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Russian loan is a threat to Moldova

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On 23 April, the Moldovan parliament ratified the agreement signed on 17 April whereby Russia granted the country a loan of €200 million. These funds are intended to support the budget and implement infrastructure projects. Pursuant to the agreement, the loan will be paid out in two tranches: the first will be received within 30 calendar days of the agreement coming into force, and the second no later than 31 October this year. The loan interest rate is 2% per annum and the repayment period is 10 years. The document guarantees Russian companies the right to participate in state tenders for investments implemented under the loan, on terms at least equal to those to which Moldovan businesses are subject. The contract contains vague and unjustified wording obliging Moldova to repay all outstanding loans (except for the €200 million mentioned above), which companies registered in the country will incur in Russian banks with the consent of Moldova. On the same day, at the request of the Pro Moldova opposition party (led by Vlad Plahotniuc's close associate Andrian Candu), the Moldovan Constitutional Court (CC) temporarily suspended the ratified agreement until its compliance with the Basic Law is verified, which is to take place on 7 May.

Commentary

- The CC's decision came as a surprise to President Igor Dodon. Until recently, it was thought that this body was under the strong influence of the ruling Socialists (it had been headed by Vladimir Țurcan, a former MP of this party). However, just before the loan agreement was suspended, the judges voted a no-confidence motion in him and removed him from his position. Domnica Manole was elected as his successor; in 2016, contrary to Plahotniuc's interests, she decided to issue a verdict favourable for the opposition at that time, for which she lost her position. The court's reluctance to issue politically motivated judgements in the interest of the ruling camp has been growing for some time, as was manifested on 13 April this year by its decision that the anti-crisis package adopted earlier by the government did not comply with the country's Basic Law. As a result, although it does not appear that the CC has decided to reject the loan completely, it is highly likely that some of the contract's provisions (especially those regarding the repayment of outstanding obligations incumbent on Moldovan entities) will be considered unconstitutional. Dodon is already trying to put pressure on the CC, claiming that without the Russian funds "pensions and salaries will not be paid in Moldova as of 1 May," and that expenses including health care will not be paid out.

- Russia's readiness to provide Moldova with a significant loan in a situation as difficult as the one it finds itself in, and against a backdrop of low oil prices, shows that the Kremlin is not going to give up its ambitions in Eastern Europe, and is trying to use the crisis to strengthen its position in relation to the EU. The conclusion of the agreement with Moldova as proposed would enable Russia to achieve two key goals. First, the loan would support the government dominated by pro-Russian socialists and its *de facto* leader President Dodon, who will be seeking re-election at the end of this year. The Russian funds would allow Moldova to mitigate the effects of the economic crisis related to the ongoing pandemic, and to start infrastructure investments which would increase the President's popularity. Furthermore, they could also constitute an additional (unofficial) source of financing for his election campaign, if, for example, they were directed to companies associated with the Socialists. The fact that the second tranche of the loan is to be disbursed almost immediately before the presidential election is relevant in this case. Secondly, the Russian loan in its current form is an effective tool for increasing Moldova's dependence on Russia. The most controversial provision, making the Moldovan state responsible for outstanding loans taken by local companies, would allow Moldova to increase its debt to Russia indefinitely. The debt thus accrued could be used to take over state-owned assets, including essential energy infrastructure. There are also fears that part of Transnistria's gas debt (currently amounting to almost $7 billion) could officially be charged to the Moldovan budget under the loan agreement. Chișinău does not currently recognise Transnistria's debt as owned by the Moldovan state.
- The decision to grant Moldova the loan is part of the 'coronavirus diplomacy' Russia has been practising since the outbreak of the pandemic. Moscow has consistently tried to present the EU and NATO as ineffective organisations, unable to help their members and partners in times of crisis. At the same time, it is undertaking image-building activities to demonstrate its own effectiveness in this area. These activities are particularly visible in Moldova, where Russia is competing for influence with the EU. In addition to the loan, at the end of March a charter flight from Moscow brought about 10,000 tests for the SARS-CoV-2 virus, and on 19 April a Russian An-124 aircraft with medical supplies from China landed in Chișinău. Commenting on the signing of the loan agreement, President Dodon said that "this is the first concrete financial assistance" which Moldova had received from its foreign partners during the current crisis. This was a clear allusion to the EU, which – due to Chișinău's failure to meet the required conditions – has not yet paid the second tranche of its macro-financial assistance to Moldova. The aid amounts to a total of €100 million, and the first tranche of €30 million was disbursed in October 2019.
- Although the EU is the main actor helping Moldova during the current crisis, Russia's actions are still more noticeable by the public because of their eye-catching nature, as well as the publicity given them by Eurosceptic politicians and pro-government media. On 22 April, the European Commission decided to grant Moldova another €100 million in macro-financial assistance (independent of the above-mentioned €100 million in 2019), which is part of the €3 billion package to fight the consequences of the pandemic in neighbouring countries. The EC also announced that it would redirect up to €700 million of funds from existing instruments to mitigate the socio-economic effects of the ongoing crisis in the Eastern Partnership countries. The EU also signed an agreement with Moldova to transfer €87 million to this end from grants already made. In addition, at the

end of March, the EU released over €140 million for short- and medium-term assistance to the Eastern Partnership countries, but it is currently unclear exactly how much of this amount Moldova will ultimately receive, as this will depend on the needs analyses which are currently ongoing. These non-returnable funds will finance purchases of medical equipment (carried out by WHO), grants for social organisations offering support to the needy, as well as preferential loans for small and medium enterprises, among other things.