

The Chicu Government Reached a “Breakthrough” Agreement with the IMF. Or Not?

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A “triumphant” work summing up of the another IMF mission took place in Chisinau last week. Despite past criticisms of the Fund, Chicu unexpectedly praised the organization for its “flexibility” and assured of further collaboration. Is it, a big success? Not actually.

IMF conditions

The current three-year cooperation with the IMF program was approved in November 2016. It suggested the allocation of several credit tranches to Moldova for a total of about 182 million US dollars and 160 of which the country has already received. The program was supposed to come to end last fall, however, it was extended until March on the Sandu Cabinet request.

The motivation is clear enough – an existing IMF program is the condition to get the European Union macro-financing. Thus, the country had to make a deal to receive the vitally needed foreign aid: by that time the “coalitional” government managed to agree not only on the program extension but also on the next tranche of \$ 46.5 million received in September 2019.

Despite the fact that the terms of transaction were not widely known for a long time, some of its details could not be overlooked. It is, first of all about doubling the VAT rate for the HoReCa sector which caused a serious scandal last year. “This is a regrettable situation but this measure is an obligation of Moldova. It does not say that it is the government of Sandu, the government of X or Y, it is an

obligation of Moldova. We talked to the IMF and we cannot reverse this change. In the first quarter of 2020 until the program with the IMF is completed we will have a 20% rate but later, I hope we will be able to agree with the IMF on the next program to eliminate this situation," Ion Chicu commented on the situation in November 2019.

It is interesting that earlier, when adviser to Igor Dodon, Ion Chicu was one of the main critics of the agreements with the IMF and regularly accusing the organization of "dictate". "The conditions set by the IMF are not adequate and are not relevant to the situation. Moldova is not in a position to accept any ultimatum from officials of this structure," Chicu wrote on his Facebook page.

The ["ultimatum"](#) details became known after the Fund opened access to its materials on January 1, 2020, including official documentation on lending to the Maia Sandu government.

So, it was confirmed that the transfer of Moldovan banks to foreign investors is an IMF condition. Recall that three system banks of Moldova underwent the "recovery" procedure. Victoriabank got transferred to the Romanian Banca Transilvania, which together with the EBRD now owns a controlling stake (in addition, the EBRD is the largest shareholder of Banca Transilvania). Over 40% of Moldova-Agroindbank shares were given to an international investment consortium, which included the EBRD, Horizon Capital and AB Invalda. A majority stake in Moldindconbank was sold to a non-banking company from Bulgaria Doverie United Holding.

It is here that raises the question of the "bill on the Billion Case", which was adopted under the IMF and other financial partners of Moldova pressure. Despite repeated statements by representatives of various political forces, including PDM, PSRM, and the DA platform, it has not yet been canceled, revised, and a moratorium has not been imposed on it. The stolen 13.5 billion lei remain converted into public

debt and continue to lie on the shoulders of the population. Just to mention, Igor Dodon voiced plans to cancel at least some articles of this law but they still remain only plans.

In the agreement with the IMF lay the origins of tax changes introduced in January 2020. We are talking about the already mentioned double increase in the VAT rate for HoReCa; the abolition of personal allowance for annual income of more than 360 thousand lei; the reduction to 200 euros of personal tax-free benefits for goods sent by mail and the increase in a number of other taxes.

Another “present” from the IMF is the “adjustment” of gas and electricity tariffs. The latter, amounted already in August 2019, according with the “predictable and transparent tariff policy based on reliable methodologies”. Last fall, the population of Moldova expected an increase in domestic gas tariffs, but this condition was not met. “It’s illogical to increase domestic tariffs when buying something cheaper,” Ion Chicu explained last December, noting that from January 2020 natural gas will cost Moldova an average of \$ 65 cheaper than in 2019. “This was one of the risks of cooperation with the IMF but the international structure is flexible on this issue,” the Prime Minister said then.

A breakthrough agreement?

The Moldovan leadership became especially active in talking about the “flexibility” and “new approaches” of the IMF after the completion of the Fund’s final mission last week. The current Cabinet clearly considers the agreement on the successful IMF program completion to be a breakthrough – the government managed to defend gas tariffs and large-scale infrastructure plans. Moreover, Ion Chicu also focuses on the absence of new obligations to increase taxes, reduce social spending of the budget or any other affecting the level of population’s income.

Despite all politicians' statements it is rather difficult to believe in Fund flexibility. "You don't often hear about the IMF's flexibility," Ruben Atoyan, head of the IMF's mission in Moldova, joked at a joint press briefing with Ion Chicu. On the one hand, the government seems to have succeeded in reaching a "soft" agreement without attendant and usually harsh conditions. On the other hand, there is an opinion that the Cabinet only delayed them and they will certainly enter the next program, moreover, in an even more severe version.

In this sense, the immediate start of negotiations on a new program is just part of the agreement on successful completion of the previous one. "We have already talked with Mr. Atoyan that I will sign a letter in which I will ask the IMF for a mission to arrive in the republic the near future, it is clear that after March, to conduct an assessment in view of the preparation of a new program with the IMF," Prime Minister Chicu said. In fact, we are talking about some kind of letter of guarantee or a statement of intent.

The situation looks rather doubtful. The IMF is really not known for its "charity" and its assistance to one degree or another practically always has unpleasant internal consequences for the recipient country's leadership. Therefore, it is difficult to believe that some exception was made for Moldova. Moreover, now, when taking into account the poor economy and the pre-election time, the country is clearly not in the position to bargain and set conditions. Therefore, the IMF does not really believe in statements about the IMF success and "flexibility". Probably, the only breakthrough "element" was only the postponement of all the harsh conditions for the period of presidential election, after which Moldova may finally enter a state of political stability.

So, there should be an agreement between Moldova and the International Monetary Fund, by any reckoning. But the conditions of this deal are unlikely to please the Moldovan

population and business.