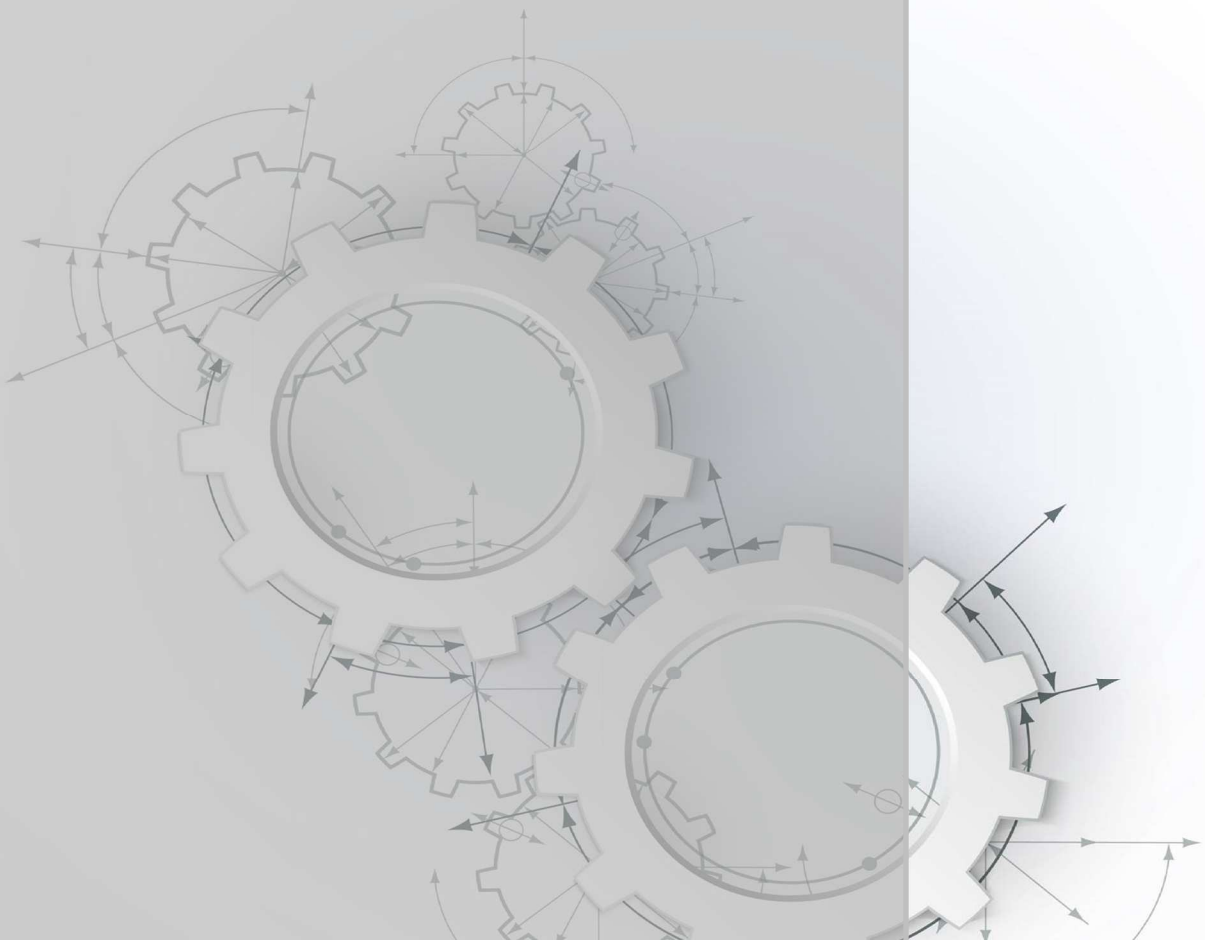
National Bank of Moldova

FINANCIAL STABILITY REPORT FOR 2023



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LIST OF ABBREVIATIONS

SLA	Savings and Loan Associations
PSA	Public Services Agency
ATM	Average Time to Maturity
BSTDB	Black Sea Trade and Development Bank
CEDB	Council of Europe Development Bank
EIB	European Investment Bank
EBRD	European Bank for Reconstruction and Development
NBM	National Bank of Moldova
NBS	National Bureau of Statistics of the Republic of Moldova
TB	Treasury bills
CNB	Certificates of the National Bank of Moldova
CCYB	Countercyclical capital buffer
CCoB	Capital conservation buffer
IFC	International Finance Corporation
NCFM	National Commission for Financial Market
NFSC	National Financial Stability Committee
CIS	Commonwealth of Independent States
XDR	Special Drawing Rights
EUR	Single European currency (euro)
DGFBS	Deposit Guarantee Fund in the Banking System
IMF	International Monetary Fund
NBFI	Non-bank financial institutions
IFRS	International Financial Reporting Standard
HHI	Herfindahl-Hirschman Index
SMEs	Small and medium-sized enterprises
CPI	Consumer Price Index
LCR	Liquidity coverage ratio
MDL	Moldovan Leu
NPL	Non-performing loans
NBCO	Non-bank credit organization
O-SII	Systemically important institution
GB	Government bonds
GDP	Gross domestic product
p.p.	Percentage points
PSP	Payment service providers
OFEP	Open foreign exchange position
CG	Credit to guarantee
RHS	Right hand scale
RM	Republic of Moldova
ROA	Return on assets
ROE	Return on equity
RPPI	Residential real estate price index
DSIR	Debt service to income ratio
SBFN	Sustainable Banking and Finance Network
SRB	Systemic risk buffer
SREP	Supervisory Review and Evaluation Process
USA	United States of America
EU	European Union
USD	US Dollar
SBR	State budget revenue
SS	State securities
ICT	Information and Communication Technologies

