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Interview// Governor of the National Bank of Moldova, Octavian Armașu, answers the questions of mass-media institutions from the Republic of Moldova



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You have stepped in the position of Governor of the National Bank very recently. How do you assess the banking system from this position? What guarantees do you have that no other banking fraud will happen?

The current situation of the banking system is very different from what we had three years ago. In this period, a series of reforms were implemented which made the licensed banks from Moldova more solid and resilient. However, we shall pursue the process of transparentization of shareholding with the aim to protect the interests of depositors and of the clients of the bank. Today, we have a banking system with qualitative investors who came up with new strategies for the development of the banking services, etc.

We certainly have things that need improvement and more work. At the moment, we deal with a surplus of liquidities in the system, which the economy should absorb in a medium-term framework. Therefore, measures must be taken in two directions: on one hand, the access to financing must be improved, so that the economic operators could receive credits from banks more easily. On the other hand, we need economic initiatives from the private sector, which the banks could finance. Therefore, this situation could be significantly improved in the medium-term.

Due to the agenda of reforms in the field, we have a new regulation framework meant to create a robust financial-banking sector.

Agenția НОВОСТИ-МОЛДОВА

Many economic experts consider that we might have surprises after the parliamentary elections from the Republic of Moldova, with regard to the currency market, prices and tariffs. According to the latest forecasts of the NBM, the dynamics of inflation for the next year will be increasing. In the opinion of the NBM, which prices will increase in 2019?

In order to ensure and preserve the stability of prices, the NBM, similar to other central banks with an inflation-targeting regime, shall establish the objective of inflation, which is measured based on the consumer price index (CPI). In this regard, four sub-componets of the CPI are identified. The first is the basic inflation, which dynamics is determined by the monetary conditions created by monetary policy decisions, or the inflation that we can influence. The evolution of the other three sub-components cannot be influenced directly through monetary policy measures. These prices are regulated by the central and local authorities, the prices of some raw materials on the international markets and are dependent on adverse natural phenomena.

The NBM does not influence the formation of prices for goods and services separately, but as a whole. The latest report on inflation shows that the annual average inflation for the next year will stay within the targeting corridor accounting for 5.4%.

INFO PRIM-NEO

Mr. Governor, can you give an assessment regarding the phenomenon of mortgage loans, which seems to escalate unprecedently in the Republic of Moldova. How can you explain the phenomenon at this stage, what advantages and risks it may generate?

It is true that the interest of citizens for mortgage loans increased, and this happened due to lower interest rates, state supporting programs, etc. Besides other factors, the increase of mortgage loans was driven by the implementation of the state program "Prima Casă" with social benefits, which gives the possibility to the citizens of the Republic of Moldova, aged between 18 to 45, to receive loans for the purchase of houses.

As of 30.11.2018, the loans offered for the purchase/construction of real estate amounted to MDL 3.8 billion, which represents 10.7% of the loan portfolio by sector, increasing by MDL 1.2 billion or 44.0% from the beginning of 2018.

We should also consider the historically low level of mortgage loans in Moldova. The rapid growth is also due to a low start. In countries similar to Moldova, the level of mortgage loans is higher: in Lithuania, for instance, they constitute 37% of the portfolio, while in Georgia – 56%.

Traditionally, the mortgage loans are among the less risky loans in the banking portfolio. Consequently, their non-performing rate constitutes 4% at the moment, compared to the average rate of 13% by sector.

The National Bank, as regulator, performs its duties of monitoring and prevention of risks, which may arise from an excessive lending. Therefore, the NBM will check at random the mortgage loans during the inspections in order to prevent any major risks. Moreover, the licensed banks will elaborate adequate policies regarding the issue of mortgage loans and apply them efficiently in their lending activity. The lending activity is beneficial for both parties, the clients and the banks, when they approach it with caution.

TVR MOLDOVA

The Ministry of Economy and Infrastructure announced that a bank from Turkey is interested in investing in the banking system of the Republic of Moldova. Was the NBM informed about this topic? Are there any negotiations underway?

