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INTERVIEW// Octavian Armasu, Governor of the National Bank of Moldova, answers the questions of media of the Republic of Moldova



[1]TVR MOLDOVA

How real is the redirection of a part of the state currency reserves to investments in the economy?

Firstly, I want to mention that the current level of official reserve assets constitutes around USD 3,053.00 billion. This amount complies with all sufficiency criteria and covers about 4.7 months of forecasted imports of goods and services (the minimum recommended level is 3 months). It fully covers the external public debt on short-term, and subsequently supports the credibility of the Republic of Moldova on the international arena.

To be more precise, let me explain what the official reserve assets represent. These are the assets, which the National Bank of Moldova (NBM) can use and control at any time in order to support the balance of payments, to manage the foreign exchange by intervention on the market and to preserve the trust in the domestic currency and the national economy in general. Moreover, let us not forget that the level of international reserves influences the capacity of the economy to attract foreign loans. The decline of reserves affects negatively the economy, the country rating of the Republic of Moldova and the trust of foreign investors.

Under the Law on the National Bank of Moldova, the international reserves are preserved by the National Bank at an adequate level for the realization of the monetary and currency policy of the state. In this sense

and under the international practices, the NBM assesses the sufficiency of international reserves based on several indicators: coverage of an adequate period of import, coverage degree of external debt on short-term, of monetary mass etc.

At the moment, the level of reserves is adequate for the future sustainability of international reserves. Therefore, the use of a part of international reserves, with a further conversion in domestic currency and increase of expenditures in the economy would considerably damage the fundamental objective of the NBM to assure and maintain the stability of prices. In addition, the Republic of Moldova would face an inflation with a negative impact on economy.

Moreover, such operations contravene the legislation in force, according to which, the NBM cannot provide financial assistance to the state.

RADIO CHISINAU

Is there any possibility that in case the foreign financing of the Republic of Moldova is suspended, the government will use certain funds of the national currency reserve?

I answered this question above. I will reiterate that the law prohibits any lending for the state. The law provides that "the National Bank will not grant any loans and guarantees in any form to the state and its bodies, including by purchase of state securities on the primary market or by granting overnight credits". This is because the currency reserves also cover the money in circulation and if we provide loans to the state from the respective resources, we will have money in circulation that are not covered, which will subsequently affect the stability of prices. Assuring and preserving the stability of prices is the main objective of the National Bank.

MOLDOVA9

To what extent the latest decision on monetary policy of the NBM, which reduced the core rate by 2 percentage points, demonstrates the capacity of the central bank to make independent decisions? Did external pressures, including political, influence this decision?

The latest decision on monetary policy of the NBM confirms precisely our previous forecast regarding the dynamics of inflation. I would like to underline that the central bank announced several times about the need to adjust the monetary policy for easing purposes by the end of the current year. This is necessary because in 2020, a decline of inflation is expected. The decision was voted unanimously by the Executive Board and had the aim to maintain inflation in the target variation interval of 5%, which is an optimal solution for the development of national economy.

All decisions on monetary policy were based on a complex analysis of the macroeconomic situation, including scenarios resulted from many mathematical models. Therefore, no political pressure can be invoked. The National Bank is an independent institution and will continue to demonstrate professionalism and develop the financial-banking sector to make it more stable and trustworthy.

«ЭКОНОМИЧЕСКОЕ ОБОЗРЕНИЕ» (LOGOS-PRESS)

When will the National Bank switch from forecasting to targeting inflation? Is the NBM capable (at this stage of development of economy and political system) to move from declarations about the intention to maintain the stability of prices to a real guarantee that the rates of inflation will not deviate more than expected?

The latest decision on monetary policy regarding the 5.5% annual decrease of the core rate applied to the main monetary policy operations answers your question.

As I had already mentioned, this decision had the aim to keep inflation in the corridor and stimulate the internal economic activity.

For 2020, we consider the possibility to further diminish the value of monetary policy instruments. This scenario aims to create monetary conditions that are capable to maintain inflation in the variation interval of ±1.5 percentage points from the 5% inflation target on short-term. Thus, by targeting inflation, the NBM will assure the stability of prices.

AGORA

The NBM management has recently stated that "after the profound reform of the financial-banking system of the last three years, it is time for the development of the financial market". One of the most dynamic instruments of the international financial market are the crowdfunding platforms (lending, investment), through which citizens and start-ups have access to financing. In the case of the Republic of Moldova, these platforms take the first steps and face many regulatory bottlenecks. Moreover, the new bill of law on non-banking credit organisations will block the operation of these platforms in Moldova. What are the actions planned by the NBM to overcome this deadlock and stimulate the development of crowd-lending and crowd-investing platforms?

