ANNUAL REPORT 2020
Note

The Annual Report 2020 was examined and adopted by the Supervisory Board of the National Bank of Moldova at meeting of May 28, 2021 and was submitted to the Parliament of the Republic of Moldova in accordance with the provisions of Law no. 548/1995 on the National Bank of Moldova (reproduced in Monitorul Oficial of the Republic of Moldova, 2015, no. 297-300, art. 544, with subsequent amendments).

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.

All rights reserved. No part of this publication may be reproduced, and the use of data in studies is allowed with the proper specification of the source.
Contents

Foreword 4
Summary 7

1 International context 11
  1.1 Global economy, financial and commodity markets 11
  1.2 Evolution of important economies 13
  1.3 Evolution of neighbouring economies and main trading partners 14

2 Economy of the Republic of Moldova 16
  2.1 Real sector 16
  2.2 Evolution of inflation 23
  2.3 Public sector and tax policy 28
  2.4 International accounts of the Republic of Moldova for 2020 (provisional data) 30
  2.5 Public debt and external public debt of the Republic of Moldova 35

3 Monetary Policy 38
  3.1 Monetary policy objective 38
  3.2 Monetary policy decisions 38
  3.3 Monetary policy achievements 40
  3.4 Monetary and foreign exchange conditions 44
  3.5 Monetary market 49
  3.6 Foreign exchange market 53

4 Banking supervision 62
  4.1 Evolution of the banking sector 62
  4.2 The NBM supervisory activity 73
  4.3 Banking sector risks’ assessment 77
  4.4 Fighting money laundering and terrorist financing 79
List of abbreviations

IDA    International Development Association
AIPS   Automated Interbank Payment System
ANRE   National Energy Regulatory Agency
ARSS   Automated Remote Services Systems
BSCEE  Group of Banking Supervisors from Central and Eastern Europe
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
CIF    Cost, insurance, and freight
CS     Corporate securities
CSD    Single Central Securities Depository
DNS    Designated-Time Net Settlement System
EBRD   European Bank for Reconstruction and Development
ECF    Extended Credit Facility
EFF    Extended Fund Facility by IMF
EU     European Union
EUR    European Single Currency
FAO    Food and Agriculture Organization of the United Nations
FCC    Freely convertible currency
FRS    Federal Reserve System
GB     Government bond
GDP    Gross Domestic Product
HoReCa Hotels, restaurants and catering
IBRD   International Bank of Reconstruction and Development
ICAAP  Internal Capital Adequacy and Assessment Processes
ICT    Information and communication technology
IDA    International Development Association
IMF    International Monetary Fund
MDL    Moldovan leu
NBC    National Bank Certificates
NBM    National Bank of Moldova
<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>NBS</td>
<td>National Bureau of Statistics of the Republic of Moldova</td>
</tr>
<tr>
<td>NCC</td>
<td>Non-convertible currency</td>
</tr>
<tr>
<td>OPEC</td>
<td>Organization of the Petroleum Exporting Countries</td>
</tr>
<tr>
<td>OPEC+</td>
<td>OPEC cooperation with oil producers outside OPEC in an attempt to reduce production and increase the price of oil</td>
</tr>
<tr>
<td>RTGS</td>
<td>Real-Time Gross Settlement System</td>
</tr>
<tr>
<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>US dollar</td>
</tr>
</tbody>
</table>
The year 2020 was an unprecedented year globally, marked by the pandemic crisis generated by COVID-19 with severe repercussions on social-economic life. The management of this crisis has become a major concern of the worldwide countries, imposing a number of challenges on the perimeter of action of governmental and monetary authorities.

On the back of the consequences of the pandemic associated with the strong deterioration in economic and financial conditions, the year 2020 resulted in a global economic downturn, the most affected sectors being tourism, transport and the HoReCa segment. The oil prices have reached minimum values under the impact of the disputes between the major oil producers and the decrease in demand. The external inflation remained at low levels despite incentive monetary policy measures adopted by most central banks.

The domestic economic activity in 2020 was affected not only by the adverse implications of the pandemic, but also by adverse weather conditions that hit one of the main sectors of the economy – agriculture. The gross domestic product contracted by 7.0% in 2020 compared to 2019. The reduction in the disposable income of the population and the postponement of household expenses in the context of the uncertainties caused by the pandemic led to a decrease in final household consumption. The economic activity contracted in most sectors of the national economy, with the exception of the financial and construction sectors, which recorded positive dynamics.

During 2020, the annual inflation rate outline a sharp downward trajectory, mainly supported by disinflationary aggregate demand associated with the impact of the pandemic, lower international and regional energy prices with implications for domestic fuel prices, and adjustments in some tariffs included in regulated prices.
The average annual inflation rate was 3.8%, close to the lower limit of the target range.

In 2020, the NBM’s efforts were directed towards mitigating and counteracting the impact of the pandemic in the context of a negative fiscal impulse. In this context, the NBM intervened promptly and approved measures to support individuals and legal entities by facilitating loan restructuring by licensed banks.

From a monetary policy perspective, in spring 2020, the National Bank started adopting a series of incentive measures to boost aggregate demand and support the economy of the Republic of Moldova as a whole. Thus, between March and November 2020, the Executive Board of the NBM successively decreased the base rate to the level of 2.65% annually. The cumulative reduction of the base rate amounted to 2.85 percentage points (in March – by 2.25 percentage points in total, in August and September – by 0.25 percentage points, in November – by 0.1 percentage points).

At the same time, in order to calibrate the monetary policy tools with the aim of making the transmission mechanism of monetary policy decisions more efficient, the corridor of interest rates on standing facilities was narrowed by 1.0 percentage point with the maintenance of the corridor symmetry of ±2.5 percentage points.

As a precautionary measure to prevent liquidity risk and strengthen the stability of the banking sector in the Republic of Moldova in the context of the pandemic disruptions, as well as to increase the efficiency of monetary impulses transmission in the real sector of the economy, the NBM decreased the reserve requirement ratio in national currency by 32.0%. In addition, the NBM aimed the balancing of the reserve requirement norms in order to improve financial intermediation in the banking sector, to moderate the dollarization phenomenon and to strengthen the attractiveness of the national currency, thus justifying the increase of the reserve requirement norm in freely convertible currency up to 30.0%.

In 2020, an important program with the International Monetary Fund was completed, which focused on shareholder transparency in licensed banks and the implementation of higher governance standards in banks and the National Bank of Moldova. Thanks to the reforms of previous years, the banking sector has maintained its resilience, remained sufficiently capitalized, with good governance, which has directly ensured its financial stability. Internal governance, risk management and the internal risk capital adequacy assessment process, credit and operational risk, anti-money laundering and counter-terrorist financing were the main areas of focus for banking supervision during 2020. The banks maintained a high level of liquidity and profitability, and specific capital requirements were met. Also, the increase in assets and deposits, the loan portfolio in the banking sector continued as the share of non-performing loans decreased.

Thus, the National Bank is committed to maintaining a safe, stable and predictable monetary environment and financial system. To this end, the reforms in the banking sector have continued, but their implementation is not sufficient. We are at the stage where we have to defend what has been achieved - to defend the reforms - and this is currently the National Bank’s biggest challenge. Former shareholders through the courts, but also through the prosecution are attacking the reforms. These actions continue to represent a
major risk to financial stability and could cause substantial damage to the state of the Republic of Moldova.

During 2020, the NBM ensured the management of the state’s foreign exchange reserves through a prudent investment policy, aiming at optimizing profitability while ensuring the liquidity and investment security, which contributed to the increase of official reserve assets up to about USD 3.8 billion, covering 7.7 months of actual imports.

Taking into account the role of central bank independence in strengthening institutional credibility, the NBM also maintained a higher degree of independence in 2020 in terms of policymakers and policies promoted. At the same time, the NBM cooperated with the state institutions in the areas of its activity, in accordance with its legal powers.

The economic losses caused by the pandemic are colossal. However, we have managed to meet the challenges without harming the fundamental objective – to ensure and maintain price stability, ensuring a viable and stable banking system. In 2021, the NBM continued to promote an incentive monetary policy using the reserve requirement rule in national currency. The decisions to decrease it were aimed at ensuring adequate liquidity associated with the proper functioning of the financial-banking system, increasing financial intermediation in national currency, as well as creating favourable credit conditions for the real economy in support of the recovery of economic activity.

Thus, all the measures of the National Bank are in line with the approach to its tasks as a central bank for the benefit of the citizens.

Octavian Armaşu

Governor
Summary

International context

In 2020, the world economy experienced the most drastic crisis in decades, paralyzing all areas due to the COVID-19 pandemic. The economic crisis manifested itself in most countries, the culmination being attested in the second quarter of 2020. The most affected sectors were tourism, transport and the HoReCa segment. Due to misunderstandings between major oil producers and declining demand amid the pandemic crisis, oil surpluses have peaked and oil prices have fallen to lows. Subsequently, an agreement was reached between the countries of OPEC, the USA, Russia and other states on limiting oil production, and towards the end of the year oil quotations returned to pre-pandemic levels. In the first phases of the COVID-19 pandemic crisis, but also in the subsequent exacerbations, the US dollar and quotations for precious metals increased due to the migration of investments to low-risk assets. The decline in consumer demand has led to significant fiscal and monetary stimulus packages being adopted in some economies. Both the Federal Reserve System and the European Central Bank have reduced key rates to zero and initiated incentive asset purchase packages.

Economic developments

In 2020, GDP contracted by 7.0%, largely in the context of internal restrictions related to COVID-19, the regional economic climate affected by the pandemic, but also adverse conditions for the agricultural sector. In structure, this dynamic was mainly determined by the negative impact of domestic consumption and exports. In this sense, the consumption of households was 7.0% lower than the previous year, mainly due to the moderation of disposable income of the population, but also, to some extent, the uncertainty associated with the COVID-19 pandemic, which would have caused some expenses to be postponed. Exports, in the conditions of a modest external demand, of some restrictions related to COVID-19 in the region, but also of a smaller harvest, outlined a negative dynamics, registering a decrease of 15.5% compared to 2019. A negative impact, but of a smaller magnitude on the economic activity was generated by the investment dynamics, which can be associated with the restrictions and uncertainty related to the pandemic, but also the contracting of incomes. Final consumption of the public administration\(^1\) reported a minor decrease in the reporting year compared to the previous year. The reduction in domestic demand led to a negative dynamics of imports, which were 8.9% lower than in the same period of the previous year, which, however, mitigated the

---

\(^1\)Final consumption of general government and non-profit institutions serving households.
negative impact generated by the subcomponents mentioned above. Within the sectors of the national economy, the most pronounced negative impact was exerted by the dynamics of the agricultural sector. This, in the context of unfavourable agro-meteorological conditions for some agricultural crops from the end of 2019 and during 2020, decreased by 26.4% compared to the previous year. At the same time, a significant negative contribution was determined by the 9.6% decrease in gross value added in “Trade, transport and storage”, sectors severely affected by COVID-19 restrictions. Negative developments were also registered in the industry, in the real estate transactions and in the communications sector. At the same time, a positive dynamic in 2020 was attested in the financial and construction sectors.

Inflation

In 2020, the average annual rate of CPI inflation was 3.8%, by 1.0 percentage points lower than in 2019. During 2020, the annual rate of inflation recorded a sharp downward trajectory, decreasing from 7.5% in December 2019 to 0.4% in December 2020. The downward trajectory of the annual inflation rate was supported, according to estimates, by an aggregate disinflationary demand determined mainly by the impact of local restrictions and regional measures imposed by the authorities on economic activities to stop the spread of COVID-19. At the same time, the downward trend in the annual inflation rate has been driven by declining prices for energy resources internationally and regionally, similarly in the context of the global pandemic impact, which has led to lower fuel prices in the domestic market, but also preconditions for the downward adjustment of tariffs for services included in regulated prices in the second half of 2020. At the same time, the impact of the above-mentioned factors has been partially mitigated by the increase in tariffs for inter-urban transport from early 2020, such as and adverse weather conditions that led to a modest harvest crops and inflationary pressures on food prices in the summer months. Subsequently, towards the end of 2020, the atypical warm weather, which delayed and reduced the intensity of the positive seasonal effect characteristic of that period, as well as the decrease in import prices led to a decrease in the contribution of food prices to the dynamics of the annual CPI rate.

Monetary policy

During 2020, the National Bank of Moldova undertook accommodative monetary policy measures. In this context, the Executive Board of the NBM decided to gradually reduce the monetary policy interest rate from 5.50% to 2.65% annually. The reduction of the base rate was aimed at supporting domestic aggregate demand, the lending process and supporting the economy as a whole.

---

2Agriculture, forestry and fishing.
3Wholesale and retail trade; maintenance and repair of motor vehicles and motorcycles; transport and storage; accommodation and catering activities.
The norm of required reserves from the means attracted in freely convertible currency was increased during 2020 by 10.0 percentage points, up to the level of 30.0%. The decisions aimed at strengthening the banking sector in the context of reducing external environmental risks and stimulating financial intermediation in the national currency, helping to strengthen the efficiency of the transmission of monetary impulses in the real sector of the economy.

At the same time, the National Bank decreased the norm of minimum required reserves from funds attracted in Moldovan lei from 41.0% to 32.0%, contributing to the increase of liquidity available for licensed banks, likely to support the revitalization of lending in the context of decreasing the related costs, thus boosting the aggregate demand.

The annual growth rate of the broad money supply (M3) in 2020 was 11.9%. The monetary aggregate M2 increased by 20.2% annually, the money in circulation by 29.9% annually. The average interest rate on new loans granted in the national currency in 2020 was 8.15% per year, at the same time, the average rate on new deposits attracted was 3.82% per year.

**Banking system**

As of 31.12.2020, 11 banks licensed by the National Bank of Moldova were active in the Republic of Moldova.

Although in 2020, in the context of the crisis caused by the COVID-19 pandemic, there were many challenges, including for the banking sector as a result of the reforms of previous years, as well as the measures taken by the National Bank in 2020 to support banks, individuals and legal persons, the banking sector maintained its resilience, remaining well-capitalized, with good governance, which also ensured its financial stability.

The main areas on which the banking supervision process in 2020 was focused, according to the set priorities, were: internal governance, risk management and the internal capital adequacy assessment process (ICAAP); credit risk; operational risk; ICT risk; recovery plans; combating money laundering and terrorist financing.

Given the COVID-19 pandemic, in the reporting year most of the supervisory activities were carried out through ex officio controls, using all the surveillance tools available to the National Bank.

In 2020, the trend of consolidation of own funds continued in the banking sector, which amounted to MDL 13.6 billion, increasing by 19.3%.

At the same time, banks complied with the requirement for the "Total Equity Rate" indicator, including capital buffers. The rate of total own funds on the banking sector according to the data presented by the licensed banks registered the value of 27.1%, being an increase of 2.2 percentage points compared to the end of the previous year.
At the same time, during 2020, the NBM Executive Board approved the results of the process of monitoring and evaluating the activity of banks for 2018 and their subsequent evolution (for 10 licensed banks), imposing specific capital requirements for each bank according to the profile of individual risk, which have also been met.

At the same time, banks maintained a high level of liquidity and profitability.

The value of the long-term liquidity indicator (principle I of liquidity) was 0.7 (limit ≤1), being at the same level as at the end of 2019.

Current liquidity by sector (principle II of liquidity) amounted to 50.6% (limit ≥20.%), being at the same level as at the end of the previous year. Thus, more than half of the banking sector’s assets were concentrated in liquid assets.

The profit for the year on 31.12.2020 on the banking sector amounted to MDL 1.7 billion, decreasing compared to the previous year by 27.0%. For 2020, the return on assets\(^4\) and return on capital\(^5\) of licensed banks recorded values of 1.7% and, respectively, 9.6%, decreasing by 0.8 percentage points, respectively, by 5.0 percentage points compared to the end of the previous year.

\(^4\)Return on assets = annualized net income/average assets  
\(^5\)Return on capital=annualized net income/average share capital
Chapter 1

International context

1.1 Global economy, financial and commodity markets

In 2020, the global economy experienced the most severe crisis in the last decades, paralyzing all areas due to the COVID-19 pandemic. The economic crisis manifested itself in most countries, the culmination being attested in the second quarter of 2020. The most affected sectors were tourism, transport and the HoReCa segment. Due to misunderstandings between major oil producers and declining demand amid the pandemic crisis, oil surplus reached maximum levels and oil prices fell to minimum values. Subsequently, an agreement was reached between the OPEC countries, USA, Russia and other states on limiting oil production, and towards the end of the year oil prices returned to pre-pandemic levels. In the early stages of the crisis caused by the COVID-19 pandemic, but also in subsequent exacerbations, the US dollar and precious metal prices rose amid the migration of investments to low-risk assets. The decline in consumer demand has led to the adoption of significant fiscal and monetary stimulus packages in some economies. Both the Federal Reserve System and the European Central Bank have reduced key rates to zero and initiated incentive asset purchase packages.

The 2020 pandemic crisis has affected all economies alike. According to the IMF in 2020 the world economy shrank by an average of 3.5%, after an increase of 2.8% in 2019. Advanced economies contracted in average by 4.9%, and emerging economies by 2.4%. The most affected countries were those in which tourism, oil production, air transport and the HoReCa segment have a significant share in GDP. From the economies analysed (Chart 1.1) only China recorded a positive economic growth of 2.3%, but well below the levels of over 6.0% recorded in previous years. The multilateral development of the Chinese economy has allowed the reorientation towards the production of medical equipment and medicines, the storage of purchased oil at minimum prices and the increase of domestic consumption. The US economy has shrunk by 3.5% in 2020, with fiscal and monetary incentives mitigating the consequences of the pandemic crisis. The euro area economy contracted by 6.6%, of which Germany 4.9% and France 8.1%.

Chart 1.1: GDP comparative evolution in selected economies in 2019 and 2020 (%)*


IMF, World Economic Outlook Update January 2021
Some of the most affected countries by the COVID-19 pandemic were Spain (-11.0%), the United Kingdom (-9.0%) and Italy (-8.9%), with economic activity bearing the consequences of the multitude and drastic quarantine restrictions. In addition to the pandemic, the year 2020 for the United Kingdom also meant leaving the European Union, the negotiations being very intense. In the region, neighbouring countries and trading partner countries have evolved in tandem with the world economy. Romania registered an economic decline of 3.9%, the Russian Federation of 3.1% and Ukraine of 4.2%. For comparison, the economy of the Republic of Moldova contracted in 2020 by 7.0%.

In 2020, the USD index decreased by an average of 1.9% compared to 2019, representing the overall depreciation of the US dollar compared to other currencies of international circulation. The main factor in the depreciation of the US dollar was the adoption by the FRS of an ultra-stimulating monetary policy. In March 2020, the FRS reduced the range of federal rates twice by 0.5 and 1.0 percentage points each to 0-0.25% (Chart 1.2). During the analysed period, the depreciation pressures were determined by the intensification of the US-China tensions, mass US protests over the death of a man of colour while in police custody, a significant increase in unemployment claims in the US, electoral uncertainties, and debates on the second package of fiscal incentives. In terms of the appreciation of the US dollar, there contributed the improvement of economic indicators towards the end of 2020 and the attractiveness of the US dollar as a reserve liquid asset.

In March 2020, the European Central Bank also announced extraordinary monetary stimulus measures to support the economy following the spread of COVID-19, the closure of borders and the cessation of economic activity. In July 2020, the single European currency appreciated significantly, after the countries of the European Union agreed on a massive fiscal stimulus plan aimed at rebuilding the economies of the countries affected by COVID-19. The agreement between Europe’s leaders was seen by the markets as an important signal of unity for economic recovery. Overall, the euro appreciated by an average of 2.0% against the US dollar in 2020, and in December 2020 it was 8.7% higher against the US dollar than in December 2019 (Table 1.1).

The foreign exchange market in 2020 was characterized by the appreciation of the currencies of advanced economies as a result of the ability to respond to the pandemic crisis and due to the migration of investors to low-risk assets. Most of the currencies of emerging economies have depreciated, highlighting countries where the pandemic situation has reached maximum levels (e.g. Brazil), countries dependent on oil exports (e.g. the Russian Federation) and countries with internal or geopolitical conflicts (e.g. Belarus) (Table 1.1). In most inflation-targeting economies, monetary stimulus measures have been taken on the basis of disinflationary pressures to reduce demand. The Bank of Russia has reduced its monetary policy rate fourfold during 2020, from 6.25% to 4.25%. The National Bank of Romania has reduced the monetary policy rate thrice during 2020 and once at the beginning of 2021, from 2.5% to 1.25%. The National Bank of Ukraine has reduced the monetary policy rate fourfold during 2020, from 13.5% to 6.0%.

Source: websites of concerned central banks, NBM calculations.


**Table 1.1: Appreciation (-)/depreciation (+) of currencies in 2020 (%)**

<table>
<thead>
<tr>
<th></th>
<th>2020/19</th>
<th>Dec.20/ Dec.19</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Advanced economies</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EUR</td>
<td>-2.0</td>
<td>-8.7</td>
</tr>
<tr>
<td>JPY</td>
<td>-2.0</td>
<td>-4.9</td>
</tr>
<tr>
<td>GBP</td>
<td>-0.5</td>
<td>-2.5</td>
</tr>
<tr>
<td>AUD</td>
<td>-0.3</td>
<td>9.9</td>
</tr>
<tr>
<td>CAD</td>
<td>-1.0</td>
<td>2.8</td>
</tr>
<tr>
<td>CHF</td>
<td>-5.6</td>
<td>-9.6</td>
</tr>
<tr>
<td>SEK</td>
<td>-2.7</td>
<td>-11.3</td>
</tr>
<tr>
<td><strong>Emerging economies</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ARS</td>
<td>46.4</td>
<td>38.0</td>
</tr>
<tr>
<td>BGN</td>
<td>-1.8</td>
<td>-8.6</td>
</tr>
<tr>
<td>BRL</td>
<td>30.8</td>
<td>25.3</td>
</tr>
<tr>
<td>BYR</td>
<td>16.6</td>
<td>21.4</td>
</tr>
<tr>
<td>CNY</td>
<td>0.0</td>
<td>-6.7</td>
</tr>
<tr>
<td>HUF</td>
<td>5.9</td>
<td>-0.9</td>
</tr>
<tr>
<td>INR</td>
<td>5.3</td>
<td>3.5</td>
</tr>
<tr>
<td>PLN</td>
<td>1.6</td>
<td>-4.3</td>
</tr>
<tr>
<td>RON</td>
<td>0.1</td>
<td>-6.9</td>
</tr>
<tr>
<td>RUB</td>
<td>11.1</td>
<td>17.7</td>
</tr>
<tr>
<td>TRY</td>
<td>23.6</td>
<td>32.2</td>
</tr>
<tr>
<td>UAH</td>
<td>4.3</td>
<td>19.3</td>
</tr>
<tr>
<td>ZAR</td>
<td>13.9</td>
<td>3.3</td>
</tr>
<tr>
<td><strong>Republic of Moldova</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MDL</td>
<td>-1.5</td>
<td>-0.5</td>
</tr>
</tbody>
</table>

Source: FRS, Bloomberg
In 2020, the international commodity market was notable by the Saudi Arabia-Russia oil price war and the collapse of the Brent oil price below 20 US dollars/barrel. Disagreements between major oil producers over oil production prices and the sharp drop in oil demand in March 2020 generated a surplus of 19.7 million barrels per day in April 2020. This has led to a sharp increase in stored oil reserves and a contango evolution of futures contracts for oil prices. On April 10, 2020, following lengthy debates, the OPEC+ alliance concluded a historic deal by which they agreed to reduce oil production by 9.7 million barrels per day. Thus, OPEC oil production decreased in 2020 from 34.6 to 30.6 million barrels per day. At the same time, oil production fell in the United States from 19.5 to 18.6 million barrels per day, and in other non-OPEC countries from 46.6 to 45.0 million barrels per day. Oil consumption has fallen significantly in 2020, from 101.2 to 92.2 million barrels per day or by 8.9% (Chart 1.3). Following OPEC+ efforts to limit oil production, the oil market stabilized by the end of 2020, and oil prices reached pre-pandemic levels.

International quotations had a mixed evolution in 2020. The price of Urals oil decreased by an average of 34.7% compared to 2019. Similarly, the price of natural gas imported into the Republic of Moldova was 36.3% lower compared to 2019. International food prices have increased since May 2020, amid an unsatisfactory harvest and logistical disruptions. The FAO food price index increased by an average of 3.1% in 2020 compared to 2019, of which vegetable oil prices rose the most, by 19.4%, followed by grain prices, by 6.6%. Meat quotations fell by an average of 4.5%. The resumption of economic activity in the second half of 2020 led to an overall increase of 3.5% in the quotations of industrial metals. At the same time, the increase of risks determined in 2020 the increase by 27.2% of the precious metals price index (Chart 1.4).

1.2 Evolution of important economies

United States of America

Due to the COVID-19 pandemic, the US gross domestic product contracted by 3.5% in 2020 after rising by 2.2% in 2019. The average unemployment rate in the US in 2020 was 8.1%, the maximum level of 14.8% being reached in April 2020. The average inflation rate was 1.2%, well below the rate of 1.8% recorded in 2019 and below the target level of 2.0% of the FRS. Industrial production decreased in 2020 by 6.9% compared to 2019.

Euro area

In 2020, the euro area economy shrank by 6.6%, making it the worst crisis in recent decades. Industrial production in the euro area contracted on average by 8.8%, of which 10.4% in Germany and 11.1% in France. Construction output decreased by an average of 5.7%, imports fell by 10.8% and exports by 9.2%. Due to the COVID-19 pandemic, the downward trend in the unemployment

---

7 Contango is a situation in which the futures price of a commodity is higher than the spot price. Contango usually occurs when an increase in the price of the asset is expected over time. This results in an upward curve.
rate in recent years has been reversed to a high of 8.7% in August 2020. The average unemployment rate for 2020 was 8.0% compared to 7.5% in 2019. As disinflationary pressures intensified in 2020, consumer prices increased on average by only 0.2% (Table 1.2).

China

China’s economy grew by 2.3% in 2020, well below the levels recorded in previous years. The multilateral development of the Chinese economy has allowed the reorientation towards the production of medical equipment and medicines, the storage of purchased oil at minimum prices and the increase of domestic consumption. At the same time, in 2020, the US-China trade tensions were reduced in intensity, which allowed the Chinese economy to focus on the fight against COVID-19 and domestic problems.

1.3 Evolution of neighbouring economies and main trading partners

<table>
<thead>
<tr>
<th></th>
<th>Euro area</th>
<th>Romania</th>
<th>Russian Federation</th>
<th>Ukraine</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP</td>
<td>-6.6</td>
<td>-3.9</td>
<td>-3.1</td>
<td>-4.2</td>
</tr>
<tr>
<td>CPI, annual average</td>
<td>0.2</td>
<td>2.6</td>
<td>3.4</td>
<td>2.7</td>
</tr>
<tr>
<td>Industrial production</td>
<td>-8.8</td>
<td>-9.3</td>
<td>-2.6</td>
<td>-4.5</td>
</tr>
<tr>
<td>Production in construction</td>
<td>-5.7</td>
<td>15.9</td>
<td>0.1</td>
<td>5.6</td>
</tr>
<tr>
<td>Export*</td>
<td>-9.2</td>
<td>-8.2</td>
<td>-20.7</td>
<td>-1.7</td>
</tr>
<tr>
<td>Import*</td>
<td>-10.8</td>
<td>-4.8</td>
<td>-5.3</td>
<td>-11.0</td>
</tr>
<tr>
<td>Unemployment rate</td>
<td>8.0</td>
<td>5.0</td>
<td>5.8</td>
<td>9.5</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

Romania

In 2020, the Romanian economy contracted by 3.9% after increasing by 4.1% in 2019. Industrial production decreased significantly by 9.3%, being the lowest level after the financial crisis of 2008-2009. Also, exports decreased in 2020 by 8.2% and imports by 4.8%, due to the decrease in world demand. The average annual inflation rate in 2020 in Romania was 2.6% (Table 1.2).

The Russian Federation

The gross domestic product of the Russian Federation fell by an average of 3.1% in 2020 due to the pandemic crisis and low oil prices. During 2020, industrial production decreased by an average of 2.6%. The decrease in external demand and the limitation of oil production under the OPEC+ agreement caused a 20.7% decrease in exports. At the same time, imports fell by 5.3%. The average unemployment rate in 2020 was 5.8%. Consumer prices rose by an average of 3.4%, but by the end of the year the annual inflation rose to 4.9% against the background of stimulating monetary policy, rising food prices and the depreciation of the Russian ruble (Table 1.2).

Ukraine

Ukraine’s gross domestic product fell by 4.2% in 2020. During the analysed period, industrial production contracted by an average of 4.5%, agricultural production decreased by 11.5% due to drought in the region, and construction activity increased by 5.6%. At the same time, exports and imports decreased by an average of 1.7% and 11.0%, respectively. The easing of inflationary pressures during 2020 led to a moderation of the annual inflation rate to 1.7% in May 2020, after which inflation rose to 5.0% in December.
2020. The average annual inflation in Ukraine in 2020 constituted 2.7% (Table 1.2).

**Turkey**

In 2020, Turkey’s economy grew by 1.8%. The depreciation of the Turkish lira led to an increase in consumer prices by an average of 12.3% during 2020. The intensification of depreciation and inflationary pressures in the second half of 2020 led to a change in the nature of monetary policy addressed by the Central Bank of Turkey from incentive to restrictive.

**Belarus**

In the reporting year, the economy of the Republic of Belarus decreased by 0.9%. The depreciation of the Belarusian ruble led to an increase in consumer prices by an average of 5.6% during 2020.
Chapter 2

Economy of the Republic of Moldova

2.1 Real sector

Gross domestic product

In 2020, the economic activity in the Republic of Moldova registered a sharp decline due to internal restrictions related to COVID-19, the regional economic climate affected by the pandemic, but also adverse conditions for the agricultural sector. In this way, GDP decreased by 7.0% compared to the level of 2019. In the first quarter GDP registered a minor increase (0.9% compared to the first quarter of 2019), after which, the decline of 14.0% in the second quarter of 2020 mainly reflected the effects of the state of emergency instituted to stop the spread of COVID-19. In the second half of the year, in addition to the impact of COVID-19 restrictions, the economic activity was negatively affected by the effects of drought on agriculture. Thus, in the third and fourth quarters of 2020 GDP recorded an annual rate of -9.7% and -3.3%, respectively.

From the perspective of uses (Chart 2.1), the negative dynamics of economic activity in 2020 was mainly determined by the dynamics of consumption and exports. In this sense, household consumption was 7.0% lower than in the previous year and thus generated an impact of -5.8 percentage points on GDP dynamics. Exports registered a decrease of 15.5% compared to 2019 and a negative contribution of -4.9 percentage points. A negative but smaller magnitude impact (-1.3 percentage points) on economic activity was determined by investment dynamics. In this respect, the gross fixed capital formation contracted by 2.1%, while the change in stocks generated a negative impact of 0.8 percentage points. Final consumption of general government in 2020 decreased slightly (-0.2%) compared to the previous year. The decrease in domestic demand led to a negative dynamics of imports, which were 8.9% lower than in the same period of the previous year, thus making a positive contribution (5.0 percentage points) on GDP dynamics, which, however, mitigated the negative impact generated by the aforementioned subcomponents.

By resource categories (Charts 2.2), the GDP contraction in 2020 was supported by most sectors of the national economy. The most pronounced negative impact (-2.7 percentage points) was exerted by the dynamics of the agricultural sector. This, in the context of unfavorable agro-meteorological conditions for some agricultural crops from the end of 2019 and during 2020,

8Final consumption of general government and non-profit institutions serving households.
9Agriculture, forestry and fishing.
decreased by 26.4% compared to the previous year. At the same time, a sharp negative contribution (-2.1 percentage points) was due to the 9.6% decrease in gross value added in "Trade, transport and storage"\textsuperscript{10}, sectors severely affected by COVID-19 restrictions. Gross value added in industry decreased by 4.3%, generating a negative impact of -0.6 percentage points. The real estate and communications sector contracted by 4.5% and 1.6%, respectively, compared to 2019. Net taxes on products decreased by 7.3% and generated a negative impact of -1.0 percentage points to the GDP dynamics in 2020. At the same time, a positive dynamics in 2020 is attested in the financial and construction sectors, the gross value added in these sectors increased by 5.7% and 3.7%, respectively.

### Household consumption

In 2020, the final consumption of households decreased sharply, being 7.0% lower than in the previous year. At the same time, this annual rate was 10.2 percentage points lower than in 2019 (Chart 2.3). In the structure of final consumption of households, the respective dynamics was mainly determined by the decrease of expenditures for the procurement of services by 10.0% and of expenditures for the procurement of goods by 6.2%, respectively.

The respective evolution was determined by the moderation of the disposable income of the population, but also, to a certain extent, by the uncertainty associated with the COVID-19 pandemic which would have determined the postponement of some expenditures of the population. Thus, in 2020, the main sources of consumer financing (salaries, pensions, loans, remittances), according to estimates, as a whole, decreased in real terms by about 0.7%, after increasing by about 10.0% from the previous year (Chart 2.4). This dynamic was largely due to the decrease in the volume of new loans granted to individuals and remittances. At the same time, their negative impact was partially mitigated by the positive contributions exercised by the dynamics of income related to social insurance and the salary fund.

### Investments

In 2020, the annual rate of gross capital formation contracted by about 5.1% compared to 2019 (Chart 2.5). Thus, the annual rate of gross fixed capital formation in 2020 recorded a level of -2.1% or 13.9 percentage points lower than in 2019. At the same time, the change in inventories generated a negative contribution of 3.1 percentage points, thus contributing to the moderation of the annual rate of gross capital formation. The negative dynamics of investments can be associated with the restrictions and uncertainty related to the pandemic, but also the contracting of incomes.

In this sense, analyzing the annual rate of investments in fixed assets by financing sources shows that their decrease was mainly supported by investments made from the own resources of

\textsuperscript{10}Wholesale and retail trade; maintenance and repair of motor vehicles and motorcycles; transport and storage; accommodation and catering activities.
enterprises and the population (Chart 2.6). At the same time, investments from foreign investors also registered a negative dynamic in 2020. The sub-component "other sources" contributed to the increase of investment financing sources.

Agricultural production

In 2020, global agricultural production decreased by 27.1% compared to the previous year (Chart 2.7). The respective dynamics was determined by the decrease of the vegetal production by 35.9% and of the animal production by 3.8%.

It should be noted that the dry conditions in 2020 significantly influenced the harvest of cereal products. Thus, in 2020, compared to 2019, the wheat harvest decreased by 50.5%, the corn harvest for grain by 63.4%, and the sunflower harvest by 39.9%. At the same time, the harvest of vegetables and fruits in 2020 was a modest one, compared to that of 2019, with 22.2% and 21.2% lower, respectively.

It should be noted that, for the fourth consecutive year, the volume of animal production is contracted. Thus, the volume of production in the livestock sector in 2020 compared to the previous year decreased by 3.8%. That dynamic was mainly due to the decrease in the production of "milk" and "eggs" by 12.4% and 5.7%, respectively. At the same time, the production of "cattle and poultry (live mass)" decreased by 0.5%.

Industrial production

The volume of industrial production on all forms of ownership decreased in real terms by 5.5% compared to 2019 (Chart 2.8). This evolution was mainly determined by the decrease of production in the manufacturing industry (subcomponent with the largest share) by 7.1%. At the same time, in the sectors "production and supply of electricity and heat, gas, hot water and air conditioning" and in the extractive industry there were increases of 2.3% and 9.5% respectively of production volume. In the manufacturing industry, the most significant decreases were registered in the following industrial activities: "manufacture of motor vehicles, trailers and semi-trailers" (34.9%), "manufacture of electrical equipment" (34.2%), "manufacture of machines, machinery and equipment n.e.c." (30.9%), "manufacture of computers and electronic and optical products" (24.5%) and "wood processing, manufacture of wood and cork products, except furniture; manufacture of articles of straw and other woven vegetable materials" (24.1%).

Freight shipping

In 2020, railway, road, river and air transport companies transported 12.5% less goods compared to 2019 (Chart 2.9). This decrease was determined by the annual decrease in the volume of goods transported by rail (33.3%), air (15.3%) and road (7.2%). At the same time, the transport of goods by river increased in annual terms by 75.6%.

\[11\text{Increase in external loans and borrowings and road fund sources.}\]

\[12\text{Comparable prices.}\]
**Passenger transport**

In 2020, rail, road, river and air transport companies carried 46.1% fewer passengers compared to 2019 (Chart 2.10). This decrease was determined by the annual decrease in the number of passengers who used air (75.6%), road (45.8%) and rail (38.0%) transport. At the same time, the number of passengers transported by river increased in annual terms by 56.1%.

**Retail trade**

In 2020, the turnover of enterprises with main retail trade activity (in comparable prices) increased by 4.6%, this rate decreasing by 8.6 percentage points compared to 2019. At the same time, the turnover of the enterprises with main market services provided to the population decreased during the same period in annual terms by 15.7% (Chart 2.11), by 30.3 percentage points lower than that of the previous year.

**Wholesale trade**

In 2020, the turnover of enterprises with main wholesale trade activity decreased by 5.6% (current prices), this annual rate being 20.3 percentage points lower than in 2019 (Chart 2.12). At the same time, the turnover of the enterprises with main activity of market services provided to the enterprises registered in the same period a decrease in annual terms of 15.5% (current prices), by 23.7 percentage points lower than in 2019.

**Foreign trade**

In the context of economic and social constraints related to the COVID-19 pandemic, during 2020 there was a pronounced contraction of international trade. Thus, as a result of the restrictions imposed at regional and local level, both exports and imports of goods of the RM contracted significantly compared to 2019.

The annual rate of exports of goods in 2020 decreased to -10.6%, being 13.3 percentage points lower than in 2019. The downward dynamics of the level of the annual rate of exports was determined by the evolution of exports to all country categories (Chart 2.13).

By product category, the reduction in the annual export rate in 2020 was mainly due to the evolution of exports of "food, animal feed, beverages and fats", "vehicles, optical instruments, sound recorders and reproducers" and "chemical and wood products" (Chart 2.14). The sharp decrease in the volume of agricultural production in 2020, as a result of the recording of dry conditions,

13 We used quarterly data on the evolution of foreign trade of the Republic of Moldova, expressed in thousands of US dollars.
mainly led to a decrease in exports of cereal products. It should be noted that the automotive industry worldwide has been one of the sectors most affected by the COVID-19 pandemic. At the same time, the auto component manufacturers, in commercial relations with this industry, reduced and even temporarily ceased their activity, during 2020. Respectively, the production and export of these categories of goods decreased sharply in 2020.

Analyzing the evolution of exports by origin of products, it can be seen that the contraction of the annual rate of exports in 2020 was determined by both the decrease in exports of domestic goods and re-exports (Chart 2.15).

The annual rate of imports in 2020 was -7.3% or 8.7 percentage points lower than in 2019. The decrease in the annual rate of imports in 2020 was supported by the evolution of imports from EU and CIS countries (Chart 2.16). In 2020, the share of imports from the EU was about 45.3%, and those from the CIS countries and those classified as "Rest of the World" accounted for 24.1% and 30.6%, respectively.

By groups of goods (Chart 2.17), the decrease in the annual import rate in 2020 was mainly influenced by the evolution of imports of "mineral products", "chemicals and wood products" and "articles of metal, stone or ceramic".
Chapter 2. Economy of the Republic of Moldova

Chart 2.15: Evolution of exports annual rate (%) and contribution by origin (p.p.)

Source: NBS, NBM calculus

Chart 2.16: Evolution of imports annual rate (%) and contribution by categories of countries (p.p.)

Source: NBS, NBM calculus

Chart 2.17: Evolution of imports annual rate (%) and components’ contribution by groups of goods (p.p.)

Source: NBS, NBM calculus

Chart 2.18: Economic activ population and employed population

Source: NBS, NBM calculus

Chart 2.19: Economic activ population and employed population (%)

Sursa: NBS, NBM calculus

Chart 2.20: Evolution of the number of unemployed persons and the unemployment rate (%)

Sursa: NBS, NBM calculus
Labour market

Labour force

In 2020, in the context of the related restrictions COVID-19, but also of the adverse conditions for the agricultural sector, both the economically active and the employed population registered a negative dynamics. Thus, the economically active population was 867.3 thousand people, being 5.6% lower than in 2019, and the employed population was 834.2 thousand people, being 4.4% lower than the previous year (Chart 2.18).

At the same time, the activity rate was 40.3%, being 1.9 percentage points lower than in 2019, and the employment rate was 38.8%, 1.3 percentage points lower than in 2019 (Chart 2.19).

At the same time, the number of unemployed in 2020 decreased by about 13.8 thousand people to the value of 33.1 thousand people. The unemployment rate was 3.8%, being lower (by 1.3 percentage points) than in 2019 (Chart 2.20).

Salary income

In 2020, the salary fund in the economy moderated its growth rate, compared to 2019, to 6.3%. In comparable terms, deflated by the CPI, the salary fund increased by 2.4%. At the same time, there was a negative dynamic of the average number of employees in the national economy, their annual rate entering the negative level (-3.6%) (Chart 2.21).

The most important positive contributions to the dynamics of the salary fund come from the sectors: health and social assistance, information and communication, education. In order to assess the increased effort of medical staff in the fight against the COVID-19 pandemic, during the year additional financial resources were allocated to increase the salary fund for the medical system, following the rectification of the Law on Compulsory Health Insurance Funds for 2020.

At the same time, the most significant decreases in the salary fund were registered in the transport and storage sectors (impossibility to provide the full spectrum of services due to restrictions on crossing the state border), in accommodation and catering activities (total or partial forced cessation of units in the HoReCa sphere). This was generated both by the decrease in the average number of employees and by the reduction of the average salary in these sectors due to the specific situations created in 2020.

During the analyzed period, the average gross nominal monthly earnings in the national economy recorded an annual increase of 10.2%. In the budgetary sector of the economy and in the real sector there was an increase in the average salary earnings of 10.2% and 10.1%, respectively. The salaries of medical staff, which increased in stages during the year, registered the most significant increases. In real terms, the annual growth rate of average salary earnings per economy was 6.2% in 2020 (in the real sector - 6.1%, and in the budgetary sphere - 6.2%) (Chart 2.22).
2.2 Evolution of inflation

**Consumer Price Index (CPI)**

In 2020, the average annual rate of CPI was 3.8%, being with 1.0 percentage points lower than in 2019 (Table 2.1). During 2020, the annual inflation rate showed a sharp downward trajectory. It decreased from 7.5% in December 2019 to 0.4% in December 2020, thus intersecting, in the period February-August 2020, the range of 5.0% ±1.5 percentage points stipulated in the Medium-term monetary policy strategy (Chart 2.23).

In the reference year, the downward trajectory of the annual inflation rate was supported, according to estimates, by an aggregate disinflationary demand determined mainly by the impact on economic activity of local and regional restrictions imposed by the authorities to stop the spread of COVID-19. At the same time, the downward trend in the annual inflation rate was driven by declining prices for energy resources internationally and regionally, similarly in the context of the global pandemic impact. This has led to lower fuel prices in the domestic market, but also preconditions for the downward adjustment of tariffs for services included in regulated prices in the second half of 2020. At the same time, a disinflationary effect during 2020 was generated by the trend of appreciation of the national currency against the US dollar, which on average appreciated by 1.5% over the previous year. At the same time, the impact of the above-mentioned factors has been partially mitigated by the increase in the intercity tariff from the beginning of 2020, as well as by adverse weather conditions that led to a modest harvest for certain crops and inflationary pressures on food prices in the summer months. Subsequently, towards the end of 2020, the atypical warm weather which delayed and reduced the intensity of the positive seasonal effect characteristic of that period, as well as the decrease in import prices led to a decrease in the contribution of food prices to the dynamics of the annual rate of CPI (Chart 2.25).

**Core inflation**

During 2020, the annual rate of core inflation experienced a downward trajectory. It decreased significantly, from 6.9% in December 2019 to 1.6% in December 2020. The contribution of core inflation to the dynamics of total inflation decreased by 0.7 percentage points, amounting to 1.1 percentage points in 2020.

Measures to prevent the spread of COVID-19, imposed with the declaration of a state of emergency in mid-March, have affected

---

14Core 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 Core 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).
Within the group of rest and culture, with the pandemic and the
imposition of certain restrictions on crossing the state border, the
group tourism around the country reported variations, especially
in August 2020, registering an increase of 5.9%.

Price movements for taximeters services were reported during
the year, especially in April (in connection with the onset of the
pandemic in mid-March 2020) and September (beginning of the
new school year). Market signals have shown that people have
preferred, in addition to traveling by personal car, taxi services for
safe travel, for fear of infection in public transport. Also, the prices
for some services within the education and teaching group were
adjusted, namely the payment for courses, sections (12.6% in
September 2020) argued by the beginning of the new study year.
Within the group of rest and culture, with the pandemic and the
imposition of certain restrictions on crossing the state border, the
group tourism around the country reported variations, especially
in August 2020, registering an increase of 5.9%.

Despite the entry into force on January 1, 2020 of increased excise
duties on tobacco products and the anticipation of rising prices
respectively, there was a decrease in countrywide prices for these
products in early 2020. This was due to the removal for 2020 of the
notion of minimum marketing price, which allowed the reduction
of prices for some categories of cigarettes. Although the price
of cigarettes increased by about 1.7% overall in 2020, there is a
significant reduction in the contribution of cigarette prices to the
annual growth of core inflation compared to the situation in 2019.

In 2020, positive contributions to the dynamics of the annual core
inflation rate continued to be made mainly by the subcomponents
"clothing", "means of transport, car parts", "public catering" (Chart
2.26). In this regard, it is worth mentioning some aspects regarding
the impact of the pandemic on the costs of economic agents. The
specific situation created by the spread of the COVID-19 virus
pandemic in 2020 has left its mark on several sectors of the
economy. The total or partial cessation of the activity of the
commercial units, the enterprises of production of the articles of
clothing meant the increase of the costs and implicitly possible
pressures for the price increase for the articles of clothing.

Similarly, in order to comply with the legal norms regarding safety
measures, the public catering network have considerably
restricted their activity, which inevitably led to increased costs. In
addition, inflationary pressures specific to the management of the
health crisis (costs of sanitary materials, disinfectants, etc.), felt
more acutely in the areas of activity most exposed to direct
human contact (referring to the services included in core inflation,
it is about the HoReCa sector, cultural and recreational services).

The segment of means of transport is extremely sensitive to
variations in the exchange rate. In 2020, in March and November
we can notice the most significant contributions from the component "means of transport, car parts" to the annual growth
rate of core inflation. Given that the price of goods attributed by
the NBS to the category of means of transport depends on the
MDL/USD and MDL/EUR quotation, the depreciation of the national
currency against the single European currency put pressure on the
selling price of the means of transport. At the same time, the
appreciation against the US dollar moderated the annual pace of
the above-mentioned subcomponent.

