Note

The report was compiled using the latest statistical data held by the National Bank of Moldova, the National Bureau of Statistics, the Ministry of Economy and Infrastructure and the Ministry of Finance.

Also, were used data provided by international organizations and central banks of neighboring countries.

Computation of some statistical data was conducted by the National Bank of Moldova.

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List of abbreviations

IDA     International Development Association
AIPS    Automated Interbank Payment System
ANRE    National Energy Regulatory Agency
BES     Book-Entry System of Securities
CHC     Construction of housing co-operatives
CHIBID  Average interest rate at which the contributing banks are available to borrow in the interbank money market financial means in Moldovan Lei from other banks
CHIBOR  Average interest rate at which the contributing banks are available to lend in the interbank money market financial means in Moldovan Lei to other banks
CPI     Consumer Prices Index
DNS     Designated-Time Net Settlement System
EBRD    European Bank for Reconstruction and Development
ECB     European Central Bank
EU      European Union
EUR     European Single Currency
FAO     Food and Agriculture Organization of the United Nations
GB      Government bond
GDP     Gross Domestic Product
IAD     Internal Audit Department
IBRD    International Bank of Reconstruction and Development
ICT     Information and communication technology
IDA     International Development Association
IPPI    Industrial production price index
MDL     Moldovan leu
NAFTA   North American Free Trade Agreement
NBC     National Bank Certificates
NBM     National Bank of Moldova
NBS     National Bureau of Statistics of the Republic of Moldova
OPEC    Organization of the Petroleum Exporting Countries
OPEC+   OPEC cooperation with oil producers outside OPEC in an attempt to reduce production and increase the price of oil
RTGS    Real-Time Gross Settlement System
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<th>Abbreviation</th>
<th>Description</th>
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<td>SDR</td>
<td>Special Drawing Rights (XDR)</td>
</tr>
<tr>
<td>SS</td>
<td>State Securities</td>
</tr>
<tr>
<td>USA</td>
<td>The United State of America</td>
</tr>
<tr>
<td>USD</td>
<td>U.S. dollar</td>
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<td>VAT</td>
<td>Value added tax</td>
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Foreword

Throughout 2018, the National Bank of Moldova (NBM) continued its reforms in the financial and banking sector, focusing on shareholders’ transparency, supervision and regulation of financial institutions.

Transparency efforts of shareholders have resulted in attracting strategic investors in the sector. Thus, as of 31 December 2018, Banca Transilvania (the second largest commercial bank in Romania by assets) together with the European Bank for Reconstruction and Development (EBRD) held over 72% of the capital of B.C. "VICTORIABANK" S.A.; Intesa Sanpaolo, Italy, became the sole shareholder of B.C. "EXIMBANK" S.A.; and an international consortium of investors formed by the European Bank for Reconstruction and Development (EBRD), Invalda INVL and Horizon Capital became holders of 41.09% of B.C. "MOLDOVA-AGROINDBANK" S.A. The new shareholders have contributed to the flow of Foreign Direct Investments and aim to transfer new technologies and know-how in the financial and banking sector of the Republic of Moldova. At the same time, conditions were created for the attraction of European investors and BC "Moldindconbank" S.A., which materialized at the beginning of 2019. We can see that the banking sector in the Republic of Moldova has had an essential change compared to the situation before the crisis.

The efforts of the NBM have enjoyed political support from the Parliament and the Government and have resulted in a substantial reform of the banking regulatory framework, ensuring the independence of the central bank, expanding the diversity of instruments by which the NBM can interfere, setting regulatory and supervisory standards in the sector according to EU directives and Basel III. Banks’ own consolidation trend continued in 2018, with the Moldovan banking sector becoming one of the most capitalized sectors in the region.
The Republic of Moldova, during 2018, marked a robust economic expansion. Thus, gross domestic product (GDP) registered a 4.0% increase, largely determined by the increase in investment activity. Inflation stayed low during the year and amounted to an average of 3.0%, being by 3.6 percentage points lower than in 2017. The low level of inflation was mainly determined by the disinflationary impact of prices for network gas, electricity tariffs, the appreciation of the domestic currency, as well as the prices of agro-food products. We are confident that the positive dynamics of economic growth will continue in 2019, and the inflation rate will return to the target level in the medium term.

The NBM assumed the leading role in promoting reforms in the financial system and will continue to encourage innovation and sector development. The establishment of the single Central Securities Depository (CSD) by the NBM, assisted by the United States Agency for International Development (USAID) and other development partners, is the redefinition of a key component in the financial system infrastructure of the Republic of Moldova, as well a new stage in the process of securities settlement and trading in dematerialized form. On 31 July 2018 the CSD launched the settlement activity and recorded the first transactions for financial instruments: State Securities and National Bank Certificates. From Depository launching until 31 December 2018, the CSD generated transactions with a settled value of about MDL 187 billion.

Looking at the tasks ahead, the NBM is determined to promote the reforms aimed at strengthening and developing the banking sector. At the same time, the NBM will promote a prudent monetary policy in order to maintain inflation within the deviation corridor and to ensure the optimal conditions for achieving the country’s economic potential.

Octavian Armașu

Governor
Summary

International context

The world economic recovery, started in mid-2016, continued in 2018. The Federal Reserve System increased further the interest rate range, triggering the appreciation of the US dollar as compared to other foreign currencies. Anticipating an increase in inflation triggered by high oil prices, the European Central Bank (ECB) has gradually lowered its asset purchase program to zero by the end of 2018. Emerging economies counterbalanced the negative effect of capital migration to advanced economies by increasing budget revenues following price increase for raw materials. The increase of trade tensions between the US and China, as well as between the US and the EU, the US and NAFTA, etc. was another important moment in 2018. The oil price rose sharply in the first half of 2018 because of the OPEC+ agreement to limit oil production. At the same time, the inability to maintain high prices after the expiry of the agreement led OPEC+, of December 2018 meeting, to continue the oil production limitation plan. At a geopolitical level, the worsening of diplomatic relations between the UK and Russia and the new US sanctions imposed on Russian individuals affected strongly the Russian ruble and the Russian stock market. At the same time, the precarious economic situation in Turkey and Argentina influenced the emerging markets.

Economic developments

In 2018, the GDP of the Republic of Moldova recorded an increase of 0.4%, being lower by 0.7 percentage points than in 2017. The strong contribution of the investment component influence largely the positive evolution of the economic activity in 2018. In this respect, the gross fixed capital was 14.0% higher than in 2017, and was supported by the implementation of the good roads program for Moldova. At the same time, the inventory change component, of the national accounts, generated a positive impact of 1.0 percentage points on GDP dynamics. The economic growth in 2018 was also largely influenced by the increase in the final household consumption by 3.8% as compared to 2017, following the increase of the disposable income of the population. During the first 9 months of this year, the consumption of the population experienced a more modest evolution. Later, in the fourth quarter, the dynamics of private consumption increased due to tax reform effects. The final consumption of public administration in 2018 decreased by 0.4% compared to the previous year. In 2018, the economic activity dynamics was significantly offset by the increase of imports by 8.9% as compared to 2017, being supported by both domestic demand growth and the appreciation trend of the domestic currency. Within sectors of the national economy, in 2018 the gross added value in construction was 16.0% higher
than in 2017. The commercial sector recorded an increase of 5.7%. Positive contributions, but of lesser magnitude, have been generated by developments in industry, agriculture, information and communication, financial and insurance sectors, as well as real estate transactions. At the same time, net product taxes in 2018 increased by 2.7% as compared to 2017.

Inflation

During 2018, the annual inflation rate accounted for 3.0%, being by 3.6 percentage points lower than in 2017. During 2018, the annual inflation rate recorded a pronounced downward trajectory. It decreased from 7.3% in December 2017 to 0.9% in December 2018. At the beginning of 2018, the downward trajectory of the annual inflation rate was largely influenced by both the disappearance of tariff adjustments in health care services in the first quarter of 2017 and the recalculation of inflation for the first two months of 2018 in response to falling prices for network gas. Subsequently, this trend was supported by the effect of a high base period from April to May 2017 on food prices as well as by a rich harvest of fruit in 2018. At the same time, in the second half of the year, a sharp decline in the annual CPI rate was exerted by the fall in the electricity tariff in July. The appreciation trend of the domestic currency against the currencies of the main trading partners also supported the downward trajectory of the inflation in 2018. Estimates suggest that in 2018 domestic demand had a modest contribution on the annual inflation rate. The adjustment of excise duties and the setting of the minimum retail price for cigarettes triggered certain inflationary pressures. At the same time, pressures on rising oil prices on the international market in 2018 were partly mitigated by the exchange rate dynamics, as well as freezing gasoline and diesel ceiling-prices in the second half of the year.

Monetary policy

During 2018, the NBM maintained the base rate at 6.5%. At the same time, the NBM increased the minimum required reserve ratio from financial means attracted in MDL from 40.0% to 42.5%. The minimum required reserve ratio attracted in freely convertible currency was maintained at the level of 14.0%. The average growth rate of the monetary supply, during 2018, accounted for 7.8 percent. M2 monetary aggregate increased by 10.0%, money in circulation increased by 10.3%, the broad monetary base increased by 17.7%. The average interest rate on new loans granted in domestic currency in 2018 accounted for 8.79%, while the average interest rate on newly attracted deposits accounted for 4.47%.

Banking system

As of 31 December 2018, the banking sector of the Republic of Moldova included 11 banks licensed by the National Bank of
Moldova, including five subsidiaries of banks and financial groups. According to banking supervision priorities and commitments made to development partners in order to ensure the development of sound corporate governance in the banking sector and to attract investments that meet the high quality requirements, key changes were made in 2018 to purchase shares in the capital of some banks by some international groups with a good reputation. As a result, internationally reputable groups managed more than 70 percent of bank assets.

Thus, the ownership structure of the following banks was modified:

- Banca Transilvania from Romania became indirect shareholder at B.C. “VICTORIABANK” S.A., and together with the European Bank for Reconstruction and Development (EBRD), are holding 72.19% of the capital of BC. “VICTORIABANK” S.A.;
- Intesa Sanpaolo from Italy became the sole shareholder at B.C. “EXIMBANK” S.A. the bank becoming part of Intesa Sanpaolo Group;
- A consortium of investors, formed of EBRD, Invalda INVL and Horizon Capital, became shareholder at BC “MOLDOVA-AGROINDBANK” S.A following the acquisition of the 41.09% stake in the share capital of the bank.

The entry into force on 1 January 2018 of the Law on banks’ activity, which improved the regulatory and supervisory standards in the banking sector, marked the year. The above-mentioned law extended the rights and attributions of the National Bank of Moldova (NBM) in the process of assessing and supervising banks.

In the context of these, starting with 30 July 2018, the banks presented the first COREP reports according to BASEL III requirements. The new reporting framework provides requirements for the calculation of own funds according to a new methodology, which reflects not only the impact of credit risk but also market and operational risk. At the same time, with a view to preventing and mitigating macro-prudential or systemic risk, additional requirements relating to own funds have been set that banks should meet in order to create capital buffers.

All banks comply with the requirement of the total own funds rate, including those with additional capital buffers. The total own funds rate in the banking sector, according to the data provided by the licensed banks, accounts for 26.5%, decreasing by 4.8 percentage points compared to the end of the previous year (methodology modification).

In 2018, the banking sector continued the trend of consolidation of own funds (previously CNT), amounting to MDL 10.8 billion, increasing by 2.3%.

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1The European Bank for Reconstruction and Development (EBRD) is a multilateral development bank founded under an international treaty that promotes the development of private sector and entrepreneurial initiative in 38 countries of the Central and Eastern European and the Mediterranean region; Invalda INVL is a Lithuanian investment firm, being one of the most important asset management groups in the Baltic region, listed on the Nasdaq Baltic Stock Exchange in Vilnius; Horizon Capital is an investment equity firm with 25 years of experience, operating mainly in the countries of Eastern Europe, including Ukraine and the Republic of Moldova.
At the same time, banks maintained a high liquidity and profitability level.

Therefore, the value of the long-term liquidity indicator (principle I of liquidity) amounted to 0.7 (limit ≤1), at the same level as at the end of 2017.

The current liquidity of the banking sector (principle II of liquidity) diminished insignificantly, accounting for 54.6% (the limit ≥20%), more than half of the assets of the banking sector being concentrated in liquid assets.

As of 31 December 2018, the profit of the banking sector accounted for MDL 1.6 billion, increasing by 7.0% compared to the previous year. For 2018, the rentability of assets\(^2\) and the rentability of capital\(^3\) of licensed banks recorded values of 1.9% and 11.6%, respectively, being almost the same as the end of the previous year.

In addition, assets and deposits increased by 4.6% to MDL 83.2 billion and by 6.0% to MDL 63.5 billion lei. Compared to the end of the previous year, the bank’s credit portfolio increased by 5.9% to MDL 35.5 billion. During the year, the share of non-performing loans in loan portfolios decreased to 12.5%.

\(^2\)Rentability of assets=annualized net income/the average of assets.

\(^3\)Rentability of capital=annualized net income/the average of capital.
Chapter 1

External environment

1.1 Global economy, financial and commodity markets

According to International Monetary Fund, the global economic recovery started in the middle of 2016 continued in 2018. One of the major external events in 2018 was the increase in the Federal Reserve System interest rate range, which led to the appreciation of the US dollar as compared to other international currencies. Since January 2018, the European Central Bank halved asset purchases from EUR 60 billion to EUR 30 billion by September 2018, and from October to December 2018, asset purchases were cut from 30 billion to zero. Emerging economies have counterbalanced the negative effect of capital migration to advanced economies by increasing budget revenues as a result of rising commodity quotations. Another important moment in 2018 was the intensification of trade tensions between the US and China, but also between the USA and the EU, US and NAFTA, etc. The oil price has risen sharply until October 2018 thanks to the OPEC+ agreement to limit oil production. At the same time, the inability to maintain high prices after the expiration of the agreement led OPEC+ to the December 2018 meeting to continue the oil production limitation plan. Another important event on the oil market was the introduction of US sanctions for Iran valid in November 2018, which led to a significant decline in Iranian oil exports. Anticipating the effects of US sanctions has led to a rise in oil prices, especially in October 2018. Subsequently, the US exempted a number of countries from banning Iranian oil imports and, at the same time, OPEC oil production has increased significantly, which has led to a reduction in oil prices. On the geopolitical level, the worsening diplomatic relations between London and Moscow and the new US sanctions, imposed on 6 April 2018 against Russian billionaires, have strongly affected the Russian ruble and the Russian stock market. At the same time, emerging markets have been marked by the precarious economic situation in Turkey and Argentina.

IMF estimates\(^4\) that, in 2018, the global economy grew by 3.7% on average, compared with 3.8% in 2017. At the same time, advanced economies grew by an average of 2.3% and the upward ones by 4.6%, both with 0.1 percent points less than in 2017. Significant developments were recorded in the United States economy, with GDP rising by 2.9% in 2018 compared with 2.2% in 2017. Other advanced economies have had a more modest evolution. For example, the GDP rate of growth in Japan moderated from 1.9% in 2017 to 0.7% in 2018, and in the United Kingdom, GDP growth with 1.4% compared with 1.8% in 2017. European economies

\(^4\)IMF, World Economic Outlook Update - January 2019
also experienced a noticeable moderation in GDP growth. Thus, in 2018, Germany’s economy grew by 1.4%, France’s economy by 1.5%, Spain’s economy by 2.5% and Italy’s economy by 0.9%. On average, the euro area economy grew by 1.8% in 2018 and the European Union’s economy by 1.9%. China’s economy has been affected by trade tensions, so GDP in 2018 was 6.6% versus 6.9% in 2017. Romania recorded a significant decline in GDP growth, from 7.0% in 2017 to 4.1% in 2018. In the region of the Commonwealth of Independent States, the economy revived slightly in 2018, with the average GDP rising from 2.1% in 2017 to 2.4% in 2018, of which Russia’s GDP grew from 1.6% in 2017 to 2.3% in 2018, Ukraine’s GDP grew from 2.5% to 3.3%, and Moldova’s GDP moderated from 4.5% to 4.0% (Chart 1.1).

In 2018, the U.S. dollar followed a trend of appreciation following the monetary policy of the Federal Reserve System. During 2018, the Federal Reserve System increased by 4 times the interest rate range by 0.25 percentage points from 1.25%-1.50% to 2.25%-2.50%. The US dollar also appreciated against the backdrop of increased trade tensions between the US and China, the currency most benefiting from trade disputes. The USDX index\(^5\) grew to 2018 from 88.95 (January 2018) to 95.97 (December 2018) (Chart 1.2).

The European single currency had a mixed evolution in 2018, being favoured by the completion of the ECB’s procurement program, but affected by the tensions in world trade, by the political problems of Italy and Spain, and by the unsatisfactory macroeconomic statistics. Overall, in 2018, the European single currency appreciated on average by 4.5% against the US dollar as compared to 2017, but the average of December 2018 was 4.0% lower than the December average 2017 (Table 1.1).

The global currency market was marked in 2018 by the depreciation of emerging country currencies, due to the migration of emerging-to-advanced financial capital. But some emerging economies have experienced significant depreciation due to international sanctions (Russia) or poor economic and financial situation (Argentina, Brazil). Thus, in December 2018, the Argentine peso depreciated by 114.0% against the US dollar compared to December 2017, the Turkish lira by 37.9%, the Brazilian real by 17.9% and the Russian ruble by 14.9% in the same reference period (Table 1.1).

Among the advanced savings currencies, the British pound depreciated against the background of the Brexit process by 5.8% (December 2018 / December 2017), but the annual average was 3.4% more appreciated (2018/2017) in relation to the US dollar (Table 1.1).

In 2018, the price of oil had increased volatility, with the Urals price rising by an average of 31.4% as compared to 2017. The primary driver of oil price increases was the decrease in OPEC production in line with the OPEC+ of 30 November 2017, and the subsequent extension of the agreement on 6 December 2018.

Temporarily, oil quotes were also stimulated by the increase in the geopolitical risk premium related to Syria’s tensions, the US

\(^5\)USDX Index is calculated by weighted geometric mean value of the US dollar against a basket of foreign currencies: the euro - 57.6%, the Japanese yen - 13.6%, the Pound sterling - 11.9%, the Canadian dollar - 9.1%, the Swedish crown - 4.2%, the Swiss franc - 3.6%.

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Chart 1.1: GDP comparative evolution in selected economies in 2017 and 2018 (%)*


**Chart 1.2:** USDX evolution in the context of FED monetary policy

**Source:** FED, Bloomberg

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sanctions imposed to Iran, and the precarious situation in Venezuela that also affected the oil industry in that country. Financial markets have contributed negatively to oil price developments, falling US stock prices and fears of a possible recession, increasing anti-risk sentiment. An important factor was the periodic reduction of oil reserves in the US, caused by increased seasonal demand and higher US oil exports at the expense of OPEC oil exports. Also, trade tensions between the US and China have contributed to reducing international quotations for raw materials, including oil. Consistent with the evolution of international oil prices, the import price of natural gas in the Republic of Moldova increased in 2018 by 34.2% (Chart 1.3).

### Table 1.1: Appreciation (−)/depreciation (+) of currencies in 2018 (%)*

<table>
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<tr>
<th></th>
<th>USD 2018/2017</th>
<th>Dec18/Dec17</th>
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<tbody>
<tr>
<td><strong>Advanced economies</strong></td>
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<tr>
<td>EUR</td>
<td>-4.5</td>
<td>4.0</td>
</tr>
<tr>
<td>JPY</td>
<td>-1.6</td>
<td>-0.5</td>
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<tr>
<td>GBP</td>
<td>-3.4</td>
<td>5.8</td>
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<tr>
<td>AUD</td>
<td>-2.6</td>
<td>-9.5</td>
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<tr>
<td>CAD</td>
<td>0.1</td>
<td>-4.9</td>
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<td>CHF</td>
<td>-0.7</td>
<td>0.5</td>
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<td>SEK</td>
<td>1.8</td>
<td>7.6</td>
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<td><strong>Developing economies</strong></td>
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<tr>
<td>ARS</td>
<td>69.7</td>
<td>114.0</td>
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<td>CNY</td>
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<td>HUF</td>
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<td>ZAR</td>
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<tr>
<td><strong>Republic of Moldova</strong></td>
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<tr>
<td>MDL</td>
<td>-9.1</td>
<td>0.3</td>
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Global food prices declined by an average of 3.5% in 2018 due to appreciation of the US dollar, abundant export volumes for most product groups, and global commerce disturbance due to commercial tensions (Chart 1.3).

### 1.2 Evolution of important economies

#### United States of America

In 2018, the US gross domestic product grew by 2.9%, increasing by 0.7 percentage points as compared to 2017. The acceleration of economic activity in the US was also reflected in the data on wage growth, acceleration of inflation and maintenance of the low level of unemployment. Thus, in 2018, the average unemployment rate was a low of 3.9%. Against this background of increased international oil prices and domestic consumption, consumer prices in the US recorded a slight increase in December 2018, with annual inflation rising above 2.0%. The evolution of consumer prices determined the Federal Reserve System to increase the interest rate four times in 2018, each time by 0.25 percentage points.

#### Euro area

In the reporting year, euro area economy grew by 1.8% compared with 2.4% in 2017. Industrial production in the euro area increased by 1.1% in 2018 on average, with imports increasing 6.2%, and exports only 3.7% affected by the introduction of US tariffs on steel and aluminium imports, and overall, by the worsening of the international trade climate. The unemployment rate also declined in 2018, in December 2018 constituting 7.8% compared with 8.6% in December 2017. Anticipating a rise in inflation supported by high oil prices, the ECB gradually reduced its asset purchase program to zero at the end of 2018. However, in December 2018, annual inflation in the euro area was 1.5%, slightly below the 2.0% target of the ECB (Table 1.2).

#### China

China’s economy grew by 6.6% in 2018, with 0.3 percentage points less than in 2017, with the lowest growth rate since 1990. The economic downturn in 2018 was caused by trade tensions between the US and China.
1.3 Evolution of economies of the neighbouring countries and the main trading partners

Romania

In 2018, Romanian economy grew by 4.1% below the level registered in 2017 by 7.0%. The significant decline in economic activity also reflected industrial production in 2018, which grew by an average of 3.5%. At the same time, international trade remained relatively high, with exports increasing by 8.1% in 2018 and imports by 9.6%. The annual inflation rate exceeded the target set by the National Bank of Romania during the first three quarters and returned to target in the fourth quarter of 2018. Thus, as of December 2018, consumer prices grew by 3.3% compared to December 2017, but the average annual inflation rate in 2018 was 4.6% (Table 1.2).

Ukraine

The gross domestic product in Ukraine increased by an average of 3.3% in 2018, but the economic outlook remains challenging as the economic growth of the country is too slow to return to pre-crisis level. During the reference period, the volume of industrial production increased on average by 1.1%, of the agricultural production by 7.8% and the construction activity increased on average by 4.4%. At the same time, exports and imports grew by 9.4% and 15.2%, respectively, in 2018. The alleviation of inflationary pressures in 2018 allowed annual inflation to slow down to 9.8% in December 2018, with the annual average accounting for 11.0% (Table 1.2).

Russian Federation

In 2018, the Russian Federation economy grew, on average, by 2.3%, surpassing expectations. This output was achieved due to rising construction statistics in 2018 (+ 5.3%) due to the launch of a large gasification project in the Iamal Peninsula. At the same time, structural reforms in recent years and rising oil prices have had a beneficial impact on the economy of the Russian Federation, which has in the meantime been resisted by foreign economic sanctions. Thus, during 2018, industrial production increased by an average of 2.9%, and exports and imports – by 25.8% and 4.7%, respectively. Current account surplus has contributed significantly to the appreciation of the Russian rubble. In the spring of 2018, the Central Bank of Russia decreased its base rate two times to mitigate disinflationary pressures. But in the autumn, when inflation expectations increased as a result of the VAT increase from 18% to 20% as of 1 January 2019, the Central Bank of Russia increased twice the benchmark rate by 0.25 percentage points, thus managing to maintain inflation at the target level of 4.0% (December 2018 - 4.3%) (Table 1.2).

Table 1.2: The evolution of selected indicators in neighboring economies, main trading partners in 2018 (%)

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Euro area</th>
<th>Romania</th>
<th>Ukraine</th>
<th>Russian Federation</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP</td>
<td>1.8</td>
<td>4.1</td>
<td>3.3</td>
<td>2.3</td>
</tr>
<tr>
<td>CPI, Dec.18/Dec.17</td>
<td>1.5</td>
<td>3.3</td>
<td>9.8</td>
<td>4.3</td>
</tr>
<tr>
<td>CPI, annual average</td>
<td>1.7</td>
<td>4.6</td>
<td>11.0</td>
<td>2.9</td>
</tr>
<tr>
<td>Industrial production</td>
<td>1.1</td>
<td>3.5</td>
<td>1.1</td>
<td>2.9</td>
</tr>
<tr>
<td>Production in construction</td>
<td>1.7</td>
<td>-4.1</td>
<td>4.4</td>
<td>5.3</td>
</tr>
<tr>
<td>Export*</td>
<td>3.7</td>
<td>8.1</td>
<td>9.4</td>
<td>25.8</td>
</tr>
<tr>
<td>Import*</td>
<td>6.2</td>
<td>9.6</td>
<td>15.2</td>
<td>4.7</td>
</tr>
<tr>
<td>Unemployment rate</td>
<td>8.2</td>
<td>4.1</td>
<td>8.8</td>
<td>4.8</td>
</tr>
</tbody>
</table>

Source: Eurostat, NIS of Romania, Federal Statistics Service of Russia, State Statistics Service of Ukraine
*data on foreign trade with goods
Turkey

The Turkish economy had a poor trend in 2018, marked by the significant depreciation of the Turkish lira (32.2%) amid the lack of clarity of domestic politics and geopolitical tensions. The Central Bank of the Republic of Turkey raised its refinancing rate 3 times during 2018, from 8.0% to 24.0%. However, the Turkish lira continued to be vulnerable given the strong dependence of the Turkish economy on foreign capital. The effect of the depreciation of the Turkish lira and the stimulation of domestic consumption led to an annual inflation at the highest level in the last 15 years of 25.2% in October 2018, the annual average inflation accounting for 16.3%. However, Turkey’s economy avoided a recession, gross domestic product growing by 2.6% on average in 2018, after reaching 7.4% in 2017.

Belarus

In Belarus, economic growth in 2018 was 3.0% versus 2.5% in 2017, benefiting from strong external demand and household consumption growth. During the analysed period, industrial production increased by 5.7% on average, exports by 15.3% and imports by 12.2%. The Belarussian rubble had a low volatility, decreasing on average by 5.4% against the US dollar in 2018.
Chapter 2

Economy of the Republic of Moldova

2.1 Real sector

Gross domestic product

In 2018, GDP grew by 4.0%, by 0.7 percentage points lower than in 2017. During the year, the dynamics of economic activity recorded some fluctuations. Thus, in the first and second quarters, it constituted 3.7% and 5.2%, respectively, and in the third and fourth quarters, the GDP was by 3.4% and by 3.9%, respectively, superior to that of the similar periods of 2017. At the same time, the factors that determined economic growth during 2018 were different. In the first half of 2018, the economy of the Republic of Moldova was mainly supported by the effects of a rich harvest in 2017, which resulted in a pronounced increase in export. Starting with the second quarter of 2018, the economic activity was largely influenced by the acceleration of the investment component as a result of some initiatives, financed from the state budget. After a relatively modest dynamics, in the first nine months, towards the end of 2018, there is an acceleration of private consumption in the context of fiscal reforms. At the same time, in the second part of the year, exports exerted a negative impact on GDP dynamics as a result of a slower harvest in 2018, but also an insignificant external demand for domestic fruit as a result of the large harvest of these products at regional level.

From the uses perspective (Chart 2.1), the positive evolution of economic activity in 2018 was mainly determined by the significant contribution (4.2 percentage points) of the investment component. In this respect, gross fixed capital formation was 14.0% higher than in 2017, and was supported by the implementation of the Good Roads for Moldova program. At the same time, the stock change component generated a positive impact of 1.0 percentage points to GDP dynamics. However, a significant part (3.2 percentage points) of the economic growth from 2018 is due to the increase of the final consumption of the households by 3.8% compared to 2017 due to the increase in the disposable income of the population. In the first nine months of the year, population consumption experienced a more modest evolution. Subsequently, in the fourth quarter, the consumption dynamics increased, being favored by the effects of the fiscal reforms. The final consumption of public administration in 2018 contracted by 0.4% compared to the previous year. The dynamics of economic activity was significantly mitigated by the increase of imports by 8.9% as compared to 2017, supported both by the increase in domestic demand and by the appreciation of the national currency.

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6http://asd.md/page/drumuri-bune-pentru-moldov
By category of resources (Chart 2.2), the GDP growth in 2018 was mainly determined by the positive contribution from the evolution of construction and commerce\(^7\). Thus, the gross added value of construction was by 16.0% higher than in 2017.

The commercial sector recorded an increase of 5.7%. Positive but lower magnitude contributions were generated by the increase in gross value added in industry, agriculture and the information and communication sectors by 4.3%, 1.9% and 4.3%, respectively. Financial and insurance, as well as real estate transactions sectors grew by 1.8% and 1.2%, respectively. However, their contribution to GDP dynamics was minor (0.1 percentage points). At the same time, net taxes on products in 2018 increased by 2.7%, generating a contribution of 0.4 percentage points to GDP dynamics.

**Consumption of the population**

In 2018, final consumption of population rose by 3.8%, recording a growth rate of 1.1 percentage points higher than in 2017 (Chart 2.3). These dynamics were mainly determined by the increase in the expenses for procurement of goods by 4.4%. At the same time, the expenses for services procurement grew by 1.8%.

The positive evolution of household consumption in 2018 was supported by the increase in disposable income. In 2018, the disposable income of the population experienced a positive but more modest dynamics than that recorded in 2017. Thus, in the reference period, the annual growth rate of the disposable income of the population recorded a level of 6.2% or by 2.8 percentage points below the 2017 level (Chart 2.4). These dynamics were largely determined by income obtained from salaries and social benefits. The evolution of transfers abroad has had a negative impact on the dynamics of disposable income of the population. In 2018, the annual growth rate of the disposable income of the population, in real terms, represented 3.1%, being by 0.9 percentage points higher than in 2017.

**Investments**

In 2018, the annual rate of gross fixed capital formation accelerated, compared to 2017, largely as a result of increased investment in gross fixed capital formation (Chart 2.5). Thus, the annual rate of gross fixed capital formation in 2018 recorded a level of 14.0% or by 6.0 percentage points higher than in 2017. Similar to 2017, in 2018, the stock variation generated a positive contribution to the evolution of the annual gross capital formation rate.

Analysing the evolution of investments in fixed assets by sources of financing, it is clear that their return to positive values was mainly supported by the investments of public administration (Chart 2.6). Thus, the financing of programs initiated at central level\(^8\) has contributed to the acceleration of the annual rate of investment in fixed assets. At the same time, it is worth mentioning that after a period of two years when investments from the "own means of enterprise and population" were decreasing, in 2018 a slight revival of these was confirmed (2.6%).

\(^7\)Wholesale and retail trade; maintenance and repair of motor vehicles and motorcycles; transport and storage; accommodation and catering.

\(^8\)Good Roads for Moldova.
Agricultural production

In 2018, the global agricultural production increased by 2.5% in comparison with 2017, (Chart 2.7), as a result of increasing the volume of vegetal production by 3.8%. It should be noted that 2018 was a favorable year for most of the categories of crops, with the exception of rape, wheat, potatoes and field vegetables. At the same time, the pronounced increase in the volume of production of "fruit, nuts and berries" (28.4%) and of "maize for grains" (15.4%) counterbalanced the negative effect generated by the lower harvest for other products.

The contraction of production volume in zootechnic sector (-1.1%) was determined by the negative evolution of "milk" production (-15.0%) and eggs (-1.3%). At the same time, the increase in the production of cattle and poultry (in live weight) by 3.7% has offset some of the negative effects generated by the decrease in milk and egg production.

Industrial production

In 2018, the industrial production output for all forms of ownership increased by 3.7%, as compared to 2017 (Chart 2.8). This increase was mainly attributed to all main subcomponents of the industry. Thus, the volume of production in the “manufacturing sector” (the largest subcomponent) increased by 2.8%. At the same time, the “mining industry” and “production and distribution of electricity and heat, gas, hot water and conditioning air” increased by 9.9% and 7.4% respectively. In the manufacturing industry, the most significant increases were recorded in the following industrial sectors: manufacturing of motor vehicles, trailers and semi-trailers (54.2%), skin tanning and finishing; manufacture of travel goods and leatherwear, harness and footwear; preparation and dyeing of fur (16.5%), manufacturing of electrical equipment (15.5%) and manufacturing of other non-metallic mineral products (14.9%).

Freight shipping

In 2018, rail, road, river and air transport companies carried 10.0% more freight, compared to 2017 (Chart 2.9). This significant increase in freight shipping was determined by the increase in the volume of freight carried by rail (2.8%), by road (12.8%) and by air (25.2%). At the same time, the amount of fluvial cargo shipped declined, in annual terms, by 5.8%.

Wholesale trade

In 2018, the turnover generated by wholesale businesses as their main activity increased by 7.6% this rate being 12.2 percentage points higher than in 2017. At the same time, the turnover of enterprises with the main activity of market services provided to the population recorded an increase of 10.9% (in annual terms) (Chart 2.10) 11.3 percentage points higher than in 2017.
Retail trade

In 2018, the total turnover generated by retail sales businesses increased by 7.4% (current prices), this rate being by 12.5 percentage points lower than in 2017 (Chart 2.11). At the same time, the total turnover generated by businesses providing services as their main activity recorded an increase of 4.1% (current prices), by 4.7 percentage points lower than in 2017.

Foreign trade

Although the exports had a positive dynamics in 2018, their annual rate was lower than in 2017. Thus, the annual export rate recorded a level of 11.6%, being by 7.0 percentage points lower than in 2017. At the same time, the downward trend in the annual export rate was determined by their evolution to all categories of countries (Chart 2.12). It is worth mentioning that in 2018, exports to EU countries accounted for about 2/3 of total exports, so their contribution to the dynamics of total exports was a dominant one. At the same time, exports to the CIS countries contracted by 10.0%, thus contributing to the contracting of total exports in 2018 by 1.9 percentage points.

The moderation of the annual export rate in 2018 was mainly determined by the evolution of exports of agro-food products (Chart 2.13). Thus, their annual rate decreased by 16.4 percentage points to 3.2%. It should be noted that a decisive factor contributing to the moderation of the annual rate of exports of agro-food products in 2018 was the regional over-production of fresh fruit, which significantly reduced the external demand for fresh fruits and canned fruits in the second half of the year. Similarly to 2017, a significant contribution from the group “Vehicles, optical instruments, sound recorders and reproducers” can be noted in 2018, due to favorable developments in their manufacturing industries (especially free economic areas).

A confirmation of the above mentioned is also suggested by the evolution of exports by product origin category. Thus, the decline in the annual export rate in 2018 was mainly determined by the evolution of exports of domestic goods (Chart 2.14). In 2018, imports continued the stronger dynamics observed in the previous year. This development was supported by the increase in the consumption of the population, as a result of the increase in its disposable income, but also by the appreciation of the national currency against the currencies of the main trading partners.

The annual import rate in 2018 recorded a level of 19.3% or 0.9 percentage points lower than in 2017. Maintaining positive rhythms of imports growth in 2018 was supported by the evolution of imports from all categories of countries (Chart 2.15). In the reporting year, the share of imports from the EU constituted about 50%, and CIS countries and those classified as “Third World” recovered 25%, respectively.

9Quarterly data on the evolution of Moldovan foreign trade, expressed in thousand US dollars.
By category of goods (Chart 2.16), in 2018, the annual growth rate of imports was mainly influenced by the evolution of imports of “vehicles, optical instruments, sound recorders and reproducers”, “mineral products” and “chemicals and wood products”, which generated positive contributions of 6.7, 4.8 and 3.4 percentage points, respectively.
Chapter 2. Economy of the Republic of Moldova

Chart 2.12: Evolution of exports annual rate (%) and contribution by categories of countries (p.p.)

Chart 2.15: Evolution of imports annual rate (%) and contribution by categories of countries (p.p.)

Chart 2.13: Evolution of exports annual rate (%) and components’ contribution by groups of goods (p.p.)

Chart 2.16: Evolution of imports annual rate (%) and components’ contribution by groups of goods (p.p.)

Chart 2.14: Evolution of exports annual rate (%) and contribution by origin (p.p.)

Chart 2.17: Annual growth rate of employed population (%), versus the same period of the previous year) and its formation by national economy sectors (p.p.)

Source: NBS, NBM calculus

*Public administration, defence, education, health, social services
Labour market

Labour force

After contracting in 2017, in 2018, the main indicators of the labor market have outlined, as a whole, a positive dynamics supported by the positive evolution of economic activity.

Thus, the economically active population in 2018 was 2.5% higher than in 2017. A similar situation is evident for the employed population, which increased by 3.7% compared to 2017 (Chart 2.17).

In 2018, the positive dynamics of the employed population was mainly determined by the 15.8% increase in the number of persons involved in agriculture. Positive but lower magnitude contributions have been exerted by the increase in the employed population in industry and construction. On the other hand, the number of people involved in trade, transport and the public sector diminished.

In 2018 the unemployment rate constituted 3.0%, being lower (by 1.1 percentage points) compared to 2017. At the same time, the activity rate constituted 43.3%, being 1.1 percentage points higher than in 2017, and the employment rate was 42.0%, by 1.5 percentage points higher compared to 2017 (Chart 2.18).

According to the data provided by ANOFM\textsuperscript{10}, during the 12 months of 2018, the number of redundancies decreased by about 38.3% compared to the corresponding period of the previous year, and the number of jobs identified vacancies increased by about 23.4%.

Personal income

In 2018, the payroll fund in the economy increased by 14.1%, compared to 2017, whereas, deflated by CPI, it rose by 10.8%. At the same time, the average number of employees\textsuperscript{11} in the national economy has increased by 0.9% (Chart 2.19).

In 2018, the average wage in the national economy increased by 13.2% compared to 2017. In the budgetary sector of the economy and in the real sector there was an increase of the average wage of 14.6% and 12.5%, respectively. The annual growth rate of average earning in real terms in the economy was 9.9% in 2018 (Chart 2.20). The average real earning in the real sector increased by 11.2%, and the average salary in real terms in the budgetary sphere – by 9.2%.

\textsuperscript{10}The National Employment Agency of Moldova.
\textsuperscript{11}NBM calculations based on quarterly preliminary data.
2.2 Evolution of inflation

Consumer Price Index (CPI)

In 2018, the CPI annual average inflation rate amounted to 3.0%, being with 3.6 percentage points lower than in 2017. During the reference year, the annual inflation rate recorded a pronounced downward trajectory. This diminished from 7.3% in December 2017 to 0.9% in December 2018 (Chart 2.21).

At the beginning of 2018, the downward trajectory of the annual inflation rate was mainly determined by the disappearance of the impact of tariff adjustment on medical services in the first quarter of 2017 and the recalculation of inflation for the first two months of 2018 because of the fall in the price of network gas. Subsequently, this trend was supported by the effect of a high base period from April to May 2017 (atypical weather conditions) on food prices, but also by a rich harvest of fruit in 2018. At the same time, in the second half of the year, a sharp decline in the CPI annual rate was exerted by the fall in the electricity tariff in July (Chart 2.23).

The downward trajectory of inflation in 2018 was also due to the appreciation trend of the national currency vis-à-vis the currencies of the main trading partners. Estimates suggest that during 2018, domestic demand has had an insignificant impact on the annual inflation rate. Some inflationary pressures were led by the adjustment of excise duties and the setting of the minimum cigarette selling price. At the same time, pressures on rising oil prices on international market in 2018 were partly mitigated by the exchange rate dynamics, as well as by the freezing of fuel prices in the second half of the year.

Core inflation

Similar to the annual CPI rate, in the reference year, the annual growth rate of the core inflation followed a downward but less pronounced trajectory. Thus, it diminished from 5.5% in December 2017 to 2.6% in December 2018.

The downward trend of the core inflation during 2018 was mainly supported by the appreciation of the national currency against the currencies of the main trading partners. In 2018 compared to 2017, the official exchange rate of the Moldovan leu recorded an appreciation by 9.2% against the US dollar and 4.7% against the European single currency.

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12 Core inflation is calculated by the National Bureau of Statistics by excluding prices outside the area influenced by monetary policy measures promoted by the National Bank of Moldova, such as food and beverages, fuels, products and services with regulated prices. The data elaborated and published as of February 2012 are calculated by the NBS on the basis of the amendment to Annex No 2 of the "Basic Inflation Index Methodology", approved by the joint order of the National Bank of Moldova and the National Bureau of Statistics N8-07-01203/6 of February 19, 2012 (the amendment consists of the inclusion of prices for services of remote communication and medicines under regulated prices).
At the same time, according to estimates, aggregate demand pressures on the core inflation were minor in the course of 2018. Inflationary pressures in the core inflation were exerted by some fiscal policy effects for 2018\textsuperscript{13}, in the first part of the year, and subsequently generated by the additional regulations on the minimum cigarette selling price\textsuperscript{14}. This has led to a marked increase in cigarette prices and a significant impact during the reference period.

