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# NEWSLETTER

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## Synthesis and Foreign Policy Debates

The materials are realized by Lina Grau, foreign policy expert and programme coordinator with APE.

### TOPICS OF THE EDITION:

1. MACRO-2015: Fostering economic and social security. Adrian Lupușor, executive director of the Independent Analytical Centre "Expert-Grup": Moldova is facing most serious economic security challenges since 1991
2. David Dalton, the Economist Intelligence Unit: The economic and political situation in the Republic of Moldova has worsened a lot.
3. Valeriu Prohnițchi, expert with Independent Analytical Centre "Expert-Grup": Why is Moldova poor? In the Republic of Moldova, the well-being of the elites does not depend on the prosperity of the country.
4. Veaceslav Negruță, ex-minister of Finance: Without transparency nobody will talk seriously with the Republic of Moldova.

Last period has been marked by a series of important events for the Republic of Moldova.



German experts from the Consultancy Centre Berlin Economics have recommended to the Transnistrian administration to reform the tax system and to introduce in the region the value added tax - VAT. The measure is necessary to compensate for the losses generated by the cancellation of the autonomous trade preferences with the EU, which are valid only until the end of this year. A calculation carried out by the experts from the Berlin Economics shows that a VAT of only 7 percent would generate an income twice as much as the losses caused by the cancellation of the fees on the imports from the EU. But the measure may be taken only if there is openness on the part of the Tiraspol administration, noted the study.



Moldovan exports decreased in the first five months of this year by 16.2 percent, according to the National Bureau of Statistics.



The leaders of the so-called pro-European parties have resumed - after the Gaburici cabinet's resignation that had been elected by the PLDM-PDM minority coalition and the communists, and after the local elections - the negotiations on the forming of the new coalition. The negotiations process has not been made public. In parallel with the negotiations a series of detentions and arrests in connection with the theft in the banking sector have been carried out. The arrests have targeted mainly the relatives and associates of the former Prime Minister Vlad Filat, the leader of the PLDM, which, according to the press, was in connection with the nomination of the prime minister. Vlad Filat said the arrests were directly connected with the negotiations aimed at forming a new parliamentary majority.



"Moldova has not lost the chance of the European integration. Moldova is still supported by the European partners, but it will have to make prompt and very concrete reforms," said the PLDM leader Vlad Filat during a show on the ProTV, referring to the criticism of Moldova's involution from the last half of the year coming from the West.



The European Union signalled it would not resume funding unless there is a stable government in Moldova. A press release of the EU to Chisinau says the European aid depends on the agreement with the IMF that failed to be concluded by the current interim government. The agreement is a guarantee that actions will be taken in order to resolve the problems in the banking sector.



In an interview given to the anticoruptie.md portal, the head of the EU Delegation to Chisinau, Pirkka Tapiola, said no qualitative changes in the justice sector of Moldova have been made. "The final adoption of the Law on Prosecution is pending, the National Integrity Commission hasn't been reformed, the procedure for appointing judges is still ambiguous, and the corruption in the judiciary is endemic. There is no real political will to reform this strategic sector. Also, the recommendations for the banking sector made by the external partners remain to be addressed," said Pirkka Tapiola.

## MACRO-2015: Fostering economic and social security



The third edition of the MACRO Conference organised in Chisinau by the Expert-Grup in partnership with the Friedrich-Ebert-Stiftung (FES) has focused on the main risks and threats to the security of the Republic of Moldova. Most experts stressed that the main threat at the moment is the situation the banking system of Moldova as a result of the one billion dollars theft, a situation aggravated by the endemic corruption of

the political elite and of the judiciary, and the impoverishment of the population. The regional context makes the situation even more complicated.

At the conference there have been presented the main findings of the [State of the Country Report 2015](#). The report highlights that Moldova is currently facing the most serious economic challenges to its security since 1991.

## **Adrian Lupușor: Moldova is facing most serious economic security challenges since 1991**

**T**he executive director of the Independent Analytical Center Expert-Grup, Adrian Lupușor, said during his presentation at the MACRO 2015 conference that Moldova is facing currently unprecedented risks in its history - both domestic risks related to the political instability, endemic corruption and vulnerability of the banking sector and external risks such as the economic crisis in Russia, the Ukraine security crisis and trade restrictions. These things together represent serious threats to the country's security. These vulnerabilities could be alleviated if the government demonstrated transparency and efficiency in strengthening the economic and social security of the country. "Instead of contributing to the improvement of the state of the country, the political elites are continuously undermining it by dividing the society, perpetuating the political control over the public institutions, blocking the structural reforms and the relations with the external development partners of the country," said Adrian Lupușor.