Price movements for taximeters services were reported during
the year, especially in April (in connection with the onset of the
pandemic in mid-March 2020) and September (beginning of the
new school year). Market signals have shown that people have
preferred, in addition to traveling by personal car, taxi services for
safe travel, for fear of infection in public transport. Also, the prices
for some services within the education and teaching group were
adjusted, namely the payment for courses, sections (12.6% in
September 2020) argued by the beginning of the new study year.
Within the group of rest and culture, with the pandemic and the
imposition of certain restrictions on crossing the state border, the
group tourism around the country reported variations, especially
in August 2020, registering an increase of 5.9%.
Food prices

During 2020, the annual rate of food prices recorded a sharp downward trend, thus decreasing by 10.7 percentage points, to the level of 1.7% in December 2020. The downward dynamics of the annual rate of food was mainly conditioned by the decrease in contributions from the groups "potatoes", "fresh fruit", "vegetables", "meat, meat products and canned meat", "milk and milk products" and "eggs" (Chart 2.27).

In the first eight months of the year, the annual rate of food prices remained relatively high. Thus, the declaration of a state of emergency in connection with the COVID-19 pandemic, both at national and regional level, created some impediments, both in the import process and in their marketing. As a result, we have witnessed inflationary pressures on the supply side of food prices during this period. At the same time, the recording of dry conditions in the summer of 2020 also contributed to exerting additional inflationary pressures on food prices. Inflationary pressures have been partially mitigated by negative aggregate demand, but also by the appreciation of the exchange rate.

It should be noted that in the last four months of the year there was a sharp moderation of the annual rate of food prices due to negative aggregate demand, atypical weather conditions, but also the decrease in import prices that generated significant disinflationary pressures. In the fourth quarter of 2020 we witnessed a phenomenon, less traditional\(^\text{15}\), when the prices of imported vegetables were similar or lower compared to those of domestic products (generated by the depreciation of the Ukrainian hryvnia and the Turkish lira), thus registering some pronounced disinflationary pressures from these product categories.

Food prices at the international level also recorded a downward trajectory during 2020, so their annual rate decreased by 2.0 percentage points, to 7.5% in December 2020.

Regulated prices

In the first half of 2020, the annual rate of regulated prices registered a relatively stable dynamics, remaining in the positive level and registering an average value of 3.1%. Subsequently, in the second half of the year, it outlined a downward trajectory, decreasing from 3.1% in July 2020 to -1.3% in December 2020 (Chart 2.28).

The positive dynamics of regulated prices in the first period of the year was mainly due to the increase in the electricity tariff in August 2019 by about 9.8%, as well as the increase in taxes for the provision of transport services in early 2020. From September 2020, the annual rate of regulated prices has entered the negative level, mainly due to the decrease of the electricity tariff.

\(^{15}\text{In the fourth quarter of each year there is a substitution of local vegetables with imported ones, which are traditionally more expensive than local ones.}\)
Thus, electricity prices during the period decreased by 8.4%, following the approval of the new tariffs by ANRE on July 31, 2020. Among the factors invoked to reduce tariffs were mentioned: the decrease in the average purchase price of electricity from the central electricity supplier (by 10%); decrease of the purchase price of electricity by 7%; accumulated positive tariff deviations up to July 1, 2020, as well as the evolution of the average annual exchange rate of the national currency against the US dollar for 2020. Also, on October 28, 2020, ANRE examined the request for approval of the regulated prices of the largest natural gas supplier S.A. "Moldovagaz". As a result, ANRE approved the regulated prices for the supply of natural gas by S.A. "Moldovagaz" at the points of exit from the low pressure natural gas distribution networks at MDL 4,298/1000 m$^3$, by 12.2% lower than the price approved in 2018. Among the factors mentioned in the adoption of that decision was to reduce the average annual gas purchase price, but also to change the exchange rate of the national currency.

At the same time, in the second half of 2020, positive contributions to the dynamics of regulated prices were noticed from the prices of medicines, medical services and insurance. Also, during this period there were increases in the rent of state housing. However, their impact on the annual dynamics of regulated prices was minor.

**Fuel prices**

In 2020, the annual rate of fuel prices was characterized by a dynamic, mainly downward, being in the negative level. Thus, in the first half of the year, it decreased from 0.1% in January 2020 to a negative level of 11.4% in June 2020. This dynamic was supported, in particular, by the decrease in prices of fuels, as well as to bottled gas, as a result of lower oil prices on the international market. In the context of declining global demand and restrictions on the COVID-19 pandemic, the average price of Urals oil in the second quarter of 2020 declined sharply to an average of 30.4 US dollars/barrel or 51.1% lower than the average oil price in the fourth quarter of 2019. Subsequently, amid rising oil prices in the second half of 2020, although it remained in negative territory, the annual fuel price rate increased to the level of -8.5% in December 2020 (Chart 2.29). Overall exchange rate dynamics had a disinflationary impact on fuel prices in 2020.

During 2020, prices for firewood generated positive contributions to the evolution of fuel prices, but more modest compared to 2019. At the same time, a negative contribution to the formation of the annual rate of fuel prices was exerted by prices of coal in the second half of the reference year.

---

16 http://www.anre.md/anre-a-aprobat-micsorarea-preturilor-pentru-energia/
17 http://www.anre.md/anre-a-aprobat-preturile-reglementate-pentru-furnizarea/
/-gazelor-naturale-de-catre-sa-moldovagaz-in-contextul-obligatiei/
/-de-serviciu-public-3-190
Industrial prices

In the first 10 months of 2020, the annual rate of prices in industry alternated close to 2.4%, and in the last 2 months of the year there was an acceleration. Thus, in December 2020 the annual rate of prices in industry was 3.8%, being 1.2 percentage points higher than in December 2019. It should be noted that during 2020, the annual rate of prices for products delivered on the foreign market was positioned at a higher level than the prices of products delivered on the domestic market (Chart 2.30).

Analysing the evolution of prices in the industry by main branches, it is outlined that, similar to the previous periods, the manufacturing industry has the major contribution to their formation (Chart 2.31). It should be noted that the annual price rate in the manufacturing industry was relatively stable in the first 9 months of 2020, and in the last quarter of 2020, it accelerated sharply. The increase in the annual price rate in the manufacturing industry was largely driven by rising prices in the food and beverage manufacturing industry. Prices in the energy sector contributed to the moderation of the annual rate of prices in industry, and those in the extractive industry had a negligible impact.

Prices in construction

During 2020, the annual rate of construction prices recorded a predominantly downward trajectory. Thus, in the fourth quarter of 2020 it stood at 0.9%, being 2.7 percentage points lower than in the fourth quarter of 2019 (Chart 2.32).

Producer’s prices for agricultural products

In 2020, producer’s prices for agricultural products increased by 22.5% compared to the previous year, due to the increase in prices for vegetable products by 32.4%. At the same time, prices for animal products decreased by 4.3% annually (Chart 2.33).

The evolution of prices for vegetable products was mainly determined by the increase in prices for “food melons and gourds” (71.2%), “fruit and berries” (48.4%), “grapes” (47.9%), “sunflower” (45.1%) and those for “cereals and legumes” (26.5%). It should be noted that the dry conditions recorded during 2020 have contributed to the sharp decrease in plant production, respectively, we have seen a significant increase in prices for most categories of vegetable products.

The decrease in prices for animal products was determined by the decrease in prices for meat in live mass by 7.1%. At the same time, prices for eggs and milk increased by 17.5 and 9.7%. It should be noted that the decrease in meat in live mass prices is a phenomenon noticed in dry years, as more animals are slaughtered due to rising feed prices. As a result, there is an excess supply of meat on the market, which leads to lower prices.
2.3 Public sector and tax policy

Implementing the national public budget

During 2020, the national public budget indicators were affected by the pandemic crisis caused by COVID-19. As a result, public revenues decreased and public expenditures increased at an accelerated pace, generating a considerable increase in the budget deficit, which amounted to MDL 10,619.6 million. The decrease in economic activity, the facilities granted to economic agents regarding the payment of taxes, the import difficulties, the loss of jobs by the population, because of the restrictions imposed related to the COVID-19 pandemic, affected the incomes of the population and economic agents, and taxes and duties collected from the state budget respectively. Thus, according to the data provided by the Ministry of Finance, the revenues of the national public budget were accumulated in the amount of MDL 62,655.3 million, by 0.5% below the level of revenues accumulated in 2019 (Chart 2.34). Compared to the GDP, revenues collected in 2020 amounted to 30.4%, up to 0.4 percentage points more than the previous year.

The major part of the budget revenues was accumulated from the account of taxes and fees, which had a share of 63.4% (MDL 39,752.2 million). The contributions and compulsory insurance premiums amounted to 30.7% (MDL 19,235.1 million), and the share of other income and grants was 4.8% (MDL 3,018.3 million) and 1.0%, respectively, (MDL 649.7 million) of the total budget revenues.

During the reporting year, the Republic of Moldova received financial support to support the budget in the form of external grants in the amount of MDL 649.7 million or 59.5% less than in 2019. Reported to GDP, the grants constituted 0.3%, 0.4 percentage points less than in 2019.

At the same time, in order to ensure public health, improve the effects of the pandemic and support the population, budget expenditures have been increased. As a result, the expenditures of the national public budget totalled in the reference year MDL 73,274.9 million, recording an increase of 11.1% compared to 2019. Of the total expenditures, the social protection expenditures had the highest share (35.5%), the education expenditures amounted to 17.2%, and the health care 13.6%. Public expenditures, as per the GDP, amounted up to 35.5% or by 4.1 percentage points more than in 2019.

It should be mentioned that, during 2020, the amount of MDL 26,921.0 million was transferred from the state budget (SB) to the state social insurance budget (SSIB), the Mandatory Health Insurance Fund (MHIF) and the local budgets (LB) (increasing by 16.5% compared to 2019). The majority of transfers from the state budget were directed to local budgets, about 50.6% of total transfers, followed by transfers to SSIB, about 36.3%, the MHIF benefiting from a more modest funding of 13.1%.

In this context, in 2020, the implementation of the national public budget resulted in a deficit of MDL 10,619.6 million. Relative to
GDP, this deficit represents 5.1%, with 3.7 percentage points above the level of 2019. The sources of financing the national public deficit consisted of net external loans amounting to MDL 7,344.3 which represents 3.6% of the GDP (3.4 percentage points more than in 2019), from domestic debts and loans in the amount of MDL 5,883.1 million or 2.9% of GDP, increasing by 2.8 percentage points compared to the previous year). At the same time, the balances of funds in the accounts of the component budgets of the national public budget at the end of the year amounted to MDL 6,456.1 million.
2.4 International accounts of the Republic of Moldova for 2020 (provisional data)

Balance of payments

According to preliminary data, in 2020, the balance of the current account of the balance of payments of the Republic of Moldova amounted a deficit of USD 795.7 million, which decreased by 28.9% compared to the one recorded in 2019. Reported to GDP, the current account amounted to -6.7% (compared to -9.3% in 2019) (Chart 2.35, table A.1). This dynamic was determined by the considerable decrease of the deficit of foreign trade in goods, by the increase of the surplus of secondary incomes, by the slight increase of the surplus of services, while the balance of primary incomes deteriorated.

The trade deficit in goods\(^\text{19}\) amounted to USD 3,075.8 million, decreasing by 7.1% due to a sharper decline in imports of goods (-391.3 million USD) during 2020 than in exports (-155.4 million USD), compared to 2019. The ratio between the deficit balance of foreign trade in goods and GDP was 25.8% (compared to 27.7% in 2019).

The export of goods recorded in the balance of payments (except for the goods for/after processing) totalled USD 1,962.5 million (-7.3% compared to 2019). Despite the considerable decrease in the physical volume of exports of goods, their value decreased to a lesser extent due to the increase in prices for exported goods.

The geographical structure of exports of goods in 2020 reflects the fact that 60.9% were directed to EU countries (without the UK), 19.8% went to CIS countries, and the remaining 19.3% of exports went to other countries. The decrease in exports of goods was determined by the category "other countries", exports to them decreased by 17.0% compared to 2019. Exports to CIS countries also decreased by 13.4% and to EU-27 countries remained at about 2019 (-0.3%) (Chart 2.36).

From the point of view of the structure of exports by categories of goods, the decrease was determined by the category "agri-food products", whose exports decreased by 8.3% compared to 2019 due to the decrease in agricultural production, determined by the unfavourable weather conditions. Agri-food products continued to predominate in the structure of exports of goods with a share of 55.8% of the total. Significant decreases were recorded in the export of products of the chemical industry (-32.9%) and machines and appliances (mainly wires and cables) (-9.5% compared to 2019). At the same time, the export of base metals and articles thereof (+31.4%) and the export of textile materials and articles (+15.1%) increased.

\(^{18}\)Full analytical comments on the evolution of international accounts can be accessed at: http://bnm.md/en/content/conturile-internationale-ale-republicii-moldova-pentru-anul-2020-date-provizorii

\(^{19}\)Unlike NBS data, the external trade statistics on goods published by the NBM in the balance of payments contain a series of adjustments.
The import of goods recorded in the balance of payments (excluding goods after/for processing) amounted to USD 5,038.3 million (-7.2% compared to 2019). The decrease in imports of goods was largely due to the 9.6% decrease in EU deliveries, followed by the CIS (-6.7%), while imports from other countries increased by 3.1% compared to 2019. Thus, in the geographical structure of imports of goods, in 2020, the European Union accounted for 52.6% of the total, CIS – 28.1%, other countries – 19.3% (Chart 2.37).

From the point of view of the structure of imports by categories of goods, the decrease was determined by the category "mineral products", whose imports decreased by 34.8% compared to 2019, both due to the cheapening of petroleum products and due to the decrease in imported physical volumes (import of electricity from Ukraine has been stopped since April 2020).

Import of energy products and electricity in 2020 amounted to USD 558.8 million, a decrease of 37.5% compared to 2019. This development was determined by the decrease in import of diesel fuel with 36.4%, natural gas (in gaseous state) – by 34.5%, car gasoline – by 35.7% and electricity – by 4.2 times (Chart 2.38).

The decrease in the import of consumer goods was determined by the decrease of incomes of some categories of households following the dismissal of staff, the reduction of working hours and technical unemployment, as well as the savings determined by both precaution and the limitation of consumption opportunities in the pandemic situation.

The surplus of foreign trade with services increased by 10.8% compared to 2019, to 388.4 million USD. Although exports of services decreased by 17.2%, the balance of services improved due to the decrease in imports (-25.5% compared to 2019).

The ratio between the balance of services and GDP was 3.3%, 0.4 percentage points lower than in 2019 (Chart 2.39).

Within exports, transport services were most affected (-38.4% compared to 2019), especially passenger air transport services (-3.6 times). Considerable decreases were also registered for the export of travel services (-20.3%), raw material processing services (-13.4%). The negative impact was further blurred by the significant increase in exports of IT services (+27.8%).

The decrease in imports of services resulted from the decrease in imports of transport services (-27.7%) and travel (-28.4% compared to 2019).

The surplus of primary income decreased by 23.9% compared to 2019, to USD 472.7 million, accounting for 4.0% related to GDP (Chart 2.40). This decrease was determined by the reduction of the remuneration of resident employees for work performed by non-resident employers by 14.6%, up to USD 819.5 million. At the same time, primary income outflows also decreased (-4.5% compared to 2019), especially the profits reinvested by non-resident direct investors (-40.7%).

Secondary income recorded an increase of surplus by 16.2% compared to 2019, to USD 1,419.0 million (11.9% of GDP) (Chart 2.41). Personal transfers received from abroad by Moldovan
residents increased by 11.3% to USD 1,056.9 million. The amount of technical assistance, humanitarian aid and grants received in international cooperation by all institutional sectors decreased by 10.0% to USD 178.4 million.

**Personal remittances** received by the residents of the Republic of Moldova in 2020 remained approximately at the level of 2019 (-0.4%) and amounted to USD 1,810.4 million, which represents 15.2% relative to GDP (same as in 2019). The slight decrease in remittance inflows was determined by the decrease in inflows from CIS countries (by 33.8% compared to 2019), both due to the restriction of travel of seasonal workers and due to the depreciation of the Russian ruble. At the same time, remittances from the EU-27 and other countries increased (+11.9% and +14.3%, respectively) (Chart 2.42). At the same time, remittance payments to non-residents (debit) amounted to USD 322.9 million, up 11.8%.

**Capital account** recorded a deficit of USD 61.1 million, which increased by 22.5% compared to 2019. The balance of the capital account was determined by the net capital outflows recorded by the private sector (72.6 million USD), while the inflows of external assistance received by the public administration to finance investment projects amounted to USD 11.5 million.

The amount of the current account and capital account balances indicates that, as a result of the current and capital transactions of the residents of the Republic of Moldova with non-residents, the external net financing requirement amounted to USD 856.8 million, which represents 7.2% related to GDP (compared to 9.8% in 2019).

**Financial account** of the balance of payments recorded a considerable decrease of the cash and deposit assets, which were the main source of financing the current account deficit in 2020. External loans have also largely contributed to the financing of the current account deficit.

Thus, the financial account in 2020 resulted in net capital inflows of USD 942.6 million, as a result of the net increase of residents’ liabilities to non-residents by USD 715.0 million generated by actual transactions, as well as the net decrease of residents’ external financial assets by USD 227.7 million (Chart 2.43).

**Liabilities** increased, in particular, due to net withdrawals of USD 505.3 million in external **loans** (withdrawals – USD 1,005.0 million, repayments – USD 499.7 million) (Table A.2). The public administration contracted in 2020 new external loans amounting to USD 551.6 million, the creditors being: International Monetary Fund – USD 246.7 million, European Investment Bank – USD 89.9 million, European Commission – USD 82.2 million USD, International Development Association – USD 57.4 million, European Bank for Reconstruction and Development – USD 47.4 million, Council of Europe Development Bank – USD 14.8 million, International Fund for Agricultural Development – USD 6.8 million, International Bank for Reconstruction and Development – USD 6.4 million. Reimbursements made by general government during the same year amounted to USD 14.3 million.

---

20Personal remittances are an additional item in the balance of payments and reflect the amount of net remuneration of employees (excluding expenses of workers incurred in the host country and some taxes and duties paid by residents abroad), personal transfers and those of capital between households.
period amounted to USD 139.2 million. The National Bank of Moldova received USD 8.0 million from the IMF and repaid USD 53.2 million from previously borrowed loans. Licensed banks made net repayments for USD 0.1 million, and the other sectors – net withdrawals of USD 138.2 million.

Commitments in the form of trade credits and advances received from non-resident trading partners also increased by USD 149.1 million in net worth.

Commitments in the form of direct investments increased by USD 62.5 million during the year, in net value (Chart 2.44). This dynamic was determined by the net increase of equity participations and shares in the possession of non-residents by USD 61.9 million, following actual transactions, as well as by the reinvestment of profits for USD 30.3 million. At the same time, Moldovan subsidiaries made net repayments of loans previously contracted from foreign direct investors for USD 29.7 million.

The net decrease of foreign financial assets was due to a decrease of USD 864.9 million in external assets in the form of cash and deposits (of which the assets of licensed banks decreased by USD 59.1 million, and of other sectors – by USD 805.8 million).

Non-resident trading partners made net payments of USD 34.3 million to trade credits and advances previously granted to them by Moldovan residents, thereby reducing external financial assets.

Residents’ foreign assets in the form of direct investments also decreased by USD 3.9 million.

At the same time, the NBM’s official reserve assets increased by USD 637.4 million, as well as residents’ net assets in the form of loans granted to non-residents – by USD 36.6 million.
International investment position of the Republic of Moldova as of 31 December 2020

The international investment position (IIP) of the Republic of Moldova, on 31 December 2020, amounted to USD 5,493.8 million (or 46.1% relative to GDP), the debt balance deepening compared to the end of 2019 by 10.2% (Table A.3, Chart 2.45).

The balance of external financial assets amounted to USD 5,823.1 million, increasing by 10.1% since the beginning of the year, and of liabilities – USD 11,317.0 million, increasing the same by 10.1%. The evolution of the international investment position during 2020 was negatively determined by the actual net transactions with non-residents (-942.6 million USD), the fluctuation of the exchange rates of the original currencies against the US dollar (-172.4 million USD) and changes in the price of financial instruments (-30.8 million USD), while other changes (637.7 million USD) positively influenced the net position. All the mentioned changes resulted in a total deterioration of the investment position on 31 December 2020 by USD 508.1 million.

From the point of view of the IIP structure by functional categories, the increase in the position of external financial assets during 2020 was determined by the increase of 23.7% of the balance official reserve assets. They amounted to USD 3,783.5 million as of 31 December 2020, which corresponds to all sufficiency criteria: coverage of at least 3 months of imports of goods and services (covered 7.7 months of actual imports); full coverage of short-term external debt by reserves (they covered 158.6%); coverage of 20% of the M2 money supply they covered 85.8%; coverage of 100-150% of the amount: 30% of short-term debt +15% of other commitments +5% of exports of goods and services (they covered 217.0%) (Chart 2.46).

At the same time, the position of assets in the form of cash and deposits decreased significantly (-19.9% compared to 31 December 2019), both in the banking sector and in other sectors.

The evolution of the position of external liabilities was determined by the increase of the balance of loans contracted from abroad. The balance of liabilities in the form of loans (excluding intragroup loans) increased by 20.5% compared to 31 December 2019 and amounted to USD 4,122.1 million, which represents 36.4% of total external commitments (Table A.3).

The position of debts in the form of trade credits and advances received increased by 12.6% compared to the end of 2019 and amounted to USD 1,918.9 million.

The balance of commitments in the form of direct investments registered a slight increase (+2.5%) since the beginning of the year and totalled 4,851.4 million USD, representing 42.9% of total external liabilities (Chart 2.47).

The balance of direct capital investments returned to investors from EU-27 countries (82.2% of total accumulated equity) increased by 4.1% compared to the end of 2019; the balance of direct investments in equity in CIS countries (5.5% of the total)
decreased by 6.2% during the year, and that of investments from other countries (12.3% of the total) increased by 4.0%.

The main economic activities that attracted foreign investment are: financial and insurance activities (29.7%) and wholesale and retail trade (25.8% of the stock of direct investments in the form of equity) (Chart 2.48).

Chart 2.48: The direct investments liabilities stock, equity as of 31 December 2020, by economic activities (according to CEAM 2), %

<table>
<thead>
<tr>
<th>Economic Activity</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial and insurance activities</td>
<td>29.7%</td>
</tr>
<tr>
<td>Wholesale and retail trade; repair of motor vehicles</td>
<td>25.8%</td>
</tr>
<tr>
<td>Manufacturing industry</td>
<td>18.9%</td>
</tr>
<tr>
<td>Information and communications</td>
<td>6.1%</td>
</tr>
<tr>
<td>Electric and thermal energy, gas, hot water and air</td>
<td>4.5%</td>
</tr>
<tr>
<td>Real estate transactions</td>
<td>4.5%</td>
</tr>
<tr>
<td>Other</td>
<td>10.5%</td>
</tr>
</tbody>
</table>

Source: NBM

2.5 Public debt and external public debt of the Republic of Moldova

Public debt

At the end of 2020, the public debt of the Republic of Moldova amounted to MDL 67,820.7 million, representing 32.9% of the GDP. The public debt increased, during 2020, by MDL 15,330.1 million or by 29.2%, due to the increase of the external state debt recalculated in the national currency (with a positive contribution of 17.6 percentage points) and of the internal public debt (with a positive contribution of 11.6 percentage points). As a share of GDP, the internal state debt constituted 14.2%, and the external debt 18.7% (Chart 2.49).

As of December 31, 2020, the public debt was formed by the external public debt in proportion of 56.9% and the internal public debt in proportion of 43.1%.

The external public debt balance, in foreign currency, as of December 31, 2020, increased by 31.5% compared to December 31, 2019 and amounted to USD 2,241.4 million. The external public debt, in MDL, totalled at the end of the reporting year MDL 38,585.1 million, a level higher than at the end of 2019 by 31.6%.

The internal public debt, at the end of 2020, registered MDL 29,235.6 million, higher than the one at the end of 2019 by 26.2%. The increase in internal public debt was due to additional SS issues on the primary market by about 76.4%. It should be mentioned that in 2020 the SS issued on October 4, 2016 were redeemed for the execution of payment obligations derived from state guarantees, for MDL 240.0 million. Therefore, at the end of 2020, the internal debt consisted of SS issued on the primary market (49.8%), SS issued on the primary market (43.1%) and converted SS (7.1%).

In 2020, for the service of the public debt from the national public budget, there were used funds for MDL 1,684.2 million (by 4.0% more compared to 2019). The service of external public debt constituted MDL 361.5 million (by 12.3% less compared to 2019), and the service of internal public debt constituted MDL 1,322.7 million (by 9.5% more compared to 2019).
The gross external debt of the Republic of Moldova increased during 2020 by 12.7% and totalled USD 8,357.7 million as of December 31, 2020, which is 70.2% of GDP (+8.2 percentage points compared to December 31, 2019) (Chart 2.50, table A.4).

In terms of maturity structure (original maturity), the increase in external debt during 2020 was determined by the increase in debt long-term by 13.3%, compared to the situation of December 31, 2019, which constituted 5,972.7 million USD on December 31, 2020. External debt short-term increased by 11.1% during 2020 and amounted to USD 2,385.1 million at December 31, 2020. The ratio between long-term debt and short-term debt was 250.4%. This ratio has improved compared to the situation on December 31, 2019 by 4.9 percentage points.

External debt in short-term included: trade credits and advances (consisting of advances received for exports and unpaid invoices for imports) – 87.1%, bank deposits (term and on sight) of non-residents in licensed banks in the Republic of Moldova – 5.8%, other debt commitments – 3.6%, intragroup loans – 0.4%, other short-term loans – 3.1% (Chart 2.51).

Public and publicly guaranteed external debt accounted for 29.1% of total external debt, totalling USD 2,430.3 million (+26.6% since the beginning of the year). Private nonguaranteed external debt was USD 5,927.5 million, up 7.8% from December 31, 2019.

From the point of view of the institutional sectors, as of December 31, 2020, the largest share of total external debt went to non-financial corporations – 40.8% (+0.4 percentage points compared to December 31, 2019). These were followed by general government with a share of 27.0% (+3.8 percentage points), intra-group lending in direct investments (which has no sectoral distribution), including debts for natural gas imports – 23.0% (-2.7 percentage points), deposit-taking companies excluding central bank with a share of 3.8% (-0.3 percentage points), other financial companies – 3.2% (-0.4 percentage points), NBM – 1.7% (-0.7 percentage points), households – 0.6%, having the same share as at the end of 2019.

The structure of public external debt by creditors, as of December 31, 2020, shows that the main creditor of the state remained the World Bank Group with a share of 32.6% of the total, followed by the IMF with 25.5% and the EIB with 16.9%.

In the currency structure of external loans within public and publicly guaranteed external debt, SDR commitments predominated with a share of 53.0%, while external loans under unsecured private debt were contracted, mainly in euros (52.7%) and in US dollars (43.0%).
Relations of the National Bank with the Government of the Republic of Moldova

Government debt to the National Bank

As of 31 December 2020, the public debt to the National Bank in the form of state securities in the NBM’s portfolio totalled MDL 14,674.6 million and consisted of:

- government bonds (GB) issued and transmitted to the National Bank on October 4, 2016 in order to execute the obligations of the Ministry of Finance derived from state guarantees no. 807 of November 17, 2014 and no. 101 of April 1, 2015 – MDL 12,611.2 million. They have an interest rate (coupon) of 1.40% for maturities of 5-9 years and 5.30% for maturities of 10-25 years;

- State securities obtained in the NBM portfolio following the conversion of loans previously contracted by the Ministry of Finance from the NBM – MDL 2,063.4 million. During 2020, SS obtained in the NBM’s own portfolio because of reissues had a maturity of 2 years (GB) with an interest rate (coupon) of 5.90%.

It should be noted that in 2020 the SS issued on 4 October 2016 for the execution of payment obligations derived from state guarantees were redeemed, for MDL 240.0 million.

State deposits placed at the National Bank of Moldova

As of 31 December 2020, the balance of term deposits of the Ministry of Finance was null.

It should be noted that on 6 April 2020, the Ministry of Finance withdrew in advance the deposits previously placed with the NBM in order to form the liquidity reserve necessary to reduce the risk of refinancing the state debt, for terms of 2 to 5 years, amounting to MDL 177.7 million.

During 2020, the Ministry of Finance placed deposits with the National Bank only for managing the resources of the treasury single account in the amount of MDL 9.7 million, maturing until 31 December 2020.
Chapter 3

Monetary Policy

3.1 Monetary policy objective

In accordance with the provisions of Law on the National Bank of Moldova no.548-XIII of July 21, 1995, the NBM is the central bank of the Republic of Moldova, being an autonomous public legal entity that establishes and promotes monetary and foreign exchange policy in the state. During 2020, the NBM operated in accordance with the Medium-term monetary policy strategy, approved by the Council of Administration of the National Bank of Moldova on December 27, 2012.

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

During 2020, the National Bank of Moldova promoted a monetary policy, aiming to ensure real monetary conditions adequate to support lending and saving, along with adapting the domestic economic environment to external volatilities and uncertainties. At the same time, the conduct of monetary policy was affected by the complexity of the balance of both internal and external risks, with the gradual intensification of disinflationary risks against the background of the crisis caused by the COVID-19 pandemic.

3.2 Monetary policy decisions

The conduct of monetary policy during 2020 has been influenced by the increasing risks and uncertainties at global, regional and national levels generated by the spread of COVID-19, and the outlook for economic conditions in the context of these events has been precarious. Most affected countries have announced measures against the spread of this epidemic, which has had a direct impact on economic growth. Under these conditions, central banks have taken steps to mitigate the effects of COVID-19 on the economy by relaxing their monetary policies and taking measures to mitigate liquidity risks and support certain segments of the financial system.

Thus, during 2020, the National Bank of Moldova undertook accommodative monetary policy measures, in terms of gross domestic product, weak aggregate demand, reduced disposable income, deferred spending in the context of uncertainties caused by the pandemic, small investments that generated disinflationary
pressures. In this context, the Executive Board of the NBM
decided to gradually reduce the monetary policy interest rate
from 5.50% to 2.65% annually. The reduction of the base rate was
aimed at supporting the aggregate domestic demand, the lending
process and the economy as a whole.

It should be noted that an extraordinary meeting of the Executive
Board was convened on April 3, 2020, which was conditioned
by the need to implement monetary policy measures capable of
partially mitigating the impact of the COVID-19 pandemic on the
national economy. At this meeting, the National Bank of Moldova
amended the previous decision on the norm of minimum required
reserves of funds attracted in Moldovan lei and non-convertible
currency, reducing the rate by 7.0 percentage points to 34.0%. At
the following meetings, the required reserves ratio was reduced to
32.0%.

At the same time, the norm of required reserves from the means
attracted in freely convertible currency was increased during 2020
by 10.0 percentage points, up to the level of 30.0%.

The decisions aimed to increase the liquidity available to licensed
banks, in order to prevent liquidity risk and strengthen the stability
of the banking sector. At the same time, the decrease of the
required reserves rule represented a continuity of the monetary
policy measures to balance the required reserves rules in the
context of increasing the efficiency of the transmission of monetary
impulses in the real sector. These decisions aimed to create
the monetary conditions capable of contributing to the return of
inflation in the range of ±1.5 percentage points from the inflation
target of 5.0% in the medium term.

Against the background of the pandemic, along with the stimulus
measures of monetary policy adopted by most central banks,
global inflation remains low, however, a fact specific to
neighbouring economies and countries – the main trading
partners of the Republic of Moldova.
3.3 Monetary policy achievements

Money market operations, standing facilities and the reserve mechanism continued to play a key role in the implementation of monetary policy. The central bank has adapted its set of monetary policy instruments to the new context created by coronavirus epidemic. The National Bank used the NBM certificates to drain the liquidity surplus and accommodated through repo operations the liquidity deficit in the money market. The permanent facilities were used at the discretion of the banks, both of which were requested during the year. The norm of required reserves related to liabilities in MDL and non-convertible currencies of banks was decreased cumulatively by 10.5 percentage points. At the same time, in order to discourage financial intermediation in foreign currency, the norm of required reserves from the means attracted in freely convertible currencies was increased by 13.0 percentage points.

Monetary market operations

Issuance of NBM certificates

The combined effect of the decrease in the reserve requirement in MDL and of interventions on the foreign exchange market (net foreign exchange purchases) in the amount of USD 123.0 million (approximately MDL 1,876.6 million), on the one hand, offset by the expansionist impact of operations of the Ministry of Finance on the money market, on the other hand, (the volume of SS issues being double in 2020 compared to 2019) also affected the volume of operations aimed at absorbing liquidity, this registering an insignificant increase compared to 2019. Situation also reflected in the annual average of the stock of NBC investments, which increased non-essential (+MDL 421.0 million) and registered MDL 5,921.1 million (Chart 3.1).

The daily balance of NBC, characterized by a higher volatility in the first half of 2020, reached the maximum value of MDL 8,087.6 million in January, after which it contracted significantly in April, registering the minimum value of MDL 2,921.4 million, amid the uncertainties created by the expansion of the coronavirus epidemic and the interventions of the NBM as a seller on the foreign exchange market in March-April. In the period that followed until the end of the year, it registered a quasi-stable evolution. The balance of NBC investments at the end of 2020 amounted to MDL 6,381.3 million.

The NBM conducted auctions for placing a NBC on a weekly basis, with a maturity of 14 days and announcing the maximum interest rate equivalent to the base rate of the NBM. For the whole of 2020, the weighted average rate of NBC placed amounted to 3.56%, compared to 6.86% recorded in the previous year.
Repo operations

The National Bank continued to run liquidity injection repo operations throughout 2020, providing additional support to banks in liquidity management. These were carried out at the initiative of the National Bank on a weekly basis through the procedure of auctions without a ceiling, according to the calendar of monetary policy operations. Thus, the NBM conducted 14-day repo auctions at a fixed rate (base rate plus a margin of 0.25 percentage points); the volume of liquidity delivered was MDL 181.0 million.

Permanent facilities

The regime of operation of the permanent facilities (overnight deposits and loans) established by the National Bank in 2020 offered the banks an extra flexibility in the efficient management of their own liquidities.

Interest rates on permanent facilities during 2020 followed a downward trend, accompanied by the narrowing of the symmetrical corridor formed by them around the monetary policy interest rate.

In March, the National Bank decreased interest rates on overnight loans and deposits in two stages (March 4 and 20) to 6.25% and 0.25% annually, respectively, by a total of 2.25 percentage points.

At its meeting on 6 August 2020, the NBM Executive Board approved some monetary policy stimulus measures that included narrowing the interest rate corridor at permanent facilities. Thus, the rate corridor was reduced by 1 percentage point, the symmetry of the corridor being maintained (±2.50 percentage points). This involved an increase in the interest rate for the deposit facility by 0.25 percentage points, to 0.50%, and a decrease in the interest rate for the credit facility by 0.75 percentage points, to 5.50%.

In September and November 2020, interest rates on these instruments were again reduced by 0.25 and 0.10 percentage points, respectively, after which they were kept at the same level until the end of the year: 0.15% – for overnight deposit facility and 5.15% – for overnight credit facility.

During 2020, the banks used, mainly, the overnight deposit facility, the overnight credit facility being requested only at the end of the mandatory reserve application periods, to supply the short-term liquidity demand.

Overnight deposit facility

The year-round use of the deposit facility to absorb the net surplus from the banking system has meant a better ability of banks to manage funds in the short-term.

Banks have resorted to the overnight deposit facility preferably towards the end of the required reserve periods, as they have fulfilled their obligation to maintain the required reserves.
The total volume of overnight deposits placed by banks with the National Bank in 2020 amounted to MDL 73.37 billion, which indicates an average daily balance of MDL 262.6 million, decreasing by MDL 26.1 million compared to 2019.

The average daily balance of overnight investments of banks calculated for each month of 2020 registered non-uniform values, the maximum (MDL 451.1 million) being registered in May, and the minimum (MDL 103.8 million) in November (Chart 3.2).

**Overnight credit facility**

The credit facility was requested, in particular, at the end of periods of application of required reserves by a small number of banks, in order to comply with the requirements set out in the required reserves regime.

The total amount of overnight loans granted by the NBM in 2020 amounted to MDL 326 million, being about 3 times lower than in the previous year (MDL 1,055 million).

**Required reserves**

In the first quarter of 2020, several changes came into force in the field of regulation of required reserves to make the regime of setting up and maintaining required reserves by banks more flexible. To this end, during the application period, part of the required reserves in freely convertible currencies (5% of the attracted funds subject to reservation) may be maintained by banks on average.

In 2020, in order to moderate the dollarization phenomenon and increase the attractiveness of the national currency, the NBM gradually adjusted, through monetary policy decisions, the norms of required reserves in order to balance them (Chart 3.3). Thus, the norm of required reserves in MDL was decreased from 42.5% to 32.0%, and the foreign currency was increased from 17.0% to 30.0%, under the conditions in which the banking sector continued to have in excess of currency liquidity. The decision to reduce the norm of reserves in MDL also aimed to increase the liquidity available to licensed banks, in order to prevent liquidity risk and strengthen the stability of the banking sector in Moldova amid the disruptions caused by the COVID-19 pandemic on the national economy.

In this respect, the required reserves in MDL maintained by banks between December 16, 2020 - January 15, 2021 amounted to MDL 13,679.6 million, dropping by 14.7% compared to the reserves maintained by banks in December 16, 2019 - January 15, 2020, the funds attracted in NCC and non-convertible currencies (NCC) of which they are constituted marking an increase of 13.3% (Chart 3.4).

As of 31 December 2020, the required reserves in freely convertible currencies (FCC) held by banks amounted to USD 142.3 million and EUR 324.8 million. Compared to 31 December 2019, the required reserves in both USD and EUR dollars practically doubled, their increase being determined also by the dynamics of the attracted funds subject to reservation in the respective currencies, which increased about 10.0% each.
According to art.17 of Law no. 548/1995 on the National Bank of Moldova, required reserves may be remunerated, and in accordance with the relevant regulatory framework, if the required reserves are remunerated, interest is paid for the part exceeding 5% of the liabilities under which the reserves mandatory are constituted. Respectively, in 2020, the NBM’s interest expenses on required reserves amounted to MDL 94.6 million, decreasing by about 5.6 times compared to 2019, given that monetary policy rates have reached an all-time low. Thus, the rate applied to the NBM’s overnight deposit facility, from which the required reserves in MDL are remunerated, decreased to 0.15% at the end of the reporting year.

Intervention on the domestic foreign exchange market

In 2020, the National Bank of Moldova intervened on the domestic foreign exchange market both as a buyer and as a seller of foreign currency to avoid excessive fluctuations in the exchange rate of the MDL in the context of gaps, both positive and negative between foreign exchange demand and supply registered on the interbank market at different times of the year.

During the analysed period, the volume of net transactions of the National Bank of Moldova carried out on the interbank foreign exchange market against the Moldovan lei at the date of the currency amounted to USD 123.8 million, including currency conversions with World Bank institutions in a net value of USD 0.76 million (Chart 3.5).

During the reference period, the NBM conducted USD 5.50 million in swap transactions (equivalent to EUR 5.0 million).

Chart 3.5: The evolution of the official exchange rate of MDL/USD and the volume of daily transactions of the NBM in 2018-2020

Source: NBM
3.4 Monetary and foreign exchange conditions

Dynamic of monetary indicators

The effects of the pandemic crisis were also reflected in the evolution of monetary indicators, which, during 2020, recorded emphasised increases. Thus, the average rate of increase of broad money supply was 11.9% in annual terms. The behaviour of the monetary aggregates during the reference year was similar.

Money supply

The COVID-19 pandemic has affected economic activity both nationally and globally. Due to the restrictions imposed by the authorities, many economic activities, including bank branches, post offices, etc., were suspended. On the one hand, in this situation, the population lost their sources of income and jobs, and on the other hand, due to the uncertainty, many preferred to make savings at the expense of consumption. As a result, the money supply (M2) increased by 20.2% in 2020, by 12.0 percentage points above the annual rate of increase in 2019 (Chart 3.6).

The more detailed analysis of the M2 monetary aggregate reflects the events of the second quarter of 2020, when economic activity stopped following the implementation of the emergency, and the rate of increase in the components of the M2 monetary aggregate slowed down. In the second half of the year, the annual growth rate of MDL deposits and money in circulation accelerated. Thus, at the end of 2020, deposits in national currency and money in circulation increased compared to 2019 by 14.7% and 29.9%, respectively.

The evolution of deposits in Moldovan lei was largely determined by the increase in sight deposits of both individuals and legal entities. At the end of December, these deposits reached an increase of 29.5%. The term deposits made a minor positive contribution, their increase being only 0.4%.

At the end of the reporting year, the money in circulation amounted to MDL 29.8 billion, an increase of MDL 6.9 billion since the beginning of the year. The annual growth rate of money in circulation towards the end of the year speeded up to 29.9% annually. During the year, there was a decrease on average in cash turnovers compared to last year, at the same time, cash receipts decreased at a higher rate than cash withdrawals, citing an increase of money in circulation. The most significant contributors to the increase of cash in circulation were net flows from operations with current accounts, deposits, cards and net flows from foreign exchange operations from individuals, as well as salary payments, pensions, grants, allowances.

At the same time, the money supply (M3) recorded an annual growth of 19.6%, the rate of increase being higher than in 2019 by 11.5 percentage points (Chart 3.7).
At the end of 2020, the rate of increase of foreign currency deposits was 18.4%, due to the major contribution of sight deposits. The foreign currency term deposits recalculated in MDL increased by 2.9% annually, while demand deposits increased by 37.9%.

At the end of 2020, the share of Moldovan lei deposits in total deposits was 59.2%, and the share of foreign currency deposits – 40.8% respectively.

In the structure of deposits in MDL, the share of term deposits in total deposits in MDL amounted to 44.7%, decreasing by 6.3 percentage points compared to the end of the previous year. In the structure of foreign currency deposits, 48.7% represented term deposits in foreign currency, by 7.3 percentage points below the level recorded in 2019.

**Lending market**

At the end of 2020, the annual growth rate of the total balance of loans granted in the economy by licensed banks recorded 10.3%, lower than at the end of 2019 by 1.2 percentage points (Chart 3.8).

The balance of loans granted to legal entities, whose share constituted 64.6%, recorded a rate of increase of 7.2%, higher than at the end of 2019 by 5.5 percentage points. The increase was due to the increase in new loans granted in national currency.

The annual growth rate of the balance of loans granted to individuals decreased by 2.3 times compared to the end of 2019 and amounted to 16.3%. The decrease was uniform in both the national currency and foreign currency segments, being determined by the pandemic crisis that severely affected the availability of jobs and the reduction in new loans granted by licensed banks to individuals, respectively.

The balance of national currency loans granted in the economy recorded a more modest annual increase compared to 2019, under the impact of the pandemic crisis (Chart 3.9). Thus, the annual growth rate of the total balance of loans granted in the economy in national currency amounted to 14.1%, lower than at the end of 2019 by 5.8 percentage points. The share of the balance of loans granted to the economy in national currency was 63.9%. It should be noted that the growth rate of loans granted in foreign currency recorded a positive value of 4.1% at the end of the reporting year.

**Evolution of new loans granted by the licensed banks**

The annual dynamics of new loans granted by licensed banks reflected the impact of the COVID-19 pandemic during 2020, with a revival in lending towards the end of the year, boosted by the decreasing trend in interest rates.
In 2020, the total volume of new loans granted by licensed banks showed a decreasing dynamic and amounted to MDL 33,145.2 million, by 2.0% lower than in 2019. The negative change was entirely due to the decrease in the volume of loans granted in foreign currency recalculated in MDL (Chart 3.11).

The volume of new loans granted in national currency amounted to MDL 22,975.1 million, by 1.1% higher than in the previous year (Chart 3.10). The positive annual dynamics was driven only by new loans granted in MDL to legal entities, whose share increased by 59.4% in 2020 (53.6% in 2019). The volume of loans in national currency granted to individuals decreased by 11.5% compared to 2019. In 2020, the share of the national currency component increased by 2.1 percentage points and reached 69.3% of total loans granted by licensed banks.

The volume of loans granted in foreign currency recalculated in MDL was 2.3 times lower than the volume of loans granted in national currency. The total volume of loans granted in foreign currency, including foreign exchange rate linked, recalculated in MDL, recorded MDL 10,170.1 million, by 8.5% lower than in 2019 (Chart 3.11). The majority share of the volume of foreign currency loans recalculated in MDL goes to loans granted to legal entities (98.1% of total foreign currency loans).

**Deposit market**

At the end of 2020, the annual change in the total balance of deposits was 16.1%, higher than in December 2019 by 8.3 percentage points (Chart 3.12), due to the considerable increase in demand deposits (Chart 3.13) by 32.7% (12.0% in 2019) due to practically equal contributions from demand deposits of individuals and legal entities. The annual dynamics of time deposits decreased from 4.4% in 2019 to 1.5% in 2020. Note that at the end of 2020 the balance of demand deposits exceeded the balance of term deposits by 15.9% to 53.7%.

In terms of the structure of the balance by currency, both components, in MDL and in foreign currency, drove the increase (Chart 3.12). Thus, the dynamics of the balance of deposits in MDL increased to 14.7%, and of foreign currency deposits recalculated in MDL to 18.4%. Similar to 2019, the majority share was held by deposits in national currency, 59.2%. The share of deposits attracted from individuals in total deposits in MDL was 64.7%, lower than at the end of 2019 by 1.2 percentage points.

**Evolution of new term deposits attracted by the licensed banks**

In 2020, the new term deposits attracted by licensed banks decreased by 16.8% compared to the previous year and amounted to MDL 24,882.6 million. Similar to 2019, in 2020 the volume of deposits in both the national currency segment and the foreign currency segment recalculated in MDL decreased (Charts 3.14 and 3.15).

The total volume of term deposits attracted in national currency amounted to MDL 16,404.3 million, lower than in 2019 by 12.4%, due to the decrease in term deposits of individuals, with the majority share of 68.9%. The volume of term deposits attracted from individuals decreased by 20.3% compared to 2019. To note that the total volume of term deposits attracted in MDL from legal entities increased by 12.3% compared to 2019.
In the segment of term deposits attracted in foreign currency recalculated in MDL, the decrease in volumes was greater than in the national currency segment. Compared to 2019, the total volume of new deposits attracted in foreign currency recalculated in MDL decreased by 24.3%, due to the decrease in deposits attracted from individuals. The term deposits attracted in foreign currency recalculated in MDL from individuals accounted for 83.0%.

These evolutions led to an increase in the share of the component in national currency in total term deposits (65.9% in 2020 compared to 62.6% in 2019).

