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THE ROLE OF THE INTERNATIONAL FINANCIAL INSTITUTIONS IN THE DELEVOPMENT OF THE REPUBLIC OF MOLDOVA ECONOMY

ROLUL INSITUȚIILOR FINANCIARE INTERNAȚIONALE ÎN DEZVOLATAREA ECONOMIEI ÎN REPUBLICA MOLDOVA

TOMȘA Cristina, studentă, Specialitatea: EMREI
Academia de Studii Economice din Moldova
Republica Moldova, Chişinău, str. Bănulescu-Bodoni 61, www.ase.md
e-mail autor:: cristinatomsa.tomsa@gmail.com

Rezumat: *Instituțiile financiare internaționale joacă un rol important în dezvoltare sustenabilă și continuă a economiilor naționale. Acestea au ca scop eradicarea sărăciei, prin îmbunătățirea condițiilor de trai și promovare cooperării și integrării regionale. Un impact major asupra economiei Republicii Moldova o au Banca Mondială și Fondul Monetar Internațional. Moldova fiind considerată, de către Banca Mondială, o țară mică cu venituri mici-mijlocii, a benificiat de multe proiecte, cu scopul reducerii sărăciei din țară și dezvoltarea anumitor sectoare sensibile pentru economia națională. Întîmpinarea obstacolelor, în cadrul implementării proiectelor/programelor nu au fost eschivate, dimpotrivă au incetinit procesul și/ sau l-au agravat, precum a avut loc în perioada 2006-2008, când Rusia a introdus interdicție importurilor de vin și criza din 2008. Rezultatul, surprinzător fiind, a fost unul pozitiv, însă cu anumite carențe. Scopul cercetării este de a determina în ce măsură implementarea programelor create de Instituției Financiare Internaționale au ajutat la dezvoltarea economică a Moldovei.*
Cuvinte cheie : *instituții financiare internaționale, Banca Mondială, Fondul Monetar Internațional, eradicarea sărăciei, dezvoltare sustenabilă.*

JEL CLASSIFICATION: F33, F53, F63

INTRODUCTION

Economic development and growth is the positive variation in the production of goods and services in an economy over a given period, generally long. Each nation has a certain level of development, and in order to achieve a stable economy, countries undergo programs and / or projects proposed by international financial institutions.

The objectives of the research are:
- analysis of the general purposes of international financial institutions and their role;
-identification of international financial institutions within the cooperation relations with the Republic of Moldova;
- analyzing different programs implemented in the Republic of Moldova and their effects.

In order to achieve the proposed objectives, the following research methods were used: scientific materials, publications and statistical data provided by the World Bank and IMF and scientific articles.

BASE CONTENT

Throughout history, the growth and intensification of cooperation relations, the creation of different integrationist regions, the elaboration of different collaboration agreements have led to the creation of the international financial institutions (IFI) that monitor the global financial system and play a major role in the social and economic development programs of nations with developing or transitional economies. This role includes advising on development projects, funding them and assisting in their implementation [1].

The IFIs that have been established by more than one country, and hence is subject to international law. Its owners or shareholders are generally national governments, although other international institutions and other organizations occasionally figure as shareholders. The most prominent IFIs are creations of multiple nations, although some bilateral financial institutions (created by two countries) exist and are technically IFIs. The best known IFIs were established after World War II to assist in

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the reconstruction of Europe and provide mechanisms for international cooperation in managing the global financial system.
Therefore, the main goal of this paper is to analyze the influence and role of international financial institutions on the sustainable economic development of the Republic of Moldova. Some of the most important and significant cooperation relations of the Republic of Moldova with IFI's are with the World Bank (WB) and the International Monetary Fund (IMF). The International Monetary Fund is an international organization which aims at promoting international monetary cooperation, facilitating the expansion and balanced growth of international trade, as well as promoting exchange rate stability [11]. The primary mission of the International Monetary Fund is ensuring the stability of the international monetary system—the system of exchange rates and international payments that enables countries and their citizens to transact with each other. The World Bank is an international financial institution that provides loans and grants to the governments of low- and middle-income countries for the purpose of pursuing capital projects [12]. The most determined goals are to end extreme poverty within a generation and boost shared prosperity.