■ **Lina Grâu:** What are the main conclusions and the key messages of this year's edition of the State of the Country Report?

■ **Adrian Lupușor:** The first key message of the report is rather pessimistic. The problem is that lately, the fundamental elements that ensure the normal functioning of a state such as the robust public institutions, the public confidence in the political elites, the national idea - all these elements have been compromised.

A manifestation of these problems is the endemic corruption and the public institutions exposed to the obscure interests. It's for the first time that we are mentioning in our analytical reports the phenomena of the state institutions' oligarchisation and



vulnerability of decision-makers to the obscure interests.

An indicator of these problems is the crisis in the banking sector and I'm referring here to the three banks: the Savings Bank, Unibank and the Social Bank, which ultimately is the direct result of the institutional failure. The problem is that in addition to the crisis faced by the three banks, there is another problem - the factors that contributed to this crisis have not been removed and there is no political will to do so. Thus, the likelihood of similar scenarios recurrence in the future is high.

Obviously, the crisis of the three banks has wider implications for the national economy. In particular, we are talking about high country risks, as we all know about the scale of the guarantees offered by the state which will increase the level of indebtedness of the country and put pressure on the fiscal system. And against the background of the

economic recession, the current account deficit, the macroeconomic imbalances will increase the risks for the country security.

Last but not least, the crisis of three banks led to the melting of about one third of the country's foreign reserves, which again exposes Moldova to certain macroeconomic and macro-financial shocks.

The political elites, instead of being the driving forces of structural reforms and systemic change in the country, represent, actually, the main obstacles to the country's modernization. In particular, they lead to the polarization of the society. The Parliamentary and local elections have become a cause of many problems in the society. As a result, there is an unprecedented decrease in the level of trust of the state institutions.

There is a rather dangerous combination of several elements that undermine fundamentally the national security. We

are anticipating this year an economic recession combined with the erosion of the public confidence in the public institutions and political elites, increased levels of indebtedness of the country but also with increased protest mood in the society.

Due to the fragmentation and fragility of the parliamentary opposition and civil society, we recommend creation of firmer external anchors to put pressure on the government. In this respect, it is very important to sign a Memorandum with the IMF - both for monetary and non-monetary considerations in order to boost the structural reforms. In addition, there is need for an audit of the entire public sector and of the regulatory institutions in particular in order to increase their responsibility and the pressure of the society on the regulatory institutions.

**Lina Grâu:** What are, in your view, the main reasons that caused the banking crisis which is difficult to imagine in a state with good functioning of the institutions?

**Adrian Lupușor:** In fact, the crisis of the three banks is not due to a systemic crisis. The statistical data indicate that the situation in the banking sector, apart from the troubled banks, hasn't worsened dramatically, some indicators having even improved. The quality of the bank portfolios hasn't worsened essentially. So, we are talking of a crisis of purely internal origin, caused by at least five factors.

The first factor is to do with the mismanagement of the Savings Bank in the period before the crisis of the three banks, and namely between 2009-2012. It was then that the dubious, if not fraudulent operations, have intensified, through provision of large loans to suspicious companies.

The second factor is related to the obscure changes in the shareholders' structure of the three banks which allowed for the fraudulent transactions.

The above-mentioned has led to the violation of the basic principles of corporate governance. The banks have engaged in risky lending operations, while the liquidity

problems have been camouflaged by manipulations with liquidity indicators.

Those financial engineering that took place using the gaps in the legal and institutional framework have contributed to an artificial increase in the lending capacity of the three banks.

Last but not least, the fifth factor is the delayed and inadequate response of the institutions responsible for the banking stability in Moldova, including the National Bank of Moldova (BNM). Actually, the legislation allows for the National Bank to intervene more promptly and in fact, the National Bank could have blocked a good part of those dubious transactions as it disposes of tools provided by the Law on Financial Institutions.

**Lina Grâu:** What recommendations do you have in relation to the three banks affected by the one billion theft? There were voices saying that keeping these banks could create even greater problems.