**Interest rates on new deposits and loans granted by the licensed banks**

In January-February 2020, the Executive Board of the National Bank of Moldova maintained the base rate applied to the main monetary policy operations at the level set in December 2019, of 5.50% annually. Subsequently, starting in March 2020, the Executive Board of the NBM began the series of reductions in the base rate applied to the main short-term monetary policy operations. Between March and November 2020, there were five stages of reductions of different magnitudes (-2.25 percentage points in total in March, 0.25 percentage points in August and September, and 0.1 percentage points in November). Thus, at the end of 2020, the base rate applied to the main monetary policy operations was 2.65% annually. Inclusively as an effect of these decisions and of the situation created in the money market following the pandemic crisis, interest rates on new deposits attracted on term and new loans granted in national currency by licensed banks decreased (Chart 3.16).

**Interest rates on new loans granted by the licensed banks**

The nominal weighted average interest rate on new loans in MDL was 8.15% annually, lower than in 2019 by 0.09 percentage points (Chart 3.10). The weighted average interest rate on new loans in MDL to legal entities in 2020 was 8.49% annually, lower than in 2019 by 0.27 percentage points. The weighted average interest rate on loans in MDL to individuals remained essentially unchanged compared to 2019 and amounted to 7.63% annually.

The maximum weighted average interest rate on new loans granted in MDL was recorded in February 2020 and the minimum rate in December 2020 (Chart 3.16). Under the impact of the series of reductions of the NBM base rate started in March 2020 and the situation created in the money market, in December 2020 compared to March 2020, the weighted average interest rate on new loans in MDL decreased by 0.73 percentage points.

Over the whole of 2020, the weighted average rate on foreign currency loans was 4.20% annually, by 0.22 percentage points lower than in 2019 (Chart 3.11). The rate reduction was influenced by interest rates on loans granted to legal entities, whose share is predominant.
Interest rate of new term deposits

In 2020, receiving changes in the base rate applied to the main monetary policy operations of the National Bank of Moldova, the interest rates on new term deposits attracted by licensed banks recorded a decreasing trend (Chart 3.16). The weighted average rate of term deposits attracted in national currency was 3.82% annually, lower than in 2019 by 0.81 percentage points (Chart 3.14). Its evolution was largely determined by the weighted average interest rate on deposits in MDL attracted from individuals, whose share amounted to 68.9%. The weighted average interest rate on deposits in MDL attracted from individuals amounted to 4.32% annually, lower than in 2019 by 0.67 percentage points. The highest weighted average interest rate on term deposits attracted in national currency was recorded in January 2020 (4.68% annually) and the lowest in December 2020 (3.26% annually) (Chart 3.16).

The weighted average interest rate on term deposits attracted in foreign currency for 2020 was 0.82% annually, an historical minimum level (Chart 3.15).

Banking margin on new operations

In 2020, in the domestic currency segment, the banking margin for new operations in MDL increased compared to 2019 by 0.72 percentage points, registering the value of 4.33 percentage points, as a result of higher interest rate reductions on term deposits than on granted loans. In the foreign exchange segment, the banking margin remained essentially unchanged at 3.38 percentage points (Chart 3.17).

Interest rates on loan and deposit balances

In addition to the impact of decreasing interest rates on new transactions and the situation created on the money market, at the end of 2020, weighted average interest rates on the MDL balance of both term deposits and loans granted decreased (Chart 3.18).

The weighted average interest rate on the balance of loans granted in the national currency at the end of 2020 was 7.66% annually, lower than at the end of 2019 by 0.42 percentage points.

The weighted average interest rate on the balance of loans in foreign currency and linked to the foreign exchange rate was 4.87% annually, by 0.20 percentage points lower than at the end of 2019.

The weighted average interest rate on the balance of term deposits in MDL was 3.96% annually, lower by 0.92 percentage points compared to the end of 2019. The same magnitude of reduction in the weighted average interest rate on term deposits was also in the segment of individuals, with a share of 65.8% of total term deposits in MDL. At the same time, the weighted average interest rate on the balance of deposits in foreign currency decreased compared to the end of 2019 and amounted for 0.72% annually.

At the end of 2020, bank margins on deposit/loan balances increased. Thus, the bank margin on the balance in national currency amounted to 3.70 percentage points compared to 3.20 percentage points in 2019. The bank margin on foreign currency balances recorded 4.15 percentage points compared to 4.05 percentage points in 2019.
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 2020, organised and carried out 120 auctions for the placement of state securities.

The fast increasing of the adverse impact by the coronavirus pandemic and the need to finance/refinance the state debt had repercussions on the issuance policy promoted by the Ministry of Finance, with the volumes of state securities offered at each auction showing a divergent evolution during the year, but, on the whole, characterised by a marked tendency to increase. Under these circumstances, the Ministry of Finance has tried to maintain the maturity of the state securities portfolio, keeping the structure of the securities offered for placement unchanged.

The volume of state securities issued increased substantially, reaching MDL 18,064.1 million over the period as a whole, a particularly high level from a historical perspective, given that most of the issues were oversubscribed and the Ministry of Finance accepted increasing volumes compared to those planned (MDL 17,140.0 million). Thus, relative to the indicative volume, both the volume requested and the volume allocated by the Ministry of Finance followed a pronounced upward trend during the year, reaching 1.3 and 1.1 respectively (Chart 3.19).

In addition to the impact of decreases in the NBM’s monetary policy interest rate, the evolution of interest rates on the SS market in 2020 also reflected the influence of investors’ interest in this type of investment and the substantial increase in the Ministry of Finance’s financing needs, in which periods of decreases were followed by slight upward corrections.

Thus, the rates recorded a relatively sharp decrease at the beginning of the year, incorporating the changes made to the NBM base rate during this period, and then, in May and June, started an upward trend due to the sale of larger volumes of SS by the issuing authority. A period of quasi-stagnation followed until the end of the year with timid attempts to decrease these rates (Chart 3.20).

Non-bank investors continued to be present in the SS market due to the attractiveness of the interest rates on SS, the volumes purchased by them during 2020 were similar to those of 2019 (MDL 1,835.7 million) in absolute value, but decreased as a share of the total volume auctioned (from 18.9% to 10.2%) compared to 2019.
In the specific conditions of 2020, the investors, expressing their aversion to risk, have opted for SS with a term of circulation of up to one year, these having the largest share in total SS issued. In terms of maturities, their share was mainly similar to the previous year (Charts 3.21 and 3.22). As a result, the average maturity of securities issued increased slightly from 301 days to 314 days, only due to the increase in the share of 5 year government bonds (GB).

The interest rates on state securities maintained their fast downward trend, which started in December 2019, until April, after which they moved above the monetary policy rate and continued to oscillate for most of the year around the upper part of the corridor formed by interest rates on standing facilities offered by the NBM. The analysis of the evolution of these rates divided in the maturity shows the maintenance of the same spread, characteristic of 2019, between interest rates of 182 days and 364 days securities and those with a maturity of 91 days (Chart 3.23).

The average annual interest rate on state securities with maturities of up to one year auctioned in 2020 was 1.06 percentage points lower than in the previous year, recording 5.13%. However, the magnitude of the declines differed in terms of the maturity of the securities. The adjustments of comparable size (0.80 and 0.93 percentage points, respectively) were recorded for average rates of 91 days and 182 days maturities and a larger adjustment (1.28 percentage points) for 364 days maturities (Table 3.1).

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

In the hierarchy of returns on the financial market, the priority was still maintained by interest rates on loans in the economy. The earnings offered by investments in state securities were higher than those offered by bank deposits. However, the interest rates on securities and deposit rates resumed and accentuated their downward trend throughout the year, distancing themselves significantly from interest rates on loans, which remained broadly unchanged for most of the period (Chart 3.25).

The volume of state securities, placed on the primary market through auctions, being in circulation as at 31.12.2020, recorded MDL 14,561.0 million at nominal value (Chart 3.25). At the sale-purchase price it amounted to MDL 14,070.5 million, recording an increase of MDL 5,816.8 million at the end of the reference year compared to the end of the previous year. Out of the SS being in circulation as at 31.12.2020, those with residual maturity of up to 3 months accounted 26.5%, from 3 to 6 months – 31.7%, from 6 to 12 months – 30.2%, over 1 year – 11.6%.
Secondary market of state securities

The quantitative parameters of the SS secondary market in 2020 continued the increase in value characteristic of the previous year (Chart 3.26).

The total volume of secondary market transactions increased to close to 1 billion, amounting to MDL 988.0 million, compared to MDL 586.4 million in the previous year. The maximum monthly value (MDL 157.6 million) was recorded in December, and the maximum interest rate – in January (5.91%).

The yields of state securities with maturities up to 1 year traded on the secondary market followed, in general, the trend of the primary market of the SS, being influenced only by the term of transactions. The average annual interest rate amounted to 5.11% (2019: 6.17%), the weighted average term was 240 days (2019: 245 days).

Regarding the structure of the SS traded on the secondary market, the participants’ interest in longer-term securities is observed (Charts 3.27 and 3.28). In this context, it should be mentioned an increase in the volume of 2 years and 3 years government bonds traded on the secondary market for the third consecutive year (MDL 46.7 million – 2020, MDL 33 million – 2019 and MDL 0.5 million – 2018).

The minimum term of the treasury traded bills was 10 days, and the most important share returned to securities with a residual maturity of 183 to 364 days (41.9%) and of 92 to 182 days (39.7%).

Evolution of interbank market indicators in Moldovan lei

Reference interest rates applied on interbank market

The reference rate curve of CHIBOR/CHIBID (calculated on the basis of the indicative interest rates for placing/attracting funds in national currency on the interbank market) reacted inertly to the changes in the NBM monetary policy rate, the decreases recorded by these rates being clearly lower than those on the base rate.

The CHIBOR 2W yield curve rebounded in December 2019 and then remained on a downward path, reacting to successive reductions in policy interest rates. However, the values recorded by them were well above the level of the monetary policy rate, remaining above the upper limit of the rate corridor set by the NBM throughout the year. The CHIBOR 2W rate recorded at the end of the year was lower than that recorded on the last day of the previous year (-1.67 percentage points), at 6.12% (Chart 3.29).
Interbank loans/deposits market in MDL

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

During the reporting year, there were recorded transactions only in March and December by a small number of participants, all of them with overnight maturity. The volume of transactions amounted to MDL 55.0 million, compared to MDL 594.0 million in 2019. The average annual interest rate decreased from 7.13% in 2019 to 3.15% annually in 2020.
### 3.6 Foreign exchange market

#### Evolution of the foreign exchange market of the Republic of Moldova

The total turnover of currencies traded against Moldovan lei amounted to the equivalent of USD 14,113.7 million, decreasing by 9.2% compared to the previous year (Table A.5)\(^{21}\), amid the slowdown in economic activity and the decline in international trade caused by the COVID-19 pandemic.

The turnover of operations by bank transfer decreased compared to the previous year by 7.6%. However, their share in total increased by 1.3 percentage points as cash transactions fell sharply (-13.3%) (Chart 3.30).

Transfers operations with economic agents continued to have the largest share in the total turnover of transfers operations (92.9%), even if their volume decreased by 8.1%. At the same time, the intensification of conversions by transfer made by individuals was noted (+22.8%).

Regarding cash foreign exchange operations, about 63.3% were carried out through the exchange points of licensed banks. Compared to the previous year, the negative dynamics of the turnover of operations through the foreign exchange points of licensed banks (-8.5%) was less pronounced compared to that of the turnover of foreign exchange operations carried out by foreign exchange offices (-20.4%).

The share of euro transactions continued to be the majority in the total turnover of the domestic foreign exchange market, which increased in the analyzed period to 54.8%, 3 percentage points more than the previous year (Charts 3.31 and 3.32). The European single currency has a much higher share in the currency structure of the cash foreign exchange market, and developments in 2020 have led to an increase in the share of the euro in the structure of the foreign exchange market by transfers to values comparable to those of the US dollar (48.1% – euro, 48.6% – US dollar, Table A.6). The European single currency has maintained its dominant position in terms of the number of transactions. About two thirds of foreign exchange transactions with non-banking legal entities were against the euro (Chart 3.33).

Transactions in euro predominate in the case of transactions up to the equivalent of USD 500 thousand, with conversions with higher amounts still being made, mainly in US dollars (Charts 3.34 and 3.35).

The volume of turnover of foreign exchange operations against MDL performed by licensed banks amounted to USD 12,718.5 million, down 7.8% compared to the previous year. In the context of the economic recession, the activity of economic agents in the foreign exchange market compared to that of individuals has been

---

\(^{21}\)According to updated data for 2019.
affected to a greater extent. Thus, both purchases and sales of foreign currency by banks to legal entities decreased by 11.9% and 6.0%, respectively. At the same time, purchases of foreign currency from individuals and foreign exchange offices increased by 1.2%, while sales to them decreased by 18.0%.

Respectively, decreases in turnover were also observed on the inter-bank segment of the domestic foreign exchange market, both between resident and non-resident banks. In this regard, the share of inter-bank transactions in the total turnover of licensed banks decreased to 4.5%, from 6.6% in the previous year.

In 2020, as a whole, there was a surplus of foreign exchange in the domestic foreign exchange market, with net purchases from individuals, foreign exchange and other sources (USD 2,407.5 million) exceeding net demand from economic agents (USD 2,298.6 million). Under these conditions, during the year, the NBM intervened through net purchases of foreign currency from licensed banks in the amount of USD 123.0 million. However, the foreign exchange surplus on the foreign exchange market was mainly concentrated in the second half of the year, the first half being characterized by currency deficit and, respectively, by NBM interventions of net currency sales (Table A.7).

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

During the reporting year, the balance sheet foreign exchange assets and liabilities of licensed banks\(^{22}\) increased, and as of December 31, 2020 their balances amounted to USD 2,142.5 million and USD 2,141.1 million, respectively, by 18.2% and 17.9% more than on December 31, 2019. Excluding exchange rate differences\(^{23}\), the increase was lower – by 10.5% and 10.1%, respectively. Under these conditions, foreign exchange assets and liabilities increased slightly in the share of total assets and liabilities of banks, up to 35.5% and up to 42.9%, compared to 2019.

Balance sheet foreign exchange assets and liabilities remain mostly denominated in euro. In 2020, the share of this currency continued to strengthen, falling slightly below 3/4 in the structure of both indicators (Charts 3.36 and 3.38).

In the structure of assets by items, there were no significant positive dynamics compared to the previous year, except for the fact that the required reserves of banks increased 2.1 times, to USD 542.0 million (Chart 3.37). This increase was due to the NBM’s decision to increase the required foreign exchange reserves norm by 13.0 percentage points (from 17 to 30%), given that the licensed banks continued to have an excessive level of foreign currency liquidity in order to ensure fluency in making current settlements by customers, but also in order to discourage financial intermediation in foreign currency.

\(^{22}\)Both indicators exclude the adjustment position and include assets and liabilities attached to foreign exchange rates.

\(^{23}\)Arising from the recalculation of currencies in US dollars in which foreign exchange assets and liabilities are denominated.
At the end of the reporting year, the balance of foreign currency cash of banks, 2.6%24 lower than at the end of 2019, was insignificantly overtaken by the balance of loans granted in foreign currency. Thus, the balance of banks’ foreign currency cash amounted to USD 698.5 million (Tables A.8 and A.9) and accounted for 32.6% of total balance sheet foreign exchange assets, reaching higher weights during the year (42.8%).

Regarding the foreign exchange structure of local banks’ cash, on December 31, 2020 the majority share went to the European single currency – 63.7%, followed by the US dollar – 32.2%, the Russian ruble – 0.8% and other currencies – 3.3%.

During 2020, taken as a whole, the foreign currency lending activity of licensed banks registered a modest increase, evolving differently depending on the loan currency. Thus, the loan portfolio granted in US dollars (including those granted in MDL attached at the exchange rate of the MDL against the US dollar) narrowed by 20.7%, while the loan portfolio granted in euro (including those granted in MDL attached to the exchange rate against the euro) increased by 11.7%, reaching a maximum of 81.4% during the year.

Under these conditions, compared to the end of 2019, the balance of foreign currency loans granted (including those attached to the foreign exchange rate) increased by 5.0%, to USD 900.0 million (of which USD 113.4 million were attached to the foreign exchange rate). The balance of foreign currency loans granted did not exceed 47.1% in the structure of balance sheet foreign exchange assets, and at the end of the management year it amounted to 42.0% – about 5.3 percentage points less than on the last day of 2019.

As for the liabilities part, its increase was generated by the attraction by banks of both funds in euro (+8.8%, without exchange rate differences) and in US dollars (+16.6%).

In the structure of the balance sheet foreign exchange liabilities of the licensed banks, 90.0% returned to the traditional ones: term and sight deposits25 of non-bank customers (hereinafter – foreign currency accounts). At the end of 2020, the balance of foreign exchange accounts amounted to USD 1,926.8 million – up 18.7% (+11.1%, excluding exchange rate differences) compared to the end of 2019 (Chart 3.39, Tables A.10 and A.11).

In 2020, bank customers, both individuals and legal entities, preferred to increase their investments in sight accounts, both in euro and in US dollars, less in the term deposits. Respectively, the balance of funds held on sight in customers’ accounts increased by 30.0%, to USD 1,234.0 million, and the balance of term assets by only 2.8%, to USD 692.8 million.

However, foreign currency term deposits attracted from non-bank customers of banks, mostly individuals, covered in significant proportions, 88.1%, loans granted in foreign currency by licensed banks (excluding those attached to the foreign exchange rate).

As of December 31, 2020 compared to December 31, 2019, banks’ foreign currency liabilities to individuals decreased by 4.7

---

248.7% by excluding exchange rate differences.

25Current accounts and sight deposits.
percentage points as a share of total balance sheet liabilities, although their balance increased by 9.8% (+2.5%, excluding exchange rate differences), to USD 1,246.7 million. This dynamic was due to a sharper increase in the balance of foreign exchange accounts of non-banking legal entities, by 39.7% (+31.1%, excluding exchange rate differences), up to USD 680.1 million, mainly due to a temporary phenomenon of conversion of MDL savings into foreign currency, the local foreign exchange market, as a response of the business environment to the uncertainties associated with the onset of the pandemic situation and the cessation of several economic activities following the establishment by the authorities of the state of emergency at national level. In this regard, at the end of the reporting year, the balance of foreign exchange accounts of individuals and non-banking legal entities amounted to 58.2% and 31.8% (+4.7 percentage points), respectively, in the total balance sheet liabilities of the licensed banks.

In 2020, the level of attracting foreign currency loans by banks continued to be relatively low, especially external ones, the balance of loans received by banks increasing in insignificant proportions, by 2.4% (no exchange differences), up to USD 143.2 million.

At the end of the reference year, 7.0% of the balance sheet foreign exchange liabilities of licensed banks were in relation to non-residents compared to 8.0% as of December 31, 2019.

**Conditional assets and liabilities in foreign currency** at the end of 2020 recorded approximately the same values – USD 44.4 million, reflecting the commitments of local banks to make mostly currency/currency conversions (Table A.12).

During 2020, the banking sector recorded relatively balanced net foreign exchange positions, so that their values relative to own funds per banking sector did not exceed ±5.0% compared to the prudential limit of 20.0%. At the individual level, banks experienced higher fluctuations, but none of them violated prudential limits during this period.

### Evolution of nominal and real effective exchange rate

In 2020, according to the year-end exchange rate, the MDL depreciated negligibly against the US dollar and strengthened by 1.5%, on average. At the same time, the MDL depreciated against the European single currency, by 9.7% according to the year-end exchange rate and by 0.4%, according to the average exchange rate (Chart 3.40).

Regarding the dynamics of the currencies of countries with significant shares in the foreign trade of the Republic of Moldova and, respectively, included in the REER basket, most of those in emerging countries lost positions against the US dollar (Chart 3.41). In this respect, in 2020, the MDL appreciated, on average, by 4.8% in nominal terms and by 5.9% in real terms against the currencies of the countries – main trading partners, the appreciation being caused by the contribution of all currencies included in the REER basket (Charts 3.42 and 3.43). At the same
Chapter 3. Monetary Policy

time, according to the values at the end of the year, the MDL depreciated by 0.9% in real terms.

In 2020, a situation similar to 2019 appeared on the foreign exchange market, the MDL being exposed to pronounced depreciation pressures at the beginning of the year, which differed significantly due to the severity of the triggering factors. Depreciation pressures on the MDL intensified at the onset of the health crisis in Europe, whereas the experience of several countries with the pandemic and the announcement of quarantine measures by the authorities to control the spread of the virus has caused uncertainty and negative expectations about the socio-economic outlook, the continuity of production and import processes of consumer goods and related inflation. Thus, similar to the currencies of other countries in the region, in less than a month, the exchange rate followed a rapid depreciation trend and rose by 7.4% against the US dollar (from March 11 to April 7), on the background of the tendency of economic agents and individuals to accumulate and hoard currency, the demand for currency being determined by objective needs for payments related to the import of goods and services, repayments of foreign loans, etc. In this respect, in March-April, the net demand for foreign currency from economic agents practically exceeded twice the net supply of foreign currency from individuals (Chart 3.44). The imbalance was regulated by the NBM through currency selling interventions – USD 169.5 million, which signaled the firm presence of the NBM on the market to mitigate the excessive fluctuations of the exchange rate.

This episode of depreciation was preceded by a sharp adjustment of the trade deficit in the period of maintaining the national emergency, which in the second quarter of 2020 decreased by more than 1/3 compared to the second quarter of 2019, thus triggering the trend of appreciation of the MDL. This dynamics of the exchange rate was maintained in the following quarters, as a foreign exchange surplus was formed on the market conditioned by a faster normalization of the net supply of foreign currency from individuals. Thus, starting with May, the NBM intervened monthly by purchasing foreign currency and replenished foreign exchange reserves by USD 292.5 million by the end of the year.

Under these conditions, for the whole of 2020, on the local foreign exchange market, the net supply of foreign currency from individuals, amounting to USD 2,288.4 million, covered almost entirely the net demand for foreign currency from economic agents, which constituted USD 2,298.6 million. Both indicators increased compared to the levels recorded in 2019, by 9.1% and 5.1% respectively. The net supply of foreign currency from individuals increased as a result of lower sales of foreign currency to individuals, by 22.1%, an evolution that reflected the negative implications of the epidemic situation on the consumption of the population, including tourist services. The net supply of foreign currency from individuals also increased due to the maintenance of important foreign exchange inflows through transfers from abroad in favor of individuals, increasing by 21.6%, although a major part of this dynamic can be attributed to the decrease in informal cash flows in foreign currency. The net supply of foreign currency by individuals continued to be denominated, mainly in euro (80.7%), the share of other currencies, mostly of the pound, also increasing (Chart 3.45).
The increase in net foreign exchange demand from economic agents took place in the conditions of a more pronounced decrease in supply compared to foreign exchange demand. Respectively, the supply of foreign exchange by economic agents decreased by 13.8% simultaneously with the restriction of the export of goods by 10.6% in the conditions in which the pandemic situation affected the external demand for Moldovan goods and services, the volume of exports being also influenced by crop losses caused by drought. On the other hand, the demand for foreign exchange from economic agents decreased by 6.0% with the reduction of imports of goods by 7.3%, the sales of foreign currency to importers of energy resources registering a considerable decrease of 33.1%.

**Official reserve assets**

According to the situation at the end of the year, the official reserve assets amounted to USD 3,783.5 million, consolidating by 23.7% compared to 2019, as a result of net foreign exchange inflows through required reserves, net foreign exchange interventions and, in particular, against the background of significant flows of financial assistance from the main development partners of the Republic of Moldova. In this regard, the following external credit inflows and grants were noted:

- In April, the IMF unconditionally disbursed USD 234.4 million, through the Credit and Rapid Financing Facilities (RCF/RFI), for budget and balance of payments support in the epidemiological context. One month earlier, in connection with the successful conclusion of the economic and financial policy program agreed with the Republic of Moldova, the IMF disbursed the last loan tranche in the amount of USD 19.9 million (equivalent to SDR 14.4 million), among which the NBM received USD 8.0 million (equivalent to SDR 5.8 million);

- On behalf of the EU, the European Commission provided macro-financial assistance of around USD 100.0 million (equivalent to USD 81.7 million) and a grant of USD 6.1 million (equivalent to USD 5.0 million) for supporting police reform;

- The European Investment Bank has allocated loans amounting to USD 84.9 million (equivalent to EUR 71.1 million) for road rehabilitation, supporting the Livada Moldovei project, including disbursing USD 16.1 million in the form of budget support for the rehabilitation of the railway infrastructure;

- The World Bank, through its institutions IDA and IBRD, provided a majority of USD 54.0 million in loans to support projects: emergency response to COVID-19, local road rehabilitation, education reform, modernization of government services, improvement of competitiveness II, etc.;

- The Council of Europe Development Bank disbursed USD 14.8 million to fund emergency response projects to COVID-19 and support SMEs, as well as within the Ambulance Insurance initiative from which benefited the Ministry of Health, Labour and Social Protection.

At the end of 2020, official reserve assets covered in sufficient proportions the actual import of goods and services, about 7.7 months of import.
Managing foreign exchange reserves

In accordance with art. 5, 16, 53 and 71 of Law no. 548/1995 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 that liquidity and security of investments are 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 presents the main risks related to the management of foreign exchange reserves and the techniques applied to reduce exposure.

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) depending on its specific objectives and regulations, this approach ensuring the more efficient achievement of the set objective.

After 2019, when the world economy had registered the slowest growth rate since the financial crisis, the year 2020 was characterized by significant contractions of economies. It was a unique year in terms of the risks and uncertainties associated with the pandemic and its impact, given the incidence of an unprecedented health crisis. The rapid spread of the COVID-19 virus has led monetary authorities around the world to use a wide range of measures and monetary policy decisions to mitigate the effects of the pandemic on economies. At the same time, the uncertainty persisted, being determined by the inability to predict the subsequent propagation trajectory, the economic impact and the time required for recovery.

In this context, although there is a slight recovery in global economic output after the collapse triggered by COVID-19, its level will remain for a long time below the trends recorded until the pandemic. The pandemic has also intensified the risks associated with the global debt accumulated over a decade. Therefore, most likely, we will see a greater slowdown in the potential growth rate in the next period. Persistent risks include the possibility of new outbreaks or a new wave of infections, delays in the vaccination process, more severe effects of the pandemic on economic developments and significant financial impact. The increased level of uncertainty highlights the role of
approved decision-makers and policies in combating adverse effects.

The process of managing foreign exchange reserves is conditioned by the evolution of the world economy, the decisions of the world’s major central banks, especially the US monetary authorities, the euro area and the United Kingdom, considering the importance of their currencies in the structure of official reserve assets.

The epidemic situation has led to clear signs that 2020 will be one of economic recession. In response, central banks resorted to rapid monetary policy easing measures, meeting in extraordinary meetings to make monetary policy decisions. Thus, the Federal Open Market Committee (FOMC) of the Federal Reserve System, at its meetings of 3 and 15 March 2020, decided to reduce the monetary policy rate by 50 basis points and 100 basis points, respectively, until the interval 0-0.25%. In addition, the Federal Reserve’s unprecedented efforts to support the US economy include the FOMC’s commitment to purchase treasury and mortgage securities in the volume needed to support the smooth functioning of the market and ensure the effective transmission of monetary policy.

The Central Bank of England also managed to operate two rate cuts. At the March 10, 2020 meeting, the monetary policy rate was reduced by 50 basis points, from 0.75% to 0.25%. On March 19, 2020, the rate was reduced to 0.1%, the lowest level ever recorded. At the same time, the stock of government and corporate bond purchases was increased by 200 billion pounds to GBP 645 billion. At the June 2020 monetary policy meeting, the stock of procurements was increased to GBP 745 billion, and at the November 2020 meeting, to GBP 895 billion.

In 2020, the European Central Bank did not change monetary policy rates, given the limited space for maneuver. With the monetary policy interest rate already at a minimum of 0% and that for the overnight deposit facility at -0.5%, decreased in September 2019, the ECB has chosen not to move into negative interest rate territory, adding, in exchange, a temporary package of additional net asset purchases worth EUR 120 billion by the end of 2020. At the same time, access to cheap financing was ensured in order to boost lending, and an additional procurement program to combat the COVID-19 pandemic was subsequently launched, initially worth EUR 750 billion, increased to EUR 1,350 billion and extended until the end of June 2021. Unprecedented programs, including Next Generation, have also been negotiated and adopted at EU level to and revitalizing the economy, supporting investment and priority reforms.

The trend of the evolution of these economies is also found in the dynamics of government securities yields (Chart 3.46). The evolution of the monetary policy rates set by the monetary authorities is presented in the chart 3.47.

Official reserve assets, as of December 31, 2020 compared to December 31, 2019, increased by 23.7% or about 724 million US dollars (from 3,060 to 3,784 million US dollars).

In the management of foreign exchange reserves, the investment policy of the National Bank is prudent, the assets being allocated in safe instruments, used by other central banks: investments
in correspondent accounts (usually other central banks), term investments and securities, which it is classified into supranational (issued by supranational institutions), governmental (issued by the US government, governments of EU member states and other government issuers) and non-governmental (issued by agencies) securities.

Some of the foreign exchange reserves are managed externally by the World Bank. In accordance with the Investment Advisory and Management Agreement between the International Bank for Reconstruction and Development (IBRD) and the National Bank of Moldova of 8 December 2010 (extended by DEB no. 168 of 30 December 2015), IBRD is the NBM’s consultant and agent for the administration part of foreign assets, limited to 20% of foreign exchange reserves. As of December 31, 2020, the share of externally managed assets accounted for 5.9% of foreign exchange reserves.

In 2020, the portfolio of securities valued at amortized cost (previously the portfolio of securities held to maturity) was not replaced by new securities. The value of this portfolio, as of December 31, 2020, was about USD 306 million or 8.1% of foreign exchange reserves, the maximum level of the portfolio being limited to 25.0% of reserves.

According to the situation as of December 31, 2020, over 50% of the reserves are invested in securities, 19.3% are term investments, and 30.1% – maintained in the form of cash and cash in correspondent accounts (Chart 3.48).

The return on investment depends on the market situation, exchange rate fluctuations and the returns on investment instruments. In addition to the uncertainty associated with the pandemic, the year 2020 was also marked by other factors such as the development and approval in record time of COVID-19 vaccines; the historical collapse of the oil price, registering even negative values; US presidential election; negotiating the post-Brexit trade agreement, etc., with a significant impact on the trends outlined in the financial markets, generating increased volatility of government securities yields and exchange rates of the main currency pairs. Exchange rate volatility was also determined by monetary policy decisions and other incentive packages that tended to tip the balance in one direction or another, based on reaction speed, policy adjustment, transmission, expected effect, etc.

Thus, the evolution of the global economic environment and the prospects for the development of financial markets have influenced investment decisions and the foreign exchange composition of reserves. In this context, the majority share (according to year-end values) in the structure of foreign exchange reserves returned to the US dollar – 65.2% (Chart 3.49).

At the same time, the foreign exchange composition of the reserves falls within the permissible deviation limits of +/- 10 percentage points from the normative foreign exchange structure (Chart 3.49).

Based on the evolution of the world economy in 2020, in particular the USA, the EU and the United Kingdom, the financial market situation and the evolution of exchange rates against the US dollar (reserve reporting currency), the management of foreign exchange reserves generated a profit of USD 26.4 million, at an average profitability rate of 0.81%.
Chapter 4

Banking supervision

4.1 Evolution of the banking sector

The actions taken to ensure the transparency of banks’ shareholding

In the process of transparency of the shareholding structure and quality of the licensed banks, the National Bank has undertaken actions that led to the stabilization of the financial sector of the Republic of Moldova and to the successful completion in March 2020 of the Memorandum with the IMF.

The implementation of the reforms involved responsibility and increased efforts by the NBM, including resistance to pressures from the media and the public, as well as to actions of the law enforcement bodies taken at the request of several non-transparent former shareholders.

In the performance of the supervision duty of banks, the National Bank seeks permanent compliance by direct/indirect holders, including beneficial owners of qualified holdings in the bank’s share capital, with the quality requirements set out in the Law no.202/2017 on the activity of banks. Thus, in order to comply with the provisions of the legislation and the commitments undertaken by the Republic of Moldova in the program with IMF, the NBM has initiated in recent years several complex investigations and analyses of shareholder-related information/documents submitted by holders of equity holdings in the share capital of banks, by banks, as well as by other competent authorities.

As a result, the sanctions and punitive measures have been applied to non-compliant shareholders. The main breaches were in the conduct of concerted activity and the acquisition of qualifying holdings without obtaining prior approval from the NBM, non-compliance with quality requirements (financial strength, reputation, etc.), and failure to provide information at the NBM’s request.

The transparency of the banking sector has been positively assessed by the IMF and other external development partners of the Republic of Moldova. Thus, the successful reform of the banking sector in line with international and European best practices – restoring its safety, as well as efforts to strengthen the governance, transparency and accountability of the NBM – has increased investor confidence and attractiveness of the domestic banking market and, as a result, more internationally reputable
banking and financial groups have invested in the Republic of Moldova.

Currently, the NBM is in the position where it has to defend the reforms and achievements of the past years, as several former shareholders through the courts, as well as through criminal investigation bodies appealed them.

These circumstances reveal the existence of an extremely dangerous and damaging practice whereby the decisions of the NBM can be indirectly challenged through criminal prosecution. The use of such methods could endanger the entire banking sector, in particular, the interests of the state, in circumstances where non-transparent former shareholders try to achieve the desired results – unjustified financial compensation – by filing lawsuits against the NBM or criminal cases to hold NBM employees criminally liable. This could cause major damage to the state of the Republic of Moldova.

Thus, the efforts made by the NBM in recent years in the process of reforms in several segments, which have aroused the interest of several strategic investors with international reputation for the Republic of Moldova, today risk to be annihilated and investment decisions to be postponed indefinitely. The country's credibility risks being irreparably damaged in the eyes of donors who have so far been open to supporting the Republic of Moldova through financial contributions that are especially vital for the national economy and for each individual citizen.

The attempts by non-transparent former shareholders to cancel, by suspicious methods, the decisions of the National Bank of Moldova in recent years on the transparency of the shareholding in the domestic banking system run the risk of destabilising the financial system by demolishing its basic pillars: the efficiency of supervision, the confidence of supervised entities in the act of supervision, the protection of the interests of investors and depositors and other creditors, diligent conduct and compliance with the legal framework established by the legislator and the subsequent framework drawn up by the supervisor, the sound governance of banks.

Similarly, the admission of manifestly unfounded claims, the ease of overturning the supervisor's decisions and the policies of the statute, the lack of consistency and predictability, the tolerance of concerted activities of bank shareholders, undeclared to the NBM, which exploit the weaknesses of the national legal system, will affect the investment climate by discouraging good-faith investors.

In the circumstances described, the suspension or cancellation of the acts of the supervisory authorities would disrupt the effective and predictable exercise of the supervisory powers conferred by the legal framework, which would lack finality and jeopardise the actual supervisory function of the financial sector. However, admitting the return to supervisory acts of previous years and escalating supervisors’ sanctions would disrupt market discipline, by undermining the authority, decision-making power and credibility of supervisors.

Such actions represent a major risk to the country’s financial stability and could cause substantial damage to the state Republic of Moldova.
Core indicators of the banking system

As of 31.12.2020, 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.

The total number of subdivisions of licensed banks in the Republic of Moldova as of 31.12.2020 was 661, of which 285 subsidiaries and 376 agencies.

As of 31.12.2020, 7,988 persons were working in the banking sector. On average, each employee in the banking sector had to manage assets amounting to MDL 13.0 million, increasing by MDL 1.5 million (13.0%) compared to the end of 2019.

The financial situation of the banking sector as at 31.12.2020 was satisfactory. Banks were sufficiently capitalized, their own funds amounted to MDL 13,561.3 million, increasing by MDL 2,193.3 million (19.3%) compared to the previous year, and the total own funds ratio remained at a high level, recording a value of 27.1%, increasing by 2.2 percentage points compared to 2019. According to reports submitted by banks, all banks observed the Total own funds ratio indicator (limit for each bank ≥ 10% as well as additional requirements imposed by supervisory measures).

The dynamics of the main financial indicators are shown in chart 4.1.

The profit for the financial year as of 31.12.2020 for the banking sector amounted to MDL 1,650.4 million, decreasing by MDL 609.5 million (27.0%) compared to the previous year due to the increase in non-interest expenses, mainly as a result of the increase in impairment of financial assets.

For 2020, return on assets\(^{26}\) and return on equity\(^{27}\) of licensed banks recorded values of 1.7% and 9.6% respectively, decreasing from the previous year by 0.8 percentage points and by 5.0 percentage points respectively.

Total assets amounted to MDL 103,923.8 million, increasing during 2020 by MDL 13,245.6 million (14.6%).

As of 31.12.2020, the balance of the gross loan portfolio (prudential) accounted 43.9% of the total assets or MDL 45,649.2 million, increasing by MDL 5,273.7 million (13.1%) during the period under review. At the same time, non-performing loans decreased by MDL 58.7 million (1.7%) to MDL 3,369.6 million. The decrease was largely conditioned by the repayment of loans from direct payments, the derecognition of non-performing loans and the reclassification to performing categories due to the improved financial situation of some debtors.

The balance of deposits increased during 2020 by MDL 11,287.1 million (16.5%) to MDL 79,644.7 million.

\(^{26}\)Return on assets = annualized net income/average assets
\(^{27}\)Return on equity = annualized net income/average equity
**Own funds**

As of 31.12.2020, the own funds by sector, according to data submitted by licensed banks, amounted to MDL 13,561.3 million, recording an increase of MDL 2,193.3 million (19.3%) during the year.

The increase in own funds was determined by the reflection by banks of eligible profits after the holding of the general meetings of shareholders and after obtaining the NBM’s permission for the inclusion in the own funds of the obtained profits. At the same time, the positive difference between reductions for losses on assets and conditional commitments (prudential reductions) and the size of reductions for impairment losses on assets and provisions for losses (IFRS reductions) decreased by MDL 210.3 million and other intangible assets by MDL 71.4 million.

In 2020, the Executive Board of the NBM, taking into account the effects generated by the COVID-19 pandemic, in order to maintain the stability of the banking sector, recommended to the licensed banks to refrain from distributing dividends and to review remuneration policies. The recommendations also referred to the need to minimise or refrain from making investments in tangible fixed assets until 30.09.2020. Subsequently, in a decision issued in December, the National Bank extended the deadline for refraining from dividend distributions and repurchases of own funds tools until the audited financial statements for the end of 2020 are submitted by the audit firms. Respectively, during 2020 the banks did not distribute capital (dividends).

The structure of total own funds is made up entirely of core tier 1 own funds at 10 banks (total by sector – MDL 13,422.8 million), and one bank (B.C. "ProCredit Bank" S.A.) has, in addition to core tier 1 own funds, also core tier 2 own funds (subordinated loans in the amount of MDL 138.5 million).

As of 31.12.2020, the total own funds ratio for the banking sector was 27.1%, increasing by 2.2 percentage points compared to the end of the previous year. The given indicator is observed by all banks (limit for each bank ≥ 10%). At the same time, the banks also comply with the requirement for the Total own funds ratio indicator, taking into account capital buffers. Thus, in addition to the minimum own funds requirement of 10%, the banks are required to maintain core tier 1 own funds necessary to meet the requirements for the capital conservation buffer (2.5%), the countercyclical capital buffer (0.0%), the systemic risk buffer (1%/3%) and, where applicable, the systemically important company buffer (0.5%/1.0%/1.5%) (the O-SII buffer).

At the same time, during 2020, the Executive Board of the NBM approved the results of the supervision and assessment process of banks’ activities for 2018 and its further development (for 10 licensed banks), with the imposition of specific capital requirements to each bank according to its individual risk profile, which are also respected.

The dynamics of core tier 1 and total own funds over the period under review are shown in chart 4.2.
The change in the capital structure of the banking sector in terms of its concentration in groups of banks is shown in chart 4.3.

The share of large banks’ total own funds in the banking sector’s total own funds was 73.4%, increasing by 2.3 percentage points compared to the end of the previous year.

At the same time, the share of total own funds of medium-sized and small banks amounted to 22.7% and 3.9%, decreasing by 1.7 percentage points and 0.6 percentage points respectively.

During the period under review, the significant share of foreign investments in banks’ capital was maintained, which as of 31.12.2020 constituted 86.6% (Chart 4.4), decreasing by 0.5 percentage points compared to the end of the previous year as a result of the sale by WESTERN NIS ENTERPRISE FUND (USA) (shareholder "FinComBank" S.A.) on 21.04.2020, on the Stock Exchange of Moldova, through the Securities company “Iuventus-DS” S.A., of the shares held (171,411 shares), which represents 13.03% of the bank’s share capital.

Among the foreign investors participating in the capital formation of banks of the Republic of Moldova are: banks from Italy, Hungary, Romania, as well as the European Bank for Reconstruction and Development and corporate investors from Germany, the Netherlands, Bulgaria, Austria, the United Kingdom, Greece, Iraq, Russia.

Of the total number of banks, 4 banks have capital consisting entirely from foreign investments (of which 3 subsidiaries of banks and foreign financial groups: B.C. “EXIMBANK” S.A., BCR Chisinau S.A. and B.C. “ProCredit Bank” S.A.), 6 banks – of capital consisting from foreign and domestic investments and a bank – of capital consisting entirely from domestic investments.

The assets and their quality

Total assets by sector amounted to MDL 103,923.8 million, increasing compared to the end of the previous year by MDL 13,245.6 million (14.6%). The main source of financing assets are liabilities, which increased by MDL 11,627.0 million (15.7%), mainly due to the increase of deposits attracted by MDL 11,255.4 million (16.4%). Another source for financing assets was capital, which increased by MDL 1,618.6 million (9.9%) as a result of obtaining profit during the reference period.

During 2020, the share of assets in GDP increased by 8.5 percentage points from 43.1% to 51.6% (Chart 4.8).

Concentration of banking sector assets is presented in the chart 4.5.

The assets of the banking sector are concentrated in the group of large banks (thus determined by the NBM). At the end of 2020, the group of large banks included 4 banks (BC “MOLDOVA - AGROINDBANK” S.A., BC “Moldindconbank” S.A., B.C. “VICTORIABANK” S.A., Mobiasbanca - OTP Group S.A.). The share of banks’ assets in this group amounted to 78.3% on 31.12.2020, decreasing by 0.3 percentage points compared to the end of 2019.
The share of banks’ assets in the group of medium-sized banks increased by 0.3 percentage points, representing 18.6%, and the share of assets of banks in the small bank group remained at the same level as at the end of the previous year, representing 3.1%. The composition of the groups at the end of 2020 remained unchanged compared to the end of 2019.

It should be noted that the limits of the dominant position on the banking market by asset size are respected. The largest share of the bank’s total assets in relation to the total assets on the banking sector belonged to BC "MOLDOVA - AGROINDBANK" S.A., constituting 29.3% (limit ≤ 35%), being followed by BC "Moldindconbank" S.A. – 20.5% (Chart 4.6).

Following the analysis of the concentration of the banking sector of the Republic of Moldova, the Herfindahl-Hirschmann index was calculated (the value of which does not exceed 10,000), based on the share of the bank’s assets in total assets in the banking sector. This index is calculated as the sum of the squares of the market shares of all banks in the sector. In the international practice there is used the following division:

- HHI below 100 indicates a perfectly competitive market;
- HHI between 100 and 1,500 indicates a non-concentrated market;
- HHI between 1,500 and 2,500 indicates a moderate concentration;
- HHI above 2,500 indicates a high concentration.

Thus, following the calculations performed, obtaining HHI=1,761.9, we conclude that the banking sector of the Republic of Moldova has a moderate concentration.

In the structure of assets, the largest share belonged to the item in the balance sheet "Loans and advances at amortized cost", which constituted 43.2% (MDL 44,937.8 million), decreasing by 2.0 percentage points compared to the same period of the previous year. The share of banks’ investments in state securities and certificates of the National Bank (NBC) amounted to 17.6% (MDL 18,263.1 million), increasing by 4.5 percentage points. The share of means at the NBM amounted to 21.7% (MDL 22,535.5 million), decreasing by 1.4 percentage points. The rest of the assets, which constitute 17.5% (MDL 18,187.4 million), are maintained by banks in other banks, in cash, tangible assets, intangible assets, etc. Their share decreased by 1.2 percentage points.

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

The gross loan portfolio (according to prudential reports) on 31.12.2020 amounted to MDL 45,649.2 million, increasing during 2020 by MDL 5,273.7 million (13.1%). The growth of the loan portfolio was recorded monthly, except for two months, April and May.
At the same time, the share in GDP of the gross loan portfolio increased by 3.4 percentage points, constituting 22.6% on 31.12.2020 (Chart 4.8). It should be mentioned that the increase in the shares in GDP of the mentioned indicators was made on the background of the GDP forecast for the year 2020 being lower than the size of the GDP achieved in 2019.

In the context of risk distribution by branch, the largest share in the total loan portfolio was held by loans granted to trade – 23.5% (MDL 10,751.0 million), followed by the share of loans for the purchase/construction of the building – 17.3% (MDL 7,880.4 million) and the share of consumer loans – 16.4% (MDL 7,480.2 million).

The detailed structure of the loan portfolio of the banking sector in the Republic of Moldova according to the branch in which the debtor operates is reflected in the chart 4.9.

The largest increase in 2020 was recorded in loans granted for the purchase/construction of building – increasing by MDL 1,641.3 million (26.3%) up to MDL 7,880.4 million, loans granted to trade – by MDL 1,126.2 million (11.7%) to MDL 10,751.0 million, loans granted to agriculture – by MDL 878.0 million (28.9%) to MDL 3,918.4 million and consumer credit – by MDL 655.4 million (9.6%) to MDL 7,480.2 million.

It should be noted that significant increases in the shares of these branches in the sector may generate certain concentration risks in the future, including their recovery, especially in the case of consumer loans, which are mostly provided without the existence of securities. During 2020, non-performing loans (substandard, doubtful and compromised) in absolute value decreased by MDL 58.7 million (1.7%) amounting MDL 3,369.6 million, due to the repayment of loans on account of direct settlements, derecognition of non-performing loans and reclassification into performing categories due to the improved financial situation of some debtors.

Respectively, the share of non-performing loans in total loans decreased by 1.1 percentage points compared to the end of 2019, amounting to 7.4% on 31.12.2020, and the share of net non-performing loans\(^28\) in own funds – by 2.2 percentage points, constituting 8.0% on 31.12.2020.

The share of reductions calculated for loan losses in total loans as at 31.12.2020 amounted to 7.5%, decreasing compared to the end of 2019 by 0.5 percentage points, mainly due to the increase during 2020 of the loan portfolio as well as the slight improvement in its quality. It should be noted that the reductions calculated on all assets and contingent liabilities as at 31.12.2020 amounted to MDL 4,836.3 million, while the reductions for impairment losses amounted to MDL 3,136.9 million, the difference recorded – MDL 1,699.4 million. The share of reductions for impairment losses on loans (IFRS reductions) in the calculated reductions on loans (prudential reductions) on the banking sector amounted to 70.9%, increasing by 7.4 percentage points compared to the end of the previous year.

