹ The non-market services include services funded from the budget (education, healthcare, public administration, defense, etc.)

² Average annual growth (decrease) for the period 2003-2008. In parentheses the corresponding data for Moldova are given.

In fact, the period of economic stability, even if relative, has not become a “reason” to develop a comprehensive program of structural reforms capable of reducing the negative processes and changing the paradigm of economic growth:

- The problem of continuing lack of investments remains (wear and tear of fixed assets in many enterprises is over 80%).
- The share of industry in the GDP is steadily declining (2003 – 37%, 2008 – 33%).
- The share of machinery and equipment in total imports, against the background of the mass privatization processes, has increased only marginally (from 8% in 2003 up to 13% in 2008).
- The average annual rate of decline of the added value to produce created in agriculture, has exceeded 5% (the employment in industry has declined threefold).
- The dependence on several export commodities, primarily of metal roll, has increased, along with the concentration of exports.
- The dependence on food imports increased significantly, from 70 million dollars in 2003 up to 257.5 million dollars in 2008.
- The social “burden” on the budget, which is not covered through own resources of the region, has increased.

In other words, the almost complete lack of internal resources for growth in the Transnistrian economy has determined its increased vulnerability to external shocks, it being the reason for the complexity, painfulness and duration of overcoming the crisis.

Lately, over 70% of the industrial output is generated by *four* enterprises: Moldova Steel Works – about 45%; the remaining 25% are produced by “Tirotex”, Moldavian hydroelectric station and the Rybnitsa Cement Plant. The activities of these enterprises are “tied” to foreign markets of both raw materials and finished goods and, therefore, depend on external factors. In addition, the performance of these companies largely determines the soundness of all of the Transnistrian economy.

As a consequence, the problems of one of the ‘top four’ companies automatically grow into sectoral and economy-wide problems, threatening the operation stability of the tax and financial systems of the region. The advantages of export-oriented industry (about 33% of GDP before the crisis) turned into an instability factor during the crisis: alternatively, equivalent sources of replenishment of the budget and foreign exchange reserves in Transnistria have not yet been created.

Apparently this is why the Transnistrian economy is *sort of* more focused on services, their share in GDP having been growing steadily and for a long time (55% - in the pre-crisis period and about 70% during the crisis and the period of its overcoming). And it was the sector of services, primarily the non-market ones that have supported the economy during the crisis.

The Program for Minimizing the Impact of the Global Economic Crisis on the Economy and the set of measures for its implementation is a kind of attempt of the Transnistria leadership to support the economy, on one hand, and ensure, where possible, the performance of priority social expenditures.

It was assumed that economic policy would focus on the following priorities:³

1. Support the real economy;
2. Help small businesses;
3. Active social policy;
4. Preserve income levels of the people;
5. Monitor the economy;

³ Law № 734-W-IV “On state measures to minimize the impact of the global economic crisis on Transnistria’s economy in 2008-2009”, (CA3 09-17), 23.04.2009

6. Improve the efficiency of economic management at all levels;
7. Ensure the stability of the financial system of Transnistria.

However, the reduction of already limited financial resources has affected both the list of such actions and their effectiveness.

The real economy was supported financially by low cost loans (2% per annum secured by double cost collateral, the repayment deadline being October 01, 2010). The loans were provided to ensure payment of taxes, dues and other mandatory payments (52%), for repayment of current debt to pay for consumed electricity (22%) and debt to pay for the consumed natural gas⁴ (26%).