The National Bank supports the financial intermediation and the development of the bank lending market, while the non-banking credit segment is supervised and regulated by the National Commission for Financial Markets. I would like to mention that the operation of crowd-funding platforms based on loans or investments represent a new field of activity. The alternative financing solutions fortify their positions in the advanced and innovation-oriented economies. Such development is caused by the spread of the participatory economy model that creates opportunities to dispose of the "products" of the community more efficiently and freely, even of their money. Such business models have advantages, but also risks.

In the conditions of its mandate, the National Bank is limited in its actions to stimulate the development of crowd-lending and crowd-investing platforms. However, within its duties, the National Bank of Moldova set up an interdepartmental working group that analyses international and national developments in the field of crowdfunding.

CAPITAL MARKET

How is the NBM, as the main shareholder of the Single Central Depository (SCD), assessing the preliminary results of the activity of the SCD and what are the main challenges for the next period?

The results of the SCD are very positive. The institution was created in April 2018. In only four months, in July 2018, the SCD managed to initiate transactions with state securities and instruments of the NBM. In May 2019, the SCD started to perform transactions with securities issued by joint stock companies. The connection with non-bank investment companies and the stock exchange was established, so that all stock exchange transactions are settled by the Depository.

In the same period, the SCD received the registers of banks and insurance companies, for which a range of services are offered, from account statements to lists of shareholders and settlement of transactions made outside the stock exchange. In November – December 2019, the SCD received other 60 registers of companies admitted to trading with the stock exchange. As a result, the necessity to make the transfer of securities from the systems of registry company to the settlement systems – an anachronistic procedure, which used to last a few days and was carried out through an exchange of documents on paper, disappeared.

The mechanisms for the execution of operations with financial instruments were improved. Settlements and payments are automated. A high level of security and continuity is assured. Banks and non-bank investment companies have the possibility to conduct remote on-line operations. Investors can benefit from certain services, both at the counter of the SCD and the offices of banks and non-bank investment

companies.

With regard to the challenges, one of the key objectives of the SCD is to stimulate the capital market and expand the range of operations with securities. The advantages of the SCD will be felt by the participants of the market, by joint stock companies and investors. Only in this case, the interest for investments in the financial instruments will increase.

The future projects of the SCD are also ambitious. Firstly, connections with foreign central depositories shall be established. This will significantly facilitate foreign investments in securities issued in the Republic of Moldova. Secondly, the creation of a new platform for private investors was planned, which will allow each citizen of the country to purchase state securities. Finally, SCD will continue to improve the mechanisms of settlement and interaction with the participants of the market, so that any investment in financial instruments is made quickly, in conditions of maximum security and at low prices.

PROIECTUL ONLINE «ПРО ВСЕ»

How do you assess the chances of economic operators who held financial means in current accounts at INVESTPRIVATBANK, to recover those resources at least partially, considering that in the last ten years of implementation of the bankruptcy procedure, a significant part from the property of the bank was sold and nothing was returned to the economic operators?

The liquidation process of BC "INVESTPRIVATBANK" is at its final stage. According to the information and forecasts provided by the liquidator of BC "INVESTPRIVATBANK" under liquidation, the means that will be subsequently collected after the recovery of the remained assets, could be insufficient for the full coverage of the class of claims "loans granted to the bank after the appointment of liquidator", which is paid at the moment according to the priority order established by the Law on Financial Institutions. Today, the bank under liquidation pays the claims to the Ministry of Finance, considering that the ministry subrogated "Banca de Economii" SA in relation with the BC "INVESTPRIVATBANK" SA, according to the Law on additional measures to ensure the financial stability, of 30.09.2011.

REUTERS

How real is the scenario that in 2020, the NBM will demand licensed banks to increase the share capital? How does the governor of the NBM argue the rationality of such move of the regulator or, on contrary, the decision to keep the share capital at the current level?

At the moment, according to the provisions of the Law on the banks' activity and the Regulation on the licensing of banks and branches of banks from a foreign state, the size of the required minimum capital is MDL 200 million.

It should be mentioned that holding a minimum capital is a requirement for the issue and holding of licenses by banks. The capital that shows the hedging to which banks are exposed is the amount of own funds and the indicator of the own funds rate (calculated as the ratio between own funds and the quantum of risk exposure), by reflecting the banks' capacity to absorb risks.

As of 30.11.2019, the size of own funds varied from MDL 213.6 million to MDL 3,060.6 million, while the rate of own funds in the banking sector constituted 25.9%, exceeding by far the minimum allowed limit of 10%. This varies with banks between 19.5% and 55.7%. All banks comply with both the limit of the rate of total own funds and the rate of own funds, by considering the necessary capital buffers for the prevention and mitigation of the macro-prudential and systemic risk.