At the same time, in 2018, inflationary contributions to the core inflation were exercised by the subcomponents "clothing", "footwear", "public nutrition", "education and training"\textsuperscript{15} (Chart 2.24).

The evolution of the "education and training" subcomponent was determined by the increase in nurseries and kindergarten payments, which could be attributed to the measures taken to improve the nutrition of children in educational establishments. At the same time, during the second and third quarters of 2018, a significant contribution to core inflation had the "culture and rest" subcomponent as a result of the marked increase in prices for tourism services abroad (between May and July about 70%)

It is worth mentioning that as of October 1, 2018, the reduced VAT rate of 10\% for the HORECA services\textsuperscript{16}, which led to a fall in hotel prices within the CPI by about 3\% in the fourth quarter of 2018. Some contributors to the fall in the core inflation during the year were driven by the dynamics of the "vehicle, car parts" subcomponent as a result of the appreciation of the national currency.

At the end of 2018, in December, the annual dynamics of the core inflation was largely driven by rising "cigarette" prices (16.5\%), "education and training" services (5.9\%), "clothing" (ready-to-wear clothes 2.2\%, knitwear 2.0\%), "footwear" (2.7\%).

### Food prices

During 2018, the annual rate of food prices recorded a pronounced downward dynamic, diminishing with 7.6 percentage points to the level of 2.2\% in December 2018. This dynamic was mainly driven by reduction of contributions generated by subcomponents, such as fresh fruits, fresh vegetables and meat, meat products and canned meat (Chart 2.25).

The rich harvest of fresh fruit, coupled with low demand from foreign trade partners\textsuperscript{17}, has helped to create a surplus of these products on the market. As a result, the prices for fresh fruit during 2018 have decreased significantly. At the same time, the

\textsuperscript{13}https://monitorul.fisc.md/editorial/accizele-2017-2020-produse-din-tutun.html
\textsuperscript{14}http://www.fisc.md/article.aspx?id=8950
\textsuperscript{16}https://monitorul.fisc.md/documents_comments/precizari-privind-aplicarea-cotelui-tva-in-marime-de-10-pentru-horeca.html
\textsuperscript{17}Signature of a rich regional fresh fruit harvest
rich harvest of cereal products over the last years and the reduction of industrial processing costs (electricity) contributed to the creation of the prerequisites for reducing the prices of meat and meat products. The drought conditions recorded during May, but also in some months of the summer of 2018, affected the harvest of fresh vegetables and potatoes. As a result, inflationary pressures from these product categories have been identified, with an increase during the summer months. At the same time, it is worth mentioning that the moderation of the inflationary pressures from the fresh vegetables group in the fourth quarter of 2018 was determined by the annual appreciation of the national currency against the currencies of some trading partner countries\(^{18}\) (Turkish lira, Ukrainian hryvnia), which has led to the substitution of autochthonous tomatoes and cucumbers for imported vegetables at a much more attractive price. Thus, the annual price of tomatoes and cucumbers fell from 55.1% and 21.7% in September to minus 10.6% and minus 8.0% in December 2018, respectively. International food prices also recorded a downward trajectory during 2018, their annual rate decreasing by 3.5 percentage points to minus 4.2% in December 2018.

**Regulated prices**

In 2018, the annual rate of regulated prices recorded a pronounced downward dynamic, decreasing from 6.1% in December 2017 to -4.8% in December 2018 (Chart 2.26).

This dynamic was supported by the adjustment in the decrease of the price for network gas and electricity, but also by the gradual elimination of the annual rate of the effect generated by the increase in 2017 tariffs for medical services, thermal energy, water supply and sewage system (subcomponent household maintenance expenses) (Chart 2.26).

In this way, in March 2018, ANRE approved the 20.2% decrease in the tariff for the gas supplied to the household consumers for 2018\(^{19}\). As a result, NBS recalculated the inflation indices for January and February 2018\(^{20}\).

It should be noted that the significant decrease in the tariff for gas supplied to households was generated by the appreciation of the Moldovan leu against the US dollar, as well as by the decrease in the import price of natural gas. Subsequently, in July 2018, electricity prices decreased by about 10%\(^{21}\), as a result of ANRE’s decision of 15 June 2018 to adjust the regulated electricity supply prices by QS “Gas Natural Fenosa Supplying Energy” S.R.L. and to. “Northern Power Supply”. At the same time, during 2018 there was a downward trend in drug prices, determined by the appreciation of the national currency against the US dollar and the European single currency, since much of their prices depend on the MDL/USD, MDL/EUR, and some policy adjustments in that field. Negligible contributions to the annual price dynamics of regulated services during 2018 had prices for transport services.

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\(^{18}\)The main import countries of these product categories

\(^{19}\)http://anre.md/ro/content/anre-mic%C8%99orat-pre%C8%99Burile-de-furnizare-la-gazele-naturale-livrate-consumatorilor

\(^{20}\)http://bnm.md/ro/content/traiectoria-ratei-anuale-inflatiei-fost-modificata

\(^{21}\)http://anre.md/ro/content/anre-mic%C8%99orat-pre%C8%99Burile-de-furnizare-energiei-electrice-livrate-consumatorilor
Fuel prices

In 2018, the annual growth rate of fuel prices was characterized by an increased volatility. Thus, in the first two months of the year, their annual rate declined from 5.2% in December 2017 to 2.5% in February 2018. Subsequently, the annual fuel price recorded a rising dynamics, increasing to 12.6% in July 2018 (Chart 2.27).

This dynamics was mainly driven by rising fuel prices as a result of the significant increase in international oil prices. Thus, the average Urals oil price in the first seven months of 2018 was US dollar 69.4/barrel, 30.7% higher than the average price of oil in 2017.

Fuel price developments between August and December 2018 showed a downward trend, with annual rates falling to 7.4% in the last month of the year. The moderation in annual fuel prices was mainly driven by a reduction in fuel price pressure. This fact was supported by the provisions of Law no. 152 of 20 July 201822, according to which ANRE was to modify the Pricing Methodology of Petroleum Products, within three months from its publication. During this period, the retail prices of the main petroleum products constituted MDL 19.01 /liter for gasoline and MDL 16.89 /liter for diesel fuel. It should be noted that the above-mentioned ceiling prices remained unchanged by the end of the year. At the same time, a positive contribution to fuel prices over the course of 2018 was determined by the price dynamics of wood for fire.

During 2018, gas and coal prices have made minor contributions to fuel price dynamics.

Industrial prices

During 2018, annual industrial price inflation recorded a downward trajectory. In December 2018, the annual price index in industry accounted for minus 0.1%, by 2.4 percentage points lower than in December 2017. The downward trend in the annual IPPI rate during 2018 was influenced by the price dynamics of the products delivered both domestically and externally market (Chart 2.28).

Analyzing the evolution of the annual price index in industry by main sectors, it is suggested that its increased moderation was driven by price developments in the manufacturing and energy sectors (Chart 2.29). The moderation in the annual price level in manufacturing was due to the lowering prices in the food industry as a result of the reduction of the expenditures related to the energy resources (electricity, natural gas) used in the production process, but also by a fruit harvest in the autumn of 2018.

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During 2018, the annual rate of construction prices recorded a downward trajectory. In the fourth quarter of 2018, it stood at 6.1%, being 0.9 percentage points lower than in the fourth quarter of 2017 (Chart 2.30).

**Prices in construction**

Producer’s prices for agricultural products

In the reporting year, producer prices on agricultural products decreased by 7.5% compared to the previous year, as a result of the fall in prices for both vegetal products (-7.7%) and animal related products (-6.8%) (Chart 2.31).

The evolution of prices of vegetal products was mainly determined by the decrease in prices of "fruit and berries" (-33.5%), "grapes" (-16.6%), "leguminous crops for beans" (-14.3%), "sunflower" (-8.4%) and "rape" (-8.2%). At the same time, there was a significant increase in prices of "vegetables" (18.5%), "wheat" (10.2%) and "potatoes" (2.5%).

Prices for livestock products decreased as a result of falling prices for eggs (-12.3%), poultry meat (-11.3%) and pork (-4.9%). At the same time, the price of beef and veal rose by 16.9% and that of milk by 0.6%.
Chapter 2. Economy of the Republic of Moldova

2.3 Public Sector and Tax Policy

Implementing the national public budget

During 2018, the national public budget indicators had a more modest evolution compared to the previous year, and the budget deficit fell within the allowable limits. As a result of public revenues increase, of the public expenditure on a larger scale, the budget deficit enhanced and amounted to MDL 1,612.0 million. According to the Ministry of Finance, the revenues of the national public budget accounted for MDL 57,964.9 million, 8.6% above the level of revenues accrued in 2017 (Chart 2.32). Compared to the GDP, the collected revenues in 2018 amounted to 30.5%, up to 0.7 percentage points compared to 2017.

The major part of the budget revenues was gathered from taxes and fees, which amounted to 65.0% (MDL 37,660.1 million). The contributions and compulsory insurance premiums amounted to 29.6% (MDL 17,146.7 million), the share of other income and grants amounted to 4.8% (MDL 2,793.5 million), and 0.6% (MDL 364.6 million) of the total budget revenues.

During 2018, Moldova received financial support for budget support in the form of external grants in the amount of MDL 364.6 million, or by 63.9% less than in 2017. Compared to the GDP, the grants accounted for 0.2%, by 0.4 percentage points less than in 2017.

The expenditures of the national public budget amounted up to MDL 59,576.9 million, during the reference year, with an increase of 9.3% compared to 2017 (Chart 2.32). Of the total expenditures, the social protection expenditures had the highest share (35.2%), the education expenditures amounted for 17.6% and the healthcare 13.1%. Public expenditures, as per the GDP, amounted up to 31.4%, by 0.9 percentage points more than in 2017.

In this context, the implementation of the national public budget in 2018, caused a deficit of MDL 1,612.0 million. Compared to the GDP, this deficit represents 0.8%, with 0.2 percentage points above the level of 2017.

The financing resources of the national public deficit were net foreign loans amounting to MDL 534.9 million, representing 0.3% of the GDP (by 1.0 percentage points less than in 2017), debt and domestic loans amounting up to MDL 408.7 million, or 0.2% of the GDP (by 0.4 percentage points decrease compared to the previous year), and financial assets amounting to MDL 318.4 million, which is 0.2% of the GDP (0.3 percentage points increase compared to 2017). At the same time, the money balances in the national public budget accounts, compared to the beginning of the year, decreased by MDL 350.0 million.
2.4 International Accounts of the Republic of Moldova for 2018 (provisional data)

Balance of payments

In 2018, the current account payment balance of the Republic of Moldova amounted a deficit of USD 1,186.71 million, which doubled compared to 2017 (Table A.1). Compared to the GDP, the current account deficit amounted up to 10.5% (comparing to 5.8% in 2017) (Chart 2.33). The resource of the current account deficit was the traditional foreign trade with goods, which negative balance increased by 28.8%, the other components registering increasing surplus balances.

In 2018, exports of goods and services amounted up to USD 3,430.18 million and increased by 10.6% compared to 2017. On the one hand, the exports were positively influenced by demand of the main partner countries, which have registered significant economic growth. On the other hand, in the second half of 2018, the exports reflected a negative indicator, expressed both by lower prices for exported goods (in the last quarter of the year) and by decreasing physical volume.

Imports of goods and services amounted up to USD 6,365.63 million, increased by 18.9% compared to 2017. The increase of imports was mainly conditioned by the revival of investment activity, which enhanced the imports of capital and intermediate goods, and business services. As well, increased incomes also facilitated imports level enhancement, induced by increased personal remittances and salaries (especially in the public sector), as well as, by simplification of the fiscal policy in October 2018, regarding lowering the higher rate of income tax and increasing personal exemptions.

The deficit of foreign trade in goods amounted up to USD 3,308.75 million, enhanced with 28.8%, as imports increased more (+19.1%) than exports (+5.6%) compared to 2017. The ratio between the deficit of foreign trade in goods and the GDP was 29.3%, with 2.7 percentage points higher than in 2017.

The geographical structure of exports of goods (excluding goods after processing and other adjustments) in 2018, reflects that 60.7% were directed to EU countries, 21.7% were targeted at CIS countries, and the remaining 17.6% of exports were intended for other countries (Chart 2.34). The export-oriented goods to the EU, increased by 9.0% compared to 2017. This enhancement was mainly due to the exports increase to Italy, by 62.8%, to Romania – by 15.0%, and to Germany – by 35.6%.

In 2018, the exports to CIS countries decreased by 10.1% as compared to 2017, due to lower supply to Russia, by 14.1% and

23 Full analytical comments on the evolution of international accounts can be accessed at: http://bnm.md/ro/content/conturile-internationale-ale-republicii-moldova-pentru-anul-2018-date-provizorii

24 Unlike BNS data, statistics on foreign trade with goods published by NBM in the balance of payments contained a series of adjustments.
to Belarus 20.7%. At the same time, the supply level to Ukraine increased by 22.7%.

Also, in 2018, the export to other countries increased by 15.9% compared to 2017, induced by a 42.3% enhancement in exports to Switzerland, the United Arab Emirates by 5.6 times, to Serbia by 61.1%.

Within the structure of exports, the significant weight of 58.0% was due to agro-food products, increased by 2.2% compared to 2017. The export machines and devices (mainly, wires and cables), amounting to 12.3% of the overall exports, continued to increase, by 31.7% compared to 2017. The export of articles and elements of furniture enhanced by 18.7%, the chemical industry – by 1.3%. Also, the exports of materials and textiles decreased by 11.6%.

In 2018, within the geographical structure of imports of goods (excluding goods for processing and other adjustments, according to the rule of the country of delivery), the main value amounted to 54.5% of the European Union (Chart 2.35), with imports from the EU increasing by 17.9% compared to 2017. Positive results were reflected by imports from the CIS (+21.4%), amounting to 29.3%. The level of imports from other countries increased by 18.4% compared to 2017, amounting to 16.2% of the overall imports.

The main categories of imported goods in 2018 were: mineral products, with a share of 19.1% (up to 30.2% increase), machinery and appliances (+27.1%), agri-food products (+9.5%), chemical industry products (+13.1%), common metals and articles thereof (+20.9%), means of transport and equipment (+25.4%), and so on.

In 2018, the import of energy products and electricity amounted up to USD 954.72 million, increasing by 27.9% compared to 2017. This enhancement was induced by the increase of import of diesel fuels by 32.2%, natural gas (+46.6%), gasoline (+17.3%). At the same time, coal imports registered a decrease by 28.2%, electricity – by 3.3% (Chart 2.36).

The increase of the positive balance of services balance by 17.8% up to USD 373.30 million was due to the significant enhancement by 18.0% during 2017 (Table A.1) of exports of raw material processing services (by 44.0%), travel (+18.3%), computer science (+47.3%). At the same time, the imports of services increased by 18.1%. The enhancement in imports of services resulted mainly from the growth transport services imports (+16.3%), travel (+16.6%), other business services (+37.9%). The ratio between the balance of services and the GDP amounted up to 3.3%, which is unchanged from 2017.

In 2018, the surplus of primary income increased by 6.0% compared to 2017, to USD 590.24 million (Chart 2.37). Remuneration of employees residents for the accomplished work, to non-resident employers increased by 12.2% up to USD 941.41 million. However, the impact of this increase was mitigated by the simultaneous enhancement in outflows of investment income (+32.7%). The ratio between the primary income and GDP was 5.2%, by 0.5 percentage points less compared to 2017.

The positive balance of secondary income amounted up to USD 1,158.50 million, increasing by 2.2% compared to 2017.
due to the enhancement of the personal transfers received from Moldovan residents from abroad (+12.1%), which amounted USD 896.02 million. At the same time, the technical assistance and grants received by all sectors in the framework of international cooperation diminished by 27.5% compared to 2017 and amounted up to USD 139.65 million. Compared to the GDP, the secondary income balance amounted up to 10.2%, by 1.5 percentage points lower than the one calculated for 2017 (Chart 2.38).

Personal remittances received by Moldovan residents in 2018 were estimated at USD 1,742.50 million (+11.9 compared to 2017), which represents 15.4% relative to GDP (-0.7 percentage points compared to 2017 due to rising of GDP). The increase of personal remittances was mainly determined by the enhancement of flows from EU countries (+33.0% compared to 2017). At the same time, flows from CIS countries diminished by 6.2%, mainly due to the depreciation of the Russian Ruble. Personal remittances from other countries increased by 11.2% (Chart 2.39).

Capital account recorded a negative balance of USD 39.38 million, which decreased by 84.4%, as compared to 2017. The capital account balance was determined by the net capital outflows recorded by the private sector (USD 60.72 million), while external assistance received by the public administration to finance investment projects amounted to USD 21.24 million.

The sum of the balances of the current account and the capital account denotes that, as a result of the current and capital transactions of the Moldovan residents with non-residents, the net external financing cost amounted up to USD 1,226.09 million (10.8% versus GDP).

In 2018, the financial account resulted in net capital inflows of USD 1,132.16 million as a result of the net increase of residents’ liabilities to non-residents by USD 595.05 million (as a result of actual transactions), while the residents’ external financial assets decreased by USD 537.11 million (Chart 2.40, table A.1).

Liabilities increased, in particular, as a result of residents’ receipt of trade credits and advances from non-resident partners, in a net amount of USD 304.04 million.

Also, liabilities increased due to a net enhancement of undertakings of USD 231.96 million (Chart 2.41) in the form of direct investment. The value of equity investments (other than reinvestment of profits) held by non-residents increased during 2018, as a result of actual transactions, by USD 107.42 million, the reinvestment of profits was estimated at USD 25.24 million and the net accumulations of debt to foreign direct investors – to 99.30 million USD.

Liabilities in the form of loans recorded net drawings of USD 87.82 million (drawings – USD 515.05 million, repayment – USD 427.23 million) (Table A.2). Foreign funding was provided to: non-financial corporations, households and non-profit-making institutions – USD 218.81 million from total drawings, general government – USD 218.81 million from total drawings, general government – USD

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25 Personal remittances represent an additional item to the balance of payments and reflect the net remuneration of employees (excluding the costs of the workers in the country of employment, and some taxes and fees paid by residents abroad), personal and capital transfers between households, irrespective of their source of origin.
144.83 million, other financial companies – USD 96.89 million, companies that accept deposits – USD 34.15 million and the NBM – USD 20.37 million.

In 2018, the main creditors of the public administration were: the European Investment Bank – USD 63.42 million, the International Development Association – USD 36.18 million, the European Bank for Reconstruction and Development – USD 19.77 million, the International Monetary Fund (IMF) – USD 13.36 million, the International Bank for Reconstruction and Development – USD 7.27 million, the International Fund for Agricultural Development – USD 3.20 million, the Council of Europe Development Bank – USD 1.24 million, etc.

External loans reimbursements were allocated to institutional sectors as: non-financial corporations, households and non-profit institutions – USD 144.14 million, general government – USD 115.07 million, other financial companies – USD 67.94 million, NBM – USD 61.86 million (IMF loans), companies that accept deposits – USD 38.22 million.

Cash liabilities and deposits recorded a net decrease of USD 22.34 million (mainly due to cash withdrawals on loro accounts of non-resident banks).

The decrease in external financial assets was caused by the net decrease in assets in the form of cash and deposits of USD 730.04 million (of which the assets of licensed banks decreased by USD 3.00 million, and non-profit households and non-profit institutions – by USD 727.04 million). At the same time, official reserve assets increased by USD 235.53 million (as a result of actual transactions).

Also, net disbursements of USD 81.53 million contributed by non-residents to the trade credits and advances previously granted to them by resident trading partners contributed to the decrease in total financial assets.

**International investment position of the Republic of Moldova as of 31 December 2018**

On 31 December 2018 the international investment position of the Republic of Moldova amounted USD -4,166.92 million (36.8% reported to GDP), the negative balance deepening compared to the end of 2017 by 28.2% (Table A.3, Chart2.42).

External Financial Assets amounted up to USD 5,364.14 million, decreased by 6.2% since the beginning of the year, and liabilities – USD 9,531.06 million, by 6.3% increase.

During 2018, the evolution of the debit balance of the international investment level was driven by net actual transactions with non-residents (USD -1,132.16 million), changes in the price of financial instruments (USD -138.41 million) while other changes (USD 334.76 million) and the fluctuation of the original exchange rates against the US dollar (USD 18.74 million) positively influenced the balance of the investment level. All these changes caused an overall level decline on 31 December 2018 by USD 917.07 million.

The largest share in the external financial asset of emph external financial assets continued to be backed up by reserve assets.
During 2018, the stock of official reserve assets increased by 6.8% compared to the beginning of the year, amounting to USD 2,995.18 million.

The stock of official reserve assets grew from the net balance of payments by USD 235.53 million (calculated at the daily exchange rate) and from securities and money-market price changes by USD 0.39 million, the exchange rate fluctuations of the original currencies against the US dollar diminishing their value by USD 44.00 million.

The volume of official reserve assets meets all the criteria of sufficiency: covering at least 3 months of imports of goods and services (covered 5.6 months of actual import); full reserve coverage of short-term external debt (covered 147.4%); coverage of 20% of M2 (covered 88.0%); coverage of 100-150% of the amount: 30% of short-term debt +15% of other liabilities +5% of M2 +5% of exports of goods and services (covered 201.1%) (Chart 2.43).

Within the external liabilities structure, other investments continued to hold the largest share of 56.5%, followed by direct investments with a share of 42.9%.

At the end of 2018, the stock of liabilities in the form of direct investment amounted up to USD 4,087.40 million (up to 9.5% since the beginning of the year). The amount of shares and stock accounted for 53.2% of the total direct investment stock, the remainder being debt instruments (Chart 2.44). In the case of debt instruments, the bulk – 60.9% – represents the stock of loans contracted from foreign direct investors, the rest are commitments in the form of commercial credits and other debts to non-resident investors.

Within the geographical distribution of direct investments in the form of participations and shares accumulated, EU investors held the largest share of 84.5%. CIS investors held 6.0% of the total accrued equity capital, while other countries held investments of 9.5%.

The main economic activities that attracted foreign investments are: manufacturing (24.8% of the direct investment stock in the form of equity capital) and financial and insurance activities (24.2%) (Chart 2.45).
2.5 Public Debt and External Public Debt of the Republic of Moldova

Public debt

At the end of 2018, the public debt of the Republic of Moldova amounted MDL 52,012.5 million, which represents 27.4% of the GDP. The public debt increased by MDL 352.2 million or by 0.7% during 2018, due to the increase of the internal public debt balance – by MDL 480.1 million lei, while the balance of the external national debt diminished by MDL 127.8 million. As a share of GDP, the domestic debt declined in 2018 by 0.5 percentage points and the share of external debt by 1.1 percentage points (Chart 2.46).

On 31 December 2018, the public debt amounted to 55.7% of the external debt, and the internal public debt 44.3%.

The external debt balance, in foreign currency, as of 31 December 2018, decreased by 0.7% compared to 31 December 2017 and amounted up to USD 1,689.0 million. The external public debt, in MDL, amounted up to MDL 28,954.0 million at the end of the reporting year, decreased by 0.4% compared to the end of 2017.

At the end of 2018, the internal debt reached the value of MDL 23,058.6 million, higher by 2.1% compared to 2017. The increase in domestic debt was due to additional State Securities issues in the primary market, by about 9.6%. It is worth mentioning that, in October 2018 it was redeemed the two-year SS issued on 4 October 2016 for the performance of payment obligations derived from state guarantees in the amount of MDL 210.0 million. Therefore, at the end of 2018, the internal debt consisted of government securities issued for the performance of state guarantees (56.7%), and SS issued on primary market (34.3%) and converted SS (9.0%).

In 2018, funds for the service of state debt from the national public budget were used in the amount of MDL 1,504.8 million (by 22.0% less compared to 2017). External debt service amounted to MDL 379.5 million lei (6.0% more than in 2017). It should be noted that for the domestic debt service, funds were allocated in the amount of MDL 1,125.3 million (28.4% less compared to 2017, as a result of the decrease in the effective interest rates on SS issued during 2018).
External Debt of the Republic of Moldova

**Gross external debt** of the Republic of Moldova, during 2018, increased by 4.8% in face value, but decreased by 7.4 percentage points relative to the GDP due to increase of the GDP. As of 31 December 2018, it recorded USD 7,302.02 million, which represents 64.6% of the GDP (Chart 2.47, Table A.4).

**Public External and Public Guaranteed Debt** amounted to 26.6% of total external debt USD 1,938.89 million (-3.0% since the beginning of the year). **Unsecured Private Debt** amounted up to USD 5,363.13 million, increased by 8.0% compared to 31 December 2017.

From the point of view of the institutional sector structure, most of the external debt as of 31 December 2018, was due to non-financial corporations – 39.5% of the total stock, followed by intra-group lending in direct investment (including debts for the import of natural gas) – 26.2%, public administration – 23.4%, companies accepting deposits – 5.3%, the NBM – 2.9%, other financial companies – 2.2%, households – 0.5%.

The largest state creditor, as per 31 December 2018, was the World Bank Group with 36.7% share of the total public external debt or USD 712.34 million (of which the debt to IDA amounted to USD 619.07 million, to IBRD – USD 91.39 million and to IFC – USD 1.88 million) followed by IMF by 25.5%, the European Investment Bank – 12.9%, the Government of Romania – 6.5%, etc.

From the point of view of maturity structure (original maturity), most of the stock of gross external debt is due to long-term debt (72.2%). As of 31 December 2018, the foreign debt on long term amounted up to USD 5,269.45 million (+1.3% compared to 31 December 2017) (Chart 2.48).

However, in 2018 the sharp increase of the short term external debt (+15.2% compared to 31 December 2017) continued, mainly due to the enhancement of external liabilities, in the form of trade credits and advances (these will be partially redeemed (share of received advances) through deliveries of goods/services).

Thus, the external debt on short term amounted to USD 2,032.57 million and included: *trade credits and advances* (consisting of advances received from exports and unpaid invoices for imports) – 82.2% *bank deposits* (term and on sight) of non-residents in licensed banks of the Republic of Moldova – 6.9%, *other liabilities* related to the debt – 6.8%, *intragroup loans* – 0.4%, *other loans* on short term – 3.7% (Chart 2.49).

From the point of view of the foreign currency structure of currencies, those under **public and publicly guaranteed debt** were predominantly in SDRs (with a share of 55.6%), and in external loans under **unsecured private debt** prevailed in USD (50.3%).
Chapter 3

Monetary Policy

3.1 Monetary policy objective

Pursuant to the provisions of the Law No.548-XIII of 21 July 1995 on the National Bank of Moldova, the NBM is the central bank of the Republic of Moldova and an autonomous public legal entity that establishes and promotes monetary and foreign exchange policy in the state. During 2018, the NBM operated in line with the provisions of the Medium-term monetary policy strategy, approved by the Council of Administration of the National Bank of Moldova on 27 December 2012.

According to the above-mentioned strategy, in order to ensure and maintain price stability, the NBM set the inflation target, measured by the consumer price index, which is published monthly by the National Bureau of Statistics (NBS) at 5.0% level with a tolerance range of ± 1.5 percentage points.

The National Bank of Moldova promoted a monetary policy, aiming to ensure adequate monetary conditions to support lending and saving, along with adapting the internal economic environment to volatility and uncertainties in the external environment. At the same time, the conduct of monetary policy was affected by the complexity of the balance of risks, both internal and external, a gradual intensification of deflationary risks being recorded.

3.2 Monetary policy decisions

The conduct of monetary policy continued to shape in line depending on the risks and uncertainties associated with developments in the external and internal environment.

The intensification of the disinflationary process at the beginning of 2018 was in line with the National Bank’s forecasts. The annual inflation rate has had a downward trajectory, from 7.3% in December 2017 to 0.9% in December 2018, positioning itself in the first four months of the year in the range of 5.0% ± 1.5 percentage points.

Thus, during 2018, the National Bank of Moldova undertook measures of gradual calibration of the monetary policy in order to stimulate the internal demand, along with the further adjustment of the internal economic environment to volatility and uncertainty in the external environment. In this context, the NBM decided to maintain the monetary policy rate during 2018 at the level of 6.5% per year.
The decisions of the NBM’s Executive Board to maintain the base rate at 6.5% per year took into account the inflation forecasts, the dynamics of macroeconomic indicators, previous monetary policy decisions and the speed of the transmission of the effects of these decisions through different channels of transmission in the national economy, including by influencing interest rates on loans and deposits in domestic currency, thus further exerting effects on the evolution of inflation.

It should be mentioned that the National Bank of Moldova has increased the required reserve ratios of the attracted funds in lei and in non-convertible currency by 2.5 percentage points up to 42.5%. At the same time, the required reserve ratio of attracted funds in freely convertible currency was maintained at 14.0% throughout 2018.

These decisions aimed at anchoring inflation expectations by strengthening the prospects of maintaining the inflation rate within the range of ± 1.5 percentage points from the target of 5.0%.

### 3.3 Monetary policy achievements during 2018

Monetary market operations, standing facilities and the required reserve mechanism continued to play a key role in the implementation of monetary policy. Monetary market operations were carried out at the NBM’s initiative, the applied interest rate being equal to the monetary policy rate, whereas standing facilities were used at the bank’s discretion.

#### Monetary market operations

The excess liquidity, accumulated in the banking system at the end of 2017, increased in 2018, including as a result of foreign exchange interventions (foreign currency purchases) amounting to USD 262.7 million (4.2 billion lei), and determined an increased sterilization effort on the NBM’s side, the volume of these operations increasing significantly, compared to the previous year (Chart 3.1).

**Issuance of NBM Certificates**

The NBM has issued NBC through auctions, which were carried out weekly, the maturity of 14 days and the announcement of the maximum interest rate equivalent to the NBM base rate. For the whole of 2018, the weighted average NBC rate was 6.5% versus 8.11% in the previous year.

The volume of liquidity-absorbing operations increased as compared to the one recorded in 2017, a situation also reflected in the annual average stock of CBN investments, which increased from MDL 6,358.1 million, the level recorded in 2017 to MDL 8,356.8 million in 2018. The daily balance of CBN placements has usually evolved after a pattern characterized by decreases around the end of reserve requirements, alternated by returns to higher levels in the next period. The CNB’s daily balance recorded the highest value of MDL 9,926.2 million in the second half of March,
the minimum value of MDL 6,290.4 million was recorded at the end of the year, following NBM interventions as seller on the foreign exchange market in the fourth quarter of 2018.

**Lending activity**

As of 31 December 2018, the credit exposure of the licensed banks to the National Bank of Moldova is void. In September 2018, the last credit granted to banks in 1992-2002 for the construction of housing co-operatives (CHC) was paid.

**Standing facilities**

The conditions of operation of standing facilities (overnight deposits and loans), established by the NBM in 2018, have ensured for banks an increased flexibility and efficiency of liquidity management.

Interest rates on permanent facilities during 2018, unlike previous years, have been maintained unchanged. Overnight deposits accounted for 3.5%, and the overnight credit rate was 9.5%. The symmetrical corridor amplitude formed by the two permanent facilities around the base rate was maintained at ± 3 percentage points.

**Overnight deposit facility**

The year-round use of the deposit facility by banks to absorb the net surplus from the banking system implied a better ability of banks to manage their own short-term assets.

Banks have used the overnight deposit facility mainly at the end of the reserve maintenance periods. The frequency of using the deposit facility was generally the same throughout the maintenance periods of the required reserves held in Moldovan lei: the amounts placed overnight by banks at the NBM were at relatively low levels at the beginning of the period, increasing subsequently as banks fulfilled their obligation to maintain required reserves.

The total volume of overnight deposits placed by banks at the National Bank in the reference year amounted to MDL 149.4 billion, indicating an average daily balance of MDL 577.6 million, decreasing almost by half compared to 2017 (Chart 3.2).

The daily average balance of overnight deposits of banks calculated for each month recorded uneven values. Thus, in the first half of 2018 the balance recorded higher values, this segment having its highest annual value registered in March (MDL 898.8 million), so that in the second part of the year the balance of overnight deposits would drop significantly, (MDL 238.2 million) being registered in October. The decrease in monthly volumes was determined by the decrease of liquidity surplus by 2.5 percentage points increase of the required reserve ratio in MDL starting with the application period 16 September – 15 October 2018.

The average balance of the deposit facility amounted to about 3.9% of the average LORO account of the NBM banks (compared to 9.0% in the previous year).
Overnight credit facility

The excess liquidity pursued in the banking system in 2018 influenced banks’ requests for the overnight credit facility.

Thus, it was requested only in March and October, notably at the end of the period of application of the required reserves by a small number of banks, which risked not complying with the established requirements for the reserve requirements regime.

The amount of overnight credits granted by the NBM in 2018 amounted to MDL 411 million (2017 – MDL 357 million).

Required reserves

The required reserve mechanism continued to ensure the liquidity control and management in the banking system.

During 2018, against the background of a persisting excess of liquidity in MDL, recorded in the banking sector, and the potential pro-inflationary risks it could generate, the NBM has increased the required reserve ratio of funds held in Moldovan lei and non-convertible currency by 2.5 percentage points, to 42.5% with effect from 16 September to 15 October at the balance of funds attracted in the previous period.

Under these circumstances, but also due to the increase in the funds attracted by banks (Chart 3.3), required reserves in MDL maintained by banks during 16 December 2018 – 15 January 2019 amounted to MDL 15,095.9 million, up 19.4% compared to the reserves maintained by banks during 8 December 2017 – 7 January 2018.

At the same time, over the last seven years, NBM has not made any changes to the required foreign currency reserve (US dollars and the euro), maintaining it at the level of 14.0% of the base. As of 31 December 2018, the required foreign exchange reserves, held by banks at the NBM amounted to USD 62.6 million and EUR 127.4 million, recording a decrease of 11.5% and MDL 127.4 million, an increase of 7.5% respectively, compared to the end of 2017 (Chart 3.4).

Pursuant to Article 17(3) of the Law no. 548-XIII of 21 July 1995 on the National Bank of Moldova, for the share of required reserves exceeding 5.0% of the liabilities, based on which the required reserve level is calculated, the National Bank paid to banks interest amounting to MDL 442.6 million, by 17.2% less than in 2017. NBM’s expenditures related to the required reserves decreased as a result of the NBM’s measures taken to relax the monetary policy through the base rate tool. In this context, during 2018, the interest rate applied on the required reserves held in MDL (the average rate on overnight deposit facility) constituted 3.5% in comparison to 5.2% in 2017.
Chapter 3. Monetary Policy

Intervention on the domestic foreign exchange market

In 2018, the National Bank of Moldova intervened on the domestic foreign exchange market both as a buyer and as a currency seller in order to avoid excessive fluctuations of the MDL, in the context of the surplus and the significant shortage of foreign currency on the interbank market during different periods of the year.

During the reporting period, the volume of net transactions carried out by the National Bank of Moldova on the interbank foreign exchange market against MDL on the value date accounted for USD 264.56 million, including foreign exchange conversions in the form of purchases, carried out with the World Bank institutions, amounting to USD 1.86 million (Chart 3.5).

At the same time, during the reporting period, the NBM made swap purchases of USD 44.54 million, as well as a sales swap amounting to USD 8.0 million.
3.4 Monetary and foreign exchange conditions

Dynamic of monetary indicators

Throughout 2018, monetary indicators maintained a positive trend. Thus, the average growth rate of broad money supply recorded 7.8% in annual terms. Other monetary aggregates recorded a similar behaviour during the reference year.

Money supply

In 2018, the money supply (M2)\(^{26}\) rose by 10.0%, being by 4.3 percentage points below the annual growth rate in 2017 (Chart 3.6). At the same time, the evolution of the M2 monetary aggregate was characterized by a downward trend throughout the year, with the exception of September. Both components of M2 money supply have seen positive developments. Thus, deposits in national currency and money in circulation increased by 9.8% compared to 2017 and by 10.3%, respectively.

The deposits in MDL had a uniform evolution during the first three quarters, the growth rate averaging around 15.3%, with a gradual slowdown in the last quarter, thus, at the end of December 2018, the annual growth reached the level of 9.8%. At the same time, it is worth mentioning that the evolution of MDL deposits was largely determined by sight deposits, with term deposits continuing to generate, on average, minor positive contributions. During the whole year, money circulation was constant, the growth rate being by 0.3 percentage points lower than in 2017.

At the same time, the money supply (M3)\(^{27}\) recorded an annual growth of 7.8%, its growth rate having decreased by 1.5 percentage points compared to 2017 (Chart 3.7).

At the end of 2018, the growth rate of foreign currency deposits amounted to 3.1%. Foreign currency term deposits, recalculated in Moldovan lei, decreased by 6.0% per year, whereas sight deposits increased by 20.5% annually.

At the end of 2018, the share of domestic currency deposits in total deposits amounted to 60.0%, increasing by 1.5 percentage points compared to the end of 2017, and the share of foreign currency deposits – 40.0%, respectively.

In the structure of domestic currency deposits, the share of term deposits in total deposits placed in Moldovan lei recorded 51.5%, having decreased by 2.8 percentage points compared to the end of December 2017. Within the structure of deposits in foreign currency, 59.6% represent term deposits, by 5.8 percentage points below the level recorded in 2017.

\(^{26}\)Money supply M2 includes money in circulation (M0), MDL deposits and money market instruments.

\(^{27}\)Money supply M3 includes money supply M2 and foreign currency deposits of residents denominated in MDL.
Lending market

By the end of the reporting year, the growth rate of the total balance of loans in the economy, extended by the licensed banks, recorded 4.1%, higher by 7.5 percentage points than in December 2017 (Chart 3.8). This evolution was driven by the upward dynamics of the balance of loans granted to individuals, being offset by the negative annual rate of the balance of credits extended to legal entities. The balance of credits extended to legal entities recorded a decrease of 5.1%, lower than at the end of 2017 by 2.7 percentage points. The negative dynamics of this subcomponent was generated by the decrease of the component in the national currency by 12.3%. Towards the end of 2018, the growth rate of the balance of credits to individuals amounted to 40.6%, superior to that of the end of 2017 by 21.8 percentage points.

In the structure of currencies, in the second half of 2018 there was a strengthening of the trend of the balance of credits’ growth in the national currency due to the revival of the lending process in MDL and, on the other hand, the decrease of the component rate in currency denominated in US dollars (Chart 3.9). Thus, the annual growth rate of the total balance of credits granted in the economy in MDL constituted at the end of the reporting year 5.2%. It should be noted that both the balance of credits granted in MDL and that of foreign currency loans recalculated in MDL had similar developments during 2018.

Strengthening the dynamics of both the balance of credits in MDL and the balance of foreign currency recalculated in MDL by recording positive rises since September 2018 reflected the favorable effects on credit supply and demand as a result of the further reduction interest rates and the recording of liquidity surplus in the banking system.

Evolution of new granted loans

In 2018, the volume of new granted loans recorded an increase, amounting to 28,805.7 million lei, having risen by 17.8%, compared to 2017. This evolution was driven both by domestic currency loans, the volume of which grew by 20.5%, and the volume of loans in foreign currency recalculated in MDL by 13.2%.

During 2018, lending in the national currency advanced, amid falling interest rates (Chart 3.10). In this context, the volume of credits in national currency granted to legal entities, whose share constituted 58.0%, increased by 11.1%. At the same time, the volume of credits in MDL granted to individuals increased by 36.5%.

In 2018, the volume of credits in foreign currency recalculated in lei was lower than that of credits in national currency (Chart 3.11). Similarly to the sector in national currency, the volume of loans granted in foreign currency to individuals recalculated in MDL had the highest growth. The largest share of the volume of foreign currency loans recalculated in MDL is attributable to credits granted to legal entities, the volume of which increased in the reference year by 11.2%.
Deposit market

During 2018, the growth rate of the balance of deposits from the banking system recorded positive annual dynamics but a little lower than those of 2017. At the end of 2018, the annual change in the balance of deposits decreased by 1.9 percentage points compared to December 2017 and accounted for 7.0% (Chart 3.12). The decrease in the annual growth rate was mainly influenced by the evolution of the balance of sight deposits in the national currency of the legal entities. During the reporting year, the growth rate of the balance of placements in foreign currency denominated in US dollars, which evolution was not homogeneous and largely influenced by the decrease in the balance of foreign currency term deposits of legal entities, has diminished.

At the end of 2018, the total balance of deposits of legal entities registered a growth rate of 6.8%, lower than at the end of 2017 by 10.9 percentage points. The downward trend in interest rates on deposits has negatively affected placements from individuals. The growth rate of the balance of deposits placed by individuals at the end of 2018 constituted 7.2%, lower than at the end of 2017 by 2.1 percentage points.

