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



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NORDNEWS

How was 2021 for the Moldovan banking sector and what are the priorities for 2022?

We have left behind a year of challenges, full of uncertainties, which, however, did not deter the NBM from continuing the reform agenda and consolidating its independence to ensure the financial stability of the Republic of Moldova. Of course, the pandemic has left its mark in all areas. However, the central bank's team was able to help maintain a healthy and strong banking sector through its actions.

I would like to reaffirm that the reforms carried out in recent years in the banking sector have yielded positive results. Today, we have a sector harmonized with international and European standards (Basel III), with a proper financial architecture, and quality banking services and products. Due to these results and to the monetary policy measures undertaken by the NBM, it was possible to support the population and the national economy during the pandemic.

In recent months, we have been facing imported inflation and rising oil and gas prices. Having no local origin, these factors have brought a lot of uncertainty about their future impact, evolution and duration.

That is why, throughout this period, the NBM has made well-calculated decisions, because we want them to produce positive effects and avoid actions likely to give rise to a boomerang effect.

At the same time, over the past year, the National Bank continued updating and strengthening its regulatory framework and improved its banking supervision. The NBM's Executive Board became fully operational, with three new Deputy Governors appointed and the approval of a new IMF program completed the list of achievements.

It is certain that in 2022, the NBM will continue to make reforms, to develop the banking sector and to modernize the payment systems etc. Also, because we enter in a year with many uncertainties, including high inflationary pressures, the central bank will carefully monitor the evolution of the consumer price index and the internal and external macroeconomic situation, and, in due course, will come with the necessary measures to create monetary conditions capable of achieving its fundamental objective.

As to the supervision of the banking sector, the priorities for 2022 have been set and communicated to the public. These relate to credit risk, internal governance, risk management and internal capital adequacy assessment process (ICAAP), internal liquidity adequacy assessment process (ILAAP), the risk associated with information and communication technologies (ICT), combating money laundering and terrorist financing and risks associated with the use of payment systems.

I would like to mention that the NBM will continue the processes of consolidating the banking sector, so that we have reliable and well-capitalized banks. I am glad that, in addition to lending to business initiatives and requests from individuals to improve their living standards, they have shown interest in supporting education, culture and sports projects. We hope that the banks will develop products and services meeting the needs of every citizen of our country.

DESCHIDE.MD

In the latter part of 2021, citizens began to face a rapid rise in prices. What is the NBM doing in this regard and what should they expect in the new year?

Prices have risen everywhere, it is a global phenomenon. In order to prevent them from moving totally out of the control, the NBM paid much attention to local and external developments and always made thoughtful and calculated decisions. The National Bank came up with monetary policy measures that mitigated pro-inflationary risks and pressures.

Restrictive measures were required in the second half of last year, when there was uncertainty associated with the energy crisis - rising gas and oil prices on the international market that slowed global economic activity with repercussions on domestic demand and economic activity.

It should be noted that the sharp acceleration of the annual inflation rate last year and the maintenance of a high level in the current year are mainly determined by the external macroeconomic situation that generates strong inflationary pressures against the background of the energy crisis at regional level, considerably higher prices for raw materials and a significant increase in international freight costs.

Available data and analysis show that the annual inflation rate and core inflation will increase rapidly in the first half of the year, after which they will moderate. In February, the NBM will publish the first Inflation Report for 2022 and the information will be updated according to the latest data.

The National Bank will continue to carefully monitor the evolution of the consumer price index, and the internal and external macroeconomic situation, and, in due course, will come with the necessary measures to meet the fundamental objective of ensuring price stability. In this regard, the arsenal of monetary policy instruments will be applied so that inflationary pressures are mitigated as much as possible.

I would like to stress that the results at the country level, regardless of the type of phenomena or developments taking place, do not depend only on one institution, requiring joint efforts by all authorities,

within the limits of their competences.

REALITATEA

What should the market expect in 2022 from the NBM's monetary policy?

The sharp upward trend in inflation in the second half of this year, exceeding the upper limit of the inflation target range and the recent NBM forecasts that outline inflationary pressures still strong over this year and an annual rate of inflation outside the target dictate the need to create monetary conditions to temper these pressures.