Republic of Moldova - World Bank (WB) cooperation relations

According to the World Bank [15], the Republic of Moldova represents a small lower-middle-income economy. Even though it is one of the poorest countries within Europe, the remarkable progress registered since the early of the XXI century, led to proverty reduction and promotion of the inclusive growth. Despite of the positive achivments, the country is still struggling with a vulnerable and instable political system, a polarized society, low productivity, constantly demograthic changes and skills mismatches. The World Bank in Moldova is focusing to achieve the twin goals of ending extreme poverty and boosting shared prosperity. The World Bank Group is helping Moldova improve economic governance, fight corruption, modernize services, enhance the business environment, and invest in employable skills [15]. Moldova, so far, with the help of WB has implemented more than 50 projects that aim to develope and increase sustainability in each field/sector. One of these projects is Competitiveness Development Policy Operation Program, implemented in 2012, which had the main objectiv to improve competitiveness and thereby increase the volume of Moldovan exports, especially in European Union (EU) markets; and improve access to finance thereby promoting investment-led growth. The Government is striving to change Moldova's development paradigm from a consumption driveneconomy to an economy based on investments, innovations and competitiveness. At the same time, European integration is a strategic goal of the domestic and foreign policy of the Government [14]. Despite the fact that the objectives were highly relevant, but the design was only modestly convincing that the actions supported would contribute to achieving the objectives. The operation achieved a number of policy changes aimed at freeing trade, easing business regulations, and enhancing financial depth [2].

Republic of Moldova - International Monetary Fund (IMF) cooperation relations

The Republic of Moldova became a full member within the IMF on 12 August 1992. In this context the National Bank of Moldova (NBM) represent a fiscal agent of Moldova in the IMF and has the power to performe, on behalf of the state, all the operations and transactions under the IMF's Articles of Agreement. Since 1993, Moldova has had the following arrangements with the IMF in support of the authorities' economic adjustment programs: Compensatory and Contingency Financing Facility (CCFF), Systemic Transformation Facility (STF), Stand-by arrangements (SBA), Extended Fund Facilities (EFF), and Poverty Reduction and Growth Facilities (PRGF) - from 2009 called Extended Credit Facilities (ECF).
The Poverty Reduction and Growth Facility (PRGF)[7] was one of the projects that has been implemented after four years without an active programme. The three-year PRGF was approved on May 5, 2006 and about SDR 11.44 million was disbursed on program approval. The original program forseen rapid economic growth (in case of the GDP it was forecasted and increase of 5-6 percent per year) to reduce poverty, supported by macroeconomic policies aimed at reducing inflation and improving the external outlook [3]. Initially, the Republic of Moldova experienced two so-called „external shocks", in which consisted on: the wine ban by Russia (Russia representing one of the

largest importers, absorbing about 80% of Moldovan wine exports), which led Moldova to orientate to new markets, more particularly to the European one, due to tastes and trade policy and the projected natural gas import prices to move permanently to European levels [3][4]. As result of the implementation of this three-year program the overlook of the Moldova economy was positive by bringing FDI-driven domestic demand, appreciation pressures (it was affected the inflation, by higher food and energy prices, it rose to 16 percent in April 2008), and a widening trade deficit.
In the context in which Moldova in 2014 has been hit by a number of domestic and external shocks, confidence collapsed, external concessional financing largely froze, and international reserves fell by one-third, bring out significant tightening of monetary conditions, the national authorities in 2016, formulated and presented a request for a new three-year Extended Arrangement under the Extended Fund Facility (EFF)/Extended Credit Facility (ECF)[7] with the aim to repair the banking system and advance reforms to consolidate the incipient stabilization and restore external confidence [6]. According to the sixth and last review from 2019, Moldova has made significant progress in addressing important macro-financial vulnerabilities since the 2014 banking fraud. Policies helped improve confidence and supported a turnaround in the economy. The banking sector has been rehabilitated, credit growth has resumed, output growth has rebounded, inflation has been reduced, and public debt has returned to pre-crisis levels [9]. Despite that, Moldova is still confronting with deep structural weaknesses which affect the living standards of the population. Moldova still remains one of the poorest coutries, in spite of the several programmes and projects implemented since it's independence. GDP growth has been insufficient to achieve EU, emerging Europe, or world average income levels (Figure 1).The migration is affecting negatively the country with an increase of inflows of remmitences. These weigh on medium-term growth not only by reducing the working age population, but also by lowering labor force participation [9].