On the national currency segment, during 2018, the annual growth rate has mitigated its positive trend, so that at the end of December 2018 the balance recorded a growth rate of 9.8%, by 6.6 percentage points less than at the end of December 2017. The decrease was more pronounced in the balance of sight deposits counterbalanced by the growth rate of the balance of term deposits. It should be noted that the share of sight deposits in the total deposits in MDL at the end of 2018 increased to 48.5% (compared to 45.8% at the end of 2017).

The growth rate of the balance of foreign currency deposits denominated in national currency was uneven and at the end of 2018 recorded 3.1% annually, higher to that of the end of 2017 by 3.2 percentage points.

Evolution of new attracted deposits

In 2018, the annual volume of new attracted deposits has recorded a downward trend, registering 33,559.3 million lei, their volume decreasing by 13.9%, compared to 2017 (Chart 3.13). The decrease was recorded both in the national currency (64.7%) and in the foreign currency recalculated in MDL (Chart 3.14). In 2018, the total volume of domestic currency deposits amounted to MDL 21,725.5 million, lower than in 2017 by 12.2%. The majority share of the volume of new deposits attracted in MDL was held by deposits attracted from individuals, which in the reporting year decreased by 22.4%. It should be noted that the total volume of deposits attracted in MDL from legal entities increased by 15.4% compared to 2017.

In 2018, compared to 2017, the volume of new foreign currency deposits, recalculated in Moldovan lei, decreased by 16.9%, being mainly driven by the decrease in volume in foreign currency deposits and by the appreciation of the domestic currency against the main reference currencies. The largest share in the volume of foreign currency deposits was held by deposits attracted from individuals, the volume of which decreased by 16.1% compared to 2017.
Interest rates applied on new deposits and loans

Maintaining the base rate applied to the main monetary policy operations of the National Bank of Moldova at the 6.5% level during 2018 and the liquidity surplus registered in the banking system throughout the reporting year favored the decrease of the monthly weighted average interest rates on newly attracted deposits and newly granted loans.

Corresponding rate of new loans granted by licensed banks

The weighted average interest rate on new loans extended in domestic currency dropped from the maximum of 9.80% annually (January 2018) to 8.45% annually in November 2018 (minimum value), then in December 2018 it grew to 8.61% per year (Chart 3.15). The annual average of the weighted interest rate on new loans granted in national currency in 2018 constituted 8.79% a year, lower than in 2017 by 1.53 percentage points. This development was driven by interest rates on loans granted to both legal entities and individuals. The weighted average interest rate on new loans to businesses constituted 9.31% per year, down from 2017 by 1.09 percentage points. The weighted average interest rate on loans to individuals decreased by 2.13 percentage points to 8.08% annually, compared to 2017.

The downward trend in interest rates on new loans in foreign currency was slower. The weighted average interest rate on foreign currency loans declined from 4.94% annually in January 2018 to 4.56% annually in December 2018 (Chart 3.11). For the whole of 2018, the average weighted rate on foreign currency loans amounted to 4.69% annually, down from 2017 by 0.31 percentage points. The rate cut was influenced both by the cost of loans to legal entities whose share is predominant and by the rates on new loans in foreign currency to individuals.

Corresponding rate of new term deposits

In 2018, interest rates on newly attracted deposits fell on both the domestic currency and the foreign currency components. Interest rates on deposits attracted in the domestic currency by the banking system have evolved unevenly. The highest weighted average interest rate was recorded in January 2018 (5.17% annually), and the lowest in December 2018 (4.10% annually) (Chart 3.15). The average weighted rate of deposits attracted in national currency in 2018 constituted 4.47% annually, lower than in 2017 by 1.27 percentage points. Its evolution was largely determined by the cost of attracted funds from individuals, whose share accounted for 64.6%. The weighted average interest rate on deposits attracted from individuals in 2018 amounted to 4.80% annually, lower than in 2017 by 1.26 percentage points.

The average interest rate on foreign currency deposits recorded a downward trend. In some months of 2018, this rate recorded historical minimums, falling below 1.00% annually, but at the end of the year it accounted for 1.08% annually (Chart 3.14). The weighted average interest rate on deposits attracted in foreign currency in 2018 constituted 1.00% per year, down from 2017 by 0.63 percentage points. The weighted average interest rate on deposits attracted from individuals (with a majority share in total foreign currency deposits) constituted 0.90% annually, down from...
The average rate on deposits of legal entities did not change compared to 2017.

**Banking margin**

In 2018, in the domestic currency segment, the banking margin of new operations in MDL decreased by 0.26 percentage points, compared to 2017, recording a level of 4.33 percentage points. In the foreign currency segment, the situation was opposite, the foreign currency bank margin recorded an annual growth of 0.32 percentage points, standing at the level of 3.70 percentage points (Chart 3.16).

**Balance interest rates**

During 2018, the average interest rates on the balance of loans extended by licensed banks and the rates of term deposits placed in the banking system continued their downward trend (Chart 3.17).

The average interest rate on the balance of credits in national currency at the end of 2018 constituted 8.51% annually, lower than at the end of 2017 by 1.41 percentage points. This decrease was generated by the reduction of interest rates on both legal entities and individuals.

The average interest rates on the balance of foreign currency loans during 2018 recorded similar evolutions as those related to the balance of credits in national currency, decreasing to 4.88% annually by the end of the year, decreasing by 0.88 percentage points compared to the end of 2017.

The average interest rate on the balance of deposits in lei amounted to 4.69% annually, down by 0.99 percentage points compared to the end of 2017. This decline was influenced by the reduction of interest rates on deposits attracted from individuals, with a majority share in total deposits in MDL as well as by legal persons.

The average interest rate related to the balance of placements in foreign currency reached a new historical minimum level at the end of 2018, accounting for 0.96% annually in the reference period, lower than at the end of 2017 by 0.38 percentage points. It should be noted that on both segments, both the balance of deposits of individuals with a majority share and the balance of deposits of legal entities, the average rate cuts were uniform.

At the end of 2018, the banking margin on the balance in national currency constituted 3.82 percentage points versus 4.24 percentage points in 2017. The banking margin at foreign currency balances recorded 3.92 percentage points, below that of 2017 by 0.50 percentage points.
3.5 Monetary market

Primary market of state securities

As a state agent responsible for the placement and administration of state securities (SS) through the Book-Entry System, the National Bank, in 2018, organised and carried out 141 auctions for SS placement.

In order to boost the development of the secondary market of the SS, the Ministry of Finance has made some changes in the policy of securities issuance. Thus, treasury bills of 91, 182, 364 days were offered for sale weekly in the first quarter of the year and twice a month starting in April, increasing gradually by the end of the year. Two-year government bonds (GB) with floating interest rate were proposed at monthly auctions during the year in an amount similar to the one in the previous year – 15 million lei. The intention of the Ministry of Finance to increase the average maturity of SS as well as an increased investors’ interest for SS with a longer maturity resulted in the placement of bonds with 5-year maturity and fixed interest rates. Fixed interest rate government bonds were offered for sale monthly in volumes of MDL 40 million for maturities of 2 and 3 years and MDL 10 million for 5 years.

Also, in order to improve state debt management and to avoid seasonal pressures in securing sources of funding to cover the budget deficit but also to reduce the risk of government debt refinancing and liquidity risk, the Ministry of Finance decided to create a cash buffer by issuing three government bonds of 2, 3 and 5 years in March and September.

The decrease in interest rates on the primary market of the SS has affected investors’ interest in these investments, the ratio between the volume of bids submitted and the volume announced for placement throughout 2018 slightly decreased, constituting 1.3. The Ministry of Finance managed to attract from the market MDL 10,046.2 million, below the programmed amount of MDL 10,790.0 million (Chart 3.18).

The evolution of the interest rates on the primary market of state securities reflected the combined effects exerted during 2018 on the persistence of excess liquidity in the banking sector and, implicitly, on the interest shown by investors in this type of placement.

The monthly average SS rate ended its downward trend, initiated in the previous year in April, when it also recorded the 4.19% minimum rate (Chart 3.19). Subsequently, this rate has seen an upward correction, reverting to the monetary policy rate and reaching a peak of 5.93% at the end of 2018.

Non-bank investors remained active on the SS market due to the attractiveness of SS interest rates, however, volumes purchased by them during 2018 (MDL 1,715.9 million) declined slightly both in absolute terms (MDL -117.6 million), as well as the share in the total adjudicated volume (from 17.8% to 17.1%) compared to 2017.
These developments were accompanied by favourable changes in the structure of the newly issued state securities: the share of those with a maturity of 91 and 364 days in favour of government bonds was significantly reduced. Under these circumstances, the average maturity of the issued securities recorded a broad expansion (from 287 days to 365 days), representing for the first time a year (Chart 3.20).

The interest rates on the state securities market recorded in 2018 values located predominantly in the lower part of the rate corridor set by NBM. The analysis of the evolution of these rates in maturity division denotes a spread of interest rates on the 182-day and 364-day titles compared to the 91-day maturity, which is explained both by the Ministry of Finance’s increase in the indicative volume of the longer-term SS issues and the frequent auctioning of these SS in volumes exceeding those announced for auctions. At the last SS tender placement in 2018, the weighted average nominal interest rate for the 91-day maturity decreased by 0.45 percentage points compared to the value recorded at the end of 2017, constituting 4.71%, and those related to the maturities of 182 and 364 days increased by 0.04, respectively by 0.53 percentage points, accounting for 5.97% and respectively, 6.51% (Chart 3.21).

The average annual interest rate on state securities with a maturity of up to one year awarded in 2018 was 4.76% versus 6.69% in 2017 (Chart 3.22).

The annual weighted average nominal interest rates on SS traded over the last two years for primary market auctions in maturity segments are presented in the table 3.1.

On the financial market, interest rates on loans to the economy continued to be the highest. Revenues from investments in state securities were lower than those offered by bank deposits only in the first quarter of the year, after which they alternated successively until the end of the year. In December, the evolution of these rates had opposite directions (Chart 3.22).

The volume of state securities, placed on the primary market through auctions, in circulation as at 31 December 2018, amounted to MDL 8,132.7 million at nominal value (Chart 3.23). At the sale-purchase price it constituted MDL 7,914.0 million, registering an increase of MDL 690.0 million at the end of the reported year compared to the end of the previous year (of which MDL 90.0 million for the formation of the reserve liquidity). Of the SS in circulation on 31 December 2018, those with a residual maturity of up to three months accounted for 33%, from 3 to 6 months – 21.8%, from 6 to 12 months – 24.7%, over 1 year – 20.5%.

Secondary market of state securities

The liquidity surplus pursued in the banking system during 2018 also influenced the evolution of the SS secondary market. Although the volume of transactions increased compared with previous years, the secondary market remains a passive one, with more significant volumes being recorded in June, October and December (Chart 3.24).
Two maximum annual indicators marked December: the interest rate (6.47%) and the volume of transactions (MDL 52.7 million).

Total volume of secondary market transactions in 2018 amounted to MDL 116.1 million, compared to MDL 43.2 million in the previous year. Yields on state securities with maturities of up to 1 year traded on the secondary market followed the general trend of SS primary market, influenced only by the term of the transaction. The average annual interest rate amounted to 5.24%, the weighted average term – 191 days.

Regarding the structure of maturity transactions, the interest of the secondary market participants has traditionally been directed towards SS with residual maturity of up to one year. However, after a period of 5 years, there was also a modest attempt to trade longer-term SS (GB at 3 years) (Charts 3.25 and 3.26).

**Keeping record of securities through the Book-Entry System (BES) of the NBM**

On 31 July 2018, the Single Central Depository (SCD) began its activity. Therefore, starting with this date, the Single Central Depository shall carry out the depositing, the settlement of securities issued on the primary market, the processing in real-time of transfer templates and the settlement of transactions on the secondary market. Thus, all securities transactions will be performed by the entities that have the capacity to participate in the SCD. At present, these include the National Bank of Moldova, the Ministry of Finance, the Deposit Guarantee Fund in the banking system and the 11 licensed banks in the Republic of Moldova. Subsequently, as of 1 May 2019, the Single Central Depository will serve corporate securities and investment companies.

At the end of 2018, 30 July 2018, 14 participants were registered in the BES, including 11 banks, the National Bank of Moldova, the Ministry of Finance, and the Deposit Guarantee Fund of the banking system.

As of 30 July 2018, BES records reflected securities in the total amount of MDL 32,402.9 million (at nominal value), which could be classified, by the issuer, as follows:

**I. Ministry of Finance** – SS in the total amount of MDL 23,249.9 million, including:

- MDL 7,801.6 million or 33.5% representing SS issued on the primary market through auctions;
- MDL 2,157.1 million or 9.3% representing SS transferred to the National Bank as a result of the conversion of loans, initially contracted from the NBM and subsequently re-issued;
- MDL 13,291.2 million or 57.2% representing SS issued and delivered to the NBM under the Law no. 235 of 3 October 2016 on government bonds issued for the execution by the Ministry of Finance of the payment obligations derived from state guarantees no. 807 of 17 November 2014 and no. 101 of 1 April 2015.

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*Source: NBM*
II. The National Bank of Moldova – the NBM Certificates (NBC) issued through auctions for a total amount of MDL 9,153.0 million.

Total amount of SS, recorded in the BES at nominal value as of 30 July 2018, is classified by holders, as follows:

- Banks – MDL 6,454.8 million;
- Deposit Guarantee Fund of the banking system – MDL 1,346.7 million;
- The National Bank of Moldova – MDL 15,448.3 million.

Thus, as of 30 July 2018, the share held by the National Bank is still higher than that of other investors (Charts 3.27 and 3.28). The NBM certificates in the amount of MDL 8,791.5 million were recorded in commercial bank portfolios and 361.5 million lei in the portfolios of other investors. During the first 7 months of 2018, the aggregate amount of 3,799 transactions settled in the BES amounted to MDL 285,157.9 million, of which:

- Operations on the primary market (new issues) – 138,951.6 million lei;
- Redemption and interest payment by the Ministry of Finance for state securities at maturity – MDL 8,954.2 million;
- Redemption of the NBM certificates at maturity by the National Bank – MDL 130,109.8 million;
- Operations on the secondary market (sale-purchase of SS) – MDL 31.4 million;
- Pledging operations – MDL 7,110.9 million.

Of total transfers made in the first 7 months of 2018, 97.5% accounted for DvP transfers (Delivery versus Payment) and 2.5% – for FoP transfers (Free of Payment), the latter representing transfers carried out between banks and the NBM when pledging securities as collateral to secure intraday/overnight credits, as well as transfers performed between banks and their clients in case of SS selling-buying operations carried out on the secondary market.

**Evolution of interbank market indicators (in Moldovan lei)**

**Reference interest rates applied on interbank market**

CHIBOR/CHIBID reference rate curve (calculated on the basis of indicative quotations of interest rates for the placement/attraction on the interbank market of funds in national currency) evolved under the influence of changes in the base rate at the end of 2017 and the persistence of excess liquidity on the money market (Chart 3.29).

The CHIBOR yield curve continued the moderate downward trend similar to the previous year until mid-2018. Over the following months, the CHIBOR yield curve was broadly stable, with sporadic slight changes in both directions. Overall, baseline rates have
fallen by about 2 percentage points compared to the end of the previous year.

The CHIBOR 2W\(^{28}\) interest rate recorded at the end of the year constituted 7.73% versus 9.45% the value recorded at the end of 2017.

**Interbank loan/deposit market (transactions in MDL)**

Given the liquidity surplus confirmed in the money market and its full absorption by the NBM, the quantitative indicators of the interbank market confirmed the diminishing of the role of interest rates on interbank credits/deposits in the monetary transmission mechanism.

During the reported year, transactions were recorded only in the second and fourth quarters by a small number of participants, all of them with overnight maturity. The volume of transactions amounted to MDL 402 million, compared to MDL 60 million in 2017. The average annual interest rate decreased by 1 percentage point, registering 6.29%.

\(^{28}\)The reference rate calculated on the basis of the quotes of the contributing banks for the placement of money means in MDL at other banks for 2 weeks.
3.6 Currency market

The evolution of the currency market of the Republic of Moldova

In 2018, the local currency market against the national currency maintained its expansion trend, increasing both in terms of total turnover and individually by counterparty type.

The total turnover of currencies traded against MDL amounted to USD 14,291.3 million, increasing by 19.0 percent compared to the previous year (Table A.5). At a faster pace, foreign currency sales increased, amounting to USD 7,085.9 million (+ 19.2 percent), while foreign currency purchases amounted to USD 7,205.4 million, 18.9 percent more than in 2017.

The activity in the local currency market continued to be concentrated in the sector operations by transfer, and their increase up to USD 10,137.0 million (+23.8 percent c.p.y.) contributed the most to increase the total turnover of foreign exchange operations. At the base of this dynamics remain the transactions with the economic agents (+18.7 percent c.p.y.), the evolution being due to the increase in the volume of foreign trade operations of the Republic of Moldova. As for the currency market turnover in cash, it recorded a moderate growth rate of 8.8 percent compared to the previous year.

Consequently, in 2018, the tendency observed in recent years to increase the share of cash operations in the total turnover of the local currency market has not been maintained, this being 29.1 percent, 2.7 percentage points less compared to the previous year (Chart 3.30).

Individuals continued to give preference to the exchange offices of the licensed banks, accounting for 63.4 percent in the total turnover of the foreign currency market in cash, while the volume of these operations increased by 6.5 percent compared to 2017. At the same time, the turnover of operations through the foreign exchange offices increased in higher proportions - by 13.0 percent.

In 2018, the trend of strengthening the euro as the main currency in the domestic foreign exchange market has been maintained, to this trend contributing to increased trade with EU countries and increasing transfers from these countries to individuals. Thus, the share of the euro in the total turnover of the foreign exchange market increased by 4.7 percentage points to 52.9 percent and the share of the US dollar decreased (Chart 3.32).

In the structure on currency of cash foreign exchange market, the majority share of the currency was also the European single currency (Table A.6).

The European single currency also dominated the number of transactions. In 2018 there was an increase of about 11.0 percent.

29 With the exception of purchases / sales of foreign currency against MDL carried out between the NBM and the Ministry of Finance
30 Compared to the previous year
compared to the previous year in the number of euro / MDL exchange operations with legal entities and their share in total amounted to 65.0 percent (Chart 3.33).

At the same time, the European single currency prevailed in relatively small volumes of foreign exchange operations. However, it is worth noting the increase in the last year of the frequency of transactions with euro in volumes up to the equivalent of 500 thousand US dollars, surpassing the number of transactions with US dollars in similar volume (Chart 3.34).

In the analysis period, as in 2017, the main source of currency for licensed banks was the offer from legal entities followed closely by the cash offer from individuals. The purchases of foreign currency against MDL in transfer from economic agents registered an annual increase of 16.6 percent, while those in cash from individuals (including from foreign exchange offices\(^{31}\)) increased in smaller proportions - by 7.1 percent. The volume of foreign exchange operations also increased on the interbank market, but their share in total turnover remained insignificant.

Thus, all these factors contributed to the increase of purchases of foreign currency against MDL, in 2018, to USD 6,381.6 million, by 19.5 percent more than in the previous year.

The foreign currency sales of licensed banks had a similar dynamics to purchases and increased in 2018 to the equivalent of USD 6,390.6 million. The demand for currency came mainly from legal entities (76.3 percent of total sales), the volume of sales to them being by 19.9 percent higher compared to 2017. The advance of the demand for currency by the economic agents was mainly supported by the increase in the import of goods, which registered a similar growth rate.

Under these conditions, in 2018, the local banks made net sales of foreign currency to legal entities in the volume of USD 2,069.4 million, which were overburdened by net foreign exchange purchases from individuals, foreign exchange offices and other sources - 2,322.9 million US dollars.

This currency surplus was absorbed by the NBM through net procurement of USD 262.7 million (Table A.7).

The dynamics of foreign exchange assets and liabilities of the licensed banks

During 2018, the balance of foreign currency balance sheets of licensed banks remained practically unchanged compared to the previous year, although its structure changed. Thus, the balances on current accounts and various customers’ deposits in euro have increased over those denominated in euro, especially resident legal entities’ deposits as well as the balance of foreign currency loans. Against this backdrop, the balance of balance sheet foreign exchange assets has decreased insignificant, mainly from those held by banks in the form of cash in US dollars (Chart 3.36).

\(^{31}\)Procurement made by banks from foreign exchange offices constituted USD 125.3 million.
On 31 December 2018, the balance of balance sheet foreign exchange assets\(^{32}\) (loans granted, availabilities, required reserves, other foreign currency assets and assets attached to the foreign currency exchange rate) amounted to USD 1,683.8 million, decreasing by 1.5 percent compared to the end of 2017. Excluding exchange rate differences arising from the depreciation of the euro against the US dollar on foreign markets (hereinafter - differences of the course), there was an increase of 1.8 percent.

In the structure of the foreign exchange assets, the European single currency strengthened its position by 2.4 percentage points, to 70.1 percent (Chart 3.37).

In the total assets of the banks, the balance sheet foreign exchange decreased by 2.1 percentage points, to 34.7 percent and the balance sheet foreign exchange liabilities decreased by 1.9 percentage points in the share of total bank debt, up to 42.1 percent.

Throughout 2018, the lending activity of licensed banks in foreign currency continued to be passive. The balance of credits in foreign currency did not exceed 47.0 percent in the structure of foreign exchange assets, and at the end of the reporting year accounted for 46.4 percent, by 0.6 percentage points less than on 31 December 2017.

The decrease in the balance of foreign currency loans by local banks by 2.8 percent to USD 780.3 million was due solely to exchange rate fluctuations stemming from the depreciation of the euro against the US dollar on foreign markets. Excluding these differences, the evolution of the balance of loans granted in foreign currency reflected a negligible increase of 0.3 percent in foreign currency lending activity by banks, as the balance of loans granted in US dollars decreased by 1.1 percent, while those in euro increased by 1.0 percent (Table A.8). In the foreign currency structure of the balance of loans, slightly more than 2/3 came to those granted in euro, the rest of the loans being denominated in US dollars.

At the end of the reporting year, the loan portfolio attributed to the foreign currency exchange rate (USD 76.7 million) amounted to 4.6 percent of the total balance sheet foreign exchange assets of licensed banks. The balance of these loans increased by 11.9 percent versus 31 December 2017, the increase being generated by the loans attached to the euro exchange rate.

During 2018, banks have had an excessive level of foreign currency liquidity in order to ensure the smooth running of current settlement by customers. At the end of the reporting year, foreign currency assets accounted for 39.7 percent of total foreign exchange assets, reaching higher shares (46.2 percent) over the year. As of 31 December 2018, the balance of foreign currency availabilities of local banks amounted to USD 668.8 million, decreasing by 4.1 percent compared to 31 December 2017, and excluding exchange differences by 0.8 percent. In particular, the funds held in "Nostro" accounts opened in foreign banks decreased, and 1/2 of this decrease was explained by the increase of placements on deposit accounts with foreign banks (Table A.9).

\(^{32}\)Excluding the adjustment position for foreign currency assets of licensed banks
At the end of 2018, the balance of foreign currency availabilities of licensed banks had the following structure: “Nostro” accounts opened abroad - 55.8 percent, cash - 21.3 percent, placements abroad - 16.7 percent, funds placed overnight - 5.8 percent and securities - 0.4 percent.

Regarding the currency structure of local banks’ availabilities, on 31 December 2018, the majority share accounted for the European single currency - 72.7 percent, followed by the US dollar - 24.4 percent, the Russian ruble - 1.1 percent and other currencies - 1.8 percent.

As of 31 December 2018, the required foreign currency balance constituted USD 207.6 million - by 2.1 percent less, and by excluding the exchange differences - by 1.0 percent more, compared to the end of 2017, accounting for 12.3 percent of total balance sheet foreign exchange assets.

Regarding balance sheet foreign exchange liabilities of licensed banks at the end of the reference year, their balance amounted to USD 1,692.8 million, similar level to the end of 2017, and excluding the exchange differences, increased by 3.2 percent (Chart 3.38). In this respect, the attracted funds in euro, which increased by 4.1 percent, contributed most. And by excluding the exchange rate differences generated by the depreciation of the euro against the US dollar on foreign markets (further - exchange rate differences), there was a higher growth of 9.1 percent. According to the situation as of 31 December 2018, in the currency structure of the balance sheet foreign exchange liabilities, the European single currency strengthened its position by 2.8 percentage points, reaching 70.2 percent (Chart 3.39).

In the structure of the balance sheet liabilities in foreign currency of licensed banks, term deposits, various deposits and current accounts of non-bank customers (hereinafter - currency accounts of non-bank customers) continued to hold a notable share of 89.8 percent (Table A.10). At the end of 2018, the non-bank customer account balance amounted to USD 1,519.8 million, increasing by 1.8 percent, and excluding exchange differences - by 5.0 percent versus the end of 2017.

In the foreign currency structure, the non-bank customers' accounts of local banks continued to be mostly denominated in euro. As of 31 December 2018, compared to the same date of the previous year, the share of euro advanced by 2.9 percentage points, to 69.8 percent, the share in US dollars decreased to the same proportion up to 29.4 percent (Table A.11).

The funds attracted in euro in current accounts and in various customer deposits increased by 15.5 percent, and by excluding the exchange differences by 19.2 percent up to USD 800.9 million to the detriment of the client’s term deposits, which fell by 10.1 percent, and excluding the exchange differences - by 7.2 percent, up to USD 718.9 million. As of 31 December 2018, foreign currency debts of banks in relation to individuals accounted for 63.2 percent of total foreign currency balance sheet liabilities.

At the end of the reporting year, the foreign currency balance of non-banking legal entities (USD 450.5 million) was 26.6 percent of total foreign currency balance sheet liabilities of licensed banks, increasing by 3.3 percent, and excluding exchange differences -
6.1 percent compared to the end of 2017, due to net inflows of the euro.

In 2018, term deposits in foreign currency attracted from banks' non-banking clients (mostly from individuals) continued to be the main source of financing of foreign currency lending activity of banks. Amounting to 42.5 percent of the total balance sheet foreign exchange liabilities, as of 31 December 2018, the balance of term deposits almost covered (92.1 percent) the balance of credits granted in foreign currency by licensed banks.

In 2018, credit repayments by licensed banks exceeded withdrawals. Respectively, the balance of credits received by banks decreased by 5.5 percent (exchange differences were excluded) up to USD 145.1 million. In this context, the level of attraction of foreign currency loans remains low, especially those external, which balance at the end of 2018 continued to remain at 1/3 of the balance of credits attracted by banks in 2013.

At the end of 2018, the balance sheet foreign exchange liabilities of the licensed banks in relation to non-residents constituted 9.7 percent compared to 10.9 percent as of 31 December 2017.

Balance of Contingent Assets and Liabilities in foreign currency of licensed banks at the end of 2018 decreased by USD 54.0 million (about 87.0 percent) as compared to 31 December 2017 (Table A.12). At the end of 2018, foreign currency denominated assets and liabilities registered about the same values, reflecting the local banks’ commitments to make a majority of currency / currency conversions.

Regarding the net open (long plus short) foreign exchange position recorded by licensed banks at the end of 2018, it deteriorated by USD 8.6 million up to 1.37 percent in the CNT. Compared with 31 December 2017, foreign currency positions declined in most currencies, mostly in US dollars and in euro.

Evolution of nominal and real effective exchange rate

During 2018, the national currency depreciated slightly, by 0.2 percent against the US dollar and appreciated against the euro by 4.4 percent compared to the end of 2017 (Chart 3.40).

In average values, the Moldovan leu strengthened its position against the US dollar and the European single currency by 9.1 and 4.7 percent, respectively, compared to 2017.

According to the situation at the end of 2018, most of the currencies of the main trade partner countries, with notable shares in the foreign trade of the Republic of Moldova, as opposed to the Moldovan leu, depreciated in a higher proportion than the US dollar (Chart 3.41). Against this background, the real effective exchange rate of the domestic currency (REER) strengthened by 3.4 percent (12.18 / 12.17). All major trading partners with the exception of Ukraine contributed to this dynamics, highlighting the contribution of the Russian Federation - by 1.5 percentage points, Turkey - by 0.9 percentage points and Romania - by 0.4 percentage points (Charts 3.42 and 3.43).
In 2018, the Moldovan leu developed in terms of both objective and psychological factors, but natural in anticipation of local electoral rounds. At the same time, the Moldovan leu was influenced by the currency dynamics of the main trading partner countries, which since the second quarter of 2018 have reversed their depreciation trend against the US dollar, given that SFR has operated several increases in interest rates, rising the attractiveness of US securities.

Under these circumstances the depreciation of some currencies was supported by local vulnerabilities. NBM foreign exchange interventions focused on the slow alignment of the Moldovan leu exchange rate to the trend followed by the currencies of the main trading partner countries against the US dollar were also of particular importance in order to avoid a sudden negative adjustment of the Moldovan leu exchange rate to this trend.

In the reference year, foreign currency inflows into the domestic economy continued to outpace the currency outflows, but in a lower volume than in the post-crisis banking years. In this respect, the annual growth of exports of goods and services declined to +10.6 percent from +18.9 percent in the previous year, while imports increased by only 1 percentage point to +18.9 percent. Under these circumstances, the trade balance deficit deepened by +30.3 percent compared to the previous year from a +20.2 percent deterioration in 2017 compared to 2016. Personal remittances moderated their annual growth to 11.9 percent from 12.8 percent in 2017. At the same time, in the reporting year, on the one side, a higher flow of foreign direct investment was noted in the national economy and long-term loans to the private sector. Simultaneously, there was a significant increase in dividend and interest payments to external investors / creditors.

These developments have created prerequisites for narrowing the surplus of currency on the local market as compared to 2016-2017.

In this respect, the net foreign exchange supply of individuals, supported by the that in euro (Chart 3.44), increased by 7.3 percent to USD 2,126.9 million, and net foreign exchange demand from economic agents - at a faster pace, by 24.8 percent up to USD 2,069.4 million. As a result, the net demand coverage by net foreign exchange offer fell to 102.8 percent in 2018 from 119.6 percent to USD 2,126.9 million, decreasing by 39.4 percent compared to 2017 (Chart 3.45).

Under these conditions, the NBM reduced its presence on the market, intervening through a net foreign exchange purchase of 262.7 million US dollars, decreasing by 39.4 percent compared to 2017. Of these interventions, USD 50.5 million (equivalent to EUR 42.4 million) were purchased in the first and fourth quarters of 2018 in connection with some larger foreign investment projects.

A higher foreign currency surplus on the local market, which implied higher appreciation pressures on the Moldovan leu, occurred in the first and third quarters of 2018, during which the NBM performed about 87.0 percent of the net purchases of foreign currency on the market. In the second quarter of 2018, the NBM intervened for foreign currency purchases on significant surplus days, which, unabsorbed, would have increased the volatility of Moldovan leu in relation to the US dollar. In the second quarter of 2018, the dynamics of the Moldovan leu depreciation was conditioned by pre-electoral uncertainties, but also due to the

33Balance payment data for 2018, MBP6
demand from some economic agents for dividend payments in favor of foreign founders. These factors contributed to the increase in the demand for currency also in the fourth quarter of 2018. During the last quarter of the year, the NBM intervened through a net sale of foreign currency of USD 6.0 million, starting the foreign currency selling operations from the moment when the market signaled, on the one hand, an increase in the net demand of foreign currency from the economic operators and, on the other hand, the insufficiency of the net foreign currency offer from individuals to cover it. In the fourth quarter of 2018, in particular, the demand for currency by energy importers increased (+39.0 percent compared to the third quarter of 2018 and +82.0 percent compared to the fourth quarter of 2017).

The level of official reserve assets

According to the situation at the end of 2018, the official reserve assets amounted to USD 2,995.2 million, increasing by 6.8 percent compared to 2017 (Chart 3.46). The reserves strengthened as a result of NBM purchases of foreign currency on the market and the flow of financial assistance from the main development partners of the Republic of Moldova due, to a certain extent, to the favorable development of the program of financial and economic policies concluded between the Republic of Moldova and the IMF. In this regard:

- The IMF has allocated the fourth tranche of USD 33.7 million (the equivalent of SDR 24.0 million), of which the NBM has benefited from EFF\(^{34}\) amounting to SDR 14.5 million, and the rest came to the Ministry of Finance for budget support (ECF - SDR 8 million, EFF - SDR 1.5 million);
- The World Bank, through its IDA and IBRD institutions, mainly granted loans of USD 41.4 million, USD 29.2 million being allocated under the DPO-2 program. The remaining amount has been disbursed to support the projects: Competitiveness Improvement II, Competitive Agriculture, Strengthening the effectiveness of the social assistance network, health reform, modernization of tax administration;
- The European Investment Bank allocated credits totaling USD 57.1 million (equivalent to EUR 49.2 million) for the rehabilitation of roads and supporting the “Moldova’s Orchard” project;
- IFAD continued to finance the Inclusive Rural Economic and Climate Resilience Programme (IRECRP) IFAD VI by allocating USD 5.1 million (half as a credit and the other half as a grant);
- The European Commission has awarded grants of USD 2.7 million (equivalent to EUR 2.2 million) to support several investment projects, and the Council of Europe Development Bank has disbursed USD 1.2 million loans (equivalent to EUR 1.0 million) for the financing of the project Social housing construction II;
- Other creditors / donors have allocated funds amounting to USD 21.3 million.

At the end of 2018, official reserve assets covered enough imports of goods and services (about 5.6 months of import\(^{35}\)).

\(^{34}\)EFF - Extended Funding Facility, ECF - Extended Credit Facility

\(^{35}\)Coverage calculated on the basis of imports of goods and services from 2018.
Managing foreign exchange reserves

According to Article 5, 16 and 53 of the Law on the National Bank of Moldova, the NBM maintains and manages the foreign exchange reserves of the state, performs foreign exchange operations using foreign exchange reserves and maintains them at an appropriate level for the conduct of the monetary and foreign exchange policy of the state. The role of foreign exchange reserves is to ensure the credibility and financial stability of the country, to honor the payments of the state’s external liabilities and to deal with unpredictable exogenous shocks.

In the process of managing foreign exchange reserves, the NBM ensures a high degree of security and a necessary level of liquidity of investments. NBM’s investment policy is prudent, aiming at optimizing profitability, provided liquidity and investment security is ensured. An essential element of the process of managing foreign exchange reserves is investment risk management, which is achieved by imposing constraints and limits on investment.

Table A.13 lists the main risks associated with the management of foreign exchange reserves and the methods applied to reduce them.

Starting with July 2013, the Strategic Asset Allocation (SAA) is being implemented in the framework of the World Bank. Strategic Asset Allocation involves a long-term asset management vision focused on achieving optimal profitability and risk. In the context of the SAA, international reserves are divided into three tranches (current, liquidity and investment) in order to ensure a more efficient achievement of the set objective.

The currency management process is conditioned by the evolution of the world economy, by the decisions of the major central banks of the world, in particular by the US, euro area and UK monetary authorities, taking into account the importance of the currencies of these countries in the structure of the official reserve assets.

The ECB’s key objective is to maintain price stability at a lower inflation rate, but close to 2.0 percent in the medium term. In order to achieve this objective, the ECB uses interest rates as a monetary policy instrument and, after the crisis, other unconventional measures that have had an effect on financing conditions in the economy. By managing the financing conditions, the ECB may influence the overall level of economic activity and ensure the achievement of the inflation target. During 2018, the ECB maintained a 0.0 percent interest rate on the main refinancing operations, a 0.25 percent interest rate on overnight credit facilities and a -0.40 percent interest rate on overnight deposit. At the same time, according to the asset acquisition program, as of October 2018, the ECB reduced the monthly volume of net asset purchases from EUR 30.0 billion to EUR 15.0 billion. According to the monetary policy decision of 13 December 2018, the Governing Council of the ECB decided to close the net purchases in December 2018. The program remains in force, as the principal payments on debt securities purchased under the asset acquisition program will continue to be reinvested for an extended period. Against this background, the annual inflation rate in the euro area at the end of 2018 stood at 1.8 percent.
The central monetary policy objective of the Central Bank of England is also to target inflation at 2.0 percent in a way that would support economic growth and the employment rate. Following the referendum of 23 June 2016, when 51.9 percent of UK citizens agreed to leave the European Union, the Brexit process was due to end on 29 March 2019.

In essence, the English Parliament has opted for a delay in finalizing the process and a more amiable exit from the European Union, without the trade relations and the English population suffering, and about 38.0 billion pounds, the so-called "payment note for divorce" to be adjusted.

Uncertainty about Brexit affected the economy that grew at a lower pace (1.4 percent) over the previous year (1.8 percent) and the pound sank at the end of 2018 compared to the end of the previous year, with about 6.0 percent against the US dollar and about 1.0 percent against the euro.

Monetary policy decisions of the Bank of England focused on the following aspects:

- increasing the monetary policy rate from 0.50 percent to 0.75 percent on 1 August 2018;
- maintaining the stock of government bond purchases at 435.0 billion pounds, and up to 10.0 billion pounds in the stock of corporate bond purchases.

The monetary policy objective of the Federal Open Market Committee is to target inflation at a level of 2.0 percent and achieve a maximum rate of employment. Throughout 2018, labor market indicators have experienced steady improvements, just like economic activity. The monetary policy rate during the year was revised 4 times, from 1.25-1.5 percent at the beginning of the year, rose to 1.5-1.75 percent as of 22 March 2018, 1.75-2.0 percent on 14 June 2018, 2.0-2.25 percent on 27 September 2018, and 2.25-2.5 percent of 20 December 2018.

The evolution trend of these economies is also found in the dynamics of profitability rates (Chart 3.47). The evolution of the monetary policy rates set by the monetary authorities is shown in chart 3.48.

As part of the management of foreign exchange reserves, the NBM invests in safe instruments also used by other central banks: placements on correspondent accounts (usually with other central banks), term placements in foreign currency and securities, which are classified into supranational securities (issued by supranational institutions), state securities (issued by the US government, EU member governments, other high creditrated governmental issuers, with State guarantee), and non-government securities (issued by high rating agencies).

Some of the foreign exchange reserves are managed externally by the World Bank. Pursuant to the Investment Consulting and Management Agreement, concluded on 8 December 2010 (extended by the Decision of the Executive Board no. 168 of 30 December 2015) between the International Bank for Reconstruction and Development (IBRD) and the National Bank of
Moldova (NBM), the IBRD became the consultant and the agent of the NBM for the management of a part of the external assets, limited to 20 percent of official reserve assets. On 31 December 2018, the share of externally managed assets accounted for 7.02 percent of the foreign exchange reserves.

In 2018, the portfolio of securities valued at amortized cost (previously the portfolio of securities held to maturity) was not supplied with new securities. The value of this portfolio on 31 December 2018 amounted to USD 368.17 million of 12.30 percent of foreign exchange reserves. Since 1 January 2015, the maximum limit of the held-to-maturity securities portfolio is 20 percent\(^\text{36}\) from foreign exchange reserves.

According to the situation of 31 December 2018, 51.8 percent of the reserves are invested in securities, 26.7 percent are term placements and 21.5 percent are kept in cash and funds in corresponding accounts (Chart 3.49).

Return on investment depends on market conditions, exchange rate fluctuations and price of investment instruments. The evolution of the global economy and prospects of development of financial markets influenced the investment decisions and the composition of foreign exchange reserves. In this context, the major share (according to the values at the end of the year) in the structure of foreign exchange reserves was held by the USD 69.1 percent (Chart 3.50).

At the same time, the foreign currency composition of reserves may deviate within the admissible deviation limits of +/-10 percentage points of the normative foreign currency structure (Chart 3.51), with a tendency to align with the new normative foreign currency structure of USD 65 percent, EUR 25 percent and British pound - 10 percent, approved by the Decision of the Executive Board no. 309 of 20 December 2018, in force since 1 January 2019.

Strating from the evolution of the global economy in 2018, especially the US, the EU and the UK, the conjuncture of the financial markets and the evolution of exchange rates against the US dollar (reserve currency), the management of foreign exchange reserves generated a profit of USD 46.5 million, at an average profitability of 1.57 percent.

\(^{36}\)According to the Decision of the Executive Board no. 309 of 20 December 2018, the limit increased to 25 percent, in force since 1 January 2019.
Chapter 4

Banking supervision

4.1 Evolution of the banking sector

Banking sector, including core indicators

On 31 December 2018, there were 11 banks licensed by the National Bank of Moldova operating in the Republic of Moldova, including 5 subsidiaries of foreign banks and financial groups.

On 31 December 2018 the total number of subdivisions of the licensed banks in the Republic of Moldova amounted 794, out of which 296 subsidiaries and 498 agencies.

As of 31 December 2018, there were 7,824 persons working in the banking sector. On average, each employee in the banking sector had to manage shares in amount of MDL 10.6 million, increasing by MDL 0.5 million (4.9%) compared to the end of 2017.

