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Financial Stability Report for 2022

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SUMMARY

The year 2022 was characterized by multiple economic and financial challenges. The global economic recovery was slowed by adverse geopolitical factors, but also by the inflationary crisis, which affected most countries in the world. Financial stability conditions started to deteriorate as early as the fourth quarter of 2021, accelerating significantly in early 2022 with the start of the war in Ukraine. But the financial system has proved resilient and has continued to fulfil its function of financing economic activity.

The reforms undertaken in the banking sector have once again proved their effectiveness and banks have remained well capitalized and profitable, adequately managing the risks that have increased.

The increase in bank profits in 2022 was largely driven by monetary market conditions. As a result of the accelerated tightening of monetary policy, banks adjusted their lending rates more slowly than deposit rates, reducing their net interest margin. Unfavorable macroeconomic conditions, rising inflation and rising market rates led to a deterioration in the quality of bank borrowers.

The annual growth rate of the volume of new loans granted slowed down due to the decline in household lending, which was affected both by the severe tightening of lending standards and by reduced demand from individuals. Therewith, companies showed an increasing demand for financing during 2022, resulting in an increase in the volume of bank lending to economic agents compared to previous years.

The average default entry rate was lower in 2022 compared to 2021 for both the corporate portfolio and the population, with the highest rates in 2022 recorded in the fourth quarter. The most unfavorable quality dynamics were seen in loans to productive industry, agriculture, other loans, and consumer credit.

In response to the systemic risks, which emerged in the context of macroeconomic instabilities and uncertainties, the National Bank introduced instruments to limit consumer indebtedness by establishing a responsible lending framework for banks. In addition, in order to strengthen banks' resilience to potential losses due to individuals' loan repayment difficulties, the NBM increased the systemic risk capital buffer rate by 2 p.p. for banks' exposures to resident individuals.

The non-bank lending sector has strengthened its position within the financial sector, with the expansion of the non-bank loan portfolio traditionally due to an increase in the volume of lending to individuals.

Therewith, the negative effects of the armed conflict in Ukraine had an immediate impact, materializing in an increased number of requests for withdrawal of bank deposits, with the sharpest decline in deposits of individuals in the first month after the outbreak of war in Ukraine. The phenomenon was short-lived, and

the liquidity held by banks allowed them to meet the demands received.

The external shocks faced by the Republic of Moldova during this period, in particular the shock caused by the dramatic increase in gas, fuel and electricity prices, as well as the chain of price hikes that led to a galloping increase in inflation, up to 33.9 percent, have affected financial stability in several sectors. Economic activity has declined significantly and indicators for the national public budget and the external sector have deteriorated. In these difficult circumstances, the financial system has been resilient and adapted to the shocks.

Despite the challenges of 2022, the components of the financial system are stable and resilient and ready to continue to ensure the smooth functioning of the national economy.

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