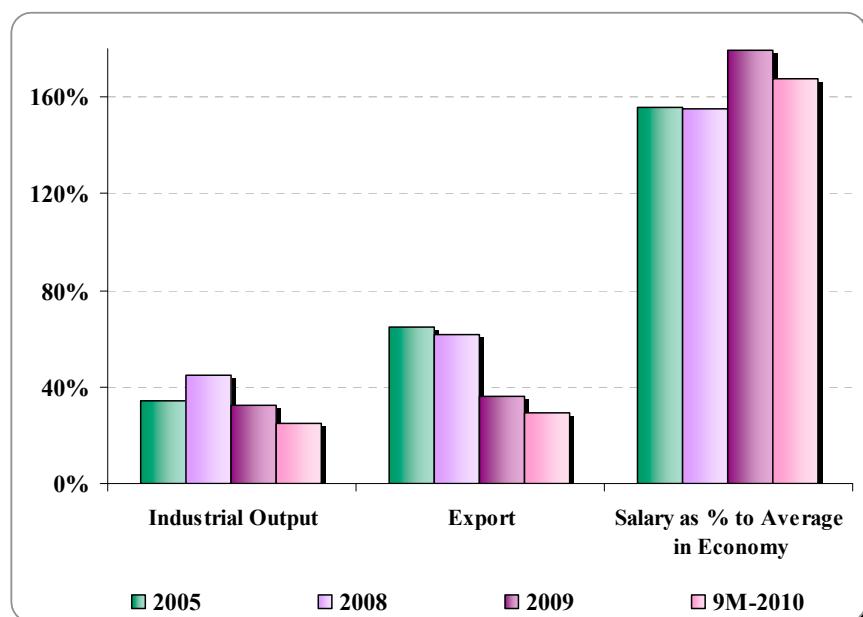
Box

Moldova Steel Works (MSW):

- the fifth-largest mini-mill steel producer in Europe (more than 1 million tons of high quality electrical steel and about 900 million tons of finished steel per year);
- the only steel company in the whole of Moldova;
- the Russian holding - "Metalloinvest" manages and partially owns the assets of MSW.

The reasons for the special attention to this enterprise of Transnistria are obvious: the evolution of macroeconomic key indicators of Transnistria (industrial output, exports, budget (up to 20% of tax revenues in the pre-crisis period) largely depends on the results of this "non-core" asset for the region.

MSW and Transnistria



The year of 2008: the autumn collapse of the world steel market. By the end of the year MSW has reduced its production by almost half. On the background of sustained growth/decline in prices for raw materials/finished products, the additional cost of raw materials (export duty on Ukrainian metal) and the railway "innovations" (+500 kilometers when shipping the finished product), resulted in accumulation of additional loss during the crisis.

The year of 2009: full (several times) collapse in demand on the world markets.⁵ In the first half of the year, the company had to "reorient" itself to the domestic market. The volume of production and export has declined by almost 70%.

⁴ Gas component

⁵ <http://www.metaltorg.ru/analytics/black/?id=456>

In the framework of the crisis management program, plant tax and gas "holidays" were provided (using the equipment as collateral) along with discounts on payment for railway transportation. MSW was provided the most serious budget support - more than 70% of the total allocation of budget loans, including a loan of the "gas component" of 98.5%.

The main shops began to work in *June*. In *December* the company returned to the external market of metal products.

The data of the year: twofold reduction of the production volume; decline of exports - almost threefold.

The year of 2010: The situation in the global steel industry remains volatile and ambiguous. The MSW has entered a new year with an almost traditional seasonal decline in the output in January-February and the restoration of relatively stable operation at partial capacity in the subsequent months. The enterprise managed to solve the issues of energy, raw materials and to resume exports even during crisis. In five months, the production had doubled. There was hope of reaching full capacity and pre-crisis production volumes.

The reality turned up to be more complicated: in July a shortened (one shift) production regime was introduced, while in August the company ceased its operation. Nevertheless, the equipment is maintained in working condition, and there are no technical problems *yet* for resuming production.

The budget loan (30 million dollars), received by the plant as support during the crisis in 2009, and became one of the reasons for ceasing its operation in 2010.

In conditions of acute shortage of budget funds, the company began a search for compromise in short term repayment arrangements.

Unexpectedly, the fate of the "disgraced" company suddenly has attracted the attention of Moldova as well and there were public promises to contribute to the optimization of the export transportation logistics. It didn't work out...

By December, the situation has somewhat clarified: approximately 60% of the loan was repaid by the shareholders. There is a confidence / plans to repay both the outstanding amount of debt, and to secure credit procurement of necessary raw materials as well.

