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Interview with NBM Deputy Governor Tatiana Ivanicichina for IPN News Agency

IPN: You have come to the NBM from the position of Secretary of State at the Ministry of Finance, taking on an equally important role. Considering this, how would you assess the results of 2021 from the financial perspective for the Republic of Moldova?

Tatiana Ivanicichina: 2021 has been a challenging year. Despite the lack of a full-fledged government and external financing in the first seven months of the year, the state budget revenues from taxes and fees were higher than expected, thanks to continued economic recovery.

The second half of the year was marked by the investment of the new Government, and, as a result, the relaunch of external financing, which was directed towards policies supporting the population and business environment, to cope with the volatile environment characterized by rising energy resource prices, as well as a new wave of Covid-19.

Also, a new International Monetary Fund Program has been approved, which comes with a considerable financial support. It will continue to support the economy and population through Government policies.

At the same time, a significant flow of financing through the EU's Economic Recovery Plan will follow.

Referring to the banking sector, it has been coping well with the effects of the pandemic crisis, remaining stable, well-capitalized and with sufficient liquidity. Thus, from the beginning of 2021, credits to the

population increased by 22% compared to 2020.

We expect from the coming year a relaunch of investment in the real sector of the economy and an increase in the foreign investors' trust, which will support economic growth and, consequently, will turn into a higher standard of living of the population.

IPN: We are in a pandemic that over the last two years changed our lifestyles and redirected the financial flows for some people, other people having faced and continuing to face financial problems. In this context, can you tell us what was the NBM's contribution to mitigating the negative effects of the pandemic and what are the central bank's plans to further ensure financial stability?

Tatiana Ivanicichina: First, I would like to point out that the National Bank of Moldova intervened promptly, right at the beginning of the pandemic, with measures in support of individuals and legal entities needing a break from paying their loans. Also, measures have been taken to provide the banking sector with a sufficient level of liquidity to meet the demands of the economy.

In the same context, the NBM recommended that banks should temporarily refrain from paying dividends, to support the continuity of secure and resilient banking activity.

At the same time, the National Bank took monetary policy decisions, which, in addition to maintaining price stability, came to support the economy against the uncertainties and slowdown in the economic growth. Thus, money has become more affordable for the economy. Large amounts of liquidity have been released in the banking sector, so that the population has flexibility in paying loan interest rates and economic agents can meet their cash needs for operational activity.

I would like to mention that the NBM is closely monitoring the developments in the domestic and international environment and is ready to come up with the necessary measures. Thus, when inflationary pressures have been seen amid rising prices globally, caused by rising production and distribution costs of energy resources and food, the NBM applied measures to gradually tighten monetary policy.

Each time, the National Bank has promoted a monetary policy aimed at maintaining favorable monetary conditions to support domestic demand, lending process and economic activity.

IPN: In addition to the pandemic, people are now facing a rapid price increase. What is the NBM doing in this regard and what should citizens expect in the new year?

Tatiana Ivanicichina: There is great uncertainty internally and externally, but the NBM is closely following the developments in both the country and outside the Republic of Moldova. Thus, its decisions are well-founded and based on analysis, studies, and data provided by the National Bureau of Statistics etc.

Statistics show that the annual inflation rate and core inflation will increase rapidly in the first half of the next year, after which it will ease off. In February, the NBM will publish the first Inflation Report for 2022 and the information will be updated according to available data.

The National Bank will continue to carefully monitor the evolution of the consumer price index, internal and external macroeconomic situation, and, at the appropriate time, will come with the necessary measures to create adequate monetary conditions to achieve its fundamental objective. In this regard, the NBM will apply its arsenal of monetary policy instruments to mitigate inflationary pressures as much as possible.

Of course, effective interinstitutional cooperation, with the involvement of all authorities, within the limits of their competences and areas of activity, is required to successfully overcome the crisis, including the situation caused by the COVID-19 pandemic.

IPN: The NBM's press release on the latest monetary policy decision this year states that citizens should save, can you tell us what this means?

Tatiana Ivanicichina: In fact, the press release states that the monetary policy decision came in support of consumers' preferences for saving rather than immediate consumption, which took shape against the background of economic activity during the current year. The NBM's statement on the latest monetary policy decision this year says that citizens should save, can you tell us what this means?

Saving is encouraged in most countries as an important component of all measures for economic development, which will help to raise living standards and to protect citizens in case of financial difficulties, giving them greater financial freedom.

IPN: How should people act following the NBM decisions?

Tatiana Ivanicichina: The way the public judges or perceives the NBM's policy efforts is very important. And success in achieving its objectives depends, to a large extent, on the support and understanding of the NBM's policy framework and decisions by citizens.

The NBM is a transparent institution, but the activity of a central bank is very complex, and the decisions are appropriate. Over the last years, the NBM has made considerable efforts to have an explicit communication to the public, but this proactive attitude is not enough. There is a need for feedback from the public, from cultivating an informed interest and behavior, because decisions do not have an one sided effect. The impact necessarily involves the expectations of the public, which should be based on certain general financial knowledge.

IPN: Do you think that more financial education is needed among the public and how can this be done?

Tatiana Ivanicichina: It is a requirement of the times we are living in and all central banks, along with other authorities, are taking steps to capitalize on educational resources.

The NBM carries out several financial education projects aimed mainly at young people, and at other target groups, including the business environment. Thus, the National Bank of Moldova supports the citizens with the necessary information as a resource of financial education. A well-informed person will manage his income by optimizing the expenses and will know how to avoid or minimize financial risks, will save, learn to invest and constantly deepen his knowledge to make well thought-out and correct financial decisions.