NOTE
The financial stability report was prepared by the Financial Stability Directorate, under the coordination of the NBM Deputy Governor, Tatiana Ivanicichina.
The report was examined by the Executive Board of the National Bank of Moldova and approved at the meeting of July 25, 2024.

SUMMARY

The year 2023 was characterized by a number of economic and financial challenges, but also by signs of resilience and adaptation. Globally, the economy has shown remarkable resilience, with world GDP growing by 3.2 percent. However, inflation dynamics were influenced by multiple geopolitical and economic uncertainties and were more persistent than previously expected in many major economies.

The Republic of Moldova's economy, after the inflationary shock of 2022 and against the background of all the geopolitical and economic dangers caused by the war in Ukraine and the fragmentation of the world economy, began a slow recovery process, growing by 0.7 percent in 2023. However, inflation has reached the limits targeted by the NBM, at 4.2 percent in annual terms, which creates the conditions for price stability necessary for the economy to recover.

Despite the overlapping crises in recent years (pandemic crisis, price shocks, war in Ukraine), the domestic banking system has proven to be very resilient and stable, maintaining a high level of asset quality and liquidity. The capital adequacy of banks stood at 29.9 percent, up compared to previous years, providing a high level of protection against possible shocks.

By value of credit extended, the non-bank lending sector maintains an approximate share of 19.0 percent in total credit extended in the banking and non-bank financial sector, with a slight increase over the period 2022-2023. While the interconnectedness of these segments with each other and with the rest of the financial sector is low, with systemic risks caused by these components being low, the quality of credit extended by them, especially in the case of savings and loan associations, which can attract deposits, remains a concern.

The National Bank of Moldova has continued to apply macroprudential tools, including capital buffers and retail leverage limitation requirements, to prevent and mitigate systemic risks. These measures have proven their effectiveness and have proven essential to maintain financial stability in the face of economic challenges.

The National Bank of Moldova will continue to monitor developments in the national economy and the financial sector in order to identify the build-up of systemic risks and come up with the appropriate macroprudential instruments that are adequate and appropriate to the situation, so as to ensure the normal functioning of the system and the maintenance of financial stability.

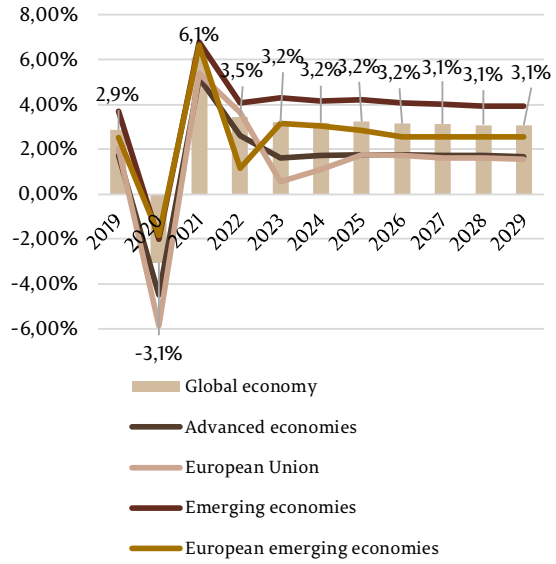
1. ECONOMIC AND REAL CONTEXT

1.1. Economic developments

In 2023, despite an uncertain environment, the global economy showed resilience and world GDP grew by 3.2 percent.

The year 2023 was characterized by economic growth despite the restrictive monetary policy practiced by the central banks of the world's major economies. The growth translated into higher real incomes, partly driven by lower inflation. The fastest growth was in emerging and developing economies, which grew by 4.3 percent (Figure 1.1.1). Real GDP growth in the US was 2.5 percent, exceeding initial forecasts (Table 1.1.1). At the same time, the EU economy made more modest progress due to latent energy market frictions, resulting in GDP growth of 0.6 percent.

Figure 1.1.1. Evolution of world GDP and country groups



* - IMF Forecast
Source: prepared by the NBM based on IMF data

International forecasts for the coming years point to a stable growth outlook over the coming years. However, the outlook for Europe's developing countries remains constrained by conflict in the region and persistent inflation.