\(^{28}\) Net non-performing loans = amount subject to classification for non-performing loans minus the reductions on them.
The banks’ exposures to affiliates show insignificant shares in total loans – 1.7% (average in the banking sector). The indicator on the ratio between exposures to affiliates and eligible capital (the limit for each bank ≤ 20.0% of eligible capital) as of 31.12.2020 was observed by all banks (average in the banking sector – 5.8%).

As of 31.12.2020, the indicator related to the ratio of the sum of the ten largest net debts to the total portfolio of loans and contingent liabilities (maximum limit for each bank – 30% of total net loans) was observed by all banks (average for the banking sector – 20.4%). At the same time, only one bank exceeded the above-mentioned indicator, which, according to Chapter IV item 26 of the Regulation on Large Exposures No. 109 of April 5, 2019, is not considered a violation, if the bank maintains an additional own funds requirement on the respective surplus.

The indicator of the total amount of the bank’s net exposures in Moldovan lei attached to the foreign exchange rate against individuals, including those engaged in entrepreneurial activity or other type of activity (the limit for each bank ≤ 30% of OF) was observed by all banks. The sector average of the nominated indicator was 2.6%.

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 ≤ 10% of OF) was also observed by all banks. The sector average of the nominated indicator was 0.5%.

The loans granted to bank employees represented MDL 615.6 million or 1.3% of the total loan portfolio and 4.5% of the total own funds of the banking sector (the limit for each bank ≤ 10.0%).

The ratio of total long-term tangible fixed assets to total own funds by sector was 19.6% (limit for each bank ≤ 50%) and was respected by all banks.

The ratio of the total value of investments in long-term tangible fixed assets and equity holdings in legal entities to total own funds by banking sector was 21.7% (limit for each bank ≤ 100%) and was also respected by all banks.

**Incomes and profitability evolution**

As of 31.12.2020, the profit related to the year in the banking sector amounted to MDL 1,650.4 million. Compared to the end of the previous year, the profit decreased by MDL 609.5 million (27.0%).

The decrease in profit is due to the increase in non-interest expenses by MDL 1,028.8 million (27.0%), mainly as a result of the increase in impairment of financial assets by MDL 839.1 million.

At the same time, there was an increase in non-interest income by MDL 480.4 million (16.3%) mainly due to the increase in exchange rate difference by MDL 320.2 million (33.8%).
The interest income decreased by MDL 140.3 million (3.1%) as a result of the decrease in the average rate on loans in national currency from 8.08% as at 31.12.2019 to 7.66% as at 31.12.2020 and in foreign currency from 5.09% to 4.90%. At the same time, the average interest rate on SS was decreased from 6.4% to 5.01%.

At the same time, the interest expenses decreased by MDL 79.2 million (5.7%), also as a result of the decrease in the average rate on deposits in national currency from 4.88% on 31.12.2019 to 3.96% on 31.12.2020 and in foreign currency from 1.02% to 0.72%.

The dynamics of banks’ income and expenses are shown in chart 4.12.

Total revenues amounted to MDL 7,802.4 million, increasing by MDL 340.1 million (4.6%) compared to the end of the previous year. Out of which interest income accounted for 56.0% (MDL 4,367.8 million) and non-interest income – 44.0% (MDL 3,434.6 million).

At the same time, total expenses amounted to MDL 6,152.0 million, increasing by MDL 949.6 million (18.3%) compared to the previous year. The interest expenses accounted for 21.4% (MDL 1,315.3 million) of the total expenses and the non-interest expenses – 78.6% (MDL 4,836.8 million) of the total expenses. Significant shares of non-interest expenses are accounted for by administrative expenses – 49.2% (MDL 2,378.2 million) and expenses on fees and commissions – 16.2% (MDL 783.3 million).

The structure of the banking sector’s income and expenses for 2020 is shown in charts 4.13 and 4.14.

For 2020 the return on assets\textsuperscript{29} and return on equity\textsuperscript{30} of licensed banks recorded values of 1.7% and correspondingly 9.6%, decreasing by 0.8 percentage points and 5.0 percentage points respectively compared to the end of the previous year.

Net interest margin\textsuperscript{31} was 3.8% as at 31.12.2020, decreasing by 0.6 percentage points compared to the end of the previous year.

The structure of the net interest margin, return on assets and on equity of the banking sector of the Republic of Moldova for the period 31.12.2019\textsuperscript{*} - 31.12.2020 (%) is shown in chart 4.15.

The absolute value of interest-earning assets increased during 2020 by MDL 13,303.9 million or 17.6% to MDL 89,096.5 million as of 31.12.2020. The significant share of interest-earning assets in the total assets of the banking sector, which accounted to 85.7%, indicates the ability of banks to generate income in the future.

Liabilities, liquidity and compliance with legal requirements

The banks’ liabilities as of 31.12.2020 amounted to MDL 85,908.3 million, increasing by MDL 11,627.0 million (15.7%) compared to

\textsuperscript{29}\text{Return on assets} = \text{annualised net income/average assets}

\textsuperscript{30}\text{Return on equity} = \text{annualised net income/average shareholders’ equity}

\textsuperscript{31}\text{Net interest margin} = \text{annualised net interest income/average interest-earning assets}
The largest share in total liabilities as at 31.12.2020 is held by financial liabilities measured at amortized cost (customer deposits, other financial debts) – 98.0% (MDL 84,163.7 million), increasing in absolute value by MDL 11,789.1 million (16.3%) compared to the end of the previous year.

The customer deposits amounted to MDL 79,705.1 million or 92.8% of total debts, with the absolute value of customer deposits increasing by MDL 11,255.4 million (16.4%) compared to 31.12.2019. Provisions also increased insignificantly – by MDL 3.5 million (0.6%), amounting MDL 553.6 million (this includes provisions for business restructuring, debts related to pensions and employee benefits, provisions related to expenses for damages that may result from lawsuits against the bank, financing commitments, other provisions). At the same time, the debts related to taxes decreased by MDL 111.8 million (60.1%), amounting to MDL 74.2 million, other debts (transit and clearing amounts, payment card operations, settlements with bank employees, with other individuals and legal entities, settlements with the budget, settlements related to the purchase/sale of securities and currency, etc.) by MDL 55.6 million (4.8%), amounting to MDL 1,114.9 million (Table A.14).

At the same time, the balance of deposits according to prudential reports as at 31.12.2020 amounted to MDL 79,644.7 million, increasing compared to 31.12.2019 by MDL 11,287.1 million (16.5%), following the increase in deposits of legal entities by MDL 6,065.6 million (26.8%) to MDL 28,727.4 million, deposits of individuals by MDL 5,170.5 million (11.3%) to MDL 50,769.4 million and deposits of banks by MDL 51.0 million (52.7%) to MDL 147.9 million.

The total share of deposits in GDP increased from 32.5% in 2019 to 39.5% in 2020.

As of 31.12.2020, 41.8% of total deposits (equivalent to MDL 33,315.4 million) are deposits in foreign currency, the absolute value of which increased compared to the end of the previous year by MDL 3,334.6 million (18.9%), including on account of attracting funds – by MDL 3,334.6 million, and from the account of revaluation as a result of exchange rate fluctuations increased by MDL 1,939.8 million (the calculation from the revaluation of deposits was made on the basis of EUR, USD, Russian rouble, Romanian leu and Ukrainian hryvnia, the share of other currencies being insignificant). Deposits in Moldovan lei accounted for 58.2% of total deposits or MDL 46,329.3 million and also increased by MDL 5,981.4 million (14.8%) compared to 31.12.2019.

The concentration of banking sector debt is shown in chart 4.16.

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 withdrawal term of more than
two years) was 0.7 (sector average), ranging from 0.3 to 0.9, at the same level as at the end of the previous year. The given indicator is observed by all banks (limit per bank \( \leq 1 \)).

The value of the current liquidity indicator by sector – principle II of liquidity (liquid assets, expressed as cash, deposits with the NBM, liquid securities, net interbank funds with maturity up to one month/total assets x100%) was 50.6% (average by sector), ranging from 35.6% to 70.0%, being at the same level as at the end of the previous year. The given indicator was met by all banks (limit per bank \( \geq 20\% \)).

As of 31.12.2020, the principle III of liquidity, which is the ratio of adjusted effective liquidity to required liquidity in each maturity band (limit \( \geq 1 \)) was observed by all banks.

It is worth noting, that as of 01.10.2020 the Regulation on liquidity coverage requirements for banks entered into force. Currently all banks are complying with the new provisions. The indicator given by sector amounted to 317.8% (limit \( \geq 60\% \)) and varies from 151.0% to 988.3%.

Thus, liquidity indicators reveal the existence of adequate sources of funding to cover both short-term and long-term liquidity needs.

The liquid assets recorded a value of MDL 52,541.2 million as at 31.12.2020, increasing by MDL 6,666.0 million (14.5%) compared to 31.12.2019. The largest increase was recorded in liquid securities, by MDL 4,728.3 million (40.0%), totalling MDL 16,540.9 million, followed by deposits with the NBM, which increased by MDL 1,637.9 million (7.8%) up to MDL 22,558.8 million.

In the structure of liquid assets by banking sector, the largest share went to deposits with the NBM – 42.9%, followed by the share of liquid securities – 31.5%, the share of net current interbank funds – 14.1% and the share of cash in hand and other monetary values – 11.4%, details are shown in chart 4.17.

Compared to the end of the previous year, the share of deposits with the NBM decreased by 2.7 percentage points, as a result of the decrease in the norm of required reserves held by banks from 42.5% to 32%, and the share of net interbank funds decreased by 3.1 percentage points. At the same time, the share of liquid securities increased by 5.8 percentage points. The share of cash remained at the same level as at the end of the previous year.

**Market risk sensitivity**

The share of balance sheet assets in foreign currency combined with assets attached to the exchange rate in total assets as at 31.12.2020 was 35.5%. The share of foreign currency-denominated balance sheet liabilities and foreign currency-linked bonds in total assets at the same date was 35.5%. The equal shares of foreign currency assets and bonds indicate that the foreign exchange risk is well managed by the banks and is minimal.

Foreign placements of the RM banks as at 31.12.2020, according to the data submitted by the banks, amounted to MDL 8,897.5
million, decreasing by MDL 877.8 million (9.0%) compared to the end of the previous year, representing 8.6% of total assets (as at 31.12.2019 – 10.8%) and 65.6% of own funds (as at 31.12.2019 – 86.0%). At the same time, placements in Austria increased by MDL 784.3 million (73.1%). Details are presented in table A.15.

As at 31.12.2020, the largest share in total placements by sector came to Germany – 45.4%, followed by the share in Austria – 20.9% and the USA – 14.2%.

According to the Regulation on the classification of assets and contingent liabilities, banks reduce their own funds by the size of the reductions formed, taking into account the rating assigned by international agencies by country and by bank.

4.2 The NBM supervisory activity

Although there were many challenges in 2020 in the context of the crisis generated by the pandemic COVID-19, including for the banking sector due to reforms in previous years, as well as measures taken by the NBM in 2020 to support banks, individuals and legal entities, the banking sector maintained its resilience, remaining well capitalized with good governance, which also ensured its financial stability.

The main areas on which the banking supervision process was focused in 2020, according to the set priorities, were: banks’ internal governance; risk management and Internal Capital Adequacy and Assessment Processes (ICAAP); credit risk; operational risk; the risk associated with information and communication technologies (ICT); recovery plans; combating money laundering and terrorist financing.

In view of the pandemic COVID-19, in 2020 most of the supervisory activities were carried out through ex officio controls, using all supervisory tools available to the National Bank.

In 2020, the NBM continued its supervision of banks based on the supervision and evaluation process SREP. Thus, the Executive Board of the NBM approved the results of the supervision and evaluation process (SREP) for 2018 and further developments during 2019, with the imposition of specific capital requirements to each bank according to its individual risk profile (for 10 licensed banks).

Ex officio inspections

The National Bank carries out ex officio supervision on the basis of the annual prudential supervision programme. For 2020, the prudential supervision programme included various ongoing actions (monitoring of key indicators, analysis of financial reports submitted by banks, external audit reports, monitoring of remediation plans following on-site inspections) as well as actions for the preparation of the SREP report (business model assessment, governance and internal control analysis, assessment of recovery plans, etc.).
In 2020, the credit risk remained an important area of supervisory priority. The NBM has been reviewing each bank’s credit portfolio ex officio under the Credit Risk Register for the purpose of supervision and identification of imprudent practices. In the case of credit classification, contrary to the regulations in force, the NBM requested the removal of the violations detected.

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

**On-site inspections**

During 2020, the 7 thematic inspections were carried out at licensed banks, of which: 4 on-site inspections and 3 ex officio inspections. During 2020, 2 banks were sanctioned with a warning.

The decisions to apply sanctions and prescriptions were adopted as a result of the findings of violations and deficiencies, mainly related to the following:

- the non-observance with certain requirements of the legislation on loan activity;
- the non-compliance with reporting requirements to the National Bank of Moldova;
- the lack of a rigorous framework for stress testing;
- the non-fulfilment of all the measures set out in the Action Plan on the cessation and liquidation of breaches and other shortcomings identified as a result of the previous inspection;
- the non-observance with the requirements of regulatory acts and other deficiencies, related to corporate governance in the bank, including internal control functions.

At the same time, we mention that in 2020, 38 inspections were carried out at foreign exchange units, including 18 planned inspections, 14 unexpected inspections and 6 ex officio inspections.

As a result of the violations and deficiencies found during the on-site inspections carried out at the foreign exchange units, 8 sanctions were applied to them (1 decision to suspend the activity of the foreign exchange unit, 1 decision to impose a fine and 6 written warnings to the foreign exchange units). Decisions on the application of sanctions to foreign exchange units (other than banks) were adopted following the finding of violations and deficiencies, the basic ones being:

- the violations related to erroneous reporting/non-reporting/changing information on established rates;
- the violations related to the frequency of changes in buying and selling rates during working hours;
• the violations related to conducting of the foreign exchange unit activity without notifying the NBM;
• the violations related to the failure to display the necessary information in a visible place for individuals;
• the violations related to the revocation of foreign exchange operations;
• the violations related to the display of information on the advertising board;
• the violations related to the lack of fixed level of circulating funds in the share capital.

**Early intervention and transparency actions on shareholding**

Regarding BC "MOLDINDCONBANK" S.A., starting with 11.02.2020, by Decision of EB of the NBM no.28 of 10.02.2020, in connection with the cessation of the conditions for appointing temporary administrators and restoring the full functionality of the Board and the Management Committee, the mandates of administrators were revoked temporary. At the same time, by DEB no. 29 of 10.02.2020, a series of measures prescribed to the bank were revoked, considering the consolidation of the administration framework and the bank’s position.

As of 31.12.2020, the B.C. "ENERGBANK" S.A. is supervised under the early intervention regime applied on 11.01.2019, as a result of the finding of concerted activity of a group of shareholders with qualified ownership in the amount of 52.55% in the bank’s capital, without the prior written permission of the NBM, the effects of the law on the suspension of the exercise of certain rights of shareholders became applicable.

By the DEB of the NBM no. 227 of 09.10.2020, the period of appointment of temporary administrators of B.C. "ENERGBANK" S.A. was extended until 11.04.2021.

According to the situation as of 31.12.2020, of all shares of the Bank (100%):

• 21.63% – the shares of B.C. "ENERGBANK" S.A. belonging to shareholders with suspended rights;
• 49.80% – newly issued shares registered in the bank’s account until their sale without voting rights;
• 9.60% – treasury shares that have been repurchased by the bank;
• 18.97% – shares with voting rights.

With regard to "Banca de Finanțe și Comert" S.A., as of 12.11.2019 the newly issued shares (as a result of the finding of concerted activity of a group of shareholders holding 36.15% without the prior written permission of the NBM), which were not disposed of within the legal term, were exposed for sale by the bank on the regulated market as separate shares for a period not exceeding
6 months. On 03.03.2020, the sale process of the shares was suspended due to the application of seizure on the sale process in the criminal case.

The seizure applied on the sale process of the newly issued shares was withdrawn on 28.10.2020. Correspondingly, the sale process was resumed by the bank, the shares being re-exposed for sale.

At the end of 4 months (out of 6) of sale on the regulated market, the bank managed to dispose of a total of 8.72% of newly issued shares.

From 12.11.2020 to 12.01.2021 (5th and 6th month), the bank exposed the remaining unsold newly issued shares on the regulated market. By 04.01.2021, all newly issued shares were sold.

During 2020, the NBM considered 3 applications for obtaining prior approvals for the acquisition of qualifying holdings in the capital of the B.C. "ENERGBANK" S.A. With reference to one of these applications, at the request of the potential acquirers, the NBM ceased the process of examining the application due to the acquirers’ withdrawal from the purchase. Two other applications are currently in the process of examination and completion of the set of documents.

**Banks in liquidation**

As of 31.12.2020, 5 banks were in the process of forced liquidation.

Regarding the liquidation process of Banca de Economii S.A., BC "BANCA SOCIALA" S.A. and BC "UNIBANK" S.A., initiated in 2015, we note that, with the aim of recovering the funds of these banks, during 2020, the liquidators reported that they worked with the criminal investigation bodies, undertook organizational measures regarding the sale of assets owned and possessed by the banks and continued working with the banks’ debtors.

As a result, at the end of 2020, there were 63 actions pending in the courts for the recovery of funds previously granted by banks, totalling MDL 4,149.9 million. At the same time, there were 54 criminal cases under the management of the criminal investigation bodies, filed on the basis of liquidators’ notifications.

As a result of the actions undertaken by the liquidators during the liquidation process of the three banks, funds in the total amount of MDL 2,600.9 million were collected, including in 2020 – MDL 189.8 million (Banca de Economii S.A. – MDL 106.1 million, BC "BANCA SOCIALA" S.A. – MDL 79.8 million and B.C. "UNIBANK" S.A. – MDL 3.9 million).

The funds obtained in the process of liquidation of the banks were used for expenses related to the liquidation process, as well as for the payment of claims related to emergency loans granted to Banca de Economii S.A., BC "BANCA SOCIALA" S.A. and B.C. "UNIBANK" S.A., until the appointment of the liquidators of the respective banks. Thus, until 31.12.2020, funds in the amount of MDL 2,557.5 million were reimbursed, including in 2020 – MDL 168.5 million (Banca de Economii S.A. – MDL 97.0 million, BC "BANCA SOCIALA" S.A. – MDL 71.0 million and B.C. "UNIBANK" S.A. – MDL 0.5 million).
4.3 Banking sector risks’ assessment

Macroprudential supervision

In order to prevent the accumulation of systemic risks and to ensure the stability of the banking sector in the adverse conditions caused by the COVID-19 epidemiological situation, during 2020, the National Bank of Moldova continued to conduct regular stress tests and sensitivity studies of the banking sector. These macroprudential analysis tools contributed to the assessment of the resilience of the banks in the Republic of Moldova to potential shocks generated by the uncertainty of macroeconomic developments during the reporting period.

The stress tests used by the National Bank focus on credit risk, liquidity risk, interest rate risk, foreign exchange rate risk and contagion risk scenarios and combinations thereof. At the same time, banking risks were also assessed in scenarios specific to the impact of restrictive measures imposed as a result of the national epidemiological situation. The stress tests are based on information reported by banks and estimate the impact of simulated shocks at the banking sector and individual bank level.

The results of the banking sector stress tests indicate that banks are sufficiently capitalised. Thus, most of the simulated shocks did not lead to breaches of the minimum prudential capital levels set for banks. At the same time, banks continued to strengthen their internal credit risk management policies, which was demonstrated during 2020, when banks managed the quality of their loan portfolios prudently.

In 2020, the stress testing results confirmed the high level of liquidity of the banking sector, the banks were able to withstand the scenarios simulating deposit withdrawals at historically high rates and no liquidity shortfalls or breaches of prudential requirements, for the stress scenarios applied, have not been recorded.

Also, in order to assess potential risks that could affect the stability of the sector and of each bank, the National Bank conducts the study on the identification of vulnerabilities in the banking sector. During 2020, the results of the study did not indicate an alarming degree of vulnerability of the banking sector. At the individual level, most banks continued the process of strengthening and improving their resilience. Although some banks saw insignificant increases in the vulnerability index, the level of vulnerability remained below the vulnerability threshold.

In order to capture the opinion of risk managers within banks, the National Bank of Moldova conducts a half-yearly survey on systemic risk. According to the respondents’ opinion, key risks persist in the financial system, which during the reporting period were exceeded by the COVID-19 risk. At the same time, at the end of 2020, banks estimated a high probability of a systemic event in the short term and a medium to high probability in the medium term.
In order to determine the financing conditions and risk profile of the sectors financed by banks in the Republic of Moldova, the NBM conducts a quarterly survey on bank lending. During 2020, the results of the survey indicated a trend of tightening credit standards and loan contract terms for both legal entities and individuals, with a slight easing at the end of the year for individuals. The short-term expectations of banks were for tighter lending standards for legal entities and easing of lending standards for individuals.

**Macroprudential 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 macroprudential supervision, the National Bank of Moldova as supervisory authority applies the set of macroprudential supervision tools to banks in the Republic of Moldova.

Thus, the Executive Board of the National Bank of Moldova established the capital buffer rates applied to banks in the Republic of Moldova at the end of 2020, as follows:

- The capital conservation buffer rate, applied to all banks, was set at 2.5% of the banks’ total risk exposure. At the same time, in order to mitigate the effects caused by the COVID-19 pandemic, in line with international best practices, the NBM has allowed banks to temporarily use the previously established capital conservation buffer until a date to be announced. This capital buffer can be used to absorb any deterioration in the quality of the credit portfolio and to support the financing of the business environment and the population.

- The countercyclical buffer rate for exposures located in the Republic of Moldova was set at 0% of the amount of banks’ risk exposure. The respective level of the countercyclical buffer rate was set taking into account the absence of systemic cyclical risks related to excessive lending growth.

- The systemic risk buffer rate for exposures located in the Republic of Moldova was set at the level of 1.0% or 3.0% of the banks’ risk exposure, depending on the shareholding structure of the respective bank.

- In order to ensure an adequate treatment of structural risks of the banking sector in the Republic of Moldova, the National Bank establishes that are companies of systemic important (O-SII type). Based on the results of the study to identify banks that are O-SII type companies and in accordance with paragraph 53 of the Regulation on Capital Buffers, the National Bank has set the capital buffer rates of systemic importance companies for banks identified as O-SII type companies in the Republic of Moldova as follows:

  1. 1.5% for BC "MOLDOVA-AGROINDBANK" S.A.,
  2. 1.0% for BC "Moldindconbank" S.A.,
  3. 1.0% for B.C. "VICTORIABANK" S.A.,
4. 0.5% for MOBIASBANCA-OTP Group S.A.

Therefore, at the end of 2020 the total requirement on the capital buffer applied to banks in the Republic of Moldova varies between 3.5% and 7.0%, depending on the shareholding structure and the systemic importance of the bank.

4.4 Fighting money laundering and terrorist financing

In accordance with the provisions of the Law No. 308/2017 on preventing and combating money laundering and terrorist financing, the National Bank of Moldova ensures the regulation and control of the implementation of the regulatory framework related to the prevention and combating of money laundering and terrorist financing in the segment of the activity of reporting entities that are banks, non-bank payment service providers and foreign exchange units (other than banks).

Despite the difficult and new circumstances that characterized the year 2020, the National Bank of Moldova continued to take the necessary steps to achieve the strategic objective of strengthening the risk-based supervision activity, from the perspective of money laundering and terrorist financing risk, to which the entities within its area of responsibility are exposed.

In this respect, the risk-based assessment and supervision process has been adjusted according to the exposure of supervised entities to the risk of money laundering and terrorist financing and has been carried out both through on-site and remote inspections. Thus, during 2020, in accordance with the control plan of entities supervised by the National Bank, 29 inspections were carried out, including 5 inspections (complex and thematic) at banks, 3 inspections at non-bank payment service providers and 21 inspections at foreign exchange units. At the same time, during 2020 the supervisory activity was also characterized by an intensification of the information flow between the National Bank and the supervised entities, and the amount of information requested, the frequency and intensity of checks, analyses and assessments were determined according to the business model, the level of money laundering and terrorist financing risk, characteristic of the supervised segment and the complexity and efficiency of the entities’ internal control mechanisms. In this way, a broad spectrum of actions was carried out, including monitoring of high-risk external transfers, transactions carried out through card payment systems and or digital applications, cash transactions (more than 25 checks carried out remotely), etc.

Therefore, taking into account the strategic objectives characteristic of the supervisory activity, from the point of view of the legislation in the field of prevention and combating money laundering, namely, assessing the internal control systems of the supervised entities and taking effective measures to remedy the identified vulnerabilities, the National Bank of Moldova issued recommendations, applied remedial measures and sanctions, aimed at discouraging non-compliant behaviour of the reporting
entities and strengthening the mechanisms to mitigate the risks of money laundering and terrorist financing, specific to them.

Also, in accordance with best supervisory practices, during 2020 a continuous communication was ensured with supervised entities on the implementation of international sanctions, prevention and combating of money laundering and terrorist financing regulations, which involved the prompt transmission of information related to international restrictive measures imposed by international organisations, e.g. the Financial Action Task Force (FATF)\(^{32}\).

In accordance with the recommendations of the MONEYVAL Committee (Council of Europe), as recorded in the Report on the evaluation of the national system for preventing and combating money laundering and terrorist financing of the Republic of Moldova adopted during the 5th round of assessment in July 2019\(^{33}\), during 2020, the regulations on requirements on preventing and combating money laundering and terrorist financing in the activity of banks, non-bank payment service providers and currency exchange offices and hotels (Regulation No. 200/2018, Regulation No. 201/2018, Regulation No. 202/2018) were subject to amendment and supplementation. The main novelties of the proposed amendments relate to the application of precautionary measures, requirements on data retention, requirements on the execution of precautionary measures by third entities, specific requirements of the internal control system and the program at the level of financial groups.

In the same context, the National Bank of Moldova, in accordance with its legal competences, participated in the elaboration and endorsement of the draft of the Law on the procedure for the detection of violations in the field of prevention of money laundering and terrorist financing and the application of sanctions, which was approved on 21.05.2020.

Considering the operational objective of strengthening the function of preventing and combating money laundering and terrorist financing, during 2020, in collaboration with the experts of International Development Group (the implementing company of the USAID project), the National Bank continued the work on the acquisition of the IT solution for streamlining the process of monitoring shareholder transparency and remote analysis in the field of preventing and combating money laundering and terrorist financing. Therefore, one company has been selected as the winner and the purchasing contract will be signed and the implementation process will start in the next period.

The implementation of effective regulations and supervision to mitigate risks specific to reporting entities supervised by the National Bank is imperative to prevent the involvement of the financial system in money laundering and terrorist financing activities. However, this would not be possible without a common understanding of money laundering and terrorist financing risks at country level, without identifying not only sectoral but also national vulnerabilities and threats. Thus, in the context of the recognition of the national objective on identifying, knowing and managing money laundering and terrorist financing risks, during 2020, the National Bank carried out actions to collect statistical

\(^{32}\)https://www.fatf-gafi.org/home/

\(^{33}\)https://rm.coe.int/moneyval-2019-6-5th-round-mer-repmoldova/168097a396
data and information from supervised reporting entities (banks, non-bank payment service providers and foreign exchange offices) relevant to the supervisory activity, as well as analysed the information received. The accumulated data was handed over to the competent authority responsible for the national money laundering and terrorist financing risk assessment process and the National Money Laundering and Terrorist Financing Risk Assessment Report is expected to be published in the coming period.

In the same line, since preventing and combating money laundering and terrorist financing requires a multi-institutional approach, in order to ensure the appropriate contribution to the Republic of Moldova’s overall effort to combat economic crime, the National Bank of Moldova has supported a continuous exchange of information on money laundering and terrorist financing risks with other supervisory authorities in the country, as well as with relevant international bodies.

As the improvement of the supervisory capacities is a constant concern of the NBM, inspectors involved in the supervisory activity in the field of preventing and combating money laundering have benefited during 2020 from international expertise, through participation in trainings and workshops, including online, organized within the framework of several technical assistance projects provided by international organizations.
Chapter 5

Payment system

5.1 Payment systems regulation and supervision

In accordance with the Law on the National Bank of Moldova no. 548/1995, the 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.

In order to modernize the automated interbank payment system (AIPS) of NBM and to implement the instant payment scheme, provided as operational objectives in the strategic plan 2018-2020 of the NBM, the Concept on developing the payment domain from the Republic of Moldova has been approved, which stipulates carrying out two implementation projects.

Thus, these projects are aimed at developing the payment system in the Republic of Moldova and modernizing payment services, to provide the financial community in our country a payment system with high-performance infrastructure to meet the expectations and demands of payment service providers, but also modern payment system tools that would meet the needs of individual and corporate consumers.

According to the approved concept, several actions will be taken regarding the development of the domestic payment domain. These refer to the logical separation of RTGS (real-time gross settlement system) and DNS (designated-time net settlement system) modules of AIPS, moving to a more advanced format of payment messages (ISO 20022), the creation of a functional model for managing liquidity limits by AIPS participants and the implementation of a new payment scheme (instant payments).

The measures concerned will strengthen the payment system in the Republic of Moldova, improve the management of operational and liquidity risks and facilitate the implementation of new payment instruments. In addition, premises will be created for the efficient development of innovative payments, including mobile ones, with immediate final settlement and the possibility of immediate reuse of received funds. As a result, the flow of economic flows will become easier; the innovative payments sector will have a better ability to attract investment and will
increase the speed of money flow in the economy. They will benefit at many levels – payment service providers and final consumers (individuals), as well as economic operators and authorities.

According to the Payment System Supervision Policy of the Republic of Moldova (approved by the Executive Board Decision No. 299 of 27 October 2016), the core objective of the NBM supervision is the 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 the National Bank supervision, whose stable and efficient functioning is essential for financial stability, monetary policy implementation and promoting public confidence in making 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;
5. Automated remote service systems.

When 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 the activity of providing payment and electronic money issuing services

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

The licensing process of non-bank payment service providers (payment companies, electronic money issuers and postal service providers) and that of registration of payment agents takes place in compliance with a set of requirements, which ensures a uniform and competitive approach to access to the activity of providing payment services and its development on the territory of the Republic of Moldova.
As of 31 December 2020, seven non-bank payment service providers were working in the Republic of Moldova, including one payment company, one postal service provider and five electronic money issuing companies.

At the same time, during 2020, the segment of Information System of the National Bank of Moldova on licensing, authorization and notification (https://crm.bnm.md) was made available to applicants, through which it is possible to interact remotely with the National Bank in the context of submitting applications for obtaining the license for the provision of payment services, for issuing electronic money and applications for the acquisition of qualified participation in a payment company/electronic money issuing companies.

Likewise, licensed payment companies/electronic money issuing companies may use this platform for agent registration, license amendment and other operations with it (certified copies, license renewal and authorized copies of the renewed license, duplicate of the license and authorized copies of the license duplicate, application for withdrawal of the license).

**The regulatory framework** elaborated by the NBM in the context of the activity of providing payment services comes to align the internal regulations of the profile with the European rules, materializing in the adoption of the normative acts necessary to carry out the activity on the payment services market. This framework is an essential support for increasing the number of modern and secure payment services, increasing competition in the payment services market due to the market access of non-banking providers, thus promoting better efficiency and quality, as well as achieving a high level of non-cash payments and reduction of cash in circulation.

During 2020, the National Bank of Moldova developed and run through a series of stages of the law-making process – the draft law (single number 199/MF/NBM/2020) aiming to transpose the provisions of the Directive into national legislation (EU) 2015/2366 on payment services in the internal market (according to international customs – PSD2). The transposition of the European directive into national law is an exercise in further aligning the regulatory framework for payment services with the new EU regulations in the field, which offers new methods and solutions for payments, more legal clarity, sets new rules for both existing payment services providers, as well as for those to come and, last but not least, more protection for payment service users. By the end of 2020, the draft law is in the finalization stage in order to be submitted to the Government for approval.

In accordance with art. 93 para. (2) letter b) of Law no. 114/2012, the National Bank supervises the activity of payment companies, electronic money issuing companies, postal service providers as payment service providers, banks as payment service providers and electronic money issuers.

In 2020, a thematic on-site inspection was carried out at a licensed bank, during which the bank’s activity was verified according to the legislation related to payment systems.

Also, during 2020, four thematic ex officio inspections were carried out, during which the activity of non-bank payment service providers was verified.
As a result of the inspections carried out, proposals and recommendations were made on the actions needed to be taken in order to eliminate the breaches and shortcomings detected and, where appropriate, remedial measures were imposed and sanctions applied.

The NBM also carried out ex officio monitoring of the activity of non-bank payment service providers, including through continuous monitoring of their activity, analysis of quarterly reports submitted to the NBM, examination of notifications (complaints), of information published on web pages etc.

During 2020, through non-bank payment service providers, 75.6 million payment transactions were performed, decreasing by 3.8% compared to 2019, in the total value of MDL 26.9 billion, by 8.2% more than in 2019 (Chart 5.1).

### 5.3 Automated interbank payment system

The automated interbank payment system (AIPS) is the system through which payments are made automatically in Moldovan lei off/through participants on the territory of the Republic of Moldova. The 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.

At the end of 2020, 19 participants were registered in AIPS, namely:

- The National Bank of Moldova;
- 11 banks licensed by the National Bank of Moldova;
- Cash and settlement centre in Tiraspol city;
- 2 non-bank payment service providers;
- The State Treasury within the Ministry of Finance, including as a mandated participant;
- The Single Central Securities Depository (CSD);
- Deposit Guarantee Fund in Banking System.

In 2020, through AIPS, a total volume of 12.6 million transactions worth of MDL 1.1 billion were processed, decreasing in number by 7.3% and increasing in value by 5.4%, respectively, compared to 2019. The average daily volume\(^{34}\) of operations amounted to 49.9 thousand transactions worth MDL 4.3 billion. The maximum volume of payments settled daily in AIPS was reached on 28 December 2020, being settled 105.5 thousand payments.

\(^{34}\)In 2020, there were 253 working days.
On average, 4.9 thousand payments were settled through the RTGS system daily, amounting to MDL 4.0 billion, and through the DNS system 44.8 thousand payments, amounting to MDL 245.3 million. The average value of a payment settled in the RTGS system was MDL 810.8 thousand, and of a payment settled in the DNS system – MDL 5.5 thousand (Table A.16).

Regarding the structure of payments made through AIPS in 2020, it is found that payment transactions made by participants on behalf of customers were predominant (99.8% of the number of settled transactions), but their total value remains relatively low (only 33.1% of the value of settled transactions).

From the payments’ structure point of view, made on behalf of clients by AIPS participants, we find the following representation:

- ordinary customer transfers – 55.6% of total payments;
- transfers related to budget payments – 42.8%;
- other types of payments – 1.6%.

In terms of value, transactions in AIPS, made on behalf of clients have the following structure:

- ordinary customer transfers – 61.2% of total payments;
- budget transfers – 37.7%;
- other types of payments – 1.1%.

During 2020, the average availability of the system for participants was 99.9%, which illustrates the extent to which AIPS participants had the ability to use AIPS without discontinuities or incidents, during the operating program.

### 5.4 The Single Central Depository of Securities

The Single Central Securities Depository (CSD) is operational since 31 July 2018 and is administered (managed and operated) by the Single Central Securities Depository S.A.

The CSD system is a securities settlement system, which ensures the provision by the Central Depository of securities registration, centralized administration, settlement and, where appropriate, ancillary services. The CSD system is based on a modern direct processing technology, connected to AIPS and offers an efficient infrastructure and services for the settlement of securities transactions and the registration of property rights over securities.

At the end of 2020, there were registered 20 participants in CSD, of which:

- The National Bank of Moldova;
Chapter 5. Payment system

- 11 banks licensed by the National Bank of Moldova;
- Deposit Guarantee Fund in the Banking System;
- 7 non-bank investment companies.

Securities registration services provided by CSD

At the end of 2020, 298.7 million securities of SS and NBC type were registered in the CSD system at a nominal value of MDL 35.6 billion.

At the same time, according to the data presented by CSD at the end of 2020, 890.5 million corporate securities (CS) were registered in the CSD system, out of which 888.2 million ordinary shares and 2.3 million preferential shares. The total value of CS constituted for the reference period MDL 11.9 billion, of which 99.9% of the total value of CS represented ordinary shares.

Settlement services

During 2020, 6.4 thousand transfer orders worth MDL 349.2 billion were settled in the CSD system.

Supervision of CSD activity

During 2020, a complex on-site inspection has been carried out at CSD, during which its activity has been subject to verification. Certain violations and shortages were found during the inspection, proposals and recommendations for their removal were submitted and remedial measures were taken.

5.5 Cashless payment tools

Cashless payment tools are essential components of the 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 international authorities and national institutions in order to promote utilization of cashless payment tools and making the circulation of money transparent.

Payment cards

Number of cards\(^{35}\) in circulation at the end of 2020 constituted 2.18 million units and increased by 8.4% compared to end of 2019 (Chart 5.3).

---

\(^{35}\)Standardized and, where appropriate, customized information support through which the holder usually using his or her personal identification number and/or other identifying codes allowing his/her identification, depending on the type of payment card, has remote access to the payment account to which the payment card is attached for payment transactions.
On the background of the increase in the number of cards in circulation, the number of active cards had an increase by 7.9% compared to the end of 2019 and the share of active cards in the total number of cards in circulation did not change significantly, accounting for 60.7%. 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 (contactless) registered an increase of 26.6% compared to 2019. 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 2020 contactless cards hold the major share (80.2%) of the total cards in circulation in the Republic of Moldova. Hybrid cards (microprocessor card and magnetic tape), the number of which fell by 29.8% compared to the end of 2019, account for 19.6% of the total cards in circulation in the Republic of Moldova. Magnetic tape cards have an ever-insignificant share, accounting for only 0.1% of the total number of cards in circulation, even though in 2014 these cards had the most significant weight (55.1%). Virtual cards have a modest share of only 0.1%, with no significant variation over the last few years.

During 2020, through payment cards issued by payment services providers from the Republic of Moldova, 96.0 million operations amounted to MDL 75.6 billion were made in the country and abroad, increasing compared to 2019 with 21.3% in number and 9.0% as value.

Of the total volume of transactions performed with cards issued in the country, 73.2% represented cashless payments, and 26.8% – withdrawals. The number of non-cash payments registered an increase of 38.0% compared to the previous year, while the number of withdrawals decreased by 8.8% compared to the same period.

Daily, on average, with payment cards issued in the Republic of Moldova, 70.4 thousand cash withdrawals and approximately of 191.9 thousand cashless payments are made. The average amount of cash withdrawals in 2020 reached MDL 2,091, up by 13.1% compared to 2019. At the same time, a cashless payment on average had a value of MDL 310, decreasing by 8.3% versus 2019.

Domestic operations made with payment cards issued by licensed payment service providers represents 87.4% (83.9 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 in number for 69.5% (57.2% for 2019) and as value 23.4% (17.0% for 2019).

---

36 Payments card that made at least one financial transaction during the reporting period.
37 Payment transaction performed with an accepting provider from the Republic of Moldova with cards issued by payment service providers licensed by the NBM.
Daily, 69.9 thousand cash withdrawals and about 159.5 thousand 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 2,080 in 2020, up by 13.2% compared to 2019. At the same time, a non-cash payment accounted for an average of MDL 279, decreasing by 1.1% compared to 2019.

Of the total number of domestic operations, 52.5% were non-cash payments made with the physical presence of the card and 17.0% were made without the physical card presence (Chart 5.5).

The number of transactions with cards, issued in the Republic of Moldova, carried out abroad during the year 2020 (12.1 million operations) decreased by 12.8% compared to the previous year, being approximately 7 times lower than the number of transactions performed in the country with cards issued in the Republic of Moldova. Of the total number of 12.1 million transactions carried out abroad, 98.4% represent non-cash payments, a decrease of 12.4% compared to 2019. It is worth mentioning that 78.4% of the total number of transactions carried out abroad are non-cash payments made without the physical presence of the card and 20.1% are cashless payments made with the physical presence of the card (Chart 5.6). 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 0.0117% for the year 2020, being about 3 times lower than the level of the European average (0.037% for 201838).

The positive trends that emerged on the card market in the Republic of Moldova during 2020 were as follows:

- The number and value of card payments issued in the Republic of Moldova made at the physical locations of domestic merchants increased by 56.9% and 52.4%, respectively, in 2020 compared to the previous year;
- The number and value of domestic card payments made without its physical use (in e-commerce platforms, automated distance serving systems, etc.) increased by 54.7% and 59.6%, respectively, in 2020 compared to 2019;
- 70.0% of non-cash transactions conducted abroad with payment cards issued in the Republic of Moldova are payment transactions in e-commerce, which denotes the upward trend of these types of transactions and the consumers’ growing confidence in this payment tool;

The payment card acceptance network of the Republic of Moldova developed during 2020, the number of POS terminals increasing by 3.2 thousand units compared to the previous year, accounting for 23,727 POS terminals at the end of 2020;

The share of contactless cards in circulation increased sharply, from 69.2% at the end of 2019 to 80.2% at the end of 2020, due to the gradual replacement of hybrid cards with those contactless.

**Automated remote service systems**

Automated remote services systems (ARSS) are computer solutions and/or equipment made available to the holders 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 2,085.9 thousand holders at the end of 2020, increasing by 30.4% as compared to 2019. Number of active holders, also recorded a growth trend of 63.1%, reaching the figure of 626.6 thousand, 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 30.0% (Chart 5.8).

The distribution of ARSS holders by system type shows that 56.1% of them are registered in the internet-payments systems (0.3 percentage points more than the end of 2019); 41.1% of their total number are holders of mobile-payments (0.6 percentage points more than the end of 2019); 2.8% of the total number of holders use telephone-payments (0.9 percentage points less than the end of 2019) and only 0.06% use PC-payments (PC-payments holders are only legal entities), this share decreasing by 0.04 percentage points compared to the end of 2019.

In 2020, 29.5 million transactions were made through ARSS, by 37.4% more than in 2019. The increase in the number of transactions through ARSS can be argued by the fact that customers of payment service providers are increasingly oriented to pay for various services/goods through ARSS, due to the convenience they offer, phenomenon that grew during the COVID-19 pandemic.

The value of all transactions made through ARSS by individuals and legal entities totalled MDL 613.0 billion in 2020, increasing by 8.3% from the previous year, which shows the increase in customer confidence in transactions through ARSS (Chart 5.9). Approximately 96.5% of the value of the transactions performed by the ARSS was performed by legal entities.

39 ARSS holder who has carried out at least one financial operation during the reporting period by a remote banking system.
Credit transfer

Of the total number of payment transactions carried out through credit transfer initiated by bank customers (18.4 million transactions), 86.8% were initiated in electronic format through ARSS. Over the last 5 years, this indicator has improved from 63.1% for 2016 to 86.8% for 2020, 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 10.9%, compared to the previous year while the number of paper-based decreased by 50.8% compared to 2019. At the same time, the value of operations carried out by credit transfer initiated by the clients of the banks reached the amount of MDL 419.5 billion, of which 88.1% were made in electronic format, and 11.9% on paper.

Direct debiting

During 2020, 170.7 thousand direct payment transactions were executed in a total amount of MDL 116.6 million, increasing in number by 30.6% and in value by 73.6% compared to 2019. The total number of users of this payment instrument constituted at the end of 2020 about 14.4 thousand, twice more compared to the previous year.
Chapter 6

Cash operations

In 2020, the amount of currency in circulation continued its upward trend, with a growth rate (+27.9%, up to MDL 33,068.7 million), more than 19.0 percentage points compared to that registered in 2019.

6.1 Evolution of currency (banknotes and coins in circulation)

Banknotes in circulation at the end of 2020, in terms of value amounted to MDL 32,859.7 million, by 28.0% more 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 2020, about 331.8 million banknotes were in circulation, by 16.6% more than at the end of 2019. 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 denomination of 10 lei, 20 lei, 50 lei, 100 lei, 200 lei, 500 lei and 1,000 lei.

Banknotes with the denomination of 1 leu continued to hold a large share, 25.8% of total number of banknotes in circulation, followed by banknotes with the denomination of 200 lei, with a share of 24.7% and that of 100 lei, with a share of 15.3%. Similar to the previous years, the smallest share in the total number of banknotes in circulation belonged to banknotes with the denomination of MDL 1,000 (1.0%).

According to the nominal value structure, at the end of the reporting period, the quantity of banknotes in circulation constituted: of 1 leu – 85.7 million banknotes, 5 leu – 16.9 million banknotes, 10 leu – 21.0 million banknotes, 20 leu – 15.0 million banknotes, 50 leu – 47.2 million banknotes, 100 leu – 50.7 million banknotes, 200 leu – 82.0 million banknotes, 500 leu – 10.0 million banknotes and 1,000 leu – 3.4 million banknotes.

The chart 6.3 reflects the structure by nominal values of banknotes in circulation at the end of 2020, represented in quantity and value.
At the end of 2020, there were 885.7 million divisive metal coins, which amounted to MDL 128.7 million, and in terms of quantity being by 2.3% and in terms of value by 2.8% higher compared to these values at the end of 2019. The evolution of coins in the monetary circulation according to the nominal value structure is presented, in terms of value and quantity, in the charts 6.4 and 6.5, respectively.

The quantitative increase of the divisive metal coins results from the preponderant increase of the number of coins with the face value of 5 bani, 10 bani and 25 bani. According to the structure of face value from a quantitative point of view, at the end of the reference period, 1 ban coins had a share of 8.0%, 5 bani coins – 26.2%, 10 bani coins – 30.6%, 25 bani coins – 30.1% and 50 bani coins – 5.1%, and in terms of value, 0.5%, 9.0%, 21.1%, 51.8% and 17.6%.

The chart 6.6 reflects details on the structure of divisive metal coins in circulation at the end of 2020, by nominal values, represented in quantity and value.

At the end of 2020, there were 37.8 million lei metal coins in circulation, 1.6 times more compared to 2019 (increase by 64.4%), their value being MDL 64.1 million – of 1.7 times higher than at the end of the previous year (increase by 72.2%). The evolution of lei coins in monetary circulation according to the nominal value structure is presented, in terms of value and quantity, in the charts 6.7 and 6.8, respectively.

The quantitative increase of the lei coins in circulation results from the preponderant increase of the number of coins with the nominal value of 1 lei and 2 lei. According to the structure on nominal values in terms of quantity, at the end of the reference period, the 1 lei coins had a share of 60.8%, 2 lei – 33.3%, 5 lei – 3.4% and 10 lei, including those with commemorative character – 2.5%, and in terms of value, 35.9%, 39.3%, 10.1% and 14.7%, respectively.