The NBM has recently attracted a project from Romania that will help people to gain financial independence throughout their lives by diversifying funding sources, so that at retirement age they have enough money for a decent living.

Tat the same time, the National Bank aims at unifying the efforts of the authorities and civil society in the process of financial education of the society. For this purpose, the NBM has launched a country-wide initiative to develop the concept and project of a strategy to support the population and development of the national economy. At the same time, a working group representing 15 institutions has been created.

I am convinced that the systematization and coordination of the financial education in the Republic of Moldova and its approach by institutional competence segments will bring benefits to all members of the society.

IPN: A part of society believes that the NBM changes the exchange rate at its pleasure. Can you tell what are the principles setting the exchange rate and how do you explain the central bank's interventions in this market?

Tatiana Ivanicichina: If we're talking technically, a floating exchange rate regime is implemented in the

Republic of Moldova. Thus, its level is determined by developments in supply and demand in the domestic foreign exchange market. The official exchange rate of the Moldovan leu is calculated against the US dollar based on the purchase/sale transactions by transfer of US dollars against Moldovan leu on the domestic foreign exchange market.

So, the National Bank does not set the exchange rate "at its pleasure". This depends on developments in supply and demand in the domestic foreign exchange market, not on the NBM. The National Bank does not aim at establishing a certain exchange rate, the main purpose of the NBM is to maintain price stability.

In this regard, monetary policy instruments are applied, among which are the interventions in the foreign exchange market, when the NBM buys or sells foreign exchange in the market. These interventions have one purpose - to avoid exchange rate volatility. I will be more explicit: I think that nobody would like to see a rate of MDL 15 for USD 1 today, MDL 20 for USD 1 tomorrow and MDL 17 the day after tomorrow. Thus, to avoid sudden oscillations, interventions in the foreign exchange market are used.

IPN: How does the NBM see the further strengthening of the banking system and what are the limits of this strengthening?

Tatiana Ivanicichina: Nowadays, we have strong, well-capitalized banks with good governance. We will continue our efforts to ensure that banks are secure, resilient and will encourage their modernization in line with international trends.

In 2022, licensed banks are to submit, for the first time, reports on Internal Liquidity Adequacy Assessment Process (ILAAP). ILAAP is an important factor in the process of monitoring, reviewing and evaluating the activity of banks. Thus, in this process, the soundness, effectiveness and comprehensiveness of the framework for managing liquidity and financing risks related to banks will be assessed.

At the same time, the NBM, as the regulatory authority, will continue to take measures to improve the regulatory framework governing banking to maintain the reliability and credibility of the sector. The regulatory process, in the context of prudential requirements, is aimed at adjusting the European regulatory framework, including Basel III.

At the same time, following the provisions of the EU Regulation no. 575 of 2013, which is being gradually transposed into our banking regulatory framework, it is necessary to develop the regulatory acts in the context of assessments based on banks' internal rating models. Thus, the regulatory framework will be adjusted and supplemented with provisions on the treatment of credit risk, addressing the respective internal rating models.

IPN: As to the "NBM - commercial banks - customer" relationship, how can this trio be strengthened in such a way that citizens have an "acquired reflex" of confidence in the banking system of the Republic of Moldova?

Tatiana Ivanicichina: In recent years, thanks to reforms, people have gained confidence in the banking sector. Thus, the National Bank, in the process of supervising the activity of banks, will continue to focus on banking supervision priorities oriented on risk management. So, in the near future, the NBM will pay more attention to analysis of internal governance in banks and establishing internal capital needs, banks' lending practices to ensure that they continue to be sound and in line with applicable regulations and risk profile, ICT-related risk, aspects related to the development of IT infrastructure, meeting current requirements and ensuring the appropriate level of security, money laundering and terrorist financing risks, and improving the application of the risk-based approach in supervision.

Also, I would like to mention that in December 2020 the Leverage Regulation for banks was approved. This indicator was introduced in addition to the own funds rate, which is essential to ensure that sufficient own funds are available to cover unexpected losses. Thus, the application of the leverage ratio will help banks manage their risks more prudently and minimize unforeseen capital losses.

The NBM will continue the process of implementing the regulations transposing Basel III requirements.

IPN: How important is the NBM's international expertise and experience in regulating the banking system?

Tatiana Ivanicichina: The Moldovan banking sector has taken over much of the European and international requirements and best practices. Further alignment with them will lead to a permanent consolidation of the banking sector. Thus, premises will be created to raise the level of confidence in the banking system, as well as the quality of services provided by domestic banks.

I would like to add that banks will continue to develop their electronic products and services to meet market requirements and I will also note the further automation of internal processes, which will ensure the minimization of the associated risks.

IPN: Now, after taking office as Deputy Governor, have you developed an action plan for the sectors under your responsibility? Can you tell us what it contains?

Tatiana Ivanicichina: After being appointed as Deputy Governor on 3 December 2021, I also took over the responsibility for five complex departments within the National Bank. Thus, the first fundamental task was to review and get acquainted with the most important ongoing processes within these departments. Their activity is quite autonomous, with well-established tasks on a medium-term horizon, the continuity of which I will fully ensure, while strengthening the team and continuing to cultivate public confidence in the NBM's decisions.

The most important actions will be based on the implementation of the commitments assumed within the recently signed IMF Program, other international commitments, as well as the continuation of the actions assigned to the NBM strategic objectives.

Tags

Interview [1]

Deputy Governor [2]

IPN interview [3]

Tatiana Ivanicichina [4]

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