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Financial Stability Report for 2021

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SUMMARY

The year of 2021 can be considered one of recovery of the national economy after the pandemic crisis and of resumption of activities after the decline in 2020. The role of the financial system in this process of economic recovery has been of paramount importance, as it fulfils its function as a mechanism for financing economic activities.

The banking sector has remained resilient, and the effects of the pandemic crisis have been minor, confirming once again the effectiveness and timeliness of the reforms undertaken in the area of banking regulation and supervision. High capitalization and sufficient liquidity level allowed banks to become an important factor in the economic recovery process in 2021.

The rapid economic recovery has been characterized by an increase in consumption, in disposable income of the population, and in lending across various credit categories. Bank lending has been booming, with new loans granted at the highest nominal values in the last 10 years. A considerable contribution to lending growth was made by population lending, which almost doubled during 2021, but companies' lending also increased significantly.

Against the backdrop of faster loan portfolio growth, the non-performing loan ratio by sector reached a historic low of 6.1 percent at the end of 2021. The impact of the pandemic crisis on the quality of bank portfolios, and thus on borrowers' ability to pay, was minimal or could be overcome thanks to the measures taken by the authorities to support the economy and the population already in the first half of 2020. Non-bank lending also resumed its growth rate across all sub-components after stagnating in 2020, while recording more moderate increases compared to bank lending.

Rapid economic growth, in addition to the advantage of growth itself and economic recovery after 2020, also brings a number of risks related primarily to the "heating up" of the economy, declining efficiency of investment and new lending, and a possible deterioration in credit quality.

At the same time, towards the end of the year, Moldova's economy faced a series of external shocks, which significantly affected the economic situation. In these circumstances, the financial system adapted to the shocks and maintained its capacity to continue to provide financing to the national economy. The external shocks faced by Moldova during this period, in particular the shock caused by the dramatic increase in gas, fuel and electricity prices, have the potential to affect financial stability along several dimensions. Also, worth mentioning is the increase in production costs for the economic agents, and the decrease in the population's ability to repay their loans, as well as multiple second round effects.

Although, for the time being, compensation and relief measures by the authorities have avoided major consequences, maintaining these conditions in the long term will have the effect of partially eroding the financial stability.

However, we can state that at the end of 2021 the situation of the financial sector was stable and resilient, with no imminent systemic risks. The banking sector remains ready to ensure the smooth functioning of the national economy and a sustained level of economic growth.

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