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Video// Podcast „Give Sense to the Money”, 12th edition. The way the economy overcame the recent crisis and the role of the NBM

Journalist Liliana Barbaroșie's guest is Mark Horton, deputy director of the European Department of the International Monetary Fund (IMF).

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"Give sense to the Money" transcript:

I would like to ask you to take a general picture. These are challenging times. The region is facing multiple crises, as does the whole world. How do you asses the chances of recovery?

Mark Horton: Well, I think the chances of recovery are starting to become stronger. I think we've passed the worst part of these multiple crises. Hopefully there won't be any new shocks. On kind of the baseline or what we expect now, I think we see growth in Moldova starting to emerge perhaps in the third quarter of this year, in the fourth quarter certainly, and then going forward I think we'll start to see a recovery. It's complicated, recovery in Europe is slow right now, and particularly in Germany. Germany has been a country quite exposed to some of the external changes, external developments in China, with energy costs. After all, Germany is the driver of the European economy. So, when the German economy starts to recover,

the European economy will recover strongly, and the Moldovan economy in turn will recover strongly as well. There is uncertainty. There are risks around, in particular, the security situation in Ukraine next door, but there's good news as well. So, there was the recommendation from the European Commission to open negotiations with Moldova on its candidacy to the EU. Inflation has come down from 34% peak down to around 6% in October. So, there's reasons to be optimistic looking forward.

Let's continue to talk about Moldova. You were the IMF Resident Representative in Moldova during 1996-1999. How do the past and current challenges in the economy differ?

Mark Horton: Well, that was really a different time. It was shortly after the collapse of the Soviet Union. 15 new countries have emerged. It was a difficult transition – people know better than I do. The first few years of the 90s were really quite difficult, volatile. Growth, for example, or I should say GDP in Moldova declined by 50% from 1991 to 1994. Inflation was over 2,000%. These are mind-boggling figures, for an economy to shrink by half and for inflation to be 2,000%. This shows the kind of dislocation, the kind of difficulties that were taking place at that time. By the time I came in 1996, things had, I think, calmed down. I think things were starting to find their own way. By 1997 there was growth. The National Bank had stabilized the leu. By 1996 the leu had settled at almost exactly 4.65 per dollar and it stayed that way for some time. Growth in 1997 was positive for the first time in nearly a decade. Things started to look good. Unfortunately, in 1998 there was a default by Russia on its domestic and foreign debt. That created a new set of shocks. So, by 1999 the Moldovan economy shrunk again by 8.5%. By the time I concluded my assignment here, you know, I really had a sense of concern, yeah, that the economy was volatile. Moldova is a small country. Its economic prospects to me looked somewhat questionable. Those were times of wage arrears, pension arrears. These were really difficult times. We've moved way beyond that. So, Moldova still faces a number of challenges. It's had shocks, it's had internal shocks. In 2014 was a banking crisis that's had a long subsequent tail, let's say, or long subsequent history. It's had recent shocks from COVID, recent shocks from the war in Ukraine. But the institutions are stronger, the basis is stronger. When I was here, the National Bank of Moldova had only started to accumulate some foreign exchange reserves to be able to provide a buffer for the Moldovan economy. Now it has over $5 billion worth of reserves. So, things have changed remarkably. There are challenges. There are challenges for the budget, there are challenges to provide enough resources in key areas: infrastructure, health, education. There are challenges still in the financial sector: deepening it, developing it, making it inclusive for Moldovans. There continue to be challenges in the business environment, but these are of a different magnitude, a different order than they were in the 1990s. Even at that time the political system was also volatile, the Constitution was changed several times in the 1990s, trying to find the way forward. Many of those questions have been settled and settled for good. So, now we can really think about what remains and what still needs to be done but in a much different context.

If I asked you to evaluate the current relationship between Moldova and the IMF, what would you say?

