

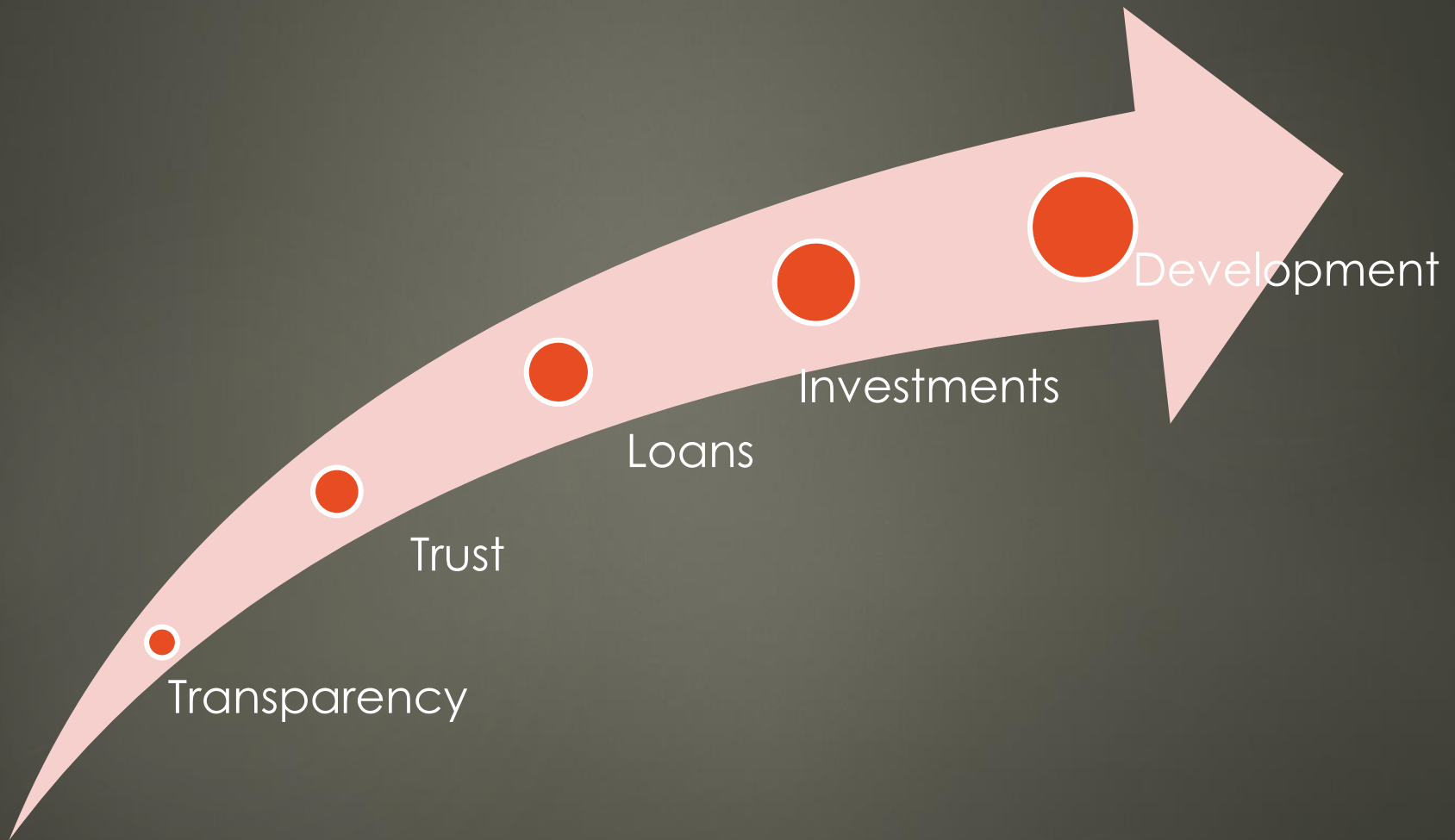
MACRO CONFERENCE 2015

The Economy of the Republic of Moldova 2015: Risks and Challenges

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Responsible Economic Model



End Objective



**Safety, certainty and economic
and financial security**

*both at the macroeconomic level,
and at sector and micro
(enterprises) level*

Current Situation

- ▶ **Problem 1 in 2015** - the banking sector
- ▶ Lack of a fully-fledged Government and political support in conditions of maximum instability, both in the region and internally
- ▶ Institutions in charge for financial and economic policies, oversight and monitoring, that showed improper or delayed response in certain situations. Or lack of any response
- ▶ The financial and banking legislation was amended significantly during the last 2 years, almost without any participation of the legislator

Current Situation

- ▶ Fragile transparency, domination of the capital form “special” and non-transparent regimes
- ▶ Management under the good corporate governance standards
- ▶ “кочующие по миру” (“wandering around the world”) financial flows that come to and go through the local financial and banking system
- ▶ Distrust in the financial and banking system and uncertainty both at internally and externally
- ▶ Indirect exposure and use of currency reserves and public finances to cover the gaps in the financial and banking system
- ▶ Gradual blocking of funding – partially for the time being – because of the problems in the financial and banking system
- ▶ **Unsecured Economic and Financial Security**

Transparency



- ▶ Totally non-transparent adoption of economic and financial laws and regulations
- ▶ In the financial and banking sector: the prudential mechanism and rules had been developed with difficulty for many years, but were easily bypassed
- ▶ Two aspects with big deviations: shareholder transparency and corporate governance transparency