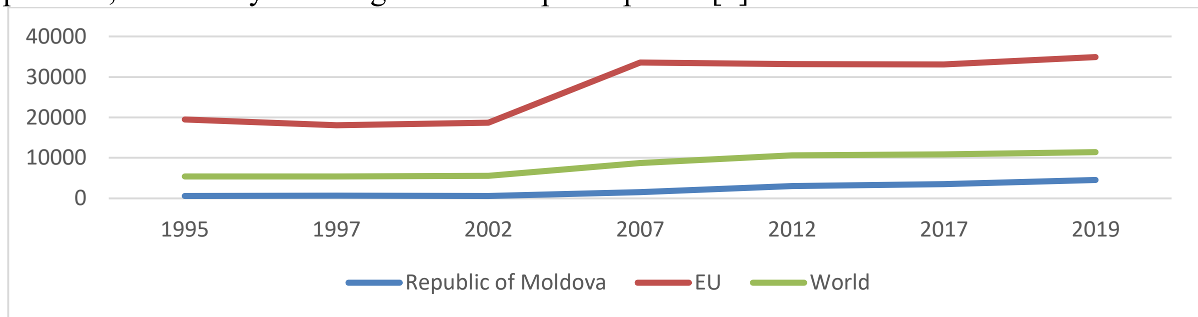

Figure 1: GDP per capita (current US $)
Source: Data from World Bank, 1995-2019

On 10 April 2020, the Republic of Moldova made a request for Disbursement Under the Rapid Credit Facility and purchase under the Rapid Financing Instrument on the purpose to diminish the economic impact of COVID-19 [7][10]. Eventhough Moldova entered the current crisis with strong fiscal, financial, and external buffers, the economic outlook has deteriorated sharply due to the COVID-19 pandemic. Due to the lack of external and internal demand, GDP is expected to fall by approximatly 3%. Together with negative shocks to confidence and spillovers from global financial channels, has created an urgent balance of payments need.

CONCLUSIONS

As a result of this research, I can conclude that the role of International Financial Institutions is a primary one in the sustainable and continuous development of the economy of least developed or developing countries, as in the case of the Republic of Moldova. The World Bank is helping Moldova improve economic governance, fight corruption, modernize services, enhance the business environment, and invest in employable skills. As result of the Development Policy operation program, Moldova achieved a number of policy changes aimed at freeing trade, easing business regulations, and enhancing financial depth. The purpose of IMF is promoting international monetary cooperation, facilitating the expansion and balanced growth of international trade, as well as promoting exchange rate stability. According to the projects analised, Republic of Moldova succeded to certain extent to improve it's economy by bringing FDI-driven domestic demand, increase of exports aided by improved external demand, a good harvest, and higher prices. On the other hand the migraion is affecting negatively the country with an increase of inflows of remmitences and the employment is still behind the growth.

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Coordonator ştiinţific: CRUDU Rodica, dr., conf. univ.
Academia de Studii Economice din Moldova
Republica Moldova, Chişinău, str. Bănulescu-Bodoni 61, www.ase.md
e-mail: crudu.rodica@ase.md