

Transnistria's financial problems

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On 2 July Transnistria's Supreme Council adopted amendments to the budget law at the initiative of the unrecognised republic's president, Yevgeny Shevchuk. The new regulations have been dictated by budget deficit, which is spiralling out of control. In April 95% of planned revenue was in the budget but in May this figure had dropped to 85% and the deficit is expected to grow in the coming months. The amendments include: the freezing of the planned increases in salaries, temporary 15% reductions in salaries paid from the budget (these amounts are to be paid when the economic situation in the region improves) and restrictions in financing government expenditure. In addition to that, following the decision of the Supreme Council, the government gained the right to cover the deficit with profits made by the Transnistrian Republican Bank, funds from the reserve fund and special purpose funds such as those assigned to roads, the environment and customs.

The Tiraspol government is blaming the poor economic condition on external factors, including the alleged blockade of the region by Chisinau and Kyiv and the situation in Ukraine. This economic situation is further compounded following Russia's freezing of the transfer of aid funds for Transnistria worth approximately 3 million USD monthly from which Tiraspol finances the 'Russian pension supplement'.

Commentary

- It should be expected that Russia will use the deteriorating social and economic situation in Transnistria for propaganda purposes in order to prove that the signing and the ratification (respectively 27 June and 2 July) of the association agreement with the EU, including the DCFTA, by Chisinau has led to an entire economic blockade of the region, which may trigger the collapse of the Transnistrian economy and humanitarian disaster. Russian Deputy Prime Minister Dmitri Rogozin has previously spoken along these lines. This will provide an argument for a further deepening and formalisation of economic and political relations between Russia and Transnistria.
- Contrary to what the Transnistrian government claims, the budget problems have not been caused by the alleged blockade of the region by Moldova or the situation in Ukraine. The Transnistrian economy is dependent on exports and between January and May 2014 it recorded a 60% increase in exports, with a 133% increase in exports to Ukraine alone, compared to the same period the previous year. This means that income tax revenue

paid into the Transnistrian budget by exporting companies has gone up. Imports, which generate revenue due to customs, also increased by 9% over the same period. On 17 June the acting chair of the Transnistrian customs committee announced that the revenue generated by customs is maintained at the planned level. The real cause of Transnistria's problems is corruption which leads to low tax collection and loopholes in the tax system, the struggling pension system and high instability and inefficiency of the economy which is based on the Soviet model and is entirely dependent on Russian subsidies.

- By freezing Russian aid for Transnistria Moscow may be planning to exacerbate the economic crisis in unrecognised republic to fuel aversion towards Moldova's and Ukraine's policies. It may also be a signal that Russia is starting to have difficulties in covering the costs of maintaining its protectorates.