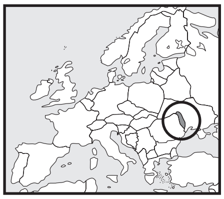
There is a crisis, after all



Moldova is living through turbulent times. Prior to the April elections, the ruling Communist Party downplayed the effects of the financial crisis, even though experts had stated that those countries for which remittances constitute one third of GDP, such as Moldova, would be the most vulnerable. Once the polls were over, however, the Government started to refer to the crisis as a "catastrophe". Yet the measures it has promoted in response are missing the target.

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Moldova is currently experiencing stormy political times. In April 2009, when the ruling Party of Communists of the Republic of Moldova (PCRM) won the parliamentary elections, thousands of demonstrators took to the streets alleging fraud, fighting with police and ransacking Parliament. The Government claimed that the dispute over the election results was a cover for an attempted coup organized with the involvement of Romania. Later, after the presidential elections in June, the President and leader of the PCRM, Vladimir Voronin, publicly "ceased political partnership" with the opposition.

A new political reality

The fact that the political crisis overlapped with the economic/financial crisis increased the gap between the Government and the opposition, as they both denied any responsibility and each blamed the other. Fresh parliamentary elections on July 29 produced a parliament in which no single party had a majority, much less the 61-seat supermajority necessary to elect a new president. The four main opposition groups gained a combined total of 53 parliamentary seats. This is still not enough to push for a president of their choice, although leaders vowed to form an alliance to force the Communists out.

The Transnistrian settlement has also been brought back to centre stage. This is a consequence of the pre-electoral strategy of President Voronin, who signed the Barvikha Declaration, regarded by the opposition as a capitulation to Russian interests.[1] As a result of the declaration, the Russian military presence could end up being legalized, the country could become confederated or Moldova could lose Transnistria. The opposition fears that little is left of Moldova's sovereignty, independence and territorial integrity and feels it has the right to disagree with the price the PCRM leader paid for Russia's support – with the purpose of eliminating from the race other contestants who targeted the Russian-speaking electorate – in the electoral campaign.

At the same time, Moldova's international standing has deteriorated and its bid to join the European Community has been jeopardized. Huge amounts of rhetoric were expended in defining the April elections as a "test" for Moldovan democracy, as well as for guaranteeing progress towards integration into Europe (over half of Moldova's trade is with the EU, a large number of Moldovans work in the EU and over 70% of the population support European integration). However, the preliminary result of the "test" has been abuse of administrative resources, the constant harassment of the opposition leading to protests and revolt, and the flagrant violation of human rights by law enforcement bodies.

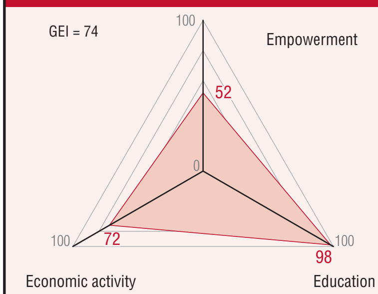
Moldovan society has been deeply divided and radicalized not just by the way the electoral campaign was carried out, but more so by the behaviour of the security forces in the post-electoral period. Political stability will only be regained if there is a full investigation of the April events.

Crisis and opportunities

Although before the elections in April 2009 the Government vehemently denied the crisis would affect the country and tried to artificially maintain the economic situation, the World Bank was not so optimistic and it included Moldova among the developing countries with the highest level of vulnerability.[2] After the elections, however, President Voronin declared in a meeting with businesspersons, members of the acting Government, congresspersons and politicians that "the crisis is a fire, a catastrophe". Government officials explained that the downplaying of the crisis before the elections has been aimed at not "creating panic".

Indeed, despite Moldova's impressive economic growth in 2008 (7.2%), the country has been severely hit by the second round of effects from the global financial crisis. The initial consequences were already visible in the last quarter of 2008 and have been confirmed by statistical indicators in the first quarter of 2009.[3] According to the Moldovan Premier, Zinaida Greceanii, the effects are mostly due to decreasing exports and imports, reduced production and lower remittances. In this situation, only a policy meant to secure and keep economic stability will allow Moldova to tackle the crisis.

Gender Equity Index (GEI)



Premier Greceanii underscored that investments in infrastructure are to come both from budgetary and foreign resources. She cited a Czech investment project to be implemented in the north of the country, which provides EUR 600 million for the construction of a power station. According to the Prime Minister, the economic liberalization reform (capital legalization, fiscal amnesty, the tax on reinvested income, as well as the strict banking policies that have been lately promoted) will also help ensure Moldova's macroeconomic stability and diminish the effect of the crisis.

The Minister of Finance has said that the Moldovan financial system is very solid and that during the last year the capitalization of banks increased by 26.8%, assets by 22.3% and credit portfolios by 19.4%. As a result, the current liquidity of the Moldovan banking system is approximately 30%, significantly more than the requirements of risks limitation (at least 20%).[4]

* There are no available data on BCI.

1 President Voronin, Russian President Dmitry Medvedev and Transnistria's Russian-installed "president" Igor Smirnov signed a Russian-drafted joint declaration on 18 March declaring that "noting the stabilizing role of the existing peacekeeping operation, the sides consider that it would be advisable to transform it into a peace-guaranteeing operation under the aegis of the Organization for Security and Cooperation in Europe upon [attaining] the outcome of a settlement in Transnistria."