The resuming of the plant operation depends only on a political solution.⁶

The reason or one of the reasons of the "conflict of interests" between Transnistria and the MSW is clear: the lack of "free" money for financing of:

- the priority budget expenditures in the first case (according to the Ministry of Economy, 30 million dollars more than covers the monthly costs of funding the budget) and
- the relatively normal operation of the enterprise, in the second case.

But even the first consequence of the "conflict", which is obvious to all, makes us think seriously about the "price of the issue":

1. In January-November of the current year, as compared to the same period (crisis) of the previous year, *the production and export of ferrous metals declined 1.5 times* (in the first half of the year, a 1.5 and 2.1 times growth, respectively, was registered).
2. Rybnitsa has become a subsidized region (an additional burden on the republican budget).
3. Reduction of the tax base for all budgets (for the income tax - no comments; currently, during the inactivity, payments to the social fund are not made, etc.)
4. Deferred investment (200 million dollars) in upgrading the enterprise (the project is postponed, *presumably* for 2013 year (2011 year).
5. The social consequences for the staff of MSW, Rybnitsa and all of Transnistria community are subject of a separate discussion.

⁶ News Agency "Novy Region", 02.12.2010

The specific structural features of the Transnistrian economy are showing both in the practice of the budget process, and in the specific nature of the tax system.

Over the recent years, upon finalization of the process of large-scale privatization, the formation, and, most importantly, the execution of the national budget is rather difficult.

The annual reduction in revenues from privatization on the background of increasing social obligations, financed from the republican budget, required the adoption of administrative measures aimed at preserving the fiscal balance:

- increase the calculated level of the minimum wage used in calculating taxes and other mandatory payments;
- use of additional factors to the rate of income tax to finance social payments;
- introduction of export duty on some construction materials (2008-2009), waste/scrap ferrous and nonferrous metals (2010) and animal skins and leather (2011 year);
- practice of forced advance transfer of payments;
- forced, by circumstances, financial centralization/decentralization by changing the norms of deductions from income tax to the Republican (2008 to 2009 year) or local (2010 year) budgets;
- expanding the list of legally significant acts, for which the stamp duty is charged, etc.

The sustained tension of the execution of budget parameters limits the room for manoeuvre in the distribution of incoming resources. Mainly, the social sphere and governance are financed (public sector wages and public service). Because of a chronic lack of funds, the government has virtually withdrawn from the support of investment activity and economic growth.

The specific nature of the tax system of Transnistria⁷, not only complicates the relations with the main trade partners and reduces the competitiveness of exports, but also makes it virtually impossible to carry out a pragmatic assessment of the tax base, and hence, the budgetary planning.

The tax revenue is essentially determined by the situation on foreign markets and depends on the capabilities of a limited number of major (budget-making) businesses. The tax potential of the domestic consumer market is practically never used. Problems arise also with the use of the customs as a stable source of replenishment, as it happens, for example, in Moldova. In this context, as a "compensation for lost VAT tax revenue" the size of import duties has been doubled since 2010.

The impression is that the fiscal policy leads to the "isolation" of the budget system from real economy, while the trends in taxation are very different from the declared priorities of socio-economic policies and do not correspond to actual developments in the economy.

The budget has become a mechanism for funding socio-protected positions, and not a tool for development; this has returned the economy to the unpredictability of the 90-ties. This is confirmed by the well-established practice of multiple budget adjustments within the fiscal year in different directions (decrease of the revenues and increase of the budget expenditures).

The permanent "modernization" of the tax legislation⁸ has become already common: rising/lowering correction factors and various "quasi-calculated" standards are introduced with the only goal – to mechanically increase the revenue side of the budget.

⁷ In Transnistria, since 2000, a tax on sales exists (as of April 01, 2002 - the corporate income tax). With the introduction of this turnover tax, the *value added tax*, income tax and the tax on own property of the company were abolished in Transnistria. The rate of turnover tax is differentiated and linked to the industry.
(Transnistria Law № 86 "On Corporate Income Tax", (CA3 01-53), 28.12.2001)

⁸ As a result, the budget parameters are changing, sometimes several times a month. Up to 60% of the originally approved lines of the Law on the national budget are subject to change.