The structure on nominal values of the lei metal coins in circulation at the end of 2020 is represented in terms of value and quantity, in the chart 6.9.
Chapter 6. Cash operations

Chart 6.4: Evolution of divisive coins in monetary circulation in terms of value (MDL million)

Chart 6.5: Evolution of divisive coins in monetary circulation in terms of quantity (millions of coins)

Chart 6.6: The structure by face value of divisive coins in circulation at the end of 2020

Chart 6.7: Evolution of LEI coins in monetary circulation in terms of value (MDL million)

Chart 6.8: Evolution of LEI coins in monetary circulation in terms of quantity (millions of coins)

Chart 6.9: The structure by face value of LEI coins in circulation at the end of 2020

Source: NBM
6.2 Cash issuing, withdrawal and processing

During 2020, the National Bank of Moldova has put into circulation cash of total value of MDL 9,698.4 million, which is about 45.3% more compared to 2019.

In terms of value, the banknotes issued in 2020 totalled MDL 9,668.1 million (of which MDL 8,482.0 million constitute up-dated banknotes), which is about 45.6% more than in 2019, and in terms of quantity – 91.7 million banknotes, about 37.8% more than in 2019.

The increase in quantity of banknotes issued into circulation in 2020 was due to the increase in the number of banknotes with denomination of 10 lei, 20 lei, 50 lei, 100 lei, 200 lei and 500 lei. In quantitative terms, the banknotes put into circulation according to the structure of the nominal values constituted: 1 leu – 0.01 million banknotes, 5 lei – 2.0 million banknotes, 10 lei – 12.1 million banknotes, 20 lei – 10.1 million banknotes, 50 lei – 27.4 million banknotes, 100 lei – 17.1 million banknotes, 200 lei – 19.3 million banknotes, 500 lei – 2.6 million banknotes and 1,000 lei – 1.1 million banknotes.

The nominal value structure of banknotes put into circulation in terms of quantity and value is presented in the chart 6.10 and in the chart 6.11, respectively.

Divisive metal coins issued in 2020, in terms of value, amounted to MDL 3.5 million, about 24.1% less compared to 2019, and in terms of quantity – 20.2 million coins, by 36.6% less than in 2019.

From a quantitative point of view, the metal divisive coins issued in 2020, according to the nominal value structure, consisted of: 5 bani – 1.3 million coins, 10 bani – 8.7 million coins, 25 bani – 10.2 million coins and 50 bani – 0.01 million coins. The share on each face value of the divisional coins issued is presented, in terms of quantity and value, in the chart 6.12 and chart 6.13, respectively.

The metal coins, including commemorative coins, issued in 2020, in terms of value constituted MDL 26.9 million by about 1.3% less compared to 2019, and in terms of quantity – 14.8 million coins by about 1.2% less than in 2019.

The nominal quantity structure of metal coins issued in 2020 is the following: for 1 leu – 9.2 million coins, 2 lei – 4.3 million coins, 5 lei - 0.8 million coins, 10 lei – 0.5 million coins, and for commemorative coins – 0.04 million coins.

The share on each nominal value of the lei coins issued is presented, from a quantitative and value point of view, in the chart 6.14 and, respectively, chart 6.17.
Starting with 21 April 2020, the National Bank of Moldova put into circulation as a means of payment on the territory of the Republic of Moldova a commemorative metal coin with a face value of 10 lei, dedicated to the 30th anniversary of the adoption of the State Flag of the Republic of Moldova, which completes, as a whole, the series of commemorative coins, which includes two more issues of this kind. Commemorative coins circulate in parallel with banknotes and coins with the same face value.

During 2020, by means of deposits made by licensed banks, the National Bank of Moldova withdrew from circulation banknotes with a total value of MDL 2,486.3 million (45.6% less than in 2019), which accounted for 44.5 million banknotes (about 32.5% less than in 2019). The quantity and value of the banknotes by face values withdrawn from circulation are shown in the chart 6.15 and the chart 6.18, 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, respectively, in 2020, 43.2 million banknotes were processed within the central bank, by checking both in terms of authenticity and quality. Following processing, about 25.9 million banknotes were sorted as inappropriate for circulation.

**National currency counterfeiting**

During 2020, 0.7 thousand banknotes counterfeited or forged have been registered in the banking system, about 70.2% less than in 2019. Compared to the number of authentic banknotes in circulation at the end of the reference period, which amounted to 331.8 million banknotes, the number of counterfeit banknotes remains at a very low level and represents 0.0002% or about 2 counterfeit banknotes per 1 million authentic banknotes in circulation.

The most frequently forged banknote was that of 100 lei – 569 pieces. On the second place was the banknote with the denomination of 20 lei, with 108 counterfeits, followed by the 200 lei banknote with the number of 27 counterfeits, and the 1,000 lei banknote, with a number of 16 counterfeits.

As a basis for comparison, in 2019, the number of counterfeits of national currency amounted 2.5 thousand banknotes, and the highest number of counterfeits were recorded for the 100 lei banknotes, totalling 2.1 thousand banknotes, 20 lei – 249 banknotes, 200 lei – 48 banknotes, 50 lei – 41 banknotes, 1,000 lei – 21 banknotes.

The share of fake banknotes on face value in 2020 and 2019 is shown in the chart 6.16 and chart 6.19, respectively.

At the same time, the NBM regularly co-operates with the Ministry of Internal Affairs in order to withdraw the counterfeit banknotes, 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.
Chapter 6. Cash operations

Chart 6.14: The LEI metal coins issued during 2020 in terms of quantity

Chart 6.17: The LEI metal coins issued during 2020 in terms of value

Sursa: NBM
*the commemorative coin

Chart 6.15: The banknotes withdrawn from circulation during 2020 in terms of quantity

Chart 6.18: The banknotes withdrawn from circulation during 2020 in terms of value

Sursa: NBM

Chart 6.16: The nominal values structure of the forgeries, found in 2020 in terms of quantity

Chart 6.19: The nominal values structure of the forgeries, found in 2019 in terms of quantity

Sursa: NBM
6.3 Numismatics issuance

In accordance with the Law on the National Bank of Moldova no. 548/1995, the National Bank of Moldova launched in 2020 a new numismatic issue of 9 jubilee and commemorative coins on various topics of which 8 silver coins and 1 silvered tombac coins.

The prints were differentiated according to the theme and the metal from which the coins were made, respectively 3,850 silver coins with a face value of 50 lei and 300 silver tombac coins with a face value of 20 lei have been issued in total.

The "Personalities" series is enriched with two commemorative coins dedicated to the centenary of Valentina Rusu-Ciobanu – plastic artist, one of the most representative and illustrious personalities of Bessarabian painting and the bicentenary of the birth of Alexandru Ioan Cuza – the first ruler of the United Principalities and Romania.

The coin dedicated to the Varzaresti Monastery – 600 years since its founding, the oldest monastic complex in the area between the Dniester and the Prut, which is a testimony to the faith of our people, completes the series "Monasteries of Moldova". The piece is a continuation of highlighting the monuments of traditional local architecture of this kind.

The coin dedicated to Paul Bran – economist, university professor, manager of higher education in the field, the first rector of the Academy of Economic Studies of Moldova, supplements the series "Science and Innovation".

At the same time, the series "Red Book of the Republic of Moldova" is completed with a coin depicting the Machaon butterfly (Papilio machaon L.), a species of butterfly protected by law.

The "Other" series of coins is completed with a commemorative coin dedicated to the Wines of Moldova – the country’s fame and symbol, the renaissance impulse and victory trophy, becoming an important part of our national, cultural and historical heritage.

The coin dedicated to the Traditional Ornament, which represents important testimonies of the spiritual life and secular traditions of the nation, completes the series "Holidays, culture, traditions of Moldova".

The "Childhood Stories" series, launched last year, includes a new coin "The Purse with Coppers Two" made of silvered tombac coin.

The commemorative coin "My doctor – my hero" brings to our attention and reconfirms a scale of values of the highest moral and professional probity that medical workers show at any moment, saving human lives.
The design project represents the image of two doctors on the background of the Republic of Moldova’s map. The work is signed by the sculptor Veaceslav Jiglitchi, a member of the Union of Fine Artists of the Republic of Moldova. The acquisition of the graphic design service used to mint this coin was made on the basis of a public tender, organized and conducted by the National Bank of Moldova.

Table A.17 includes details of jubilee and commemorative coins issued in 2020.
Chapter 7

Legal and regulatory framework development activity

7.1 Prudential regulation, regulation of accounting evidence in banks

During 2020, in order to apply the provisions of Law on Banks’ Activity, the National Bank of Moldova approved the following legal documents:

- Regulation on the requirements for publication of information by banks, which contains requirements relating to the minimum content of information that needs to be published, the periodicity, the means and the form of publication. The regulation requires banks to disclose information on, at least, the business management framework, own funds, capital requirements, liquidity, risk exposures, capital buffers, other key indicators, internal policies, including remuneration policy, to the extent and under the conditions provided in the normative acts issued when applying the mentioned law;

- Regulation on the requirements to cover liquidity needs for banks, which defines the indicator of liquidity needs coverage, sets out how to determine it (the ratio between a bank’s liquidity reserve and its net cash outflows over a period of 30-day crisis expressed as a percentage), requirements on the composition of banks’ liquidity reserves, representing net cash outflows, methodology for calculating cash outflows and inflows, the value of the liquidity needs coverage indicator (at least 100.0%), the phased implementation of the indicator from 60.0% (as of October 1, 2020) to 100.0% (as of January 1, 2023);

- amendments to the Regulation on the treatment of bank’s credit risk according to the standardized approach, clarifying the provisions related to the treatment of credit risk of public sector entities in the Republic of Moldova, in order to calculate credit risk and own funds requirements of banks;

- Regulation on the treatment of bank’s counterparty credit risk, which contributes to maintaining an appropriate level of own funds in relation to the level of counterparty credit risk assumed by banks in the case of derivative financial tools and long-term transactions settlement;

- Regulation on the treatment of banks’ credit rating adjustment risk, which introduces new capital requirements to be set up so that it can absorb the losses generated by the credit rating adjustment risk. Thus, the approved regulation lays down rules on the calculation of own funds requirements for CVA risk for all over the counter (OTC) derivatives;
• Regulation on the bank’s consolidated supervision, which establishes the regulatory framework for banks’ consolidated supervision, by applying prudential requirements and derogations from the application of these requirements, methods of consolidation, scope of consolidation, including situations when certain entities in the group will not be included, how to obtain permission from the National Bank to carry out prudential consolidation and requirements for intra-group transactions with mixed-activity holding companies;

• Regulation on outsourcing the bank’s activities and operations, which contributes to better management in the field of outsourcing and implicitly, the associated risks, therefore, banks will apply higher rigor to the assessment of the supplier, adapt to the requirements of chain outsourcing and perform external audit only on outsourced activities of material importance;

• Regulation on the leverage effect for banks, whose objectives include limiting banks’ indebtedness, strengthening risk-based capital requirements, comparing the level of indebtedness between banks in a simple and consistent manner. Following the approval of the regulation, the banks will report to the NBM the information related to the leverage effect indicator, and the NBM based on the observation and analysis of the reported data will establish the minimum level of this indicator. A period of observation of the leverage effect indicator of 3 years is expected (from 30.03.2021 to 31.12.2023);

• amendments to Instruction on the submission by banks of COREP reports for supervisory purposes, to regulate the reporting of the requirement to cover liquidity needs, counterparty credit risk, credit rating adjustment risk and information on leverage effect indicator.

The National Bank of Moldova continues to develop and revise, as appropriate, the normative acts for the execution of the Law on Banks’ Activity.

For the purpose of applying the provisions of the Law on the supplementary supervision of banks, insurers/reinsurers and investment firms belonging to a financial conglomerate, the Regulation on technical standards for the regulation of supplementary supervision of conglomerates has been approved which established the technical principles and calculation methods for the purpose of determining own funds and the additional capital adequacy requirement for financial conglomerates, as well as provisions for the significance of intra-group transactions and risk concentration.

Aligning the banking legislation of the Republic of Moldova with international standards by improving the quantitative and qualitative mechanisms of bank management will contribute to promoting a secure and stable banking sector, increasing transparency, trust and attractiveness of the domestic banking sector for potential investors and creditors of banks as well as for depositors and clients, in the development of new financial products and services.
7.2 Currency regulation

In 2020, 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 concerning the notification and reporting of external commitments, the authorization of foreign exchange capital operations, the manner and conditions for carrying out foreign exchange operations, as well as some aspects related to the activity of foreign exchange units.

- Approved Instruction on notification of external commitments, which aims to regulate the manner of notification and reporting by residents to the National Bank of Moldova on private external commitments on paper, as well as in electronic form, in the context of implementation by the National Bank of Moldova of the solution for streamlining the licensing, authorization and notification process.

The instruction provides: the right of residents to notify and report to the NBM on external commitments in electronic or paper form; the obligation for residents to use the qualified advanced electronic signature if they choose the option to notify and report to the NBM in electronic form on external commitments; submission of documents through the WEB portal of the NBM - component of the NBM Information System on licensing, authorization and notification; the obligation of the residents to notify the NBM about external commitments assumed within 30 working days from the date of concluding the contracts (issuing the documents) related to these external commitments.

- In order to adjust some normative acts of the National Bank of Moldova on the adoption of Instruction on notification of external commitments, amendments were promoted to Regulation on authorization of certain foreign exchange operations by the National Bank of Moldova, to Instruction on reporting foreign exchange transactions by licensed banks and the Regulation on conditions and conduct of foreign exchange transactions.

Regulation on authorization of certain foreign exchange operations by the National Bank of Moldova incorporated rules related to the authorization by the NBM of operations for granting by residents in favour of non-residents of loans/credits/guarantees, as well as reporting to the NBM operations performed within them.

Instruction on reporting foreign exchange transactions by licensed banks has been supplemented by rules allowing licensed banks to report electronically on transactions carried out under external guarantees recorded by the NBM.

In the Regulation on conditions and manner of conducting foreign exchange transactions amendments have been made to the particularities of making payments/transfers in the context of foreign exchange operations subject to notification/authorization. In particular, the regulation
provided for the conditions under which residents may make payments and transfers using the funds received from the non-resident in the framework of external commitments subject to notification to the NBM.

- The amendments made to *Regulation on the activity of foreign exchange units* aim at reflecting the particularities related to the foreign exchange apparatus incorporated in the cash-in/cash-out ATMs of the licensed banks, specifying the way of drawing up/holding certain forms of reports and registers, including those in electronic form.
Chapter 8

International relations

8.1 International Collaboration

International Monetary Fund (IMF)\textsuperscript{40}

During 2020, the cooperation between the Republic of Moldova and the IMF have mainly developed in the context of implementation of the Reform Programme\textsuperscript{41} financially supported by IMF through the Extended Fund Facility\textsuperscript{42} (EFF) and the Extended Credit Facility\textsuperscript{43} (ECF), which has been completed in March 2020, as well as during discussions on the negotiation of a new financial support program for the next period.

Thus, the dialogue with the IMF in 2020 took place during a mission of IMF experts in the Republic of Moldova, as well as during several subsequent online discussions, due to travel restrictions imposed by the spread of the COVID-19 pandemic.

A team of IMF experts was on a mission to Chisinau from January 22 to February 5, 2020. The purpose of this mission was to hold talks with Moldovan authorities, including the NBM, in the context of the 2020 consultations provided for in Article IV of the IMF Statute\textsuperscript{44}, as well as the completion of the sixth evaluation of the implementation of the IMF-supported reform program.

At the end of this mission, IMF experts concluded that the reform program implemented by the Moldovan authorities over the past

\textsuperscript{40}http://bnm.md/en/content/relatia-republicii-moldova-cu-fondul-monetar-international-fmi

\textsuperscript{41}Reform Programme, supported by IMF by financial mechanisms EFF and ECF has been approved by the IMF Executive Board on November 7, 2016 initially for a period of 3 years, with a subsequent extension until March 2020, in order to support the state’s economic and financial reform agenda. The approved amount of financing was 129,4 million Special Drawing Rights (SDR) (approximately USD 179.7 million or 75% of Moldova’s share of the IMF).

\textsuperscript{42}Extended Fund Facility (EFF) is an IMF financing tool for countries with large balance of payments imbalances due to structural impediments or the slow pace of economic growth and a poor, inherent balance state. https://www.imf.org/en/About/Factsheets/Sheets/2016/08/01/20/56/Extended-Fund-Facility

\textsuperscript{43}Extended Credit Facility (Extended Credit Facility (ECF) is an IMF financing tool through which eligible (low-income) countries can benefit from concessional financial assistance in a more flexible form and better adjusted to their various needs, including during crises (for example, in the case of long-term balance of payments issues). https://www.imf.org/en/About/Factsheets/Sheets/2016/08/02/21/04/Extended-Credit-Facility

\textsuperscript{44}The IMF engages annual (usually) in bilateral discussions with Member States, in accordance with the provisions of Article IV of the IMF Statute. An IMF mission visits the Member State, collects economic and financial information and discusses with the authorities the policies and economic developments in that country. Following the visit, the mission prepares a report that underlines the discussions within IMF Executive Board. https://www.imf.org/external/pubs/ft/aa/pdf/aa.pdf
three and a half years has been largely successful. In particular, key progress was made in reforming the banking sector, including by ensuring the transparency of banks’ shareholders by verifying the compliance of bank owners with criteria of good repute and professionalism, eliminating banks’ high exposures to their affiliates, improving the governance framework in banks and strengthening the mechanism to ensure financial stability.

Also, among other things, significant achievements in strengthening the governance, transparency and accountability of the NBM have been highlighted, as well as strengthening the operational framework of the NBM for providing emergency financial assistance as a lender of last resort.

These conclusions were also supported by the IMF Executive Board on March 11, 2020, when the final assessment of the results achieved by the Republic of Moldova in the context of the implementation of the Reform Program of November 2016 has been completed, as well as has been approved the report on the consultations provided for in Article IV of the IMF Statute. Thus, following the sixth assessment, the Republic of Moldova obtained the possibility to access the last tranche of SDR 14.4 million (approximately USD 20 million) under this program which benefited from IMF financing totalling SDR 129.4 million (approximately USD 179.14 million).

Subsequently, given the negative economic effects generated by the restrictive measures imposed by the authorities during the COVID-19 pandemic, the NBM, together with the Government of the Republic of Moldova, participated in active discussions with IMF representatives in the context of obtaining emergency financial assistance to improve economic impact, as well as to cover urgent needs related to the balance of payments and the state budget. As a result, Moldova has obtained from the IMF access to financing provided through the Rapid Crediting Facility (RCF) and the Rapid Financing Instrument (RFI) totalling SDR 172.5 million (100% of Moldova’s share in the IMF). Thus, in April 2020, the amount of USD 156.70 million (equivalent to SDR 115.0 million) RFI type loan and USD 77.72 million (equivalent to SDR 57.50 million) RCF type credit has been disbursed in favour of the Republic of Moldova.

In this context, it should be noted that in 2020 the IMF has intensified its role through surveillance and assistance in
monitoring and assessing the impact of the pandemic crisis and in implementing measures to respond to it. Respectively, the NBM constantly informed the IMF about the policy measures taken to alleviate the consequences of the crisis caused by the COVID-19 pandemic.

Following a request from the Republic of Moldova in July 2020, IMF experts conducted a virtual mission, during which they held talks with the authorities of our country, including the NBM, to negotiate a new economic program, expected to be financially supported by IMF. Thus, at the end of this mission, the IMF experts succeeded to agree on a new three-year economic reform program to be financially supported by the IMF, totalling about USD 558 million, under the ECF and EFF mechanisms. The adoption by the IMF Executive Board of a decision to give the Republic of Moldova access to this financing was conditioned by the implementation by the Moldovan authorities of some preliminary actions. Some of these also concerned the areas of competence of the NBM, namely: continuing to strengthen the independence of the NBM, ensuring a full composition of the Executive Board of the NBM, and the need to reform and strengthen the non-banking financial sector in line with European and international best practices, by assigning to NBM new attributions of licensing/authorization/issuance of the approval for the state registration, regulation and supervision of the activity of some entities from the non-banking financial sector.

At the same time, until the approval of the financial assistance for the new program, the NBM participated in the so-called IMF Safeguard Assessment Exercise. This assessment is a mandatory step prior to the conclusion of a financial arrangement with the IMF, which any central bank goes through in terms of a detailed assessment of the governance and control mechanisms applied by it. The results of this assessment are taken into account when determining the financing conditions by the IMF, as well as the amount that may be requested under the new program.

On October 19-27, 2020, the IMF team of experts held long-term discussions with the Moldovan authorities in the context of collecting information on recent economic developments, implementing commitments in the context of the new program agreed by the Moldovan authorities with IMF experts, and policies promoted by the authorities in order to maintain macroeconomic and budgetary stability, including in the context of the 2021 budget.

In 2020, the total payments related to the service of loans granted to the NBM by the IMF amounted to SDR 39.5 million (equivalent to USD 54.8 million), of which the payments for the main loan amount amounted to 38.36 million SDR (equivalent to USD 53.2 million) and interest payments on loans amounted to SDR 1.15 million (equivalent to USD 1.6 million).

As of December 31, 2020, the balance of the NBM’s financial commitments to the IMF was: EFF – SDR 74.42 million (USD 107.19 million), and ECF – 23.56 (USD 33.93 million).

During 2020, given that the Republic of Moldova is represented on the Board of Governors of the IMF by the Governor of the NBM and the First Deputy Governor of the NBM, who hold the offices of governor and alternate governor, respectively, NBM representatives attended spring meetings and the annual ones
held online between April 22-23 and October 15-22, respectively. The steps needed to be taken by the IMF and its flexible tools to help overcome the negative economic consequences of the COVID-19 pandemic have been discussed during these meetings.

It should also be mentioned that the NBM Governor participated on February 28, 2020 in the IMF constituency High Level Conference of Governors chaired by the Kingdom of the Netherlands with the theme "The impact of the energy transition on the economy and the financial sector, challenges and opportunities", organized by the central bank of the Kingdom of the Netherlands.

At the same time, it is noteworthy that in 2020, the NBM received training and assistance from the IMF in order to improve the framework for implementing monetary policy and financial stability in other areas specific to the central bank.

**European Union (EU)**

In 2020, in the context of implementing the common objectives set by our country and the EU in the Association Agreement Republic of Moldova – European Union, the NBM continued to strengthen cooperation relations with (EU) central banks that are responsible for supervising EU credit institutions with subsidiaries in the Republic of Moldova. Thus, following the negotiations initiated in 2019 between the NBM and the Hungarian central bank for the conclusion of a bilateral memorandum, in 2020 these negotiations were successfully completed, and on June 22, 2020 the Memorandum of Understanding between the NBM and the central bank of Hungary entered into force. The purpose of this document is to develop cooperation between the 2 central banks in the field of banking supervision and to ensure an efficient exchange of information in this regard.

Also in 2020, the dialogue between the NBM and the European Central Bank (ECB) continued, which also culminated in the signing of a Memorandum of Understanding in the field of banking supervision, which entered into force on 22 September 2020. The NBM and the ECB development of cooperation pursuant to this memorandum is essential to promote the integrity, stability and effectiveness of the institutions supervised by both the NBM and the ECB. Therefore, concluding this important agreement with one of the most influential central banks in the world is a significant achievement aimed at strengthening the banking supervision capacity of the NBM.

The conclusion and implementation of the 2 agreements reflects the continuity of the NBM’s efforts to reform the domestic banking sector according to the best international and European standards.

---

48Within the IMF, the Republic of Moldova is part of the group of countries (constituency) that includes: Andorra, Armenia, Belgium, Bosnia and Herzegovina, Bulgaria, Cyprus, Croatia, Georgia, Israel, Luxembourg, the Republic of Northern Macedonia, Montenegro, the Kingdom of the Netherlands, Romania, the Republic of Moldova and Ukraine. The IMF Executive Director, representing the countries in this group, since November 2020, is Paul Hilbers, elected for a term of 4 years.

49The collaboration relations between the Republic of Moldova and the European Union (EU) is 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 in Brussels on 27 June 2014, with effect from 1 July 2016 (provisionally applied from 1 September 2014).
In the context of the European integration process, during 2020, the NBM examined and submitted proposals on the draft of a new Association Agenda, which contains the priority objectives for the period 2021-2027, as well as proposals in the field of financial services for long-term policy objectives of the Eastern Partnership in the post-2020 period.

At the same time, during 2020, in the context of monitoring macro-economic and financial developments during the implementation of the Memorandum of Understanding between the Republic of Moldova and the European Union on macro-financial assistance, signed in 2017, the NBM reported quarterly the information on indicators in Annex 2 to this memorandum. In this context, it is worth mentioning that the NBM participated in the initiation of negotiations on a new draft memorandum of understanding between the Republic of Moldova and the EU on macro-financial assistance for the Republic of Moldova.

In the context of the activities of the Government of the Republic of Moldova for coordination and monitoring at national level of the European integration process, the NBM, during 2020, participated in the meetings of the Governmental Commission for European Integration. During these meetings, the developments registered in the elimination of arrears from the National Action Plan for the implementation of the Republic of Moldova-European Union Association Agreement in the period 2017-2019, as well as in the preparation for regular meetings with EU partners were discussed.

In order to ensure effective communication between the Republic of Moldova and the EU on the progress of the commitments made under the Association Agreement, the representatives of the NBM during 2020 participated in the meetings of the institutional cooperation bodies – Subcommittee on Economic and Other Sectors Cooperation (Cluster I) (4 February 2020), Association Committee (19 February 2020), Association Committee on Trade (20-21 October 2020). These meetings examined a number of topics related to the evolution of macroeconomic indicators, the current situation in the field of macro-prudential supervision and strengthening the banking system, as well as in the field of banking regulation and supervision, progress in banking sector reforms, measures to prevent fraudulent practices in the banking sector, other progress in implementing the Association Agreement, etc.

At the same time, it is worth mentioning that in 2020 the European Commission provided macro-financial assistance to the Republic of Moldova in the amount of USD 95.95 million, of which:

- **loan component** – USD 84.22 million (equivalent to EUR 71.69 million) – USD 61.27 million (equivalent to EUR 51.62 million) under the Loan Agreement between the Republic of Moldova and the European Union on Macro-financial Assistance for the Republic of Moldova, signed in Chisinau on July 21, 2020 and USD 22.96 million (equivalent to EUR 20.06 million) under the Loan Agreement between the Republic of Moldova and the European Union on Macro-financial Assistance signed in Brussels on November 23, 2017;

- **grant component** – USD 11.73 million (equivalent to EUR 10.00 million) under the Grant Agreement between the

In this context, it is worth to be mentioned that for the disbursement of the 2 tranches (out of a total of 3 tranches) provided in the Memorandum of Understanding between the Republic of Moldova and the European Union on macro-financial assistance signed on 23 November 2017, the NBM made a series of compliances, such as: transparency of bank shareholders and attracting new quality investors in the banking sector, strengthening the NBM’s regulatory framework to prevent and counter money laundering and terrorist financing in order to implement international standards in this field, adopting related secondary legislation to align the regulatory framework for banks to international and EU standards.

In order to fulfil the commitments in the Association Agreement, the NBM benefits from continuous technical support from the EU through its assistance tools.

World Bank

In order to manage the impact of the pandemic crisis, in 2020 the World Bank provided support to the Republic of Moldova by providing access to various studies, analyses and reports on various priority areas of intervention to support measures taken to combat COVID-19.

Also in 2020, the NBM maintained a dialogue with the World Bank, during which all the necessary information for the fair and objective assessment of the situation in the domestic financial system was presented to this institution, in order to make decisions to continue granting financing in various priority areas for the Republic of Moldova.

At the same time, it should be noted that in 2020, the NBM representatives participated in various trainings, inclusively organized on-line, on various topics in the area of competence of the central bank organized by the World Bank. This contributes to the continuous development of the skills of NBM employees and to the application of the latest standards in those areas.

European Bank for Reconstruction and Development (EBRD)50

During 2020, the NBM collaborated with EBRD representatives by ensuring an ongoing dialogue on the macroeconomic situation and the evolution of the banking system as a whole. At the same time, the Governor of the NBM, holding the position of alternate governor in the Board of Governors EBRD, participated in the annual meeting of this council from October 7-8, 2020, which took place in virtual format. For this meeting, the NBM formulated the position of the

Republic of Moldova, which was also coordinated with the Ministry of Economy and Infrastructure (given that in the given council the office of governor for Moldova is held by the Minister of Economy and Infrastructure), on a set of information materials regarding the issues put to the vote in it, including the Strategic and Capital Framework for 2021-2025, the allocation of net income for 2019, Iraq’s accession to the EBRD, the election of the President and Vice-President of the EBRD Board of Governors for 2020-2021 and the election of the EBRD President for the period 2020-2021.

The NBM is constantly working with the EBRD to restructure and increase the resilience of the domestic banking sector, in the context of implementing the EBRD Country Strategy for the Republic of Moldova for 2017-2022.

In this context, it is worth mentioning that the EBRD is one of the development partners of increased importance for the Republic of Moldova, which contributes to the development of both the private sector through financing and consulting projects and policy dialogue aimed at increasing the transparency of the banking sector.

In this regard, the presence of the EBRD as a shareholder in the banking sector contributes to improving corporate governance, which complements the NBM’s efforts to admit only quality shareholders to the sector, which fully meet the criteria of good repute and professionalism.

European Automated Clearing House Association (EACHA)\(^{51}\)

During 2020, the NBM continued to work with EACHA, through the exchange of information and experience in the field of payment processing houses. The information gathered is useful in the context of the activities carried out to achieve the strategic objectives of the NBM, namely, the accession of the banking sector to the Single European Payment Area (SEPA) and the implementation of instant payments\(^ {52}\).

International Operational Risk Working Group (IORWG)\(^ {53}\)

In 2020, the NBM continued to participate in the activities carried out by IORWG, by providing answers to requests and studies initiated by the group. The most important group requests focused on the following:

\(^{51}\)European Automated Clearing Houses Association (EACHA) is a non-profit organization of European Union (EU) clearing house and payment processing system administrators and European Economic Area (EEA). EACHA organizes several working groups in the payments industry to address issues such as interoperability within the Single European Payments Area (SEPA). EACHA currently consists of 27 members from 23 different countries, of which 20 are from the EU (Germany, France, Austria, Italy, Sweden, etc.) and 2 from the EEA (Norway, Switzerland). The National Bank of Moldova, as an administrator of the Automated Interbank Payment System (SAPI), became a member of EACHA in 2014.

\(^ {52}\)Instant payments are low value electronic payments which are processed in real time, 24 hours a day, 365 days a year, where the funds are made available to the recipient/beneficiary immediately for use.

\(^ {53}\)International Operational Risk Working Group – IORWG is a working group for central banks and monetary and supervisory authorities, which aims to exchange experience, innovate the methodological framework and share best practices between central banks in the field of operational risk management. The National Bank of Moldova became a member of the IORWG in 2015.
• information on how COVID-19 pandemic affected the NBM risk profile;
• information on how the NBM responds to the COVID-19 pandemic;
• information on emerging technologies;
• information on the maturity model of operational risk management.

The Center of Excellence in Finance (CEF)\footnote{CEF is an international organization with the mission of supporting the implementation of reforms in the fields of public finance and financial-banking in South-eastern Europe through training activities. CEF was set up in 2001 under the Stability Pact for South-eastern Europe by the Slovak government, at the initiative of the Slovenian Ministry of Finance and in close cooperation with other finance ministries of the former Yugoslav countries and Albania. In 2015, CEF became an international organization after 14 years of success as a regional institution. The Republic of Moldova became a member of CEF by approving Law no. 115 for the ratification of the Agreement on the establishment of the CEF on May 28, 2015. The NBM and the Ministry of Finance, each holding a voting right in the decision-making process represent the Republic of Moldova in the Board of Directors of the CEF.}

As a member of the Board of Directors of the CEF, in 2020, the NBM, represented by the First Deputy Governor of the NBM, participated in the annual online meeting of the Board of the CEF on 11 June 2020. The operational framework of the CEF and the training program for the period 2020-2021 were proposed for discussion and voting.

At the same time, in 2020, the NBM representatives participated in several trainings organized in online format by CEF, both in the professional fields and in the field of institutional resilience in the context of the pandemic situation. The NBM also participated in the regular meetings of the CEF coordinators.

Group of Banking Supervisors from Central and Eastern Europe (BSCEE)\footnote{The Group of Banking Supervisors from Central and Eastern Europe (BSCEE) is a regional organization without legal personality that promotes cooperation between banking supervisors of Central and Eastern European countries. The National Bank of Moldova became a member of the BSCEE in 1996, following the signing of the Agreement on rules of organization and management of the BSCEE Group.}

In 2020, the NBM, as a member of (BSCEE), continued to work with BSCEE members, by exchanging information and experience in the field of banking supervision and regulation.

It is worth noting that the representatives of the NBM regularly participate in events organized by the BSCEE, which offers the opportunity to communicate with regulators and supervisors from other states.

Cooperation with other regional organizations

During 2020, the members of the NBM Executive Board continued to strengthen inter-institutional and bilateral relations with international and regional bodies’ partners.
In this regard, it is worth noting the participation of the NBM Governor in the "Central and Eastern Europe Forum 2020", organized by Euromoney\textsuperscript{56} in Vienna, on 14-15 January 2020, the Governor of the NBM as a keynote speaker in a discussion session on "Monetary Policy".

The NBM Governor has also participated in the 43rd meeting (June 1, 2020) and the 44th meeting (November 5, 2020), held in virtual format, of the Central Asian Governors Club, Black Sea and Balkans Region, organized by the Central Bank of the Republic of Turkey and the Central Bank of the Russian Federation. Topics addressed at these meetings focused on the effects of the COVID-19 pandemic on the economies of the countries in the region, current key challenges, pandemic response policies, and global economic and financial prospects in the context of the COVID-19 crisis, central banks’ digital currencies etc.

It is also worth mentioning the participation of NBM representatives during 2020 in several online trainings conducted by the Joint Vienna Institute (JVI)\textsuperscript{57} and by the US State Department.

**Cooperation with other central banks and banking supervisors in other states**

Given the need for cooperation in the field of banking supervision and exchange of information based on cooperation agreements, in 2020 the NBM continued negotiations with the National Bank of Romania with a view to concluding a new cooperation agreement, which would replace the current bilateral agreement on cooperation in the field of banking supervision, concluded on 27 July 2001. The NBM also initiated a dialogue with the Banking Regulatory and Supervisory Agency of the Republic of Turkey for the conclusion of a Memorandum of Understanding.

It should also be noted that in 2020 the NBM, together with a few other European central banks, became a signatory to the Cooperation and Coordination Agreement within the supervisory board of the OTP bank group. The purpose of this agreement is to facilitate the exchange of information, opinions and assessments between authorities, with a view for a more effective individual and consolidated supervision and timely action in ongoing work and emergencies, for an understanding of the risk profile of the OTP group, as a starting point for individual and consolidated risk-based supervision.

In the exercise of the banking licensing function, in 2020, the NBM collaborated with financial and banking supervisory authorities

\textsuperscript{56}Euromoney Institutional Investor PLC ("Euromoney") is a global multi-brand information business, which provides critical data, price reports, information, analysis and organizes events attended by representatives of the financial services, telecommunications and the legal market.

\textsuperscript{57}JVI is a regional training center, primarily for officials in the public sector from Central, Eastern and South-Eastern European countries, the Caucasus and Central Asia. It was established in 1992 by the Austrian authorities (represented by the Federal Ministry of Finance and the Austrian Central Bank), the International Monetary Fund and several other international organizations. The seminars and workshops offered by JVI focus on the formulation and management of macroeconomic policies, monetary policy and the exchange rate system, financial sector stability, macroeconomic and financial statistics and many other specialized topics.
from other states (European Central Bank, Central Bank of Great Britain, Central Bank of Albania, Central Bank of Bulgaria, Central Bank of Hungary, National Bank of Ukraine, Central Bank of Poland, Central Bank of Slovakia, Central Bank of Armenia, National Bank of Serbia, Central Bank of the Russian Federation, Austrian Financial Market Authority, United Kingdom Financial Conduct Authority, Bulgarian Financial Supervision Commission, Financial Supervisory Authority of Poland, the Capital Market Authority of Turkey, the Ministry of Finance of the Republic of Northern Macedonia). Through this cooperation, a reciprocal exchange of information was carried out, necessary in the process of assessing the quality of honourability and professionalism of the persons who carried out an activity authorized and supervised by these authorities in the respective countries.

Given the global context imposed by the COVID-19 pandemic, namely the impossibility of conducting participation travels in various events/seminars, NBM representatives participated in a series of virtual seminars organized by the Central Bank of Germany, the National Bank of Romania, Central Bank of the Republic of Turkey, Central Bank of Luxembourg, National Bank of Switzerland and National Bank of Italy. NBM representatives also attended a conference in virtual format organized by the National Bank of Belgium, which discussed the financing of climate policy, banking barriers for a green economy and green financing and green investments.

**Technical cooperation with international bodies and central banks of other states**

During 2020, the National Bank of Moldova received technical assistance from several external development partners in order to strengthen its internal capacities in various areas of activity specific to a central bank.

In this regard, but also to achieve its strategic activity objectives, set in the medium term, in 2020, the NBM continued to benefit from assistance from the [International Monetary Fund](https://www.imf.org), which is one of its main development partners that provides technical support in various fields.

In order to improve the capacity and efficiency of the activity to produce and provide statistical data necessary for the accomplishment of its main legal attributions, in the period 2018 - 2020 the NBM received technical assistance from the IMF.

Thus, in addition to the series of working visits conducted by IMF experts in the Republic of Moldova, in 2018-2019, to support the NBM in order to develop an aggregate indicator of the dynamics of residential real estate prices in the Republic of Moldova during 2020 have the concluding stages of the support provided in this regard were carried out.

Between February 17-21, 2020, NBM representatives participated in the workshop on "Development of the Residential Real Estate Price Indicator (RPPI)", organized by IMF experts in collaboration.
with the Georgian Statistics office in Batumi. This workshop addressed the practical topics related to the development and calibration of the RPPI index, as well as the methods of communication and interpretation of the results of its compilation. At the same time, the representatives of the countries participating in the workshop shared their experience and progress in developing the RPPI index for the respective states.

The central objective of the external technical assistance missions was achieved with the coordination of the National Bureau of Statistics of the Republic of Moldova and the publication on the official website of the NBM of the RPPI index together with the technical note providing a detailed description. The RPPI index is necessary for the analysis of developments and risks associated with the real estate market, as well as for presenting the degree of interconnection between the real estate market and the degree of financial soundness.

Also, with the support of the IMF, practical activities were carried out on the compilation of statistics on financial accounts and sector balance sheets (CFBS) and annual stock balance sheet statistics for the years 2015-2019 and the information to be reviewed was updated and shall be used to compile CFBS.

In order to maintain the stability of the financial system, the NBM can provide solvent and viable banks, which face temporary liquidity problems, liquidity assistance in emergencies. Therefore, the development of the regulatory framework for emergency lending facilities remains a priority for the NBM, to intervene promptly when necessary. In this regard, IMF experts provided recommendations to the NBM to complete and strengthen the operational framework for liquidity assistance in emergencies.

At the same time, in the context of negotiating a new policy program for the Republic of Moldova, which would be financially supported by the IMF, the need to strengthen the independence of the NBM, as a central bank, was identified as one of the prerequisites for approval by the IMF Executive Board of the new financing arrangement. Thus, the IMF legal experts, during a technical assistance mission, consulted and coordinated a draft legislative act, developed by the Moldovan authorities, aimed at strengthening the integrity and finality of monetary policy, regulatory and banking supervision decisions adopted by NBM.

One of the main development partners for the NBM remains European Union (EU). During 2020, the NBM continued to benefit from the assistance of the EU High-Level Adviser for the financial services sector in the context of the Mission of the EU Senior Advisers 2019-2021 for the Republic of Moldova. This high-level expert provides advice to the NBM in the areas of banking

59The project is funded by the European Union with an implementation period of three years, from January 2019 to December 2021. Its main objective is to provide support to the Government of the Republic of Moldova in implementing its reform agenda, in this case, assistance in strengthening the capacity needed to implement the Association Agreement Moldova – EU, including the implementation of the provisions of the Deep and Comprehensive Free Trade Area, as well as to ensure the following post-liberalization actions of the visa regime. In particular, the project aims to:
- strengthening policy-making at sectoral level, including the strategic planning and policy management capacities of public authorities operating in the sectors selected for assistance;
- strengthening the knowledge and awareness of stakeholders on EU policies, legislation and regulations;
supervision and the implementation of risk-based supervision, effective communication, as well as to facilitate cooperation with various local and international authorities.

At the same time, during the same mission, between October 1, 2019 – April 26, 2020, the NBM benefited from the assistance of a medium-term EU expert for banking supervision, delegated from the National Bank of Romania, to provide support for transposing international standards and of best practices in the field of banking supervision, including for the development of supervisors’ skills, necessary for the preparation of reports following the supervisory review and evaluation process (SREP).

Also, thanks to the support provided by the EU through the instrument of administrative cooperation between the authorities of the EU Member States and the authorities of the beneficiary countries, Twinning. The NBM and 15 other institutions in the Republic of Moldova with responsibilities in in the field of preventing and combating money laundering and terrorist financing, benefit from assistance within the project "Efficiency of the system for preventing and combating money laundering and terrorist financing in the Republic of Moldova". Launched on December 13, 2018, with an implementation period of 3 years, this Twinning project has the main objective of contributing to the consolidation and development of the supervisory mechanism of the reporting entities, taking into account the provisions of Law no. 308/2017 on preventing and combating money laundering and terrorist financing, including by implementing robust internal procedures, assessing the risks to which entities are exposed, continuing education, and information on new trends and typologies related to the field.

The joint project of the European Union and the Council of Europe "Control of law enforcement and prevention" (CLEP), implemented between June 1, 2017 – May 31, 2020, supported the efforts of Moldovan institutions, including the NBM, in reforming the regulatory framework in in the field of the fight against corruption, in accordance with European and international standards.

In this context, during 2020, the NBM representatives participated in the "Training in the field of terrorist risk assessment, for law enforcement agencies and surveillance entities", which aimed to accumulate knowledge and their use in the surveillance activity carried out by the NBM both in the field of preventing and combating terrorist financing, and in the activities of the NBM in the process of national assessment of the risk of terrorist financing.

Another NBM development partner is World Bank. In 2020, representatives of the World Bank’s Financial Sector Advisory Center (FinSAC) continued to support the NBM in the project of

- providing guidance in order to ensure the political, institutional and financial sustainability of the reforms planned in these sectors for their efficient implementation.

To find out more about the EU Mission of High – Level Advisers to the Republic of Moldova, please visit: http://www.eu-advisers.md

60The Twinning Assistance Instrument aims to develop the institutional capacities of the beneficiary authorities and run for a year or more, while EU public sector experts are seconded to assist the beneficiary authorities in achieving specific objectives. More information on the Twinning instrument is available on the European Commission’s website:https://ec.europa.eu/neighbourhood-enlargement/tenders/twinning_en.
technical assistance on bank recovery and supervision, focusing on one of the central objectives of the mission, which is to review comprehensive organization of the banking supervision process within the NBM, related policies, methodologies and procedures, and the formulation of recommendations for their alignment with international best practices in the field. At the same time, in the context of capacity building in the field of banking resolution, FinSAC experts provided technical assistance to NBM representatives in order to operationalize and improve activities in the field of resolution planning, presenting both recommendations regarding the modification of the related normative acts, as well as recommendations for improving the structure and content of the individual resolution plans for some banks.

Also with the support of the World Bank, the NBM representatives benefited from international training and certification opportunities in the professional fields within the program of the Investment Advisory and Management Agreement (Reserves Advisory & Management Partnership⁶¹ (RAMP)), which contributes to the continuous development of NBM employees and to the application of the latest standards in their respective fields of activity.

In the context of the need to reform and strengthen the non-banking financial sector in line with European and international good practice, World Bank experts in partnership with the EU High – Level Adviser on the Financial Services Sector organized a workshop for the NBM to share the experience of other states on how to develop and implement a harmonious and efficient transition model for taking over specific tasks for the non-banking financial sector. The need for this workshop was dictated by the approval by the Parliament of the Republic of Moldova of amendments to the legislation in force, which establish the takeover by the NBM from the National Commission of the Financial Market, starting with July 1, 2023, of licensing powers, authorization, as well as the issuance of the approval for state registration, regulation and supervision of the activity of insurers, reinsurers and insurance and/or reinsurance intermediaries, of the National Bureau of Motor Insurers of the Republic of Moldova, of savings and loan associations, credit bureaus and non-bank lending organizations.

Ensuring the stability of the banking system by strengthening the function and framework of preventing and combating money laundering and terrorist financing is one of the priorities of the NBM. Thus, in order to operationalize and streamline this activity, the NBM launched the process of acquiring and implementing a technical solution for operational detection and monitoring for shareholder transparency and preventing and combating money laundering. In this regard, following the support provided through the Good Governance Fund (GGF) program, funded by the United Kingdom Government, in the preparation of documents related to the procurement of the technical solution, the procurement process and its implementation continued under the technical assistance project from the United States Agency for International Development (USAID), with the implementation period September 9, 2019 – August 9, 2022.

⁶¹To find out more about the RAMP program, please visit the website: https://treasury.worldbank.org
During 2020, USAID representatives together with experts from International Development Group LLC (implementer of the USAID-funded Moldova Financial Sector Transparency Activity project) continued to provide technical support to the NBM to complete the market study and prepare the specifications for initiating the acquisition of the IT solution in accordance with the latest legal norms in the field. Therefore, the procedure for acquiring the technical detection and operational monitoring solution for shareholder transparency, and preventing and combating money laundering was successfully carried out, in which a potential winning company was designated.

Also, within the USAID-funded project "Transparency of the Financial Sector in Moldova", an online workshop was held on "Preventing money laundering and countering terrorist financing", for employees of the Directorate for Combating Money Laundering and Terrorist Financing, within the NBM. The training contributed to the increase of the methodological and operational capacities of the specialists within this subdivision to assess and identify possible crimes of money laundering and terrorist financing.

Also, with the support of US State Department (Export Control Cooperation Office) and US Embassy in the Republic of Moldova, 2 seminars were organized, during which methods and techniques for investigating the counteracting of the proliferation of weapons of mass destruction were presented.

In the context of obtaining international certification in the field of preventing and combating money laundering, as well as improving professional knowledge and expertise, European Bank for Reconstruction and Development (EBRD) provides support for the participation of NBM representatives in the 2020-2021 training and certification program, offered by the Association of Certified Anti-Money Laundering Specialists (ACAMS).

The NBM constantly participates in the process of promoting financial education at the national level, together with other relevant institutions. In this regard, starting with 2018, the authorities of the Republic of Moldova, together with those of other countries (Bulgaria, Croatia, Georgia, the Republic of Northern Macedonia, Montenegro and Romania) benefit from the technical expertise of the Money Wise platform from Kingdom of the Netherlands in the context of the Five-Year Project (2018-2022) for technical assistance in the field of financial education under the District Program of the Ministry of Finance of the Kingdom of the Netherlands, led by the Organization for Economic Cooperation and Development (OECD) and its international network on financial education (INFE).