The financial situation of the banking sector on 31 December 2018 was good enough. The banks are sufficiently capitalized, their own funds (formerly TRC) amounted to MDL 10,826.2 million, increasing by MDL 239.9 million (2.3%) as compared to the previous year. The total own funds ratio (previously risk weighted capital adequacy) continues to be at a high level, recording 26.5%, decreasing by 4.8 percentage points compared to 2017, this ratio being respected by all the banks.

It is worth mentioning that starting with 7 July 2018, the Regulation on Own Funds of Banks and Capital Requirements, other Regulations according to Basel III/CRD IV and the Guideline on Submission by Banks of COREP Reports for Supervisory Purposes entered into force. Given the change in the methodology for calculating own funds and the total own funds ratio, which differs from the calculation of the total regulatory capital and the sufficiency of risk-weighted capital, the calculation of the total own funds ratio takes into account not only the credit risk, but also the market and operational risk.

The dynamics of the main financial indicators is reflected in the chart 4.1.

As of 31 December 2018, the profit for the banking sector amounted to MDL 1,635.1 million, increasing by MDL 107.0 million (7.0%), as compared to the previous year. For 2018, the return on assets\(^{37}\) and return on capital\(^{38}\) of the licensed banks have

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\(^{37}\)Return on assets = annualized net income/average of assets

\(^{38}\)Capital profitability = annualized net income/average capital
registered values of 1.9% and respectively 11.6%, basically at the same level as at the end of the previous year.

Total assets amounted up to MDL 83,152.3 million, rising in the course of 2018 by MDL 3,687.4 million (4.6%).

As of 31 December 2018, the balance of the gross loan portfolio accounted for 42.6% of the total assets or MDL 35,452.8 million, increasing over the analyzed period by MDL 1,979.5 million (5.9%). At the same time, non-performing loans decreased by MDL 1,706.1 million (27.7%) to MDL 4,445.4 million, largely as a result of repayment of loans from direct payments and pledge sale, following the recognition of non-performing loans, as well as, the transfer of loans by a bank.

As of 31 December 2018, the balance of deposits increased by MDL 3,565.6 million (6.0%) during 2018 to MDL 63,462.5 million.

**Own funds**

As of 31 December 2018, the own funds by sector, according to data presented by licensed banks, amounted to MDL 10,826.2 million and registered an increase of MDL 2399 million (2.3%) during 2018.

The increase of own funds was determined by the inclusion in the calculation of own funds of profits earned until the entry into force of Basel III requirements. At the same time, the positive difference between allowance for assets losses and conditional commitments (prudential cuts) and the amount of reductions for losses for impairment of assets and provisions for losses (IFRS cuts) decreased by MDL 473.6 million. Also, net intangible assets decreased by MDL 28.7 million. At the same time, two banks distributed capital in the form of dividends in total amount of MDL 354.9 million.

The structure of total own funds in ten banks is made up entirely of common equity tier 1 capital (total per sector MDL -10,720.8 million). (B.C."ProCredit Bank" S.A.), besides common equity tier 1 capital, owns also tier 2 capital (subordinated loans amounting up to MDL 105.4 million).

As of 31 December 2018, the total capital ratio on banking sector has registered a value of 26.5% decreasing by 4.8 percentage points compared to the end of the previous year. All banks complied with this indicator (the limit for each bank ≥ 10%). At the same time, the banks complied with the requirement of the Total Capital Ratio, taking into account the capital buffers of banks established by the Regulation on Capital Buffers of Banks approved by the Decision of the Executive Board of the NBM no.110 of 24 May 2018. Thus, in addition to the 10% minimum requirement of own funds, banks are obliged to maintain common equity tier 1 capital in order to meet the requirements on capital conservation buffer (2.5%) the countercyclical capital buffer (0.0%) the systemic risk buffer (1%/3%) and, where applicable, the buffer relevant to society of systematic importance (0.25%/0.75%) (O-SII buffer).

The dynamics of common equity tier 1 capital/tier 1 capital and total own funds/total regulatory capital in the reported period is shown in chart 4.2.
The change in bank capital structure from the point of view of its focus on groups of banks is shown in the chart 4.3.

The share of the total own funds of large banks in the total own funds of the banking sector amounted to 70.2%, increasing compared to the end of the previous year by 1.2 percentage points. Respectively, the share of the total own funds of medium and small banks decreased by 0.4 percentage points and 0.7 percentage points, respectively.

During the reference period, the significant share of foreign investments in the capital of banks remained the same. As of 31 December 2018 this share amounted to 78.1% (chart 4.4), decreasing by 2.9 percentage points compared to the end of the previous year, as a result of the cancellation by the BC "Moldindconbank" S.A., on 19 January 2018 of some shares issued by the bank, which were held by shareholders in Ukraine and Russia.

On 16 January 2018, the open outcry auction on the regulated market of the Moldovan Stock Exchange took place, where the securities package issued by the BC "VICTORIABANK" S. A., in the amount of 39.2% of the total issued shares were sold. Currently, the share of VB Investment Holding B.V. in the bank’s capital is 72.19%.

On 2 October 2018, the single block of newly issued shares, in the amount of 41.1% of the total shares of the BC "MOLDOVA-AGROINDBANK" S.A. was sold to the international consortium of investors.

Among the foreign investors participating in the capital formation of banks in the Republic of Moldova are: banks from Italy, Romania, France, as well as the European Bank for Reconstruction and Development and corporate investors from Germany, the Netherlands, Austria, Great Britain, Greece, Iraq, Cyprus, Russia, USA, Liechtenstein, Switzerland and Czech Republic.

Of the total number of banks, 4 banks have capital formed entirely from foreign investment (of which 2 subsidiaries of foreign banks: BC "EXIMBANK" S.A. and BCR Chisinau S.A.), a bank – have capital formed from domestic investments and 6 banks – have capital formed from foreign and domestic investments.

The assets and their quality

Total assets of the banking sector amounted to MDL 83,152.3 million, increasing by MDL 3,687.4 million (4.6%) compared to the end of the previous year. The main source of financing assets are liabilities, which increased by MDL 3,045.4 million (4.6%) mainly due to the increase in deposits attracted by MDL 3,565.6 million (6.0%). Another source for financing assets was capital, which increased by MDL 642.0 million (4.7%), as a result of realizing the profit during the reference period.

During the reference period, the share of assets in GDP decreased from 44.4% to 43.6% (chart 4.7).
Concentration of banking sector assets is reflected in the chart 4.5.

The assets of the banking sector are concentrated in the large banks group. At the end of 2018, four banks were included in the group of large banks (B.C. "MOLDOVA - AGROINDBANK" S.A., BC "Moldindconbank" S.A., BC "VICTORIABANK"SA, BC "MOBIASBANCA –Groupe Societe Generale" S.A.). The share of banks’ assets in this group amounted to 78.8%, as of 31 December 2018, increasing by 0.8 percentage points compared to the end of 2017. The composition of groups at the end of 2018 remained unchanged compared to the end of 2017.

It should be noted that the limit on the maximum size of assets by banks in the sector is respected. The largest share of total assets of a bank in proportion to total assets in the banking sector belonged to B.C. "MOLDOVA - AGROINDBANK" S.A. representing 28.4% (limit ≤35%), followed by B.C. "Moldindconbank" S.A. by 19.8% (chart 4.6).

In the structure of assets, the highest share was recorded in the loan portfolio, which accounted for 42.6% (MDL 35,452.8 million), increasing by 0.5 percentage points. The share of banks’ investments in state securities and certificates of the National Bank (NBC) accounted for 15.3% (MDL 12,689.4 million), decreasing by 3.7 percentage points as a result of redirecting funds to maintain the required reserves related to the increase of funds attracted by the banks and the required reserve norm. The rest of the assets, which represent 42.1% (MDL 35,010.1 million), are maintained by the banks in the accounts opened with the National Bank, in other banks, in cash, etc. Their share increased by 3.2 percentage points from the increase of deposits with the NBM as a result of the increase of the required reserve norm from attracted funds in MDL by 2.5 percentage points to 42.5%.

The structure of the banking sector assets by main components is shown in the chart 4.7.

The gross loan portfolio (in accordance with prudential reports) as of 31 December 2018 constituted MDL 35,452.8 million, increasing during 2018 by MDL 1,979.5 million (5.9%). Starting from March, the increase in the loan portfolio was recorded monthly.

At the same time, the GDP ratio of the gross loan portfolio remained almost the same, constituting 18.6% on 31 December 2018 (Chart 4.8). It should be mentioned that the decrease of the GDP ratios of banking indicators was determined by the increase of the GDP as a result of the modification of the calculation methodology.

In the context of risk distribution, the largest share in the total loan portfolio was held by commercial loans - 25.6%. The detailed structure of the loan portfolio of the banking sector of the Republic of Moldova according to the sector in which the borrower is active is shown in the chart 4.9.

During 2018, non-performing loans (substandard, doubtful and compromised) in absolute value decreased by MDL 1,706.1 million (27.7%), representing MDL 4,445.4 million, following the repayment of loans from direct payments and pledge sale, derecognition of non-performing loans, as well as loan transfers by a bank. Respectively, the share of non-performing loans in total
loans decreased by 5.8 percentage points compared to the end of 2017, accounting for 12.5% as of 31 December 2018. The share of net non-performing loans\(^{39}\) in own funds also decreased by 4.7 percentage points constituting 13.1% on 31 December 2018.

The share of reductions calculated for loan losses in total loans by 31 December 2018 constituted 10.9%, decreasing by 3.9 percentage points compared to the end of 2017, mainly as a result of the improvement in the quality of loans portfolio during 2018. It should be noted that the reductions calculated for the assets and the contingent liabilities as of 31 December 2018 constituted MDL 5,659.1 million, and the reductions for impairment losses constituted MDL 3,847.9 million, the registered difference – MDL 1,811.2 million. The amount of write-downs losses as a result of write-downs calculated for loans in the banking sector constituted 72.6%, ranging from 21.7% to 225.5%.

Exposures of banks to related parties account for insignificant share - in total loans - 5.9% (average in the banking sector). The indicator calculated as a ratio between exposures to related parties and Tier 1 Capital (the limit for each bank \(\leq 20.0\%\) of Tier 1 Capital) by the 31 December 2017 was respected by all banks except for two banks (average for the banking sector - 19.5%). These banks submitted to the NBM the plans to comply with the prudential limits set for exposures to related parties within a period of up to 2 years (until the second quarter of 2020) and to improve the internal control systems for their identification and monitoring.

The ratio between the sum of all "large" exposures and “own funds” (OF) (the limit for each bank \(\leq 5\) times of OF) is respected by all banks (average for the banking sector - 0.2).

By the 31 December 2018, the indicator measuring the proportion of largest ten net debts in the total loan portfolio and contingent liabilities (the maximum limit for each bank - 30% of total net loans) was respected by all banks except one bank (average in the banking sector - 21.5%). The bank presented the strategy for the gradual diminution of this indicator.

The indicator of the total amount of the bank’s net exposures in foreign currency, expressed in Moldovan lei, of individuals, including those who perform entrepreneurial activity or other type of activity (the limit for each bank \(\leq 10\%\) of OF), was respected by all banks. The sector average of the above-mentioned indicator was 3.2%.

The ratio of the total amount of currency-linked net exposures other than mortgages to individuals in the total regulatory capital (the limit for each bank \(\leq 10\%\) of OF) was also respected by all banks. The sector average of the nominated indicator accounted for 0.7%.

Loans granted to bank employees accounted for MDL 376.0 million or 1.1% of the total loan portfolio and 3.5% of total regulatory capital of the banking sector (the limit for each bank \(\leq 10.0\%\)).

The ratio between the total value of investments in long-term tangible fixed assets and OF per sector constituted 19.7% (the limit for each bank \(\leq 50\%\)) was also respected by all banks.

\(^{39}\)Net non-performing loans = amount subject to the classification of non-performing loans minus the reductions to them
The ratio between the total value of investments in long-term tangible fixed assets and participation quotas in the capital of legal entities and own funds in the banking sector registered the value of 24.8% (the limit for each bank $\leq 100\%$) and it was respected by all banks.

**Incomes and Profitability Evolution**

By the 31 December 2018, the profit registered by the banking sector constituted MDL 1,635.1 million, as compared to the end of the previous year, the profit increased by MDL 107.0 million (7.0%).

The increase of the profit is largely determined by the increase of non-interest income by 2.7% or by MDL 69.9 million, due to the increase in fee and commission income, the exchange differences. Significant shares in non-interest income include fee and commission income - 63.2%, exchange rate income - 32.5% (income from currency trading and revaluation), other operating income - 4.2%.

At the same time, non-interest expenditures decreased by 1.4% or MDL 52.5 million following the decrease in assets depreciation as a result of improving the quality of the loan portfolio.

The dynamics of banks’ revenues and expenditures over the reported period is shown in the chart 4.12.

Total revenues amounted to MDL 6,925.3 million, of which interest income - 62.1% (MDL 4,302.5 million), and non-interest income - 37.9% (MDL 2,622.8 million).

At the same time, total expenditures amounted to MDL 5,290.2 million, including interest expenses - 27.5% of total expenditures (MDL 1,456.6 million) and non-interest expenses - 72.5% of total expenditures (MDL 3,833.6 million).

Interest expenses decreased by 21.7% or MDL 403.1 million as a result of the decrease in the average interest rate on deposits in national currency from 5.68% to 4.69% and in foreign currency deposits from 1.34% to 0.96%.

Interest income also decreased by 8.9% or MDL 418.5 million following the decrease in the average interest rate on credits in national currency during the analyzed period from 9.92% to 8.51% and 5.76% to 4.88% of the foreign currency.

The structure of the banking sector’s revenues and expenditures for 2018 is shown in charts 4.13 and 4.14.

For the year 2018, the return on assets$^{40}$ and return on capital$^{41}$ of the licensed banks recorded values of 1.9% and 11.6%, respectively, being at the same level as at the end of the previous year.

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$^{40}$ return on assets = annualized net income/average assets  
$^{41}$ return on capital = annualized net income/average of shareholding capital
The net interest margin\(^{42}\) amounted to 4.3% by 31 December 2018, being by 0.4 percentage points lower than at the end of the previous year.

The dynamic of the net interest margin, of return on assets and of the capital in the banking sector of the Republic of Moldova for 31 December 2017 – 31 December 2018 is shown in chart 4.15.

The absolute value of the interest-earning assets increased during 2018 by MDL 4,906.7 million or by 7.7%, constituting MDL 68,392.9 million by 31 December 2018. The significant share of interest-generating assets in total banking sector assets, which amounted to 82.3%, indicates banks’ ability to generate revenues in the future.

**Liquidity and compliance with legal requirements**

The liabilities of banks as of 31 December 2018 constituted MDL 68,860.7 million, increasing by MDL 3,045.4 million (4.6%) as compared to 31 December 2017. The major share in total liabilities, as of 31 December 2018, was held by financial liabilities measured at amortized cost (customer deposits, other loans, subordinated debt) - 97.9% (MDL 67,388.4 million), increasing in absolute value by MDL 2,943.1 million (4.6%) compared to the end of the previous year. Customer deposits constituted MDL 63,577.3 million or 92.3% of total liabilities, the absolute value of customer deposits increased compared to 31 December 2017 by MDL 3,587.8 million (6.0%). At the same time, other liabilities have increased (transit and clearing amounts, payment cards operations, settlements with bank employees, settlements with other natural and legal entities, budget settlements, settlements / sales of securities and currency etc.) by MDL 127.9 million (16.0%), which constituted MDL 927.6 million, tax liabilities - by MDL 22.5 million (17.6%), which constituted MDL 150.5 million (Table A.14). At the same time, provisions decreased by MDL 28.9 million (7.9%), amounting to MDL 394.8 million (the provision for contingent liabilities, provision for employee benefits, provisions for tangible assets, other provisions).

The balance of deposits according to the prudential reports as of 31 December 2018 constituted MDL 63,462.5 million, increasing by MDL 3,565.6 million (6.0%) as a result of the increase in deposits of individuals by MDL 2,053.7 million (5.2%) compared to 31 December 2017 to MDL 41,676.8 million. At the same time, other liabilities have increased (transit and clearing amounts, payment cards operations, settlements with bank employees, settlements with other natural and legal entities, budget settlements, settlements / sales of securities and currency etc.) by MDL 3,587.8 million (6.0%). At the same time, other liabilities have increased (transit and clearing amounts, payment cards operations, settlements with bank employees, settlements with other natural and legal entities, budget settlements, settlements / sales of securities and currency etc.) by MDL 127.9 million (16.0%), which constituted MDL 927.6 million, tax liabilities - by MDL 22.5 million (17.6%), which constituted MDL 150.5 million (Table A.14). At the same time, provisions decreased by MDL 28.9 million (7.9%), amounting to MDL 394.8 million (the provision for contingent liabilities, provision for employee benefits, provisions for tangible assets, other provisions).

The balance of deposits according to the prudential reports as of 31 December 2018 constituted MDL 41,676.8 million, increasing by MDL 3,045.4 million (7.9%) to MDL 21,691.9 million. At the same time, other liabilities have increased (transit and clearing amounts, payment cards operations, settlements with bank employees, settlements with other natural and legal entities, budget settlements, settlements / sales of securities and currency etc.) by MDL 127.9 million (16.0%), which constituted MDL 927.6 million, tax liabilities - by MDL 22.5 million (17.6%), which constituted MDL 150.5 million (Table A.14). At the same time, provisions decreased by MDL 28.9 million (7.9%), amounting to MDL 394.8 million (the provision for contingent liabilities, provision for employee benefits, provisions for tangible assets, other provisions).

The absolute value of the interest-earning assets increased during 2018 by MDL 4,906.7 million or by 7.7%, constituting MDL 68,392.9 million by 31 December 2018. The significant share of interest-generating assets in total banking sector assets, which amounted to 82.3%, indicates banks’ ability to generate revenues in the future.

**Liquidity and compliance with legal requirements**

The liabilities of banks as of 31 December 2018 constituted MDL 68,860.7 million, increasing by MDL 3,045.4 million (4.6%) as compared to 31 December 2017. The major share in total liabilities, as of 31 December 2018, was held by financial liabilities measured at amortized cost (customer deposits, other loans, subordinated debt) - 97.9% (MDL 67,388.4 million), increasing in absolute value by MDL 2,943.1 million (4.6%) compared to the end of the previous year. Customer deposits constituted MDL 63,577.3 million or 92.3% of total liabilities, the absolute value of customer deposits increased compared to 31 December 2017 by MDL 3,587.8 million (6.0%). At the same time, other liabilities have increased (transit and clearing amounts, payment cards operations, settlements with bank employees, settlements with other natural and legal entities, budget settlements, settlements / sales of securities and currency etc.) by MDL 127.9 million (16.0%), which constituted MDL 927.6 million, tax liabilities - by MDL 22.5 million (17.6%), which constituted MDL 150.5 million (Table A.14). At the same time, provisions decreased by MDL 28.9 million (7.9%), amounting to MDL 394.8 million (the provision for contingent liabilities, provision for employee benefits, provisions for tangible assets, other provisions).

The balance of deposits according to the prudential reports as of 31 December 2018 constituted MDL 63,462.5 million, increasing by MDL 3,565.6 million (6.0%) as a result of the increase in deposits of individuals by MDL 2,053.7 million (5.2%) compared to 31 December 2017 to MDL 41,676.8 million, deposits of legal entities increased by MDL 1,583.0 million (7.9%) to MDL 21,691.9 million. At the same time, deposits from banks decreased by MDL 71.1 million (43.1%) to MDL 93.8 million.

The total amount of deposits in proportion to GDP decreased insignificantly by 0.2 percentage points compared to the previous year, accounting for 33.3% at the reporting date.

As of 31 December 2018, deposits in foreign currency as a percentage of total deposits represented 41.1% (the equivalent of MDL 26,106.0 million), their absolute value increased by MDL 473.7 million (1.8%), including by means of attracting funds - by

\(^{42}\) net interest margin = net income from annualized interest/average interest-earnings assets
MDL 1,249.0 million, and decreased due to the revaluation as a result of exchange rate fluctuations, by MDL 739.4 million (the calculation of the revaluation of deposits was made based on EUR, USD, Russian ruble, Romanian leu and Ukrainian hryvnia, the share of other currencies being insignificant). Deposits in Moldovan lei amounted to 58.9% of total deposits, or MDL 37,356.5 million, and represented an increase of MDL 3,091.9 million (9.0%), as compared to 31 December 2017.

Concentration of bank sector debt over the reporting period is shown in the chart 4.16.

The share of debt of the large banks in the total debt of the banking sector as of 31 December 2018 constituted 66.2%, basically at the same level as 31 December 2017. The share of debt of medium banks decreased, accounting for 0.6 percentage points to 29.2% on 31 December 2018. Respectively, the share of debt of small banks increased by 0.7, accounting for 4.6% of total debts per sector.

The value of the long-term liquidity indicator for the banking sector (principle I of liquidity, assets with a repayment term of more than two years / financial resources with a potential withdrawal period of more than two years) amounted to 0.7 (average per sector). This indicator was respected by all banks (the limit for each bank ≤ 1).

The value of the current liquidity indicator by sector - liquidity principle II (liquid assets, expressed in cash, deposits with NBM, liquid securities, net interbank means with a term up to one month / total assets x 100%) constituted 55.4% (average per sector), increasing during 2017 by 6.1 percentage points. This indicator was respected by all banks (the limit for each bank ≥ 20%).

As of 31 December 2018, the liquidity principle III, which shows the ratio between the adjusted effective liquidity and the required liquidity for each maturity band (limit ≥ 1), was respected by all banks.

Thus, the liquidity indicators reveal the existence of adequate levels of liquidity to cover potential needs both in the short and long term.

Liquid assets on 31 December 2018 amounted to MDL 45,434.1 million, increasing by 1,360.9 million (3.1%) compared to 31 December 2017.

In the structure of liquid assets, deposits with the NBM increased by MDL 3,735.7 million (23.5%), and cash in hand and other monetary values - by MDL 1,042.3 million (25.6%). At the same time, the liquid securities - with MDL 2,441.6 million (16.1%) and current net interbank funds with a maturity of up to 1 month - decreased by MDL 975.6 million (10.9%), the details are presented in chart 4.17.

Within the structure of liquid assets by the banking sector, the deposits with NBM was 43.3%, followed by the share of liquid securities - 27.9%, the share of current net interbank instruments - 17.5% and the share of cash and other monetary values - 11.3%.
Sensitivity to market risk

The proportion of the foreign currency assets aggregated with the assets attached to foreign currency exchange rate in the total assets at 31 December 2018 constituted 34.7%. The proportion of the foreign currency balance sheet liabilities and of bonds attached to the foreign currency exchange rate in the total assets on the same date constituted 34.9%. The insignificant difference of these weights indicates that the direct currency risk is insignificant.

Placements abroad by banks of the Republic of Moldova as of 31 December 2018, according to data presented by licensed banks, constituted MDL 8,895.4 million, decreasing by MDL 887.4 million (9.1%) as compared to the end of the previous year and represents 10.7% of total bank assets and 82.2% of Tier I capital. Thus, placements in Belgium were reduced by MDL 801.1 million (49.5%). The details are shown in Table A.15.

According to the situation on 31 December 2018, the largest share of total placements in the sector was in Germany - 41.8%, USA - 16.7%, France - 13.3% and Belgium - 9.2%, the details are presented in the chart 4.18.

According to the Regulation on Classification of Contingent Assets and Liabilities (MO of RM No 216-221 of 9 December 2011), banks reduce their capital by the amount of potential losses, taking into account the rating assigned by international agencies by countries and by banks.

4.2 The NMB supervisory activity

2018 was marked by the entry into force on January 1 of the Law on Banking Activity, which modernized the regulatory and supervisory standards in the banking sector. This law extended the rights and attributions of the National Bank of Moldova (NBM) in the process of assessing and supervising banks. At the same time, the law provides for the improvement of the corporate governance framework in banks and their obligation to have adequate capital in relation to the risks assumed and will allow the harmonization of national banking legislation with international standards and principles.

Key changes in risk management have emerged since 30 July 2018, when eight regulations entered into force to implement, at first stage, the Law on Banking Activity, as required by Basel III, harmonized with the EU Regulation known as CRD IV / CRR Package. According to the first reports in accordance with the Guideline on the Submission by Banks of COREP Reports for Supervisory Purposes, the own funds ratio was within the limits projected by the NBM and above the minimum of 10% and the combined buffer. Thus, the new reporting framework provides for the calculation of own funds requirements based on a new methodology that reflects not only the impact of credit risk, but also market and operational risk. At the same time, with a view to preventing and mitigating macro-prudential or systemic risk,
additional requirements have been set for the own funds that banks have to hold for the creation of capital buffers. Thus, in addition to the 10% minimum own funds requirement, banks are required to maintain common equity tier 1 capital essential to meet the requirements related to the capital conservation buffer (2.5%), the countercyclical capital buffer (0.0%), the systemic risk buffer (1%/3%) and, where applicable, other systemically important institutions (0.25%/0.75%) (O-SII buffer).

Throughout 2018, the National Bank of Moldova continued to promote reforms in the banking sector, focusing in particular on establishing a transparent shareholder structure in order to attract new and appropriate investors, implementing of BASEL III requirements by focusing on internal governance of the bank and risk management, identifying the transactions concluded with affiliated banks and the timely recognition of non-performing loans. All these activities are being carried out through both on-site and ex-officio controls using the supervisory tools available to the National Bank.

**Ex officio controls**

In 2018, loan risk was one of the important areas of supervisory priorities. NBM has daily examined ex officio the loan portfolio of each bank on the basis of the Credit Risk Register for the purpose of supervising and identifying imprudent practices. In the case of the classification of credits contrary to the regulations in force, the NBM requested the removal of the detected violations.

In order to ensure effective corporate governance in the banking sector and to attract investors that meet high quality requirements, a priority in the exercise of banking supervision by the National Bank remains the assessment of shareholders’ quality and transparency. Thus, in order to ensure transparency of the financial and banking sector of the Republic of Moldova, the National Bank, as a regulatory and supervisory authority, monitors the ownership structure of banks, verifies their shareholders to meet the quality of the shareholders of the requirements provided by the Law on Banks’ Activity and the Regulation on Holdings in Bank Equity, as well as in order to ensure certainty in the identity of their actual beneficiaries by carrying out the following actions:

- permanent tracking of transactions with banks’ shares;
- requesting presentation of information related to the identity and activity of potential purchasers, including direct and indirect quota holders, to actual beneficiaries, as well as submission of additional questionnaires, documents / information necessary to assess their quality, including presentation of information in the event of modifications on previously data to the NBM;
- conducting inquires on how to acquire the bank’s shares, as well as requesting the support of the competent authorities;
- analysis of information/documents, available media sources containing information about banks’ shareholders.

As a result of the monitoring and transparency actions carried out by the supervisory authority, in 2018 some remedial measures and sanctions were applied to the shareholders of three licensed
banks. Thus, on 21 March 2018, by the Decision of the Executive Board of the National Bank, certain rights related to a shareholder of B.C. "ENERGBANK" S.A. have been suspended for its non-compliance with the requirements regarding financial suitability and soundness, stipulated in the Law on Banking Activity. At the same time, the respective shareholder was informed of the appropriate obligation to dispose of the shares held in the bank. Subsequently, on 19 July 2018, the Executive Board of the National Bank decided to impose sanctions in the form of fines and remedial measures on "Banca de Finante și Comert" shareholders for non-observance of the requirements of the Law on Banks’ Activity by failing to present by them the documents/information necessary for the evaluation of the shareholders’ quality. The fines were applied in the amount of 1% of the holdings of each of the shareholders targeted in the bank’s share capital and were paid into the state budget. At the same time, on 20 December 2018, the Executive Board of the National Bank decided to suspend certain rights related to a shareholder of the B.C. "EuroCreditBank" S.A., as a result of its non-compliance with the requirements regarding the quality of the shareholder, regulated in the Law on Banks’ Activity. The respective shareholder was informed of the obligation to dispose of the shares held in the bank.

Due to the measures taken by the National Bank on the transparency of bank shareholders during 2018, more than 70% of bank assets have been managed by internationally reputable financial groups.

Thus, in 2018, the national bank market became attractive for new strategic investors, which strengthened the ownership structure of 3 banks, including 2 of systemic importance, as follows:

- Banca Transilvania in Romania, with the support of the European Bank for Reconstruction and Development (EBRD), became an indirect shareholder of B.C. "VICTORIABANK" S.A.;
- Intesa Sanpaolo in Italy - sole shareholder at JSC CB "EXIMBANK", the bank being part of the Intesa Sanpaolo Group.
- A consortium of investors formed by the BERD, Invalda INVL and Horizon Capital purchased the sole share package of 41.09% of BC "MOLDOVA-AGROINDBANK" S.A.

The National Bank will continue to act in line with current legislation and best international practice, applying all the instruments assigned by law and statute, in order to increase the level of transparency of the ownership structure and ensure sound and prudent management of licensed banks.

In 2017, the National Bank of Moldova initiated an exercise to identify the transactions concluded with the affiliated persons within the B.C. "MOLDOVA - AGROINDBANK" S.A. B.C. "VICTORIABANK" S.A. and BC "Moldindconbank" S.A. In this respect, an international auditing company (I.C.S. "PRICEWATERHOUSECOOPERS AUDIT" S.R.L. (PWC)) was selected for this purpose. On 26 April 2018, the Executive Board of the National Bank took the final decision on the qualification of some persons as affiliated to the abovementioned banks. As a result of
qualifying persons as affiliated with banks, violations of the prudential limits set for exposures to affiliated persons were found. Subsequently, on 14 May 2018 B.C. "VICTORIABANK" S.A., BC "MOLDOVA - AGROINDBANK" S.A. and BC "Moldindconbank" S.A. according to the Decision of the Executive Board of 26 April 2018, presented plans to comply with the related prudential limits within up to 2 years and to improve internal control systems for identifying and monitoring transactions with related parties. It should be noted that in December 2018, B.C. "MOLDOVA - AGROINDBANK" S.A. complied with the established exposure limits.

As a result of ex officio control, in order to verify the activity of BC "EuroCreditBank" S.A., B.C. "COMERTBANK" S.A., B.C. "FinComBank" S.A. and B.C. "ENERGBANK" S.A. regarding the identification, verification, monitoring, reporting the related parties and compliance with the requirements regarding transactions with them and exposures to these parties, the Decisions of the Executive Board of the NBM of 12 July 2018 qualified some parties as related to these banks and have been required to improve the process of identifying and monitoring the related parties. At the same time, two banks were found to have violated the prudential limits set for exposures to the related parties. The NBM requested from these banks action plans for the compliance of the exposures to the related parties with prudential limits. The banks presented the abovementioned plans to the NBM and report quarterly about the measures taken in order to achieve them.

**Intensive supervision and early intervention**

On 22 August 2018, the Executive Board of the National Bank of Moldova (NBM) lifted the intensive supervision regime of BC "VICTORIABANK" S.A. The decision was taken after it was found that the bank ensures the transparency of the shareholder structure as a result of the acquisition of 72.19% of the share capital of VB Investment Holding B.V., a company owned by Banca Transilvania in Romania in partnership with the European Bank for Reconstruction and Development (BERD).

At the same time, during 2018, BC "MOLDOVA-AGROINDBANK" S.A. continued to be under the intensive supervision regime (from 2015) and BC "Moldindconbank" S.A.- under early intervention regime (from 2016).

In order to avoid excessive risks, the National Bank monitors daily the activity of banks under intensive supervision and early intervention regime. Respectively, the financial situation, transactions, agenda of the meetings of the governing bodies of these banks, etc. are examined.

Concerning BC "Moldindconbank" S.A., in January 2018, the share package of 63.89% of the bank's share capital according to the legal provisions was canceled and the new shares issued by the bank were put up for sale, the original price of which was set by an international audit company. Thus, the shares were put up for sale as a single package for a period of 3 months. As the shares were not sold within the indicated time limit, the sale term was
extended several times by the Decisions of the Executive Board of the NBM, while the early intervention regime was prolonged.

Regarding BC "MOLDOVA-AGROINDBANK" S.A., in June 2018, the Executive Board of the National Bank of Moldova granted prior approval of an international consortium of investors (BERD, Invalda INVL, Horizon Capital) through HEIM PARTNERS LIMITED to acquire the share capital of "MOLDOVA-AGROINDBANK" S.A. in the amount of 41.09% of shares. Subsequently, in July 2018, the mentioned share package was purchased by the Public Property Agency, being put up for sale as a single package in within three months on the regulated market through the auction. On 2 October 2018, the unique shares of BC "MOLDOVA-AGROINDBANK" S.A. were sold at the auction of the international consortium of investors.

**Banks in liquidation**

As of 31 December 2018, 7 banks were placed in forced liquidation process. During 2018, the National Bank of Moldova approved the Reports on completion of the liquidation process of BC “Oguzbank”.

Regarding the liquidation process of Banca de Economii S.A., BC "BANCA SOCIALĂ" S.A. and BC "UNIBANK" S.A., initiated in 2015, we mention that, with the purpose of recovering the funds of these banks, in the year 2018 the liquidators cooperated with the law enforcement bodies, undertook organizational measures regarding sales of assets owned and in possession of banks and continued work with debtor of banks. As a result, at the end of 2018, 129 actions were in progress in courts in order to recover funds previously disbursed by banks, in total value MDL 4,684.3 million. At the same time, the investigation bodies were managing 47 criminal cases filed according to liquidators’ notifications. As a result, funds were collected in the total amount of MDL 1,718.4 million, including in 2018 – MDL 705.1 million (Banca de Economii S.A. – MDL 554.0 million, BC "BANCA SOCIALĂ" S.A. – MDL 139.2 million and BC "UNIBANK" S.A. – MDL 11.9 million). The financial resources recovered during the process of liquidation of banks were used for the payment of the debts related to the emergency loans granted to Banca de Economii S.A., BC "BANCA SOCIALĂ" S.A. and B.C. "UNIBANK" S.A., until the appointment of liquidators of the respective banks. Thus, until 31 December 2018, funds amounting to MDL 1,749.9 million were repaid, including 2018 – MDL 679.3 million (Banca de Economii S.A. – MDL 545.0 million, BC "BANCA SOCIALĂ" S.A. – MDL 127.5 million and B.C. "UNIBANK" S.A. – MDL 6.8 million).
4.3 Banking sector risks’ assessment

Macro-prudential supervision

In order to prevent the accumulation of systemic risks and to ensure the stability of the banking sector, the National Bank of Moldova regularly performs stress tests and sensitivity studies, which are macro-prudential supervision tools for assessing the banking sector’s resilience to potential shocks. The stress tests used by the National Bank focus on scenarios related to credit risk, liquidity risk, interest rate risk and exchange rate risk as well as combinations of these. Stress testing is based on information reported by banks and evaluates the impact of simulated shocks in the banking sector, by groups of banks and individually on banks.

As a result of the stress tests performed at the level of banking sector, it was found that banks in the Republic of Moldova are sufficiently capitalized and capable to cope with most of simulated shocks. At the same time, banks take the necessary steps to improve the quality of credit portfolios, which will allow them to reduce losses in case of an adverse stress scenario.

With regard to liquidity risk, stress tests results confirm the high level of liquidity in the banking sector, the banks being able to cope with deposits’ withdrawals at historical maximum rates, and liquidity deficits for stress test scenarios applied were not recorded.

Also, in order to assess the potential risks that could affect the stability of the banking sector and of each bank, the National Bank conducts the study on identifying the vulnerabilities of the banking sector. The study’s results do not indicate an alarming level of vulnerability of the banking sector in general and of banks in particular.

In order to capture the opinion of risk managers within the banks, the National Bank of Moldova conducts a systemic risk survey on a half-yearly basis. Respondents believe that key risks persist in the financial system, but the likelihood of a high-impact event on the financial system in the short run is diminishing.

In order to determine the financing conditions and the risk profile of the sectors financed by the banks in the Republic of Moldova, the NBM is conducting quarterly a bank credit survey. Survey results indicate the slight tightening trend of credit standards for legal entities and their moderated relaxation for individuals in 2018. The main factors influencing these trends were the change of internal procedures in some banks and the pressure of competition. In the reference period, demand for credits from both enterprises and population continued to grow. In the short term, banks anticipate an increase in demand for loans from both categories of borrowers, with a slight tightening of lending conditions.

Macro prudential policy tools

In order to increase the resilience of banks to possible adverse developments as well as to achieve the strategic objective of strengthening the function of financial stability and
macro-prudential supervision, the National Bank of Moldova, as supervisory authority, introduced in 2018 the first set of macro-prudential supervision instruments for banks in the Republic of Moldova.

Thus, the Executive Committee of the National Bank of Moldova set the rates of capital conservation buffer applied to banks in the Republic of Moldova to the situation at the end of 2018, as follows:

- The rate of capital conservation buffer to banks was set at 2.5% of banks’ total exposure to risk.
- The rate of countercyclical buffer for exposures located in the Republic of Moldova was set at 0% of banks’ exposure to risk. The rate has been established taking into account the absence of cyclical systemic risks related to excessive credit growth.
- The systemic risk buffer rate for exposures located in the Republic of Moldova was set at 1% or 3% of banks’ exposure to risk, depending on the bank’s shareholder structure.
- In order to ensure adequate treatment of the structural risks of the banking sector in the Republic of Moldova, the National Bank of Moldova establishes the banks that are systemically important companies. Based on this study, and in accordance with paragraph 53 of the Regulation on Capital Buffers of Banks, the National Bank set the rates of buffer related to the societies of systemic importance, for banks identified as O-SII types in the Republic of Moldova as follows:
  - 0.75% for B.C. "MOLDOVA-AGROINDBANK" S.A.;
  - 0.50% for B.C. "VICTORIABANK" S.A. and B.C. "Moldindconbank" S.A.;
  - 0.25% for B.C."MOBIASBANCA-GSG" S.A.

Therefore, from the time of the capital requirement until the end of 2018, the capital requirement for the banks in the Republic of Moldova varied between 13.5% and 16.25%, depending on the shareholder structure and the systemic importance of the bank.

### 4.4 Fighting money laundering and terrorist financing

During 2018, the National Bank of Moldova continued its activities to improve the system for preventing and combating money laundering and terrorist financing in supervised entities. Thus, the Executive Board of the NBM approved regulations on requirements for the prevention and combating of money laundering and terrorist financing in the activity of banks, non-bank payment service providers, foreign exchange units and hotels. At the same time, the NBM carried out on-the-spot and ex-officio checks at the supervised entities in order to ensure their compliance with the requirements of the normative acts in force. In particular, compliance with the requirements of their customers and their beneficial customers, monitoring transactions and business relationships, reporting suspicious transactions to the
Money Laundering Prevention and Anti-Money Laundering Service, assessing the risks related to this sector, implementing enhanced safeguards, international restrictive measures, data retention, etc. In this context, six field inspections were carried out at commercial banks, 3 on-the-spot checks at non-bank payment service providers and 141 on-site checks at foreign exchange and hotel establishments as well as ex-officio checks. As a result of the controls carried out, several deficiencies were found in the application of the requirements for prevention and combating money laundering and terrorism financing, consequently the National Bank applied sanctions and informed the Anti-Money Laundering Service.

Also during the year, the National Bank contributed crucially in the process of presenting and argumentation the measures taken to prevent and combat money laundering and terrorism financing in supervised sectors as part of the national evaluation by the Committee of Experts in this area of the Council of Europe (MONEYVAL). Thus, technical and efficiency questionnaires were completed by presenting legal aspects, applied surveillance measures, established mechanisms, statistical data and other relevant information, and during the field visit, explanations and arguments were provided to demonstrate the effectiveness of the national system for preventing and combating money laundering and terrorist financing.

Additionally, the activities continued in accordance with the Action Plan approved by Government Decision no.791 of 11 October 2017 for measures to minimize the risks, vulnerabilities and threats identified in the Report of the National Risk Assessment on money laundering and terrorist financing.

On 13 December 2018, the TWINNING project, funded by the European Union, "Improving the system for preventing and combating money laundering and financing of terrorism in the Republic of Moldova" was launched, which will be implemented over the next three years. Following this project, the National Bank as well as the Anti-Money Laundering and Terrorist Financing Service will benefit from the assistance of the European Union experts in carrying out further actions to strengthen and improve regulatory and supervisory capacity in this area. At the same time, in order to strengthen the process of preventing and combating money laundering and terrorist financing, the NBM is in the process of acquiring an IT solution for monitoring shareholder transparency and remote analysis in the field of prevention and combating money laundering and terrorist financing. The purpose of implementing this solution is to identify potential operational, image, legal risks, etc., in a timely manner, which could cause significant losses to banks, with an impact on the entire banking sector.
Chapter 5

Payment system

5.1 Payment systems regulation and supervision

In accordance with the Law no. 548-XIII of 21 July 1995 on the National Bank of Moldova, regulation and supervision of financial market infrastructures in the Republic of Moldova is one of the core tasks of the National Bank.