Table 1.1.1. GDP growth rates at constant prices in the USA and some of the Republic of Moldova's main trading partners, %

	2022	2023e	2024f	2025f
World	3.46	3.21	3.18	3.23
China	2.99	5.24	4.64	4.09
Germany	1.80	-0.31	0.15	1.33
Italy	3.99	0.92	0.71	0.71
R. of Moldova	-4.98	1.03	2.60	4.83
Poland	5.26	0.16	3.07	3.48
Romania	4.60	2.11	2.77	3.60
Russia	-1.20	3.59	3.16	1.81
Turkey	5.53	4.52	3.10	3.19
Ukraine	-29.08	5.00	3.20	6.47
USA	1.94	2.53	2.73	1.88

Note: e – estimated; f – forecasted
Source: IMF

Taking these developments into account, the IMF forecasts that global economic growth will hover around 3.2 percent in 2024, similar to the rates recorded in 2023 (Figure 1.1.1).

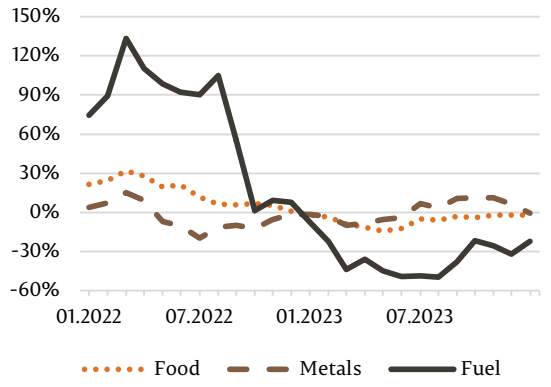
It should be noted that, as a result of the risks associated with rising energy and food prices due to the distortion of trade relations with Russia, Belarus and other CIS countries caused by the military conflict in Ukraine, economic growth in the European Union is still expected to remain low in 2024, with the GDP forecast for the bloc below that of developed economies. However, the indicator is projected to be up from the current level of 0.6 percent to 1.1 percent in 2024, accelerating to 2 percent by 2025.

Although forecasts for price dynamics have been pessimistic, inflation has fallen faster than expected in some regions of the world.

After the consumer price index (CPI) rose by 8.7 percent in 2022, its increase in 2023 was somewhat more moderate at 6.9 percent. Inflation moderated more markedly in advanced economies (4.6 percent in 2023 compared to 7.3 percent in 2022), while in emerging and developing economies it registered a slower decline (8.5 percent in 2023 compared to 9.8 percent in 2022)).
The main factor driving down inflation was the decrease in energy prices (Figure 1.1.2). In 2023, international fuel prices fell by 37.6 percent (oil became cheaper by 16.5 percent

and gas by 62.1 percent). The disinflationary trend was also supported by a 6.8 percent decline in food prices. Metal prices rose by 1.6 percent, a trend that took shape in the second half of the year.

Figure 1.1.2. International commodity prices, change compared with the same period a year ago



Source: prepared by the NBM based on IMF data

Table 1.1.2. USA inflation and some of the Republic of Moldova's main trading partners, %

	2022	2023e	2024f	2025f
World	8.91	6.17	5.33	4.01
China	1.82	-0.26	1.89	2.02
Germany	10.81	2.97	2.22	1.96
Italy	12.34	0.50	2.20	1.87
R. of Moldova	30.24	4.20	5.00	5.00
Poland	16.60	6.20	6.37	3.86
Romania	16.37	6.61	4.68	3.46
Russia	11.92	7.42	5.30	4.37
Turkey	64.27	64.77	45.02	28.28
Ukraine	26.60	5.08	8.50	7.00
USA	6.41	3.20	2.39	1.96

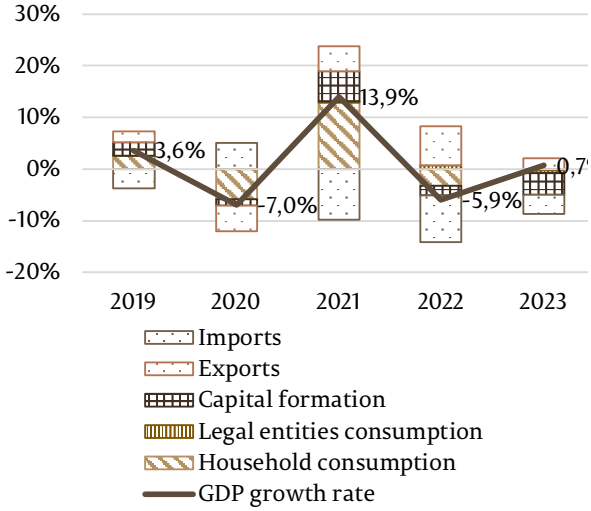
Note: e – estimated; p - forecasted
Source: IMF

According to the most recent data published by the IMF[1], average annual inflation for 2023 is estimated at 6.2 percent, down 2.7 p.p. from the previous year. At the same time, it should be noted that the group of countries in Eastern and Central Europe and the Baltic region continued to register high levels of inflation (on average 19.4 percent), which is a result of instability in the region (Table *1.1.2* shows the inflation of some countries in the region, according to IMF data).