In 2020, the report on the Financial Literacy of Adults in South East Europe was published, it also contains information on assessing the level of financial education in the Republic of Moldova. At the same time, following the request of OECD experts, the NBM submitted its comments on the report on the mapping of financial education programs in the Republic of Moldova, prepared within the above-mentioned assistance project.

---

62 ACAMS is the largest international membership organization dedicated to improving the knowledge and expertise of specialists in the field of detection and prevention of financial crime.

63 To find out more about the report Financial Literacy of Adults in South East Europe please visit the website: http://www.oecd.org/
The NBM representatives also participated in the 2020 annual meeting of the OECD-INFE Financial Assistance Project on Financial Education in South-Eastern Europe, focusing on financial education for children and youth in the new digital reality.

Another partner in the field of promoting financial education remains the Good Governance Fund (GGF), funded by the Government of the United Kingdom. Thanks to the support provided by this Fund, the NBM increases the efficiency of its financial education activities by developing and implementing financial education campaigns. In this context, in 2020 more than 15 financial education events were organized, in which approximately 500 people participated, 144 references were launched in the media, approximately 118,229 users viewed the informative materials on the page of the project and 9 informative notes were developed with infographics that explain the fundamental financial concepts and financial instruments most frequently used in the Republic of Moldova.

During 2020, the NBM continued to intensify bilateral technical cooperation with other central banks, both to take over best practices in the areas of competence and to support institutions with similar responsibilities in other countries.

A constant partner for technical cooperation of the NBM is the Central bank of Germany. During 2020, in order to strengthen the cash reserve analysis and forecasting capacities, the NBM representatives had the opportunity to take the best practices from the experts of the German central bank in this field and to learn new analysis and forecasting techniques of the cash reserve.

Also, with the support of the German central bank, in 2020, the employees of the Internal Audit Department of the NBM developed their knowledge and skills to perform audit missions in accordance with the SWIFT Framework for Customer Security Control, and benefited from expertise/recommendations to improve the internal quality assurance system. Thus, sharing the practice of German central bank experts contributed to strengthening the knowledge of NBM representatives in the field of internal audit. Therefore, the audit mission was carried out to assess the level of compliance with SWIFT requirements and the NBM Internal Audit Manual was reviewed and approved, which included quality assurance issues.

In the same vein, in order to determine the degree of compliance of the internal audit activity with international standards and the Code of Ethics of Internal Auditors within the NBM, during 2020, with the support of experts National Bank of Belgium, the process to assess the level of compliance of the internal audit activity with international standards has been started. Independent evaluation is mandatory and should be done every 5 years, it strengthens the mission of internal audit to enhance and protect the values of the NBM by providing objective assurance based on risk, advice and perspective approach.

In addition to the technical support that the NBM received from during 2020, at the request of external partners, the NBM continued to provide external technical assistance to other central banks, sharing its experience and practices in various areas of activity specific to a central bank.

Thus, the NBM shared its experience in strategic planning and development with representatives of the Central Bank of the
Republic of Turkey, while representatives of the National Bank of Ukraine learned from the experience of the NBM on the development and implementation of the project on the central risk monitoring system and became familiar with the financial reporting practices of commercial banks in the Republic of Moldova, and the field of NBM process management, as part of corporate governance, was presented to colleagues at the central bank of Luxembourg.
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.

Governing bodies of the National Bank

Governor

The Governor of the National Bank is appointed by the Parliament at the proposal of the President of the Parliament.

In accordance with the Law on the National Bank of Moldova, the governor is responsible for formulating monetary and foreign exchange policy initiatives for submission to the Executive Board, as well as their execution. Also, the governor organizes and manages the activity of the bank and represents it in relations with any legal or natural person both in the Republic of Moldova and abroad, issues orders and mandatory provisions for the NBM’s employees, controls their execution.

Supervisory Board

The Supervisory Board consists of seven members appointed by the Parliament for a seven-year term, including 4 non-salaried members of the NBM, 3 members belonging to the executive structure of the National Bank: the governor, the first deputy-governor, and a deputy governor. The Chairman of the Supervisory Board is the Governor of the National Bank. Since August 2020, only 2 members of the executive structure of the NBM have worked in the composition of the Supervisory Board, a vice-governor resigning.
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. The Supervisory Board submits to the Parliament, at least annually, reports on the developed supervision activity.

For the performance of its duties during 2020, 12 meetings of the Supervisory Board were convened and 43 decisions were approved, with the following issues:

- Approval of the Continuity Policy of the activity of the National Bank of Moldova.
- Approval of reports on the level of implementation of the projects of the National Bank of Moldova.
- Approval of the Report on enhanced measures to protect employees and ensure the continuity of the activity of the National Bank of Moldova in the context of the spread of COVID-19 infection.
- Approval of the Financial Statements of the National Bank of Moldova for the year ended on 31 December 2019.
- Approval of the reports on the execution of the statement of expenditure and investment allowances of the National Bank of Moldova.
- Approval of the Expenditure Estimate and Investment Allowances of the National Bank of Moldova for 2021.
- Approval of the Report of the Supervisory Board of the National Bank of Moldova on the supervision activity carried out in 2019.
- Approval of the direct or indirect financial interests of the members of the management bodies and of the members of their families.
- Approval of the Information Security Policy of the National Bank of Moldova.
- Approval of the report on operational risk management in 2019 in the National Bank of Moldova.
• Approval of the Informative Note on the presentation of information related to the expenses incurred by the National Bank of Moldova, pursuant to Article 35 of the Law on the National Bank of Moldova.

• Approval of the Regulation on the selection, mandate and revocation of the audit organization for performing the external audit of the annual financial statements, accounts and registers of the National Bank of Moldova.

• Approval of graphic designs, denominations and circulation of jubilee and commemorative coins and commemorative metal coins issued in 2020, including the commemorative coin "My doctor-my hero".

• Approval of the indicative activity program of the Supervisory Board for 2021.

• Approval of the Strategic Internal Audit Plan for the years 2021-2023 and the Annual Internal Audit Plan 2021.

During 2020, 3 decisions of the Executive Board were issued for publication in the Official Monitor of the Republic of Moldova (according to annex A.18).

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 of the 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.

In July 2020, the 7-year term for 2 deputy governors expired: Mr. Ion Sturzu and Mr. Aureliu Cincilei. According to Law no. 548/21.07.95 regarding the National Bank of Moldova, art. 23 para.(8) the members of the Executive Board whose term of office has expired shall remain in office until the appointment of the new members of the Executive Board.

At the same time, on August 19, 2020, the Parliament of the Republic of Moldova accepted the resignation before the expiration of the mandate of Ms. Cristina Harea, Deputy Governor of the NBM.

According to the provisions of art. 23 para. (4) of Law no. 548/1995, on 28.05.2020 and 16.11.2020, the governor submitted to the Parliament of the Republic of Moldova three candidates to be appointed as deputy governors.

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.

Its Chair shall convene meetings of the Executive Board at least once a month.

For the execution of its attributions during 2020, 113 meetings of the Executive Board were convened, at which 304 decisions were examined and approved.

The said decisions concerned the following areas:

- Monetary and Foreign Exchange Policy of the National Bank of Moldova.
- Payment system supervision policy in the Republic of Moldova.
- Accounting policy of the National Bank of Moldova.
- Banking regulation and supervision.
- Accounting.
- Balance of payments.
- Approval and amendment of the internal documents of the National Bank of Moldova.

During 2020, 40 decisions of the Executive Board (according to annex A.18 and A.19) 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; ensuring the economy with the national currency and promoting the credibility of the national currency; regulating and supervising the activity of financial market infrastructures, as well as the efficiency, security, accessibility and innovative nature of payments. At the same time, during 2020, the Executive Board approved several measures in the context of the state of emergency generated by COVID-19 aimed at ensuring the stability of the banking sector, adjusting monetary policy tools, supporting individuals consuming bank loans, and providing flexibility to banks in approaching the economic agents benefiting from bank loans. At the same time, the Executive Board adopted a series of internal decisions on the application of additional enhanced measures to protect employees and ensure the continuity of the activity of the National Bank of Moldova in the context of the spread of COVID-19 infection.
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*

Ion STURZU  
*Deputy Governor, member of the EB*

Aureliu CINCILEI  
*Deputy Governor, member of the EB*

Dumitru URSU  
*Member of the SB*

Alexandru PELIN  
*Member of the SB*

Valeriu IASAN  
*Member of the SB*

Vadim ENICOV  
*Member of the SB*

Committee

The Audit Committee, the Investment Committee and the Risk Committee operate within the NBM to ensure the efficiency of the decision-making process. These standing committees have their own rules of procedure, which detail the specific purpose, composition, tasks 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. The audit committee was created by the Decision of the Supervisory Board no. 9 of 05.10.2016 "On the creation of the Audit Committee of the National Bank of Moldova", in the following nominal composition: a) Valeriu IASAN, chairman of the Audit Committee; b) Alexandru PELIN, member of the Audit Committee; c) Vadim ENICOV, member of the Audit Committee. The members of the Audit Committee are approved during their activity as a member of the Supervisory Board of the National Bank of Moldova.

The audit committee has the following legal responsibilities:

- monitors the financial reporting process of the National Bank;
- monitors the effectiveness of the internal control and risk management system;
- monitors and directs the internal audit function;
- monitors 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 Supervisory Board of the NBM in 2016. During 2020, the Audit Committee undertook a series of practical measures and actions, meeting in fourteen regular meetings. The main topics of the Committee meetings were:

- examination of the Activity Reports and coordination of the Activity Plans of the NBM Internal Audit Department;
- examination, coordination of selection procedures and recommendation to the Supervisory Board regarding the appointment of the external audit organization of the annual financial statements, accounts and registers of the National Bank of Moldova for the financial years 2020-2024;
- coordination of the procedures for selecting the external evaluator of the internal audit office within the NBM for the last five years of activity;
- evaluation of the results of the activity of the Comptroller General for 2020;
- examination together with the representatives of the external audit of the Financial Statements and their compliance with the International Financial Reporting Standards;
- examination of procedures for monitoring and controlling risk exposures and compliance issues, which could have a significant impact on the NBM’s financial statements;
- formulation of improvement proposals.

During the reporting period, the Audit Committee developed and presented to the SB of the NBM a series of recommendations for improving and developing the business processes and streamlining the activity of the National Bank, including on the financial reporting process of the National Bank; internal control and risk management system; the process of consolidating the new normative and methodological framework for the management of operational risks of the NBM and the creation of a centralized system for managing all risks; elaboration of professional development plans for DAI employees, development of the strategic approach within the audit missions, elaboration of an internal audit strategy.

**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 2020 in 12 ordinary meetings. Considering the state of emergency in public health declared as a result of the evolution of the COVID-19 epidemic, starting with March 2020, the meetings of the Investment Committee took place, mainly, online. Each meeting discussed...
the performance of the investment portfolio for the previous reporting month, the evolution and forecasts related to the domestic foreign exchange and international financial markets, the evolution of the ratings of authorized counterparties and the risks related to the investment portfolio. In addition, the need to revise the methodology for calculating expected credit losses in the case of financial assets related to foreign exchange reserves was discussed and the necessary measures were taken to adopt that decision for prudential reasons, in order to anticipate adverse developments in the rating of authorized counterparties and adjust parameters due to the impact of the COVID-19 pandemic on the global economy during 2020. At the same time, new counterparties were examined and included in the list of authorized counterparties for transactions. Also, periodically, issues related to the short and medium term investment strategy related to the strategic allocation of assets were discussed.

Risk Committee

The Risk Committee as part of the second line of defence, is set up to assist the Executive Board in order to ensure objective direct supervision over the management of the operational risk management system in the National Bank.

The Risk Committee consists of 8 voting members, including one member of the Executive Board – the chairman of the committee.

The Risk Committee shall meet quarterly in ordinary meetings and may be convened ad hoc if necessary or at the request of the Governor or any member of the Executive Board.

In 2020, the Risk Committee met in 3 ordinary meetings, online (in the conditions of the COVID-19 pandemic).

The basic decisions taken at the RC meetings in 2020 were:

1. endorsement annual report of operational risk management in 2019 in the National Bank of Moldova, of dashboard and risk profile for 2019;
2. acceptance of the maturity level of the operational risk management system in the NBM by 31.12.2019 and its development objectives for 2020;
3. taking note of the quarterly reports on the results of the self-assessment of operational risks on NBM business processes;
4. taking note of the NBM Operational Risk Profile for the processes assessed in 2020;
5. approval of the proposed treatment measures to respond to the risks in the yellow area of the risk profile;
6. taking note of the information related to the incidents with high and major impact on the activity processes and the validation of their impact level;
7. taking note of the management of the risk of continuity of activity generated by the external factor – the epidemic caused by the COVID-19 virus.
External and internal control levels

External control

External audit

The external audit of the NBM is performed annually for the financial statements, accounts and registers of the NBM, according to the audit international standards by an independent audit company with recognized reputation and experience in the field of central bank audit and international financial institutions, selected by the Supervisory Board on the basis of an auction. The report of the external auditor shall be published together with the annual financial statements of the National Bank. The same external audit organization may not be appointed consecutively for a period exceeding 5 years.

IMF assessment of NBM credibility and security

Periodically, the credibility and security of central banks is assessed by IMF experts in order to receive assurance in the implementation and operation by the NBM of control, accounting, reporting and audit systems related to the management of resources, adequate to the integrity of operations. The evaluation covers five key areas relevant to central bank control and governance under the acronym ELRIC:

- **E** – external audit mechanism;
- **L** – legal framework and independence of the central bank;
- **R** – financial reporting;
- **I** – internal audit mechanism;
- **C** – system of internal controls.

Audit of the Court of Accounts of the Republic of Moldova

The external public audit regarding the legality and regularity of expenditure estimates and investment allowances is performed by the Court of Accounts, limiting itself, according to Law no. 548-XIII of 21.07.1995 on the National Bank of Moldova, to examine the operational efficiency of decisions taken by the management of the National Bank, except for those related to the implementation of the monetary and foreign exchange policy of the National Bank and the management of state foreign exchange reserves.

Risk management and internal control

The National Bank aligns the governance of operational risk management and the internal control system with the international standards COSO\(^\text{64}\), ISO 31000\(^\text{65}\), to good practices in the field (including the International Operational Risk Working Group (IORWG)), of which the National Bank is a member of it).

---

\(^{64}\) The Committee of Sponsoring Organizations of the Treadway Commission.

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 first line of defence manages the risks and is represented by the NBM subdivisions, which are also the "owners" of the risks. The heads of the subdivisions (line managers) are responsible for identifying and managing the risks inherent in the business processes and the IT systems they own, properly establishing the control activities in the risk management process. In 2020, the activities of self-assessment of operational risks on the activity processes continued with the establishment of control measures to maintain the risks in the tolerance zone, with the reporting of the results to the operational risk management function. The subdivisions apply a set of control procedures on a daily basis to the business 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 defence is represented by structures with functions dedicated to operational risk management, financial and operational, Investment Committee and Risk Committee. At this level, the methodological framework for developing an efficient risk management process in the NBM is developed: the internal framework on how to conduct and control foreign exchange operations, operational risk management by business processes, ensuring business continuity and information security, standards, policies and response plans to incidents that disrupt or threaten the operational functions of the National Bank. At the level of the National Bank, there is an incident management system, where the records of the incidents are kept, including the measures taken and those responsible for their implementation.

The operational risk management function ensured, in 2020, the organization and conduct of operational risk self-assessment meetings on business processes. Based on the operational risk self-assessment, the operational risk profile was developed, reported quarterly to the Risk Committee. At the same time, internal trainings were carried out for the representatives of the subdivisions (heads of subdivisions, operational risk managers and participants in the evaluated processes).

For the management of the business continuity risk, generated by the external factor – the epidemic caused by the COVID-19 virus, in 2020 a series of measures were taken to protect employees and ensure business continuity, which contributed to the continuous development of the activity processes of the NBM, with the fulfilment of all the basic attributions. These measures were reported quarterly to the meetings of the Risk Committee.

At the same time, the operational risk management function represents the NBM at IORWG as a member. During 2020 the NBM participated in the studies of the IORWG working groups,
including the (Survey on the response during COVID-19), the results of which established that the NBM implements operational risk management measures of the continuity generated by the pandemic in a manner similar to the best practices of other central banks.

*The third line of defence* provides independent and objective assurance and is represented by internal audit. Internal audit provides management and line managers with reasonable independent assurance on the adequacy and effectiveness of governance, risk management and internal controls, including how the first and second lines of defence achieve their risk management objectives. It should be noted that the internal regulatory framework on the operation of internal audit was revised, which is approved at the level of the Supervisory Board, linking it to the mandatory elements of the International Professional Practices Framework (IPPF), developed by the Institute of Internal Auditors (IIA).

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 not to allow the involvement of the National Bank in operations or activities with risk of money laundering and terrorist financing, as well as to establish requirements for the organization, application and control of compliance by bank subdivisions of measures to prevent and combat money laundering and terrorist financing.

In this context, during 2020, continued the actions to strengthen the central bank’s compliance with the requirements for preventing and combating money laundering and terrorist financing, namely, training staff involved in enforcing the requirements of knowledge of customers, cooperation with the responsible subdivisions in order to determine the risks and suspicions related to transactions and the relationship with customers, notifying the competent authorities in order to determine the suspicious nature of permitting and registration of notifications related to external loans, etc. In 2020, the NBM staff, with supervisory responsibilities in the field of preventing and combating money laundering, benefited from international expertise, by participating in trainings and workshops, including online, organized within several technical assistance projects provided by international organizations. In order to improve the internal system of compliance with the requirements of preventing and combating money laundering, the National Bank has implemented a real-time payment screening service, which aims to ensure the implementation of international restrictive measures regarding payments to its customers. The internal cooperation and reporting system has also been strengthened in order to ensure the centralization of the NBM’s activities to combat money laundering and terrorist financing, including by providing timely information to the Executive Board member, who coordinates the activity, on the identified risks as well as relevant minimization recommendations. For high-risk operations, the report is done to the Executive Board.

Information security policy

The information security policy of the National Bank establishes the general organizational context to ensure the achievement of the objectives regarding the provision of information security and cyber security within the NBM. It also sets out requirements for ensuring the secure management of information within the NBM and minimizing the impact that may arise as a result of security incidents.

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, whatever its form. At the same time, the responsibilities in the process of ensuring information security are clearly established and divided, in the part related to information management, monitoring the use and distribution of information, reporting information security incidents, as well as how to investigate them.
In the same context, in order to ensure information security within the NBM, in accordance with the Information Security Policy, the Information Security Officer of the NBM is appointed.

**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

2020 is the last year of implementation of the Strategic Plan 2018-2020 of the National Bank with an implementation period of three years.

The fundamental elements of the NBM Strategic Plan 2018-2020 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 country.

**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* – ongoing concern about the economic and social impact of the work done and the decisions made.

*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.

The strategic objectives set for the years 2018-2020 derive from core business areas while the last objective refers to support and governance:

1. To improve 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.

During 2020, achievements were made in order to implement reforms in the five key areas outlined in the Strategic Plan 2018-2020, namely: monetary policy and financial markets, financial stability, bank supervision, payment systems and cash operations, governance and support. The achievements refer to the strategic objectives of the Strategic Plan 2018-2020, some of the most important being included in the following table: Also in annex A.25 Evolution of major NBM projects during 2020 are the most important achievements related to NBM projects, which derive from the strategic objectives.
<table>
<thead>
<tr>
<th>Strategic objective</th>
<th>Major achievements recorded during 2020 related to the implementation of the Strategic Plan 2018 - 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improving the monetary policy framework and optimising the implementation of monetary policy</td>
<td>- Strengthening the communication of the monetary policy of the NBM, by conducting meetings with several representatives of civil society and economic experts, where monetary policy decisions were discussed.</td>
</tr>
</tbody>
</table>
| Strengthening the financial stability and macro-prudential management function | - Approving the Regulation on the method of calculation and payment of contributions to the bank resolution fund and setting banks' contributions to the resolution fund for 2020 and 2021;  
- Signing the Cooperation Agreement between the National Bank of Moldova and the Public Services Agency;  
- Approving the amendments to the Rules on the valuation of assets accepted by the NBM as securities upon granting loans to banks;  
- Carrying out the impact survey related to the introduction of ceilings for loan-to-value ratio (LTV) and debt-to-income ratio (DSTI) indicators;  
- Modify the seasonal adjustment method used for the calculation of the countercyclical capital buffer to ensure the optimal performance of the macro-prudential tool;  
- Compiling the experimental Residential Property Price Index (RPPI) and publishing it on the NBM website. |
| Strengthening the banking sector and implementing the risk-based supervision | - Implementing the Law on banking activities, which transposes the European Union regulatory framework paragraph of the Basel III international regulations and approving by the Executive Board of the NBM a number of regulations subordinated to the law, namely liquidity coverage requirements for banks, outsourcing of bank activities and operations, consolidated supervision of banks, leverage effect for banks, disclosure requirements for banks, etc.;  
- Implementing the Supervisory Review and Evaluation Process (SREP) and approving the results of the SREP process, with the imposition of specific capital requirements on each bank according to its individual risk profile;  
- Initiating the use of the National Bank of Moldova’s IT system on licensing, authorisation and notification for 5 (five) related modules:  
  - Notification of external commitments;  
  - Permission to acquire qualifying holding in the share capital of the electronic money institution;  
  - Licensing of non-bank payment service providers;  
  - Authorised copies of licences for payment service activities and electronic money issuance;  
  - Opinion on registration in the Register of Payment Service Providers.  
- Conducting with the USAID support, the purchase procedure of the IT solution to streamline the process of monitoring shareholder transparency and remote analysis in the field of combating money laundering and terrorist financing;  
- Concluding the Memorandum of understanding between the National Bank of Moldova and the Central Bank of Hungary (Magyar Nemzeti Bank), which implies cooperation and exchange of information in the field of banking licensing and supervision;  
- Concluding the Memorandum of cooperation in the field of banking supervision between the National Bank of Moldova and the European Central Bank. |
| Enhancing the quality of the national currency and the level of use of cashless payments | - Approving the Concept for the Development of the payment field in the Republic of Moldova and, respectively, the initiation of the programme with the related projects:  
  - The project on the implementation of an instant payment scheme in the Republic of Moldova;  

- The project on the modernisation of the Automated Interbank Payment System (AIPS) and RTGS (Real-time Gross Settlement System) and NSS (Net Settlement System) components;
  - Defining the functional requirements and technical documentation for the IT solution for instant payments;
  - Carrying out the purchase procedure and signing the contract for the modernisation of the Automated Interbank Payment System - RTGS and NSS components;
  - Defining the draft transposition of Directive (EU) 2015/2366 (PSD2), following the public consultations, and sending to the authorities for examination and issuance of the relevant expert opinions.

**Strengthening the institutional capacity and effectiveness**

- Continuing the activities to strengthen the internal framework for operational risk management within the NBM;
- Continue to strengthen the internal framework on the management of external technical assistance provided to the NBM by external development partners;
- Approval of the technical assistance project on behalf of the British Embassy "Supporting the NBM in the development of internal capacity for training Line Managers";
- Strengthening the internal framework for staff training by conducting a series of internal trainings for NBM subdivisions;
- Identify and implement the opportunities to minimize the circulation of paper documents within the NBM by digitizing business processes;
- Implementing and commissioning a new secure solution with multi-factor authentication for physical access to the NBM premises;
- Increasing the IT capacities and resources necessary for the proper functioning of the remote working regime (upgrading of network equipment, connection channels, etc.), including strengthening information security measures, in response to the challenges caused by the pandemic crisis;
- Organising the work of employees at the NBM's headquarters under enhanced protection conditions in the context of combating the spread of the COVID-19 virus.

**Other major achievements related to transversal objectives**

- Implementation of the "Payment Control Solution" service, which led to a considerable increase in the security of payments made via the SWIFT web platform and the integrity of the NBM's external assets;
- Implementation of the Sanctions Screening Service (SSS), which scans the international sanctions lists for receipts/payments received/made via the SWIFT web platform in the context of preventing and combating money laundering and terrorist financing.
- Implementation of the Bloomberg Bmatch interbank market trading platform, which contributes to increase the liquidity of the interbank foreign exchange market in the Republic of Moldova;
- Organisation by the NBM in partnership with the Independent Analytical Centre "Expert-Grup" of several training activities in the framework of the financial education project "Learn! Give sense to money";
- Launching by the NBM and the Economic Press Club of a financial education podcast.
- Publication and promotion of the Guide to consumer protection in the financial and banking market of the Republic of Moldova, which provides useful information to consumers on the use of banking services and products and on the principles governing the banking market;
- Strengthening the analytical capacity by conducting research and drawing up reports on indicators of payment card activity;
- Approving and communicating to the public the measures taken by the NBM to carry out its core tasks in the context of the state of emergency generated by COVID-19.
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 2020 were focused on these areas, the undertaken measures being further detailed.

Organizational evolutions

In 2020, 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 central professional services of the NBM were developed by consolidating the attributions of the Legal Department in order to judiciously distribute the activities and make them more efficient, as well as strengthening and advancing the specialization of legal aid capacities. At the same time, several executive functions have been adapted to the current needs of the subdivisions, without impact on the total number of staff units.

The changes made during 2020 did not affect the number of managerial positions, the control area of 4.7 executors per manager remaining constant compared to 2019. Due to the change in the Legal Department, the ratio between the number of units related to the core responsibilities of the NBM of the number of units related to the area of support and governance in 2020 shows a slight increase compared to 2019, being from 53.0% to 47.0% in 2020 compared to 54.0% to 46.0% in 2019. Optimizations achieved during 2020 had a positive impact on the efficient use of the bank’s staff resources.
9.4 Human resources management

Optimizing the payroll system

In 2018, within the project of implementing an integrated human resources management system carried out with the help of the consulting company with international experience in the field of central banks and international financial organizations Korn Ferry (Hay Group) a new payroll system was implemented. Thus, the payroll system of NBM employees provides for the establishment of a direct relationship between the value of the position and the salary level, as well as ensuring internal equity and external wage competitiveness, which has the following benefits: aligning wages with the reference market; internal equity (jobs with the same value have the same level of pay); external competitiveness (positions with the same value have the same level of pay as the reference market); attractive employer (increasing the attractiveness of the NBM as an employer on the labour market); clear rules (the system provides clear rules for promotion in salary stages); improving the organizational climate.

Statistical information

In 2020, the voluntary staff turnover was 6.63%, increasing compared to 2019 when it registered a level of 5.45%, the upward trend being a consequence of the COVID-19 pandemic, in the first part of 2020 being restricted the activity of selection and recruitment of staff. Analysing the voluntary fluctuation on hierarchical levels, for managerial positions in 2020, it was increasing compared to 2019 reaching the level of 1.98%, and for executive positions – 8.17%. We mention that the voluntary fluctuation includes only the persons resigned on their own initiative, from the calculation being excluded the persons employed seasonally and those who left for other reasons (retirement, termination of employment contract, reduction of staff, etc.), additionally excluded the resignations of NBM employees whose employment contracts were suspended in the year preceding the one in which they actually resigned.

The average age of the bank’s employees as of 31 December 2020 was 41 years and 1 month. Almost two thirds are women (61.23%) and more than one third (38.77%) are men. We also mention the fact that women are represented at a rate of 47.82% in the composition of management positions, including the Executive Board.

Professional growth

Professional Development

During 2020, in order to ensure the development of skills and increase the human capital of the NBM, about 61.0% of active employees benefited from various forms of training. Considering the restrictions imposed by the pandemic situation, the professional training of employees was carried out mainly online,


Chart 9.2: Voluntary turnover of NBM staff (%)

Chart 9.3: General information on NBM employees
the training events being selected according to the individual needs of professional development, starting from the training programs provided by development partners, as well as ensuring internal knowledge transfer.

During January-February 2020, the employees benefited from professional trainings with classroom presence, organized by development partners or specialized institutions in the fields of activity of the bank. The establishment of restrictions caused by the pandemic has reoriented both training providers and NBM employees to participate in online forms of training, in various formats, both with direct interaction and by viewing the recorded courses.

Thus, during 2020, the NBM employees participated in training in various fields, delivered by the bank’s partners and specialized organizations as shown in chart 9.4.

The internal knowledge transfer was carried out by organizing seminars and presentations made by experts from the NBM, being dictated especially by the new needs for professional development in the context of the pandemic and work from home. Thus, the internal trainings aimed at developing the digital skills of activity, those of distance communication, organization of work at home. At the same time, being organized online, internal training facilitated the transfer of knowledge from specialized subdivisions to employees in other subdivisions in the field of financial stability, payment systems, operational risk management, international relations, and public procurement.

**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. Thus, following the evaluation of the results of the employees’ activity for 2020, an increasing evolution was found compared to 2018 and 2019 of the performance level of the NBM employees.

**Work environment and organizational culture**

The NBM, as an employer, in the context of the COVID-19 pandemic, was in a position to face, as well as other institutions, special challenges, namely, to take increased measures to protect the health of employees, to ensure continuity of activity, to adapt to the changes imposed by the new way of organizing work.

In this regard, the NBM quickly adapted to the circumstances created by the COVID-19 pandemic and in order to protect the health of employees, but also to ensure the continuity of NBM activity, employees were largely established work from home, with the preparation of the work environment distance required. Exceptions were employees who carry out activities that require critical presence at the NBM headquarters, such as cash operations, servicing the automated interbank payment system, foreign exchange reserves management, physical security, administration of support services for IT users, etc. Thus, depending on the level of infection spread in the country and the restrictions imposed by the Extraordinary National Commission on Public Health in the context of the COVID-19 pandemic, NBM employees worked at home in a proportion of 50.0% to 70.0%,

---

**Chart 9.4: Participation of NBM employees in training provided by external suppliers**

<table>
<thead>
<tr>
<th>Training area</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Variance</td>
<td>7%</td>
<td>8%</td>
<td>9%</td>
<td>10%</td>
</tr>
<tr>
<td>Internal management and good governance</td>
<td>10%</td>
<td>11%</td>
<td>12%</td>
<td>13%</td>
</tr>
<tr>
<td>Payments systems</td>
<td>14%</td>
<td>15%</td>
<td>16%</td>
<td>17%</td>
</tr>
<tr>
<td>Financial stability</td>
<td>18%</td>
<td>19%</td>
<td>20%</td>
<td>21%</td>
</tr>
<tr>
<td>Risk management and compliance</td>
<td>22%</td>
<td>23%</td>
<td>24%</td>
<td>25%</td>
</tr>
<tr>
<td>Other areas of professional training</td>
<td>26%</td>
<td>27%</td>
<td>28%</td>
<td>29%</td>
</tr>
<tr>
<td>Securities regulation</td>
<td>30%</td>
<td>31%</td>
<td>32%</td>
<td>33%</td>
</tr>
<tr>
<td>Management of foreign exchange reserves</td>
<td>34%</td>
<td>35%</td>
<td>36%</td>
<td>37%</td>
</tr>
<tr>
<td>Communication, financial education and protocol</td>
<td>38%</td>
<td>39%</td>
<td>40%</td>
<td>41%</td>
</tr>
<tr>
<td>Public procurement</td>
<td>42%</td>
<td>43%</td>
<td>44%</td>
<td>45%</td>
</tr>
<tr>
<td>Human resources management</td>
<td>46%</td>
<td>47%</td>
<td>48%</td>
<td>49%</td>
</tr>
<tr>
<td>Licensing, authorization and regulation of banks</td>
<td>50%</td>
<td>51%</td>
<td>52%</td>
<td>53%</td>
</tr>
<tr>
<td>Legislation, assistance and legislative reforms</td>
<td>54%</td>
<td>55%</td>
<td>56%</td>
<td>57%</td>
</tr>
<tr>
<td>Banking supervision</td>
<td>58%</td>
<td>59%</td>
<td>60%</td>
<td>61%</td>
</tr>
<tr>
<td>Training management</td>
<td>62%</td>
<td>63%</td>
<td>64%</td>
<td>65%</td>
</tr>
<tr>
<td>Development of managerial skills</td>
<td>66%</td>
<td>67%</td>
<td>68%</td>
<td>69%</td>
</tr>
<tr>
<td>Internal knowledge transfer</td>
<td>70%</td>
<td>71%</td>
<td>72%</td>
<td>73%</td>
</tr>
<tr>
<td>Work environment and organizational culture</td>
<td>74%</td>
<td>75%</td>
<td>76%</td>
<td>77%</td>
</tr>
</tbody>
</table>

**Chart 9.5: Participations of NBM employees in internal training**

- Operational risk management: 10%
- Financial stability: 19%
- Human resources management: 25%
- Payment systems: 20%
- International relations: 7%
- Public procurement: 22%

**Chart 9.6: Evolution of the level of performance of NBM employees**

- Need improvements: 7%
- As expected: 26%
- Over expectations: 77%
- Exceptional: 6%

Source: NBM
with the application of periodic cycles with bimonthly rotation. In order to ensure a safe and protected work environment, for employees with physical activity and presence at the headquarters were strictly implemented measures and provided increased means of protection and sanitation, both in the organization of workspaces and activity and interaction employees: limiting the meetings with physical presence, respecting the social distance, wearing a protective mask. These and other measures have made it possible to keep the rate of employee infections at a low level, the cases of transmission of the infection between employees working at the premises being of a singular nature.

In order to assess the measures taken by the NBM to reduce the effects and risks caused by the situation generated by COVID-19 on the continuity of the NBM’s activity, as well as to identify opportunities to improve the measures taken, a survey where the staff expressed the opinion on the optimization of the remote work process has been carried out.

Thus, it should be mentioned that during the year, despite all the pandemic challenges, the NBM managed to fully fulfil its responsibilities established by law, ensuring the continuity of activity in both the basic and supporting fields of activity and governance. It is worth mentioning that an important factor in this regard was the high degree of automation of business processes, as well as the electronic circuit of documents, amplified at the beginning of the pandemic period with the implementation of electronic signature and increased digitization of business processes. These circumstances allowed the rapid and relatively easy transition to the work at home regime in conditions of necessary information security, considering the specific activity of the bank.

In addition to the measures taken to increase the health of employees, activities and actions were organized during the year to help strengthen the organizational culture and maintain a sense of belonging to the institution, given the lack of communication and interaction through physical presence at work, dictated by the pandemic. Although organized exclusively online, these initiatives have managed to create a special atmosphere of community and team, being together, albeit at a distance. Thus, the events dedicated to the 29th anniversary of the founding of the NBM, the reporting of the annual activity, etc. were organized.

At the same time, the beautiful tradition of the Charity Fair was maintained, the employees having a very active and socially responsible involvement. At the same time, in order to encourage team spirit, skills and share the NBM values, the initiative to nominate colleagues was continued, who showed a special involvement in the relationship with colleagues, but also in the activity carried out at the NBM, being especially noted the dedication and continuous support of IT specialists to ensure the necessary conditions for remote work.

At the same time, the persons who obtained during the year performances that presupposed an additional effort to accomplish the office attributions, such as the internal transfer of knowledge, obtaining the international certifications in the specific fields of activity, etc. were appreciated.
Recruitment

The recruitment process in the National Bank of Moldova is characterized by a continuous effort to attract candidates to participate in competencies to occupy vacancies of the NBM. Considering the specificity of the bank’s vacancies, characterized by increased requirements regarding the level of education, complexity and expertise, but also the labour shortage qualified on the labour market in the Republic of Moldova, the NBM applies diversified measures to attract candidates. Thus, several specialized agencies were contracted to publish vacancy notices and the use of social networks was intensified for this purpose.

We mention that the National Bank of Moldova supports the employment and professional development of young specialists. Thus, a unique event organized in order to promote among them the image of the NBM as an employer was "Career Day at the NBM" – an event dedicated to students and masters of higher education institutions, interested in the financial-banking profile. During this event, over a hundred young people accepted the invitation of the National Bank to participate in a unique and captivating dialogue, which would start new aspirations for professional and personal development. The event, conceived as an interesting and interactive one, brought together nine workshops, including banking supervision, statistical reporting, payment systems, information technology and information security, external relations and European integration, etc. Visitors also learned about the vacancies of the NBM and the requirements for them. Thus, the young people had the opportunity to find out right from the first source what a central bank is and how interesting, but also of great responsibility is its activity. NBM specialists told them about complex things in an accessible and cognitive way, advocating for an interactive discourse.

In the same context, it is relevant that the employment rate of young specialists by the National Bank of Moldova in 2020 was 14.81% of total new employees.

The restrictions imposed by the pandemic required the adaptation of the recruitment process to the predominantly online regime of competitions, with an increase in effort to ensure their realization.

Thus, the application of diversified measures to attract candidates, but also the transition of the recruitment process online have significantly reduced the negative impact of the pandemic situation, 2020 being characterized by maintaining and sometimes even increasing indicators related to the recruitment process, compared to 2019.

Internships

To contribute to the professional development of banking specialists and not only, the NBM is open to accept students from higher education institutions in the country and abroad to practice internships within the NBM. Considering the pandemic situation, their number was decreasing in 2020, and the related activities were carried out mainly in activity at distance.

It should be noted that in 2020 one of the trainees was hired by the NBM, following the participation in the competition for the vacancy.
9.5 Internal audit

The overall purpose of IAD’s (Internal Audit Department) activity is to provide assurance, independent, and objective advisory services, designed to add value and contribute to the improvement of the NBM’s activities. The mission of the internal audit is to enhance and protect the values of the NBM by providing objective assurance based on risk, advice and perspective approach. The internal audit (IA) assists the NBM in achieving its objectives through a systematic and disciplined approach to assessing and improving the effectiveness of governance, risk management and control processes.

IAD is guided in its work by the mandatory elements of the International Professional Practices Framework (IPPF) developed by the Institute of Internal Auditors (IIA) including the Basic Principles of Professional Practice in Internal Audit, Code of Ethics of the Institute of Internal Auditors (hereinafter Code of Ethics), International Standards for Professional Practice in Internal Audit and Definition of Internal Audit (hereinafter IIA Standards). IAD operates based on the normative framework, aligned to Supplemental Guidance “Model Internal Audit Activity Charter” prepared by the Institute of Internal Auditors (IIA). Based on good practices in the field, the independence of IA is achieved through the functional subordination of the Supervisory Board of the NBM/Audit Committee (AC), and the administrative subordination to the Governor of the National Bank of Moldova.

During 2020, the Audit Manual was approved in a new wording in order to adjust the procedures related to the audit missions in the context of implementing from 2019 the specialized IT solution for managing the audit activity, in line with the provisions of the Regulation on the functioning of the Audit Department Internal of the National Bank of Moldova since 12.12.2019, optimization of some processes.

In 2020, the audit work was carried out according to the approved audit plan, which was developed applying the risk-based approach, and the priorities outlined. The pandemic situation conditioned by COVID-19 did not impose the need to modify the audit plan for 2020. IAD in its activity did not encounter any limitations in the presentation of the independent opinion. The Director of IAD regularly reported the results of the audit to the governing bodies of the NBM: the Audit Committee, the Executive Committee and the Supervisory Board.

The annual internal audit plan for 2020 was fulfilled to a 100.0% accomplishment. IAD performed insurance missions, endorsements of the financial statements and execution of the NBM budget, verification and monitoring of high risk areas.

Financial/compliance/operational audits were performed (57.0%), IT audit missions (22.0%), integrated audit (14.0%) and

---

66Regulation on the functioning of the Internal Audit Department of the National Bank of Moldova, approved by the DSB of the NBM no. 32 of 12.12.2019.
6810.0% of the time available for 2021 was used.
performance audit (7.0%)\textsuperscript{69}. The audit activities covered 100.0% of the processes assessed by IAD as high residual risk and 27.0% medium risk. In 2020, IAD officials participated as a technical-analytical consultant in monitoring and counselling in 3 major NBM projects.

According to the Qualification Standards\textsuperscript{70}, the quality assurance and improvement program has the role of ensuring an evaluation of the compliance of the internal audit activity with IIA Standards, as well as the evaluation of the application of the Code of Ethics. At the end of 2020, the external evaluation of the IA function was carried out in order to establish the degree of compliance with the International Standards for the Professional Practice of Internal Audit (IPPF) developed by the IIA and the IIA Code of Ethics, (assessment carried out once every 5 years, last in 2015). The external evaluation was carried out by a representative of the National Bank of Belgium certified in the field, and the report was issued in March 2021. As a result of the evaluation, the AI function obtained the grade "General Compliance" with the mentioned Standards and the Code of Ethics, representing the highest degree of compliance. Likewise, within the respective report, improvements were highlighted compared to the last evaluation (since 2015) in the chapters related to: the independence of the IM function ensured by reporting to the SC/CA; managing the internal audit function and documenting the audit missions including by using the specialized IT solution for the management of the audit activity.

9.6 Information technology

The year 2020 was deeply marked by the impact of the pandemic caused by COVID-19. This is also true from the point of view of the management and development of Information and Communication Technology (hereinafter ICT) within the NBM, the pandemic leading to a major overhaul of development priorities and planned activities in this dimension.

As a result of declaring a state of emergency, in order to protect the health of its employees, the NBM decided to ensure the reorganization in a record time of its remote work activities for a maximum possible number of employees. This objective decision had complex implications for the consumption of ICT services, despite the high level of process digitization within the NBM. In practical terms, this radical paradigm shift has necessitated the taking of rather complex additional measures in a very short time. In this context, the following is a summary of the most important ICT initiatives in the context of the pandemic:

- **Reconfiguring ICT services and extending the concept of mobility** – the change in the way of work imposed by the pandemic situation has been greatly facilitated by virtualization technologies and the concept of workplace mobility (e.g. the use of Virtual Desktop

\textsuperscript{69}Financial/operational/compliance and IT audit. 
\textsuperscript{70}Standard IIA – 1300 "Quality Assurance and Improvement Program"; Standard IIA – 1311 "Internal evaluation"; IIA Standard – 1311 "External Evaluation".
Infrastructure technologies, the use of mobile terminals in decision-making processes, etc.), which have been assimilated and developed by the NBM for several years. However, this mass change required a complex reconfiguration of ICT services in order to be optimized for their remote consumption. The reconfigurations were not only technical, but also focused on procedural and organizational issues, which had to be adapted in order to respond effectively to the challenges.

- **Implementation of new ICT services** – to facilitate the communication and collaboration of remote teams, in the context of this initiative several secure communication and collaboration tools have been widely implemented (e.g. Teams/Office365, Zoom, Webex etc.), which can address as effectively as possible the various needs imposed by work and interaction mainly in the virtual environment.

- **Adaptation and strengthening of ICT infrastructure capabilities** – the new conditions imposed by remote activity have led to some specific changes that have shaped the requirements for the capacity profile of ICT infrastructure. In order to respond effectively to the new changes, the targeted measures aimed at significant improvements in terms of performance and resilience, such as expanding the capacity of communication channels and strengthening the network infrastructure, smarter balancing the load level of ICT services, increasing processing for job virtualization infrastructure, etc.

- **Adapting the cybersecurity management system** – this initiative reviewed security policies and improved the level of cyber protection of ICT services. Remote activity significantly widens the security perimeter, which involves higher inherent cyber risks. Under these conditions, the cyber protection mission continues to remain a real challenge, but also a high priority on the NBM agenda. In order to effectively counter any types of cyber threats, several specific protection measures have been strengthened during the year by implementing a safe and secure mechanism for remote access to the virtual infrastructure of NBM workstations, widespread application of multifactor authentication, improved protection of privileged logical access to the NBM’s critical resources, intensive monitoring of cyber threats, etc.

- **Accelerating the digitization process** – triggering the digital transformation of the NBM was initiated long before the pandemic, which significantly favoured the very rapid adaptation of the NBM to the conditions imposed by the new reality. At the same time, the pandemic has served as a very powerful catalyst to significantly accelerate the completion of ongoing digitization initiatives. Thus, as a result of sustained efforts, most internal processes have been completely digitized, and decision-making processes have been completely migrated to virtual space. The importance of the NBM’s relations with different categories of counterparties (e.g. reporting entities) was also taken into account, with several new fully digitized processes being introduced during the year, through the NBM’s online licensing, authorization and notification system. This system facilitates the remote interaction and transparent dialogue to which the NBM adheres in the process of fulfilling its legal duties.
It is worth mentioning that despite the pandemic situation, which led to a certain change of course, the priorities of the team responsible for ICT management in ensuring the appropriate capabilities and support needed to effectively address the NBM’s strategic projects have retained their primacy, especially due to the significant role of ICT to support the strategic objectives of the NBM. Thus, during the year, important progress was made on several ongoing projects and some new projects were initiated, these being described in table A.25: "Evolution of major NBM projects during 2020".
Chapter 10

Research activity

In 2020, the research activity was focused on the theoretical and practical support of the subdivisions of the National Bank of Moldova, especially in the conditions of the COVID-19 pandemic accompanied by unfavourable climatic conditions. The activities of analysis, research and substantiation of proposals and decisions were accompanied by unexpected requests from subdivisions arising from atypical domestic and global economic conditions. The argumentation and the theoretical-scientific support for the substantiation of the proposals and the decision-making process is the main objective of the subdivision of economic and applied research.

Restrictions, including economic ones, conditioned by the COVID-19 pandemic determined the change in the Republic of Moldova of the structure of consumption, internal and external trade, tourism and transport, means of payment preferences, etc. During 2020, the research activity was focused on the permanent monitoring of the economic situation in the country and the main economic partners and the elaboration of studies, analyses and proposals as support for the accomplishment of the basic attributions. At the same time, the analysis and research activity was focused on the continuous assessment of the risks and uncertainties arising from the restructuring of the national economy and the main economic partners.

The structural economic changes at global, regional and country level, as a result of the COVID-19 pandemic, condition the re-evaluation of economic policies and instruments by creating and adjusting the theoretical and practical foundations to the new conditions. In this context, the role of analysis, studies and research in achieving the basic objective and responsibilities of the National Bank of Moldova increases.
Chapter 11

External communication

The external communication of the National Bank of Moldova focuses on the criteria set out in the Communication Strategy and is aimed at promoting a modern financial system aligned with international standards, as well as a macroeconomic framework conducive to the development of our country’s economy.

At the same time, the epidemiological conditions created globally determined a new approach to the communication process of the institution, but with the same openness to the public and option for an explicit and transparent character of the messages addressed to the various target groups.

Thus, as a result of setting up the state of emergency in the country, the communication process of the National Bank migrated to the online environment, keeping as a basis the principles of accessibility, clarity, timeliness, predictability and transparency. The central bank continued to communicate to the public, seeking to anchor inflationary expectations and increase the credibility of the financial-banking sector in the Republic of Moldova, including by publishing measures taken against banks in the context of the state of emergency generated by COVID-19.

In order to cover more information, the National Bank used several information channels for the public. Traditionally, the official website of the NBM has been used as the first source of information. During 2020, 764 informational materials (press releases, media interviews, analytical materials, normative acts, projects proposed for public consultation, announcements, explanatory articles etc.) were published and updated on the page www.bnm.md and 887 statistical reports.