Over the past years, many banks from Turkey considered the possibility to enter the Moldovan market. At the moment, we know that a bank from Turkey is interested and asses the Moldovan banking market, however, the National Bank did not receive any request in this regard.

TV8

What do you think about the situation of the problematic share package of BC "Moldindconbank" SA and what will be, in your opinion, the finality of the sale process of the share package?

The early intervention mechanism used by the BC „Moldindconbank" SA creates a positive precedent of recovery for banks. Over the last years, the bank became more robust and efficient. This makes us believe that the shares of the bank that were put on sale will become attractive for the strategic and qualitative investors, especially as it is a majority stake which offers the control over the bank's management. Some other advantages are the flexibility of the current legal framework, the good protection of the future investor, an intermediated by the state transaction, similar with the BC „MOLDOVA-AGROINDBANK" SA. Nevertheless, it is true that any investor needs time to study the market and the bank, and we are happy that regional investors show interest for this package.

INFOMARKET

The IMF recommended the NBM to contribute to the orderly leaving from under the temporary intervention regime by the second largest bank from the Republic of Moldova. Is the bank ready for this? How real is this step for the next period, if the 64% of the shares of BC „Moldindconbank" SA, which were put on sale have not yet been sold to a strategic investor?

The most preferred ordered leaving from under the temporary intervention regime is by attracting a qualified investor. As I already answered the previous question, the process of attracting an investor, analysing the investment opportunities, application and receiving the approval of the NBM is a lasting one. The bank is in good standing, even better than before, which makes me believe that we can find an investor for the purchase of the 64% package of shares.

BANI.MD

What measures does the NBM take to avoid a new case of money laundering through the banks of the Republic of Moldova, similar to the so-called "Laundromat"?

First, the National Bank launched an extensive process of reforms, which created a new regulatory framework based on the Basel III principles. It is a new framework meant to combat money laundering, to supervise the banks more rigorously, to take measures for the transparentization of banking shareholding, to increase personal responsibility of bankers, etc.

In addition, the qualitative change of the shareholders from a series of banks excludes the possibility of such schemes through the respective banks.

I can assure you that the agenda of reforms will continue in the banking system, aiming to ensure its development, to implement new mechanisms of crisis prevention and to apply the best practices, in particular from our colleagues of the European area.

I would like to underline that due to these reforms, today we have a more secure and transparent banking

sector.

PROTV Chișinău

Regarding the stolen billion, do you think it will be recovered and when?

The process of recovering the financial means of the three banks currently undergoing liquidation is underway. From the date of license withdrawal (16.10.2015) until 30.11.2018, "Banca de Economii" SA, BC „BANCA SOCIALĂ" SA and BC „UNIBANK" SA have recovered MDL 1 698,8 million, including MDL 419,7 million - obtained from several criminal cases. For the purpose of reimbursement of urgent loans, from the date of license withdrawal to 30.11.2018, financial means in total amount of MDL 1 728, 0 million were paid to the National Bnak of Moldova and the Ministry of Finance.

Considering the fact that the NBM does not have criminal prosecution powers and is not a law inforcement authority, we are waiting for the prosecutors and judges to provide full clarity regarding the investigations on the banking fraud.

REUTERS

What does the NBM intend to do in order to reduce the dispersed number of banks' "non-performing loans" indicator, by a maximum value of 33%, a minimum value of 5.5%, and an average system value of 13%?

The non-performing loans indicator has the current value due to several reasons. Firstly, during the period of 2016-2017, we recorded a decrease in the value of total bank loans portfolio. In those circumstances, with the reimbursement of qualitative loans from the banks' portfolio and their slow replacement with new loans, the relative share of non-performing loans increased. In addition, following the overall controls conducted at the licensed banks, in some cases, some loans were already requalified from prudential reasons.

Currently, we register a decrease in the portfolio of non-performing loans and this happens due to several reasons. Firstly, the large scale reforms that the National Bank of Moldova is implementing. In this context, I want to emphasize that on 30 November 2018, the share of non-performing loans in the banking sector amounted to 13.4% and decreased by 5.0 pp. compared to the beginning of 2018.