Therefore, there is no need to increase the minimum level of the capital. However, it is necessary that the banks manage it correctly, including by rationally using the internal capital adequacy process.

INFOTAG

What is the next scenario of the regulator regarding the sale of shares of "FinComBank" and "Energbank"? Does it establish the reduction of prices of shares, the possibility to purchase for foreign investors who will need permission from the NBM, repurchase by issuers or withdrawal of license?

The intervention of the NBM at this stage refers to the supervision of the process, examination of requests related to the prolongation of disposal terms, in case of cumulating legal provisions in this sense, and as the case may be, the examination of sets submitted by potential purchasers for the issue of a prior approval for the purchase of these shares.

If the respective shares are not disposed of by shareholders and afterwards by the bank (newly issued shares), the provisions of the Law on the bank's activity shall be applied.

At the moment, there are investors interested to buy the shares of the respective banks. We are currently examining the offers.

BĂNCI & FINANȚE. PROFIT

In the budget for 2020, external grants and loans amounted to MDL 10.07 billion. The respective resources will lead to a significant rise in the currency reserves of the NBM, which will have to be converted and used for financing the infrastructure development projects. This will indirectly lead to the rise in the monetary mass, which will create inflationary pressures. What will the regulator do to mitigate them, besides the core rate and the required reserves?

The NBM establishes and promotes the monetary and currency policy in order to achieve its main objective – ensuring and maintaining the stability of prices. Therefore, the central bank will implement the regime of direct targeting of inflation, according to the NBM Monetary Policy Strategy on medium-term. According to the document, the target of inflation, which is calculated based on the consumer price index, constitutes 5% annually with a possible deviation of +/-1.5 percentage points.

Reaching the target can be achieved by using the main instrument of monetary policy – the open market transactions. At the same time, the NBM uses auxiliary monetary policy instruments such as: permanent facilities, the norm of required reserves and interventions on the foreign exchange market. In addition, the NBM decisions on monetary policy are based on the following key elements: projection of inflation and national economy based on quantitative models, forecast of regulated prices and determining factors of inflation, the international economic situation and the analysis of real monetary conditions, including interest rates and monetary aggregates, the analysis of monetary and foreign exchange markets, of tax and budgetary policies etc., as well as other elements that can influence the inflationary process. Thus, according to the monetary policy of the NBM, four quarterly rounds of inflation forecast are made during the calendar year. Based on the inflation forecast, the NBM Executive Board adopts decisions on monetary policy that are published in the day of adoption. Between these rounds, four meetings of the NBM Executive Board are held on the promotion of monetary policy concerning the Calendar of meetings of the NBM Executive Board on monetary policy.

In this way, the NBM monitors and anticipates the internal and external macroeconomic evolutions, the risks and uncertainties associated to the evolution of inflation on short and medium term, applies the instruments of monetary policies at the right time, and exercises its legal mandate – ensuring and maintaining the stability of prices.

MOLDPRES

There is an exponential growth in real estate and consumer loans. In 2009, consumer loans totalled 1 billion lei, while in 2019 they already totalled 5 billion lei. Ten years ago, the amount of newly loans granted by banks totalled MDL 104 million, while in just 9 months of 2019, the amount of newly granted loans was MDL 2.6 billion. To what extent does this rise in loans for individuals constitute a risk of over-indebtedness? Are there any outstanding payments and how are they managed? Do you see the need for adopting a law on insolvency of individuals in case of increase of over-indebtedness of individuals?

The increase of mortgage loans is, in many ways, a beneficial thing. Firstly, it allows many families to live in their own homes. However, an exaggerated rise in loans and an eventual easing of loan standards can cause a high level of indebtedness of households. In the Republic of Moldova, the share in the GDP of granted loans is relatively small – 20.08% in the second quarter of 2019, compared to the developing countries (60-70%) and developed countries (almost 100%).

Lately, an increase of loans granted for the purchase or construction of real estate, and consumer loans was registered. If we analyse the dynamics of loans by sectors for ten months in 2019, you can see an increase in the loan portfolio by bank sector (MDL +4,568.7 million) caused mainly by the increase in the portfolio of loans granted for the purchase or construction of real estate by MDL 1,942.1 million (49.2%) and consumer loans by MDL 1,520.4 million (29.7%). I want to underline that now the quality of these loans is favourable. The loans granted for the purchase or construction of real estate and consumer loans classified in non-performing categories hold small shares in the total amount of loans granted for the respective sectors – 2.5% and 3.9% compared to the total rate of non-performing loans of 10%.