This attribution is implemented in accordance with the best international practices, with the recommendations, principles and standards in this domain issued by the Bank for International Settlements, the European Central Bank, the International Monetary Fund and the World Bank.

During 2018, modifications and completions to the Regulation on automated interbank payment system, approved by the Decision of the Administrative Council of the National Bank of Moldova no. 53, dated 02.03.2006, which resulted from the need to adjust the legal framework in the context of participation of the Central Securities Depository in automated interbank payment system (AIPS), as well as the adjustment of fees charged for payment processing services, in order to balance the level of revenue derived from the AIPS activity with the level of expenses related to the administration and operation of this system.

According to the Payment System Supervision Policy of the Republic of Moldova (approved by the Executive Board Decision no. 299 of October 27, 2016), the core objective of the NBM supervision is promotion of efficiency and stability of the country’s payment system. In the context of the basic objective, the elements of the payment system of the Republic of Moldova are subjected to National Bank supervision, safe and efficient operation of which is essential for financial stability, monetary policy implementation and public confidence in cashless payments.

In the domain of payments’ and settlement systems’ supervision, the following are subjected to supervision:

1. Payment and settlement systems (high value payment systems and high volume and low value payment systems);
2. Clearing and settlement systems of securities;
3. Money remittances;
4. Payment tools.
In exercising its oversight function, the NBM pays special attention to systems that process, compensate and settle high value payments and pose a substantial risk in the event of an operational or settlement failure. At the same time, the NBM ensures an appropriate level of attention to all components of the payment system subjected to supervision.

5.2 Licensing, regulation and supervision of payment services providers and of electronic money issuers

According to the Law no. 114/2012 on payment services and electronic money, the National Bank of Moldova (NBM) licenses, regulates and supervises the activity of payment services providers and of electronic money issuers.

During the year 2018, through Law no. 208/2018 for the amendment of some legislative acts, amendments were made to the Law no. 114/2012 (including Law no. 548-XIII of 21 July 1995 on the National Bank of Moldova, the Code of Contravention of the Republic of Moldova no. 218-XVI of October 24, 2008) with a view to adjusting certain rules in the field of payment services provision and the issuance of electronic money, taking into account the developments related thereto, as well as the modification of the legal framework in the related fields.


According to Law no. 114/2012, during 2018: a license was withdrawn for the issuance of the electronic money at the request of the licensing entity; a license was issued to carry out the said activity; the license of an electronic money issuer has been suspended for a period of six months.

As of 31.12.2018, six non-bank payment services providers were active in the Republic of Moldova, including one payment company, one postal services provider and four companies’ issuers of electronic money.
During 2018, 4 on-site inspections were performed, of which three complex and one thematic, within which licensed non-bank payment services providers underwent verification.

As a result of these controls, infringements and deficiencies were found related to:

- funds protection of payment service users;
- NBM registration of payment agents in the Register of Electronic Money Companies;
- evaluation of the risks associated with the activity of providing payment services as a whole at all organizational levels;
- NBM notification of outsourcing of cash collection activity from cash-in terminals;
- report to the NBM of information about registered frauds;
- NBM notification of modification of data in the documents attached to the license statement etc.

Proposals and recommendations were forwarded regarding necessary actions to be taken in order to eliminate the infringements and drawbacks found and, where appropriate, remedial measures and sanctions were applied.

Also, according to the provisions of the Law no. 114/2012, the NBM performed ex officio supervision of the activity developed by payment services providers, including by continuous monitoring of their activity, analysis of quarterly reports submitted to the NBM, examination of complaints (claims) regarding the activity of payment services providers and of e-money issuers, review of information published on web pages etc.

During 2018, 75.5 million payment transactions were performed through providers of non-bank payment services, which is by 0.5% more transactions than in 2017. These transactions represented a total value of MDL 22.5 billion, that is by 3.9% more than in 2017 (Chart 5.1). It is worth mentioning that the overwhelming majority of these payments were performed by S.E. „Posta Moldovei” (85%).

## 5.3 Automated interbank payment system

The automated interbank payment system (AIPS) consists of the real-time gross settlement system (the RTGS system) and the designated-time net settlement system (the DNS system). The RTGS system is designed to process urgent and high value payments, and the DNS system is designed to process small value payments.

In 2018, through AIPS, a total volume of 12.9 million transactions worth of MDL 1,193.2 billion were processed, increasing in number by 0.6% and decreasing in value by 2.9% compared to 2017. The
average daily volume \(^{43}\) of operations amounted to 51.0 thousand transactions worth of MDL 4.7 billion. The maximum volume of payments settled daily in AIPS was reached on 26 December 2018, being settled 128.8 thousand payments.

From the payments’ structure point of view, we find the following representation:

- ordinary customer transfers – 51.3% of total payments;
- credit transfers related to budget payments – 46.7%;
- other types of payments – 2.0%;

In terms of value, transactions in AIPS have the following structure:

- the amount of ordinary customer transfers – 15.9% of total payments;
- budget credit transfers – 10.6%;
- transfers made by banks in their own name and on their own account – 73.6%.

In 2018, the distribution of the number of payments per AIPS component systems was as follows: 9.2% for the RTGS system and 90.8% for the DNS system. The distribution of the payment value has another picture, so that by RTGS 95.0% of the total payment was settled, and by DNS only 5.0%.

In 2018, on average, daily, through the RTGS system, 4.7 thousand payments were settled, amounting to MDL 4.5 billion, and through the DNS system 46.3 thousand payments, amounting to MDL 236.9 million. The average value of a settled payment in the RTGS system amounted to MDL 949.3 thousand, and of a payment settled in the DNS system – to MDL 5.1 thousand.

Comparing the total value settled through the RTGS system in 2018 and the annual GDP of the Republic of Moldova (MDL 190,016.0 million), it is estimated that in the RTGS system the annual GDP equivalent is settled in about 43 operational days. This indicator reveals the importance of the RTGS system within the Moldovan financial system. At the Eurosystem level \(^{44}\), the gross settlement system in Real Time – Target2 processes a volume comparable to the annual euro area GDP in less than seven business days.

Table A. 16 shows the evolution of payments settled by AIPS in 2018, compared to 2017.

At the end of 2018, there were registered 17 participants in AIPS:

- The National Bank of Moldova;
- 11 banks licensed by the National Bank of Moldova;
- The cash and settlement centre from Tiraspol;

\(^{43}\)In 2018, there were 254 working days.

• The State Treasury of the Ministry of Finance, including as a mandated participant, who does not have an account opened in the AIPS;

• The National Securities Depository of Moldova;

• The Single Central Securities Depository.

**AIPS supervision**

AIPS supervision is conducted to ensure stable and efficient operation of this system. During 2018, the availability of the system for participants was 99.9% and was within the set parameters. The major incidents to disrupt AIPS activity and affect the participants did not take place.

### 5.4 State securities book-entry system

The state securities book-entry system (BES) is a depository and settlement system for securities issued by the Ministry of Finance of the Republic of Moldova on behalf of the Government of the Republic of Moldova and of securities issued by the National Bank. The final settlement for these issuance operations is carried out in AIPS through the real-time gross settlement system (RTGS system), according to DvP (Delivery versus Payment/ownership transfer) principle.

At the end of July 2018, the BES ceased its activity following the transfer of the state securities recording and settlement to the Central Securities Depository, which started operations on 31 July 2018.

During BES operation during 2018, BES availability for system participants accounted for 100%, and incidents that affected system activity and participants did not occur.

### 5.5 Cashless payment tools

Cashless payment tools are essential components of the national payment system and the National Bank conducts their supervision in order to ensure efficiency and security of their utilization.

Out of payment tools available, the most used by population (individuals) are payment cards. It is worth mentioning that the NBM is undertaking relevant measures together with other national authorities and institutions in order to promote utilization of cashless payment tools and fight tax evasion.


Chapter 5. Payment system

Payment cards

Number of cards\(^\text{45}\) in circulation at the end of 2018 constituted 1,936,265 units and increased by 11.5% compared to end of 2017, reaching the highest level so far (Chart 5.2).

On the background of the increase in the number of cards in circulation, the number of active cards\(^\text{46}\) had a more pronounced increase (by 17.0% more compared to the end of 2017) and the share of active cards in the total number of cards in circulation did not change significantly, accounting for 61.5%. It is worth mentioning that this rate of card usage is virtually constant over the last few years.

Concerning the technical solution of the payment cards, the number of proximity cards exceeded the number of hybrid cards in the current year, registering an increase of 49.8% compared to 2017. The rapid increase in the share of these cards in the total number of cards held contributed to the gradual replacement of hybrid cards, which in turn substituted the magnetic tape cards. Thus, in 2018 contactless cards held the major share (49.9%) of the total cards in circulation in the Republic of Moldova. Hybrid cards, the number of which fell by -10.7% from the end of 2017, amounted to 913.3 thousand units, accounting for 47.2% of the total cards in circulation in the Republic of Moldova. Magnetic tape cards have an ever-insignificant share, accounting for only 2.7% of the total number of cards in circulation, even though in 2016 these cards had the most significant weight (55.1%). Virtual cards have a modest share of only 0.2%, with no significant variation over the last few years.

During 2018, through payment cards issued by payment services providers from the Republic of Moldova, 60.4 million operations in the country and abroad amounted to 57.9 billion lei, increasing compared to 2017 with 29.9% in number and by 16.6% as value.

Of the total volume of transactions performed with cards issued in the country, 55.8% represented cashless payments, and 44.2% — cash withdrawals. The highest growth rate was recorded in the number of non-cash payments, by 53.1% more than in the previous year, while the number of cash withdrawals increased by 9.0% compared to 2017.

Also, according to previous forecasts of the National Bank, in 2018 the number of non-cash payments with cards issued in the Republic of Moldova exceeded for the first time cash withdrawals (by 6.9 million transactions).

Daily, on average, with payment cards issued in the Republic of Moldova, 73,202 cash withdrawals and approximately of 92,361 cashless payments are made. The average amount of cash withdrawals in 2018 reached MDL 1,706, up by 2.7% compared to 2017. At the same time, a cashless payment on average had a value of MDL 364, decreasing by 9.9% versus 2017.

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\(^{45}\)Standardized and, where appropriate, customized information support through which the holder usually uses his or her personal identification number and/or other identifying codes, depending on the type of payment card, has remote access to the payment account to which the payment card is attached for payment transactions.

\(^{46}\)Payments card that made at least one financial transaction during the reporting period.
**Domestic operations** made with payment cards issued by licensed payment service providers represents 83.2% (50.3 million transactions) of the total number of transactions made with cards issued in the Republic of Moldova.

Of the total number of domestic operations, the share of non-cash payments accounted for 47.4% (39.8% for 2017) and as value 13.5% (10.8% for 2017).

Daily, on average, 72,498 cash withdrawals and about 65,202 non-cash payments on the territory of the Republic of Moldova with domestic payment cards are performed. The average value of a domestic cash withdrawal transaction amounted to MDL 1,696 in 2018, up by 2.9% compared to 2017. At the same time, a non-cash payment accounted for an average of MDL 296, decreasing by 1.9% compared to 2017.

Of the total number of domestic operations, 34.4% were non-cash payments made with the physical presence of the card and 13.0% were made without the physical card presence (CNP) (Chart 5.4).

The number of transactions with cards, issued in the Republic of Moldova, carried out abroad during the year 2018 (10.2 million operations) increased by 65.1% compared to the same period of 2017, being approximately 4.9 times lower than the number of transactions performed in the country with cards issued in the Republic of Moldova. Of the total number of 10.2 million transactions carried out abroad, 97.5% represent non-cash payments, an increase of 66.9% compared to 2017. It is worth mentioning that 71.1% of the total number of transactions carried out abroad are non-cash payments made without the physical presence of the card and 26.4% are cashless payments made with the physical presence of the card (Chart 5.5). These figures show that approximately 3 out of 4 transactions performed abroad with cards issued in the Republic of Moldova represent online purchases and the increase in their volume denotes the consumers’ growing confidence in this payment tool.

Regarding the assessment of the situation with regard to the payment card frauds, the applied basic indicator is the weight of the total value of the frauds committed in the total amount of the transactions performed with the payment cards issued by the licensed local banks both in the country and abroad. In the Republic of Moldova, this indicator accounted for 0.013% for 2018, which is below the European average level (0.041% for 2016).

The positive trends that emerged on the card market in the Republic of Moldova during 2018 were as follows:

- Non-cash payments made with cards issued in the Republic of Moldova continued to increase at accelerated rates as compared to 2017, increasing by 53.1% in number of transactions made and by 38.0% in value;

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47Payment transaction performed with an accepting provider from the Republic of Moldova with cards issued by payment service providers licensed by the NBM.

• The number of non-cash domestic payments in the fourth quarter surpassed for the first time the number of cash withdrawals in the Republic of Moldova, anticipating the maintenance of the trend throughout the future year and exceeding the annual weight of the withdrawal operations;

• 71.1% of transactions performed abroad with payment cards issued in the Republic of Moldova represent payment transactions for online trade, which denotes an upward trend of these types of operations and the increased trust of card holders in this payment tool;

• The payment card acceptance network of the Republic of Moldova developed during 2018, in particular, by increasing the number of POS terminals (18,178 POS terminals at the end of 2018, an increase of 9.4% compared to the same period of the previous year);

• The number of contactless cards in circulation increased significantly, being by 1.5 times higher compared to the end of 2017, and because of the convenience and simplicity of their use, more and more users choose to pay for purchases by means of a cashless payment tool.

Automated remote service systems

Automated remote service systems (ARSS) are computer solutions and/or equipment made available to the owners by the payment service providers, which enable them through an IT application, authentication method and means of communication to have remote access to funds on the payment account for the purpose of: obtaining information about the status of the payment account and the transactions made, carrying out transactions on behalf of the holder from the funds of the payment account.

The total number of ARSS holders constituted 898.3 thousand holders at the end of 2018, increasing by 64.6% as compared to 2017. Number of active holders also recorded a growth trend of 66.9%, from 138.1 thousand at the end of 2017 to 230.5 thousand at the end of 2018, which shows the interest and the growing trust of payment service providers’ customers to use ARSS. Of the total number of ARSS holders, the active ones have a weight of 25.7% (Chart 5.7).

The distribution of ARSS holders by system type shows that 70.9% of them are registered in the internet-payments systems (by 0.8 percentage points less than the end of 2017); 21.4% of their total number are holders of mobile-payments (by 5.3 percentage points more than the end of 2017); 6.5% (by 3.9 percentage points less than at the end of 2017) of the total number of users use telephone-payments and only 1.2% use PC-payments (holders of PC-payments are only legal entities), this share decreasing by 0.6 percentage points towards the end of 2017.

In 2018, 16.8 million transactions were made through ARSS, by 24.8% more than in 2017. The number of these transactions increased due to the convenience of paying various services/goods through ARSS but also by lower spending which payment service providers pay for them from a distance.

49RBSS holder who has carried out at least one financial operation during the period reporting by a remote banking system.
The value of all transactions made through ARSS by individuals and legal entity totalled MDL 482.3 billion in 2018, increasing by 19.0% compared to the previous year, which shows the increase in customer confidence in transactions through ARSS (Chart 5.8). Approximately 98.3% of the value of the transactions performed by the ARSS was performed by legal entities.

Credit transfer

Of the total number of payment transactions (16.7 million transactions), 69.5% were initiated in electronic format. Over the last four years, this indicator has improved from 48.0% in 2015 to 69.5% in 2018, which means an increase in the digitization level of payment services in the Republic of Moldova. Also, in relative terms, the number of electronically initiated credit transfers grew by 8.0% compared to the previous year, while the number of paper-based decreased by 1.5% compared to 2017. At the same time, the value of operations carried out by credit transfer initiated by the clients of the banks reached the amount of 439.7 billion lei, of which 61.5% were made in electronic format and 38.5% on paper.

Direct debiting

During 2018, 101.6 thousand direct payment transactions were executed, 17.7% more than in 2017. The total value of direct debit transactions amounted to MDL 42.5 million, increasing by 13.3% versus the previous year. The total number of users of this instrument of payment constituted at the end of 2018 more than 4.1 thousand.
# Chapter 6

## Cash operations

In 2018, the amount of currency in circulation continued its upward trend, growth rate (+12.9%, up to MDL 23,753.3 million), being higher by 2.2 percentage points compared to that registered in 2017.

### 6.1 Evolution of currency (banknotes and coins in circulation)

The value of banknotes in circulation at the end of 2018, amounted to MDL 23,606.4 million, an increase of 12.92% compared to the end of the previous year. The evolution of the value of banknotes in circulation is shown in the chart 6.1.

At the end of 2018, about 284 million banknotes were in circulation, by 4.27% more than at the end of 2017. The evolution of banknotes in monetary circulation, in terms of quantity, by the amount of each denomination is presented in the chart 6.2. Quantitative increase of banknotes in circulation was determined by a higher increase in the quantity of banknotes with the following denomination: 5 lei, 50 lei, 100 lei, 200 lei and 500 lei.

Banknotes with the denomination of 1 leu continued to hold the largest share of total number of banknotes in circulation, 31.8%, followed by banknotes with the denomination of 200 lei, with a share of 23.52% and that of 100 lei, with a share of 13.33%. Similar to the previous years, the smallest share in the total number of banknotes in circulation belonged to banknotes with the denomination of MDL 1000 (0.44%).


The chart 6.3 reflects details on the structure of banknotes in circulation at the end of 2018, by nominal values, represented in quantity and value.

At the end of 2018 there were 833.73 million divisive metal coins, 3.2% more than at the end of 2017, their value constituted MDL 120.64 million, 4.05% higher than the period corresponding to the previous year. The evolution of coins in monetary circulation
The increase in the quantity of small denomination coins in circulation due to the increase in the number of coins of following denominations: 5 bani, 10 bani and 25 bani. According to the nominal value structure, at the end of the reference period, the 5 bani coins had a weight of 26.72%, 10 bani coins – 29.99%, and 25 bani coins – 29.35%, and in terms of value, held the weight of 9.23%, 20.72% and 50.71%, respectively.

6.2 Cash issuing, withdrawal and processing

During 2018, the National Bank of Moldova has put into circulation cash of total value of MDL 6,820.35 million, which is about 2.1% more than in 2017.

In terms of value, the banknotes issued in 2018 constituted the amount of MDL 6,805.07 million (of which MDL 6,208.36 million were up-dated banknotes), which is about 2.0% more than in 2017, and in terms of quantity there were 77.9 million banknotes, about 20.3% less than in 2017.

The decrease in the quantity of banknotes put into circulation in 2018 was due to the decrease in the number of banknotes with denomination of 1 leu, 10 lei, 20 lei and 50 lei. From the quantitative point of view, the banknotes put into circulation according to the structure of the nominal values constituted: 1 leu – 3.1 million banknotes, 5 lei – 4.3 million banknotes, 10 lei – 13.7 million banknotes, 20 lei – 6.5 million banknotes, 50 lei – 17.8 million banknotes, 100 lei – 13.2 million banknotes, 200 lei – 17.8 million banknotes, 500 lei – 1.45 million banknotes and 1000 lei – 0.02 million banknotes.

The nominal value structure of banknotes put into circulation is presented in quantitative terms in the chart 6.6.

Metallic coins issued in 2018, in terms of value, amounted to MDL 4.7 million, about 33.7% less compared to 2017, and in terms of quantity – 26.01 million coins, with about 46.7% less than in 2017.

From a quantitative point of view, the metallic coins issued in 2018, according to the nominal value structure, consisted of: 1 ban – 0.94 million coins, 5 bani – 4.7 million coins, 10 bani – 4.4 million coins, 25 bani – 15.9 million coins and 50 bani – 0.07 million coins. The distribution by volume of each denomination of coinage issued is shown in the chart 6.7.

Starting with February 28, 2018, the National Bank of Moldova put into circulation four new coins with denomination of 1 leu, 2 lei, 5 lei and 10 lei on the territory of the Republic of Moldova, and starting with November 29, 2018 – a commemorative circulation coin denominated in nominal value of 10 lei, dedicated to the 25th anniversary of the introduction of the national currency in the Republic of Moldova (issue 2018). Commemorative circulation
coins run in parallel with banknotes and coins of the same denomination.

Metallic coins with denomination of 1 leu, 2 lei, 5 lei and 10 lei, including commemorative ones, constituted MDL 10.6 million in terms of value, and in terms of quantity – 8.4 million coins.

The nominal quantity structure of metallic coins issued in 2018 is the following: for 1 leu – 6.4 million coins, 2 lei – 1.95 million coins, and for 5 leu and 10 leu, including commemorative – 0.04 million coins. The share of the amount of coins issued in 2018 per nominal value is shown in the chart 6.8.

When putting in circulation the coins with denomination of 1 leu, 2 lei, 5 lei and 10 lei, the NBM held various seminars and training sessions for licensed banks, the academic environment, etc., provided the distribution of informative materials for widely informing the public about their characteristics and safety features to be easily recognized and used in daily cash payments.

During 2018, by means of deposits made by licensed banks, the National Bank of Moldova withdrew from circulation banknotes with a total value of MDL 4,097.1 million (11.6% less than in 2017), which accounted for 66.1 million banknotes (about 12.7% less than in 2017). The quantity and value of the banknotes by face values withdrawn from circulation are shown in the chart 6.9 and the chart 6.10, respectively.

The National Bank of Moldova is continuously monitoring the maintenance of the quality of the banknotes in circulation, according to the criteria set by the NBM. Thus, 66.11 million banknotes were processed in the central bank to verify authenticity and quality in 2018. Following such processing, about 43.01 million banknotes were classified as inappropriate for circulation.

National currency counterfeiting

During 2018, the number of counterfeits of national currency in the banking system totalled 3,290 banknotes, about 17.0% less than in 2017. As a fraction of the number of genuine banknotes in circulation at the end of the reporting period, which constituted 284 million banknotes, the number of forged banknotes was at a very low level and represented 0.0012% or about 12 fake banknotes per 1 million genuine banknotes in circulation.

The most frequently forged banknote was that of 100 lei – 2689 counterfeits. On the second place was the banknote with the denomination of 20 lei, with 296 counterfeits, followed by the 200 lei banknote with the number of 217 counterfeits, the 50 lei banknote, with 53 counterfeits and the 1000 lei banknote, with a number of 22 counterfeits.

As a basis for comparison, in 2017, the number of counterfeits of national currency amounted to 3 960 banknotes, and the highest number of counterfeits were recorded for the 100 lei banknotes, totaling 3 418 banknotes, 20 lei – 242 banknotes, 200 lei – 192 banknotes, 50 lei – 61 banknotes, 1000 lei – 29 banknotes.

The share of fake banknotes on face value in 2018 and 2017 is shown in the chart 6.11 and 6.12, respectively. In order to fight
counterfeiting of national currency, the National Bank of Moldova further recommends the public become familiar with the safety features of banknotes on the NBM website. The public should also be vigilant about the counterfeiting phenomenon while making daily payments in cash by checking the authenticity of banknotes and coins, and in case of suspicion, to communicate immediately such cases to the Ministry of Internal Affairs.

At the same time, the NBM regularly co-operates with the Ministry of Internal Affairs in order to discourage and maintain the phenomenon of counterfeiting at the lowest level and ensures the operative briefing of the banking environment on the methods for detecting and extracting counterfeits from circulation.

6.3 Issuance of jubilee and commemorative coins and banknotes

In accordance of the Law on the National Bank of Moldova no.548-XIII of July 21, 1995, the National Bank of Moldova launched in 2018 a new numismatic issue of 13 jubilee and commemorative coins on various topics, including 2 gold coins and 11 silver coins. The prints were differentiated according to the theme and the metal from which the coins were made, namely 400 gold coins and 3750 silver coins.

Table A.17 includes details of jubilee and commemorative coins for the 2018 year issue.
Chapter 7

Activity related to modification of the legal and regulatory framework

7.1 Prudential regulation, regulation of accounting evidence in banks

The National Bank of Moldova is constantly following developments in the regulations applicable to banks in the European Union as well as in other countries, in order to align the local regulatory framework with best practices and the most modern trends.

In 2018, following the entry into force of Law no. 202/2017 on Banks’ Activity, a series of regulatory acts regulating various aspects of banking activity, such as the treatment of risks related to banks’ activity, capital requirements, corporate governance and others, have been promoted and adopted. These regulations were elaborated in the context of the National Bank’s commitment to continuously improve the existing regulatory framework, but also to align the local standards with the European ones, in the context of the commitments made under the Association Agreement between the Republic of Moldova and the European Union.

Prudential regulation

Being a priority, but also to ensure continuity in the development of regulatory acts for the implementation of Law no. 202/2017 on Banks’ Activity in the first half of 2018, the National Bank of Moldova approved a set of regulations targeting own funds requirements and the treatment of credit, market, operational and settlement / delivery risks in the context of own funds, requirements related to capital buffer, etc. The regulatory acts on own funds and risk treatment have been developed in the context of the transposition of Directive 2013/36 / EU and Regulation 575/2013 implementing the Basel III international regulatory framework.

Thus, the following acts were adopted:

1. Regulation on Banks’ Own Funds and Capital Requirements - regulates the methodology for calculating own funds and sets out the requirements for own funds and elements that are included in the calculation of own funds, deductions from own fund items, reductions in fund levels and other requirements for their determination.

2. Regulation on Capital Buffer of Banks - establishes requirements for own funds that banks have to hold for the purpose of providing
capital buffers (capital conservation buffer, countercyclical buffer, capital specific to bank, O-SII buffer, systemic risk buffer, combined buffer), with the ultimate aim of preventing and mitigating macro-prudential and/or systemic risk, as well as the particularities of the National Bank of Moldova and calculation of these buffers by banks.

3. **Regulation on the Treatment of Credit Risk of Banks’ according to the Standardized Approach** - establishes the calculation elements of exposures (assets and off-balance sheet items) according to the degree of credit risk assumed by the bank. For this purpose, according to the Standardized Approach, the Regulation provides for 16 exposure classes whose weights incorporate different levels of risk sensitivity from 0 percent to 150 percent including, taking into account the external ratings assigned by credit rating agencies (ECAI) at the level of countries and entities.

4. **Regulation on Credit Risk Mitigation Techniques of Banks** - sets out rules aiming at standardizing the requirements for credit risk mitigation techniques in line with the standardized approach, recognition principles and minimum conditions to be fulfilled any eligible credit protection form so that its effects on credit risk mitigation are recognized.

5. **Regulation on the Treatment of Bank Operational Risk according to the Basic Approach and the Standardized Approach** - provides for the prudential requirements that banks have to meet, the own funds requirements for fully quantifiable, uniform and standardized operational risk items in line with the base and standardized approaches and sets out the operational risk requirements for the following approaches: basic approach, standardized approach, alternative standardized approach.

6. **Regulation on Market Risk Treatment according to the Standardized Approach** - sets out how to determine the own funds requirements for market risk according to the standardized approach for both the trading portfolio and all the exposures of the bank. Thus, in order to determine the own funds requirements for market risk for all exposures (including the trading portfolio), banks will determine the own funds requirements for foreign exchange and commodities risk. At the same time, for the trading portfolio, banks will also calculate the own funds requirements for position risk.

7. **Regulation on Settlement / Delivery Risk for Banks** - establishes requirements for settlement-related own funds on transactions in and out of the trading portfolio that have remained outstanding after the expected delivery date. For outstanding transactions unsettled after the due delivery date, banks will calculate the price difference at which they will be exposed.

8. **Regulation on the Calculation of Specific and General Credit Risk Adjustments by Banks** - establishes rules for the identification and calculation of general adjustments and specific credit risk adjustments that have been recognized in the bank’s financial statements in accordance with the accounting framework applicable but not included in the calculation of own funds.

9. **Regulation on External Audit of Banks** - establishes the normative framework related to the external audit in the banks of
Chapter 7. Activity related to modification of the legal and regulatory framework

the Republic of Moldova, namely the establishment of the requirements towards the audit company with a view to its acceptance by the National Bank, against the contract concluded by the bank with the company audit, etc. The regulation also provides for the particularities of auditing in banks by the audit firm, auditing financial statements and auditing for supervisory purposes, the way of documentation and communication of auditing companies with banks and the National Bank of Moldova.

10. **Guidelines on the Submission of COREP Reports for supervisory purposes by banks** - establishes uniform rules to report for supervisory purposes of banks regarding own funds requirements, credit, market, operational, settlement / delivery risk etc.

At the same time, some regulatory acts have been improved as a result of supervisory practice. Thus, the changes in the regulatory framework regarding the holdings in the bank’s share capital aimed at improving the mechanisms of access to the financial and banking market of persons, including those that apply supervisory and prudential regulation requirements at least equivalent to those applicable in the Republic of Moldova and which correspond to the legal requirements regarding the quality of the bank’s shareholders.

These amendments aimed to improve the process of requesting prior approval by establishing the set of documents to be submitted by the potential acquirer / acquirer in cases where he / she is a resident of the mentioned states.

To contribute at the increase of the bank’s efficient and prudent management and to be carried out by people with appropriate experience and reputation that is in line with the requirements of the law, the **Regulation on Requirements to Members of the Bank’s Management Body, Financial Holding or Mixed Financial Holding Company, the Heads of Branches of a Bank from another State, Individuals Holding Key Positions and the Liquidator of the Bank in Liquidation**. The Regulation took over the previous provisions related to the requirements to the administrators, adjusting them to the requirements of Law no. 202/2017 on Bank’s Activity, as well as a series of new provisions regarding the determination of the categories of persons with key functions and the requirements towards these persons. Also, the evaluation criteria for the members of the management body have been improved, criteria for the evaluation of key persons and persons who manage the branch of a bank in another state have been established. The new draft regulation determines requirements for assessing the suitability of members of the management body and individuals with key positions at the individual level as well as the criteria for evaluating the members of the management body at the collective level.

Another significant achievement in order to strengthen the regulation of internal governance in banks was the elaboration of a new version of the **Regulation on Banking Management Framework**, which brings into line the requirements for internal governance and risk management in line with European Union standards. The regulation contains provisions on several aspects related to corporate governance in banks, provisions related to the tasks of the management body and its committees, organizational framework and organizational structure of the bank,
remuneration, internal control, risk management, internal capital adequacy assessment process (ICAAP), etc.

For the purpose of connection to the new legal framework, changes have been made to the Regulation on Calculating Voting Rights and Registering Transfer of Ownership Rights over Banks Shares. At the same time, some changes were made in the context of the calculation of the voting right in the case of concerted activity, including the indication of the absolute and relative size of the holding in the bank’s share capital.

The National Bank of Moldova further elaborates the regulatory acts for the implementation of the provisions of Law no. 202/2017 on Banks’ Activity. Aligning the banking legislation of the Republic of Moldova to international standards contributes to promote a secure and stable banking sector, increasing the transparency, confidence and attractiveness of the national banking sector for potential investors and bank creditors as well as depositors, facilitating the development of new financial products and services.

**Accounting regulation in banks**

The entry into force on 1 January 2019 of *International Financial Reporting Standard 16 Leasing Contracts*, which replaces the standard IAS 17 Leases, required the need to update the accounting regulations applicable to banks to bring them in line with the requirements set out in the International Financial Reporting Standards.

Respectively, the *Accounting plan of accounting in licensed banks in the Republic of Moldova* was amended in accordance with the provisions of IFRS 16, with the objective to ensure that the lessee and the lessee account the relevant information that faithfully presents these leases. At the same time, changes have been made in order to bring it into line with the legislation on financial accounting and reporting, as well as on the basis of requests from banks.

**7.2 Currency regulation**

In 2018, the National Bank of Moldova promoted a series of regulatory acts (including amendments) targeting the foreign exchange field, aimed at improving the legal framework related to foreign currency, in particular simplifying the rules for making payments and transfers in foreign exchange operations, streamlining the electronic reporting process by the foreign exchange units at the National Bank of Moldova.

I. The new version of the Regulation on Conditions and Procedures for Performing Foreign Exchange Operations was approved, aiming at optimizing the regulatory framework for payments and transfers in foreign exchange operations, further simplifying the rules for making payments / transfers. This Regulation takes into account the development of the payment services sector and the evolution
of technologies in this area that allow each resident payment service provider (hereinafter RPS provider) to use different devices and to serve customers remotely.

Among the most important changes introduced by the new Regulation, the following might be highlighted:

- establishing the concrete actions to be undertaken by RPS providers for residents and non-residents to make payments and transfers in foreign exchange operations;
- establishing individuals and legal entities’ right to make non-cash payments / transfers in foreign exchange transactions (with some exceptions) in an amount not exceeding EUR 10 000 without presenting supporting documents. This right is also provided for individuals who perform cash operations;
- setting the ceiling of EUR 5 000 for legal transactions by foreign legal entities without the submission of supporting documents, the limit in question is correlated with the ceiling laid down in the Law on Foreign Exchange Regulation on the receipt of cash by resident legal entities;
- indication of the cases where the individual is required to present the identity document to the RPS provider, which is necessary for the determination of the resident or non-resident status of the individual and the application of the appropriate rules for making payments / transfers (such as the need to present supporting documents, authorization / the notifications).
- establishing the RPS providers’ right to determine, within their internal regulations, the way of submission to the RPS provider, the necessary documents for making payments / transfers within foreign exchange operations, for carrying out some operations, etc.

II. With a view to adjust certain regulatory acts of the National Bank of Moldova in the context of amendments to the Law no. 62/2008 on Foreign Exchange Regulation regarding the liberalization of certain operations, as well as of the new Regulation on Conditions and Procedures for Performing Foreign Exchange Operations, amendments were made to the Instruction on External Commitments, Regulation on the Authorization of Certain Foreign Exchange Operations by the National Bank of Moldova and the Regulation on Residents’ Accounts Abroad.

In particular, the provisions on residents’ payment / transfers in the notified / authorized foreign exchange operations were excluded from the normative acts mentioned above, which were taken over by the new Regulation. At the same time, the aforementioned regulatory acts were adjusted to the provisions related to the liberalization of some foreign exchange operations in accordance with the amendments to the Law no. 62/2008. The list of necessary documents to be submitted to the National Bank of Moldova has been supplemented in case of requesting the authorization for the resident to repay the loan / credit in favour of the resident individual abroad.

III. In view of the National Bank of Moldova implementation of the solution for streamlining the licensing, authorization and
notification process of the National Bank of Moldova (the NBM Information System on Licensing, Authorization and Notification), a series of amendments have been carried out to the *Instruction on the Procedure of Submission to the National Bank of Moldova by the Foreign Exchange Offices and Hotels of the Reports in Electronic Form and on the Instruction on Reporting to the National Bank of Moldova by Foreign Exchange Offices and Hotels*. These amendments aim to streamline the reporting process (in electronic form) to the National Bank of Moldova by foreign exchange offices and hotels about the established foreign exchange rates and foreign exchange transactions made by them with individuals. The abovementioned amendments simplify the procedure for registration of authorized persons of foreign exchange offices / hotels on the web page of the National Bank of Moldova, exclude the obligation to submit to the National Bank of Moldova in paper-based manner the declaration on their own responsibility regarding the electronic transmission of the reports, and creates a mechanism of communication and efficient, easy and secure interaction between the National Bank of Moldova and the foreign exchange offices / hotels.
Chapter 8

International relations

8.1 International Collaboration

International Monetary Fund (IMF)

During 2018, the relations between the Republic of Moldova and the IMF have mainly developed in the context of implementation of the IMF-supported program through the EFF funding mechanisms and ECF (Extended credit facility), which was approved by the Board of Executive Directors of the IMF on 7 November 2016, in order to support the state’s economic and financial reform agenda.

The agenda of the IMF program in 2018 focused on reforms in the financial and banking sector, prudent public finance management, and improving the operating environment in the energy sector. Thus, in the banking sector, the program aimed at strengthening corporate governance and enhancing shareholders’ transparency, improving risk management and addressing issues related to crediting the related parties and streamlining the activity of the single Central Securities Depository.

In 2018, IMF experts carried out two working visits in the Republic of Moldova.

The first visit was carried out in the context of the third assessment of the IMF Program related to the level of implementation of the conditionality assumed through this program. IMF representatives, who visited Chisinau in March 2018, noted that the program’s commitments are broadly in line with the agreed parameters, the plenary involvement of the authorities, and the fact that the economic situation continues to improve. At the same time, the prudent policies and the reforms undertaken in the financial sector recovery have been positively evaluated. Following the completion of the third program evaluation, in June 2018, Moldova received access to the SDR 24 million (about USD 33.8 million), which is the fourth disbursement under the current ECF / EFF Program totaling SDRs 129.4 million (about USD 178.7 million or 75% of Moldova’s IMF share).

The second visit of experts (IMF) took place in September 2018 and was not an evaluation mission on the implementation of

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50 http://bnm.md/ro/content/relatia-republicii-moldova-cu-fondul-monetar-international-fmi
51 Extended Funding Mechanism (EFF) which stipulates an annual interest rate equal to the SDRs’ core interest rate, a 10-years reimbursement term and a grace period of four and a half years.
52 Extended Credit Facility (ECF) which stipulates an interest rate equal to zero by the end of 2018, a grace period of five and a half years and a repayment term of 10 years. Two thirds of the amount of the loan amount is granted on ECF basis.
the IMF Program, but aimed at exchanging information on the macroeconomic situation and discussing fiscal policy, monetary policy and other relevant policies, in the context of the existing IMF program. Such work visits outside the standard program rating cycle are part of the IMF’s usual practice when it comes to countries that have programs supported by the IMF.

The successes achieved by the NBM in implementing the IMF Program were presented and communicated by the NBM leadership during the events and meetings held in 2018 with representatives of our country’s constituency in the IMF Board of Directors.

In the context of financial arrangements, during 2018, the National Bank of Moldova received from the IMF a sum of SDR 14.5 million (USD 20.3 million) offered through the EFF financing mechanism to strengthen the international reserves of the Republic Moldova. Table A.18 reflects the cumulative financial arrangements that the National Bank of Moldova benefited by the end of 2018.

In 2018, the total payments for servicing loans granted to the National Bank of Moldova by IMF amounted to SDRs 45.6 million (equivalent to USD 53.3 million), of which payments for the principal amount of the loan amounted to SDRs 43.5 million (the equivalent of USD 50.3 million), and interest payments on loans amounted to SDRs 2.1 million (equivalent to USD 2.9 million).

**European Union (EU)**

The collaboration between the Republic of Moldova and the European Union (EU) shall be developed on the basis of the Association Agreement between the Republic of Moldova on the one hand and the European Union and the European Atomic Energy Community and their Member States on the other hand signed at Brussels on 27 June 2014, in force since 1 July 2016 (being provisionally applied as from 1 September 2014).

In order to achieve the commitments set out in the Association Agreement in 2018, Moldovan authorities have advanced the process of implementing the measures reflected in the National Action Plan of the Republic of Moldova – EU Association Agreement (NAPAA) for 2017-2019, approved by the Government Decision of the Republic of Moldova no.1472 of 30 December 2016. This ample document is the basic instrument for monitoring at national level the progress made in achieving public commitments by the public authorities under the Association Agreement.

The NBM, which participated in the elaboration of the NAPAA, committed itself to contribute to its implementation through a series of actions, such as: aligning central bank legislation with EU best practices, strengthening the NBM’s ability to regulate and supervise banking, strengthening the requirements for banking governance and management, transposing and implementing EU legislation in the field of financial-banking services, etc.

At the same time, in the context of the Government’s coordination activities and national monitoring of the European integration process, during 2018, the NBM participated in the meetings of the Governmental Commission for European Integration. During these sessions, the developments in NAPAA for 2017-2019, as well as
the preparation for regular meetings with European partners, were discussed.

In order to ensure effective communication between the Republic of Moldova and the European Union on the progress made in fulfilling the commitments made under the Association Agreement, the representatives of the NBM participated during the year 2018 in the meetings of the institutional cooperation bodies such as the Trade Association Committee (19 October 2018) and Cluster I of the Subcommittee on Economic Cooperation and Other Sectors (26 November 2018).

During these meetings a series of topics related to the evolution of some macroeconomic indicators, the current situation in the field of macro-prudential supervision and the consolidation of the banking system as well as in the field of banking regulation and supervision, progress in the banking sector reforms, prevention of fraudulent practices in the banking sector, progress in implementing the Association Agreement, etc.

One of the core priorities of the NBM in the implementation of the Association Agreement is the close cooperation with the central banks in the EU. Thus, during 2018, the National Bank of Moldova initiated the dialogue with the ECB to assess the possibility of concluding a cooperation agreement between the two institutions. In this context, the National Bank of Moldova received from the ECB a model ad-hoc agreement, which is used in individual cases for the exchange of information between both banks.

In addition, during 2018, the NBM continued the dialogue with the European Banking Authority (EBA) for the development of sustainable cooperation through the conclusion of a Memorandum of Understanding. In this respect, as a result of EBA’s positive assessment of the confidentiality regime applied in the Republic of Moldova, the EBA has included the NBM in the list of supervisory authorities in non-EU countries whose confidentiality regimes can be considered equivalent to those applied in the countries of the European Union.