Mark Horton: Well, I think relations are excellent and I think probably they are the strongest they have been in 30 years. We have a big program with Moldova, a big financial support program. We've had those in the past, we've had a series of programs since probably 1992 or 1993. This one is large, it covers a very long period of time – ultimately, nearly four years, from December 2021 until October 2025. That's a long period. The IMF Executive Board has approved the 4th review of the program. That's a good sign, it means that our agreement is being met, we see good ownership, we see good performance. This program was made larger – augmented, as we say – after Russia's invasion of Ukraine, when the needs were larger. Now we're adding a second facility. It's a new facility the IMF has to support climate change policies, to support energy security, to support green finance. Moldova requested a new program with that facility, it will be $170 million. It's only the second one in Europe. So, it's a big deal and a big development. We have good relations with our counterpart authorities, we're grateful for their efforts and we strongly support the policy framework and where it's going.

Could you make a comparison between the IMF-supported programs over the years in Moldova?

Mark Horton: Yes. We've had a series of programs, as I've mentioned. You know, the fundamental basis of the program is to provide financial support. Sometimes, you know, the needs were acute, other times the programs were longer. We have sort of two main facilities: one is called a standby arrangement and the second one are so-called extended arrangements. A standby arrangement tend to be 12-18 months long and really deal with acute financing needs. For the extended arrangements, the repayment periods are somewhat longer and that allows focus on more structural or more long-lasting challenges. So, with that in mind, the programs of the IMF typically focus on similar areas or issues as they go along: making sure fiscal policy is sustainable, making sure that the budget deficit is not too large, that spending is efficient, that tax revenues are raised in a way that doesn't hurt the economy, doesn't put too much of a burden on households, on firms. We aim to make sure that the National Bank has sufficient foreign exchange resources and that monetary policy is effective, so it doesn't lead to inflation being too high or too low. We aim to make sure that the financial sector is working effectively, is well managed, is well regulated, is well supervised, and to make sure that the business environment and the labor market – that these also work effectively. So, most of the programs have focused on those sets of issues. You may say: well, are you ever going to solve those problems? I think we make progress and we work. Along the way, there have been a series of shocks and then it affected Moldova. So, from time to time it may seem that the programs are focusing on the same things but they do change over time. The program from 2016 to 2020 really focused on the financial sector, which needed to be addressed after the banking crisis in 2014. It focused on cleaning up governance of banks, strengthening supervision and regulation of banks. We think it's has been quite successful. The banking sector in Moldova is quite different now, in 2023, than it was 10 years ago. How do you measure that? Well, it's been through a really significant shock in the last two or three years: inflation, higher interest rates, differences in demand for credit. It's come through that quite resilient. The number of banks is now at 11 rather than 28 as before, let's say 15-20 years ago. So, we can see that the programs are helping. The current program has been focused on helping the authorities address spillovers from the war in Ukraine, higher energy prices and the need to find ways to target support to households and firms that need support from high energy prices. Earlier there were elements that we're still focused on: the pandemic and, you know, getting past the pandemic period. Now there's a need to come back to the question of growth, your first question: how to support the recovery of the Moldovan economy and strong growth going forward, and now looking at these questions around climate adaptation, climate mitigation, infrastructure investments that are needed, and the key area of energy security. So, Moldova, as you noticed, has relied on energy supplies from the East and since the war in Ukraine this has made that source of supply more vulnerable, riskier. So, there was an opportunity to turn to other sources of supply from the European market. Here the authorities' efforts have really been quite impressive and quite successful – to orient gas and electricity supply in a different direction, to protect the Moldovan economy from risk and from vulnerabilities around energy supply.

Talking about IMF support, how does IMF support fit into the general context of donor support?

Mark Horton: Well, that's an excellent question, I think. The IMF programs typically are seen as helping to ensure that a country has a good, sound macroeconomic policy framework in place, a good monetary policy, again, so that inflation remains relatively low and stable, that the exchange rate is predictable... It may not be fixed but at least firms and the markets know what the policy is around the exchange rate. That the budget is at a certain level, so that it's not causing pressure, while also expenditures are increasingly efficient, increasingly well targeted, et cetera. And there's a component of structural reforms for the business environment, for the labor market, for climate, increasingly... That other donors can say: we're confident that this country has a good economic policy framework in place, and then we'll come in and provide additional support. Different donors have different objectives. They have different things they wish to focus on. Some now are focusing on social sectors, health and education. Others may be focusing on climate or on energy. Some may be focusing on roads. Some may be wanting to find ways to support the private sector, small and medium enterprises. If they can be confident that the authorities are managing the economy well, it gives them confidence to provide support. By the same token, the IMF provides financing. It's not just a program but we provide financial support, but typically we don't provide the total amount, the

total envelope. We share that with other donors or other international financial institutions. So, there's some risk mitigation, some risk management there, but it's really that it should be a program and a framework that that has the support of the authorities but also has the support of Moldova's international partners.