As the economies of the main partners of the RM continued to be affected by the negative geopolitical situation in the region, 2023 was characterized by a slow recovery from the inflationary shock of 2022.

In 2023, one year after the inflationary crisis that hit our country
and amid an uncertain international context, the economy of the Republic of Moldova recorded a moderately positive development (Table 1.1.3).
In terms of output, real GDP grew by 0.7 percent compared to 2022[2]. By category of uses, GDP growth was mainly generated by the net export of goods and services, with a contribution of 5.8 percent to the growth recorded. This impact was produced both by an increase in the volume of exports and a reduction in the volume of imports of goods and services (Figure 1.1.3). At the same time, other categories had a negative impact on GDP: final consumption (-0.8 percent) and gross capital formation (-4.2 percent).

Figure 1.1.3. The evolution of GDP of the Republic of Moldova and its components



Source: prepared by the NBM based on NBS data

[1] World Economic Outlook Update, April 2024

[2] According to preliminary data published by the NBS

Table 1.1.3. Main macroeconomic indicators of the Republic of Moldova

Name of indicator	Value in 2022	Value in 2023	Unit	Modification compared to 2022
GDP, current prices	274,488	300,421	mill. MDL	9.4%
Annual inflation rate	30.20%	4.20%		-26.0 p.p.
Exchange rate MDL/USD	19.1579	17.4062		-9.1%
Exchange rate MDL/EUR	20.3792	19.3574		-5.0%
Reserve assets	4,474.2	5,453.14	mill. USD	21.9%
National Public Budget Deficit*	-15.34	-18.53	bill. MDL	20.8%
State debt	103,311.1	122,505.3	mill. MDL	18.6%
Current account balance	-821.16	-522.87	mill. USD	-36.3%
Import coverage of exports of goods and services	47.00%	46.70%		-0.3 p.p.
Net international investment position	-6,184.84	-6,566.59	mill. USD	6.2%
Unemployment rate	3.10%	4.60%		1.5 p.p.
Average gross monthly wage	10,447.3	13,401.1	MDL	28.3%
Total personal remittances	1,745.74	1,627.75	mill. USD	-6.8%

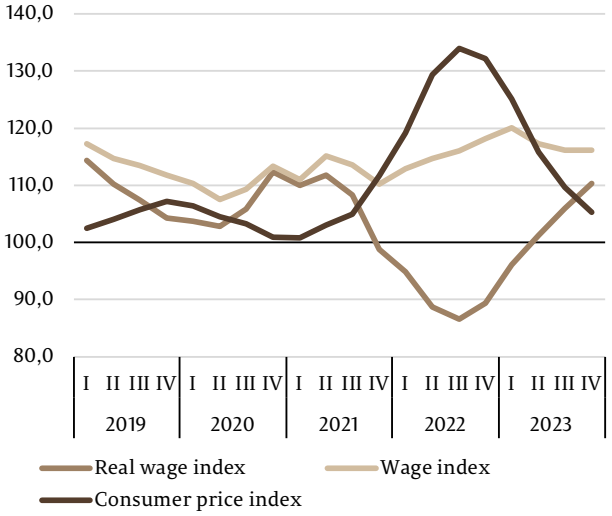
** data related to the situation in the fourth quarter*
Source: compiled by the NBM based on NBM, NBS data

By resource category, GDP growth was driven by increased activity in most branches of the economy. The main contributors to the positive dynamics of GDP were: agriculture (+2.6 percent), health and social care (+0.7 percent), but also information and communication (+0.5 percent). Despite the positive net result, some of the key branches recorded negative developments, thus contributing as GDP contraction factors: manufacturing (-1.1 percent), construction (-1.0 percent), trade (-0.6 percent), but also transport and storage (-0.4 percent).

Average household incomes increased over the reporting year.

In 2023, the average gross monthly wage earnings recorded a favourable dynamic, reaching MDL 13,401.1 per month per person, up by 16.1 percent compared to the previous year (Figure 1.1.4).

Figure 1.1.4. Wage growth and consumer price index by quarter (compared with the same quarter of the previous year)



Source: NBS

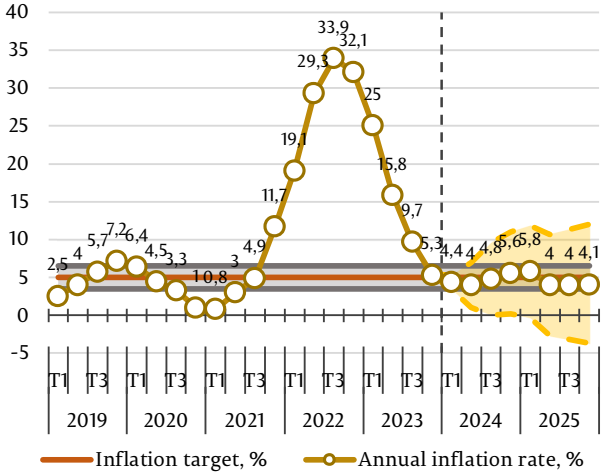
After six quarters of negative real wage gain values, in the second quarter of 2023 the wage gain index again started to exceed the CPI, a trend that continued and intensified throughout the year.