It is obvious that the cabinet/parliament of Transnistria, having become hostages of circumstance, is forced into "improving" regulatory (available) instruments of fiscal policy, hence, its ambiguities, contradictions and failures in the implementation mechanisms.

As a rule, the decisions to increase/decrease in income tax rate for different sectors (businesses) of the industry, are taken from viewpoint of fiscal expediency, not from the standpoint of development, sustainability of the budgetary system in time (the industry provides about 60% of the tax revenue budget; in 2009 the medium and large enterprises (with 100 or more employees) have transferred to the budgets of all levels income tax which exceeded twice the amount of profit from main operations; the tax burden within the industry differs: in the machine-building enterprises it is twice higher than in the industry as a whole⁹).

The balance between budget revenue and expenditure insured by borrowed funds, accumulation of domestic and external debt, including, principal and interest of past years loans due to their "freezing". Moreover, the probability of future repayment of accumulated debt is extremely low.

Table 1
Domestic and External Debt of Transnistria¹⁰

	Amount treated as the state debt						Debt service					<i>Million US dollars</i>	
	01.01.06	01.01.07	01.01.08	01.01.09	01.01.10	01.01.11	2005	2006	2007	2008	2009		
internal debt	36.16	93.10	112.87	202.99	408.14	519.92	13.25	24.78	6.94	0.09	0.00		
credits	36.16	93.10	112.80	200.99	406.22	516.39	11.54	23.10	5.49				
accrued interest			0.08	2.01	1.91	3.53	1.71	1.68	1.45	0.09			
external debt	43.15	45.28	47.41	49.53	51.66	53.79	0.00	0.00	0.00	0.00	0.00		
credits	30.39	30.39	30.39	30.39	30.39	30.39							
accrued interest	12.76	14.89	17.02	19.14	21.27	23.40							

All this only creates the illusion that the tools and mechanisms for fiscal policy, which are operational in Transnistria, are capable of ensuring the stability of the budget system, even in times of crisis.

The reality, unfortunately, confirms unjustified tightening/easing out of the tax burden and, consequently, not only reducing of the investment activity, but also its oppression, or ceasing of the production. According to experts, while maintaining the current system of taxation, the possibility of increasing budget revenues, even with a positive scenario of economic development, is null.¹¹

It is obvious that the social orientation of the budget is due to poverty. The "burden", including the social burden, on the budget is steadily growing. Even in the best years, it was not possible to accumulate from traditional sources (tax and non tax) the revenues to match such growth. Up to three quarters of the budget expenditures are the costs associated with the execution of "excessive" (in terms of opportunities) social obligations (wages of public sector employees, nutrition, medicine, social allocations and compensations to the population, etc).

⁹ Industrial policy concept of Transnistria for 2010-2014; Regulation No. 3073 (CA3 10-17), 29.04.2010

¹⁰ Collection of indicators of financial transparency of Transnistria for 2006-2009.; Resolution No. 3403 "On the Draft Law on the national budget for 2011 and approval of the basic characteristics of the republican budget for 2011", (CA3 10-43), 25.10.2010. Author's calculations.

¹¹ The analysis of budget execution over the past decade suggests that even upon recovery of economic activity, tax revenues will not exceed 1.3 billion rubles (145 million U.S. dollars) per year. Non-tax revenues (primarily privatization receipts) will steadily decline, while maintaining some positive momentum only in the part of administrative fees and penalties. TRB Bulletin, No. 9 (124), September 2009, page 21.

Note that the *planned* expenditure budget for 2010 is 2.6 billion rubles. (290 million dollars).

Table 2

Transnistria: Revenues and expenditures of the republican budget¹²

Million US dollars

	republican budget					
	executed				adopted	
	2006	2007	2008	2009	2010	2011
Revenues, total	166.8	103.0	122.0	101.0	147.7	106.1
<i>Tax revenues</i>	61.1	67.2	94.0	73.7	76.0	61.8
Expenditures, total	145.8	143.0	152.1	293.4	282.2	260.8
<i>Expenditures for socially-protected budget lines</i>	106.7	112.5	116.0	185.1	270.1	257.9
Level of coverage of socially-protected budget lines by tax revenues	57.2%	59.8%	81.1%	39.8%	28.1%	24.0%

At the same time, the social orientation of the budget does not provide for qualitative changes in living standards. The problem lies not only in the lack of budgetary resources, but also in the urgent need for deep structural changes in the economy, reforms in the public sector and a pension reform.