Thus, the positive assessment by the EBA facilitated the initiation of an exchange of information between the NBM and EU supervisors and opened the possibility for the National Bank to participate in the colleges of supervisors monitoring the EU banking groups. In addition, the National Bank of Moldova has begun the process of joining the EAE Memorandum of Cooperation with the supervisory authorities of the Central and South-Eastern European countries.

Another event in the context of the dialogue of the National Bank of Moldova with the European Union partners in 2018 was the organization of the seminar called "Reforms of the banking sector. Transition from Basel I to Basel III", organized by the European Union High Level Advisory Mission to the Republic of Moldova in collaboration with the National Bank of Moldova. The event was attended by over 100 high-level representatives of banks, banking associations, audit companies, ministries, as well as experts from the European Banking Authority, national banks of the Netherlands and Romania, development partners and other stakeholders in the banking sector. The seminar discussed the current situation regarding the implementation of the normative framework related to Basel III in the Republic of Moldova. The seminar participants
were able to learn from the regulators and supervisors of the European authorities about the experience and lessons learned during the implementation of the Basel III requirements in the EU countries, but also to discuss the opportunities and challenges of the banks in the Republic of Moldova.

European Bank for Reconstruction and Development (EBRD)\(^5^3\)

The EBRD remains one of the most important development partners for the Republic of Moldova, which contributes to the development of both the private sector through financing and consultancy projects, as well as the policy dialogue aimed at increasing the transparency of the banking sector and ensuring security of the country, but also to improve the business climate. Throughout 2018, the EBRD launched 9 investment projects worth 23 million euros in the Republic of Moldova, with a total investment volume of 1.2 billion euros through 125 projects.

Thus, in the context of the implementation of the Country Strategy of the EBRD for 2017-2022, the National Bank of Moldova is working with the EBRD to restructure and increase the resilience of the national banking sector. In 2018, the EBRD facilitated the entry of several foreign investors into the Moldovan market and acquired with them important shares of the two companies’ licensed capital from the Republic of Moldova.

The presence of the EBRD as a shareholder in the banking sector contributes to the improvement of corporate governance, which complements the NBM’s efforts to admit only high quality shareholders to the sector that fully meet the criteria of honesty and professionalism.

Moldova’s successes in transforming the banking sector were welcomed by EBRD President Suma Chakrabarti as well as EBRD Deputy Chairman Alain Pilloux during his visits to Chisinau in February and October 2018, respectively. The EBRD leadership noted the fact that the National Bank of Moldova successfully solves the vulnerabilities in the banking sector and urged the authorities to take advantage of this favorable situation. The parties welcomed the further development of the cooperation relations between both institutions and the NBM leadership thanked the EBRD delegation for its involvement in attracting foreign investors to the local banking market.

The Central Bank Group of Banking Supervisors in Central and Eastern Europe (BSCEE)\(^5^4\)

The membership of the BSCEE Group allows the NBM to regularly participate in the exchange of experience among the members of

\(^{53}\)http://bnm.md/ro/content/relatia-republicii-moldova-cu-banca-europeana-pentru-reconstructie-si-dezvoltare-berd

\(^{54}\)The Central Bank Group of Banking Supervisors in Central and Eastern Europe (BSCEE) is a regional organization without legal personality that promotes cooperation between the Banking Supervisory Institutions of Central and Eastern Europe countries in Central and Eastern Europe. The National Bank of Moldova became a member of the BSCEE in 1996, following the signing of the BSCEE Group Agreement Organization and Guidance Agreement.
the group, in the process of continuous professional development of the personnel involved in banking supervision, in the elaboration of the new standards, as well as in the methodological assistance in the field of prudential regulation of banks.

In this context, in 2018, the National Bank of Moldova continued to work with BSCEE members through the exchange of information and experience in the field of banking supervision and regulation. Thus, between 4-7 July 2018, the BSCEE organized the annual conference on *Capital Requirements, including the Completion of Basel III Implementation: Stress Testing in Determining Capital Requirements and Implementation Challenges*. The NBM representatives had the opportunity to participate in the discussions on BSCEE countries’ practices regarding the requirements for debtors’ ability to pay.

At the same time, the representatives of the National Bank of Moldova collaborated with BSCEE members, especially with Georgia, referring to the regulatory framework for the supplementary supervision of regulated entities belonging to a financial conglomerate and Romania regarding the implementation of prudential regulations in the context of Basel III requirements.
Throughout 2018, the National Bank of Moldova continued its cooperation with EACHA through the exchange of information and experience in the field of payment processing activity. During 17-18 May 2018, the NBM representatives participated in the EACHA Plenary Session and the EACHA Payments Forum 2018 conference. During the events, issues related to the implementation of Instant Payments in the European Space, the implementation of Directive 2015/2366 on payment services within the European internal market (PSD2) as well as other related topics were discussed. The participation of the National Bank in these events took place in the context of achieving the strategic objectives of the National Bank of Moldova, namely the SEPA banking sector and the implementation of instant payments.

In 2018, the NBM continued to participate in the IORWG activities through information exchange and group-initiated studies. At the same time, the NBM contributed considerably to the 13th annual IORWG Conference in Singapore, where the NBM team was co-leader of the expert group in developing the fraud risk management program.

In the context of strengthening the cooperation relations with the Central Bank of the Republic of Turkey on 13 May 2018, the Memorandum of Understanding on Cooperation between the National Bank of Moldova and the Central Bank of the Republic of Turkey was signed. The purpose of the Memorandum is to develop cooperation and exchange of information and knowledge in the areas of activity of central banks.

As part of the exercise of the banking licensing function, in 2018, the National Bank of Moldova collaborated with banking supervisory authorities to exchange experience, innovate the methodological framework and share best practices between central banks in the area of operational risk management. The National Bank of Moldova became a member of the IORWG in 2015.
supervisors from other states (Latvia, Lithuania, Romania, Turkey, Bosnia and Herzegovina, Hungary and the Russian Federation), making a mutual exchange of information necessary to assess the honesty and professionalism of persons who have been authorized and supervised by these authorities.

At the same time, in 2018, the National Bank of Moldova participated in the National Bank of Romania (NBR) project on the implementation and development of the processes and activities management framework in the NBR. Within this event, the NBM representative provided consultancy and methodological support, sharing the experience of the NBM regarding the development of the process management system.

External Technical Assistance and Collaboration with International Bodies and Central Banks of Other States

The National Bank of Moldova benefited during 2018 from technical assistance from several external donors in order to strengthen its capacities in various areas, such as: improving the monetary policy framework, enhancing regulatory capacities and banking supervision, improving the recovery framework and banking resolution, aligning banking legislation to EU standards, setting up and supervising the Central Securities Depository, making external communication more efficient and other areas specific to the central bank.

In order to achieve the strategic objective of the monetary policy framework and to optimize the implementation of monetary policy, during 2018 the NBM started to benefit from technical assistance from the International Monetary Fund. Following the IMF’s first mission, which took place from 8-27 July 2018, recommendations were made on strengthening the inflation forecasting system and policy analysis. The assistance initiated in this respect shall continue in 2019.

In addition, at the request of the National Bank of Moldova in August 2018, the International Monetary Fund provided consultancy relating the analysis of the effects and impact that might trigger the changeover of the reference currency on monetary policy, the foreign exchange market, the exchange rate and the business environment.

Improving the capacity and efficiency of the NBM function to produce and disclose analytical materials containing national statistical data was another objective of IMF support during 2018.

In the context of the European Union Public Policy Advisory Board Mission to Moldova, for 2016-2018, a senior EU level adviser provided assistance to the National Bank of Moldova during 2018 to reform the banking supervision system aiming to create a modern and efficient supervisory framework in line with EU standards. This assistance has contributed to the development of banking supervision capabilities to enhance banks’ security and robustness, as well as to the effective implementation of risk-based supervision and professional judgment, using the SREP (Surveillance and Evaluation Process). At the same time, the support given by the European Union’s senior adviser to the banking sector has helped
to strengthen the NBM’s communication capabilities, ensuring better information for the banking sector.

One of NBM’s main development partners remains the United States Treasury’s Technical Assistance Office (OTA). In 2018, OTA continued to support NBM efforts to achieve the objective of maintaining the financial stability of the banking system in the Republic of Moldova, including by providing assistance in strengthening the banking sector and implementing risk-based supervision. OTA experts advised NBM representatives on improving the banking supervision and resolution framework, adjusting the drafts of the NBM internal regulations, the correct application of the International Financial Reporting Standards (IFRS) and the good functioning of the National Financial Stability Committee.

Starting from the need to implement new financial reporting standards, the IFRS, at the end of 2018, the National Bank of Moldova has benefited from a training seminar by World Bank experts on the issue of "SIFR Financial Information for Surveillance Practices". The information support and the exemplification of international practices on this topic by the World Bank representatives made a significant contribution to strengthening the knowledge of NBM representatives in this regard.

Corporate governance is a complex of processes, practices, policies, and regulatory framework, influencing the management, administration and control of a bank. Thus, the main principles and good international practices of corporate governance under the new Basel III regulatory framework, as well as the role of the governing body and the division of attributions within a bank, were addressed at another World Bank training event, held in June 2018. The seminar was organized for NBM supervisors as well as for the members of the board of directors of banks.

Thanks to the support provided through the Good Governance Fund program, funded by the Government of the United Kingdom, the NBM has benefited from consulting and expertise in different fields of competence.

In this context, in 2018, the NBM obtained guidelines and recommendations for the elaboration of secondary acts related to the implementation of the Law on Banks’ Activity and the Law on Banks’ Recovery and Resolution, for the improvement of draft regulatory acts in the field of preventing and combating money laundering, and other technical support.

During 2018, considerable efforts have been made to strengthen the area of prevention and combating money laundering and terrorist financing. Thus, on 13 December 2018, the Twinning project "Efficiency of the system for preventing and combating money laundering and financing of terrorism in the Republic of Moldova" was launched. The implementation period of the project is 3 years and the beneficiaries of the project are about 15 public institutions in the Republic of Moldova with attributions in the field of prevention and combating money laundering and terrorist financing, including the National Bank of Moldova.

Thanks to the support provided by the European Union through the Twinning project, the NBM will strengthen and develop the oversight mechanism of the reporting entities, taking into account
the new requirements of the normative acts, including the implementation of robust internal procedures, the risk assessment of the entities, through continuous training and information on new trends and typologies in the field.

In the context of the actions related to the establishment of the Single Central Depository (DCU), during 2018, the NBM benefited from technical assistance from the Financial Services Volunteer Corps (FSVC) through the United States Agency for International Development USAID. The assistance has been geared towards implementing a series of activities to facilitate the DCU process, focusing on reaching the new Central Depository’s compliance level with international standards, including the Financial Market Infrastructure Principles developed by the Bank for International Settlements (BIS) and the International Organization of Securities Commissions (IOSCO). In addition, USAID co-financed the acquisition of DCU’s IT solution at the beginning of its development and implementation process.

The development of an innovative, accessible, efficient and secure national payment system remains one of the core priorities of NBM. In this respect, the NBM has received technical assistance from USAID in the process of assessing the possibility of developing a new payment system or expanding the existing functionality for the implementation of the immediate mobile payments. Additionally, foreign experts have assessed the feasibility of creating a local payee card switch.

The NBM representatives responsible for producing international accounts statistics collaborated with the FSVC team in order to develop the information base of the foreign trade sector with services within the state balance of payments.

USAID also organized a seminar dedicated to improving the human resources function within the NBM, which was one of the premises for the review of NBM’s human resources management policies and systems.

During 2018, the NBM intensified bilateral technical cooperation with other central banks in the European Union in order to take over best practices in various areas of activity specific to a central bank.

Thus, due to the fruitful collaboration relations established over time with the National Bank of Romania (NBR), in 2018, at the request of the NBM, the Romanian experts committed themselves to provide support for the elaboration of the draft normative act transposing the national legislation of the provisions of Internal Market Payment Services Directive (EU) 2015/2366 (PSD2).

Following the signing of the Memorandum of Understanding between the National Bank of Moldova and the Bank of Lithuania (Lietuvos bankas) in 2017, the NBM could benefit from new opportunities of technical assistance in the banking field and of attracting the expertise of an EU central bank. Thus, in 2018, NBM representatives made a series of study visits at the Bank of Lithuania’s headquarters in order to familiarize themselves with the experience of this institution in areas such as remote banking supervision, financial stability and internal and external communication of a central bank.
In order to familiarize with the structure, IT issues and the accounting records of a Central Depository of Securities, a study visit was held during 26-27 April 2018 at the NASDAQ CSD in Lithuania. The knowledge gained during the visit will be applied to the monitoring of the Single Central Depository’s activity in the Republic of Moldova.

Another constant partner from which the NBM takes best practice in different areas of the central bank is the Central Bank of Germany. Thus, during the reporting period, the NBM experts benefited from a series of training suited to the needs of the institution in the following areas: banking supervision, financial and monetary statistics, external communication on monetary policy issues, and information technology services.

Promoting financial education among the undoubted people contributes to increasing economic growth and promoting financial stability of the state. The National Bank of Moldova is constantly participating in the process of promoting financial education at national level, together with other relevant institutions. To this end, in 2018 the Five-Year Plan (2018-2022) of financial assistance in the field of financial education under the Dutch Ministry of Finance constituency program, led by the OECD and its International Financial Education Network (INFE), was launched. Through this project, funded by the Dutch Ministry of Finance, Moldovan authorities, along with other countries (Bulgaria, Croatia, Georgia, North Macedonia, Montenegro and Romania), will benefit from the technical expertise of the Money Wise platform in the Netherlands.

Thus, on 24-25 October 2018, there were 2 roundtables of the representatives of the Moldovan authorities as well as of the licensed banks, the non-banking sector and the civil society with the OECD experts at the NBM headquarters. aiming to establish financial educational activities to be achieved within the framework of the given Project, but also to familiarize with the financial education activities already carried out by the institutions of the Republic of Moldova.

At the same time, the NBM collaborates with a number of organizations from this sector in order to develop practical financial education measures for consumers and financial service providers.
Chapter 9

Institutional and organizational framework

9.1 Corporate Governance of the National Bank

The Law on the National Bank of Moldova provides the legal authority and the governance framework of the National Bank.

The structure of corporate governance includes governing bodies, committees that support governing bodies, and external and internal control levels. This structure is complemented by the compliance and ethics framework, which includes the Code of Conduct for NBM Employees, the Anti-Fraud Policy of the National Bank of Moldova, the Information Security Policy, as well as the public access to normative acts, statistics and publications of the NBM.

The Governor of the National Bank is appointed by the Parliament at the proposal of the President of the Parliament. On 30 November 2018, the Parliament of the Republic of Moldova accepted the resignation of NBM Governor Sergiu Cioclea and, respectively, appointed Octavian Armașu.

Governing bodies of the National Bank

Supervisory Board

The Supervisory Board consists of 7 members appointed by the Parliament for a seven-year term, including 3 members belonging to the executive structure of the National Bank: the governor, the first deputy-governor, a deputy governor and 4 non-salaried members of the NBM. The Chairman of the Supervisory Board is the Governor of the National Bank.

In exercising its powers attributed by law, the Supervisory Board (i) approves the annual report and the annual financial statements; (ii) adopts the internal control system standards, continuously checks and assesses the operation of the internal control system; (iii) adopts the rules of professional ethics; (iv) determines the remuneration fund of the National Bank, the level of remuneration of the members of the Executive Board and the amount of monthly indemnities of the members of the Supervisory Board who are not members of the Executive Board; (v) approves the National Bank’s estimates of expenses and investment allowances and monitors their execution; (vi) selects, on a tender basis, the external audit organization; (vii) establishes the method in which the National
Bank Committees are created and operated; (viii) determines the nominal value, the design of banknotes and metallic coins, the way of putting into circulation and the conditions for their withdrawal from circulation.

For the performance of its duties during 2018, 16 meetings of the Supervisory Board were convened and 37 decisions were approved, with the following issues:

- Approval of the reports on the execution of the statement of expenditure and investment allowances of the National Bank of Moldova.
- Approval of the Financial Statements of the National Bank of Moldova for the year ended on December 31, 2017.
- Approval of the Report on the level of implementation of projects of the National Bank of Moldova in the first half of 2018.
- Putting into circulation as a means of payment for new coins.
- Putting in circulation commemorative circulation coin, emission 2018.
- Approval of graphic designs and nominal values of commemorative and jubilee coins.
- Putting in circulation as a means of payment and for numismatic purposes jubilee and commemorative coins.
- Approving and amending the internal acts of the National Bank of Moldova.

During 2018, 4 decisions of the Executive Board were issued for publication in the Official Monitor of the Republic of Moldova (according to the annex A.24).

In its activity, the Supervisory Board cooperated permanently with the representatives of the development partners of the Republic of Moldova and other financial-banking institutions on subjects of common interest. The Supervisory Board promoted the transparency of the decision making and monitoring NBM activities with reference to the legal attributions.
Executive Board

The Executive Board is composed of 5 members appointed by the Parliament: the governor, the first vice-governor and three vice-governors. The Chairman of the Executive Board is the Governor of the National Bank. During 2018, a vice-governor's mandate was suspended by law.

According to the Law on the National Bank of Moldova, the main tasks of the Executive Board are: (i) to establish the monetary policy in the state; (ii) to establish the foreign exchange policy in the state and the exchange rate regime of the national currency; (iii) to decide on the procedure of issuing the licenses, authorizations, permits, approvals to be issued by the National Bank; (iv) to examine the results of the controls performed at the entities supervised by the National Bank and the adoption of the related decisions; (v) to decide the issuance of the claims of the National Bank, the volume and conditions for their issuance; (vi) to adopt the normative acts of the National Bank; (vii) to ensure the implementation of the Supervisory Board’s decisions; (viii) to plan and organize the current activity of the National Bank.

During 2018, 82 meetings of the Executive Board were organized, at which 326 decisions were examined and approved.

The most important decisions concerned the following areas:

- Monetary and Foreign Exchange Policy of the National Bank of Moldova.
- The supervisory policy of the payments system in the Republic of Moldova.
- The accounting policy of the National Bank of Moldova.
- Regulating and banking supervision.
- Accounting
- Balance of payments.
- Approving and amending the internal acts of the National Bank of Moldova.

During 2018, 48 decisions of the Executive Board (according to Annex A.24 and A.25) were issued for publication in the Official Monitor of the Republic of Moldova.

The Executive Board has continuously promoted the application of monetary policy tools and measures to ensure and maintain price stability, ensure the economy with the national currency and the credibility of the national currency; regulation and supervision of the work of financial institutions as well as the efficiency, safety, accessibility and innovative character of payments.
Structure of the governing bodies:

Octavian ARMAȘU
Governor, Chairman of the Supervisory Board (SB) and Executive Board (EB)

Vladimir MUNTEANU
First Deputy Governor, SB and EB Vice-President

Cristina HAREA
Deputy Governor, member of the SB and of the EB

Ion STURZU
Deputy Governor, member of the EB

Aureliu CINCILEI
Deputy Governor, member of the EB (suspended of right)

Dumitru URSU
Member of the SB

Alexandru PELIN
Member of the SB

Valeriu IAŞAN
Member of the SB

Vadim ENICOV
Member of the SB

Committees

In order to ensure the efficiency of the decision-making process, the Audit Committee and the Investment Committee operate within the NBM. These permanent Committees have their own operating regulations that specify the specific purpose, composition, attributions and responsibilities.

Audit Committee

The audit committee is made up of 3 members of the Supervisory Board who are not employees of the National Bank.

In 2018, the Audit Committee continued the exercise of the monitoring tasks set out in paragraph 3, Article 28 of Law No 548/1995:

- Monitoring the financial reporting process of the National Bank;
- Monitoring the effectiveness of the internal control and risk management system;
- Monitoring and directing the internal audit function;
- Monitoring the independence and external audit activity.
The monitoring activity was carried out in full composition according to the Rules of Procedure of the Audit Committee approved by the NBM Supervisory Board in 2016.

Throughout 2018, the Audit Committee undertook a series of practical measures and actions, meeting in ten ordinary meetings. The main topics of the Committee meetings were:

- Examination of the activity reports and coordination of the NBM Internal Audit Department’s Activity Plans;
- Examining together with representatives of the external audit of the Financial Statements and their compliance with International Financial Reporting Standards;
- Examine the procedures for monitoring and controlling exposures and compliance issues that could have a significant impact on the NBM Financial Statements;
- Formulating proposals for improvement.

The results of the activity were recorded in the minutes of the meetings, reflecting the findings and decisions of the Audit Committee.

Throughout the reporting period, the Audit Committee has developed and submitted recommendations to the NBM Supervisory Board for the improvement and development of the NBM business processes.

**Investment Committee**

The Investment Committee is set up to assist the NBM Executive Board in reviewing investment policies and strategies for managing foreign currency reserves of the state. The Investment Committee consists of 10 NBM employees, including 2 vice-governors, one of whom is the chairman of the committee.

Meetings of the Investment Committee are usually held monthly, and in the case of major issues, extraordinary meetings are organized. The Investment Committee met in 2018 12 times, in 11 ordinary and 1 extraordinary meetings. During each meeting, the performance of the investment portfolio for the previous reporting month, evolution and forecasts related to the domestic foreign exchange market and international financial markets, the evolution of authorized counterparty ratings and the risks of the investment portfolio were discussed. At the same time, as appropriate, new counterparties were examined and included in the list of counterparties authorized to execute the transactions. Also, periodically, issues related to the short and medium term investment strategy related to the strategic asset allocation were discussed.
External and internal control levels

External control

The external control of the National Bank is carried out by the *external annual audit* of the financial statements, accounts and registers carried out by an audit organization with recognized reputation and experience in the field of central bank audit and by the *external public audit* on the legality and regularity of the cost estimates and investment allowances made by the Court of Accounts.

Internal control

The National Bank aligns the governance of the internal control system and operational risk management to international standards COSO\textsuperscript{57}, ISO 31000\textsuperscript{58}, Good Practice in the Field, (including the International Operational Risk Working Materials and Studies Group (IORWG), the National Bank is a member of this group).

With the approval of the *Risk Management Framework in the National Bank of Moldova*, the Supervisory Board established the appetite/tolerance of risk in the National Bank.

Internal control as well as risk management within the NBM are established according to the three lines of defence.

The appropriate establishment of control procedures and activities by subdivisions in the process of risk management, based on the process management system, is the *first line of defence* of the National Bank against the factors that may threaten goals achievement. For this purpose, the NBM’s *every structural subdivision* identifies the risks and applies daily a set of control procedures for the processes and systems they manage, ensuring their effectiveness and efficiency.

*The second line of defence* consists in organizing the process, ensuring the methodological framework, coordinating and independently supervising the internal control and risk management process. The functions of the second line of defence include specific monitoring mechanisms and processes to exercise internal control and an adequate financial and operational risk management system. The second line of control is represented by structures with functions dedicated to financial and operational risk management, independent of line managers, and the Investment Committee. At the level of this line the internal framework regarding the way of performing and controlling the foreign exchange operations is provided, ensuring the continuity of the activity and the security of the information, standards, policies and plans for responding to the incidents, which disrupts or threatens the operational functions of the National Bank. At the NBM level, there is an incidents management system where incidents are recorded, including the measures taken and those responsible for doing so.

\textsuperscript{57}The Committee of Sponsoring Organizations of the Treadway Commission

\textsuperscript{58}ISO 31000 – Risk Management – Guidelines, International Organization for Standardization
Operational Risk Management Function ensured the development of a unitary framework for operational risk management. The Supervisory Board decision of 28 November 2018 approved the Framework for the management of operational risks in the National Bank of Moldova as the main internal regulation for establishing and maintaining the operational risk management system in the National Bank, the organization of the management process operational risks and establishing roles and responsibilities in the given process.

Third line of defence provides independent assurance and is represented by internal audit. Internal audit provides independent management and line managers with reasonable assurance as to the adequacy and effectiveness of governance, risk management and internal controls, including how the first and second line of defence achieve the risk management objectives.

Internal control within the NBM also functions through a series of regulations approved by the governing bodies and ensures the management of resources in an effective way for the fulfilment of the NBM strategic mission and objectives.

Framework of Compliance and Ethics

Code of Conduct for Employees of the National Bank

The NBM Code of Conduct for Employees operates in the National Bank, which sets requirements for all employees to meet the highest standards of professional ethics. To that end, the Code of Conduct is in place to address the personal and professional ethics of National Bank staff, including conflict-of-interest behaviour, confidentiality, security and information management.

Anti-fraud policy

The Anti-Fraud Policy of the National Bank promotes awareness and fraud risk management.

It aims to identify areas of fraud at risk and to implement appropriate control measures at all levels of the National Bank, which will help prevent and detect fraud, monitor the risk of fraud and promote consistent organizational conduct. Anti-fraud policy also sets out the conditions for conducting investigations into the prevention and investigation of suspicions of fraud.

Implementing anti-fraud policy, staff training on fraud risk and its management, reporting suspected frauds - all set and develop anti-fraud culture that discourages potential authors and reinforces the commitment of National Bank staff to combat fraud. The responsibility of the entire staff of the National Bank makes a major contribution to creating an enabling environment for increasing awareness of the risk and the consequences of fraud.

The governing bodies of the National Bank promote a zero tolerance policy on fraud and corruption.
**Measures to combat money laundering and terrorist financing**

The National Bank has established internal rules on the prevention and combating of money laundering and terrorist financing in the operations carried out. The purpose of these rules is to prevent the involvement of the National Bank in operations or activities at risk of money laundering and terrorist financing.

The rules are aligned with international standards and national legislation on knowledge of clients and their operations through the National Bank and sets out the requirements for the organization, implementation and control of the Bank’s subdivisions of the criteria for preventing and combating money laundering and terrorist financing.

The internal reporting system supports the activity of the NBM in combating money laundering and terrorist acts financing by systematically centralizing all findings of the activity carried out in the field and bringing them to the attention of the member of the Executive Board who coordinates the activity. For high-risk operations, reporting is done to the Executive Board.

**Information security policy**

The information security policy within the National Bank ensures the security of the information in all its forms and the protection of the informational resources in the management according to the needs of the bank and the provisions of the legal framework.

The members of the Supervisory Board and the members of the Executive Board, as well as any employee of the National Bank, are obliged to ensure the security of the information in their possession and to which they have access. At the same time, the responsibilities in the process of ensuring information security, information management, monitoring the use and distribution of information, the reporting of security incidents, as well as the way to investigate them are clearly established and divided.

**Public access to normative acts, statistics and publications of the NBM**

The public access to the National Bank’s normative acts, statistics and publications ensures a high degree of transparency while respecting the independence and confidentiality of certain aspects related to the performance of the National Bank’s tasks. Publishing various data and analyses related to the tasks of the National Bank, as well as promoting an open relationship with target groups are issues of major importance in the external communication of the bank.

The National Bank pays particular attention to the reverse link in the communication scheme. Thus, through the regular and frequent transmission of messages, the National Bank provides rigorous explanations for its activity and the functioning of the banking sector. The functioning of the interactive database on the website of the National Bank provides public access to information, internal data and analysis and aims to provide accurate, current, clear and transparent information for creating a public opinion on the decisions of the National Bank, but also for conducting various studies and research.
9.2 The strategic plan of the National Bank of Moldova

The National Bank launched in 2018, the second cycle of strategic planning, following the conclusion and summary of the results of the first Strategic Plan, which ran from 2013 to 2017.

The new Strategic Plan of the National Bank for the period 2018-2020 implies further deepening of the reforms initiated in the financial-banking system, as well as the implementation of new projects in order to increase the contribution of the NBM to the sustainable economic development of the Republic of Moldova.

When drafting the content of the Strategic Plan 2018-2020, they were considered to be the best international practices, the objectives being largely oriented towards the implementation of reforms in five key areas: monetary policy and financial markets, financial stability, banking supervision, cash operations, governance and support.

The core elements of the Strategic Plan 2018 - 2020 of the NBM refer to mission, vision, values and strategic objectives.

**Mission of the National Bank of Moldova**
The fundamental objective of the National Bank is to ensure and maintain price stability. Without prejudice to its fundamental objective, the National Bank promotes and maintains a financial system based on market principles and supports the economic development of the state.

**Vision of the National Bank of Moldova**
The National Bank of Moldova is a proactive, efficient and credible institution guided by good governance practices.

**Values of the National Bank of Moldova**
*Credibility* – policies, reforms, communication and attitudes that inspire confidence and security for the public and the markets. *Responsability* – continued concern about the economic and social impact of the work carried out and the decisions taken. *Reliability* – human resources, internal procedures and information technologies that maintain the safety and diligence of the functioning of the institution. *Professionalism* – competence, integrity, diligence, decision-making, continuous improvement. *Cooperation* – teamwork to achieve the common goals of the bank.

In order to make the strategic plan operational and correlate with the dynamic development of the regulatory framework and fast technological innovation in the banking sector, the new format of the Strategic Planning, brought into question in 2018, is characterized mainly by reducing the period of implementation strategy from five to three years and the number of strategic objectives from ten to five.

The first four strategic objectives set for 2018-2020 derive from core business areas while the last objective relates to support and governance:
1. To enable the monetary policy framework and optimize the implementation of monetary policy;
2. To strengthen the function of financial stability and macro-prudential management;
3. To strengthen the banking sector and implement risk-based supervision;
4. To enhance the quality of the national currency and the level of use of cashless payments;
5. To strengthen institutional capacity and efficiency.

The application of the Strategic Plan 2018-2020 brought the first results at the end of 2018, some of the most important ones are included in the table below:
<table>
<thead>
<tr>
<th>Strategic objective</th>
<th>Major achievements recorded during 2018, related to the implementation of the Strategic Plan for 2018 - 2020</th>
</tr>
</thead>
</table>
| Drafting the monetary policy framework and optimizing the implementation of the monetary policy | ▪ Drawing up the risk assessment Report for the inflation forecast deviation, *in order to substantiate the monetary policy decisions*;  
▪ Starting the negotiation procedures for the ISDA (International Swaps and Derivatives Association) signing process with foreign counterpartnership banks. |
| Strengthening the function of financial stability and macro-prudential management | ▪ *Enactment the Law on the National Committee for Financial Stability* by the Parliament, *in order to establish a national macro-prudential authority*;  
▪ *Enactment the amendments of the Law on Guaranteeing Individuals' Deposits in the Banking System* by the Parliament (*increase of the deposits guarantee ceiling to MDL 50 thousand as of 1 January 2020, as well as other amendments regarding the strengthening the stability of the financial sector*);  
▪ Approval of the Regulation on Capital Buffers of Banks, Methodology for the Identification of Systemically Important Institutions and Methodology for the establishment of capital buffers of banks. |
| Strengthening the banking sector and implementing the risk-based supervision | ▪ Approval of a set of regulatory acts for the first implementation stage of the Law on Banking Activity, as required by Basel III and in compliance with European Union regulations;  
▪ Approval of new Instructions on drawing up and presenting by banks of FINREP reports (Financial Reporting) at individual level and COREP reports (Common Reporting) for supervisory purposes;  
▪ Approval of the Regulation regarding on-sight control (inspections) at banks, aiming to perform the prudential supervision function by the National Bank of Moldova;  
▪ The inclusion of the NBM in the list of supervisory authorities from non-EU Member States, whose confidentiality regimes are equivalent to those applied in EU countries, based on the assessment made by the European Banking Authority;  
▪ Starting the use of the Information System of the National Bank of Moldova regarding licensing, authorization and notification for presenting by the foreign exchange offices and hotels the daily reports on purchase/sale rates and the monthly reports on the performed foreign exchange transactions;  
▪ Approval of the Regulations on the requirements related to prevention and combating money laundering and terrorism financing in the activity of entities supervised by the NBM;  
▪ Approval of the Regulation on minimum requirements for the Information and Communication Systems of banks;  
▪ Signing of the Memorandum of Understanding on the cooperation between the National Bank of Moldova and the Central Bank of the Republic of Turkey. |
| Enhancing the quality of the national currency and the level of use of cashless payments | ▪ Issuance of coins denominated in face value of 1, 2, 5, 10 lei and commemorative circulation coin denominated in face value of 10 lei;  
▪ Acceptance of the Moldovan leu for cash exchange operations with individuals in Romania;  
▪ Conducting events dedicated to the 25th anniversary of the national currency of the Republic of Moldova (*the event launching a new series of coins at the Palace of the Republic, the exhibition organized at the National History Museum during the 25th anniversary celebration event "Moldovan Leu"*);  
▪ Putting into operation of the single Central Securities Depository (CSD), the first |
<table>
<thead>
<tr>
<th>Strengthening institutional capacity and efficiency</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ Completion of the first part of the project on the implementation of an integrated system of human resources management and the implementation of a new salary system for the NBM employees, based on the value of the positions and in compliance with the reference market;</td>
</tr>
<tr>
<td>▪ Approval of the Operational Risk Management Framework in the NBM by the NBM Supervisory Board;</td>
</tr>
<tr>
<td>▪ Approval of the ICT Strategy within the NBM for the period 2019-2020, the NBM Policy on Information and Communication Technology (ICT), the Regulation on ICT management within the NBM, as well as the establishment of the ICT Decision College;</td>
</tr>
<tr>
<td>▪ Development of the internal training process of the NBM employees, in order to increase their professional capacities;</td>
</tr>
<tr>
<td>▪ Organizing a series of events aiming to strengthen interdepartmental relationships, develop corporate culture, and increase social responsibility of the employees.</td>
</tr>
</tbody>
</table>

*Note: The achievement refers to complementary objectives - objectives whose achievement depends on certain exogenous factors and / or (to a certain extent) lies within the competence of other authorities at national or international level. Achieving complementary goals will maximize the benefits of implementing the Strategic Plan.*
9.3 Management and organization

According to the Strategic Plan of the National Bank of Moldova for 2018-2020, out of the 5 strategic objectives, one is related to the human resources field, namely:

To strengthen institutional capacity and efficiency, which implies the streamlining of NBM’s operational activity through institutional modernization and strengthening of internal capacities in order to achieve the core competencies. One of the operational objectives deriving from the strategic one is the implementation of a new integrated human resource management system.

Respectively, the key priorities in the management and development of human resources in 2018 were focused on these areas, the undertaken measures being further detailed.

Organizational evolutions

In 2018, there were several changes in the organizational structure of the National Bank of Moldova, meant to contribute to the achievement of the Bank’s strategic objectives and its core competencies, but also to increase its efficiency by reducing hierarchical levels. At the same time, these changes aim to increase the capacity of the NBM to adapt to changes in the economic environment by redefining responsibilities, restructuring activities, and strengthening institutional capacity in the long run.

Thus, functions related to the core tasks of the NBM have been developed by optimizing the specialized subdivisions in the field of financial markets, supervision, but also optimized some subdivisions related to the support and governance area.

At the same time, compared to 2017, the number of managerial positions of the bank was reduced by about 5% and the ratio of the number of units related to the NBM core attributions increased by about 3% compared to the number of units related to the support area and governance. These optimizations have a positive impact on the efficient use of the bank’s staff resources, considering the extension of the institution’s attributions as a central bank.

9.4 Human resources management

Optimizing the payroll system

The second stage of implementing a new salary system for National Bank employees was completed as part of a project to implement an integrated human resource management system with the help of a consulting company with international experience in this area. This stage involves establishing a direct relationship between the value of the post and the level of salary, as well as ensuring an internal equity and external competitiveness of the salary. It has
the following benefits: alignment of the salary to the reference market; internal equity (posts with the same value have the same amount of salary); external competitiveness (positions with the same value have the same level of remuneration as the reference market); attractive employer (increasing the attractiveness of the NBM as an employer on the labor market); clear rules (the system provides for clear promotion rules in payrolls); improving the organizational climate.

Statistical information

In 2018, the voluntary staff turnover was 7.06%, rising compared to 2017 when it was 4.98%, but declining compared to 2016 when it was 8.43%. Analysing the voluntary fluctuation on hierarchical levels, for the managerial functions in 2018 it reached the level of 4.46% and for the execution functions - 7.95%. We mention that the voluntary fluctuation includes only those who have resigned on their own initiative, excluding those employed seasonally and those who have left for other reasons (retirement, termination of the employment contract, reduction of staffing, etc.).

The average age of the bank’s staff at 31 December 2018 is 39 years 8 months. Nearly two-thirds are women (60.49%) and more than one-third (39.51%) are men. We also mention that women are represented with a share of 43.5% in the composition of senior positions, including the Executive Board.

Professional perfection

During 2018, in order to ensure the development of skills and increase the human capital of the NBM, 333 of employees benefited from various forms of training, selected according to the individual needs of professional development.

The duration of the training was between one day and 30 days. Most of the trainings attended by NBM employees were from 3 to 7 days.

NBM employees have been trained in various fields, hosted by countries such as Romania, Italy, Austria, Turkey, the Netherlands, Germany, France, Poland, USA, UK, CIS countries, as well as trainings and seminars in the Republic of Moldova.

Performance management

The Performance Management System is an instrument applied by the National Bank of Moldova since 2016 to increase the efficiency of employees’ work. The implementation of the system allows the alignment of the individual objectives of the staff with the needs and expectations of the bank through the approval by the superior and subordinate of some competencies and objectives that will contribute to the development of the NBM institutional capacity. Measuring the level of skills and the degree of achievement of objectives for each employee is done at the end of each year. Thus, following the results for 2018, there was an increase in the level of performance of NBM employees compared to the year 2017.
Corporate culture

Throughout the year, there were organized events aiming to strengthen corporate culture and employee retention, such as: organizing sports activities and encouraging employees to participate in recreational activities, excursions, and charity activities at the "Autumn Fair", "Christmas Fair", "Christmas caravan", which contributed to the social responsibility of employees and to bring up the civic spirit. Taking into account that NBM encourages also employees' personal skills, a contest for nominating colleagues who, in the opinion of the employees, showed great qualities was organized. At the same time, people who have achieved performances during the year, which do not necessarily have to do with job duties, were appreciated.

Recruitment

The recruitment process in the National Bank of Moldova in the period 2017-2018 has undergone substantial improvements in the transparency of vacancies, the increase in the number of applicants and the employment of qualified staff, prepared for the challenges related to the exercise of the NBM attributions. In 2018, the scope of advertisements for vacancies on profile pages and social networks was significantly widened, with the number of ads rising from 730 in 2016 to 1,804 in 2017 and 1,857 in 2018. In order to make vacancies as visible as possible to the target group of candidates, the NBM participated in Career Fairs and visits to universities for informative purposes regarding vacancies and possibilities of internship.

Important indicators demonstrating progress in recruitment are shown in the Chart 9.6. We also mention that the quantity and quality of CVs have increased, with the employment rate per competition in 2018 being 66% compared to 54% in 2017 and 57% in 2016. The competition has been filled with both execution functions, and managerial.

We mention that the National Bank of Moldova supports the professionalism and professional development of young specialists. Thus, in 2018, there was an increase in the employment of the fresh graduates, with a rate of 26.92% of the total number of new employees.

Internships

To contribute to the professional development of banking specialists and not only, the NBM is open to accept students to practice in higher education institutions in the country and abroad. Therefore, the NBM also participated at Traineeship Fair, organized by a higher education institution, in order to provide the necessary information to interested students.

At the same time, comparing the years 2016, 2017 and 2018, we notice an increase in the number of students, trainees in the NBM, including those studying abroad. Moreover, in 2018, four trainees were employed at NBM, following the graduation of higher education.
9.5 Internal audit

Internal Audit (IA) at the National Bank of Moldova is an independent activity of objective assurance and counselling, designated to add value and improve the institution’s activities. IA helps the institution achieve its objectives through a systematic and disciplined approach that evaluates and enhances the effectiveness of risk management, control and governance processes, providing the institution’s governing bodies with a reasonable and objective assurance of their functionality.

The structure and positioning of IA within the NBM is in line with the requirements of the Law on the National Bank of Moldova\(^59\), the Standard of Qualification\(^60\) and good practice in the field. Accordingly, the NBM Internal Audit Department (IAD) is organized and operates in accordance with a normative and methodological framework in line with international standards\(^61\). The applicable regulatory framework assures the responsibility of IAD staff to avoid conflicts of interest and to ensure objectivity in carrying out audit engagements. Internal IAD procedures ensure reporting of cases of damage to the independence and / or objectivity of IAD / IAD employees. In the audit activity, IAD employees are guided by the Audit Manual.

In 2018, the audit activity was carried out according to the approved audit plan, which was developed using the risk-based approach, and according to the set priorities. IAD in its work was not limited in expressing independent opinion. The IAD Director has regularly reported the results of the audit work to the NBM governing bodies: the Audit Committee and the Supervisory Board.

The internal audit plan for 2018 was fulfilled to a 100% accomplishment. IAD carried out insurance missions, audited financial statements and the NBM budget execution report, audited and monitored areas of increased risk.