After the negative evolution in 2022, the inflation rate returned in 2023 to values within the corridor established by the NBM.

By the end of 2023, the annual inflation rate had fallen to 4.2 percent from 30.2 percent in 2022. Both food and non-food goods saw increases of about 4.6 percent, while services rose by 2.5 percent. Among the products and services that had the steepest price growth were: drinking water and sewage (+24.6 percent), passenger transport (+20.8 percent), and fruit and vegetables, which saw price increases of around 12 percent each.

Quarterly analysis of the annual inflation rate reveals the downward trajectory that price dynamics maintained throughout the year. The development came in contrast with the trends recorded in 2022, when there had been a dizzying steepening of price growth until the third quarter (Figure 1.1.5).

Figure 1.1.5. Annual inflation rate



Source: NBM, according to the last forecast round available on 09.03.2023

For the years 2024-2025 the inflation rate is expected to remain within the NBM's target range. Thus, during 2024, inflation falls in the first half of the year to 4 percent, followed by a very slight upward trajectory towards the forecast peak of 5.6 percent in the fourth quarter. Thereafter, there is a deceleration of inflation towards the minimum of 4 percent, which would be reached by the second quarter of 2025 (Figure 1.1.5). Nevertheless, the inflation forecast is strongly affected by uncertainties related to geopolitical tensions in the region, food prices on the international market and the energy crisis over the forecast horizon.

1.2. State debt

As of December 31, 2023, the majority of the risk and sustainability indicators of state debt were within the established limits.

As of 31.12.2023, the values of the risk and sustainability indicators of state debt were within the established limits, except for the following indicators: the share of state debt maturing within one year, the average time to maturity (ATM) for total state debt, the share of debt securities issued on the primary market maturing within one year and the share of state debt with variable interest rate, with minor deviations from the value established according to the Program "Medium-Term State Debt Management (2023-2025)" (Table 1.2.1). The main reason for this is the focus of investor demand for short-term SS, as a result of the multiple overlapping crises in recent times and uncertainties about the situation in the region.

Table 1.2.1. Risk and sustainability parameters related to the state debt

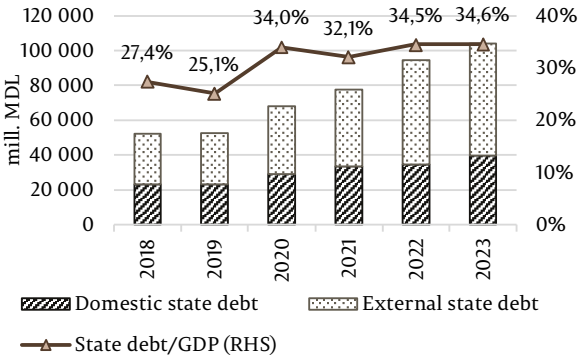
	Values for the period 2023-2025	Value registered as of 31.12.2023
Risk parameters		
Currency risk		
Share of domestic state debt (% of total)	min. 25	38.1
Share of state debt in a specific currency (% of total)	max. 45	38.5
Refinancing risk		
Share of state debt falling due within 1 year (% of total)	max. 25	30.0
ATM for total state debt (years)	7-10 years	6.6
SS issued on the primary market maturing within 1 year (% of total)	max. 85	91.9
Interest rate risk		
Share of floating rate state debt (% of total)	max. 45	50.8
Sustainability parameters		
State debt service in relation to state budget revenue excluding grants (%)	max. 10	8.9
Share of state debt in GDP (%)	max 43.	34.6

Source: prepared by NBM based on data from the Ministry of Finance

The share of state debt in GDP was about the same as at the end of 2022.

As of 31.12.2023, the share of state debt in GDP at nominal value was 34.6 percent, 0.1 p.p. higher than in 2022 (Figure 1.2.1).

Figure 1.2.1. State debt

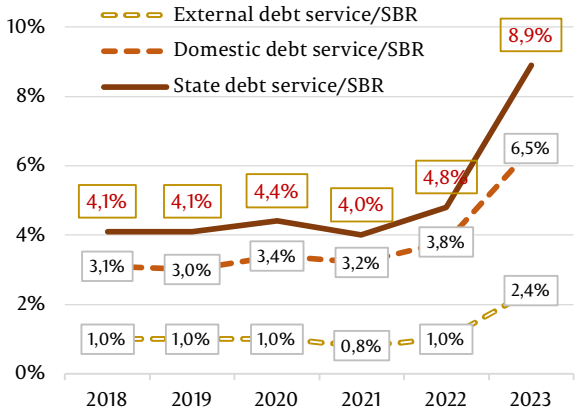


Source: prepared by NBM based on data from the Ministry of Finance

At the same time, the share of the state debt service in the state budget revenues increased to 8.9 percent (Figure 1.2.2).