Now, what are the current key objectives for Moldova, in the IMF's view?

Mark Horton: Well, it would be around finding a good balance between continuing to respond to the shocks, effectively from the war in Ukraine, high energy prices, high inflation, how to respond to that, how to support households and firms, but in a way that allows inflation to come down over time, so not in a way that's contained, while at the same time starting to support growth. So, the objectives there would be to keep the budget deficit at a reasonable level and keep inflation on a downward path, while also finding ways to support growth. There are some specific areas: the financial sector – continuing to strengthen that. Recently, some aspects of the financial sector and regulation and oversight of the sector were moved to the National Bank: the insurance sector, non-banks. There's a need to ensure that those sectors develop well. They're somewhat underdeveloped in Moldova, the insurance sector and other parts of the financial sector. That's an important goal. A big goal it's around the whole set of reforms and objectives around rule of law, around governance, around control of corruption. This is an important objective of the government, now led by President Sandu and Prime Minister Recean, to really put in place a system that controls for corruption and demonstrates a strong commitment to rule of law. Why? In the past, Moldova has been seen, is perceived by Moldovans, by Moldovan companies, by foreign investors, as a country that has difficulties with corruption and rule of law. So, as an international institution, we see a link from perceptions of corruption to low growth, to lower living standards, to low investment, to out-migration, to brain drain. So, if you can address governance issues, corruption issues, rule of law issues, that should allow Moldova to have more investment, more investment by Moldovans but also more investment from foreign sources, higher growth, higher living standards and a brighter future. This program is focused heavily on those sets of issues, and lastly this question of climate change and energy security.

About the NBM and collaboration with the NBM: what are currently the key tasks for the NBM and the banking and financial system?

Mark Horton: Well, that's a good question. The National Bank, if we go back a year and a half ago, was looking at inflation of 35%. It raised its policy rate quite significantly and early. It successfully brought inflation back to its target range. That fight, so to say, that battle is never really over. Inflation could go below the target range. Moldovan economy, as we've discussed, has been in a recession over the last year and a half. It could be that inflation goes too low. So, the National Bank needs to keep a close eye on that and continue to manage the interest rate, the reserve requirements, and exchange rate policy in a way that keeps inflation in its target range. It also is the main supervisor and regulator of the financial sector. It needs to continue to keep a close eye on banks. As I mentioned before, a lot of progress has been made in the last eight years on the banking sector after the crisis. Now there's a sense that maybe banks are over-regulated, there's a concern that there's too much regulation and too many controls. We don't share that view. We see that there's a need to maintain a firm and robust regulatory framework around the banks, particularly given the risks that are facing Moldova in terms of growth, in terms of inflation. But they'll have to balance a little bit that as well. If you keep the regulations and keep the management of banks too tight, then they don't provide credit, then the economy doesn't grow as fast as it could. So, that will be also a challenge, to look at the banking sector and to see how it's developing and see what possibilities there are as well. And then this question of taking on new responsibilities from the capital markets authority, and looking at the insurance sector, how to ensure its strong financial position while developing more, looking at non-banks, credit unions, credit institutions and expanding the financial sector. The National Bank has a lot on its plate. It's done a very good job for the last 25-30 years. It's developed effectively, it's a strong institution, but its job is never finished. At each moment, there's something new to focus on.

I want to ask you in conclusion, how do you think IMF assistance to the NBM and maybe other institutions

has moved things forward over the years?