- ▶ During 2006-2008 and 2013-2014: important amendment in the financial and banking legislation, which weakened the system and made it vulnerable and “interesting” for certain groups

Trust



- ▶ Several banks declared as being in distress, while others are being monitored
- ▶ The regulator, NBM, communicates unclear and contradictory messages that impinge on institutional independence and rip NBM off credibility
- ▶ The financial and banking system exists and is functional, but the trust is totally missing
- ▶ Public finances – on the verge of becoming unable to honour the domestic liabilities
- ▶ Loss of trust and support from partners / foreign donors

Loans

- ▶ Limited or no access to foreign loans, except for the already contracted ones
- ▶ The more and more restrictive NBM policy increases the cost for loan resources
- ▶ Domestic loans become more and more expensive and unacceptable for businesses
- ▶ The public sector turns into the main “customer” of banks, as it needs resources, including loans with high interest rates
- ▶ The excessive level of liquidities is being gradually depleted

Investments



- ▶ There are no serious investments and strategic investors. Reason: lack of security and high risks. But also the blocks by legal amendments
- ▶ The currency risks decrease the willingness to invest in the Republic of Moldova
- ▶ Regional uncertainty, the embargo, as well as the temporary application of DCFTA hold investments back
- ▶ An area attractive for investments from off-shore jurisdictions or with high risks and speculative

Development

- ▶ The Republic of Moldova is at a crossroads
- ▶ The path to be taken on depends on the political groups that delay the decision
- ▶ Accepting to make the banking sector more transparent is a small but crucial move, and a step on the right path
- ▶ The suspense and political vacillation hold the development off