The state debt balance as of December 31, 2023 amounted to MDL 104,003.1 million, increasing by MDL 9,343.1 million or by 9.9 percent compared to the end of the previous year, being influenced by the increase in the balance of domestic state debt in nominal terms by MDL 5,173.8 million and the increase in the balance of external state debt by MDL 4,169.3 million. The change in the balance of external state debt is due to positive net external financing. At the same time, the increase in the balance of the internal state debt was mainly conditioned by the positive net internal financing of the SS issued on the primary market during the reference period.

Figure 1.2.2. State debt service in relation to the total state budget revenue

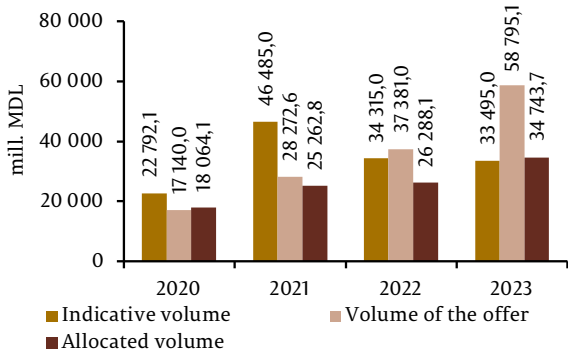


Source: prepared by NBM based on data from the Ministry of Finance

SS issues

The total volume of SS put into circulation in 2023 was the highest in historical perspective (MDL 34,743.7 million), and the value of net issuance increased by about four times compared to the previous year (Figure 1.2.3).

Figure 1.2.3. Volume of SS issued through auctions



Source: NBM

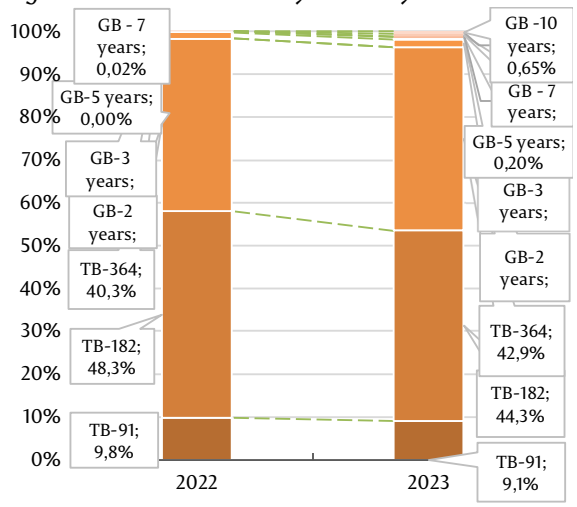
In 2023, the state securities market experienced notable increases in key investor interest ratios. The ratio of the volume requested by investors to the volume announced at auctions rose to 1.76, up from 1.09 in 2022. Similarly, the ratio of the volume accepted to the volume announced by the Ministry of Finance increased to 1.04, compared to 0.77 the previous year. Despite these increases, the number of auctions held decreased to 111 from 129 in 2022.

In addition to the securities with usual maturities relevant for these indicators, in September 2024, the Ministry of Finance issued 10-year bonds for the first time.

Investors, still expressing their aversion to risk, opted for debt securities with a maturity of up to one year, which accounted for the largest share of total issuance.

At the same time, the Ministry of Finance has increased the average maturity of the securities issued from 253 days to 304 days, intervening with modifications in the usual maturity structure of bonds, their offer being adjusted according to market conditions and first time issuance of 10 year bonds in September (Figure 1.2.4).

Figure 1.2.4. SS structure by maturity



Source: prepared by NBM based on data from the Ministry of Finance

The amount of SS demanded by non-bank investors has increased to the highest in recent years, but banks remain the main investors in SS.

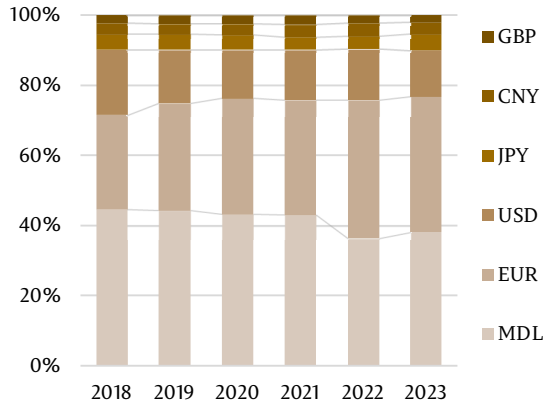
The marked expression of interest of non-bank investors for investments in SS was also reflected by the increase in the volumes purchased by them during 2023 - MDL 7,537.2 million (MDL 6,686.8 million in 2022) or 21.7 percent of the SS placed (25.4 percent in 2022), to the highest values of the last years).

Risks related to state debt

Currency risk is one of the main categories of risk related to the state debt portfolio, affecting both the cost and volume of state debt.