2 World Trade Organization. "The World Bank has Included Moldova among the Developing Countries with the Highest Level of Vulnerability to the World Crisis". 10 April 2009. Available at <moldovainomc.org/index.php?option=com_content&view=article&id=103:world-bank-has-included-moldova-among-the-developing-countries-with-the-highest-level-of-vulnerability-to-the-world-crisis&catid=1:latest-news&Itemid=50>.

3 See: <www.expert-grup.org/?go=biblioteca&n=110>.

4 The first – and so far the only – bank to announce bankruptcy was the Investprivatbank, in June 2009.

However, the Association for Participatory Democracy announced that, due to the economic crisis, many domestic banks have stopped granting credit to individuals for personal consumption and mortgages and even to companies, as the latter, particularly in the building sector, are incapable of repaying the loans. On the other hand, with the potential depreciation of the national currency, the leu, versus main reference currencies, citizens are not crowding in to ask for credit.

Much of the banks' liquidity was due to remittances from Moldovans working abroad. It may be that, since transfers have decreased, the banks have less currency in their portfolios. Data from the National Bank of Moldova show that currency reserves in April 2009 constituted USD 1.086 billion, having diminished by almost USD 586 million (35%) compared to December 2008. This reduction was due to interventions on the currency market under the form of sales and to payments made to the account of country's external debt, among other external payments, as well as the reduction of the exchange rate of component currencies of the currency reserves in relation to the US dollar. The International Monetary Fund (IMF), for its part, predicts that if remittances and exports continue to decrease, the currency reserves of the country might fall by USD 1.3 billion, which means in practice that the country will be without currency reserves.

On the other hand, according to the Academy of Sciences of Moldova (ASM), the world crisis might have positive effects for the country.[5] While remittances and imports will be reduced, this will "stimulate the real economy in order to fill in the vacuum of products on the internal market". The depreciation of the leu is also seen as having some positive effects such as increasing exports. The need to be competitive, the ASM report stresses, might lead to an improvement in the quality of goods to conform to European standards. [6]

A country dependent on remittances

In the opinion of World Bank economists, countries for which money remittances constitute one third of GDP are the most vulnerable to the economic crisis. Among these countries are Moldova and Tajikistan, where money remittances constitute 35% and 45% of GDP respectively, and also Armenia and Kyrgyzstan. In 2008, Moldovan migrants sent back USD 1.66 billion just through official channels – mostly from Italy and Russia. Recent research by the International Organization for Migration confirmed that over 35% of the Moldovan population lives in households that receive remittances.[7]

A poll conducted in Moldova by CBS-AXA revealed that 20% of the Moldovan beneficiaries of remittances in 2008 are now not receiving money from abroad and 45% reported that they receive less or much less than last year[8]. However, contrary to many assumptions and concerns, there is no evidence of a mass return of migrants due to the economic crisis, although the number of those who returned temporarily in 2008 doubled (from 4.9% to 9.1%) and 8% of them declared they were returning for good. What is particularly interesting is that the main reason mentioned for the return was family, while job-loss and lack of financially interesting opportunities were only secondary motivations.

The Government's response

The Government's priority is the payment of salaries, pensions, scholarships and social allowances.[9] Programmes meant to help initiate new businesses and infrastructure projects are to be further launched and implemented to ensure Moldova's economic stability and to attract new foreign investments. Among the measures included in the anti-crisis (or anti-catastrophe) plan announced by President Voronin are: keeping the "zero quota" of corporative income tax for the next four years, with the aim of sustaining the economic agents in the context of the global crisis; introduction of a fixed rate for the income of physical persons – for example, 15% – and increasing the amount of non-taxable income; reducing the contribution to the social budget by 5%; increasing VAT from 20% to 22% to ensure the Social Fund; and reducing budgetary expenses to a minimum of 20%.

The anti-crisis plan provides approximately 40 modifications to legislative documents. Parliament will examine the plan after the new composition of the Government is approved. According to the acting Vice-Premier, none of these measures will give supplementary income to the budget; instead, they will signal employers to make public the real wages.

Shortcomings of the Government's plan

Ion Sturza, who was Prime Minister in 1999, has declared that the fiscal reforms are not relevant for the Moldovan economy and give the impression that new privileges are offered in exchange for support. In his opinion, the proposals testify to the fact that none of the previous reforms were efficient or produced the expected results.

On the other hand, economists say that reduction by 5% of the social contribution comes too late. It threatens the de-capitalization of social funds and puts in jeopardy the capacity of the Government to pay pensions. In addition, increasing VAT from 20 to 22% will hinder consumption even further and reduce exports. Since the national economy is based on consumption, it would have been better to lower VAT. If these measures are the whole "anti-crisis package", then the Government is only taking care of accumulating new financial means in the budget. ■

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5 Frunza, V. "All Bad is for Good: World Crisis Might Have Positive Effects for the Republic of Moldova". 28 April 2009. Available at <moldovainomc.org/index.php?option=com_content&view=article&id=111:all-bad-is-for-good-world-crisis-might-have-positive-effects-for-the-republic-of-moldova&catid=1:latest-news&Itemid=50>.

6 *Ibid*.

7 See: <www.iom.md/materials/studies_reports/2009_05_11_moldova_country_profile.pdf>.

8 See: <www.azi.md/en/story/3271>.

9 See: <www.businessexpert.md/index.php?r=5&s=1642>.