Financial audit / compliance / operational audit missions (60%), advisory audit (7%), performance audit (7%), IT audit missions (19%), integrated audit\(^62\) (7%). Audit activities covered 67% of high residual risk processes and 15% of medium risk.

At the same time, the internal auditors participated as technical and analytical consultants, monitoring and counselling in four major projects of the NBM.

In order to strengthen the internal audit function and implement the recommendations outlined in the external evaluation, the solution for the management of the internal audit process MKinsight was procured, tested and implemented, which will ensure optimization, transparency and streamlining of the audit process according to best practices in the field.
9.6 Information technology

In the field of information and communication technology (hereinafter ICT), during 2018, the main focus was on achieving the objectives set in the project portfolio of the NBM but also on improving the performance, reliability and efficiency features of ICT services, which are of vital importance in fulfilling the tasks of the NBM.

One of the most important projects during 2018 was the creation and launching of the single Central Securities Depository, the functionality related to the management of the state securities market being implemented and put into operation. At the same time, as part of this project, the Department of Information Technologies took over the role of manager of the ICT services of the Depository under an agreement related to the outsourcing services of ICT.

Another important project was the implementation of a solution that facilitates the interaction between the NBM and the entities with which it interacts in order to fulfil its core duties. Thus, the solution for the licensing and licensing process was implemented during the year. It aims at automating and digitizing the licensing process/authorizations/permits and other documents permissive to financial institutions and purchasers of quotas in their capital, electronic service providers and electronic money issuers, foreign exchange units.

During the year a number of internal projects were carried out, which had major implications for the consolidation of the infrastructure and continuity of the functioning of the ICT services. These included, in particular, the revision and optimization of the network architecture, as well as optimization of the distribution of tasks between the NBM data centres.

Also, an important achievement on the ICT governance side was the development and approval of a new ICT strategy. One of the goals of the ICT strategy is to ensure the capability of ICT needed to contribute to the overall strategy of the National Bank of Moldova. The new ICT strategy is based on 6 strategic objectives, and the implementation plan for this strategy foresees 21 initiatives to be implemented over the next two years.

Overall, all efforts and achievements in the field of ICT ultimately pursue the same common goal of ensuring a proactive and efficient alignment of ICT capabilities with the strategic and operational needs of the NBM.
Chapter 10

Analysis of the financial situation for 2018

10.1 General considerations

In accordance with the Law on the National Bank of Moldova no. 548/1995 (republished in the Official Monitor of the Republic of Moldova, 2015, no. 297-300, art. 554), the fundamental objective of the National Bank of Moldova is to ensure and maintain price stability.

The basic tasks of the National Bank of Moldova are established in the Law on the National Bank of Moldova. In accordance with the legal provisions, the operations of the National Bank of Moldova are performed in order to promote and maintain the monetary and foreign exchange policy in the state, to ensure stability of the banking system, issuance of national currency, management of currency reserves of the state, provision of payment services and issuance of electronic money, etc. Respectively, maximization of profit from the activity of the National Bank of Moldova is not an end in itself and cannot serve as an impediment to the achievement of the core objective and attributions.

10.2 Available profit for distribution

The financial result of the National Bank of Moldova depends directly on the necessity to perform monetary and foreign exchange operations in order to achieve the fundamental objective and fulfillment of the Bank’s core tasks. Evolution of available profit for distribution during the period 2016-2018 is reflected in chart 10.1.

On 31 December 2018, the Bank recorded a profit available for distribution of MDL 249.13 million (2017: a total loss of MDL (95.31) million), which was distributed for the increase of the general reserve in order to supplement it to the level of 2/3 of the statutory capital.

The main factors that significantly influenced the result of 2018 were:

- **Profitability of foreign currency reserves**
  Profitability of foreign exchange reserves increased from 1.14 percent cumulatively for 2017 to 1.57 percent cumulatively according to annual results 2018 (expressed in US dollar
foreign currency reserves). Increased return on reserves was mainly generated by the gradual increase over the course of 2018 of the Federal Reserve benchmark rate from the USA. This was increased 4 times, its average value oscillating around 1.9 percent (from 1.5 percent on January 1 to 1.75 percent on March 22, 2.0 percent since June 14, 2.25 percent since September 26 and 2.5 percent since December 19). In 2018, the Bank of England raised the base rate from 0.5 percent to 0.75 percent, which also contributed to higher interest income on GBP compared to 2017. At the same time, profitability also increased due to the gradual decrease in the proportion of deposits in the foreign currency reserves portfolio, by reinvesting them at maturity in securities with higher returns. Another factor contributing to the increase in foreign currency reserves was the increase in the average of annual foreign currency reserves from USD 2,433 million in 2017 to USD 2,928 million in 2018, however this increase also had an adverse effect on profitability. Considering the increase in the share of foreign currency reserves in EUR, which represents a negative remuneration, the level of negative interest expense for 2018 increased to MDL 26,606 thousand compared to 2017: MDL 8,836 thousand.

- Expenditure on required reserves and certificates of the National Bank of Moldova

The main factor explaining the decrease in required reserves for 2018 was the gradual reduction of 2017 mandatory reserve rate from 6 percent to 3.56 percent by the end of 2017, while in 2018 the rate of remuneration remained constant at 3.5 percent. The decrease effect in the rates on the result was offset by the increase in the level of reserves (the increase in reserves in lei from MDL 12,638.6 million in January 2018 to MDL 14,212.6 million in September 2018 and the increase of the reserve requirement in September 2018 from 40 percent to 42.5 percent to MDL 15,095.9 million in December 2018). Thus, the net effect of these two factors was the decrease of the expenditures from the maintenance of the required reserves by MDL 91,956 thousand in 2018.

**Impact on implementation of the monetary policy and of activities related to relations with the Government of the Republic of Moldova on the financial situation of the National Bank of Moldova**

During 2018, the National Bank of Moldova continued to utilize financial tools to absorb excess liquidity. Expenditures from sterilization operations performed through issuance of certificates of the National Bank of Moldova have increased, amounting to about MDL 544 million in 2018 compared to about MDL 520 million in 2017. The increase of expense on sterilization operations was determined by the increase in the balance of certificates issued for liquidity sterilization. Thus, in 2018, the average daily balance of certificates issued by the NBM amounted to MDL 8,402.94 million (2017: MDL 6,358.07 million). The effect of the increase in the balance of instruments was offset by the decrease in the rates of certificates from 8.11 percent in 2017 to 6.5 percent of the average interest rate in 2018. Thus, the net effect of these two factors was the increase in expenditure from sterilization operations by MDL 24,276 thousand in 2018.
At the same time, during the 2018, the rate of return of the required reserves from the funds attracted in Moldovan lei amounted to 3.5 percent (2017: from 6 percent to 3.56 percent). The effect of the decrease of rates of the result was offset by the increase in the level of reserves and the required reserves rates in September 2018 from 40 percent to 42.5 percent. Thus, the net effect of these two factors was the increase in expenditure from required reserves maintenance by MDL 91,956 thousand in 2018.

The interest rates paid on attracted funds in freely convertible currencies varied from 0.31 percent to 0.47 percent (2017: variation range from 0.6 percent to 0.3 percent).

The set of monetary policy tools applied by the National Bank of Moldova during 2018 and the activities related to relations with the Government of the Republic of Moldova generated a net loss of MDL (300.61) million, smaller by MDL 148 million compared to the losses in 2017 (Table A.19).

**Impact of management of state currency reserves operations on the financial situation of the National Bank of Moldova**

The official reserve assets of the state, held by the NBM, increased as of 31 December 2018, as compared to 31 December 2017 by 6.85 percent or by about USD 191.93 million (from USD 2,803.26 million to USD 2,995.19 million), being invested predominantly in financial instruments denominated in USD, euros and pounds. At the same time, during 2018 there was an increase in the average annual volume of international reserves by 20.35 percent or by USD 494.97 million (from USD 2,432.77 million to USD 2,927.74 million).

The net revenues related to the management of foreign exchange reserves and other foreign exchange operations in 2018 constituted for MDL 776.03 million, increasing by about MDL 234.51 million as compared to the previous year, when revenues amounted to MDL 541.52 million. It should be mentioned that there was a significant decrease in net income from currency rate differentials of MDL 37.4 million (MDL 7.22 million in 2018 compared to MDL 44.62 million in 2017). In 2017, the income from foreign exchange transactions was recorded predominantly between 1 January - 5 February because of the depreciation of the exchange rate of MDL versus EUR – 3.16 percent and versus GBP – 3.10 percent. In 2018, the largest foreign currency earnings were recorded mainly in the fourth quarter of 2018, when the USD exchange rate (about 17.078) was lower than the official exchange rate, and each USD sale by the end of the year generated income.

The impact of currency reserves management operations on the financial situation of the National Bank of Moldova is presented in Table A.20.

The average profitability ratio for managing currency reserves for 2018 increased by 0.43 percentage points to 1.57 percent (2017: 1.14 percent), mainly influenced by the profit from the management of the securities in foreign currency and the investments higher than in the previous year (Chart 10.2).
It should be noted that, in accordance with international best practices as well as with the provisions of the *Law on the National Bank of Moldova*, the main criteria for the selection of reserve assets are the safety of core principal amounts and its liquidity. Thus, only after ensuring these two criteria, the profitability of instruments in which the foreign exchange reserves of the state are invested is taken into account.

The evolution of the official exchange rate of the MDL against the currencies in which currency reserves are held had a significant impact on the financial situation of the National Bank of Moldova (there was a depreciation of the exchange rate of USD versus MDL – 0.25 percent in 2018 to the appreciation in 2017 – 14.42 percent).

Thus, at the end of 2018, there were recorded unrealized losses from revaluation of the investment securities to about MDL (247.90) million as a result of the appreciation of the MDL against currencies, against EUR by 4.35 percent and against GBP by 5.75 percent. By the end of 2017, there were recorded unrealized losses from revaluation of the investment securities in the amount of about MDL (4,851.88) million.

According to the *Law on the National Bank of Moldova*, the unrealized losses were offset with unrealized revenues from the corresponding reserve accounts created in the previous years.

### 10.3 Capital and reserves

The activities carried out by the National Bank of Moldova during 2018, in order to fulfill its core duties, are reflected in the structure of the bank’s balance sheet, as shown in table A.22.

The capital and reserves situation is presented in table A.23.

In accordance with Art.19 of the Law on National Bank of Moldova no. 548/1995, with subsequent amendments, the bank’s capital includes statutory capital, reserve accounts created in accordance with the provisions of Art.66 and unrealized revenue accounts. The statutory capital, made up from the authorized capital and the general reserve fund is dynamic and is formed from the profit of the year available for distribution, from the revenues obtained under Art.64 (3) and/or from the contributions of the Government of the Republic of Moldova, until its size reaches 10 percent of the National Bank’s total monetary liabilities. The general reserve fund shall be used exclusively to cover losses registered according to the result of the activities at the end of the financial year, if a negative result is recorded.

Thus, on 31 December 2018, the general reserve fund was increased by MDL 249 126 thousand in order to cover unrealized losses from the reevaluation of foreign currency stocks in the amount of MDL 247 905 thousand. Consequently, the statutory capital was increased, which at the end of the financial year amounted to MDL 2,600 578 thousand. Moreover, following the transition to IFRS 9 and reclassification of financial instruments, the balance of revaluation reserves of revalued securities in stock was readjusted by the cumulative amounts up to the date of
reclassification on 1 January 2018, and the revaluation of state securities starting with 1 January 2018 at amortized cost.

By 31 December 2018, the level of statutory capital in total money liabilities amounted to about 5.21 percent (by 31 December 2017: 5.08 percent).
Chapter 11

Research activity

Research activity within the National Bank of Moldova during 2018 was largely focused on the theoretical and practical support of other subdivisions. Since 2018, the importance of substantiating decisions and processes has significantly contributed to increase the number of requests from subdivisions on the provision of research, studies and / or analyzes that were largely unprecedented. Support for the substantiation of the decision-making process was and remained to be the main role of the subdivision of economic and applied research.

Taking into account the importance of substantiating the decisions, the support of the economic and applied research department was present during the whole process of putting into circulation metal coins of 1, 2, 5 and 10 lei. For each denomination of coins, separate studies were carried out to determine the need for implementation, including considerations of balancing the costs of implementation and estimation of service costs. As a result of another policy support study in the field of cash, a series of measures to optimize the circulation figure were presented.

Given recent developments, the Economic and Applied Research Department during the year has prepared a comprehensive study on the phenomenon and risks associated with so-called virtual currencies and their impact on the economy. The presented study included the approach of so-called virtual currencies from the point of view of the central bank, the direct and indirect impact on the economy as well as the international regulatory practices and policies promoted.

Throughout 2018, a study was conducted to quantify the impact of the inflow of currency on the inflation rate. The main components of inflation, exchange rate behavior, and direct and indirect impacts were analyzed. Other research and analysis topics throughout the year included alternative cashless payment systems and their regulation.

At the same time, the cooperation relations with the academic environment and the higher education institutions with economic profile from the Republic of Moldova were strengthened, including the Institute for Economic Research and the Academy of Economic Studies of Moldova.
Chapter 12

External communication

Following the adoption of the Communication Strategy in 2017, the National Bank of Moldova continued to diversify its tools and channels of information, while maintaining the principles of transparency, accessibility, clarity, timeliness and predictability.

The main purpose of the communication process is to anchor inflationary expectations in the proximity of the target pursued by the National Bank and to increase credibility in the financial and banking sector of the Republic of Moldova. In this regard, the National Bank has opened its doors to the public, which has continuously informed it about its decisions and explained the macroeconomic framework underlying these decisions as well as its effects on the evolution of inflation.

One of the channels of communication of the NBM with the public is the media. In this context, during 2018, the National Bank published and transmitted to the medias over 90 press releases, over 700 responses to journalists’ requests, 13 live broadcasts from various events such as the presentation of the Inflation Report (4), the 1, 2, 5 and 10 lei coin launching event, the presentation of the Monetary Policy Decision (6), the High Level Seminar: “Reforms of the banking sector, transition from Basel I to Basel III ” etc. At the same time, in order to promote the principle of equidistance in relation to mass media, a new format was implemented in 2018 – the cumulative interview of the NBM governor who answered the questions of all media institutions in the Republic of Moldova.

At the same time, the National Bank continued to develop communication through multimedia and social networks, not just by disseminating information, but also communicating (questions and answers) to the public. Using tools to analyse the usefulness of the web page and the messages received through social networks, we see an increase in the interest of users (aged 25-45) on topics such as monetary policy, banking supervision, normative acts drafted by the NBM and financial education.

Significant impact is the National Bank’s social networking posts: Facebook, Youtube, Twitter, LinkedIn, which also reflects the interest of less targeted groups in the financial-banking subject. Analysing the redirection from the Facebook page to the official website of the NBM, we are looking at a monthly increase in the number of visitors on this social network reaching 13923 by the end of the year. Only in February 2018, the event of launching metal coins of 1, 2, 5 and 10 lei, on the National Bank Facebook page, gathered 11300 views.

In the context of taking effective and prompt communication with the public, the National Bank has developed and approved in 2018 crisis communication plans and exceptional ones. Thus,
the National Bank of Moldova manages to ensure a continuous and efficient communication with the public, adapting to the socio-economic changes and transformations in order to fulfil its mandate to maintain price stability and to strengthen the financial and banking sector in the Republic of Moldova.
Chapter 13

Social responsibility

Besides fulfilling its objectives and attributions provided by the legislation, the National Bank is committed to the development of the society in which it is present. Thus, social responsibility has become an integral part of its role as a central bank.

Financial education for all

In this respect, the National Bank continues the process of financial education, in order to explain the meaning of all economic and financial phenomena, to increase the economic skills of citizens. Financial education events are popular, especially among teachers and young people. The visitors to the event are not only the inhabitants of Chisinau but also from other regions of the country. During the financial education activities, more than 30 requests are received daily via e-mail and social networking. In 2018, more than 2,000 people visited the exhibition hall of the NBM.

The first major project in this context is the Global Money Week (March 25, 2018). Due to the large number of requests, the activity period was extended for two weeks. NBM experts gave presentations on various topics in the financial and banking field, depending on the category of visitors’ age. The Global Money Week 2018 continued the "Pupil-to-pupil" project launched in the autumn of 2017, mainly intended for primary school pupils, with volunteer students from the Academy of Sciences of Moldova’s high school who have been the experts of the project.

Other projects were: Open Doors Day, A Holiday Day at the NBM, International Savings Day, 25 years since the introduction of the national currency.

The public activities of the NBM’s financial education and social responsibility included also presentations of NBM specialists at the Moldovan higher education institutions as part of an important information campaign during the year on putting into circulation starting with 28 February 2018, new coins of 1, 2, 5 and 10 lei. During this campaign, the NBM also organized an essay contest for students on the topic "The Moldovan Leu to 25 Years", with the awards given at the solemnity dedicated to this anniversary.

At the beginning of 2018, the National Bank concluded partnership agreements with the Academy of Economic Studies of Moldova (ASEM) and the Technical University of Moldova (TUM). The parties have proposed to cooperate in organizing studies and mutual exchange of knowledge in order to train banking specialists.

At the same time, cooperation relations were established with the Alliance of Organizations for People with Disabilities in the
Republic of Moldova. As a result, the NBM hosted three groups of people from the Motivation Association, the "Eco-Răzeni" Public Association and the National Probation Inspectorate.

The Bank supports diversity and the creation of an environment where people with disabilities can explore their talents and can develop professionally, so 5 employees from the bank are people with disabilities.

The National Bank also encourages its employees to participate in charity or voluntary activities. Thus, during the year, a series of charity fairs was organized, the money being collected to a child placement centre in Moldova.

**Social Contribution**

The Bank is committed to contributing to the development of the community in general and supporting education and learning, thus providing opportunities for students to conduct internships for students, who have the opportunity to know the activity of the financial and banking sector and to increase their chances of employment studies. We mention that during 2018, the internship of the bank was carried out by 32 students, out of which 5 students are studying abroad. With the opportunity offered by the NBM, the respective students have the opportunity to return after their studies and get a job in the country.

**Employee development**

The Bank provides employees with learning and development opportunities based on the latest trends so as to match a broad range of professional development needs and to directly support the bank’s performance. Thus, employees have the opportunity to develop the skills they need in their position within the bank through diversified and alternative learning channels and methods, while optimizing costs. During 2018, NBM employees benefited from over 19 thousand hours of internal training in various areas tangent to the activity of a central bank.

**Employee opinion survey**

The Employee Opinion Survey is one of the tools used by the bank to find the opinions of its employees. Each version of the survey is enhanced with new aspects to measure with employees’ perceptions of different aspects of work, level of involvement, development opportunities, relationship and collaboration issues within the bank, transparency and communication, corporate expectations and achievements. Employee response rate is rising in every survey. Survey results have found that over 84% of employees are satisfied with the bank’s work. At the same time, the necessary aspects of improvement were identified to achieve optimal performance and to increase employees’ efficiency.
Child care and maternity leave

In 2018, 58 employees were on maternity and parental leave (53 women and 5 men). The Bank offers reduced working hours for those returning from parental leave.

Employee health and safety

The Bank complies with the national health and safety legislation of its employees. It also ensures the implementation of decisions on Occupational Safety and Health, ensures optimum working conditions to prevent accidents or occupational illnesses, and ensures that all employees are informed about occupational safety and health policies and procedures.

The institution has been actively involved in promoting healthy lifestyles by participating in the 2018 International Marathon and the annual volleyball and Ping-Pong competitions organized among bank employees.
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### Appendix A

#### Statistical tables

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</tr>
</thead>
<tbody>
<tr>
<td><strong>CURRENT ACCOUNT</strong></td>
</tr>
<tr>
<td>IV</td>
</tr>
<tr>
<td>-49.55</td>
</tr>
<tr>
<td>Goods</td>
</tr>
<tr>
<td>Services</td>
</tr>
<tr>
<td>Primary income</td>
</tr>
<tr>
<td>Secondary income</td>
</tr>
<tr>
<td><strong>CAPITAL ACCOUNT</strong></td>
</tr>
<tr>
<td><strong>FINANCIAL ACCOUNT</strong></td>
</tr>
<tr>
<td>-90.69</td>
</tr>
<tr>
<td>Direct investment, net</td>
</tr>
<tr>
<td>Portfolio investment, net</td>
</tr>
<tr>
<td>Financial derivatives, net</td>
</tr>
<tr>
<td>Other investment, net</td>
</tr>
<tr>
<td>Reserve assets</td>
</tr>
<tr>
<td>Net errors and omissions</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>% to GDP*</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CURRENT ACCOUNT</strong></td>
</tr>
<tr>
<td>-1.8</td>
</tr>
<tr>
<td>Goods</td>
</tr>
<tr>
<td>Services</td>
</tr>
<tr>
<td>Primary income</td>
</tr>
<tr>
<td>Secondary income</td>
</tr>
<tr>
<td><strong>CAPITAL ACCOUNT</strong></td>
</tr>
<tr>
<td>-0.2</td>
</tr>
<tr>
<td><strong>FINANCIAL ACCOUNT</strong></td>
</tr>
<tr>
<td>-3.3</td>
</tr>
<tr>
<td>Direct investment, net</td>
</tr>
<tr>
<td>Portfolio investment and financial derivatives, net</td>
</tr>
<tr>
<td>Other investment, net</td>
</tr>
<tr>
<td>Reserve assets</td>
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</tbody>
</table>

* NAS 2018

Source:NBM
### Table A.2: External loans (incurrence of liabilities), drawings and repayments (USD million)

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2018</th>
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<th>2018</th>
<th>2018</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>draw.</td>
<td>rep.</td>
<td>draw.</td>
<td>rep.</td>
<td>draw.</td>
<td>rep.</td>
</tr>
<tr>
<td>Loans</td>
<td>114.00</td>
<td>66.14</td>
<td>73.88</td>
<td>121.09</td>
<td>130.69</td>
<td>71.55</td>
</tr>
<tr>
<td>Central bank</td>
<td>8.78</td>
<td>8.95</td>
<td>-</td>
<td>21.01</td>
<td>20.37</td>
<td>11.24</td>
</tr>
<tr>
<td>long-term</td>
<td>8.78</td>
<td>8.95</td>
<td>21.01</td>
<td>20.37</td>
<td>37.12</td>
<td>11.24</td>
</tr>
<tr>
<td>General government</td>
<td>36.34</td>
<td>12.07</td>
<td>5.11</td>
<td>40.96</td>
<td>38.8</td>
<td>12.62</td>
</tr>
<tr>
<td>long-term</td>
<td>36.34</td>
<td>12.07</td>
<td>5.11</td>
<td>40.96</td>
<td>38.8</td>
<td>12.62</td>
</tr>
<tr>
<td>Deposit-taking corporations, except central bank</td>
<td>24.42</td>
<td>3.03</td>
<td>1.2</td>
<td>16.6</td>
<td>9.49</td>
<td>8.67</td>
</tr>
<tr>
<td>short-term</td>
<td>1.11</td>
<td>-</td>
<td>1.2</td>
<td>-</td>
<td>1.09</td>
<td>-</td>
</tr>
<tr>
<td>long-term</td>
<td>23.31</td>
<td>3.03</td>
<td>-</td>
<td>16.6</td>
<td>8.4</td>
<td>8.67</td>
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<tr>
<td>Nonfinancial corporations, Households and NPISHs</td>
<td>28.06</td>
<td>23.76</td>
<td>35.84</td>
<td>27.52</td>
<td>42.76</td>
<td>22.3</td>
</tr>
<tr>
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<td>2.97</td>
<td>0.8</td>
<td>1.36</td>
<td>1.12</td>
<td>1.73</td>
<td>3.17</td>
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<tr>
<td>long-term</td>
<td>25.09</td>
<td>22.96</td>
<td>34.48</td>
<td>26.4</td>
<td>41.03</td>
<td>19.13</td>
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<td>Other financial corporations</td>
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<td>18.33</td>
<td>31.73</td>
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<td>19.27</td>
<td>16.72</td>
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<tr>
<td>short-term</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0.06</td>
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<tr>
<td>long-term</td>
<td>16.4</td>
<td>18.33</td>
<td>31.73</td>
<td>15</td>
<td>19.24</td>
<td>16.72</td>
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</table>

* revised data

Source: NBM

### Table A.3: International investment position (BPM6) of the Republic of Moldova, at period-end (USD million)

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<td>-3,542.39</td>
<td>-3,700.69</td>
<td>-3,961.32</td>
<td>-4,166.92</td>
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<tr>
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<td>5,717.88</td>
<td>5,801.86</td>
<td>5,545.54</td>
<td>5,477.51</td>
<td>5,364.14</td>
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<tr>
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<td>247.07</td>
<td>258.47</td>
<td>267.15</td>
<td>257.70</td>
<td>290.38</td>
<td>293.49</td>
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<tr>
<td>Equity and shares</td>
<td>177.31</td>
<td>188.17</td>
<td>190.66</td>
<td>193.55</td>
<td>216.78</td>
<td>220.93</td>
</tr>
<tr>
<td>Debt instruments</td>
<td>69.76</td>
<td>70.30</td>
<td>74.69</td>
<td>64.15</td>
<td>73.60</td>
<td>72.56</td>
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<td>Other investment</td>
<td>2,827.52</td>
<td>2,647.18</td>
<td>2,650.56</td>
<td>2,378.85</td>
<td>2,156.74</td>
<td>2,063.46</td>
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<td>0.56</td>
<td>0.56</td>
<td>0.56</td>
<td>0.56</td>
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<tr>
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<td>1,860.27</td>
<td>1,649.95</td>
<td>1,433.92</td>
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<td>106.07</td>
<td>106.6</td>
<td>106.53</td>
<td>106.78</td>
<td>106.68</td>
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<tr>
<td>Trade credits and advances</td>
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<td>688.02</td>
<td>673.85</td>
<td>612.79</td>
<td>606.46</td>
<td>597.47</td>
</tr>
<tr>
<td>Other accounts payable</td>
<td>9.02</td>
<td>9.02</td>
<td>9.02</td>
<td>9.02</td>
<td>9.02</td>
<td>9.02</td>
</tr>
<tr>
<td>Reserve assets</td>
<td>2,205.93</td>
<td>2,803.26</td>
<td>2,875.18</td>
<td>2,899.78</td>
<td>3,021.18</td>
<td>2,995.18</td>
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<td>Liabilities</td>
<td>7,601.02</td>
<td>8,967.73</td>
<td>9,344.25</td>
<td>9,246.23</td>
<td>9,438.83</td>
<td>9,531.06</td>
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<tr>
<td>Direct investment</td>
<td>3,041.32</td>
<td>3,731.51</td>
<td>3,941.56</td>
<td>3,931.95</td>
<td>4,029.49</td>
<td>4,087.40</td>
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<td>Equity and shares</td>
<td>1,312.97</td>
<td>1,894.85</td>
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<td>2,152.28</td>
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<td>Debt instruments</td>
<td>1,728.35</td>
<td>1,836.66</td>
<td>1,875.26</td>
<td>1,868.41</td>
<td>1,877.21</td>
<td>1,912.55</td>
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<td>Other investment</td>
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<td>5,127.08</td>
<td>5,344.37</td>
<td>5,257.89</td>
<td>5,354.49</td>
<td>5,399.23</td>
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<td>Currency and deposits</td>
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<td>165.33</td>
<td>180.76</td>
<td>148.12</td>
<td>145.60</td>
<td>140.24</td>
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<td>Loans</td>
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<td>3,389.96</td>
<td>3,401.24</td>
<td>3,363.99</td>
<td>3,402.45</td>
<td>3,403.55</td>
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<td>Trade credits and advances</td>
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<td>1,256.56</td>
<td>1,349.57</td>
<td>1,382.95</td>
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<td>1,543.41</td>
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<td>Other accounts payable</td>
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<td>147.99</td>
<td>241.68</td>
<td>197.45</td>
<td>168.03</td>
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<td>SDR allocations</td>
<td>157.75</td>
<td>167.24</td>
<td>171.12</td>
<td>165.38</td>
<td>165.04</td>
<td>163.23</td>
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</tbody>
</table>

NPISHs – nonprofit institutions serving households

* revised data

Source: NBM
Table A.4: Gross external debt of the Republic of Moldova at the end of the period by institutional sectors and by maturity (original) (USD million)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>General government</strong></td>
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<td></td>
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</tr>
<tr>
<td>Short-term</td>
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<td>0.91</td>
<td>0.36</td>
<td>0.24</td>
<td>0.24</td>
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<td>Long-term</td>
<td>1,721.67</td>
<td>1,728.54</td>
<td>1,688.99</td>
<td>1,703.34</td>
<td>1,706.12</td>
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<td><strong>Central bank</strong></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Short-term</td>
<td>264.29</td>
<td>249.24</td>
<td>250.39</td>
<td>231.05</td>
<td>217.80</td>
</tr>
<tr>
<td>Long-term</td>
<td>264.29</td>
<td>249.24</td>
<td>250.39</td>
<td>231.05</td>
<td>217.80</td>
</tr>
<tr>
<td><strong>Deposit-taking corporations, except central bank</strong></td>
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</tr>
<tr>
<td>Short-term</td>
<td>257.87</td>
<td>369.16</td>
<td>293.64</td>
<td>262.58</td>
<td>228.73</td>
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<tr>
<td>Long-term</td>
<td>166.95</td>
<td>152.79</td>
<td>148.44</td>
<td>144.78</td>
<td>157.17</td>
</tr>
<tr>
<td><strong>Other sectors</strong></td>
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<tr>
<td>Short-term</td>
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<td>1,616.14</td>
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<tr>
<td><strong>Other financial corporations</strong></td>
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<td></td>
<td></td>
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</tr>
<tr>
<td>Short-term</td>
<td>130.81</td>
<td>147.57</td>
<td>150.86</td>
<td>153.12</td>
<td>161.49</td>
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<tr>
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<td>4.92</td>
<td>4.95</td>
<td>5.72</td>
<td>5.85</td>
<td>6.68</td>
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<tr>
<td><strong>Nonfinancial corporations</strong></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Short-term</td>
<td>1,351.37</td>
<td>1,441.53</td>
<td>1,470.78</td>
<td>1,555.59</td>
<td>1,616.14</td>
</tr>
<tr>
<td>Long-term</td>
<td>1,199.59</td>
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<td>1,219.77</td>
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<td>1,267.00</td>
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<td><strong>Households and NPISHs</strong></td>
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<tr>
<td>Short-term</td>
<td>34.50</td>
<td>34.86</td>
<td>35.04</td>
<td>35.09</td>
<td>34.79</td>
</tr>
<tr>
<td>Long-term</td>
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<td>0.29</td>
<td>0.18</td>
<td>0.17</td>
</tr>
<tr>
<td><strong>Direct investment: intercompany lending</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Short-term</td>
<td>149.49</td>
<td>161.14</td>
<td>163.94</td>
<td>173.95</td>
<td>180.61</td>
</tr>
<tr>
<td>Long-term</td>
<td>1,687.16</td>
<td>1,714.11</td>
<td>1,704.46</td>
<td>1,703.25</td>
<td>1,731.93</td>
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<td><strong>TOTAL</strong></td>
<td>6,964.29</td>
<td>7,220.53</td>
<td>7,126.67</td>
<td>7,231.94</td>
<td>7,302.02</td>
</tr>
</tbody>
</table>

*revised data
**NPISHs – nonprofit institutions serving households
Source: NBM

Table A.5: Total turnover of the domestic foreign exchange market operations of the foreign currency against MDL (equivalent in USD million)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Transactions of licensed banks in the foreign exchange market against MDL, structured by sources (including operations with financial derivatives)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>NBM</td>
<td>433.8</td>
<td>596.5</td>
<td>37.5</td>
<td>613.0</td>
<td>144.4</td>
<td>18.7</td>
<td>6.5</td>
<td>40.6</td>
<td>10.7</td>
</tr>
<tr>
<td>Resident banks</td>
<td>279.8</td>
<td>451.4</td>
<td>27.7</td>
<td>144.4</td>
<td>18.7</td>
<td>6.5</td>
<td>40.6</td>
<td>10.7</td>
<td>18.7</td>
</tr>
<tr>
<td>Non-resident banks</td>
<td>27.7</td>
<td>67.7</td>
<td>27.7</td>
<td>144.4</td>
<td>18.7</td>
<td>6.5</td>
<td>40.6</td>
<td>10.7</td>
<td>18.7</td>
</tr>
<tr>
<td>Legal entities</td>
<td>6,476.5</td>
<td>7,686.8</td>
<td>345.4</td>
<td>3,120.8</td>
<td>849.0</td>
<td>35.6</td>
<td>19.8</td>
<td>13.0</td>
<td>8.8</td>
</tr>
<tr>
<td>Individuals and foreign exchange offices</td>
<td>2,474.2</td>
<td>2,635.2</td>
<td>345.4</td>
<td>3,120.8</td>
<td>849.0</td>
<td>35.6</td>
<td>19.8</td>
<td>13.0</td>
<td>8.8</td>
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<td>NBM</td>
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<td>293.6</td>
<td>19.5</td>
<td>14.4</td>
<td>27.6</td>
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<td>Foreign exchange offices</td>
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<td>849.0</td>
<td>35.6</td>
<td>207.5</td>
<td>293.6</td>
<td>19.5</td>
<td>14.4</td>
<td>27.6</td>
<td>9.0</td>
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<tr>
<td>Cash</td>
<td>10,663.3</td>
<td>12,772.2</td>
<td>19.8</td>
<td>5,341.8</td>
<td>6,381.6</td>
<td>19.5</td>
<td>14.4</td>
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<td>719.9</td>
<td>823.8</td>
<td>19.8</td>
<td>14.4</td>
<td>27.6</td>
<td>9.0</td>
</tr>
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<td>Cash</td>
<td>8,189.1</td>
<td>10,137.0</td>
<td>19.8</td>
<td>3,213.1</td>
<td>4,101.0</td>
<td>19.8</td>
<td>14.4</td>
<td>27.6</td>
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<tr>
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<td>12,007.6</td>
<td>14,291.3</td>
<td>19.8</td>
<td>6,017.1</td>
<td>7,205.4</td>
<td>19.8</td>
<td>14.4</td>
<td>27.6</td>
<td>9.0</td>
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Source: Report on purchases and sales operations of foreign currency made by licensed banks and the NBM data; Report on foreign exchange operations carried out by foreign exchange offices; Report on foreign exchange operations carried out by foreign exchange bureaus by hotels.
Table A.6: Structure of turnover of foreign exchange transactions on domestic foreign exchange market

<table>
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<tr>
<th>Year</th>
<th>Domestic foreign exchange transfer market</th>
<th>Domestic foreign exchange cash market</th>
<th>Total foreign exchange market</th>
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<td>sales</td>
<td>purchases</td>
</tr>
<tr>
<td>2017</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>USD</td>
<td>50.6</td>
<td>56.9</td>
<td>21.7</td>
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<tr>
<td>EUR</td>
<td>45.8</td>
<td>39.5</td>
<td>63.2</td>
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<tr>
<td>RUB</td>
<td>2.0</td>
<td>2.8</td>
<td>10.7</td>
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<tr>
<td>Other currencies</td>
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<td>0.7</td>
<td>4.4</td>
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<td>Total</td>
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<td>100.0</td>
<td>100.0</td>
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<tr>
<td>2018</td>
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<td>USD</td>
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<td>EUR</td>
<td>52.0</td>
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<tr>
<td>RUB</td>
<td>1.6</td>
<td>2.6</td>
<td>8.8</td>
</tr>
<tr>
<td>Other currencies</td>
<td>1.5</td>
<td>0.6</td>
<td>6.3</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Report on purchases and sales operations of foreign currency made by licensed banks and the NBM data; Report on foreign exchange operations carried out by foreign exchange offices; Report on foreign exchange operations carried out by foreign exchange bureaus by hotels.