In this period, the NBM repeatedly recommended in written form the banks to take measures in order to reduce the number of non-performing loans, to permanently monitor the quality of the loan portfolio and to consolidate the management structure of businesses, especially in the field of credit risk management. Moreover, the NBM requested the banks to provide information regarding the results of the implementation of measures to reduce the non-performing loans.

The measures implemented by banks to reduce the non-performing loans mainly refer to: elaboration and implementation of strategies and plans meant to reduce the non-performing loans; revision of internal regulations or the elaboration of new internal regulations on lending; training the employees in the field of lending; permanent monitoring and provision of information by the bank on the evolution of non-performing loans.

At the same time, the coverage level of non-performing loans is high, reaching 69.5% in the system, and varies from 42.5% to 87.2% depending on the bank.

MOLD-STREET

For already many years, many have been talking that the EUR will replace the USD in the calculation of the official exchange rate. Even the NBM discussed about this initiative. Do you have a strategy in this respect,

and what are the factors that prevent this initiative?

The National Bank of Moldova monitors the respective trends and analyses the subject considering the fact that in the recent years, the settlements in EUR currency increased in the context of rise in exports to the EU, foreign direct investments and money transfers from Europe, in favour of individuals of the Republic of Moldova. So far, no decision was not made in this regard, because the use of USD and foreign currencies in high correlation with the USD predominate cumulatively in the external trade, although to a lesser extent. However, most international prices, including those of energy resources use the USD as reference currency.

The change of the reference currency will affect more institutions of the state. Therefore, such a decision will be adopted only after broad consultations to identify and diminish the risks related to this kind of transaction.

RISE MOLDOVA

How are the liquidators of the three banks involved in the bank fraud remunerated? Do they have a fixed salary or is their income dependant on the final result, money recovered?

The salaries of liquidators are established by the Executive Board of the NBM and are fixed.

CAPITAL MARKET

What are, in your opinion, the development perspectives of the non-banking lending sector? In this context, to what extent the competition of the non-banking lending organizations (NBLO) influence the lending portfolio of banks?

The joint operation of banking and non-banking lending institutions on the same market is an absolutely regular phenomenon. The non-banking lending organizations, due to their small size and a higher risk profile, have more flexibility, smaller processing costs and, as a rule, smaller loans. In normal conditions, their markets are largely different, and the juxtaposition of activities is not critical.

The sector of non-banking lending undergoes a process of transformation. This year, the basis of regulation of the respective sector was elaborated by the approval and entry into force as of 1 October 2018 of the Law on non-banking lending organizations. Therefore, the sector of NBLOs will start developing in a new regulatory framework, which will assure the protection of their clients' rights. The reform of the sector will contribute to creating a healthy competitive environment able to ensure a balanced risk management and provide clients a variety of financing instruments by observing the consumers' rights.

The NBM monitors the credit market at large in order to understand what are the processes, phenomena. In this regard, a new platform – the National Committee of Financial Stability (NCFS), which also includes the representatives of the National Commission for Financial Markets, was created. In this context, we can discuss about the potential issues and develop a joint strategy meant to prevent unpleasant situations and assure the stability of the market. I would like to make this council operational and functional, and subsequently, to trigger a bigger impact on the regulation of the respective market.

ЭКОНОМИЧЕСКОЕ ОБОЗРЕНИЕ (LOGOS-PRESS)

For several years, the level of inflation keeps diverting from the 5% target, although the National Bank holds sufficient instruments to maintain the inflation rate for the respective corridor. Why the Bank cannot control the inflation and when does the Bank intend to return to an austere inflation targeting?

When the annual inflation rate was outside the corridor, the NBM acted in a timely manner and managed to

balance the monetary conditions in order to meet its medium-term inflation target. The central bank avoided to use more drastic monetary policy instruments in order to protect the financial market from additional volatilities and to prevent a possible negative impact on the economy and general welfare of the population.

SPUTNIK

Pursuant to the law, the National Bank of Moldova belongs to the state. Why the NBM does not provide loans to the government? Do you not think that this is against the law? Why is government lending prohibited in such a way that the NBM is not allowed to provide loans and guarantees to the government since this does not harm the national interest?

