

Economic impact of Moldova's banking fraud

Banking crisis – economic crisis – social system crisis?

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MACRO Conference 2015, 10th of July

How will the bank fraud affect Moldova's economy

- An estimated USD 1 bn disappeared from the Moldovan banking system
- Reasons: Fraudulent lending and weak banking oversight
- Bank fraud has and will continue to have a significant impact on the economy
- Questions here:
 - What is the impact on public debt and public finances?
 - How will it affect social security systems?
 - How should the government respond?

Two main options for cleaning up banks

Option 1: Liquidate banks

- Clear cut solution
- Bank cannot be used for fraud anymore
- Maybe more difficult to recover assets
- Question if bank relevant for stability / functioning of banking sector

Option 2: Recapitalise banks

- Bank gets additional capital from government
- Chance to recover capital once bank recovered
- Risk that more fraudulent loans turn up
- Risk that fraud occurs again

General rule: Intervene if bank systemic, resolve otherwise

Each option poses significant cost for government



- Cost of banking fraud not clear yet
- *Guestimate* somewhere in the range of USD 0.5 – USD 1.0 bn

Public debt level likely to rise sharply

- So far: NBM provided emergency loans
- As guaranteed by government, already increase in debt levels
- However, as mentioned before, total cost could lie anywhere between USD 0.5 bn – USD 1 bn
- This the equivalent of 10-15% of GDP in 2015
- In comparison: Debt to GDP was 29.9% in 2013 (IMF) – before banking fraud unfolded

Conclusion:

- Cost of banking fraud will lead to sharp increase of government debt

Additional interest payments significant burden to budget

- Public debt likely to increase by USD 0.5 bn – USD 1 bn
- Direct impact on government expenditure through interest payments
- Current interest rate for Min Fin: 15-20%
- Additional interest cost of USD 75 – USD 150 m per year
- Equivalent to 5-10% of the current budget expenditure

Unless access to external
financing sources

Conclusion:

As a direct impact from bank fraud government needs to reduce expenditure by or increase revenue by up to 10%

Risk of withdrawal of support from international partners

- International donors unwilling to continue assistance if risk that money will be “stolen” again
- What is at risk?

2014:

Grants: USD 165 m or 2.9% of GDP

Loans: USD 80 m or 1.4% of GDP

Conclusion:

Discontinuation of donor support risks fiscal stability of Moldova's budget

Conclusions

- Regardless of resolution option cost of banking fraud are substantial
- Only viable option for Government of Moldova is cooperation with international partners
- Requirement: Banking oversight needs to change in earnest
- Without donor support risk of double shock:
Fiscal cost of banking fraud and reduced support of partners
- Both combined would pose risk of fiscal crisis for Moldova

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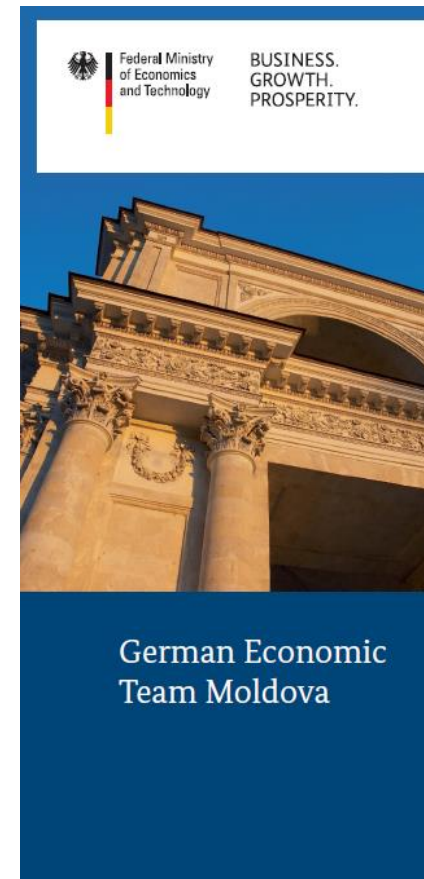
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