As of December 31, 2023, 61.9 percent of the state debt portfolio is foreign state debt, denominated in foreign currencies. The structure of state debt by currency, with the breakdown of the SDR foreign exchange basket, highlights the vulnerability of the state debt portfolio to the EUR and USD, implying the need to continuously monitor the exchange rates of these currencies. Thus, the share of state debt in EUR and USD together makes up 52.0 percent of the state debt portfolio (Figure 1.2.5).

Figure 1.2.5. Structural evolution of state debt in foreign currency

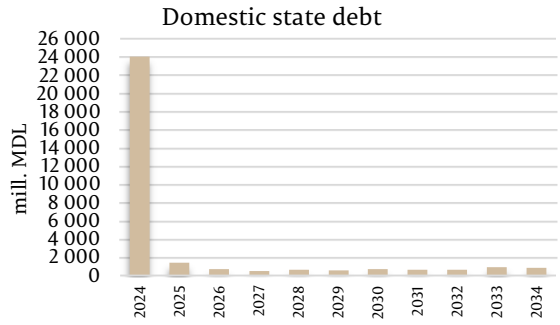


Source: prepared by NBM based on data from the Ministry of Finance

The forecast for the repayment of domestic state debt shows the highest repayment in 2024, consisting mainly of instruments with a short maturity (Figure 1.2.6).

According to data of the Ministry of Finance, the segment of short-term domestic government debt, to be refinanced each year through new issues of SS, represents a significant risk for the state budget in the context of possible increases in domestic interest rates.

Figure 1.2.6. Domestic state debt repayment forecast



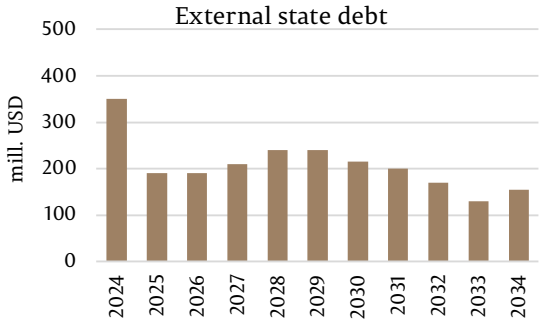
Source: Ministry of Finance

The refinancing risk on external debt is within safe limits and total public debt has a moderate refinancing risk.

The analysis of the repayment profile of the external state debt shows a relatively even distribution of payments from 2025 onwards and a low refinancing risk, respectively.

At the same time, 2024 marks the peak of debt repayment obligations (Figure 1.2.7).

Figure 1.2.7. External state debt repayment forecast

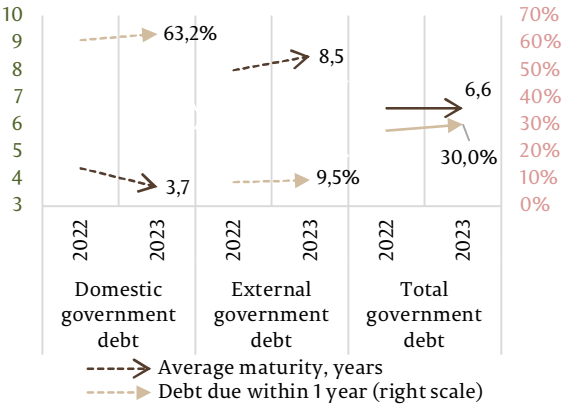


Source: Ministry of Finance

Domestic state debt maturing within one year increased by 2.2 p.p. in 2023 compared to the previous year, indicating that in order to mitigate refinancing risk, the Ministry of Finance continues to build liquidity based on issuance of longer maturity SS as market conditions allow.

As of December 31, 2024, 63.2 percent of domestic state debt is expected to mature within one year. External state debt, due to long-term instruments, is within safe limits and only 9.5 percent of it is due to mature within one year (Figure 1.2.8).

Figure 1.2.8. Average maturity of state debt and debt maturing in one year



Source: prepared by NBM based on data from the Ministry of Finance

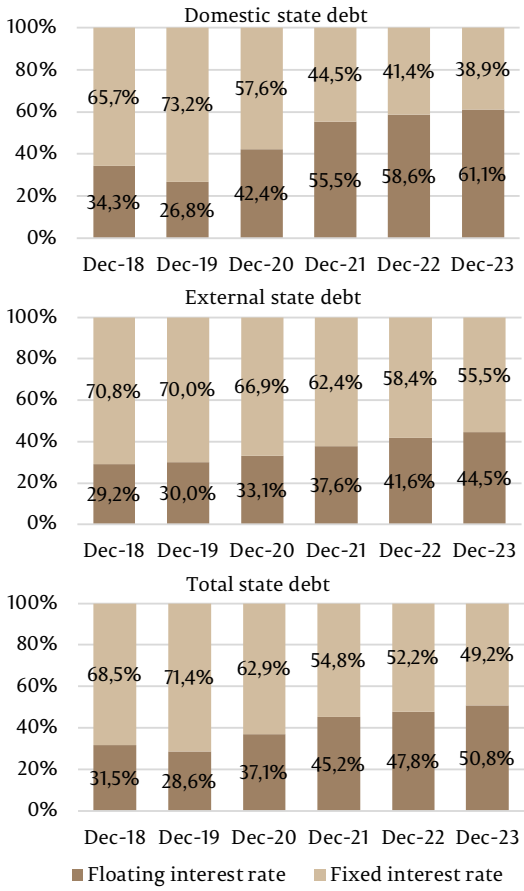
More than half of the total volume of state debt is exposed to interest rate fluctuations.