According to the Transnistrian experts,¹³ if the payment of pensions and wages were carried out only from own resources, without external borrowing, the salaries in the public sector would have to be decreased two times, and pensions - by 40%. At the same time, the cost of utilities, taking into account the *real* price for natural gas, has increased at least twice.

In fact, the implementation of social obligations today threatens the stability of the economy and, consequently, the possibility of a normal budget process in the future.

The development, discussion and approval of the projection for socio-economic development, the main directions of monetary policy and of the budget for 2011 based on these documents was one of the most difficult in the past five years. The 2011 budget was also not easy, both for execution and in compiling the set of key parameters.¹⁴

According to the Budget Law for 2011,¹⁵ with the planned US\$ 100 million revenues of the republican budget, the deficit is of about US\$ 155 million dollars. In other words, one third of budget expenditures, and this is, primarily, social protection lines, remain originally unfunded.

The sources for covering the deficit are similar to those used in the current year:

- funds received in excess of the projected income in the revenue side of the republican budget, as well as from unplanned sources of income of the republican budget;
- cash balances in the fiscal accounts of the republican budget as of January 1, 2011;
- Transnistrian Republican Bank loans;
- other sources provided by the law;
- other sources of external funding (not secured by government guarantees).

¹² Data of the Ministry of Finance of Transnistria on execution of the republican budget for 2006 and 2007, <http://minfin-pmr.org/>;

TRB Bulletin No. 3 (118), March 2009, page 13; TRB Bulletin No. 3 (130), March 2010, page 8;

Transnistria Law No. 921 "On Republican Budget for 2010", (CA3 09-52), 25.12.2009;

Regulation No. 3403 «On the Draft Law on the republican budget for 2011 and approval of the basic characteristics of the republican budget for 2011», (CA3 10-43), 25.10.2010. Author's calculations.

¹³ <http://www.vspmr.org/News/?ID=3670>, 22.12.2009

¹⁴ http://president.pmr-gov.org/index.php?option=com_content&task=view&id=1898&Itemid=1

¹⁵ Regulation No. 3403 "On the Draft Law on the republican budget for 2011 and approval of the basic characteristics of the republican budget for 2011", (CA3 10-43), 25.10.2010.

The Law was approved on December 8, 2010.

(http://president.pmr-gov.org/index.php?option=com_content&task=view&id=1898&Itemid=1)

Since no funds are included for repayment of external and domestic debt in the budget for 2011, it is likely that *the gap between revenues and expenditures in the budget is, in fact, an increase in the domestic debt*. It is very likely that a *special gas account* will be used as "other sources", like in previous years.¹⁶

It is also obvious that the situation in the Transnistrian economy remains unstable and ambiguous; therefore the risks to execution of the conditionally balanced budget for 2011 are rather high.

Domestic and external debt of Transnistria. According to the legislative rules of Transnistria, "the state debt is the total amount of internal and external public debt denominated in Transnistrian roubles". Limits on domestic and external debt "shall be established in the Law on Budget for the relevant year and approved by the Parliament".¹⁷

It is noteworthy, however, that the data on the external debt of the region according to the fiscal and banking statistics differ significantly: *as of January 01, 2010* the foreign debt amounted to 52 million dollars¹⁸ and to about 3 billion dollars,¹⁹ respectively. The reason for such large discrepancies is simple: in the first case, arrears in payment of natural gas consumption refer to the *domestic debt* ("start date" of the debt is not defined). According to bank statistics, the debt for gas is a component of *external debt*, and the balance of payments / international investment position are compiled since 1993.