The forecast implies a restrictive monetary policy. At the same time, in the complexity of the current situation, marked by increased uncertainty, the NBM carefully monitors domestic and international developments and will adjust the monetary policy to moderate the pace of rising consumer prices and anchor medium-term inflation close to the 5% target rate.

At the same time, further monetary policy decisions could be influenced by the materialization of information that is now unclear. Now, there is a great uncertainty about the international energy market, international food prices, there is no complete clarity about the adjustment of domestic regulated prices (magnitude and timing of their adjustment). Another factor that will determine the behavior of monetary policy during 2022 will be the speed of tempering domestic economic activity. There are also high risks to this dimension that could significantly influence the monetary policy behavior.

BANI.MD

Does the NBM intend to increase the inflation target?

The NBM has taken and will take all necessary measures to bring inflation back (measured by the consumer price index) close to the 5.0 percent annual target with a possible deviation of ±1.5 percentage points.

This level is considered optimal for the economic growth and development of the Republic of Moldova on medium-term and is provided as a target in the Monetary Policy Strategy of the National Bank of Moldova in order to ensure and maintain price stability over the medium term.

I would like to point out that if the NBM reacted aggressively to bring faster inflation back close to the target rate, so the direct effects on real economy would do more harm than good (economic costs would be very high).

ZIARUL NAȚIONAL

The forecasts for the year 2022 related to the exchange rate of the Moldovan leu are not among the most optimistic. What should the citizens of the Republic of Moldova expect this year?

Recent developments on energy resources market have also been felt on the foreign exchange market and have influenced, respectively, the evolution of the national currency exchange rate. Thus, the increase in payments for the import of energy resources has periodically created temporary gaps between the supply and demand of foreign currency in recent times and the NBM has promptly intervened in the foreign exchange market to prevent excessive exchange rate fluctuations.

As to further developments of the exchange rate, the NBM does not target a certain level of it. In the following periods, the exchange rate developments will be mainly determined by the demand and supply on foreign exchange market. On the foreign currency outflows side, at least during the cold period of the year, payments for energy resources will continue to be seen, while foreign currency inflows will be supported by external financing expected from the main development partners.

The NBM constantly monitors developments on foreign exchange market and has sufficient foreign exchange reserves to intervene when necessary, so as not to allow excessive exchange rate volatility, as long as these interventions do not conflict with the fundamental objective of the NBM - ensuring and maintaining price stability.

INFOMARKET

In 2021, there was a lot of talk about a Moldovan bank preparing for IPO entry on international stock exchange. In this case, how will the NBM monitor compliance with the Moldovan law: will there be buyers for the shares offered during the IPO on international stock exchange? will they get the NBM's permission to buy a share higher than 1% of the bank's capital? how should Moldovan buyers get this permission? If the NBM does not have such a mechanism, how, in this case, will the equal application of the Moldovan law to all bank shareholders be ensured, including those who, in case of a bank going IPO abroad, will acquire its shares? There is also the Moldovan law on joint stock companies that stipulates this, when selling shares of joint stock companies (JSC), the existing shareholders hold an acquired right to their purchase. How, in this case, will the law harmonize with the bank's IPO abroad in the context of compliance?

First, I would like to mention that the 1% restriction on right to buy shares in banks without the NBM's permission was introduced to reduce the risks of "inappropriate" investors' entry. Now, I would not categorically state that in Moldova there can be no more attempts by such investors to enter the banking system. But I want to say with full responsibility that these risks have been greatly reduced.

They are likely to be kept to a minimum when the justice system undergoes a wide range of reforms. On the other hand, I understand that we should not just stand by in this matter but should develop. Whenever possible, we should attract new investors in the banking sector. This is good for the country, economy and the banking system. We at the NBM will look for solutions to make such a development possible in the banking sector. But at the same time, we will not reduce the regulator's vigilance, preventing unwanted investors from entering the capital of domestic banks. I still can't talk about a specific technical solution for the NBM in this regard. I can say that we are thinking about this, such a task is before us, we are currently working on it.