**Adrian Lupușor:** The immediate policy is liquidation of the three banks, but the liquidation process must observe the principle that I conventionally called "the principle of the three Rs".

First, it is necessary to fully recover the deposits of individuals and legal entities from those three banks. It is necessary to hold the institutions and persons responsible for the frauds accountable and the third principle is the comprehensive reform of the banking regulatory system.

The reform of the banking regulatory system must cover several fundamental aspects. First, it has to strengthen the independence of BNM. The crisis at the three banks would not have been possible if the BNM had been immune to political interference. The main legal loophole affecting the independence and the regulatory activity of the National Bank was the possibility to block the BNM regulatory decisions by the courts. This happened also in 2014, when the banks and the obscure interests made use of this legislative loophole.

Secondly, it is necessary to remove from the legal framework any form of connection of the banking system with the off-shore companies. This should be prohibited by law.

Another measure is the streamlining of the mechanism for establishing concerted activities, because, as I mentioned, the Moldovan National Bank had all the levers to block the activity of those officials if it was able to prove that those shareholders were acting in concert. But the legislation is rather vague in this sense. Accordingly, the BNM investigation capacities should be strengthened and the exchange of information between the National Bank and other institutions responsible for national security facilitated.

In addition, in order to ensure efficient regulatory activity of the banks, it is necessary to strengthen the professional independence and personal safety of the employees in charge of the regulatory activity by providing immunity to those who are directly responsible for regulating the banking sector and increasing the level of personal responsibility.

Last but not least, it is necessary to define an integrated vision on the country's economic security, which currently lacks. This vision must ensure more effective coordination between the institutions responsible for the economic security of the country – BNM, National Commission of the Financial Market, Government, Intelligence and Security, the Security Council. We have found out that these institutions haven't coordinated their efforts effectively - either in bad faith or because of the lack of a suitable institutional framework in this respect.

It is necessary to strengthen the currency reserves in order to ensure a more effective protection of the country against the macro-economic and macro-financial risks. Facilitation of the competition in the banking sector in particular and of the development of the bank sector in general must be a priority. And it is absolutely necessary to encourage long-term savings, including through fiscal levers.

## **David Dalton: The economic and political situation in the Republic of Moldova has worsened a lot**



**D**avid Dalton, economic analyst at the Economist Intelligence Unit, is saying that over the past years- since he started monitoring the situation in Moldova five years ago - he observes a worsening of the political and economic situation in Moldova, while the Moldovan political elites have become almost paralyzed.

■ **Lina Grau:** You've been following the situation in Moldova for a couple of years already. How did the situation change?

■ **David Dalton:** It got a lot worse. The political situation is much worse and the economic situation is a lot worse than five years ago when I started covering the region. The geopolitical situation with Russia and the EU has worsened which you can see in Moldova. The politics is polarized and the political elite has become almost paralyzed.

■ **Lina Grau:** Why do you think this happened?

■ **David Dalton:** A lot in this situation is

beyond Moldova's control- international events. The currency crisis is also beyond Moldova's control. So is the geopolitical crisis which has originated in Russia. But the things that are under Moldova's control are also bad. That is because, as I said before, it's to do with political economy, the way the society is organized, what the norms of the society are, the way corruption has become normalized. This also has to do with the elite which is involved in corruption that is spreading down, having become a norm.

The key thing in countries that work properly is separation of power so that the people who are in Parliament don't own the court. Whatever the national bank does, it can get around in the courts. That's a basic institutional weakness and that comes to the fore. It turns out that all the banking crises that have happened over the last few years- there was one in 2012 —a raider attack when some unknown people tried to divert shares and then there was one in 2013, where simultaneously abroad several companies bought shares in different

banks- are related to the mother of all last banking fraud which happened at the end of 2014. And that's a social question. That's because part of the political elite is linked with part of the Russian elite, so they used the banking system to launder the money for the Russian elite.

■ **Lina Grau:** You've said the situation in Moldova has worsened. On the other hand, over the last years, the Republic of Moldova has been in negotiations with the EU for the Association Agreement and the DCFTA. What do you think about this, as this also affects the EU image?

