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Inflation Collapse in Moldova Helped by EU After Russia Fallout

[1]

Moldova's central bank chief said a collapse in inflation showed that the abrupt turn away from Russian energy had paid off as the republic wedged between Ukraine and Romania seeks accession to the European Union.

Central Bank Governor Anca Dragu said an influx of EU financial aid and fresh energy supplies from Romania were behind last year's slowdown in inflation to 4.2% from more than 30% in 2022. The recovery after the turmoil brought on by Russia's invasion of Ukraine was far more robust than Moldova's authorities had initially expected, she said.

"Moldova's case is a success story for the European Union and it shows the impact it could have on other nations as well," Dragu, a former finance minister who took the helm of the National Bank of Moldova in late December, said in an interview in Vienna Tuesday.

The nation of 2.6 million received candidacy status in 2022 to join the EU after long accusing Moscow of wielding its gas resources to keep the political class in Chisinau under its influence. Transnistria, an enclave within Moldovan territory between the Dniester River and the Ukrainian border, has long had a permanent Russian troop presence.

Dragu, 51, said her tenure will focus on building the central bank's credibility and independence as well as

helping reform the Moldova's financial sector. Liberalizing the capital account and ensuring a fully-functioning market economy are among the key reforms requested by the EU in the accession path — and "that's what we need to do," she said.

Moldova shouldered an influx of thousands of refugees from Ukraine and the disruption of its major transport routes.

President Maia Sandu, whose agenda has been to align the nation with the EU, says the country should be ready to join by 2030. In the meantime, Dragu said she needs to recover at least part of the funds lost in the after math of a $1 billion banking fraud scandal that left the nation on the verge of bankruptcy almost a decade ago. She's identified several "critical" legislative changes, some to insolvency law, required to speed up the process.

"The fraud remains an unhealed trauma for Moldova and we need to start recovering these funds as a way of rebuilding people's trust in the banking sector and in key institutions," Dragu said.

Moldova's future development depends on having banks efficiently funding citizens and entrepreneurs as demand for loans remains low compared with the EU average, she said.

By Andra Timu and Lina Grau for Bloomberg [2]

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