Currently, the national regulatory framework on banks' activity is adjusted to the European one, thus ensuring potential investors the predictability of the rules for investing in the capital of Moldovan banks. The requirements for access to the banking market provide for fair treatment for both domestic and foreign investors, without discrimination or preferential treatment. At the same time, the law provides the National Bank of Moldova with the necessary mechanisms for a supervisory authority that can be applied to persons who have acquired qualifying holdings in the share capital of banks in breach of the regulatory framework provisions.

ECONOMIC PRESS CLUB

Moldovan banks are mostly owned by foreign investors. Are you still waiting for other foreign investors? Do local investors show their interest in the banking sector? How does the NBM treat Moldovan shareholders compared to foreign ones?

We have obtained the current results in consequence of the reforms implemented by the National Bank, including the exercise of ensuring transparency of the banking sector. The banking sector looks much different, in a good sense of the word, compared to what existed until 2016 - the year when an ambitious reform process for the banking sector was launched under the IMF program. Today we have a much higher quality of management in the banks - shareholders from the European Union that brought Western good practices. In fact, shareholder transparency has been one of the biggest achievements on the NBM's reform agenda. I will explain why. When shareholders are transparent and well-meaning, the risks to the sector and the country will decrease significantly, because they are interested in appointing persons having integrity to the bank's boards, who aim to run the business responsibly, but not commit fraud. Accordingly,

those members of the bank's boards will, in turn, appoint honest and professional people with noble intentions as members of the executive body, who will work every day to develop the bank and gain the trust of depositors.

At the same time, I would like to emphasize that, based on the commitments under the EU-Moldova Association Agreement, the NBM has implemented the Basel III requirements transposing gradually the EU prudential framework for the banking sector (CRD IV / CRR package). Thus, the national framework establishes rules that are compatible with those in the EU. This ensures that potential investors have the predictability of the licensing and operating rules of the domestic banking system. Having a national regulatory framework for the activity of banks, which is adjusted to the European one, it should be mentioned that it does not imply a preferential treatment of potential investors. Market access and other prudential requirements are uniform and provide fair treatment for both domestic and foreign investors.

The quality of investors matters. The NBM wants banks to be managed by investors with an impeccable reputation, whether local or foreign.

As to the interest of investors, I would like to point out that due to the reforms carried out by the NBM, the banking sector has become very attractive to investors. But all key sectors of the state need to meet investment expectations. I mean the country's general image, and, no doubt, a quality justice, legislative stability and efficiency etc.

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The NBM's foreign exchange reserves amount to more than USD 4 billion, which is three times more than the IMF rate. These funds could be used for the development of the national economy, to help Moldovan business and to solve social projects, which is particularly important in the context of the pandemic and the economic crisis. However, they are not used. What deters their use for the benefit of the country, outside the NBM law, prepared by the NBM specialists?

We must reiterate the main role of official reserve assets, which is to prevent the disproportion of a country's balance of payments, to maintain trust in the national currency and national economy. In December 2021, the official reserve assets reached USD 3,756.14 million.

The sufficiency of foreign exchange reserves is assessed by the relevant institutions, considering several indicators, not just the coverage in months of imports, if this indicator is referred to through the "IMF rate". According to these indicators, overall, we have a level of foreign exchange reserves, which allows the central bank to react promptly to shocks to which the national economy is exposed and which may have negative implications on foreign exchange market and which ensures the reserves sustainability in the future.

The year 2021 was characterized by the relaunch of domestic demand, including for imported products, as well as by the series of price increases on foreign markets for food, raw materials, and energy resources, which affected the level of prices in Moldova and the perception of market participants regarding the purchasing power of the Moldovan leu. The sustainable level of international reserves available to the NBM allowed the institution to capitalize on their role last year, by covering the market needs, in line with the monetary policy promoted. Respectively, the NBM was able to manage the volatility of the MDL exchange rate.

Using foreign exchange reserves to finance social projects or any other domestic projects would involve pumping liquidity into the market and boosting inflation, compromising the NBM's efforts to achieve its core objective and triggering a shock spiral that would erode foreign exchange reserves.