■ **David Dalton:** It goes both ways because the centre-right political groups that have been running the Government since 2009 have had quite a lot political infighting, but the new dimension of the geopolitics has pushed up the socialist party. This fragmented Moldovan politics is an additional spill over from the international scene. In the question like "what you need?" it is coherent policy and different institutions working together. That's never completely worked properly in Moldova and this situation made it worse. You've had the representative of the National Bank today in the conference who said they are working to limit inflation. The National Banks is supposed to deal with inflation, with surveillance of banks and with monetary policy. So it's supposed to have a cross-purpose and talk to the people dealing with fiscal policy. It's supposed to be coordinated. Without coordination you do the wrong things.

The best Moldova could have in this situation is a coherent economic policy which could cushion the external factors. Without that, it exacerbates them or it fails to provide a cushion against them. The best economic policy wouldn't prevent a slowdown but it would make it less bad.

**Lina Grau:** How does the banking crisis affect the image of the Republic of Moldova?

**David Dalton:** To be honest, it's the first thing that's got Moldova into the international news. So, that's not good, is it? Most people in Europe don't know where Moldova is. When I say I'm going to Moldova, they ask where it is. I answer it is next to Romania and they ask me where Romania is. I was trying to say in my presentation that what you need is greater surveillance, independence of the judiciary. That's the central issue today for Moldova.

**Lina Grau:** You also mentioned in your presentation about the regional situation that is also complicated...

**David Dalton:** It is bad, because, obviously, Russia is in recession. If Greece leaves the Euro zone and even if it stays in, the Euro growth will be hit. So, you will be having recession with slowdown on the other main Moldovan markets. Russia has just extended the Western food ban, which means the Moldovan products will be competing with the Western products, because there will be a lot of products in the West and the Moldovan goods will get low prices. At the same time, there is the Chinese developments which could affect commodity prices. On one hand, it could push the oil price down, which could be good for Moldova, on the other hand, it will push the ruble down, which is bad for Moldova, because it creates disruptions. What people don't like is the uncertainty. That can make the currency a bit worse as people will rush to change currency. Even a good Government would find it hard to manoeuvre this. But with all bad things which are going on in the country, it will make it difficult for Moldova to steer it through properly.

**Lina Grau:** What do you think about Moldova's situation when the IMF, the WB and the EU suspended the funding?

**David Dalton:** The thing about them is that with Russia's crisis, they have already got a bit bored. They have already lost the tension to the whole Eastern Partnership

crisis. Now the Greek thing- most likely they will lose it even more. So the two sides- the Moldovan political elites seem to have lost interest in it and the European elites seem to have lost interest.

**Lina Grau:** How do you see the situation with the money from the IMF, WB and the EU that did not come, will impact the state of affairs in Moldova?

**David Dalton:** Their money was stolen. That is why they don't send it. They can't give taxpayers' money when they think it's going to end up in some Russian oligarch's pocket. This makes it just tougher. There may be cuts on spending or on investment, which you need for growth in the future, or on wages and pensions.

**Lina Grau:** So what you are saying is that Moldova it's going to have a difficult time...

**David Dalton:** Yes. It is going to be a difficult period for Europe as a whole, not just for Moldova. Moldova is a small and fragmented country, with not a fully formed national identity.

**Lina Grau:** What does Moldova need for survival?

You need to describe the way things are, you need to publicize it. You need a group or a charismatic leader who is able to get the opposition work on that. It's like smoking in a society when people are smoking and it's banned, that's a change in the institutional behaviour. Moldova needs to do that with the Government and the institutions and it can only be with mass public support. The count is the threat to the people's livelihoods that the other side has. Nothing can happen until that is resolved. And there is no textbook solution. The only way to solve it is to look at how other people have done it and try to replicate for the circumstances here.

**Lina Grau:** Knowing the situation in Moldova and in the region, how long do you think it will take to have a positive trend?

**David Dalton:** It is difficult to say as it depends on what people do and what

kind of politicians are in power, what's happening in the societies. It seems like Europe has set into quite an insular and inward looking period. We'll see what they are going to do to the Greeks- if they are going to kick them out or suggest things will get worse if they stayed in... that does not suggest foresighted political elite in Europe...

**Lina Grau:** As far as Moldova is concerned, I don't see here a new political class...

**David Dalton:** I don't know. You can't say that as it may come out somebody unexpected which is usually what happens. Someone may start something like what happened in Armenia, where some students started complaining about the electricity prices and it suddenly took off because it's resonant. There are no leaders, the people are just self-organized. Look at Ukraine and the disaster there. One thing which came out is that people got confidence to do things themselves and not to rely on other people. So they organized fund-raising for the army or they help buy clothes for the army. I think that is probably the best way to do it.