Mark Horton: That's a very good question. The National Bank has got off to a very strong start. It had very good leadership at the beginning. It became an institution that was open. It was data driven. It was an institution that was willing to provide data. It had very good staff. It recruited staff on the basis of their qualifications. It became an institution that was willing to ask questions, to learn, to follow best international practices. The National Bank got off to a strong start and it's continued to be a strong institution. In 30 years, we've had an enormous amount of technical cooperation, of policy cooperation with the National Bank. It's really a capable institution. You may say: how do you measure that? And I would point again to the work that it's done in the last couple of years in responding to this inflation shock decisively and successfully, and earlier over the last five or seven years, and following up to the banking crisis and strengthening the functioning of the banking sector. It's a sound and strong institution, and that's why it can take on additional financial areas like insurance, or like non-bank institutions. We continue to provide the National Bank technical support, policy advice. In some ways, it's fine tuning but in some ways, it's helping them to take on these new responsibilities and tasks. There are a number of other questions, like how to regulate digital currencies, how to regulate payment systems, new and emerging electronic payment systems. So, there's always some innovation, some development. Crypto-currencies or crypto-assets are another area. There's the whole issue of financial integrity, money laundering, and how to ensure that Moldova has a strong framework in place, questions around cyber security, hacking, for the National Bank itself, for the financial sector. So, there are a number of challenges. It's a strong institution, but the important thing is that it's a learning institution. It's an institution that focuses on best practices. It focuses on recruiting and developing excellent staff. It's an institution that's open to technical assistance and technical advice, and I'm confident it will stay that way.

My next question is about the Resilience and Sustainability Facility (RSF). Why is the RSF program important?

Mark Horton: Well, I'm glad you asked the question. This is a new facility that the IMF has. Our Managing Director, Kristalina Georgieva, came in and felt that the IMF needed to be more present in responding to the climate challenge and the Board of the IMF and staff agreed. So, we put together the RSF Facility. The aim is that the IMF helps to bring climate challenges and energy sector challenges into the macro-framework as strongly as possible. We can see that in countries that have had RSF programs so far – in Europe it would be Kosovo and now Moldova – it's useful that it gives the Ministry of Finance a strong seat at the table and helping ensure that climate policies are well anchored in the overall macroeconomic framework, so they're not forgotten about, but they're not too large either, so that they fit into the budget framework, they fit into the monetary and financial sector framework, and that real progress can be made. From our side, the facility offers 20-year financing, which is very long term for the IMF. Typically, our financing is in the range of three to seven or eight years. So, now we're offering financing for 20 years. It has a long grace period at the beginning, more than 10 years. So, it's really attractive financing for countries to use this financing. The idea is it helps countries strengthen their policy frameworks around climate issues and around energy security. In Moldova, it will help put in place, for example, a new climate action law that will help set the basis for Moldova to respond to challenges like the Carbon Border Adjustment Mechanism that will come in place for in the European Union and affect Moldovan exports to the EU, towards the need to have in place an emissions trading system in Moldova, to upgrade and link Moldova's electricity and energy system networks more to the European markets. It will help in green finance, setting the basis for banks to increasingly provide financing that's climate positive or climate supportive. So, it helps address a number of issues. What it doesn't do is provide project financing. So, you know, there may be a case to say: well, look, if we hooked up the Moldovan electricity network to the Romanian network with a high-tension power line, this IMF money is cheap, you know, it's 20 year, 10-year grace period, and that would be a great use of it. That's not what it's for. There are other sources, other institutions like the EBRD, the World Bank, KfW that provide money for energy projects or climate-related projects. Ours is focused on getting the policies right and getting them situated in the budgetary framework for the country.

What is the role of the central bank in adapting to climate change and mitigating associated risks?

Mark Horton: Well, that's a great question. I think that it's a question that's received a lot of attention in the last, let's say, 3-4-5 years. Some have asked what's the role of the central bank in doing this. I think the idea is that, you know, the financial system and its assets face a lot of risks from climate change. So, a key thing is to ensure that the financial sector appreciates those risks and that it prepares for the materialization of those risks. If a bank is lending to, I don't know, let's say, some farmers, who are exposed to drought or are exposed to other climate challenges, they need to account for those risks well. Otherwise, they'll affect the public finances of the country. Increasingly, they need to make decisions that are supportive of the authorities' overall efforts to reduce greenhouse gas emissions over the next 20 or 30 years. So, it's important that policies are oriented around that not only in terms of, let's say, what the Moldovan government is doing in terms of investing in roads or investing in irrigation systems or the water network, but also what the financial sector is doing in its own operations. So that's a strong, probably the strongest motivation for a central bank as a regulator of the financial system to make sure that it is climate robust, let's say, that the financial system is taking into account climate change in its decision making and its provisioning.