Steps 2015



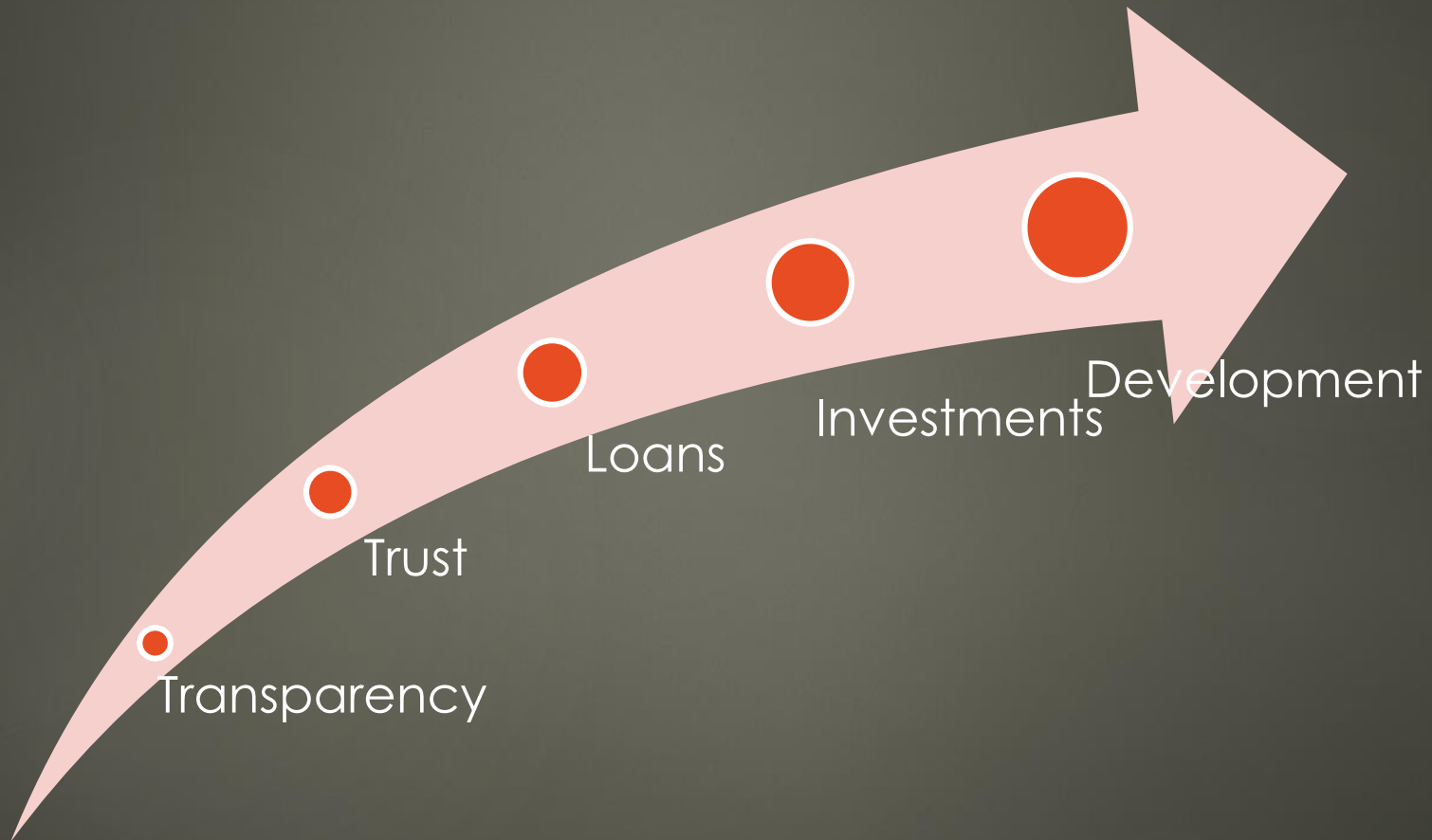
- ▶ Independent NBM decisions, without involving politics with regard to banks in distress
- ▶ Name a Government with full mandate and political support to carry out negotiations with foreign partners and to unblock the foreign funding; new IMF program
- ▶ 2-year anti-crisis plan: financial stabilization and economic recovery
- ▶ Urgent legal amendments to ensure minimum security of the banking sector
- ▶ Initiate the second stage of independent investigations and take measures to recover the “gone” funds
- ▶ Rectify the budget for 2015, link expenses to the available resources

Steps 2015



All of the steps taken in 2015 will
save the year of 2016

Return to the accountable economic model





Thank you for your attention

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