The National Bank carries out an active collaboration with the media representatives, providing information about its activity and the financial-banking sector at their request. Thus, during 2020, more than 350 requests for information were answered. Also, 15 interviews were given for the electronic press, written press and radio, television, 6 live broadcasts from various events with topics such as: Monetary policy decisions, Presentation of Inflation Reports, Online event dedicated to the 27th anniversary since the introduction of the Moldovan leu, Discourse of the Governor of the National Bank, Octavian Armasu, in the context of signing the Memorandum of Understanding with the European Central Bank in the field of banking supervision, Online presentation by the NBM Governor Octavian Armasu of the National Bank’s balance sheet during 2020. These events were broadcast on the NBM’s communication platforms, as well as on the Privesc.eu and Realitatealive.md platforms.

The first two monetary policy decisions were presented in meetings with members of the Economic Press Club, who respectively published useful explanations for consumers.
Starting with 2018, in the context of further promoting the principle of equidistance in relations with the media, the National Bank has implemented a new communication format – the cumulative interview. These are questions from different media outlets and their answers. Thus, in 2020, the NBM Governor, Octavian Armasu gave two cumulative interviews.

At the same time, the National Bank continued the dialogue with the civil society, being approached topical issues in the context of a reality affected by the pandemic.

Also, in the context of the epidemiological crisis, the National Bank brought to the public’s attention the message of social gratitude to the medical workers, launching the commemorative coin "My doctor – my hero".

The analysis of the usefulness of the website and the messages received through social networks shows the increase in the number of users and accesses of the NBM website and their interest in topics such as monetary policy, banking supervision, normative acts developed by the National Bank, financial education events.

The rapid migration of NBM communication to the online environment, in the new epidemiological conditions, and the adaptation of messages to the particularities of social networks was supported by the practice of a more accessible and simplified style to achieve a wider coverage effect among the public uninstructed in the financial-banking subject.

In 2020, there is an increase in the number of accesses to the NBM website on various social networks, the public interest in posts on the bank’s profile page, but also the diversification of social networks as a source of access.

### Table 11.1: Web page navigability metrics

<table>
<thead>
<tr>
<th></th>
<th>Anul 2020</th>
<th>Anul 2019</th>
<th>Anul 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of users of page <a href="http://www.bnm.md">www.bnm.md</a></td>
<td>667,610</td>
<td>584,605</td>
<td>505,738</td>
</tr>
<tr>
<td>Visits <a href="http://www.bnm.md">www.bnm.md</a></td>
<td>2,327,089</td>
<td>2,235,312</td>
<td>2,087,457</td>
</tr>
<tr>
<td>New users from total users of site</td>
<td>630,342</td>
<td>547,329</td>
<td>470,590</td>
</tr>
</tbody>
</table>

Source: NBM, NBM calculations

### Table 11.2: Web page views

<table>
<thead>
<tr>
<th>Networks and accesses</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Facebook</td>
<td>20,749</td>
</tr>
<tr>
<td>LinkedIn</td>
<td>1,398</td>
</tr>
<tr>
<td>VKontakte</td>
<td>631</td>
</tr>
<tr>
<td>Twitter</td>
<td>364</td>
</tr>
<tr>
<td>Instagram</td>
<td>116</td>
</tr>
<tr>
<td>OK.ru</td>
<td>99</td>
</tr>
<tr>
<td>Youtube</td>
<td>77</td>
</tr>
<tr>
<td>Messenger</td>
<td>35</td>
</tr>
<tr>
<td>Blogger</td>
<td>31</td>
</tr>
<tr>
<td>Skype</td>
<td>9</td>
</tr>
<tr>
<td>Instagram Stories</td>
<td>8</td>
</tr>
<tr>
<td>Reddit</td>
<td>7</td>
</tr>
<tr>
<td>Scribd</td>
<td>4</td>
</tr>
</tbody>
</table>

Source: NBM, NBM calculations
Chapter 12

Financial education

In the Republic of Moldova, as in other countries, financial education has more and more the significance of a socio-economic desideratum. Citizens’ interest in this regard is constantly growing and responds to the needs of increasingly active involvement of the population of different ages and occupations in activities that contribute to financial inclusion.

The National Bank of Moldova, as the national coordinator of the financial education process, makes multiple efforts to be with the citizens, promoting the financial concepts and the advantages that consumers obtain through financial inclusion.

Thus, during 2020, the National Bank carried out a series of projects addressed to the target groups: children, young people, students, teachers, business environment, etc.

These were carried out in partnerships with higher education institutions aimed at training future specialists in economics, supported by the central bank’s expertise in its capacity as monetary and supervisory authority.

In the process of financial education, the NBM also cooperates with civil society. Thus, within the project "Give sense to money" carried out jointly with the Independent Analytical Centre "Expert-Grup" was organized the first training workshop that trained young people as future ambassadors for the promotion of financial education. Eligible people were high school students and pupils. Participants gained the knowledge needed to teach a financial education lesson in their hometowns to their peers.

Within the "Give sense to money" project, 9 informative notes, 9 infographics were also developed and published and the school of financial education for students was organized.

The materials made during the campaign, in less than two months, were viewed by a number of over 118,229 unique users, generating 144 references on the pages of partners and in the press.

Also, during this campaign, training workshops were organized in the financial-banking field in six cities of the country: Chisinau, Cahul, Cimislia, Calarasi, Soroca and Balti.

Several institutions and associations, such as commercial banks, non-bank lending institutions and other partners, joined the campaign.

In order to diversify and increase the dissemination of information, the financial education podcast “Where does the money come
from" was launched, which deals with topics such as lending, saving for the future, the payment system, etc.

In the new epidemiological conditions, the NBM carried out the online financial education campaign "Spend the holiday with the NBM", addressed to all age groups. Visitors had the opportunity to participate in two events: "A day of vacation at the NBM", which has become a tradition, and "The first financial education camp in the Republic of Moldova" for pupils, students or young people eager to learn more about the financial-banking field. In the same format was organized the financial education event "Road of money" on the occasion of the International Day of Savings, which was addressed to young people aged 16 years. During the event, experts from the central bank made presentations on the topics: "Non-cash payment instruments. How money arrives in circulation", "Security elements", "National financial system v savings instruments", "National financial system – credit instruments".

Among the financial education activities can be mentioned, as well, the elaboration and promotion of the Guide for consumer protection on the financial-banking market in the Republic of Moldova and a series of trainings on the financial-banking subject for media representatives.

The online platform was also used to organize commemorative coin launch events and other events such as the presentation by the National Bank Governor, Octavian Armasu, of the Memorandum of Understanding signed by the NBM and the European Central Bank in the field of banking supervision for students and teachers of technical and higher vocational education institutions with economic profile in the Republic of Moldova.

The increased interest of the general public, along with that of financial education professionals, confirms its need and importance to discern the right steps for possible errors in financial intentions.

The National Bank of Moldova considers the development of cooperation between institutions as an essential perspective to expand the financial education process in our country, which will help the consumer in managing risks and making financial decisions.

The development of the financial market and information technologies, on an increasingly competitive background, but also on the background of the development of other segments of the economy, requires general financial knowledge from all members of society. They have become imperative in everyday life and are important steps towards financial inclusion.

Thus, financial education reflects a public interest and the development of this process at different levels and for various target groups, with the involvement of authorities and civil society to confirm a reality of the modern world in continuous and rapid change.

The ultimate goal is for financial education to help the population, depending on their needs and circumstances, make decisions that will contribute to better financial risk management and a more stable financial system, in order to achieve balance, financial protection and well-being perspective.
Chapter 13

Analysis of the financial situation for 2020

13.1 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, the maximization of the 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.

The information included in this analysis includes unaudited financial data for the financial year ended on 31 December 2020, the financial audit and the issuance of the audit report being in progress on the date of this report. In case of significant discrepancies between audited and unaudited data for 2020, the information will be presented in the audited financial statements.

13.2 Revenues and expenditure analysis

The revenues and expenditures of the National Bank of Moldova depend directly on the need to carry out monetary and foreign exchange operations, in order to achieve the fundamental objective and fulfil the basic tasks of the bank.
Impact of the implementation of monetary policy and activities related to relations with the Government of the Republic of Moldova on the financial situation of the National Bank of Moldova

During 2020, the National Bank of Moldova continued to use tools to absorb excess liquidity. Expenditures from sterilization operations performed by issuing certificates of the National Bank of Moldova decreased, amounting to about MDL 217 million in 2020 compared to about MDL 380 million in 2019, due to the evolution of the average interest rate on NBC in balance, which during the reporting period amounted to 3.56%, compared to the similar period of 2019, when the average rate was 6.88%. The effect of the rate decrease was partially offset by the increase in the balance of certificates issued for sterilization of liquidity. In 2020, the average daily balance of certificates issued by the NBM amounted to MDL 5,921.08 million, compared to MDL 5,500.1 million in 2019. Thus, the net effect of these two factors was the decrease in expenditures from sterilization operations by about MDL 163 million in 2020.

At the same time, during 2020, as a result of the registration of an annual average remuneration rate of required reserves in MDL lower, which amounted to 0.7% (2019: 3.86%), and the decrease of the required reserves MDL norm to 32% (from 42.5% in 2019), the NBM recorded lower net expenditures by about MDL 436 million, compared to the previous year.

Required reserves remuneration rates in foreign currency remained at the same level of 0.01%.

The change in the rates related to the monetary policy tools was decided based on the identification of the premises for the urgent configuration of the monetary policy due to the pandemic evolution in the global and national economy. Thus, monetary policy measures capable partially to mitigate the impact of the effects generated by the COVID-19 pandemic on the national economy and in order to prevent liquidity risk and strengthen the stability of the banking sector in Moldova were adopted.

The set of monetary policy tools applied by the National Bank of Moldova during 2020 and the activities related to the relations with the Government generated a net profit of MDL 401.14 million, compared to the net loss of MDL (216.39) million in 2019 (Table A.21).

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 2020, as compared to 31 December 2019 by 23.66% or by about USD 724 million (from USD 3,059.6 million to USD 3,783.54 million), being invested predominantly in financial instruments denominated in USD, euros and pounds. At the same time, during 2020 there was an increase in the average annual volume of international reserves by USD 287.91 million (from USD 2,929.12 million to USD 3,217.03 million).

The net revenues related to the management of foreign exchange reserves and other foreign exchange operations constituted for
MDL 614.70 million, decreasing by about MDL 328.22 million as compared to the previous year, when revenues amounted to MDL 942.92 million. This result was largely determined by the decrease in the return on official reserve assets from 1.71% in 2019 to 0.81% by 2020, an effect partially offset by the increase in the volume of official reserve assets by about 10%.

The decrease in the return on official reserve assets was largely due to the successive decrease in refinancing rates applied by the governments and central banks of the countries in which the Bank invests official reserve assets (United States, France, Germany, United Kingdom, Canada, the Netherlands, Japan, etc.) in order to combat the effects of the COVID-19 pandemic, which consequently led to the reinvestment of due funds in financial instruments at less favourable rates.

At the same time, the decrease in the result from the management of official reserve assets was partially offset by the registration of revenues from foreign exchange sales higher than the comparative period (+MDL 103.4 million). The revenues recorded were generated by a positive difference between the selling rate and the cost of the foreign exchange stock, higher compared to 2019. During the analysed period, the NBM recorded foreign exchange sales in the amount of about USD 198.32 million, of which sales interventions USD 170.47 million, which cumulatively led to the recording of revenues of about MDL 164.37 million, compared to the similar period in 2019 in which MDL 60.96 million revenues were registered, (in 2019 foreign currency sales were made in the amount of about USD 295 million, of which sales interventions of about USD 222 million).

Additional information on the management of official reserve assets is presented in Chapter 3 Monetary policy/Subchapter 3.6 Foreign exchange market.

The impact of official reserve asset management operations on the financial situation of the National Bank of Moldova is presented in table A.22.

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 amounts and 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 Moldovan leu against the currencies in which the foreign exchange reserves are held had an insignificant impact on the financial situation of the National Bank of Moldova (namely, in 2020 there was a depreciation of the USD/MDL exchange rate of 0.03%, compared to 0.39% in 2019).

Thus, at the end of 2020, following the depreciation of the Moldovan leu against some component currencies of foreign exchange stocks, namely: compared to EUR by 9.69% and GBP by 3.78%, there was recorded unrealized income from exchange rate differences from the revaluation of foreign exchange stocks in the amount of about MDL 656.31 million. At the end of 2019, the unrealized losses from exchange rate differences from the revaluation of foreign exchange stocks amounted to MDL 141.44 million.
13.3 Assets and liabilities

The activities carried out by the National Bank of Moldova during 2020, in order to fulfil its core duties, are reflected in the structure of the bank’s balance sheet, as shown in table A.24.

13.4 Capital

Pursuant to Law no. 42 of 06.03.2020 regarding the amendment of some legislative acts (hereinafter Law 42/2020), on April 2, 2020, the amendments to Art. 19 and 20 of Law no. 548/1995 on the National Bank, on the manner of forming the statutory capital of the Bank and the distribution of the profit available for distribution became effective.

In accordance with Art. 19 of the Law on National Bank of Moldova, 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% 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.

According to the profit allocation mechanism, if the size of the Bank’s statutory capital at the end of the financial year constitutes from 4% to 10% of the total monetary obligations of the National Bank, only 50% of the statutory capital for the profit available for distribution, in the manner provided in Art. 19 paragraph (3) is allocated for the increase of the statutory capital.

Considering that on December 31, 2019, the level of statutory capital until the distribution of profit represented 5.79%, and the provisions of Law 42/2020 had a prospective application, at the date of entry into force of Law 42/2020, the Bank reallocated 50% of the profit available for distribution to debts to the state budget, decreasing the statutory capital so that the authorized capital constitutes 1/3, and the general reserve fund 2/3 of the total adjusted statutory capital.

As of 31 December 2020, based on unaudited figures, the level of statutory capital in total monetary liabilities exceeds the level of 4% (on December 31, 2019: according to the NBM Law in force on December 31, 2019 – 5.79%; after the application of Law 42/2020 – 5.38%), its level to be confirmed by the audited financial results, with a possible significant influence from the recognition and measurement of government securities derived from the execution of state guarantees on December 31, 2020.

To this end, the determination and publication of the financial result available for distribution and of the statutory capital, in order to ensure a true and complete picture, will be made only on the basis of audited data, included in the financial statements confirmed by the external auditor.
List of Figures

1.1 GDP comparative evolution in selected economies in 2019 and 2020 (%)* .......................... 11
1.2 USDX evolution in the context of FRS monetary policy ...................................................... 12
1.3 Total World Petroleum Production and Consumption, million barrels per day .................. 13
1.4 The annual average growth rate of world price (%) .......................................................... 13
2.1 Contribution of demand components to GDP growth (p.p.) ............................................ 16
2.2 Contribution of economic sectors to GDP growth (p.p.) .................................................... 16
2.3 The evolution in real terms of the household final consumption growth (%), versus the same period of the previous year) ................................................................. 17
2.4 The evolution of the household disposable income (%), versus the same period of the previous year) and contribution of components (p.p.) .................................................. 17
2.5 Annual rate of gross capital formation (%) and components contribution (p.p.) .............. 17
2.6 Annual rate of investments in fixed assets (%) and contribution by funding sources (p.p.) 18
2.7 Annual rate of global agricultural production (%) and contribution by sectors (p.p.) ....... 18
2.8 Evolution of industrial production (%), versus the same period of the previous year) and components contribution (p.p.) ................................................................. 18
2.9 Evolution in real terms of freight transport (%), versus the same period of the previous year) and components contribution (p.p.) ................................................................. 19
2.10 Evolution in real terms of passenger transport (%), versus the same period of the previous year) ............................................................................................................ 19
2.11 Evolution in real terms of internal trade (%), versus the same period of the previous year) 19
2.12 Evolution of wholesale trade (%), versus the same period of the previous year), current prices 20
2.13 Evolution of exports annual rate (%) and contribution by categories of countries (p.p.) .... 20
2.14 Evolution of exports annual rate (%) and components’ contribution by groups of goods (p.p.) 20
2.15 Evolution of exports annual rate (%) and contribution by origin (p.p.) .............................. 21
2.16 Evolution of imports annual rate (%) and contribution by categories of countries (p.p.) .... 21
2.17 Evolution of imports annual rate (%) and components’ contribution by groups of goods (p.p.) 21
2.18 Economic activ population and employed population ....................................................... 21
2.19 Economic activ population and employed population (%) .............................................. 21
2.20 Evolution of the number of unemployed persons and the unemployment rate (%) .......... 21
2.21 Wage fund in the economy and average number of employees (%, yoy) ..................... 22
2.22 Real average salary (%, yoy) ................................................................. 22
2.23 Annual rate of CPI (%) ................................................................. 23
2.24 Annual rate of inflation subcomponents (%) ........................................... 23
2.25 CPI evolution and subcomponents’ contribution (p.p.) ................................. 23
2.26 Components contribution (p.p.) to the annual growth rate of core inflation (%) .... 24
2.27 Components’ contribution to the annual growth of food prices (p.p.) ............... 25
2.28 Components’ contribution to the annual growth of regulated prices (p.p.) ........... 25
2.29 Components contribution (p.p.) to the annual growth of fuel prices (%) ............ 26
2.30 Annual rate of prices in industry (%) ....................................................... 26
2.31 Annual rate of prices in industry (%) and its components’ contribution (p.p.) classified by main branches ................................................................. 27
2.32 Evolution of the annual rate of prices in construction (%) .............................. 27
2.33 Producer’s prices of agricultural products (%) ........................................... 27
2.34 Indicators of national public budget ......................................................... 28
2.35 The current account – main components .................................................. 30
2.36 The export of goods, by geographical area (USD million) ............................. 30
2.37 The import of goods, by geographical area, prices CIF (USD million) (%) ........ 31
2.38 The import of energy products and electricity (USD million, CIF prices) ............ 31
2.39 The export and the import of services (USD million) .................................... 31
2.40 Primary income by component (USD million) .......................................... 32
2.41 Secondary income by component (USD million) ....................................... 32
2.42 Geographical distribution of personal remittances (USD million) .................... 32
2.43 The financial account by functional categories (USD million) ....................... 33
2.44 The direct investment: net incurrence of liabilities, disaggregated by instruments (USD million) ................................................................. 33
2.45 International investment position in dynamics, at the end of the period (USD million) .................................................. 34
2.46 The indicators of official reserve assets adequacy of the Republic of Moldova (USD million) ................................................................. 34
2.47 The direct investments, liabilities, main components, position* at the end of the period (USD million) ................................................................. 34
2.48 The direct investments liabilities stock, equity as of 31 December 2020, by economic activities (according to CEAM 2), % ................................................ 35
2.49 Public debt as a share of GDP (%) ............................................................ 35
2.5.0 The gross external debt in dynamics ......................................................... 36
2.5.1 Structure of short-term external debt by types of commitments, as of December 31, 2020 36

3.1 The evolution of daily balance of money market operations (MDL million) ............... 40
3.2 The evolution of average monthly balance of overnight deposits and of average interest rate 42
3.3 The evolution of required reserves in MDL and in foreign currency in 2018-2020 (%) ..... 42
3.4 The evolution of the attracted means subject to reservation in the years 2018-2020 (averages by observation periods) ................................................................. 42
3.5 The evolution of the official exchange rate of MDL/USD and the volume of daily transactions of the NBM in 2018-2020 ......................................................... 43
3.6 Evolution of the components of money supply M2 (% increase from previous year) ..... 44
3.7 Dynamics of the main components of money supply M3 (% increase from previous year) 44
3.8 The balance of loans granted in the economy (% increase at the end of the year) ....... 45
3.9 Dynamics of the components of the balance of loans granted in the economy (% increase at the end of the year) ................................................................. 45
3.10 Dynamics of volume and weighted average rates on new loans granted in MDL ........ 45
3.11 Dynamics of volume and weighted average rates on new loans granted in foreign currency and pegged to the foreign exchange rate ........................................ 46
3.12 Dynamics of the components of the balance of attracted deposits (% year-end growth) .. 46
3.13 Dynamics of deposits attracted on demand and at term (% year-end growth) ............ 46
3.14 Dynamics of volume and weighted average rates on new term deposits attracted in MDL . 47
3.15 Dynamics of volume and weighted average rates on new term deposits attracted in foreign currency recalculated in MDL ......................................................... 47
3.16 Average interest rates in MDL (%) .................................................................. 47
3.17 Evolution of the bank margin on new operations in national and foreign currency (p.p.) 48
3.18 Average interest rates on loan and deposit balances, at the end of the year (%) ....... 48
3.19 Quantitative indicators of the primary market of SS (MDL million) ......................... 49
3.20 Monthly dynamic of the primary market indicators of the SS ............................... 49
3.21 Structure of SS issuance by maturity in 2019 ................................................... 49
3.22 Structure of SS issues by maturity in 2020 ....................................................... 50
3.23 Dynamic of nominal interest rates on SS with the maturity up to one year (%) ........ 50
3.24 Dynamic of interest rates on the financial market (%) ....................................... 50
3.25 Dynamic of SS volume in circulation at the end of the period (MDL million) ........... 51
3.26 Dynamic of SS indicators (T-bills) traded on the secondary market in the period 2018-2020 51
LIST OF FIGURES

3.27 Structure of SS traded on the secondary market by maturity split in 2019 .......... 52
3.28 Structure of securities traded on the secondary market by maturity split in 2020 .... 52
3.29 Evolution of reference rates on the interbank market and the NBM base rate (%) ... 52
3.30 Turnover of foreign exchange transactions against national currency carried out on the domestic foreign exchange market, in structure according to the settlement method (transfer or cash), years 2018-2020 ................................................................. 53
3.31 Structure of the total turnover of foreign exchange transactions against national currency carried out on the domestic foreign exchange market in 2019 (%) .............................. 53
3.32 Structure of the total turnover of foreign exchange transactions against national currency carried out on the domestic foreign exchange market in 2020 (%) .............................. 53
3.33 The total number of foreign exchange transactions with legal entities, by currency ... 54
3.34 The number of euro and US dollar transactions on the intra-bank foreign exchange market by transfer, structured according to the amount traded (with the equivalent of USD 10,000 to USD 100,000) ................................................................. 54
3.35 The number of transactions in euro and US dollars on the intra-bank foreign exchange market by bank transfer, structured according to the amount traded (greater than the equivalent of USD 100,000) ................................................................. 54
3.36 Currency structure of balance sheet foreign exchange assets, effective exchange rate (%) 55
3.37 Balance sheet foreign exchange assets, at effective exchange rate, in structure by asset type (million US dollars) ................................................................. 55
3.38 Currency structure of balance sheet foreign exchange liabilities, effective exchange rate (%) 55
3.39 Balance sheet foreign exchange liabilities, at the effective exchange rate, in the structure by type of liability (million US dollars) ................................................................. 56
3.40 Fluctuations in the official exchange rate of the national currency against the US dollar and the euro ................................................................. 56
3.41 The evolution of the currencies of some main trading partners of the Republic of Moldova and of some countries in the region against the US dollar, 31.12.20/31.12.19 (%) .... 56
3.42 Contribution of the currencies of the main trading partners of the Republic of Moldova to the change of the real effective exchange rate in 2020 ................................................................. 57
3.43 Dynamics of the real effective exchange rate of the national currency calculated on the basis of the share of the currencies of the main trading partners during the period 01/2018 - 12/2020 ................................................................. 57
3.44 The degree of the net demand coverage by the net supply and the official exchange rate dynamics ................................................................. 57
3.45 Foreign exchange structure of net supply of foreign currency from individuals (recalculated at a constant exchange rate) ................................................................. 58
3.46 Profitability rates of government securities with a maturity of 2 years ................. 60
3.47 Monetary policy rates in the US, EU, UK ................................................................. 60
3.48 Structure of foreign exchange reserves on investment instruments at the end of 2018-2020 (million US dollars) ................................................................. 61
3.49 Structure of foreign exchange reserves as of 31.12.2020 .......................... 61


4.2 Dynamics of own funds (MDL million) and total own funds ratio (%) by banking sector of the Republic of Moldova for the period 31.12.2019* - 31.12.2020 .......................... 65

4.3 Dynamics of the concentration of total own funds of the banking sector of the Republic of Moldova by groups of banks for the period 31.12.2019* - 31.12.2020 (%) .................. 66


4.5 Dynamics of concentration of assets of the banking sector of the Republic of Moldova by groups of banks for the period 31.12.2019* - 31.12.2020 (%) .................. 66

4.6 Concentration of assets of the banking sector 31.12.2020 (%) .................. 67


4.8 Dynamics of assets, loans and deposits in relation to GDP (%)* .................. 68

4.9 Branch distribution of loans on 31.12.2020 (%) ..................................... 68

4.10 Dynamics of the loan portfolio structure of the banking sector in the Republic of Moldova according to classification categories on 31.12.2019* (%) .................. 68

4.11 Dynamics of the loan portfolio structure of the banking sector in the Republic of Moldova according to classification categories on 31.12.2020 (%) .................. 69

4.12 Dynamics of income and expenditure of the banking sector of the Republic of Moldova for 2019* - 2020 (MDL million) .................................................. 69

4.13 Structure of revenues of the banking sector of the Republic of Moldova in 2020 (%) .......................................................... 70

4.14 Structure of expenses of the banking sector of the Republic of Moldova in 2020 (%) .......................................................... 70

4.15 Dynamics of net interest margin, return on assets and capital of the banking sector of the Republic of Moldova for the period 31.12.2019* - 31.12.2020 (%) .................. 70

4.16 Dynamics of the concentration of the banking sector debt of the Republic of Moldova by groups of banks for the period 31.12.2019* - 31.12.2020 (%) .................. 71

4.17 Dynamics of liquid assets (MDL million) and their share in total assets of the banking sector of the Republic of Moldova (%) .................................................. 72

5.1 The number and value of payments made through non-bank payment service providers, 2016-2020 .......................................................... 85

5.2 The number and value of payments processed in AIPS, 2019-2020 .......................................................... 85

5.3 The number of payment cards in circulation, 2016-2020 (million units) .......................................................... 87

5.4 The number of operations carried out with payment cards issued in the Republic of Moldova, 2016-2020 (million operations) .......................................................... 88

5.5 The structure of domestic operations, year 2020 .......................................................... 89
5.6 The share of operations made abroad with cards issued in the Republic of Moldova, year 2020 89
5.7 The indicators of payment cards market in the Republic of Moldova .......................... 90
5.8 The number of ARSSS users by systems type, the end of 2016-2020 ............................ 90
5.9 Number and value of transactions performed through ARSS, 2016-2020 ...................... 90
5.10 Number of credit transfer transactions, 2016-2020 (million transactions) .................... 91

6.1 The evolution of banknotes in monetary circulation in terms of value (MDL million) .... 92
6.2 The evolution of banknotes in monetary circulation in terms of quantity (million banknotes) 92
6.3 The structure by face value of banknotes in circulation at the end of 2020 ...................... 93
6.4 Evolution of divisive coins in monetary circulation in terms of value (MDL million) .... 94
6.5 Evolution of divisive coins in monetary circulation in terms of quantity (millions of coins) . 94
6.6 The structure by face value of divisive coins in circulation at the end of 2020 ............... 94
6.7 Evolution of LEI coins in monetary circulation in terms of value (MDL million) .......... 94
6.8 Evolution of LEI coins in monetary circulation in terms of quantity (millions of coins) .... 94
6.9 The structure by face value of LEI coins in circulation at the end of 2020 .................... 94
6.10 The banknotes issued during 2020 in terms of quantity ............................................ 95
6.11 The banknotes issued during 2020 in terms of value .................................................. 95
6.12 The divisive metal coins issued during 2020 in terms of quantity .............................. 95
6.13 The divisive metal coins issued during 2020 in terms of value .................................. 96
6.14 The LEI metal coins issued during 2020 in terms of quantity ..................................... 97
6.15 The banknotes withdrawn from circulation during 2020 in terms of quantity ............ 97
6.16 The nominal values structure of the forgeries, found in 2020 in terms of quantity ....... 97
6.17 The LEI metal coins issued during 2020 in terms of value ......................................... 97
6.18 The banknotes withdrawn from circulation during 2020 in terms of value ............... 97
6.19 The nominal values structure of the forgeries, found in 2019 in terms of quantity ...... 97

9.1 Human Resource Management Processes ............................................................... 136
9.2 Voluntary turnover of NBM staff (%) ....................................................................... 136
9.3 General information on NBM employees ................................................................. 136
9.4 Participation of NBM employees in training provided by external suppliers ............ 137
9.5 Participations of NBM employees in internal training .............................................. 137
9.6 Evolution of the level of performance of NBM employees ...................................... 137
9.7 Evolution of the recruitment process in the NBM ..................................................... 139
9.8 Internships for students in NBM .............................................................................. 139

13.1 Evolution of the profitability of official reserve assets in 2020 compared to 2019 (percentage points) ................................................................. 151
List of Tables

1.1 Appreciation (-)/depreciation (+) of currencies in 2020 (%)* ........................................... 12
1.2 The evolution of selected indicators in neighboring economies, main trading partners in 2020 (%) ................................................................. 14
2.1 Average annual rate of CPI ................................................................. 23
3.1 Annual weighted average nominal interest rates of the state securities by maturities (%) .......................... 51
11.1 Web page navigability metrics ................................................................. 146
11.2 Web page views ................................................................................. 146
A.1 Balance of payments of the Republic of Moldova (according to BPM6) – main aggregates (USD million) ................................................................. 161
A.2 External loans (incurrence of liabilities), by institutional sectors, drawings and repayments (USD million) ................................................................. 162
A.3 International investment position (BPM6) of the Republic of Moldova, at period-end (USD million) ................................................................. 162
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) ................................................................. 163
A.5 Total turnover of the domestic foreign exchange market operations of the foreign currency against MDL (equivalent in USD million) ................................................................. 163
A.6 Structure of turnover of foreign exchange transactions on domestic foreign exchange market ................................................................. 164
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) ................................................................. 164
A.8 Balance sheet assets in foreign currency of the licensed banks (equivalent in USD million) ................................................................. 165
A.9 Disposable funds in foreign currency of the licensed banks (equivalent in USD million) ................................................................. 165
A.10 Balance sheet liabilities in foreign currency of licensed banks (equivalent in USD million) ................................................................. 166
A.11 Current accounts and deposits in foreign currency of bank’s clients, by tipes of currency (equivalent in USD million) ................................................................. 166
A.12 Conditional assets and liabilities in foreign currency of licensed banks (equivalent in USD million) ................................................................. 166
A.13 Investment limits and constraints applied by the NBM in the investment risk management process ................................................................. 167
Appendix A

Statistical tables

Table A.1: Balance of payments of the Republic of Moldova (according to BPM6) – main aggregates (USD million)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CURRENT ACCOUNT</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Goods</td>
<td>-192.8</td>
<td>-204.7</td>
<td>-25.5</td>
<td>-334.9</td>
<td>-230.8</td>
<td>-1,119.1</td>
<td>-795.7</td>
</tr>
<tr>
<td>Services</td>
<td>-862.2</td>
<td>-716.6</td>
<td>-555.3</td>
<td>-907.1</td>
<td>-896.8</td>
<td>-3,311.8</td>
<td>-3,075.8</td>
</tr>
<tr>
<td>Primary income</td>
<td>81.7</td>
<td>79.3</td>
<td>90.4</td>
<td>115.8</td>
<td>102.9</td>
<td>350.6</td>
<td>388.4</td>
</tr>
<tr>
<td>Secondary income</td>
<td>219.4</td>
<td>152.8</td>
<td>108.7</td>
<td>68.7</td>
<td>142.6</td>
<td>621.1</td>
<td>472.7</td>
</tr>
<tr>
<td></td>
<td>368.4</td>
<td>279.8</td>
<td>330.8</td>
<td>387.7</td>
<td>420.7</td>
<td>1,221.0</td>
<td>1,419.0</td>
</tr>
<tr>
<td><strong>CAPITAL ACCOUNT</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>-10.4</td>
<td>-10.1</td>
<td>-7.6</td>
<td>-23.4</td>
<td>-20.0</td>
<td>-49.9</td>
<td>-61.1</td>
</tr>
<tr>
<td>Net borrowing (current and capital account)</td>
<td>-203.2</td>
<td>-214.7</td>
<td>-33.0</td>
<td>-358.3</td>
<td>-250.8</td>
<td>-1,169.0</td>
<td>-856.8</td>
</tr>
<tr>
<td><strong>FINANCIAL ACCOUNT</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct investment, net</td>
<td>-22.8</td>
<td>-21.8</td>
<td>23.8</td>
<td>-47.8</td>
<td>-20.6</td>
<td>-461.5</td>
<td>-66.4</td>
</tr>
<tr>
<td>Portfolio investment, net</td>
<td>0.3</td>
<td>-0.3</td>
<td>1.1</td>
<td>-0.1</td>
<td>0.1</td>
<td>4.7</td>
<td>0.9</td>
</tr>
<tr>
<td>Financial derivatives, net</td>
<td>0.1</td>
<td>-0.5</td>
<td>-0.2</td>
<td>0.4</td>
<td>-0.1</td>
<td>0.3</td>
<td>-0.4</td>
</tr>
<tr>
<td>Other investment, net</td>
<td>-216.0</td>
<td>-61.2</td>
<td>-309.7</td>
<td>-614.9</td>
<td>-528.3</td>
<td>-745.0</td>
<td>-1,514.1</td>
</tr>
<tr>
<td>Reserve assets</td>
<td>82.6</td>
<td>91.2</td>
<td>234.8</td>
<td>224.4</td>
<td>269.5</td>
<td>60.5</td>
<td>637.4</td>
</tr>
<tr>
<td>Net errors and omissions</td>
<td>47.4</td>
<td>39.7</td>
<td>-17.3</td>
<td>-79.7</td>
<td>-28.5</td>
<td>27.9</td>
<td>-85.8</td>
</tr>
<tr>
<td>Informative: Personal remittances, credit</td>
<td>477.7</td>
<td>444.3</td>
<td>391.2</td>
<td>472.6</td>
<td>502.3</td>
<td>1,816.9</td>
<td>1,810.4</td>
</tr>
</tbody>
</table>

% la PIB

|                      |        |        |        |        |        |        |        |
| CURRENT ACCOUNT      | -6.1   | -8.2   | -1.0   | -9.1   | -7.0   | -9.3   | -6.7   |
| Goods                | -27.4  | -28.9  | -22.1  | -24.7  | -27.3  | -27.7  | -25.8  |
| Primary income       | 2.6    | 3.2    | 3.6    | 3.2    | 3.1    | 2.9    | 3.3    |
| Secondary income     | 7.0    | 6.2    | 4.3    | 1.9    | 4.3    | 5.2    | 4.0    |
|                      | 11.7   | 11.3   | 13.2   | 10.6   | 12.8   | 10.2   | 11.9   |
| CAPITAL ACCOUNT      | -0.3   | -0.4   | -0.3   | -0.6   | -0.6   | -0.4   | -0.5   |
| Net borrowing (current and capital account) | -6.5 | -8.6 | -1.3 | -9.8 | -7.6 | -9.8 | -7.2 |
| FINANCIAL ACCOUNT    | -4.9   | -7.0   | -2.0   | -11.9  | -8.5   | -9.5   | -7.9   |
| Direct investment, net | -0.7 | -0.9   | 0.9    | 1.3    | -0.6   | -3.9   | -0.6   |
| Portfolio investment and financial derivatives, net | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other investment, net | -6.9  | -2.5   | -12.3  | -16.7  | -16.1  | -6.2   | -12.7  |
| Reserve assets       | 2.6    | -3.7   | 9.3    | 6.1    | 8.2    | 0.5    | 5.4    |
| Informative: Personal remittances, credit | 15.2  | 17.9   | 15.6   | 12.9   | 15.3   | 15.2   | 15.2   |

* revised data

Note: For financial account: (+) net capital outflows, (-) net capital inflows.
Source:NBM
### Table A.2: External loans (incurrence of liabilities), by institutional sectors, drawings and repayments (USD million)

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2020</th>
<th>2020</th>
<th>2020</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>draw</td>
<td>rep.</td>
<td>draw</td>
<td>rep.</td>
<td>draw</td>
</tr>
<tr>
<td><strong>Loans</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Central bank</td>
<td>166.1</td>
<td>92.1</td>
<td>147.1</td>
<td>131.4</td>
<td>427.7</td>
</tr>
<tr>
<td>Long-term</td>
<td>-10.6</td>
<td>8.0</td>
<td>16.9</td>
<td>-10.6</td>
<td>-14.8</td>
</tr>
<tr>
<td>General government</td>
<td>41.5</td>
<td>15.7</td>
<td>26.2</td>
<td>49.7</td>
<td>269.4</td>
</tr>
<tr>
<td>Long-term</td>
<td>41.5</td>
<td>15.7</td>
<td>26.2</td>
<td>49.7</td>
<td>269.4</td>
</tr>
<tr>
<td>Deposit-taking corporations, except central bank</td>
<td>20.0</td>
<td>5.9</td>
<td>2.3</td>
<td>5.3</td>
<td>7.7</td>
</tr>
<tr>
<td>Short-term</td>
<td>-</td>
<td>-</td>
<td>2.3</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Long-term</td>
<td>20.0</td>
<td>5.9</td>
<td>5.3</td>
<td>7.7</td>
<td>7.4</td>
</tr>
<tr>
<td><strong>Nonfinancial corporations, HS and NPISHs</strong></td>
<td>63.6</td>
<td>25.4</td>
<td>70.1</td>
<td>34.8</td>
<td>138.1</td>
</tr>
<tr>
<td>Short-term</td>
<td>0.5</td>
<td>0.9</td>
<td>1.0</td>
<td>0.3</td>
<td>7.7</td>
</tr>
<tr>
<td>Long-term</td>
<td>63.0</td>
<td>24.5</td>
<td>69.1</td>
<td>34.5</td>
<td>130.4</td>
</tr>
<tr>
<td><strong>Other financial corporations</strong></td>
<td>41.1</td>
<td>34.5</td>
<td>40.5</td>
<td>24.7</td>
<td>12.6</td>
</tr>
<tr>
<td>Short-term</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0.2</td>
</tr>
<tr>
<td>Long-term</td>
<td>41.1</td>
<td>34.5</td>
<td>40.5</td>
<td>24.7</td>
<td>12.6</td>
</tr>
</tbody>
</table>

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

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

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net international</strong></td>
<td>-4,072.7</td>
<td>-4,985.7</td>
<td>-4,712.5</td>
<td>-4,907.8</td>
<td>-5,367.8</td>
<td>-5,493.8</td>
</tr>
<tr>
<td><strong>investment position</strong></td>
<td>5,537.5</td>
<td>5,290.5</td>
<td>5,415.7</td>
<td>5,761.8</td>
<td>5,615.7</td>
<td>5,823.1</td>
</tr>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct investment</td>
<td>292.2</td>
<td>332.4</td>
<td>334.3</td>
<td>336.3</td>
<td>322.6</td>
<td>329.3</td>
</tr>
<tr>
<td>Equity and shares</td>
<td>221.8</td>
<td>257.2</td>
<td>257.3</td>
<td>258.9</td>
<td>242.4</td>
<td>244.6</td>
</tr>
<tr>
<td>Debt instruments</td>
<td>70.4</td>
<td>75.2</td>
<td>77.0</td>
<td>77.3</td>
<td>80.1</td>
<td>84.7</td>
</tr>
<tr>
<td>Portfolio investment and financial derivatives</td>
<td>10.7</td>
<td>15.2</td>
<td>15.2</td>
<td>16.4</td>
<td>16.5</td>
<td>16.7</td>
</tr>
<tr>
<td>Other investment</td>
<td>2,239.5</td>
<td>1,883.2</td>
<td>2,117.4</td>
<td>2,215.5</td>
<td>1,823.3</td>
<td>1,693.7</td>
</tr>
<tr>
<td>Other equity</td>
<td>0.6</td>
<td>0.6</td>
<td>0.6</td>
<td>0.6</td>
<td>0.6</td>
<td>0.6</td>
</tr>
<tr>
<td>Currency and deposits</td>
<td>1,349.7</td>
<td>1,098.0</td>
<td>1,332.2</td>
<td>1,418.7</td>
<td>1,038.9</td>
<td>879.2</td>
</tr>
<tr>
<td>Loans</td>
<td>108.1</td>
<td>115.5</td>
<td>137.5</td>
<td>132.7</td>
<td>139.7</td>
<td>152.1</td>
</tr>
<tr>
<td>Trade credits and advances</td>
<td>772.1</td>
<td>660.2</td>
<td>638.2</td>
<td>654.5</td>
<td>635.0</td>
<td>652.8</td>
</tr>
<tr>
<td>Other accounts receivable</td>
<td>9.0</td>
<td>9.0</td>
<td>9.0</td>
<td>9.0</td>
<td>9.0</td>
<td>9.0</td>
</tr>
<tr>
<td>Reserve assets</td>
<td>2,995.2</td>
<td>3,059.6</td>
<td>2,948.7</td>
<td>3,183.6</td>
<td>3,453.4</td>
<td>3,783.5</td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td>9,610.2</td>
<td>10,276.2</td>
<td>10,128.1</td>
<td>10,669.6</td>
<td>10,983.5</td>
<td>11,317.0</td>
</tr>
<tr>
<td>Direct investment</td>
<td>4,083.8</td>
<td>4,733.9</td>
<td>4,572.9</td>
<td>4,702.8</td>
<td>4,835.6</td>
<td>4,851.4</td>
</tr>
<tr>
<td>Equity and shares</td>
<td>2,235.5</td>
<td>2,830.9</td>
<td>2,700.9</td>
<td>2,849.4</td>
<td>2,960.6</td>
<td>2,929.3</td>
</tr>
<tr>
<td>Debt instruments</td>
<td>1,848.3</td>
<td>1,903.1</td>
<td>1,871.9</td>
<td>1,853.5</td>
<td>1,875.1</td>
<td>1,922.1</td>
</tr>
<tr>
<td>Portfolio investment and financial derivatives</td>
<td>53.3</td>
<td>29.2</td>
<td>29.8</td>
<td>30.4</td>
<td>30.2</td>
<td>30.3</td>
</tr>
<tr>
<td>Other investment</td>
<td>5,473.1</td>
<td>5,513.0</td>
<td>5,525.5</td>
<td>5,936.4</td>
<td>6,117.6</td>
<td>6,435.3</td>
</tr>
<tr>
<td>Currency and deposits</td>
<td>140.2</td>
<td>134.6</td>
<td>126.7</td>
<td>132.6</td>
<td>152.3</td>
<td>138.4</td>
</tr>
<tr>
<td>Loans</td>
<td>3,362.4</td>
<td>3,420.8</td>
<td>3,410.1</td>
<td>3,780.9</td>
<td>3,871.3</td>
<td>4,122.1</td>
</tr>
<tr>
<td>Trade credits and advances</td>
<td>1,668.5</td>
<td>1,704.4</td>
<td>1,737.9</td>
<td>1,772.0</td>
<td>1,841.0</td>
<td>1,918.9</td>
</tr>
<tr>
<td>Other accounts payable</td>
<td>138.8</td>
<td>90.4</td>
<td>89.4</td>
<td>88.4</td>
<td>87.4</td>
<td>87.4</td>
</tr>
<tr>
<td>SDR allocations</td>
<td>163.2</td>
<td>162.8</td>
<td>161.3</td>
<td>162.4</td>
<td>165.7</td>
<td>169.5</td>
</tr>
</tbody>
</table>

*Note: SDR – Special Drawing Right  
*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>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>General government</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Short-term</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-term</td>
<td>1,706.1</td>
<td>1,717.9</td>
<td>1,679.1</td>
<td>1,953.0</td>
<td>2,022.2</td>
<td>2,255.1</td>
</tr>
<tr>
<td>of which the debt of ATU**</td>
<td>17.1</td>
<td>13.9</td>
<td>13.3</td>
<td>12.5</td>
<td>12.8</td>
<td>13.4</td>
</tr>
<tr>
<td><strong>Central bank</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Short-term</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-term</td>
<td>217.8</td>
<td>180.5</td>
<td>170.0</td>
<td>160.5</td>
<td>148.8</td>
<td>141.1</td>
</tr>
<tr>
<td><strong>Deposit-taking corporations, except central bank</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Short-term</td>
<td>222.6</td>
<td>172.9</td>
<td>166.8</td>
<td>172.6</td>
<td>191.4</td>
<td>177.3</td>
</tr>
<tr>
<td>Long-term</td>
<td>156.9</td>
<td>134.1</td>
<td>127.9</td>
<td>129.8</td>
<td>144.5</td>
<td>139.5</td>
</tr>
<tr>
<td><strong>Other sectors</strong></td>
<td>3,169.8</td>
<td>3,307.6</td>
<td>3,381.6</td>
<td>3,520.5</td>
<td>3,610.8</td>
<td>3,716.8</td>
</tr>
<tr>
<td>Short-term</td>
<td>1,738.8</td>
<td>1,768.6</td>
<td>1,801.1</td>
<td>1,838.9</td>
<td>1,907.6</td>
<td>1,982.6</td>
</tr>
<tr>
<td>Long-term</td>
<td>1,431.0</td>
<td>1,539.0</td>
<td>1,580.5</td>
<td>1,681.6</td>
<td>1,703.1</td>
<td>1,740.0</td>
</tr>
<tr>
<td><strong>Nonfinancial corporations</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Short-term</td>
<td>24.7</td>
<td>25.2</td>
<td>25.6</td>
<td>25.9</td>
<td>26.9</td>
<td>27.4</td>
</tr>
<tr>
<td>Long-term</td>
<td>172.9</td>
<td>242.7</td>
<td>258.5</td>
<td>245.6</td>
<td>236.2</td>
<td>238.1</td>
</tr>
<tr>
<td><strong>Nonfinancial corporations</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Short-term</td>
<td>2,937.7</td>
<td>2,996.8</td>
<td>3,053.4</td>
<td>3,202.9</td>
<td>3,299.9</td>
<td>3,407.7</td>
</tr>
<tr>
<td>Long-term</td>
<td>1,713.6</td>
<td>1,742.6</td>
<td>1,774.7</td>
<td>1,812.0</td>
<td>1,879.8</td>
<td>1,954.2</td>
</tr>
<tr>
<td><strong>Other financial corporations</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Short-term</td>
<td>1,652.4</td>
<td>1,698.0</td>
<td>1,665.0</td>
<td>1,641.7</td>
<td>1,655.0</td>
<td>1,697.2</td>
</tr>
<tr>
<td>Long-term</td>
<td>1,848.3</td>
<td>1,903.1</td>
<td>1,871.9</td>
<td>1,853.5</td>
<td>1,875.1</td>
<td>1,922.1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>7,321.7</td>
<td>7,416.1</td>
<td>7,397.6</td>
<td>7,790.0</td>
<td>7,993.0</td>
<td>8,357.7</td>
</tr>
</tbody>
</table>