I want to remember an interview given in 1999. In that interview, you talked about the lack of national consensus in Moldova. How do you see things now? Would you have any reasons to congratulate Moldova in this respect?

Mark Horton: Well, at that time, I think, the country was under some stress in 1999. I mentioned the Russian financial crisis, which had a strong impact on Moldova. There was this constant question of whether we should be leaning East or leaning West, and really kind of how to do that. And it was a time that I… At the end of my term in 1999, I felt this lack of consensus was affecting policymaking, affecting the clarity of objectives. I think, moving ahead now, in almost 25 years, you know, the situation has changed considerably. It's been a question over the last two decades or so, still, you know, where things were going. I think now in the history of Moldova it's probably the clearest it's ever been. So, the war and invasion of Ukraine, you know, I think it's a big historical event and I think, it seems to me that there's a consensus now that Moldova's place is in Europe and Moldova's path forward is through integration with Europe. That may take some time. It will take a lot of work but this is really a historical moment, a historical opportunity for Moldova to join the single market, to join a group of about 30 democracies that have, you know, placed high principles on how their citizens live, how their societies work. It's a really historic opportunity for Moldova. You know, as an outsider who has some history in Moldova… It's really a great opportunity, it's a big opportunity and it's good to see that there is consensus and there is a vision that we need to move that direction and we need to move quickly.

Are there any things that have impressed you most about the way things have developed here recently?

Mark Horton: I think so. I think the response to the shocks that have hit Moldova in the last three or four years are significant. OK, at the beginning of our discussion I mentioned that from 1991 to 1994 the economy shrunk by 50% and inflation was 2,000%. I mean, that's historic. That's a really mind-boggling shock, and maybe we didn't fully appreciate at the time its overwhelming nature. But the shocks of the last three, four years, and even if we go back to that banking crisis of the last ten years have been significant for Moldova but Moldova has come through and it's come through effectively. I think Moldova and Moldovan institutions have shown that they're capable of managing the economy effectively when faced with a pandemic, when faced with spillovers from a war next door. That's really impressive. There was high inflation, there were other developments but I think institutions have proved to be resilient, they've proved to be effective and, as I mentioned in the beginning, we may have more shocks but at least on our baseline we can start to see growth reemerging, starting to recover. I think we can see the economy strengthening and moving forward, and now a historic opportunity to join and further integrate with Europe.

What do you think would help economic recovery in Moldova?

Mark Horton: Well, I think it's a good question. I think you could look at this in many different dimensions. There are issues that… You asked me if I am surprised by some things from 25 years. One thing that surprises me is to hear people still complain about queues at the border. For example, when I was here in 1996, 1997, 1998, if you drove to Iasi, well, it took about three hours, you know, it took a long time to cross the border. It's still the case. Addressing very concrete and practical bottlenecks, very practical obstacles would help with growth. If issues like infrastructure, like the quality of roads, border crossings… If those can be addressed and progress can be made there, well that would be a big boost to growth. Then you can take a step back and look at things like implementation of the budget. Usually, in Moldova the outturn, the outcome of the budget is different than what was planned. And usually there's underspending. So, the budget is not necessarily working as effectively as it could to marshal funds to the right place. Usually, the underspending is in infrastructure, is in capital investment. So, improving the execution of the budget would be pro-growth. I think having a strong anchor around European integration and starting to make progress on that will give confidence, people will see it's really going to happen. You know, it's really going to happen that we're going to integrate with Europe and that we're going to join the single market. And that will tell people, you know, I'd better invest, I'd better be out there first, you know, I'd better be the guy taking the credit, investing in some new machinery, some new equipment, some new process, because when it happens, I want to be the guy who's first in line and benefits from that. So, I think once you start to see progress. And it's happening, the government and the National Bank are preparing well for this process. You received a positive signal from the European Council in December that negotiations are indeed open. It's a technical process. You have to get closer to the European standards and requirements in a number of areas. Once that process starts to move, I'm confident that there'll be a strong sign of confidence among households, among firms, there'll be more investment, there'll be more optimism and that will be another place for growth. Of course, the war in Ukraine continues, there are uncertainties. Some people see that as a big source of risk. So, they've been sitting and waiting, saying: well, let's see how that plays out. So, I think if you can fix problems and obstacles like border crossings, other areas of investment that are needed for specific problems, improve the implementation of the budget and really start to build the dynamic of this is where the country is going and this is how we're going to get there, that will even overcome some of the risks and uncertainties around the regional environment. I'm confident of that.