The quality of loans is monitored by the NBM within the process of bank supervision.

NEWSMAKER

International financial institutions have forecasted a global financial crisis for the next year, and a recession and drop in consumption at regional level. How do you assess the possible consequences of these changes for the domestic currency and inflation, and what measures will you take in this regard?

As you all know, the National Bank implemented an agenda of reforms aimed to make banks more resistant against the risks, including in crisis situations. Therefore, a new framework on capital requirements, risk management, corporative governance etc. was created.

At the moment, banks can resist the financial shocks and continue performing their main duty of financial intermediation in the economy.

In addition, within the framework of its duties, the NBM is in the process of consolidation of its duty of maintaining financial stability by prevention and mitigation of systemic risks. For this purpose, capital buffers were created – additional capital requirements for banks meant to absorb eventual losses resulted from the materialization of structural and cyclical systemic risks.

Also, in 2019, the National Committee for Financial Stability became functional following the reorganization made after the adoption of the law on its activity. The respective committee was created with the purpose to coordinate the realization of macro-prudential policy, prevention, reduction or elimination of risks that threaten the financial stability at system level, as well as management of systemic financial crisis situations.

In this way, the framework and instruments for the prevention and management of financial crises was improved. Thus, the National Bank of Moldova shall permanently analyse and evaluate the risks that might jeopardize the stability of the banking system, in order to apply the anticipatory instruments and measures meant to prevent the materialization of risks in the financial system.

REALITATEA

Micro-lending. There is an increasing rate of indebtedness. Do you plan, or at least, how can the activity of micro-lending companies be restricted, so that the payment incapacity of the population is avoided?

The National Bank analyses and carefully monitors the situation of lending of population within its area of duties. However, the non-banking credit organizations (NBCO) (organizations of micro-financing and financial leasing companies) are regulated and supervised by the National Commission for Financial Markets (NCFM). At the moment, the NCFM elaborated a project for the modification of certain laws, which include provisions aimed to protect consumers – individuals from the risk of indebtedness. The project establishes, among others, measures regarding the following:

- Limitation of total costs of the non-bank loan or financial leasing to an amount that does not exceed the settled amount, according to the respective contract;
- For loans in an amount of up to MDL 50,000 (granted to consumers-individuals), the following is prohibited:
  - to change the respective contractual clauses, which as effect will increase the initial pecuniary obligation of the respective consumer;
  - to conclude any legal acts with the same debtor, which as effect will increase the total pecuniary obligation, until the execution of obligation to repay the current non-bank loan and expiry of at least 10 business days from this action.
- Regulation by the NCFM of a responsible lending, including the conditions and method of evaluation of the capacity of customer to repay the non-bank loan or/and financial leasing, the degree of mortgage coverage, criteria related to the ratio between the debt and income of the debtor;
- Introduction and significant increase of pecuniary sanctions against NBCO, so that they are "efficient, proportional and with discouraging effect".
- According to NCFM, proposals have the aim to protect consumers – individuals from over-indebtedness, for example, by limiting the right of the NBCO to "renegotiate" at the customer's disadvantage the contractual conditions (the "rollover" mechanism), which lead to a continuous overpayment with the NBCO.

DESCHIDE

The subject of blocked accounts belonging to economic operators from Transnistrian region in the banks of the Republic of Moldova brought many questions in the society. Afterwards, the NBM provided explanations and guarantees that those who observe the law are not subject to sanctions. Could you elaborate more on the topic and tell us if you received messages or requests for the integration of the banking system of the Transnistrian region to the banking system from Chisinau?

In the context of reintegration process of the Republic of Moldova, the matters related to the banking field shall be discussed within the working subgroups for banking issues, represented by officials from Chisinau and the National Bank of Moldova, and officials from Tiraspol. It is important to mention that the coordination of the activity of this subgroup shall be ensured by the Bureau for Reintegration of the State Chancellery of the Republic of Moldova.

The National Bank of Moldova promotes and will continue to promote actively the development of a stable, safe and strong banking system, according to the legislation of the Republic of Moldova and the best international practices.

Regarding the collaboration of licensed banks of the Republic of Moldova with the economic operators, including those from the left bank of river Nistru, I will reiterate that banks treat their customers in an equitable way, the only condition being the compliance with the law.

The interview includes the questions sent by media institutions and news websites from the Republic of Moldova at the request of the NBM.

The National Bank of Moldova would like to thank you for participation and remains open for repeating this format of communication in the future.

Tags

Interview [2]

Octavian Armașu [3]

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