Moreover, the level of foreign exchange reserves and the way they are managed are an indicator of a country's credibility, which can be severely undermined by an inappropriate use of foreign exchange reserves. Solving domestic issues with them can lead to an increased risk of refinancing the economy through external credit and with investment reflows. This is not welcome at all when a small, open

economy needs strong foreign exchange reserves to ensure macroeconomic stability.

ANTICORUPTIE.MD

At the hearings of the Parliament's Legal commission for appointments and immunities, before being voted as Deputy Governor of the NBM by the MPs, Arcadie Albul said that he would show common sense towards the banks in the Transnistrian region. The statement was interpreted quite critically, where it is known that the banks in the separatist region have long demanded from the NBM to receive an activity license without giving up the Transnistrian ruble operations. Although later clarified in this case, being an ambiguous expression, which provoked interpretations, the claims of the Transnistrian banks remain real. What is the NBM's attitude towards these claims and under what conditions would the National Bank grant licenses to some banking institutions on the left bank of the Nistru River?

This question should be considered in the light of the extensive reforms that the Moldovan licensed banks have gone through. There have been turning points for the banking sector, which has adapted to the new international requirements. I will mention just a few of them: improving corporate governance, ensuring shareholder transparency, preventing money laundering risks etc.

On the territory of the Republic of Moldova, the only globally recognized banking supervisory authority is the National Bank of Moldova. It operates in strict compliance with the banking legislation, which is harmonized with international and European Union standards.

Thus, to carry out activities in the Republic of Moldova, any bank must have a license issued by the NBM, which exercises the duties of licensing, regulation and prudential supervision of banks. These and other legal provisions regarding the activity of banks are valid for the entire territory of the Republic of Moldova.

CAPITAL MARKET

The Twinning project "Strengthening supervision, corporate governance and risk management in the financial sector" is to be launched and implemented in consortium with several international authorities. What are the expectations and how do you see the evolution of the non-banking financial market as a result of the implementation of this project?

This major EU-funded project, which will be implemented over several months, will strengthen the capacity of the NBM and NCFM and align their functions and operations with European Union regulations and international financial sector standards. Thus, the project will represent a significant support provided by the partners from the European Union for the efficient implementation of the EU-Moldova Association Agreement.

The implementation of the Twinning project is part of the NBM and NCFM efforts to continue the development and reform of the financial sector in the Republic of Moldova. At the same time, while the previous Twinning project for the NBM (2015-2017) focused on the regulation and supervision of the banking sector, the current project will aim at strengthening the regulatory and supervisory framework for the activity of insurance companies and non-bank lending organizations, financial market infrastructure and payment services and will also help improve the macroprudential framework.

I would like to specify that soon, an official Twinning project kick-off event will be organized, where further details will be communicated.

MOLDOVA9

In 2022, a new IMF program is coming. What does this agreement mean and what are the expectations?

It is a new, complex program, which is accompanied by considerable financial support. While the previous program was more focused on the banking sector, now the agenda is much broader.

The overall aim of the program is to support the recovery of the economy affected by the COVID-19 pandemic, to launch an ambitious agenda of institutional and governance reforms and to respond to urgent development needs. Among the major areas covered by the program we can highlight the consolidation of the rule of law and fight against corruption, improvement of the budgetary and fiscal policy and governance of state enterprises. As far as the financial sector is concerned, the program primarily aims at protecting the NBM's independence and strengthening its governance; safeguarding recent banking reforms and further strengthening financial sector supervision; financial crisis management and macroprudential frameworks; strengthening the regulatory and supervisory framework of the non-banking financial sector, including by transferring, in July 2023, some powers from the National Commission for Financial Markets to the National Bank of Moldova; strengthening the anti-money laundering and anti-terrorist financing regime; making progress on asset recovery.

Thus, the new IMF program comes to support the development of the Moldovan economy, consolidation of the rule of law, strengthening of financial stability and most importantly the implementation of these commitments will contribute to the well-being of our country.

The interview was conducted at the NBM's request based on the questions from media institutions and news sites in the Republic of Moldova.

The National Bank thanks all the publishers for their participation and remains open to repeat this communication format in the future.

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