How does the Republic of Moldova stand regionally today? How do is prospects look, perhaps compared to other countries in the region?

Mark Horton: Well, I think Moldova probably has lost a little bit of time and a little bit of progress that other countries have made over the last 20 or 25 years. So, I think if we go back five years ago, I think it was seen as probably one of the slower-moving countries. Growth was strong but maybe the institutions were not relatively as good as in some other countries in the region, some of the results were not as good. I think there's been a lot of catch-up in the last few years. So, there's been a real focus on how to move forward. I think that the geopolitical developments, the war in Ukraine has brought the international community to focus on how to support Moldova, how to help bring it through this difficult time and how to support Moldova in European integration. So, I think that's led to some catching-up, and catching-up fast. I would also say that Moldova is a relatively small country. So, progress can be made quickly and it can be felt quickly in a small country, a country with two or three million people and an economy of $17-18 billion. So, progress is felt very quickly compared to a much larger country, where these things did take more time. So, this is also a way of encouraging the authorities to also move quickly, that they can sort of change direction, be nimble, be fast and move in a new direction very quickly.

Finally, Mr. Horton, we have a blitz-interview.

Mark Horton: Yeah, please.

Are you ready?

Mark Horton: Yeah, I'm ready.

OK. What is the IMF?

Mark Horton: The IMF? Well, it's a group of 191 countries – we are soon to have the 191st country – that have come together to support each other and to be in a position to provide financial support to countries that are in need. It's also an institution that looks at the global economy, it looks at regional economies, it looks at individual member country economies. Its surveillance function gives policy advice on what needs to be done and then it supports it with technical assistance, in order to make sure that that policy advice can be implemented effectively. So, it's a universal institution, which is great. We have almost every country in the world now. There are few that haven't joined. So, that's part of its strength and that part of its strength is that it has a clear focus on the stability of the global economy and member economies and sustainable development to the benefit of the people. So, I'd say it's a great place to work with that kind of objective and that focus.

Why does the IMF finance the Republic of Moldova?

Mark Horton: Why? Well, Moldova is a member country. So, if it needs financing, if it faces financial needs, it's welcome to come to the IMF and request financial support. It has to undertake certain commitments to receive support. We want to make sure that if there are imbalances policies are taken to correct those imbalances, so that they're not continuing over time, and then it needs to win the support of the 190 countries that are represented at the Board of the IMF. So, we support Moldova when it needs the money, when it's committed and takes policy measures to fix the difficulties or challenges that it faces and when it has the support from our full membership.

One problem that the Republic of Moldova must solve?

Mark Horton: One problem… Well, I think many people would say corruption, rule of law, governance. That nexus of problems has been an issue in Moldova for 30 years and, as I mentioned earlier, if progress can be made, if that issue can be solved so that that these issues are lower or at a manageable level, the country can grow faster, people can feel more stable, more secure and the out-migration of people would become less, it would be a more integrated country with Europe and with the global economy. So, that would probably be the number one thing to focus on, i.e. getting the economy more transparent, functioning better and with better rule of law, more control of corruption and better governance.

We use to give some practical advice in this section. What message do you have? What advice do you have for the young people who are willing to and able to invest?

Mark Horton: Well, they have to make their own decisions, it's their capital. But I think they need to be convinced that the country has a good policy framework in place and it has a good set of objectives, and if they're convinced of that and if they're convinced that the country is going in the right direction, they can feel it, they can see it, then of course they should invest. I think there are great opportunities in Moldova and they are opportunities to be taken. So, if the economy is functioning well, if the policy framework is good and the objectives are clear, somebody's going to invest in Moldova. They may as well be smart young Moldovans.

In what should one invest?

