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Financial Stability Report for 2020

Financial Stability Report for 2020 [1]

SUMMARY

During 2020, the financial system of the Republic of Moldova showed resilience, the economic and social conditions influenced by the effects of the COVID-19 pandemic being characterized by uneven developments and materializations of risks in the segments of the economy of the Republic of Moldova.

Moldova's economy has been hit by the pandemic that caused a global recession due to the cessation of economic activity in order to slow the spread of the virus. Under these conditions, in addition to the internal lockdown, the recession was also influenced by multiple external factors, such as economic contraction in the EU and main CIS partners of the Republic of Moldova, as well as limiting the movement of people and goods, thus reducing both imports, as well as exports. Against the background of the governmental measures undertaken, the budget deficit has increased, and the state debt has increased.

Despite the challenges for the period under review, the banking sector continued to be characterized by a satisfactory financial performance, maintaining strong positions of profitability and solvency.

In the unfavorable economic context and the restrictions related to the COVID-19 pandemic, the credit portfolio of the banking sector has maintained its growth rate. The non-performing loans ratio in total loans decreased, largely due to the increase in the total portfolio. Credit risk continued to pose the most significant threat to the stability of the banking sector. At the same time, the credit risk analysis highlights the effectiveness of prudent risk management policies implemented by banks, which have managed to maintain sufficient capital positions in unprecedented crisis conditions to absorb estimated potential losses even in the most pessimistic asset quality scenarios.

Although interest rates charged by banks showed uneven developments, the bank interest margin increased. Banks' open foreign exchange positions were within prudential limits, and the impact of the sector's direct exposure to exchange rate volatility was reduced. The liquidity of the banking sector remained significantly higher than the regulated requirements. Under the restrictions imposed during the year, banks were able to maintain the current liquidity at the prepandemic level, including further minimizing the risk of maturity and currency mismatch between assets and bonds.

The non-bank lending sector moderated its expansion on all subcomponents. The balance sheet and the aggregate loan portfolio volume of the non-bank lending sector remained practically at the same level as at the end of the previous year, and the most significant was the profitability of NCO, which halved compared to the profit accumulated in 2019 (including the creation of additional provisions in accordance with the prudential requirements in force in 2020). The risk of over-indebtedness of the population and the risk related to foreign currency-linked loans remain the main risks associated with the non-bank lending

sector. Measures have been taken to strengthen the supervisory and regulatory framework for this financial segment.

Improving national legislation is essential to promote a secure, stable and transparent financial sector. In 2020, changes were made to the legislative and regulatory framework in the context of consolidating financial stability, continuing to reform the financial system by aligning with best practices and international standards in the field, but also improving infrastructure.

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