*revised data
**ATU – administrative-territorial units
***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>Transactions of licensed banks in the foreign exchange market against MDL, structured by sources (including operations with financial derivatives)</th>
<th>Foreign exchange offices (Cash)</th>
<th>Domestic foreign exchange market</th>
</tr>
</thead>
<tbody>
<tr>
<td>NBM</td>
<td>Resident banks</td>
<td>Non-resident banks</td>
</tr>
<tr>
<td>Turnover</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2019</td>
<td>439.4</td>
<td>782.6</td>
</tr>
<tr>
<td>2020</td>
<td>475.0</td>
<td>505.2</td>
</tr>
<tr>
<td><strong>2020/2019, %</strong></td>
<td><strong>8.1</strong></td>
<td><strong>-35.4</strong></td>
</tr>
<tr>
<td>Purchases</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2019</td>
<td>222.2</td>
<td>391.3</td>
</tr>
<tr>
<td>2020</td>
<td>176.0</td>
<td>252.6</td>
</tr>
<tr>
<td><strong>2020/2019, %</strong></td>
<td><strong>-20.8</strong></td>
<td><strong>-35.4</strong></td>
</tr>
<tr>
<td>Sales</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2019</td>
<td>217.2</td>
<td>391.3</td>
</tr>
<tr>
<td>2020</td>
<td>299.0</td>
<td>252.6</td>
</tr>
<tr>
<td><strong>2020/2019, %</strong></td>
<td><strong>37.7</strong></td>
<td><strong>-35.4</strong></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.6: Structure of turnover of foreign exchange transactions on domestic foreign exchange market

<table>
<thead>
<tr>
<th></th>
<th>Domestic foreign exchange transfer market</th>
<th>Domestic foreign exchange cash market</th>
<th>Total foreign exchange market</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>purchases</td>
<td>sales</td>
<td>purchases</td>
</tr>
<tr>
<td><strong>2019</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>USD</td>
<td>50.0</td>
<td>51.5</td>
<td>13.6</td>
</tr>
<tr>
<td>EUR</td>
<td>47.1</td>
<td>44.9</td>
<td>68.2</td>
</tr>
<tr>
<td>RUB</td>
<td>1.6</td>
<td>2.6</td>
<td>7.8</td>
</tr>
<tr>
<td>Other currencies</td>
<td>1.3</td>
<td>1.0</td>
<td>10.3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td><strong>2020</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>USD</td>
<td>46.2</td>
<td>50.3</td>
<td>12.2</td>
</tr>
<tr>
<td>EUR</td>
<td>51.6</td>
<td>45.8</td>
<td>75.2</td>
</tr>
<tr>
<td>RUB</td>
<td>1.4</td>
<td>2.7</td>
<td>2.9</td>
</tr>
<tr>
<td>Other currencies</td>
<td>0.9</td>
<td>1.2</td>
<td>9.7</td>
</tr>
<tr>
<td><strong>Total</strong></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></th>
<th>NBM 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>Quarter I</td>
<td>118.1</td>
<td>0.0</td>
<td>15.9</td>
<td>-526.8</td>
<td>349.9</td>
<td>48.1</td>
</tr>
<tr>
<td>Quarter II</td>
<td>-54.3</td>
<td>0.0</td>
<td>27.3</td>
<td>-603.0</td>
<td>559.9</td>
<td>76.8</td>
</tr>
<tr>
<td>Quarter III</td>
<td>-32.8</td>
<td>0.0</td>
<td>-26.0</td>
<td>-609.1</td>
<td>552.1</td>
<td>98.7</td>
</tr>
<tr>
<td>Quarter IV</td>
<td>-26.0</td>
<td>0.0</td>
<td>16.4</td>
<td>-515.7</td>
<td>446.5</td>
<td>81.7</td>
</tr>
<tr>
<td><strong>2019</strong></td>
<td>5.0</td>
<td>0.0</td>
<td>33.6</td>
<td>-2,254.6</td>
<td>1,908.4</td>
<td>305.3</td>
</tr>
<tr>
<td>Quarter I</td>
<td>114.6</td>
<td>0.0</td>
<td>-7.4</td>
<td>-557.7</td>
<td>373.8</td>
<td>71.9</td>
</tr>
<tr>
<td>Quarter II</td>
<td>7.9</td>
<td>0.0</td>
<td>-9.7</td>
<td>-448.3</td>
<td>378.5</td>
<td>75.7</td>
</tr>
<tr>
<td>Quarter III</td>
<td>-105.6</td>
<td>0.0</td>
<td>1.6</td>
<td>-682.8</td>
<td>674.2</td>
<td>112.2</td>
</tr>
<tr>
<td>Quarter IV</td>
<td>-139.9</td>
<td>0.0</td>
<td>5.2</td>
<td>-609.6</td>
<td>629.9</td>
<td>101.6</td>
</tr>
<tr>
<td><strong>2020</strong></td>
<td>-123.0</td>
<td>0.0</td>
<td>-10.3</td>
<td>-2,298.4</td>
<td>2,056.4</td>
<td>361.4</td>
</tr>
</tbody>
</table>

Source: NBM
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed course</td>
<td>Actual</td>
<td>Share</td>
<td>Fixed course</td>
</tr>
<tr>
<td>Loans granted in foreign currency, including:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>EUR</strong></td>
<td>817.3</td>
<td>763.3</td>
<td>42.1</td>
</tr>
<tr>
<td><strong>USD</strong></td>
<td>204.0</td>
<td>204.0</td>
<td>11.2</td>
</tr>
<tr>
<td>Disposable funds in foreign currency, including:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>EUR</strong></td>
<td>764.9</td>
<td>717.4</td>
<td>39.6</td>
</tr>
<tr>
<td><strong>USD</strong></td>
<td>554.0</td>
<td>505.2</td>
<td>27.9</td>
</tr>
<tr>
<td><strong>Other currencies</strong></td>
<td>19.4</td>
<td>20.7</td>
<td>1.1</td>
</tr>
<tr>
<td>Required reserves in foreign currency</td>
<td>278.8</td>
<td>260.8</td>
<td>14.4</td>
</tr>
<tr>
<td>Other assets in foreign currency (1+2+3), including:</td>
<td>-24.1</td>
<td>-22.3</td>
<td>-1.2</td>
</tr>
<tr>
<td>1.&quot;Nostro&quot; accounts opened in banks of the Republic of Moldova</td>
<td>3.4</td>
<td>3.3</td>
<td>0.2</td>
</tr>
<tr>
<td>2.Other assets</td>
<td>44.0</td>
<td>41.9</td>
<td>2.3</td>
</tr>
<tr>
<td>3.Adjustments and allowance for impairment losses</td>
<td>-71.5</td>
<td>-67.5</td>
<td>-3.7</td>
</tr>
<tr>
<td>Assets attached to the foreign exchange rate</td>
<td>102.1</td>
<td>93.6</td>
<td>5.1</td>
</tr>
</tbody>
</table>

**Total foreign exchange balance-sheet assets** | 1,939.0 | 1,812.8 | 100.0 | 2,142.5 | 100.0 | 10.5 | 18.2 |

*Source: NBM*

**Table A.9: Disposable funds in foreign currency of the licensed banks (equivalent in USD million)**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash in foreign currency</td>
<td>365.6</td>
<td>51.0</td>
<td>264.7</td>
<td>37.9</td>
<td>-27.6</td>
</tr>
<tr>
<td>Placements abroad</td>
<td>136.6</td>
<td>19.0</td>
<td>160.7</td>
<td>23.0</td>
<td>17.6</td>
</tr>
<tr>
<td>Overnight placements</td>
<td>163.2</td>
<td>22.7</td>
<td>103.6</td>
<td>14.8</td>
<td>-36.5</td>
</tr>
<tr>
<td>Securities in foreign currency</td>
<td>39.2</td>
<td>5.5</td>
<td>155.5</td>
<td>22.3</td>
<td>4.0 times</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>717.4</td>
<td>100.0</td>
<td>698.5</td>
<td>100.0</td>
<td>-2.6</td>
</tr>
</tbody>
</table>

*Source: NBM*
Table A.10: Balance sheet liabilities in foreign currency of 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 31.12.2020</td>
<td>Actual course</td>
<td>Share</td>
</tr>
<tr>
<td>Total current and deposit accounts of non-bank clients, including:</td>
<td>1,734.7</td>
<td>1,622.6</td>
<td>89.4</td>
</tr>
<tr>
<td>- residents</td>
<td>1,670.9</td>
<td>1,562.8</td>
<td>86.1</td>
</tr>
<tr>
<td>- non-residents</td>
<td>63.8</td>
<td>59.8</td>
<td>3.3</td>
</tr>
<tr>
<td>Term deposits</td>
<td>718.5</td>
<td>673.7</td>
<td>37.1</td>
</tr>
<tr>
<td>Current accounts</td>
<td>719.2</td>
<td>672.8</td>
<td>37.1</td>
</tr>
<tr>
<td>Sight deposits</td>
<td>297.0</td>
<td>276.1</td>
<td>15.2</td>
</tr>
<tr>
<td>Credits received</td>
<td>139.9</td>
<td>128.9</td>
<td>7.1</td>
</tr>
<tr>
<td>&quot;Loro&quot; accounts and term deposits of banks from abroad</td>
<td>0.3</td>
<td>0.2</td>
<td>0.0</td>
</tr>
<tr>
<td>Other liabilities in foreign currency</td>
<td>69.1</td>
<td>64.0</td>
<td>3.5</td>
</tr>
</tbody>
</table>

Source: NBM
*aupdated data during 2020

Total foreign exchange balance-sheet liabilities: 1,944.0, 1,815.7, 100.0, 2,141.1, 100.0, 10.1, 17.9

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>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Fixed course from 31.12.2020</td>
<td>Actual course</td>
<td>Share</td>
</tr>
<tr>
<td>EUR</td>
<td>1,278.5</td>
<td>1,166.0</td>
<td>71.9</td>
</tr>
<tr>
<td>USD</td>
<td>447.8</td>
<td>447.7</td>
<td>27.6</td>
</tr>
<tr>
<td>RUB</td>
<td>2.9</td>
<td>3.5</td>
<td>0.2</td>
</tr>
<tr>
<td>Other currencies</td>
<td>5.5</td>
<td>5.4</td>
<td>0.3</td>
</tr>
<tr>
<td>Total</td>
<td>1,734.7</td>
<td>1,622.6</td>
<td>100.0</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>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Fixed course from 31.12.2020</td>
<td>Actual course</td>
<td>Share</td>
</tr>
<tr>
<td>Conditional assets in foreign currency</td>
<td>12.8</td>
<td>100.0</td>
<td>44.4</td>
</tr>
<tr>
<td>Current purchases</td>
<td>6.9</td>
<td>53.9</td>
<td>36.0</td>
</tr>
<tr>
<td>Purchases on term</td>
<td>6.0</td>
<td>46.9</td>
<td>8.3</td>
</tr>
<tr>
<td>Other conditional assets</td>
<td>-0.1</td>
<td>-0.8</td>
<td>0.1</td>
</tr>
<tr>
<td>Total conditional assets</td>
<td>12.8</td>
<td>100.0</td>
<td>44.4</td>
</tr>
</tbody>
</table>

Conditional liabilities in foreign currency

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Fixed course from 31.12.2020</td>
<td>Actual course</td>
<td>Share</td>
</tr>
<tr>
<td>Current sales</td>
<td>6.9</td>
<td>53.9</td>
<td>36.1</td>
</tr>
<tr>
<td>Sales on term</td>
<td>6.0</td>
<td>46.9</td>
<td>8.4</td>
</tr>
<tr>
<td>Other conditional liabilities</td>
<td>-0.1</td>
<td>-0.8</td>
<td>0.0</td>
</tr>
<tr>
<td>Total conditional liabilities</td>
<td>12.8</td>
<td>100.0</td>
<td>44.5</td>
</tr>
</tbody>
</table>

Conditional assets minus Conditional liabilities

<table>
<thead>
<tr>
<th></th>
<th>Conditional assets minus Conditional liabilities</th>
<th>TRC (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0.0</td>
<td>-0.10</td>
</tr>
</tbody>
</table>

Source: NBM
<table>
<thead>
<tr>
<th>Risks</th>
<th>Diminution methods</th>
</tr>
</thead>
</table>
| **Credit risk**   | * Investing in safe, high-credit counterparties, established by the international rating agencies Standard & Poor’s, Moody’s and Fitch Ratings (the average rating of the three agencies’ quotations applies, estimated on the basis of at least two quotations).  
  * Establishing a minimum allowable rating of counterparties authorized to conduct transactions.  
  * Establishing limits on investment instruments, counterparties/issuers, deviation from the benchmark and daily monitoring of their compliance.  
  * Quantification of credit risk, using the default probabilities estimated by the rating agency Standard & Poor’s, for each type of rating and depending on the residual maturity of the financial instruments.  
  * Monthly calculation of expected credit losses in accordance with IFRS 9.                                                                                       |
| **Market risk**   | * The daily monitoring of the market risk is performed through the evaluation at the market price of the unrealized income/losses from the fluctuation of the exchange rates and from the modification of the securities prices.  
  * The market risk related to the investment portfolio is assessed based on the risk value methodology (VaR and CVaR), which estimates the potential financial losses, based on set parameters and assumptions regarding adverse developments in market conditions.  
  * The monitoring of the interest rate risk and the determination of the sensitivity of the price of the securities from the investment portfolios to the change of the interest rates is performed by applying the indicator PV01.  
  * Establishment by the NBM Executive Board of the normative foreign exchange composition of the investment portfolio aimed at hedging foreign exchange risk and optimizing the portfolio through an adequate correlation of the foreign exchange composition of assets and liabilities, as well as an acceptable investment horizon to ensure continuity of obligations external currencies and the implementation of the state’s monetary and foreign exchange policies. The normative foreign exchange structure is determined on the basis of an ample analysis of: the foreign exchange composition of the trade of goods and services, the external debt, the currency in which the interventions are carried out, etc. The foreign exchange composition of reserves may deviate within +/- 10 percentage points from the normative foreign exchange structure.  
  * Establishment by the NBM Investment Board of the foreign exchange structure of each sub-portfolio and allowable deviations.  
  * Observance of the normative foreign exchange composition and the foreign exchange structure of each sub-portfolio within the allowable deviation limits.                                                                 |
| **Liquidity risk**| * Ensuring liquidity through the substantial share of demand deposits and investments in securities with high liquidity and low level of risk.  
  * Establishing the duration limits on sub-portfolios and the maximum maturity of the investments depending on the tool.  
  * In the case of indexed investment sub-portfolios, the daily monitoring of liquidity risk is also performed by applying benchmarks depending on the type of tools and currency. Benchmarks are market indices, recognized and used worldwide in the comparative assessment of the performance and risks of investment portfolios.  
  * The investment policy of the NBM allows the active management of reserves, with limited deviations of instruments and duration from the benchmark.                                                                 |

Source: NBM

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>MDL million</td>
<td>%</td>
<td></td>
</tr>
<tr>
<td>Financial liabilities held for trading</td>
<td>0.1</td>
<td>1.9</td>
<td>1.8</td>
</tr>
<tr>
<td>Financial liabilities designated as at fair value through profit or loss</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Financial liabilities measured at amortized cost, including:</td>
<td>72,374.6</td>
<td>84,163.7</td>
<td>11,789.1</td>
</tr>
<tr>
<td>deposits</td>
<td>68,449.7</td>
<td>79,705.1</td>
<td>11,255.4</td>
</tr>
<tr>
<td>other financial liabilities</td>
<td>3,924.9</td>
<td>4,458.6</td>
<td>533.7</td>
</tr>
<tr>
<td>Provisions</td>
<td>550.1</td>
<td>553.6</td>
<td>3.5</td>
</tr>
<tr>
<td>Debts on taxes</td>
<td>186.0</td>
<td>74.2</td>
<td>-111.8</td>
</tr>
<tr>
<td>Other debts</td>
<td>1,170.5</td>
<td>1,114.9</td>
<td>-55.6</td>
</tr>
<tr>
<td>Debts included in the classified assignment groups as held for sale</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td><strong>Total debts</strong></td>
<td><strong>74,281.3</strong></td>
<td><strong>85,908.3</strong></td>
<td><strong>11,627.0</strong></td>
</tr>
</tbody>
</table>

*Source: NBM

*The data for the situation on 31.12.2019 are adjusted according to the results of the external audit.
### Table A.15: Dynamics of placements abroad of banks from Republic of Moldova (MDL million)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>4,040.3</td>
<td>45.4</td>
<td>4,573.8</td>
<td>46.8</td>
<td>-533.4</td>
<td>-11.7</td>
</tr>
<tr>
<td>Austria</td>
<td>1,856.6</td>
<td>20.9</td>
<td>1,072.3</td>
<td>11.0</td>
<td>784.3</td>
<td>73.1</td>
</tr>
<tr>
<td>United States of America</td>
<td>1,258.9</td>
<td>14.1</td>
<td>1,467.2</td>
<td>15.0</td>
<td>-208.3</td>
<td>-14.2</td>
</tr>
<tr>
<td>Italy</td>
<td>803.4</td>
<td>9.0</td>
<td>756.3</td>
<td>7.7</td>
<td>47.1</td>
<td>6.2</td>
</tr>
<tr>
<td>France</td>
<td>541.3</td>
<td>6.1</td>
<td>1,291.2</td>
<td>13.2</td>
<td>-749.8</td>
<td>-58.1</td>
</tr>
<tr>
<td>Singapore</td>
<td>118.8</td>
<td>1.3</td>
<td>81.7</td>
<td>0.8</td>
<td>37.1</td>
<td>45.4</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>111.7</td>
<td>1.3</td>
<td>122.1</td>
<td>1.2</td>
<td>-10.4</td>
<td>-8.5</td>
</tr>
<tr>
<td>Romania</td>
<td>71.3</td>
<td>0.8</td>
<td>116.9</td>
<td>1.2</td>
<td>-45.6</td>
<td>-39.0</td>
</tr>
<tr>
<td>Russian Federation</td>
<td>55.7</td>
<td>0.6</td>
<td>143.4</td>
<td>1.5</td>
<td>-87.6</td>
<td>-61.1</td>
</tr>
<tr>
<td>Belarus</td>
<td>10.1</td>
<td>0.1</td>
<td>20.1</td>
<td>0.2</td>
<td>-9.9</td>
<td>-49.5</td>
</tr>
<tr>
<td>Spain</td>
<td>7.4</td>
<td>0.1</td>
<td>0.0</td>
<td>0.0</td>
<td>7.4</td>
<td>100.0</td>
</tr>
<tr>
<td>China</td>
<td>6.8</td>
<td>0.1</td>
<td>0.0</td>
<td>0.0</td>
<td>6.8</td>
<td>100.0</td>
</tr>
<tr>
<td>Hungary</td>
<td>5.9</td>
<td>0.1</td>
<td>96.3</td>
<td>1.0</td>
<td>-90.4</td>
<td>-93.9</td>
</tr>
<tr>
<td>Switzerland</td>
<td>5.0</td>
<td>0.1</td>
<td>0.0</td>
<td>0.0</td>
<td>5.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Other countries (Georgia, Ukraine)</td>
<td>4.2</td>
<td>0.0</td>
<td>34.1</td>
<td>0.3</td>
<td>-29.9</td>
<td>-87.6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>8,897.5</strong></td>
<td><strong>100.0</strong></td>
<td><strong>9,775.3</strong></td>
<td><strong>100.0</strong></td>
<td><strong>-877.8</strong></td>
<td><strong>-9.0</strong></td>
</tr>
</tbody>
</table>

Source: NBM

### Table A.16: Evolution of payments settled through AIPS

<table>
<thead>
<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>2019</td>
<td>13,562.6</td>
<td>53.4</td>
<td>1,020,601.4</td>
</tr>
<tr>
<td></td>
<td>2020</td>
<td>12,577.0</td>
<td>49.7</td>
<td>1,076,181.7</td>
</tr>
<tr>
<td>Including:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>RTGS</td>
<td>2019</td>
<td>1,334.6</td>
<td>5.3</td>
<td>955,839.9</td>
</tr>
<tr>
<td></td>
<td>2020</td>
<td>1,250.7</td>
<td>4.9</td>
<td>1,014,128.7</td>
</tr>
<tr>
<td>DNSS</td>
<td>2019</td>
<td>12,227.9</td>
<td>48.1</td>
<td>64,761.4</td>
</tr>
<tr>
<td></td>
<td>2020</td>
<td>11,326.3</td>
<td>44.8</td>
<td>62,053.0</td>
</tr>
</tbody>
</table>

Source: NBM
Table A.17: Characteristics of jubilee and commemorative coins - 2020 issue

<table>
<thead>
<tr>
<th>Name of the coin</th>
<th>Nominal value</th>
<th>Metal</th>
<th>Weight (gr.)</th>
<th>Diameter (mm)</th>
<th>Edition (ex.)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Series “Personalities”</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Valentina Rusu-Ciobanu - 100 years since birth</td>
<td>MDL 50</td>
<td>Silver 999/1000</td>
<td>16.5</td>
<td>30.0</td>
<td>250</td>
</tr>
<tr>
<td>Alexandru Ioan Cuza - 200 years since birth</td>
<td>MDL 50</td>
<td>Silver 999/1000</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>Paul Bran – 80 years since birth</td>
<td>MDL 50</td>
<td>Silver 999/1000</td>
<td>16.5</td>
<td>30.0</td>
<td>250</td>
</tr>
<tr>
<td><strong>Series “Monasteries of Moldova”</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>600 years since the founding of the Varzaresti Monastery</td>
<td>MDL 50</td>
<td>Silver 999/1000</td>
<td>16.5</td>
<td>30.0</td>
<td>350</td>
</tr>
<tr>
<td><strong>Series “Holidays, culture, traditions of Moldova”</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Traditional ornament</td>
<td>MDL 50</td>
<td>Silver 999/1000</td>
<td>22.0</td>
<td>35.0</td>
<td>400</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>Machaon butterfly (Papilio machaon L.)</td>
<td>MDL 50</td>
<td>Silver 999/1000</td>
<td>22.0</td>
<td>35.0</td>
<td>300</td>
</tr>
<tr>
<td><strong>Series “Others”</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Moldovan wines</td>
<td>MDL 50</td>
<td>Silver 999/1000</td>
<td>22.0</td>
<td>35.0</td>
<td>500</td>
</tr>
<tr>
<td><strong>Series “Childhood fairy tales”</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The Purse with Coppers Two</td>
<td>MDL 20</td>
<td>Silvered tombac</td>
<td>20.0</td>
<td>35.0</td>
<td>300</td>
</tr>
<tr>
<td><strong>Commemorative coin dedicated to doctors</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>My doctor - my hero</td>
<td>MDL 50</td>
<td>Silver 999.9/1000</td>
<td>16.5</td>
<td>30.0</td>
<td>1500</td>
</tr>
</tbody>
</table>

Source: NBM
Table A.18: 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 2020

### 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></td>
<td></td>
<td></td>
<td></td>
<td>number/article date</td>
</tr>
<tr>
<td>2</td>
<td>31</td>
<td>23.11.2020</td>
<td>On putting into circulation of commemorative and anniversary coins for payment and numismatic purposes</td>
<td>313-317/1258 27.11.2020</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></td>
<td></td>
<td></td>
<td></td>
<td>number/article date</td>
</tr>
<tr>
<td>1</td>
<td>12</td>
<td>24.01.2020</td>
<td>On the approval of the instruction on notification of external commitments</td>
<td>36-43/161 07.02.2020</td>
</tr>
<tr>
<td>2</td>
<td>13</td>
<td>24.01.2020</td>
<td>On the amendment of some normative acts of the National Bank of Moldova</td>
<td>36-43/162 07.02.2020</td>
</tr>
<tr>
<td>3</td>
<td>15</td>
<td>29.01.2020</td>
<td>On the level of interest rates of the National Bank of Moldova</td>
<td>36-43/163 07.02.2020</td>
</tr>
<tr>
<td>4</td>
<td>24</td>
<td>06.02.2020</td>
<td>On setting countercyclical buffer rate for loans exposures located in the Republic of Moldova</td>
<td>44-54/188 14.02.2020</td>
</tr>
<tr>
<td>5</td>
<td>31</td>
<td>13.02.2020</td>
<td>On the approval of the Regulation on regulatory technical standards for supplementary supervision of financial conglomerates</td>
<td>75-83/294 13.03.2020</td>
</tr>
<tr>
<td>6</td>
<td>32</td>
<td>13.02.2020</td>
<td>On the establishment of banks that are systemically important companies in the Republic of Moldova and banks’ capital buffers</td>
<td>55-61/210 21.02.2020</td>
</tr>
<tr>
<td>7</td>
<td>44</td>
<td>26.02.2020</td>
<td>On the approval of the Regulation on liquidity coverage requirements for banks</td>
<td>87-93/317 20.03.2020</td>
</tr>
<tr>
<td>8</td>
<td>45</td>
<td>26.02.2020</td>
<td>On the amendment of the Instruction on the submission by banks of COREP reports for supervisory purposes, approved by the Decision of the Executive Board of the National Bank of Moldova No.117/2018</td>
<td>87-93/318 20.03.2020</td>
</tr>
<tr>
<td>9</td>
<td>46</td>
<td>26.02.2020</td>
<td>On the approval of the Regulation on externalization of the bank’s activities and operations and amendment of some normative acts of the National Bank of Moldova</td>
<td>87-93/319 20.03.2020</td>
</tr>
<tr>
<td>10</td>
<td>50</td>
<td>28.02.2020</td>
<td>On the amendment of some normative acts of the National Bank of Moldova</td>
<td>85/298 17.03.2020</td>
</tr>
<tr>
<td>11</td>
<td>55</td>
<td>04.03.2020</td>
<td>On the level of interest rates of the National Bank of Moldova</td>
<td>75-83/295 13.03.2020</td>
</tr>
<tr>
<td>12</td>
<td>69</td>
<td>17.03.2020</td>
<td>On some measures on the classification of loans granted to individuals</td>
<td>87-93/320 20.03.2020</td>
</tr>
<tr>
<td>13</td>
<td>73</td>
<td>20.03.2020</td>
<td>On the level of the interest rates of the National Bank of Moldova</td>
<td>94-98/353 27.03.2020</td>
</tr>
<tr>
<td>14</td>
<td>74</td>
<td>20.03.2020</td>
<td>On the approval of the Regulation on the method of calculation and payment of contributions to the bank resolution fund</td>
<td>110-111/401 30.04.2020</td>
</tr>
<tr>
<td>15</td>
<td>81</td>
<td>27.03.2020</td>
<td>On some measures on the classification by the banks of loans granted to legal entities</td>
<td>99-100/363 02.04.2020</td>
</tr>
<tr>
<td>16</td>
<td>89</td>
<td>03.04.2020</td>
<td>On the amendment of the Decision of the Executive Board of the National Bank of Moldova no.73/2020 On the level of interest rates of the National Bank of Moldova and on the required reserves ratio</td>
<td>101/373 07.04.2020</td>
</tr>
<tr>
<td>17</td>
<td>91</td>
<td>03.04.2020</td>
<td>On temporary measures related to the capital conservation buffer requirements</td>
<td>110-111/402 30.04.2020</td>
</tr>
<tr>
<td>18</td>
<td>99</td>
<td>10.04.2020</td>
<td>On deadlines for submission of reports by reporting entities</td>
<td>110-111/403 30.04.2020</td>
</tr>
<tr>
<td>19</td>
<td>101</td>
<td>16.04.2020</td>
<td>On the approval of the Regulation on the consolidated supervision of banks</td>
<td>118-123/463 22.05.2020</td>
</tr>
<tr>
<td>20</td>
<td>102</td>
<td>16.04.2020</td>
<td>On the approval of the Regulation on the treatment of counterparty credit risk for banks</td>
<td>118-123/464 22.05.2020</td>
</tr>
<tr>
<td>21</td>
<td>103</td>
<td>16.04.2020</td>
<td>On the approval of the Regulation on the treatment of loan valuation adjustment risk for banks</td>
<td>118-123/465 22.05.2020</td>
</tr>
<tr>
<td>22</td>
<td>104</td>
<td>16.04.2020</td>
<td>On the amendment of the Instruction on the submission by banks of COREP reports for supervisory purposes, approved by the Decision of the Executive Board of the National Bank of Moldova No.117/2018</td>
<td>118-123/466 22.05.2020</td>
</tr>
<tr>
<td>23</td>
<td>121</td>
<td>11.05.2020</td>
<td>On the level of interest rates of the National Bank of Moldova and on the required reserves norm</td>
<td>115-117/445 15.05.2020</td>
</tr>
<tr>
<td>24</td>
<td>123</td>
<td>12.05.2020</td>
<td>On the amendment of the Regulation on loan risk treatment for banks according to the standardized approaches</td>
<td>126-130/492 29.05.2020</td>
</tr>
<tr>
<td>25</td>
<td>129</td>
<td>14.05.2020</td>
<td>On the amendment of the Decision of the Executive Board of the National Bank of Moldova No.99/2020 on the deadlines for submission of reports by reporting entities</td>
<td>177/604 10.07.2020</td>
</tr>
</tbody>
</table>

Source: NBM
### Table A.19: List of decisions of the Executive Board of the National Bank of Moldova issued for publication in the Official Monitor of the Republic of Moldova in 2020 (continuation)

<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>26</td>
<td>135</td>
<td>28.05.2020</td>
<td>On the establishment of the countercyclical buffer rate for loans exposures located in the Republic of Moldova</td>
<td>131-141/513 05.06.2020</td>
</tr>
<tr>
<td>27</td>
<td>138</td>
<td>11.06.2020</td>
<td>On the level of interest rates of the National Bank of Moldova and the required reserves ratio</td>
<td>149-151/552 19.06.2020</td>
</tr>
<tr>
<td>28</td>
<td>139</td>
<td>11.06.2020</td>
<td>On the amendment of some normative acts of the National Bank of Moldova</td>
<td>153-158/576 26.06.2020</td>
</tr>
<tr>
<td>29</td>
<td>158</td>
<td>09.07.2020</td>
<td>On the approval of the Regulation on requirements for disclosure of information by banks</td>
<td>188-192/667 24.07.2020</td>
</tr>
<tr>
<td>30</td>
<td>159</td>
<td>09.07.2020</td>
<td>On the amendment of the Regulation on the activity of foreign exchange entities, approved by the Decision of the Executive Board of the National Bank of Moldova no.335/2016</td>
<td>188-192/668 24.07.2020</td>
</tr>
<tr>
<td>31</td>
<td>183</td>
<td>06.08.2020</td>
<td>On the level of the interest rates of the National Bank of Moldova and the required reserves ratio</td>
<td>205-211/726 14.08.2020</td>
</tr>
<tr>
<td>32</td>
<td>194</td>
<td>26.08.2020</td>
<td>On the establishment of the countercyclical buffer rate for loans exposures located in the Republic of Moldova</td>
<td>226-228/790 04.09.2020</td>
</tr>
<tr>
<td>33</td>
<td>202</td>
<td>09.09.2020</td>
<td>On the level of interest rates of the National Bank of Moldova and the required reserves ratio</td>
<td>235-239/860 18.09.2020</td>
</tr>
<tr>
<td>34</td>
<td>246</td>
<td>06.11.2020</td>
<td>On the level of interest rates of the National Bank of Moldova</td>
<td>293-303/1150 13.11.2020</td>
</tr>
</tbody>
</table>

Source: NBM

### Table A.20: Analysis of profit available for distribution in conjunction with the main activities of the NBM

<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>Relations with Government</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>related to monetary activities</td>
<td>722,398</td>
<td>709,036</td>
<td>1.88</td>
<td>13,362</td>
<td>(313,754)</td>
<td>(919,726)</td>
<td>(65.89)</td>
<td>605,972</td>
<td></td>
</tr>
<tr>
<td>Monetary instruments</td>
<td>(313,754)</td>
<td>(919,726)</td>
<td>(65.89)</td>
<td>605,972</td>
<td>(18,409)</td>
<td>(46,690)</td>
<td>(60.57)</td>
<td>28,281</td>
<td></td>
</tr>
<tr>
<td>Relation NBM related to IMF</td>
<td>614,700</td>
<td>942,918</td>
<td>(34.81)</td>
<td>(328,218)</td>
<td>11,048</td>
<td>(42,580)</td>
<td>(125.95)</td>
<td>53,628</td>
<td></td>
</tr>
<tr>
<td>Foreign exchange reserves</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>management</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>National currency issuance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other operations, including</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>operating costs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: NBM
### Table A.21: Net result obtained from the monetary policy implementation and activities related to relations with the Government

<table>
<thead>
<tr>
<th></th>
<th>2020 UNAUDITED</th>
<th>2019 AUDITED</th>
<th>Difference 2020/2019</th>
<th>Absolute Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Required reserves</td>
<td>(94,599)</td>
<td>(530,155)</td>
<td>(82.16)</td>
<td>435,556</td>
</tr>
<tr>
<td>Open market operations</td>
<td>(217,282)</td>
<td>(380,437)</td>
<td>(42.89)</td>
<td>163,155</td>
</tr>
<tr>
<td>Accounts and deposits of the Ministry of Finance</td>
<td>(60,132)</td>
<td>(73,234)</td>
<td>(17.89)</td>
<td>13,102</td>
</tr>
<tr>
<td>Overnight deposits</td>
<td>(2,350)</td>
<td>(10,577)</td>
<td>(77.78)</td>
<td>8,227</td>
</tr>
<tr>
<td>Leading activity and holding a portfolio of securities</td>
<td>775,503</td>
<td>778,011</td>
<td>(0.32)</td>
<td>(2,508)</td>
</tr>
<tr>
<td><strong>Net result</strong></td>
<td><strong>401,140</strong></td>
<td><strong>(216,392)</strong></td>
<td><strong>285.38</strong></td>
<td><strong>617,532</strong></td>
</tr>
</tbody>
</table>

Source: NBM

### Table A.22: Net result obtained from the management of foreign exchange reserves held by the NBM

<table>
<thead>
<tr>
<th></th>
<th>2020 UNAUDITED</th>
<th>2019 AUDITED</th>
<th>Difference 2020/2019</th>
<th>Absolute difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Securities in foreign currency</td>
<td>448,418</td>
<td>707,743</td>
<td>(36.64)</td>
<td>(259,325)</td>
</tr>
<tr>
<td>Deposits</td>
<td>18,095</td>
<td>186,418</td>
<td>(90.29)</td>
<td>(168,323)</td>
</tr>
<tr>
<td>Differences from foreign exchange rate</td>
<td>159,830</td>
<td>59,564</td>
<td>168.33</td>
<td>100,266</td>
</tr>
<tr>
<td>Commissions and fees</td>
<td>(11,643)</td>
<td>(10,808)</td>
<td>7.74</td>
<td>(835)</td>
</tr>
<tr>
<td><strong>Net Result</strong></td>
<td><strong>614,700</strong></td>
<td><strong>942,918</strong></td>
<td><strong>(34.81)</strong></td>
<td><strong>328,218</strong></td>
</tr>
</tbody>
</table>

Source: NBM

### Table A.23: Evolution of the official exchange rate

<table>
<thead>
<tr>
<th></th>
<th>2020</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Average on period</td>
<td>At the end of the year</td>
</tr>
<tr>
<td>MDL/USD</td>
<td>17.3201</td>
<td>17.2146</td>
</tr>
<tr>
<td>MDL/GBP</td>
<td>22.2142</td>
<td>23.4343</td>
</tr>
<tr>
<td>MDL/XDR</td>
<td>24.1158</td>
<td>24.7936</td>
</tr>
<tr>
<td>MDL/XAU</td>
<td>982.6855</td>
<td>1037.1329</td>
</tr>
</tbody>
</table>

Source: NBM
Table A.24: Share of significant balance sheet items (%) and the annual average rates related to the financial instruments (%)

<table>
<thead>
<tr>
<th></th>
<th>2020 UNAUDITED</th>
<th>2020 AUDITED</th>
<th>2019 UNAUDITED</th>
<th>2019 AUDITED</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Share %</td>
<td>Annual average interest rate, %</td>
<td>Share %</td>
<td>Annual average interest rate, %</td>
</tr>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign assets</td>
<td>82.05</td>
<td>0.81</td>
<td>78.64</td>
<td>1.71</td>
</tr>
<tr>
<td>State securities</td>
<td>17.78</td>
<td>6.20/5.00</td>
<td>21.13</td>
<td>6.22/5.00</td>
</tr>
<tr>
<td>Other assets</td>
<td>0.17</td>
<td></td>
<td>0.24</td>
<td></td>
</tr>
<tr>
<td><strong>LIABILITIES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>National currency in circulation</td>
<td>39.08</td>
<td>-</td>
<td>35.81</td>
<td>-</td>
</tr>
<tr>
<td>Available funds of the Government, including:</td>
<td>11.67</td>
<td>-</td>
<td>10.93</td>
<td>-</td>
</tr>
<tr>
<td>- <em>sight, MDL</em></td>
<td>6.33</td>
<td>1.37</td>
<td>5.02</td>
<td>1.69</td>
</tr>
<tr>
<td>- <em>term, MDL</em></td>
<td></td>
<td>6.14</td>
<td>0.36</td>
<td>6.60</td>
</tr>
<tr>
<td>- <em>sight, FCC</em></td>
<td>5.35</td>
<td></td>
<td>5.56</td>
<td></td>
</tr>
<tr>
<td>Available funds of the banks, including:</td>
<td>26.68</td>
<td>-</td>
<td>29.04</td>
<td>-</td>
</tr>
<tr>
<td>- <em>LORO accounts, including:</em></td>
<td>15.64</td>
<td>-</td>
<td>22.78</td>
<td>-</td>
</tr>
<tr>
<td>- <em>required reserves in MDL, paid</em></td>
<td></td>
<td>0.70</td>
<td>-</td>
<td>3.86</td>
</tr>
<tr>
<td>- <em>required reserves in FCC, paid</em></td>
<td>11.03</td>
<td>0.01</td>
<td>6.22</td>
<td>0.12</td>
</tr>
<tr>
<td>- <em>overnight deposits</em></td>
<td>0.00</td>
<td>0.90</td>
<td>0.00</td>
<td>3.66</td>
</tr>
<tr>
<td>Certificates of the NBM (placed)</td>
<td>7.55</td>
<td>3.56</td>
<td>7.48</td>
<td>6.88</td>
</tr>
<tr>
<td>Liabilities to international financial organizations, including:</td>
<td>7.93</td>
<td>-</td>
<td>10.02</td>
<td>-</td>
</tr>
<tr>
<td>- <em>availabilities of IMF</em></td>
<td>5.06</td>
<td>-</td>
<td>5.70</td>
<td>-</td>
</tr>
<tr>
<td>- <em>loans received from IMF (EFF/ECF)</em></td>
<td>2.88</td>
<td>1.20/0.00</td>
<td>4.31</td>
<td>2.00/0.00</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>0.63</td>
<td>-</td>
<td>0.30</td>
<td>-</td>
</tr>
<tr>
<td>Capital and reserves</td>
<td>6.46</td>
<td>-</td>
<td>6.40</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: NBM
Table A.25: Evolution of the NBM major projects during 2020

<table>
<thead>
<tr>
<th>No.</th>
<th>Project’s name</th>
<th>Strategic goal</th>
<th>Project objectives</th>
<th>Started on</th>
<th>Achievements</th>
<th>Further actions planned for 2021</th>
</tr>
</thead>
</table>
| 1.  | Implementing the solution to streamline the licensing, authorization and notification process | 3. Strengthening the banking sector and implement risk-based supervision | 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. | Q III, 2015 | Following the completion of the Project, during 2020, in parallel with the adjustment of the relevant regulatory framework, the use of the IT system on licensing, authorisation and notification for the following modules has been initiated:  
- Notification of external commitments;  
- Licensing of non-bank payment service providers;  
- Authorised copies of licences for payment services and e-money activities;  
- Permission to acquire qualifying holding in the share capital of the electronic money institution;  
- Opinion on registration in the Register of Payment Service Providers. | Continuing the adjustment of the regulatory framework related to licensing, authorisation and notification processes, with the application of the electronic circuit for legal and natural persons in those processes. Following the adjustment of the regulatory framework, the use of modules by third parties will be initiated:  
- Obtaining approval of persons in positions as members of the management body and in key offices in banks, and in positions as heads of bank branches in another state;  
- Obtaining the NBM’s approval for the acquisition of holdings in the bank’s share capital;  
- Licensing/ Withdrawal of licences of foreign exchange offices and hotel currency exchange offices. |
<p>| 2.  | Implementing the solution for streamlining the shareholder transparency monitoring and implementation risk-based supervision | 3. Strengthening the banking sector and implement risk-based supervision | To streamline the monitoring process, to strengthen the National Bank of Moldova’s capacity in the field of increasing the level of transparency in the ownership | Q III, 2014 | The Award Documentation (including specifications) for the purchase of the IT solution has been finalised. The measures have been taken regarding the collaboration with the company responsible for the implementation of | The USAID approval or the results of the procurement process and signs the contract with the successful Bidder. Initiating the implementation of the IT solution to streamline the process of |</p>
<table>
<thead>
<tr>
<th>No.</th>
<th>Project’s name</th>
<th>Reference strategic goal</th>
<th>Project objectives</th>
<th>Started on</th>
<th>Achievements</th>
<th>Further actions planned for 2021</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>remote analysis in the field of prevention and combating money laundering and terrorist</td>
<td></td>
<td>structure of licensed banks by exercising an ongoing control; to ensure an automated monitoring process of the shareholder transparency. Also, the identification and prompt assessment by the National Bank of the risks of money laundering and terrorist financing as part of the supervision of banks.</td>
<td></td>
<td>the project, designated by USAID. In a next step, the activities were carried out to strengthen the project team and to carry out the procurement procedure, and a potential supplier of the IT solution was selected.</td>
<td>monitoring shareholder transparency and remote analysis in the area of preventing and combating money laundering and terrorist financing.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>Implementing the IT solution for banking operations (CBS), corporate resource management (ERP) and cash management</td>
<td>5. Strengthening institutional capacity and effectiveness</td>
<td>Transforming the processes of the NBM’s business processes related to banking operations, management of financial, material and human resources, as well as the modernization of the NBM’s banking IT system, in order to streamline the NBM’s operational activity.</td>
<td>October 2013</td>
<td>During the reporting year the NBM benefited from the expertise of representatives of the Central Bank of Germany and their opinion on some of the requirements of the specifications was taken into account. At the same time, the Project Concept was updated and the Action Plan was adjusted for subsequent approval by the Project Management and Decision-Making Group.</td>
<td>Defining the annexes to the Award Documentation. Approval of the updated project concept. Approval of the updated Action Plan. Final coordination, approval and translation of the Award Documentation in view of the launch of the procurement procedure, following the appointment of the new members of the Executive Committee and the appointment of the Chairperson of the Project Management and Decision-Making Group.</td>
</tr>
<tr>
<td>4.</td>
<td>Implementing solutions to strengthen information</td>
<td>5. Strengthening institutional capacity and effectiveness</td>
<td>Reducing the exposure to the risks of compromising the security of information, when users access the NBM resources</td>
<td>Q IV, 2018</td>
<td>The IT solution for physical access has been implemented and readers for physical access to the NBM premises have been installed with the use of new equipment following the review of the project perimeter in the context of pandemic conditions</td>
<td></td>
</tr>
<tr>
<td>No.</td>
<td>Project’s name</td>
<td>Reference strategic goal</td>
<td>Project objectives</td>
<td>Started on</td>
<td>Achievements</td>
<td>Further actions planned for 2021</td>
</tr>
<tr>
<td>-----</td>
<td>----------------------------------------------------------</td>
<td>-----------------------------------------------------------------------------------------</td>
<td>-----------------------------------------------------------------------------------</td>
<td>------------</td>
<td>------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
<td>-----------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td></td>
<td>security when accessing NBM resources</td>
<td></td>
<td>Implementing the instant payment solution (platform) (24/7/365), which will create the premises for the development of innovative/mobile payments, with their immediate final settlement and the possibility of immediate reuse of funds received by beneficiaries, facilitating the circuit of economic flows.</td>
<td>Q1, 2020</td>
<td>type access cards with multi-factor authentication. Subsequently, the solution for logical access to the NBM’s information resources was implemented and put into operation. These two solutions were finally tested from an integration perspective. In the context of the conditions imposed by the pandemic situation, the scope of the project was revised and extended in order to carry out an additional phase for the procurement and implementation of equipment to ensure the achievement of the project objectives.</td>
<td>(receipt and evaluation of offers, closing of contract); Implementation of the procured ancillary equipment.</td>
</tr>
<tr>
<td>5.</td>
<td>Implementing an instant payment scheme</td>
<td>4. Increasing the quality of the national currency and the level of use of cashless payments</td>
<td>Implementing the instant payment solution (platform) (24/7/365), which will create the premises for the development of innovative/mobile payments, with their immediate final settlement and the possibility of immediate reuse of funds received by beneficiaries, facilitating the circuit of economic flows.</td>
<td>Q1, 2020</td>
<td>The project was started as a component of the NBM’s Programme for the Development of the Payment Industry in the Republic of Moldova. A concept for the implementation of the programme was approved. Subsequently followed: consolidation of the project team by approving the order of the Governor of the NBM on the establishment of the Coordination and Decision-Making Groups and the Management Group; approval of the action plan on the implementation of the project, finalization of functional requirements and technical documentation on the software solution related to instant payments.</td>
<td>Approval of the Award Documentation, including the specifications. Carry out the purchase procedure and initiate the implementation of the contract IT solution.</td>
</tr>
<tr>
<td>No.</td>
<td>Project's name</td>
<td>Reference strategic goal</td>
<td>Project objectives</td>
<td>Started on</td>
<td>Achievements</td>
<td>Further actions planned for 2021</td>
</tr>
<tr>
<td>-----</td>
<td>----------------</td>
<td>--------------------------</td>
<td>-------------------</td>
<td>------------</td>
<td>-------------</td>
<td>-------------------------------</td>
</tr>
<tr>
<td>6.</td>
<td>Modernisation of the Automated Interbank Payment System (AIPS) - RTGS (Real-time Gross Settlement System) and NSS (Net Settlement System) components</td>
<td>4. Increasing the quality of the national currency and the level of use of cashless payments</td>
<td>Modernisation of AIPS through software and hardware separation of RTGS and NSS modules, creation of a liquidity limit management functionality, migration to a more advanced payment message format (ISO 20022), which will lead to the possibility of implementing STP (straight through processing) on the entire payment message processing chain (including the AIPS participant side), strengthening operational and liquidity risk management.</td>
<td>Q1, 2020</td>
<td>This project is part of the NBM's Programme for the Development of the Payment Industry in the Republic of Moldova. The concept for the implementation of the programme is approved. Subsequently followed: the strengthening of the project team by approving the order of the Governor of the NBM on the establishment of the Coordination and Decision-Making and Management Groups; approval of the action plan for the implementation of the project; determination of the functional requirements and finalization of the draft technical documentation on AIPS modernization services. After approval of the Award Documentation, the public procurement procedure was carried out and the contract with the solution provider was signed.</td>
<td>Initiating actions related to the AIPS modernisation process according to the project plan.</td>
</tr>
</tbody>
</table>