Mark Horton: That's a good question. I think things that will benefit from this increase in integration with the single market. So, things that are around, you know, what products, what services, what goods can be produced in Moldova that will find strong demand at the right price in the single market and in the global economy. Some folks invested in wineries 25 or 30 years ago and then they made a very good investment. It was not like picking money up off the ground, they had to invest in their vineyards, they had to invest in

their technology, in their way of growing and producing wine but now they're benefiting. Moldovan wine is now globally recognized as an excellent product. So, I think it gives a template. This is something that the world likes, something that demands. The resources are here. So, finding another product, another good, another service that can find its place in the single market in Europe and find its place globally would be the way to go.

How about cash? Does cash have a future?

Mark Horton: Not with me. I'm carrying around cash. I never use it, you know. But, of course, it has a future. But I think increasingly less so, so I think it's convenient to use electronic payments, it's quick, it's efficient, it's clear, it's transparent. Cash will always be around. It's kind of nice to have some cash but I think its role will become smaller and smaller. It's not clear whether digital currencies are in the future. I know a lot of central banks are exploring that as a way to go, but I think the position of cash will be increasingly limited, and of course cash is used in some criminality and so it provides anonymity. It provides some convenience from time to time, which is good, but it also can be used in ways that you know are less positive and more prone to criminality.

What important developments do you anticipate in the financial sector?

Mark Horton: In Moldova?

Maybe not. Maybe in the world.

Mark Horton: Well, I think the financial sector has shown globally through COVID and in the run-up inflation that it's resilient. We've come through two major shocks globally in the last three or four years without another financial crisis. We had some banks that didn't make it, banks in Switzerland, banks in the United States. But, in general, the financial system has proven to be robust. This is very good news. If we look back 10 or 15 years ago there were times when the financial sector went into crisis and then it brought the global economy down, it cost a lot of money for taxpayers. So, it's a good thing that we're past that. I think it will still be important for banks and the financial sector in general to continue to find ways to provide its services at low costs, to anticipate new demands, new requirements, new services and to provide those effectively. You mentioned financial inclusion at the very beginning. This is what I have in mind: that banks are quite profitable right now, so they'll need to find ways to ensure that they provide good services to the maximum number of people, including people who have been underserved historically, some groups some segments of the population who have not had access. Then, of course, the rise of digital payment systems, the digital platforms – that needs to be managed effectively. So, products like insurance or pensions or, in some countries, access to credit for housing, for other major life purchases – there's still a lot of work to do, and all this while continuing to be stable and not imposing costs on countries, on taxpayers.

And the last question…

Mark Horton: I'm not being very blitzy in my responses.

No problem, no problem. What are your expectations for the region's economy?

Mark Horton: Well, the European economy has been going through, again, a series of shocks, with COVID, with the rampant inflation. It's not functioning where it should be, yet we have good news today that inflation in Europe in November was lower than expected. It was 2.4%. So, it's getting close to its target, which, I think, gives hope that interest rates could start to come down sometime and support recovery. So, I think, in the near term… I mentioned earlier that the German economy has been struggling somewhat. Some of that is due to high energy prices, some of it is due to China, the slowing in China, some of it over longer

term will be to move away from... The German economy is really good at producing cars, and now that electric vehicles are starting to emerge, whether it will be competitive, there will be a big question for Germany, and because of that a big question for Europe. But I think, I hope we've seen the worst of those crises, you know, the pandemic, the energy price shock and the slowing in China, and that we start to see some improvement. Some countries have high debts, some low-income countries, some emerging market economies, even large and wealthy countries. So, the United States has had a big increase of debt and also has a high deficit right now. That's a source of concern for some. And then countries like Italy and France and the European Union... Of course, if there are negative developments in terms of geopolitics, this can cause another shock. Another concern that's emerged in the last few years is this whole question of what we call geo-economic fragmentation. So, the idea that there will start to be different blocks in the world, maybe one around China, perhaps China and Russia, perhaps China and Russia and other countries, then you have another block maybe in Europe, another block around the United States and Canada, and that there will be less trading with each other, less supply to each other, less interaction, that that will bring higher costs as the global economy becomes less efficient. This may be driven by geopolitics. We've seen that in the last few years – different relations between the West and China, and it's started with some geo-fragmentation. If that continues, it will be weighing on the global economy.

Thank you.

Mark Horton: Thank you. Yeah. A pleasure to be here. I have Moldova in my heart, you know.

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