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## After being hit hard by a $1 billion bank theft, Moldova's authorities are trying to consolidate the banking system in accordance with EU regulations – but experts warn that tackling corruption and establishing the rule of law are also essential.

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For the last two years, Moldova's banking system has been going through a slow but consolidated recovery process following the so-called 'grand theft', when up to $1 billion was stolen from three banks from 2012-2014, as well as a series of scandals related to money-laundering schemes.

Moldova is eager to strengthen its banking system in compliance with EU regulations, with reforms aimed at increasing shareholder transparency and the credibility of the entire banking system of the former Soviet country.

“Our economic ties with the European Union are getting stronger, with about two-thirds of Moldova’s foreign trade now being with the EU zone. Besides, the EU represents the largest geographical area where personal remittances come from,” Victor Colta, adviser to the governor of the National Bank of Moldova on monetary policy and financial markets, told BIRN.

Colta said that remittances from Moldovans in the EU provided the equivalent of around $1.6 billion in 2017, or over 19 per cent of Moldova’s GDP.

**‘Theft of the century’**

The ‘theft of the century’, as the media called it back in 2014, left the poorest country in Europa even poorer, as loans worth $1 billion were transferred over a period of just two days from three Moldovan banks - Banca de Economii, Unibank and Banca Sociala - to a series of companies with unknown owners.

Moldovan kids attending a money exhibition. Photo: NBM` s Facebook Account

The government was forced to step in to bail the three banks out - protecting depositors, but creating a hole in the public finances equivalent to about 15 per cent of country's GDP.

Together, the three banks held 28 per cent of the Moldovan banking system's assets, including money for pensions.

A complex financial scheme took the money to offshore companies with the help of Latvian and Russian banks.

This hit the Moldovan national currency hard, and it lost 42 per cent of its value between November 1, 2014 and February 18, 2015.

A report commissioned from US corporate investigations company Kroll by the National Bank of Moldova pointed the finger at Ilan Shor, a prosperous young businessman who owned the banks involved in the transferring the money abroad.

**Inflation falls, currency strengthens**

The situation started to change from April 2016, when Sergiu Cioclea was appointed the new governor of the National Bank of Moldova.

The Governor of the National Bank of Moldova, Sergiu Cioclea. Photo: NBM

With 19 years' experience in the international banking system, seven of them working as managing director and head of the corporate finance department for Russia and ex-Soviet countries at the BNP Paribas Group, Cioclea has taken measures to reinstall a healthy banking sector in Moldova.

During the past two years, inflation has fallen below five per cent. The Moldovan currency is now much stronger, and confidence in the banking sector is growing as proven by rapidly increasing deposits and foreign investors expressing increased interest in developing new businesses, according to the National Bank.

The institution is working now closely with Western developing partners like IMF, World Bank, US Treasury, USAID, German Economic Team Moldova, the European Commission, The National Banks of Romania, Netherlands and Lithuania.

"An example of such cooperation is the EU-sponsored Twinning Project implemented with the help of the National Bank of Romania and the National Bank of Netherlands to prepare new banking legislation," the National Bank of Moldova told BIRN.

The reforms will be based on Basel III principles, meaning that banks will have equivalent reserves of seven per cent of the value of the loans they provide.

"This legislation brings Moldova's banking regulations in line with those of the EU, and its full implementation will take place within the next two-year period," said the National Bank.

**Open for foreign investors**

One good example of the re-establishment of foreign investors' trust is the Romanian bank - Banca Transilvania - which paid around 37 million euros for 39 per cent of the shares of Victoriabank, the third largest bank in Moldova.

Banca Transilvania and its strategic partner, the European Bank for Reconstruction and Development, EBRD, now hold over 66 per cent of the shares in Victoriabank, and aim to support entrepreneurs and the wider economy in the country.

"Banca Transilvania, which is the second largest lender in Romania, is an experienced player in the SME [small and medium-sized enterprises] and retail segments, which have been traditionally underdeveloped in Moldova," said the National Bank.

Italy's Intesa Sanpaolo Bank Group, which operates in 40 countries around the world, also recently finalised the acquisition of 100 per cent of the share capital of Moldova's EximBank - Gruppo Veneto, the fifth largest bank in the country.

Following the recent banking reforms and economic recovery with 4.5 per cent economic growth per year in 2016 and 2017, the National Bank hopes that Banca Comerciala Romana, a member of the Austrian Erste Group, could also choose to increase the amount of credit it makes available to borrowers in Moldova.

However, the National Bank has been struggling for some time to mediate the sale of the two biggest local banks - Moldova-Agroindbank and Moldindconbank.

A draft law issued by the Moldovan Government in April this year allows the state to buy shares of nearly 43 per cent from Moldova-Agroindbank and 64 per cent from

Moldindconbank. In 2016,the state prevented the sale of shares in the banks because of concerns that the shareholders were not acting lawfully.

In Moldindconbank's case, its 14 shareholders were citizens of Moldova, Russia and Ukraine connected with businessman Veaceslav Platon, who was sentenced to 18 years in prison in December 2017 by a first-instance court for money-laundering and embezzlement over his involvement in the 'grand theft'.

In Agroindbank's case, the shareholders are two companies owned by Russian citizens.

The sale of Agroindbank and Moldindconbank, coming after the sell-off of shares in Victoriabank to Banca Transilvania, should improve the image of the top three controversial banks in Moldova.

**Delays in fraud investigation**

The Moldovan authorities say however they cannot make public the full facts from the investigation by US firm Kroll into the 'grand theft'.

Man looking at a bill of 100 Moldovan lei (around 5 euro equivalent). Photo: BNM

In December 2017, after almost three years after investigation started, Prime Minister Pavel Filip said that the latest Kroll report offered a lot of information about the fraud scheme, but the names of the people involved will not be exposed because “90 per cent of them are honest people”, sparking outrage among the public and experts.

At a joint press conference in Brussels with Filip on May 3, the EU foreign policy chief Federica Mogherini said that the investigation must be thorough, impartial and comprehensive, with a view to “recovering the misappropriated funds and to bring all those responsible to justice”.

Mogherini said she expected the banking fraud probe “to be finalised without any further delay”.

The National Bank told BIRN that around one billion Moldovan lei (around 50 million euros) has been recovered so far through the administrative liquidation of failed banks, supervised by the National Bank, and over 70 criminal cases have been filed.

A funds recovery strategy is also to be prepared within the next month in collaboration with Kroll.

**Rule of law, corruption remain problems**

Despite the progress made so far, experts say the banking sector reforms will not bring in foreign investors overnight because this is not the most favourable moment for attracting investments in emerging markets.


An NBM` s employee explaining some graphics at a conference. Photo: NBM

“If we include the attractiveness factor of such countries as Moldova, where the credibility of the judiciary has been reduced, the political system is unstable and there is a high degree of corruption, it is all the more complicated to attract high-quality investors,” economics expert Sergiu Gaibu told BIRN.

Gaibu argued that investor protection also needs to be improved - and in the absence of a credible judicial system, this is not fully possible no matter what the regulatory institutions in the financial system do.

Economics expert Roman Chirca said that the measures taken by the National Bank had aided the stabilisation of the banking system, including the blocking of hostile takeovers of banks.

He welcomed the fact that shareholders’ anonymity in commercial banks will be eliminated, as well as the hiding the ownership in offshore companies.

But, he cautioned: “Another chronic problem is the alarming size of non-performing loans; although their volumes have fallen in recently, the problem persists.”

Moldova meanwhile still has many reforms to implement in order to tackle corruption and install a system based on the rule of law – both of which are essential for boosting foreign investors’ confidence.