**Lina Grau:** How big is the role of Russia in the destabilization of the situation in Moldova?

**David Dalton:** It's pretty big as Russia has enormous resources. It's all explained by the Russian internal policies- there is a group of people who nicked all the resources from the Soviet Union. Their position is different- they kept going for a long period with high oil prices without having reformed the economy. They will have low growth in future. If they don't have that, they need myths like the people are attacking them. Or you may be poor, but at least you are Russian- that type of idea. And all this is to do with the culture of those people at the top as who are the Russians if they don't dominate the other people? It's not about all Russians and I am not anti-Russian. I am pretty pro-Russian but this group on the top will damage the situation in Russia for at least twenty years, I would say.

## Valeriu Prohnițchi: Why is Moldova poor?

In Moldova, the well-being of elites does not depend on the prosperity of the country in general

**The economist Valeriu Prohnițchi, former economic adviser to the prime minister, spoke at the MACRO conference about the risks of the mass poverty in the Republic of Moldova. Making a socio-economic radiography of the Moldovan society, Valeriu Prohnițchi underlined that Moldova is very vulnerable to poverty that is tending to increase by 20-30 percent. In addition, there is an increasingly strong dissonance between the poverty index measured and included in the statistics and the poverty in people's perception, this dissonance having increased in the last five to six years.**

■ **Lina Grău:** How affected is the Republic Moldova by poverty?

■ **Valeriu Prohnițchi:** In 2013 the national poverty threshold was estimated at about 12%, which means that 12% of the population had incomes below the national poverty line.

The national poverty threshold in 2013 was set at 1,196 Moldovan lei. Besides the obvious question if you can survive on 1196 lei per month in Moldova, it is an important topic of discussion. If we increase the poverty threshold from 1196 to 1300 lei, as I did using the household budget survey, the incidence of poverty increases from 12% to about 21%.

So we can see that in fact, besides the poor in Moldova we have a very big number of people who are vulnerable to poverty. And if external shocks occur, these people will fall automatically into poverty.

Two other issues I would like to speak about is that unsustainable sources have contributed substantially to the poverty reduction. In 2013, if it had not been for the remittances, the poverty incidence would have been 30%. If it had not been for the social aid and remittance together, the poverty level would have been about 37-38%. I do not refer to the instability



rather to the extreme vulnerability of these sources to the shocks that occur today.

What we are facing at present are both external shocks that are affecting the level of remittances, and domestic shocks coming from the financial sector and that will influence the state's ability to manage social aid scheme.

Why is Moldova poor? In a society counts how the income is generated, how big the income is and how it is redistributed. If we talk about the income redistribution, the situation is more or less good, but in as far as the income levels are concerned, Moldova has a very, very bad situation.

How could the income increase in general? Obviously, this requires boosting growth and generating higher incomes in the formal sector of the economy.

What do we need in order to attain this? We need better educated entrepreneurs who are able to take on more risks related to

technologies and skilled workforce. When it comes to the density of new enterprises per one thousand people Moldova's situation is relatively better than that of Serbia, Armenia, Ukraine, but Moldova is generally doing very badly in comparison with the regional average and with countries such as Slovakia, Romania, Russia and Bulgaria. So, it's a clear situation that shows that people, actually, do not engage in risky economic activities.

Why are they not engaging? In Moldova, an average of 24.4 percent of companies have been demanded at least once to pay bribes. And here's a perfectly logical connection - the higher the incidence of bribes, the less people are engaged in economic activities.

Let's talk about technologies. The technological gap in the countries that are lagging behind, such as Moldova, can be bridged only by foreign investments. Obviously, we can generate certain investments and certain technologies using the domestic capital, but our

country is lagging too much behind to ensure a speedy recovery.

The major problem, however, is that in two key sectors of the Moldovan economy - agriculture and food industry – the investment is very low. Namely, these are the sectors that employ most of the population. And in fact, the activity in namely these two sectors would have the greatest impact on poverty reduction.

