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Financial Stability Report for 2018

Financial Stability Report for 2018 [1]

During 2018, the financial system of the Republic of Moldova was characterized by a high level of resilience and, at the same time, by uneven evolutions of the risks it faces.

Against the background of economic growth marked by internal vulnerabilities (increasing the balance of payments deficit, volatile inflation) and external ones (international trade tensions, Brexit), the financial system contributes quite modestly to the recovery of the economic situation. At the same time, we are witnessing the return of the lending process from banks on a positive trend. Lending to the population (individuals) had upward dynamics, the financing being granted by both the banking and non-banking sectors. Also, during the year the phenomenon of mortgage lending grew.

The banking sector has achieved satisfactory financial performance, maintaining strong positions of profitability and solvency. Banks have maintained an adequate degree of capitalization in the transition process to the Basel III requirements. During this period there were changes in the structure of banking shareholders, three banks came with quality international shareholders.

During 2018, banks registered a favorable level of liquidity, and the liquidity surplus in the banking sector did not increase significantly due to the activation of the targeting of liquid assets for lending, thus, the previous year representing a period of return of banking intermediation to trends positive. However, the high level of liquidity leads to the persistence of complementary risks, therefore, maintaining the means available in liquid assets to the detriment of lending to the real economy has medium-term effects on economic growth and could lead to materialization of future inflationary risks of lending with the direction of the respective means in the economy in a short period of time.

The accelerated evolution of the non-bank lending sector continued, and the non-bank lending of the population grew at a higher rate than bank lending and the growth of the national economy. This trend creates premises for the accumulation of risks in the non-bank lending sector and for the increase of the general level of indebtedness of the population. Credit risk related to foreign currency loans remains a major risk that may contribute to increasing the exposure of borrowers, to weakening their financial situation and, respectively, to increasing the risk of non-repayment of loans in the event of unfavorable exchange rate fluctuations.

The conditions established on the financial market indicate the importance of aligning the regulatory and supervisory requirements applicable to the banking and non-banking sectors with international standards and practices in the field. In general, the year 2018 is characterized by numerous achievements in the context of strengthening financial stability. These include adjusting the regulatory and banking supervision framework to Basel III, approving the Law on the National Financial Stability Committee, improving the bank deposit guarantee scheme, and increasing the guarantee ceiling to MDL 20,000 today and MDL 50,000

in the year 2020 and the approval of the Law on Non-Bank Lending Organizations.

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