According to AO "Moldovagaz", Transnistria's gas debt (current and historical debts, fines and penalties for late payment)²⁰ exceeds 2.5 billion dollars; the version of the Transnistrian Republican Bank is 2.3 billion dollars (almost no difference).

The increment in debt only for the last half - year of crisis was over 800 million dollars, or three 2010 budgets. During the years of growth (2003-2008) the gas debt increased by only 920 million dollars.

Obviously, even if the "tsunami" of global crisis has passed, the "memories" about it are going to torment the Transnistrian economy for a long time.

Common *reasons for emergence/growth of debt*:

1. *The tariff policy carried out by the state*,²¹ under which "the cost of natural gas differs significantly from the global market price. The electricity tariffs for the population and for industrial customers are 18-20% lower as compared to Ukraine and Moldova."²² In fact, cheap natural gas is the basis of relative stability and competitiveness of the economy of Transnistria.
2. *Failure to pay for gas*, both by public organizations and by enterprises (the main debtors are agricultural and heat supply organizations), most of which are, in fact, bankrupt;
3. *Ineffective management of payments* for consumed gas to the Russian suppliers: for the 2010 year the domestic debt increased by 112 million dollars, including debt owed to LLC

¹⁶ The special gas account is a special account opened by the organization of the gas industry in the Transnistrian Republican Bank to implement the current settlements with the general supplier ("Gazprom") for the consumed natural gas; with the gas transport organizations for services provided for natural gas transit through the territory of Transnistria, as well as payments to the national budget in accordance with the law on the national budget for the current fiscal year. (Transnistria Law No. 163 "On some specifics of payments for natural gas", (CA3 07-5), 22.01.2007)

¹⁷ Transnistria Law No. 224 "On State Debt and State Guarantees", (Д), 29.12.1999

¹⁸ Collection of indicators of financial transparency in Transnistria over 2009.

¹⁹ TRB Bulletin No. 3 (118), March 2009, c. 11; TRB Bulletin No. 3 (130), March 2010, c. 4

²⁰ Data as of July 01, 2010

²¹ Transnistria Law No. 513 "On prices (tariffs), and price establishment", (CA3 05-1); 31.12.2004; Decrees of the President on the establishment of the list and limits of tariffs for services provided by natural monopolies of the fuel and energy complex of Transnistria

²² The concept of industrial policy of Transnistria for 2010-2014; Regulation No. 3073 (CA3 10-17), 29.04.2010

“Tiraspoltransgaz-Transnistria” - by 36.2 million dollars.²³ According to the balance of payments, during *6 months of this year* the gas debt has grown by 236.2 million dollars.²⁴ However, the last symbolic transfer (8.5%) was received on the account of "Gazprom" in 2008. Since 2009, no payments for Russian gas are made.²⁵

We should note that in the recent past, in 2004, it seemed that the "gas problem" was close to a solution. In Transnistria, there was hope that "when the payment of current gas supplies came close to 80%, the possibility for debt relief and lower prices for new supplies from Russia would be considered."²⁶

In November of 2006, the issues of debt settlement and the possibility of direct contracts on delivery and transit of natural gas were discussed with "Gazprom". At the same time, it was agreed to transfer the debt for supplied gas to the *external* debt of Transnistria. The results of the agreement are recorded in the corresponding minutes, *and the Transnistrian side has committed to include changes in the effective legislation.*²⁷

The commitments were *almost* fulfilled: the law on the specific settlement for natural gas was adopted.²⁸ The document was adopted which defines the mechanisms of transfer of *the debt of the republican budget* to the energy industry organizations and economic entities engaged in the production, delivery and transmission of energy and (or) providing utility services to the public onto *the domestic debt* of Transnistria.²⁹

The effective regulations stipulated that from 2008 onwards

- The amount of internal debt to the energy sector organizations, established by law on the republican budget for the financial year, is not subject to indexing and cannot be charged in court.
- The amount of debt of the republican budget to the organizations of the energy complex becomes a domestic debt since the entry into force of the agreement on the transfer of debt of the budget to domestic debt, concluded with the organization of the energy complex (LLC "Tiraspoltransgaz - Transnistria").
- Repayment of the amount of domestic debt shall be made in a manner and amount prescribed by law on the national budget for the relevant financial year.
- The settlements shall be made in Transnistrian roubles.