Table A.7: Net balance (purchases minus sales) operations of foreign currency against MDL performed by licensed banks, according to the date of the transaction (equivalent in USD million)

<table>
<thead>
<tr>
<th>Quater</th>
<th>NBM</th>
<th>Resident banks</th>
<th>Non-resident banks</th>
<th>Legal entities</th>
<th>Individuals (including foreign exchange offices)</th>
<th>Miscellaneous</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>-28.1</td>
<td>0.0</td>
<td>-0.2</td>
<td>-394.4</td>
<td>380.0</td>
<td>43.4</td>
<td>0.7</td>
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<tr>
<td>II</td>
<td>-99.7</td>
<td>0.0</td>
<td>8.9</td>
<td>-436.3</td>
<td>470.6</td>
<td>56.2</td>
<td>-0.3</td>
</tr>
<tr>
<td>III</td>
<td>-196.0</td>
<td>0.0</td>
<td>-0.5</td>
<td>-476.7</td>
<td>625.7</td>
<td>57.4</td>
<td>9.9</td>
</tr>
<tr>
<td>IV</td>
<td>-110.0</td>
<td>0.0</td>
<td>5.3</td>
<td>-350.1</td>
<td>410.9</td>
<td>53.9</td>
<td>10.0</td>
</tr>
<tr>
<td>2017</td>
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<td>0.0</td>
<td>13.5</td>
<td>-1,657.5</td>
<td>1,887.2</td>
<td>210.9</td>
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<tr>
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<td>-41.1</td>
<td>0.0</td>
<td>6.4</td>
<td>-549.5</td>
<td>510.1</td>
<td>82.1</td>
<td>8.0</td>
</tr>
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<td>-129.8</td>
<td>0.0</td>
<td>24.3</td>
<td>-548.7</td>
<td>587.0</td>
<td>82.3</td>
<td>15.1</td>
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<tr>
<td>IV</td>
<td>6.2</td>
<td>0.0</td>
<td>-7.6</td>
<td>-560.0</td>
<td>473.5</td>
<td>57.0</td>
<td>-30.9</td>
</tr>
<tr>
<td>2018</td>
<td>-262.5</td>
<td>0.0</td>
<td>34.5</td>
<td>-2,069.4</td>
<td>1,998.4</td>
<td>290.0</td>
<td>-9.0</td>
</tr>
</tbody>
</table>

Source: NBM
### Table A.8: Balance sheet assets in foreign currency of the licensed banks (equivalent in USD million)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Fixed course from 31.12.2018</td>
<td>Actual course</td>
<td>Share %</td>
</tr>
<tr>
<td>Loans granted in foreign currency.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>including:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>EUR</strong></td>
<td>777.8</td>
<td>803.0</td>
<td>47.0</td>
</tr>
<tr>
<td><strong>USD</strong></td>
<td>255.0</td>
<td>255.1</td>
<td>14.9</td>
</tr>
<tr>
<td>Disposable funds in foreign currency.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>including:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>EUR</strong></td>
<td>674.4</td>
<td>697.5</td>
<td>40.8</td>
</tr>
<tr>
<td><strong>USD</strong></td>
<td>211.1</td>
<td>211.1</td>
<td>12.4</td>
</tr>
<tr>
<td>Other currencies</td>
<td>20.8</td>
<td>22.7</td>
<td>1.3</td>
</tr>
<tr>
<td>Required reserves in foreign currency</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other assets in foreign currency (1+2+3).</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>including:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Nostro” accounts opened in banks of the Republic of Moldova</strong></td>
<td>2.3</td>
<td>2.3</td>
<td>0.1</td>
</tr>
<tr>
<td><strong>Other assets</strong></td>
<td>37.0</td>
<td>38.2</td>
<td>2.2</td>
</tr>
<tr>
<td><strong>Adjustments and allowance for impairment losses</strong></td>
<td>-105.0</td>
<td>-108.2</td>
<td>-6.2</td>
</tr>
<tr>
<td>Assets attached to the foreign exchange rate</td>
<td>61.4</td>
<td>63.8</td>
<td>3.7</td>
</tr>
<tr>
<td><strong>Total foreign exchange balance-sheet assets</strong></td>
<td><strong>1,653.5</strong></td>
<td><strong>1,708.7</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

Source: NBM

### Table A.9: Disposable funds in foreign currency of the licensed banks (equivalent in USD million)

<table>
<thead>
<tr>
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<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>&quot;Nostro” accounts opened abroad</td>
<td>463.7</td>
<td>66.5</td>
<td>373.4</td>
<td>55.8</td>
<td>-19.5</td>
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<tr>
<td>Cash in foreign currency</td>
<td>125.2</td>
<td>17.9</td>
<td>142.3</td>
<td>21.3</td>
<td>13.7</td>
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<tr>
<td>Placements abroad</td>
<td>62.4</td>
<td>8.9</td>
<td>111.8</td>
<td>16.7</td>
<td>79.2</td>
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<tr>
<td>Overnight placements</td>
<td>45.2</td>
<td>6.5</td>
<td>38.7</td>
<td>5.8</td>
<td>-14.4</td>
</tr>
<tr>
<td>Securities in foreign currency</td>
<td>1.0</td>
<td>0.2</td>
<td>2.6</td>
<td>0.4</td>
<td>2.6 ori</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>697.5</strong></td>
<td><strong>100.0</strong></td>
<td><strong>668.8</strong></td>
<td><strong>100.0</strong></td>
<td><strong>-4.1</strong></td>
</tr>
</tbody>
</table>

Source: NBM

### Table A.10: Balance sheet liabilities in foreign currency of licensed banks (equivalent in USD million)

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<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Total current and deposit accounts of non-bank clients. including:</td>
<td></td>
<td></td>
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<td></td>
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</tr>
<tr>
<td></td>
<td>Fixed course from 31.12.2018</td>
<td>Actual course</td>
<td>Share %</td>
<td>Fixed course from 31.12.2018</td>
<td>Actual course</td>
</tr>
<tr>
<td><strong>non-residents</strong></td>
<td>1,466.8</td>
<td>1,493.4</td>
<td>88.2</td>
<td>1,519.8</td>
<td>89.8</td>
</tr>
<tr>
<td><strong>residents</strong></td>
<td>1,365.4</td>
<td>1,409.6</td>
<td>83.3</td>
<td>1,452.5</td>
<td>85.8</td>
</tr>
<tr>
<td>Term deposits</td>
<td>774.9</td>
<td>800.1</td>
<td>47.3</td>
<td>718.9</td>
<td>42.5</td>
</tr>
<tr>
<td>Current accounts</td>
<td>476.6</td>
<td>491.2</td>
<td>29.0</td>
<td>583.9</td>
<td>34.5</td>
</tr>
<tr>
<td>Sight deposits</td>
<td>195.3</td>
<td>202.1</td>
<td>11.9</td>
<td>217.0</td>
<td>12.8</td>
</tr>
<tr>
<td>Credits received</td>
<td>153.6</td>
<td>158.6</td>
<td>9.4</td>
<td>145.1</td>
<td>8.6</td>
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<tr>
<td>&quot;Loro” accounts and term deposits of banks from abroad</td>
<td>3.1</td>
<td>3.2</td>
<td>0.2</td>
<td>0.2</td>
<td>-93.5</td>
</tr>
<tr>
<td>Other liabilities in foreign currency</td>
<td>36.2</td>
<td>37.6</td>
<td>2.2</td>
<td>27.2</td>
<td>1.6</td>
</tr>
<tr>
<td><strong>Total foreign exchange balance-sheet liabilities</strong></td>
<td><strong>1,639.7</strong></td>
<td><strong>1,692.8</strong></td>
<td><strong>100.0</strong></td>
<td><strong>1,692.3</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

Source: NBM
Table A.11: Current accounts and deposits in foreign currency of bank’s clients, by types of currency (equivalent in USD million)

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>EUR</td>
<td>953.8</td>
<td>999.7</td>
<td>66.9</td>
<td>1,061.3</td>
<td>69.8</td>
<td>11.3</td>
<td>6.2</td>
</tr>
<tr>
<td>USD</td>
<td>483.1</td>
<td>483.1</td>
<td>32.3</td>
<td>447.0</td>
<td>29.4</td>
<td>-7.5</td>
<td>-7.5</td>
</tr>
<tr>
<td>RUB</td>
<td>3.5</td>
<td>4.2</td>
<td>0.3</td>
<td>4.6</td>
<td>0.3</td>
<td>31.4</td>
<td>9.5</td>
</tr>
<tr>
<td>Other currencies</td>
<td>6.4</td>
<td>6.4</td>
<td>0.4</td>
<td>6.9</td>
<td>0.5</td>
<td>7.8</td>
<td>7.8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,446.8</strong></td>
<td><strong>1,493.4</strong></td>
<td><strong>100.0</strong></td>
<td><strong>1,519.8</strong></td>
<td><strong>100.0</strong></td>
<td><strong>5.0</strong></td>
<td><strong>1.8</strong></td>
</tr>
</tbody>
</table>

Source: NBM

Table A.12: Conditional assets and liabilities in foreign currency of licensed banks (equivalent in USD million)

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td><strong>Conditional assets in foreign currency</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current purchases</td>
<td>54.2</td>
<td>86.6</td>
<td>6.0</td>
<td>72.3</td>
<td>-88.9</td>
</tr>
<tr>
<td>Purchases on term</td>
<td>7.7</td>
<td>12.3</td>
<td>2.3</td>
<td>27.7</td>
<td>-70.1</td>
</tr>
<tr>
<td>Other conditional assets</td>
<td>0.7</td>
<td>1.1</td>
<td>0.0</td>
<td>0.0</td>
<td>-100.0</td>
</tr>
<tr>
<td><strong>Total conditional assets</strong></td>
<td>62.6</td>
<td>100.0</td>
<td>8.3</td>
<td>100.0</td>
<td>-86.7</td>
</tr>
<tr>
<td><strong>Conditional liabilities in foreign currency</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current sales</td>
<td>54.2</td>
<td>87.6</td>
<td>6.0</td>
<td>71.4</td>
<td>-88.9</td>
</tr>
<tr>
<td>Sales on term</td>
<td>7.7</td>
<td>12.4</td>
<td>2.2</td>
<td>26.2</td>
<td>-71.4</td>
</tr>
<tr>
<td>Other conditional liabilities</td>
<td>0.0</td>
<td>0.0</td>
<td>0.2</td>
<td>2.4</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total conditional liabilities</strong></td>
<td>61.9</td>
<td>100.0</td>
<td>8.4</td>
<td>100.0</td>
<td>-86.4</td>
</tr>
<tr>
<td><strong>Conditional assets minus Conditional liabilities</strong></td>
<td>0.7</td>
<td>-0.1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Conditional assets minus Conditional liabilities)/TRC (%)</td>
<td>0.11</td>
<td>-0.02</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: NBM
<table>
<thead>
<tr>
<th>Risks</th>
<th>Techniques to minimize the investment risk</th>
</tr>
</thead>
</table>
| **Credit risk**    | * Investing in secure, high credit quality counterparts, selected based on the Standard&Poor, Moody and Fitch’s Ratings (the average rating quoted by the above three agencies based at least on two quotes is used).  
* Setting the minimum allowable rating for authorized counterparts’ transactions.  
* Establishing investment limits depending on: the type, duration and rating of investment instruments, as well as the foreign exchange composition.  
* Daily monitoring of investment limits and compliance with credit limits.  
* Quantification of credit risk by using the default coefficients determined by the Standard&Poor’s rating agency, for each type of rating and term to maturity.  
| **Market risk**    | * Daily market risk monitoring is accomplished by assessing at market price the unrealized gains and losses incurred as a result of exchange rate fluctuations and changes in securities’ prices.  
* Managing and monitoring the market risk of the investment securities portfolio by using the value-at-risk methodology (VaR and CVAR), which estimates potential financial losses based on a range of parameters and assumptions determined for different changes in market conditions.  
* Monitoring the interest rate risk and determining (by using PV01) the sensitivity of the investment portfolio securities’ prices to interest rate fluctuations.  
* Establishing by the NBM Executive Board of the official currency composition for the investment portfolio, that aims to cover foreign exchange risk, the portfolio’s optimization through optimal proportioning of foreign exchange assets and liabilities, as well as by setting an investment horizon to ensure the meeting of current external obligations and implementation of the monetary and foreign exchange policies of the state. The official currency composition is determined based on an extensive analysis of the foreign exchange composition of trade in goods and services, the external debt, the intervention currency, etc. The reserves currency composition may deviate within +/- 10% from the official currency composition.  
* Establishing by the NBM’s Investment Committee of the currency composition of each sub-portfolio, and allowed deviations from it.  
* Complying with the official currency composition and currency composition of each sub-portfolio.                                                                                                                                                       |
| **Liquidity risk** | * Securing liquidity through demand deposits and investing in securities with high liquidity and low risk.  
* Ensuring daily liquidity risk monitoring by using market benchmarks set for indexed investment sub-portfolios grouped by instrument type and foreign currency. The applied benchmarks are market indices that are recognized and used worldwide to assess the performance and risks of investment portfolios.  
* The NBM’s investment policy allows active reserves management to ensure limited instrument and duration deviation of +/- 20% from the benchmark.                                                                                         |

*According to the HCA no. 309 of December 20, 2018, from January 1, 2019, investments in instruments other than benchmark instruments of up to 50% of the portfolio may be allowed, as long as they are eligible under the International Reserves Management Regulation.  
Source: NBM
### Table A.14: Dynamics of liabilities structure of the banking sector of the Republic of Moldova in 31.12.2017 - 31.12.2018

<table>
<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial liabilities held for trading</td>
<td>0.0</td>
<td>-0.6</td>
<td>-0.6</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Financial liabilities designated as at fair value through profit or loss</td>
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<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Financial liabilities measured at amortized cost:</td>
<td>64,445.3</td>
<td>67,388.4</td>
<td>2,943.1</td>
<td>4.6</td>
<td></td>
</tr>
<tr>
<td>including clients deposits</td>
<td>59,989.5</td>
<td>63,577.3</td>
<td>3,587.8</td>
<td>6.0</td>
<td></td>
</tr>
<tr>
<td>other financial deposits</td>
<td>4,455.8</td>
<td>3,811.1</td>
<td>-644.7</td>
<td>-14.5</td>
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</tr>
<tr>
<td>Provisions</td>
<td>365.9</td>
<td>394.8</td>
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<td>7.9</td>
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</tr>
<tr>
<td>Debts on taxes</td>
<td>128.0</td>
<td>150.5</td>
<td>22.5</td>
<td>17.6</td>
<td></td>
</tr>
<tr>
<td>Other debts</td>
<td>799.7</td>
<td>927.6</td>
<td>127.9</td>
<td>16.0</td>
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</tr>
<tr>
<td>Debts included in the classified assignment groups as held for sale</td>
<td>76.4</td>
<td>0.0</td>
<td>-76.4</td>
<td>-100.0</td>
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<tr>
<td><strong>Total debts</strong></td>
<td><strong>65,815.3</strong></td>
<td><strong>68,860.7</strong></td>
<td><strong>3,045.4</strong></td>
<td><strong>4.6</strong></td>
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</tbody>
</table>

Source: NBM

### Table A.15: Dynamics of placements abroad of banks of Republic of Moldova (MDL milion)

<table>
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<th></th>
<th></th>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>3,299.7</td>
<td>3,721.1</td>
<td>421.5</td>
<td>12.8</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>United States of America</td>
<td>2,122.1</td>
<td>1,490.0</td>
<td>-632.2</td>
<td>-29.8</td>
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<td></td>
<td></td>
</tr>
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<td>France</td>
<td>1,198.6</td>
<td>1,180.9</td>
<td>-17.7</td>
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<td>Belgium</td>
<td>1,619.8</td>
<td>818.7</td>
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<td>-49.5</td>
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<td>Italy</td>
<td>490.8</td>
<td>655.1</td>
<td>164.3</td>
<td>33.5</td>
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<td>Austria</td>
<td>585.2</td>
<td>573.7</td>
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<td>-2.0</td>
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<td>Romania</td>
<td>26.3</td>
<td>137.8</td>
<td>111.5</td>
<td>424.5</td>
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<td>Russia</td>
<td>139.3</td>
<td>101.2</td>
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<td>-27.3</td>
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<td>United Kingdom</td>
<td>125.9</td>
<td>70.7</td>
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<td>-43.9</td>
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<td>Republic of Ireland</td>
<td>153.9</td>
<td>68.6</td>
<td>-85.3</td>
<td>-55.4</td>
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<tr>
<td>Belarus</td>
<td>9.1</td>
<td>3.7</td>
<td>-5.4</td>
<td>-59.6</td>
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<td></td>
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</tr>
<tr>
<td>Kazakhstan</td>
<td>7.0</td>
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<td>-6.9</td>
<td>-99.0</td>
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</tr>
<tr>
<td>Others</td>
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<td>0.6</td>
<td>12.7</td>
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<tr>
<td>Singapore</td>
<td>0.0</td>
<td>68.3</td>
<td>68.3</td>
<td>100.0</td>
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<tr>
<td><strong>Total:</strong></td>
<td><strong>9,782.8</strong></td>
<td><strong>8,895.4</strong></td>
<td><strong>-887.4</strong></td>
<td><strong>-9.07</strong></td>
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Source: NBM
### Table A.16: Evolution of payments settled through AIPS

<table>
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<tr>
<th>System</th>
<th>Year</th>
<th>Number (thousands of payments)</th>
<th>Value (MDL million)</th>
<th>Average value per transaction (MDL thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Total</td>
<td>Daily average</td>
<td>Total</td>
</tr>
<tr>
<td>AIPS</td>
<td>2017</td>
<td>12,877.1</td>
<td>50.7</td>
<td>1,229,411.7</td>
</tr>
<tr>
<td></td>
<td>2018</td>
<td>12,949.1</td>
<td>50.9</td>
<td>1,193,213.4</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Including:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>RTGS</td>
<td>2017</td>
<td>1,119.9</td>
<td>4.4</td>
<td>1,172,771.1</td>
</tr>
<tr>
<td></td>
<td>2018</td>
<td>1,193.5</td>
<td>4.7</td>
<td>1,133,030.2</td>
</tr>
<tr>
<td>DNSS</td>
<td>2017</td>
<td>11,757.2</td>
<td>46.3</td>
<td>56,640.6</td>
</tr>
<tr>
<td></td>
<td>2018</td>
<td>11,755.6</td>
<td>46.3</td>
<td>60,183.2</td>
</tr>
</tbody>
</table>

Source: NBM

### Table A.17: Commemorative coins issued in 2018

<table>
<thead>
<tr>
<th>Coin name</th>
<th>Face value</th>
<th>Metal</th>
<th>Weight (gr.)</th>
<th>Diameter (mm)</th>
<th>Edition (ex.)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Series: “Historical events”</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>100 years from the Union of Bessarabia with Romania</td>
<td>MDL 1 000</td>
<td>Gold 999.9/1 000</td>
<td>31.1</td>
<td>37.0</td>
<td>300</td>
</tr>
<tr>
<td></td>
<td>MDL 100</td>
<td>Silver 999/1 000</td>
<td>31.1</td>
<td>37.0</td>
<td>1 200</td>
</tr>
<tr>
<td><strong>Series: “Alley of Classics from the Ștefan cel Mare și Sfânt Public Garden in Chișinău”</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Constantin Negruzzi</td>
<td>MDL 100</td>
<td>Gold 999.9/1000</td>
<td>7.8</td>
<td>24.0</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>MDL 50</td>
<td>Silver 999/1000</td>
<td>13.0</td>
<td>28.0</td>
<td>200</td>
</tr>
<tr>
<td><strong>Series: “Personalities”</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mikhail Berezovski – 150 years since birth</td>
<td>MDL 50</td>
<td>Silver 999/1 000</td>
<td>13.0</td>
<td>28.0</td>
<td>250</td>
</tr>
<tr>
<td>George Miciuc – 100 years since birth</td>
<td>MDL 50</td>
<td>Silver 999/1 000</td>
<td>13.0</td>
<td>28.0</td>
<td>250</td>
</tr>
<tr>
<td>Ion Druta – 90 years since birth</td>
<td>MDL 50</td>
<td>Silver 999/1 000</td>
<td>13.0</td>
<td>28.0</td>
<td>250</td>
</tr>
<tr>
<td><strong>Series: “Famous women”</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ada Zevin – 100 years since birth</td>
<td>MDL 50</td>
<td>Silver 999/1 000</td>
<td>16.5</td>
<td>30.0</td>
<td>300</td>
</tr>
<tr>
<td><strong>Series: “Red book of the Republic of Moldova”</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Saker falcon (Falco cherrug)</td>
<td>MDL 50</td>
<td>Silver 999/1 000</td>
<td>16.5</td>
<td>30.0</td>
<td>300</td>
</tr>
<tr>
<td><strong>Series: “Lordly houses”</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ralli Family Mansion in Dolina, Straseni</td>
<td>MDL 50</td>
<td>Silver 999/1 000</td>
<td>16.5</td>
<td>30.0</td>
<td>300</td>
</tr>
<tr>
<td><strong>Series: “Monasteries of Moldova”</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Monastery „Saint Great Martyr Teodor Tiron” in Chișinău</td>
<td>MDL 50</td>
<td>Silver 999/1 000</td>
<td>16.5</td>
<td>30.0</td>
<td>300</td>
</tr>
<tr>
<td><strong>Series: “Science and innovation”</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mihai Marinciuc – 80 years since birth</td>
<td>MDL 50</td>
<td>Silver 999/1 000</td>
<td>13.0</td>
<td>28.0</td>
<td>200</td>
</tr>
<tr>
<td>Ivan Mocan – 100 years since birth</td>
<td>MDL 50</td>
<td>Silver 999/1 000</td>
<td>13.0</td>
<td>28.0</td>
<td>200</td>
</tr>
</tbody>
</table>

Source: NBM

### Table A.18: Financial arrangements with the IMF received by the National Bank of Moldova

<table>
<thead>
<tr>
<th>Type of facility</th>
<th>Amount approved (SDRs, million)</th>
<th>Amount disbursed (SDRs, million)</th>
<th>Share of disbursements in the total amount approved (%)</th>
<th>Stock as of 31.12.2018 (SDRs, million)</th>
<th>Stock as of 31.12.2018 (USD, million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Extended Fund Facility (EFF)</td>
<td>374.70</td>
<td>272.02</td>
<td>72.60</td>
<td>109.56</td>
<td>156.14</td>
</tr>
<tr>
<td>Extended Credit Facility (ECF)</td>
<td>311.56</td>
<td>191.58</td>
<td>61.49</td>
<td>47.51</td>
<td>67.44</td>
</tr>
</tbody>
</table>

Source: NBM
Table A.19: Net result from the monetary policy implementation and activities related to relations with the Government

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>MDL thousands</td>
<td>MDL thousands</td>
<td>%</td>
<td>MDL thousands</td>
</tr>
<tr>
<td>Overnight deposits</td>
<td>(20 216)</td>
<td>(55 473)</td>
<td>(63.56)</td>
<td>35 256</td>
</tr>
<tr>
<td>Required Reserves</td>
<td>(442 522)</td>
<td>(534 322)</td>
<td>(17.18)</td>
<td>91 800</td>
</tr>
<tr>
<td>Accounts and deposits of the</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ministry of Finance</td>
<td>(115 671)</td>
<td>(93 147)</td>
<td>24.18</td>
<td>(22 523)</td>
</tr>
<tr>
<td>Open market operations</td>
<td>(544 104)</td>
<td>(519 828)</td>
<td>4.67</td>
<td>(24 276)</td>
</tr>
<tr>
<td>Leading activity and placement in state securities</td>
<td>821 900</td>
<td>754 353</td>
<td>8.95</td>
<td>67 547</td>
</tr>
<tr>
<td><strong>Net result</strong></td>
<td>(300 613)</td>
<td>(448 418)</td>
<td>(32.96)</td>
<td>147 805</td>
</tr>
</tbody>
</table>

Source: NBM

Table A.20: Net result obtained from the management of foreign exchange reserves held by the NBM

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>MDL thousands</td>
<td>MDL thousands</td>
<td>%</td>
<td>MDL thousands</td>
</tr>
<tr>
<td>Securities in foreign currency</td>
<td>504 750</td>
<td>326 793</td>
<td>54.46</td>
<td>177 957</td>
</tr>
<tr>
<td>Deposits</td>
<td>273 998</td>
<td>188 975</td>
<td>44.99</td>
<td>85 023</td>
</tr>
<tr>
<td>Differences from foreign exchange rate</td>
<td>7 220</td>
<td>44 617</td>
<td>(83.82)</td>
<td>(37 397)</td>
</tr>
<tr>
<td>Commissions and fees</td>
<td>(9 936)</td>
<td>(18 863)</td>
<td>(47.33)</td>
<td>8 927</td>
</tr>
<tr>
<td><strong>Net Result</strong></td>
<td><strong>776 032</strong></td>
<td><strong>541 522</strong></td>
<td><strong>43.31</strong></td>
<td><strong>234 511</strong></td>
</tr>
</tbody>
</table>

Source: NBM

Table A.21: Evolution of the official exchange rate

<table>
<thead>
<tr>
<th></th>
<th>2018 Average on period</th>
<th>2018 At the end of the year</th>
<th>2017 Average on period</th>
<th>2017 At the end of the year</th>
</tr>
</thead>
<tbody>
<tr>
<td>USD/MDL</td>
<td>16.8031</td>
<td>17.1427</td>
<td>18.4902</td>
<td>17.1002</td>
</tr>
<tr>
<td>GBP/MDL</td>
<td>22.4380</td>
<td>21.6511</td>
<td>23.7824</td>
<td>22.9715</td>
</tr>
<tr>
<td>XDR/MDL</td>
<td>23.7875</td>
<td>23.7710</td>
<td>25.6155</td>
<td>24.2942</td>
</tr>
<tr>
<td>XAU/MDL</td>
<td>685.5073</td>
<td>695.1387</td>
<td>746.9164</td>
<td>710.1013</td>
</tr>
</tbody>
</table>

Source: NBM
### Table A.22: Share of significant balance sheet items (%) and the annual average rates related to the financial instruments (%)

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Share %</td>
<td>Annual</td>
</tr>
<tr>
<td></td>
<td></td>
<td>average</td>
</tr>
<tr>
<td></td>
<td></td>
<td>interest rate, %</td>
</tr>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign assets</td>
<td>100.00</td>
<td>100.00</td>
</tr>
<tr>
<td>State securities</td>
<td>77.99</td>
<td>76.88</td>
</tr>
<tr>
<td>Loans granted (short/medium term)</td>
<td>0.03</td>
<td>0.04</td>
</tr>
<tr>
<td>Other assets</td>
<td>0.23</td>
<td>0.20</td>
</tr>
<tr>
<td><strong>LIABILITIES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>National currency in circulation</td>
<td>33.39</td>
<td>31.01</td>
</tr>
<tr>
<td>Available funds of the Government. including:</td>
<td>13.06</td>
<td>12.95</td>
</tr>
<tr>
<td>sight. MDL</td>
<td>5.59</td>
<td>6.72</td>
</tr>
<tr>
<td>term. MDL</td>
<td>0.86</td>
<td>0.77</td>
</tr>
<tr>
<td>sight. FCC</td>
<td>0.61</td>
<td>0.46</td>
</tr>
<tr>
<td>Available funds of the banks. including:</td>
<td>27.72</td>
<td>23.56</td>
</tr>
<tr>
<td>LORO accounts. including:</td>
<td>22.48</td>
<td>17.17</td>
</tr>
<tr>
<td>required reserves in MDL. paid</td>
<td>-</td>
<td>3.50</td>
</tr>
<tr>
<td>required reserves in FCC. paid</td>
<td>5.01</td>
<td>5.35</td>
</tr>
<tr>
<td>overnight deposits</td>
<td>0.18</td>
<td>0.99</td>
</tr>
<tr>
<td>Certificates of the NBM (placed)</td>
<td>8.86</td>
<td>13.59</td>
</tr>
<tr>
<td>Loans received from IMF (EFF)</td>
<td>5.26</td>
<td>6.67</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>6.22</td>
<td>6.32</td>
</tr>
<tr>
<td>Capital and reserves</td>
<td>5.49</td>
<td>5.90</td>
</tr>
</tbody>
</table>

Source: NBM

### Table A.23: Capital and reserves

<table>
<thead>
<tr>
<th></th>
<th>31 December, 2018 MDL thousands</th>
<th>31 December, 2017 MDL thousands</th>
</tr>
</thead>
<tbody>
<tr>
<td>Authorized capital</td>
<td>902 970</td>
<td>902 970</td>
</tr>
<tr>
<td>General reserve fund</td>
<td>1 697 608</td>
<td>1 448 482</td>
</tr>
<tr>
<td><strong>Total statutory capital</strong></td>
<td>2 600 578</td>
<td>2 351 452</td>
</tr>
<tr>
<td>Reserve of unrealized gains from the revaluation of foreign exchange stocks</td>
<td>1 230 866</td>
<td>1 479 755</td>
</tr>
<tr>
<td>Reserve of unrealized gains from the revaluation of investment securities</td>
<td>178 427</td>
<td>164 542</td>
</tr>
<tr>
<td>Other reserves</td>
<td>986</td>
<td>8 967</td>
</tr>
<tr>
<td><strong>Total capital and reserves</strong></td>
<td>4 010 857</td>
<td>4 004 716</td>
</tr>
</tbody>
</table>

Source: NBM
Table A.24: List of decisions of the Supervisory Board and Executive Board of the National Bank of Moldova issued for publication in the Official Monitor of the Republic of Moldova in 2018

**Decisions of the Supervisory Board**

<table>
<thead>
<tr>
<th>No.</th>
<th>Decision no.</th>
<th>Date of approval</th>
<th>Decision of the SB</th>
<th>Published in the Official Monitor of the Republic of Moldova</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>5</td>
<td>22.02.2018</td>
<td>On putting into circulation as means of payment of new coins</td>
<td>number/article: 67/323, date: 28.02.2018</td>
</tr>
<tr>
<td>2</td>
<td>7</td>
<td>16.03.2018</td>
<td>On putting into circulation as means of payment and for numismatic purposes of commemorative and jubilee coins</td>
<td>number/article: 95-104/424, date: 23.03.2018</td>
</tr>
<tr>
<td>3</td>
<td>26</td>
<td>16.11.2018</td>
<td>On putting into circulation of commemorative and jubilee coins, purposes issued in 2018</td>
<td>number/article: 440/1701, date: 29.11.2018</td>
</tr>
</tbody>
</table>

**Decisions of the Executive Board**

<table>
<thead>
<tr>
<th>No.</th>
<th>Decision no.</th>
<th>Date of approval</th>
<th>Decision of the EB</th>
<th>Published in the Official Monitor of the Republic of Moldova</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>17</td>
<td>30.01.2018</td>
<td>On the level of interest rates of the National Bank of Moldova and the required reserve ratio</td>
<td>number/article: 33-39/141, date: 02.02.2018</td>
</tr>
<tr>
<td>2</td>
<td>22</td>
<td>07.02.2018</td>
<td>On the repeal of the Decision regarding the setting of the basic rate of the National Bank of Moldova on long-term loans</td>
<td>number/article: 48-57/252, date: 16.02.2018</td>
</tr>
<tr>
<td>3</td>
<td>29</td>
<td>13.02.2018</td>
<td>On the approval of the Regulation on the Conditions and Procedures for Performing Foreign Exchange Operations</td>
<td>number/article: 68-76/343, date: 02.03.2018</td>
</tr>
<tr>
<td>4</td>
<td>30</td>
<td>13.02.2018</td>
<td>On the amendment and completion of a series of regulatory acts of the National Bank of Moldova</td>
<td>number/article: 68-76/344, date: 02.03.2018</td>
</tr>
<tr>
<td>5</td>
<td>39</td>
<td>01.03.2018</td>
<td>On the level of interest rates of the National Bank of Moldova and the minimum reserve requirements</td>
<td>number/article: 77-83/393, date: 09.03.2018</td>
</tr>
<tr>
<td>6</td>
<td>42</td>
<td>02.03.2018</td>
<td>On the approval of the Guideline on the Elaboration and Submission by banks of FINREP reports at individual level</td>
<td>number/article: 95-104/425, date: 23.03.2018</td>
</tr>
<tr>
<td>7</td>
<td>47</td>
<td>14.03.2018</td>
<td>On the approval of the Regulation on the Minimum Requirements for Informational and Communication Systems of Banks</td>
<td>number/article: 113-120/491, date: 06.04.2018</td>
</tr>
<tr>
<td>8</td>
<td>78</td>
<td>11.04.2018</td>
<td>On the approval of the Regulation on Cash Transactions by Moldovan Banks</td>
<td>number/article: 133-141/585, date: 27.04.2018</td>
</tr>
<tr>
<td>9</td>
<td>88</td>
<td>03.05.2018</td>
<td>On the level of Interest Rates of the National Bank of Moldova and the Required Reserve Ratio</td>
<td>number/article: 150-155/653, date: 11.05.2018</td>
</tr>
<tr>
<td>10</td>
<td>89</td>
<td>03.05.2018</td>
<td>On the approval of the Guideline on the Compilation and Submission of Reports by the banks for Prudential Purposes</td>
<td>number/article: 157-166/707, date: 18.05.2018</td>
</tr>
<tr>
<td>11</td>
<td>90</td>
<td>03.05.2018</td>
<td>On the amendment and completion of the Guideline on the Compilation and Submission by Banks of Primary Reports to Identify and Supervise the Credit Risk</td>
<td>number/article: 157-166/708, date: 18.05.2018</td>
</tr>
<tr>
<td>12</td>
<td>109</td>
<td>24.05.2018</td>
<td>On the approval of the Regulation on Own Funds of Banks and Capital Requirements</td>
<td>number/article: 183-194/899, date: 08.06.2018</td>
</tr>
<tr>
<td>13</td>
<td>110</td>
<td>24.05.2018</td>
<td>On the approval of the Regulation on Capital Buffers of Banks</td>
<td>number/article: 183-194/900, date: 08.06.2018</td>
</tr>
<tr>
<td>14</td>
<td>111</td>
<td>24.05.2018</td>
<td>On the approval of the Regulation on the Treatment of Credit Risk for banks using Standardized Approach</td>
<td>number/article: 183-194/901, date: 08.06.2018</td>
</tr>
<tr>
<td>15</td>
<td>112</td>
<td>24.05.2018</td>
<td>On the approval of the Regulation on Credit Risk Mitigation Techniques by Banks</td>
<td>number/article: 183-194/902, date: 08.06.2018</td>
</tr>
<tr>
<td>16</td>
<td>113</td>
<td>24.05.2018</td>
<td>On the approval of the Regulation on the Treatment of Operational Risk for Banks According to the Basic Indicator Approach and the Standardized Approach</td>
<td>number/article: 183-194/903, date: 08.06.2018</td>
</tr>
<tr>
<td>17</td>
<td>114</td>
<td>24.05.2018</td>
<td>On the approval of the Regulation on the Market Risk according to the Standardized Approach</td>
<td>number/article: 183-194/904, date: 08.06.2018</td>
</tr>
<tr>
<td>18</td>
<td>115</td>
<td>24.05.2018</td>
<td>On the approval of the Regulation on the Treatment of Settlement/delivery risk</td>
<td>number/article: 183-194/905, date: 08.06.2018</td>
</tr>
<tr>
<td>19</td>
<td>116</td>
<td>24.05.2018</td>
<td>On the approval of the Regulation on the Calculation of Specific and General Credit Risk Adjustments by Banks</td>
<td>number/article: 183-194/906, date: 08.06.2018</td>
</tr>
<tr>
<td>20</td>
<td>117</td>
<td>24.05.2018</td>
<td>On the approval of the Guideline on the Submission by banks of COREP Reports for Supervisory Purposes and the Amendment of the Guideline on Drawing up and Submission by banks of Reports for Prudential Purposes</td>
<td>number/article: 183-194/907, date: 08.06.2018</td>
</tr>
<tr>
<td>21</td>
<td>118</td>
<td>24.05.2018</td>
<td>On the approval of Regulation on External Audit of Banks</td>
<td>number/article: 183-194/908, date: 08.06.2018</td>
</tr>
<tr>
<td>22</td>
<td>133</td>
<td>05.06.2018</td>
<td>On the Level of Interest Rates of the National Bank of Moldova and the Required Reserve Ratio</td>
<td>number/article: 183-194/909, date: 08.06.2018</td>
</tr>
</tbody>
</table>

Source: NBM
<table>
<thead>
<tr>
<th>No.</th>
<th>Decision no.</th>
<th>Date of approval</th>
<th>Decision of the EB</th>
<th>Published in the Official Monitor of the Republic of Moldova</th>
</tr>
</thead>
<tbody>
<tr>
<td>23</td>
<td>144</td>
<td>19.06.2018</td>
<td>On the amendment and completion of the Regulation on Holdings of quota shares in the Bank Equity</td>
<td>347-357/1395 14.09.2018</td>
</tr>
<tr>
<td>24</td>
<td>158</td>
<td>11.07.2018</td>
<td>On the approval of the Regulation on the supervision of the Single Central Securities Depository</td>
<td>277-284/1169 27.07.2018</td>
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<tr>
<td>28</td>
<td>190</td>
<td>27.07.2018</td>
<td>On the level of interest rates of the National Bank of Moldova and the required reserve ratio</td>
<td>285-294/1197 03.08.2018</td>
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<td>29</td>
<td>193</td>
<td>31.07.2018</td>
<td>On the Establishment of O-SII Societies and the Approval of Capital Buffers of Banks</td>
<td>285-294/1198 03.08.2018</td>
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<tr>
<td>30</td>
<td>200</td>
<td>09.08.2018</td>
<td>On the approval of the Regulation on Requirements for the Prevention and Combating Money Laundering and Terrorist Financing in the Activity of Banks</td>
<td>321-332/1311 24.08.2018</td>
</tr>
<tr>
<td>31</td>
<td>201</td>
<td>09.08.2018</td>
<td>On the approval of the Regulation on Requirements for the Prevention and Combating Money Laundering and Terrorist Financing in the Activity of Foreign Exchange Offices and Hotels</td>
<td>321-332/1312 24.08.2018</td>
</tr>
<tr>
<td>32</td>
<td>202</td>
<td>09.08.2018</td>
<td>On the approval of the Regulation on Requirements for the Prevention and Combating Money Laundering and Terrorist Financing in the Activity of Providers of Non-Bank Payment Services</td>
<td>321-332/1313 24.08.2018</td>
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<tr>
<td>33</td>
<td>203</td>
<td>09.08.2018</td>
<td>On the amendment and repeal of a series of regulatory acts of the National Bank of Moldova</td>
<td>321-332/1314 24.08.2018</td>
</tr>
<tr>
<td>34</td>
<td>220</td>
<td>04.09.2018</td>
<td>On the level of interest rates of the National Bank of Moldova and the Required Reserve Ratio</td>
<td>347-357/1396 14.09.2018</td>
</tr>
<tr>
<td>36</td>
<td>244</td>
<td>03.10.2018</td>
<td>On the amendment of paragraph 37 of the Regulation on Conditions and Procedures for Performing Foreign Exchange Operations</td>
<td>384-395/1520 12.10.2018</td>
</tr>
<tr>
<td>38</td>
<td>268</td>
<td>31.10.2018</td>
<td>On the level of interest rates of the National Bank of Moldova and the Required Reserve Ratio</td>
<td>416-422/1652 09.11.2018</td>
</tr>
<tr>
<td>39</td>
<td>269</td>
<td>31.10.2018</td>
<td>On establishing the rate of the Countercyclical Capital Buffer applied for Credit Exposures situated in the Republic of Moldova</td>
<td>416-422/1653 09.11.2018</td>
</tr>
<tr>
<td>40</td>
<td>275</td>
<td>14.11.2018</td>
<td>On the amendment of a series of regulatory acts of the National Bank of Moldova</td>
<td>440/1700 29.11.2018</td>
</tr>
<tr>
<td>47</td>
<td>322</td>
<td>20.12.2018</td>
<td>On the approval of the Regulation on the Bank’s Activity Management Framework</td>
<td>1-5/56 04.01.2019</td>
</tr>
</tbody>
</table>

Source: NBM
Table A.26: Progresses achieved in the implementation of the NBM’s major projects during 2018

<table>
<thead>
<tr>
<th>No.</th>
<th>Project</th>
<th>Reference strategic goal</th>
<th>Project objectives</th>
<th>Started on</th>
<th>Achievements</th>
<th>Further actions planned for 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Implementation of the solution to streamline the licensing, authorization and notification process</td>
<td>3. Strengthen the banking sector and implement risk-based supervision</td>
<td>To ensure a centralized, efficient and transparent management of the NBM relations with all counterparties with which they interact in the licensing, authorization and notification processes, as well as assuring the NBM users with a modern tool designed to facilitate the achievement of basic tasks by increasing the degree of automation processes</td>
<td>Q III, 2015</td>
<td>Throughout 2018, the project continued with the remaining implementation phases, completing the stages of implementation / development, testing, launching in production, and launching of the IT solution. Training of users has also been carried out. The final acceptance of the IT solution, as well as the end of the project took place in the third quarter. Once the project was completed, the use of the information system on licensing, authorization and notification for the presentation by the foreign exchange offices and hotel of the daily reports on the purchase / sales rates and the monthly reports on the foreign exchange transactions was initiated.</td>
<td>Use of all the functionalities of the IT system with the approval of the legislative changes and the licensing, authorization and notification regulations, respectively.</td>
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<tr>
<td>2.</td>
<td>Implementation of the solution for streamlining the shareholder transparency monitoring and remote analysis in the field of prevention and combating money laundering and terrorist financing</td>
<td>3. Strengthen the banking sector and implement risk-based supervision</td>
<td>To streamline the monitoring process, to strengthen the NBM’s capacity in the field of increasing the level of transparency in the ownership structure of licensed banks by exercising an ongoing control; to ensure an automated monitoring process of the shareholder transparency. To ensure obtaining of information on the exposure of the banking sector and / or</td>
<td>Q III, 2014</td>
<td>During 2018, work on adjusting and updating the award documentation (including specifications) to initiate the open tender procedure was done. Also during this year, the Regulations on the requirements for prevention and combating money laundering and terrorist financing in the activity of entities supervised by NBM were approved. It also applied to identify financial support from an external donor.</td>
<td>Initiate of the public tender procedure in order to acquire the IT solution and the implementation services.</td>
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<tr>
<td>3. Creating the Single Central Securities Depository</td>
<td>4. Enhance the quality of the national currency and the level of use of cashless payments</td>
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<tr>
<td>Establishment of the single Central Securities Depository in Moldova, which will carry out the following basic activities regarding corporate securities, state securities, and money market instruments issued by the NBM:</td>
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<td>− initial registration of securities;</td>
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<td>− opening and administration of securities accounts;</td>
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<tr>
<td>− managing the securities settlement system.</td>
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<tr>
<td>July 2016</td>
<td>In the second quarter of 2018, the ITC implementation solution for Single Central Securities Depository was signed. At the same time, the Single Central Securities Depository was set up and registered, the governing bodies were appointed and personnel hired. The Single Central Securities Depository's rules, regulations and policies have been approved. Follow-up of all relevant phases of the first phase of the project in the third quarter of 2018 the act of final acceptance for Stage I was signed, as a result of which the Single Central Securities Depository started its activity, operating at the initial stage with the state securities issued by the Ministry of Finance and the financial instruments of the NBM. At the same time, in July 2018, the second stage of the project on corporate securities was initiated and the phases of Analysis, Design and Construction were carried out and completed. All the formalities regarding the financial coverage by the Financial Development and Acceptance of Testing Phases, Go-Live and Training for Stage II of the Project. Adjustment of internal rules / regulations and internal policies of Single Central Securities Depository in the context of corporate securities operations. The final acceptance of Stage II, as well as the general acceptance of the project. Initiating Single Central Securities Depository's business operations related to corporate securities.</td>
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</tr>
</tbody>
</table>
| 4. Implementing an Integrated Human Resources Management System | 5. Strengthen institutional capacity and efficiency | To implement a new payroll system based on the evaluation of job position. To ensure internal equity of job positions and salaries. To increase external competitiveness of the NBM in the labor market. To ensure a high qualification level of the staff. To improve the organizational climate and increase the employee loyalty. | Q1, 2017 | The first phase of the project, carried out with the support of external consultants, was completed in the first half of 2018. During the first semester there were realized:
- Evaluation of all NBM job position.
- Elaboration of the architecture of the job families within NBM
- Elaboration of the NBM Competence Dictionary
- Defining and approving the new salary policy of the NBM
- Establishment of career development criteria
- Behavioral evaluation of a sample of 30 employees
- Running follow-up sessions on the development program called "Champions of Change"
- Defining a Talent Management process
- In July 2018, a new salary system for NBM employees was implemented based on the value of the post and aligned with the reference market. | Implementing career and talent management, as well as aligning the other elements of the human resources system to the project results. |

| 5. Transform NBM | 5. Strengthening the institutional capacity and efficiency | Ensuring the assessment and transformation of the NBM activity processes related to banking operations and financial, material and human resources, as well as ensuring the modernization of the NBM banking | March 2012 | In the context of finalizing the first stage of the project related to the implementation of the Central Securities Depository and the fact that, as a result, the NBM activity processes related to the field of monetary policy implementation have changed, during 2018 were revised and updated the functional, non- | Initiating the procurement procedure for purchasing the IT system and the related implementation services. |
| 6. Implementation of the cash operations management system | 5. Strengthening institutional capacity and efficiency | Transforming the activities of the National Bank of Moldova regarding the cash management operations and the modernization of the NBM banking system, in order to streamline the NBM operational activity | December 2015 | Following the decision on acquiring the IT system for managing cash operations in a batch separate from the banking system (CBS), during 2018 the requirements to correlate those established for the acquisition of CBS and those for the acquisition of the management system cash operations. Also during this period there were activities of adjusting the specification with the functional requirements, taking into account the latest changes in the process of the cash management processes. | Initiation of the acquisition procedure for procurement of the IT system for the management of cash operations, as well as the related implementation services. |