What are the poverty threats? The threats are related to the so-called “the scissors effect in action”. On the one hand, we expect, according to the officials from the National Bank, a sharp increase in inflation in 2015 and from my point of view, the inflation in 2016 will be even higher than the one officially estimated. So, this is one segment of the scissors. The second segment is the strong pressure coming on the household income. We have modelled the effect of poverty in case of the increase in inflation of up to 10% and of the 15% decline of incomes. In that case we would have a spectacular leap of the poverty incidence from 12 percent in 2013 to 33-34 percent in 2015.

The most vulnerable to poverty will be three categories of the population. First, this is about the families with three or more children that are already three times more exposed to poverty than the other families. The other two categories include the employees in the agricultural sector and pensioners. So, we can see a fairly wide distribution and a rather homogeneously spread vulnerability to poverty in the society.

■ **Lina Grău:** What can happen if the mass poverty phenomenon is back in Moldova? What scenarios do you see?

■ **Valeriu Prohnițchi:** We have experienced mass poverty in the 90s and in the early 2000s. If there is a return to poverty as mass phenomenon, in my view, there are two possible scenarios. These scenarios depend on emigration, on whether or not open gates for emigration remain - both from inside and outside.

Regarding the openness from outside, it is evident that the emigration opportunities depend on whether or not there is economic growth in the Russian Federation or the EU. If these trade partners recover from the economic point of view, the return of poverty in Moldova will be characterized by a scenario which I called “business as usual”. “Business as usual” would actually mean that the people will vote with their feet, especially the emigration of young people will increase. This situation will lead to an increased pressure on the public finances and to the fact that the political elites will become even more corrupt than they are today.

The second scenario would be that of the “accumulation of steam under the lid” in whose case the economic growth of the Russian Federation and the European Union remain very anaemic. The repercussions of this scenario depend on two other possible developments. The first development I called conventionally “political system more of the same” – in the situation when the same political system dominated by oligarchs that we have today remains in place. In that case we could end up with total discrediting of the idea of democracy and with people having no trust in the democratic regime and its ability to serve the long-term development of the country. The idea of independence may be permanently compromised, the people being ready to give up independence in exchange for incomes that could ensure their physical survival. I do not exclude that there will be new outbreaks of territorial separatism and that the sense of public security will degrade a lot. We see it already today how firearms are used in resolving conflicts between people. I think this is an indicator that should make us think.

The second sub-scenario is one in which a national hero with an iron hand emerges, who is able to initiate a social protest movement that sweeps the oligarchs and establishes a more oppressive political regime than we all probably want. This will obviously lead to the eradication of the so-called street corruption – people will no longer have to pay bribes in hospitals and

schools- but will probably be accompanied by high-level corruption and centralization of corruption. The individual freedom will probably be considerably restricted and - one important thing - there is a high probability that the hero turns into a kind of dictator.

What can be done? Poverty can be prevented in two ways - from the top down or bottom up. Today, the “top-down” scenario is compromised, because of the corrupt elites whose well-being does not depend on the prosperity of the country.

The “bottom-up” scenario seems more plausible in the short term. It is a scenario in which people take their fate into their own hands. The Moldovan small entrepreneurs can play a more important role- they should understand that it is them that can provide fiscal support for maintaining the government in power.

The civil society could play a much more important role - I refer to the civil society in general. For this, the civil society institutions should review their role in a fundamental way. Nowadays, in my view, the church is rather hierarchical focusing on property. The unions are also hierarchical and more focused on property management. So, all these institutions should substantially revise their role in the civil society if they want to help prevent the entry into poverty.

The second scenario is possible only if the donors revised in a cardinal way their strategy applied to the country. The donors have contributed greatly to the moral hazard, because they provided budget support almost unconditionally to the country. This strategy should be fully reviewed.

Another element that I find extremely important - I know that in all public institutions there are “islands of resistance” - people who do not agree with the way the institutions they represent function. It is important for these people to find one another. Here is where we should really have concerted activity.

# ***Veaceslav Negruță: Without transparency nobody will talk seriously with the Republic of Moldova***



**V**eaceslav Negruță, ex-Minister of Finance, said the main problem of Moldova's economy in 2015 has to do with the gap created as a result of the one billion theft from the banking system.

■ **Lina Grău:** What are the most important issues of the Moldovan economy in your opinion?

■ **Veaceslav Negruță:** The problem number one in 2015 in Moldova is the banking sector. A second major issue related to the macro-economy and policies is the lack of a government with full power and political support, under conditions of extreme instability both in the region and internally.