All the historic episodes of hyperinflation started probably with the question: "What if the central bank provides lending to the government...?". If this barrier between the currency issuance and the budgetary or political needs disappears, the result will be invariably the same. The tax policy relaxes, the budget spending increases and they increasingly rely on the uncovered monetary issuance, which generates inflation, the depreciation of national currency and cancels any potential benefits.

The stability of prices is an aspect of indisputable national interest, which the National Bank can ensure if certain preconditions are met, one of which is the ban on government lending.

INFOMARKET

How does the NBM assess the request of the European Parliament to publish the full versions of the two Kroll investigation reports on the bank fraud? Is the NBM ready to discuss this possibility with Kroll?

The Kroll report and all the investigation documents on the bank fraud are held by the Prosecution Office. The NBM does not hold this report and, subsequently, can not publish it. However, in order to inform the public about the results of the Kroll investigation, a summary of the respective report was published. The summary can be found on the website of the NBM, both in English (the original) and Romanian (the translation).

Immediately after receiving the information in March 2018, the NBM provided all the information it held regarding the investigation to the Anti-Corruption Prosecutor's Office. The documents were provided to the prosecutors in order to help in the recovery of the defrauded assets of „Banca de Economii" SA, BC „BANCA SOCIALĂ" SA and BC „UNIBANK" SA. The extent to which the publishing of this information can harm the investigations, as well as the possibility of publishing shall be estimated by the investigation authorities.

RADIO EUROPA LIBERĂ

Why was the transaction from the MAIB conducted without the participation of the government, so that the potential claims of the shareholders, which were dispossessed during those two stages, first in 2012, then in 2016, did not fall on the government but on the new shareholders?

In terms of financing, the BC „MOLDOVA-AGROINDBANK" SA is a systemic bank and the largest in the sector, with a significant impact on the national economy. Subsequently, in case of major financial difficulty for the bank, the capacity and the speed of recapitalization of institution by the previous shareholders of the BC „MOLDOVA-AGROINDBANK" SA would have been limited, with high risks for the state budget.

The above-mentioned aspects highlighted the necessity of attracting a financially solid and qualitative institutional investor in the share capital of the MAIB, who would be able to make management decisions and build a sustainable development strategy for the bank, as well as to provide capital support, if necessary.

These measures were in line with the commitments undertaken by the Republic of Moldova with the development partners.

Therefore, from the bank's perspective, the involvement of the government in this process was necessary under the Law no 121/2007 on the administration and privatization of public property, to ensure the bank's financial stability and to avoid any hazards against the stability of the banking sector.

DESCHIDE

In the Infaltion Report of November 2018, the NBM forecasted that "in the first two trimesters of 2019, the rate of inflation will be below the interval, while at the end of the next year, the rate will increase above the superior limit of the variation interval. In this context, I would like to ask you, if the rise in inflation will affect the interest rates of bank loans, and to what extent? In your opinion, will this affect the economic agents?

In the last years, the interest rates of loans recorded a stable downward evolution and currently, they have reached historically low values. Today, the direct link between inflation and the interest rates of loans is not significant, since the latter are influenced by many other factors (not only inflation). Therefore, according to the forecasts published in the Inflation Report, the increase of inflation in the next year will not have a significant impact on the activity of the real sector of the domestic economy in the respective period.

REALITATEA

How will you react/proceed in cases of political pressures on the NBM?

The National Bank is an independent institution and, subsequently, will not tolerate any kind of political interference in its activities.

The collaboration with government authorities takes place strictly within the limits of the Law on the National Bank of Moldova. Therefore, in recent years, the NBM improved the regulatory framework of the banking sector, which confines the cooperation with the government and the parliament. I would like to point out that an important part of the respective legislative modifications refers to strengthening the independence of the National Bank.

The first positive results of the reforms in the financial-banking system were appreciated both in the Republic of Moldova and abroad. This is why we are determined to continue firmly these complex reforms in order to provide safe and modern services to the citizens and banks' customers.

The interview was conducted based on the questions received from mass-media institutions and other news websites from the Republic of Moldova, at the request of the NBM.

The NBM thanks all the institutions for their participation and remains open for repeating this communication format in the future.

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