The problem of own debt and its accumulation was further complicated by the "foreign exchange component": *a rouble mass* is accumulated on a special gas account, while there are no *clear mechanisms to convert it* into a "hard" currency in case of any possible settlement with "Gazprom".

Currently, everybody *speaks* about the need to find a legal and economical solution to the problem of Transnistria's gas: the general supplier ("Gazprom" LTD), its exclusive³⁰ representative in Moldova ("Moldovagaz" JSC) and Transnistria.

²³ Regulation No. 3403 "On the Draft Law on the republican budget for 2011 and approval of the basic characteristics of the republican budget for 2011", (CA3 10-43), 25.10.2010

²⁴ TRB Bulletin No. 9 (136), September 2010, page 8

²⁵ TRB Bulletin No. 3 (130), March 2010, page 6

²⁶ News agency "Olivia Press", 15.12.2004

²⁷ Order № 985 "On the Draft Law "on Amendments and Supplements to the Law on public debt and state guarantees"" (CA3 07-1), 27.12.2006

²⁸ Transnistria Law No. 163 "On some specifics of settlements for natural gas", (CA3 07-5), 22.01.2007

²⁹ Decree No. 750 "On the transfer of debt of the republican budget to the energy complex organizations and economic entities engaged in the production, delivery and transmission of energy and (or) providing utility services to the public to the domestic debt of Transnistria", (CA3 07-47), 13.12.2007

³⁰ *Theoretically* Moldova and Transnistria are supplied natural gas according to *independent* contracts with Gazprom: the five-year contract on supply of natural gas to Moldova was *signed* on 30.12.2006, while the issue of direct supply of gas to Transnistria is *under discussion*. *In fact*, Transnistria is supplied gas by the joint Russian-Moldovan company Moldovagaz JSC

The main problem is the "ownership" of the debt and the responsibility for its repayment. The effective agreement on gas supply to Moldova does not distinguish between the gas debt of Moldova and Transnistria, *all* the debt for gas being registered at "Moldovagaz" JSC as guaranteed by the government of the Republic of Moldova, *however*, the main amount of debt pertains to Transnistria.

The Management of Moldovagaz believes that the most effective measure that would force Transnistria to pay for gas is to stop its supply to the region, but it has no leverage for influence on Transnistria.

"Gazprom", which is trying lately to successively build contractual relationships with *all* customers, is in no hurry to update the problem with Transnistria's payment for gas.

According to Russian experts, the termination of gas transit through the Republic of Moldova/Transnistria to Europe would not seriously affect anybody; the volumes of the European gas transit through Moldova (15 billion m³) are much smaller than through Ukraine (110 billion m³) and Belarus (30 billion m³). *However*, the gas problems with Transnistria are an issue in a large-scale Russian project - "South Stream", which is known to compete with the European "Nabucco". *Therefore*, until the "Southern stream" is put into exploitation, and this will take approximately five years, the gas dispute between Gazprom and Transnistria should be recognized as frozen.³¹

Transnistria, using the respite, is developing the regulatory (legal) side of the problem: it clarifies the existing regulations and it develops new ones.³² No progress is seen yet in achieving the target for full repayment of the current consumption of gas within two to three years.

Transnistria's gas debt, meanwhile, has been transformed from an economic issue into a political one.

The problem of historical and current debt of Moldova-Transnistria for delivered natural gas is still one of the topics for permanent political consultations.

The unresolved gas scandal seriously complicates the financial and economic situation *of the whole Moldova*, which is not easy as it is.

³¹ <http://www.prime-tass.ru/news/articles/-201/%7B877F31AE-BBC3-4E32-A4C0-B666E0D76D88%7D.uif>, 29.07.2010

³² Novelty of 2010: a new procedure for customs clearance and accounting of energy, including discount gas for non-profit consumers of Transnistria was approved. In the projections for socio-economic development of Transnistria for 2011 a schedule of gradual tariff increases for natural gas for all categories of consumers up to 2013 is included