Another problem has to do with the institutions responsible for the financial

and economic policies, supervision and monitoring that had an inadequate response or unexplained delays in certain situations. In some cases where the law obliges them to react, they had no response whatsoever. As a result, we had the problems in the banking sector that we all know about.

Over the last one year and a half, the financial and banking legislation has been substantially amended without the participation of the parliament. Much of banking legislation was amended by assuming liability or through the vote as part of packages of laws, without going into the essence of the changes that had been made. In some cases the explanation given as to why the changes had been made were of the type "this has been done based on the recommendations of the international financial institutions". What we experience are disastrous and catastrophic effects.

Mention should be made that all macro-economic distortions that were generated by the banking sector - the exchange rate, the interest rates, the inflation - were transposed over other sectors. We see it very clearly in the first quarter of the 2015 profits in the balance sheet of several commercial banks and, in fact, holes in the balance sheets of the companies and household budgets. This happened because the devaluations made it possible for the migration of the income and purchasing capacity of some sectors, companies, and citizens to these several troubled banks.

The lack of transparency and domination of capital in special regimes have been the characteristics of the system and of the country for some time now. All sectors, and especially the banking sector and the state enterprises have problems with the management under standards of good corporate governance. "World traveller" financial flows are visiting and transiting Moldova under the helpless observation of the institutions responsible for monitoring and intervention. We lack confidence in the banking system both internally and externally. This lack of confidence was "achieved" in a relatively short time. The trust has been built step by step since 2009 and until 2012-2013. It was a very difficult process, but it was totally compromised by the negative developments from the last period. As a result, the economic and financial security has been jeopardized both at the macro and at the enterprise and household levels.

■ **Lina Grău:** How do you explain the fact that the international institutions have suspended their support for Moldova? Did they lose confidence?

■ **Veaceslav Negruță:** When we talk of confidence, of course, the banks in trouble



as well as the other banks under supervision at the moment influence negatively the trust in the financial system. But this is not just about the banking sector – the same refers to the insurance sector, the leasing sector, and also to the savings and loan associations, that are practically in the same situation.

The regulator - the National Bank – is coming up with confusing and contradictory messages that have a negative impact on the institutional independence and credibility of the National Bank as the entity responsible for regulation and monitoring. We see the problem with the public finances which are risking the incapacity of fulfilling their obligations internally. At the moment, we do not feel yet the burden of the missing billion. This is just a temporary situation. When this is taken over as public debt for many years to come, the burden will be felt by every economic agent, every taxpayer and individual, because, on one hand, the tax burden is going to increase and on the other hand, this will be felt in the form of absence of public quality services that every taxpayer should benefit from.

Obviously, we can speak about losing trust and support of the external development

partners and donors. Here, I think, their last messages show it clearly that they have no more confidence in us and that it will be very difficult to restore trust.

As for the loans- as ultimately it is the financial resources what we need for development - we have little or no access to capital markets. The only hope was the funding coming from our development partners. The BNM restrictive policy makes the loans more expensive, and respectively, the economic development is becoming problematic. The public sector is the main customer of the banking sector simply because the interest rate on the loans taken by the state on the market is increasing - from 5% last year to 19% at present. This fact means it is again the taxpayers that will have to pay for this loan in order to ensure the functionality of the public institutions. The excess liquidity in the banking sector is gradually depleting.

We cannot talk, obviously, about serious investments as long as we have situations like the recent one we've had with the EBRD. The currency risks are obviously reducing the investment possibilities in Moldova. The regional uncertainty as well as the ban imposed by Russia and the

provisional application at the moment of the Free Trade Area with the EU are delaying the investments in Moldova. Unfortunately, Moldova has become attractive only for the investments from the offshore jurisdictions or the high risk and speculative ones.

The development, actually, requires investment, while the investment requires loans. Loans require trust in partnerships and information. You can count on the latter only when there is transparency. Without transparency, nobody will talk seriously with Moldova.

In order to improve the situation, my recommendation is that the National Bank get out of political influence, appointment of a government with full mandate and political support to be able to carry out negotiations with external partners and the signing of a memorandum with the IMF. We also need, as a matter of urgency, to amend the legislation so as to ensure a minimum of security in the banking sector as well as to launch the second stage of the international investigation on the theft in the banking sector. All the steps to be taken in 2015 should aim at preventing the situation that we may face already in 2016.

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