As of December 31, 2023, there is an upward trend in domestic floating-rate state debt, constituting 61.1 percent of total domestic state debt, up by 2.5 percentage points from end-2022. This development is explained by the increase in the share of outstanding treasury bills which, although issued at a fixed interest rate, entail a major exposure to interest rate fluctuations due to the short maturity at which they are issued.

There is also an increase in the share of floating-rate debt in external public debt. Thus, as of December 31, 2023, external public debt at floating interest rates accounted for 44.5 percent of total external public debt, 2.9 p.p. more than at the end of 2022 and 6.9 p.p. more than at the end of 2021.

In terms of total state debt, the share of floating-rate debt is 50.8 percent and reflects an increase of 3.0 p.p. compared to end-2022 (Figure 1.2.9).

Figure 1.2.9. State debt structure by types of interest rate



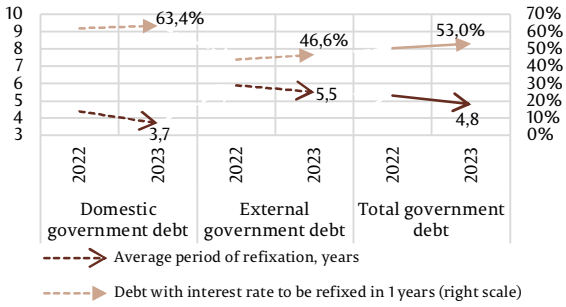
Source: prepared by NBM based on data from the Ministry of Finance

Domestic state debt is highly exposed to the risk of rising interest rates, as 63.4 percent of domestic state debt is to be re-fixed at new interest rates within 1 year.

During 2023, the share of interest bearing domestic state debt to be re-fixed within one year had increased by 1.6 p.p. compared to the end-2022. Thus, an increase in domestic interest rates will directly affect domestic state debt costs. Interest rates on domestic state debt are reset, on average, over 3.7 years. At the same time, 46.6 percent of external state debt is to be re-fixed within 1 year and interest rates on external state debt are re-fixed, on average, within 5.5 years, 0.4 years less than at the end of 2022.

In terms of state debt as a whole, the average re-fixing period of the entire portfolio is 4.8 years (down by 0.5 years compared to 2022), and 53.0 percent of it is to be re-fixed at new interest rates within 1 year, thus highlighting the exposure of state debt to interest rate risk (Figure 1.2.10). It should be noted that the average resetting period refers to the time interval after which interest rates are adjusted or revised.

Figure 1.2.10. The average period of reset of the state debt and the debt to be reset within 1 year



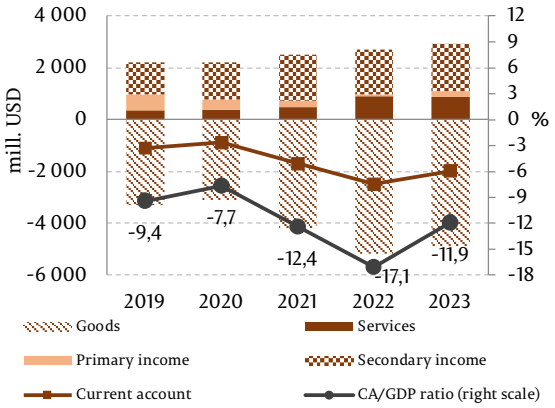
Source: prepared by NBM based on data from the Ministry of Finance

1.3. Evolutions of the external sector[3]

According to preliminary data, in 2023, the current account deficit of the balance of payments of the Republic of Moldova narrowed as a result of the decrease in the deficit of foreign trade in goods and the increase in the surpluses of primary and secondary income, while the surplus of the balance of services declined.

In 2023, the current account deficit of the balance of payments of the Republic of Moldova improved compared to 2022, both in absolute terms and as a ratio to GDP. The deficit amounted to USD 1,973.7 million, decreasing by 20.5 percent (Figure 1.3.1). As a percentage of GDP, the current account deficit was 11.9 percent (+5.2 p.p. compared to 2022).

Figure 1.3.1. Current account-main components



Source: NBM

The foreign trade deficit in goods[4] amounted to USD 4,887.8 million and decreased by 5.9 percent compared to 2022, due to a larger decrease in imports (-6.5 percent or - USD 580.9 million) compared to exports (-7.5 percent or - USD 275.9 million).

In 2023, the evolution of external trade in goods was shaped by the geopolitical situation in the region.

The decrease in the import of goods, as recorded in the balance of payments, to USD 8,313.3 million was driven by mineral products, the import of which decreased by 31.7 percent (-USD -893.0 million) compared to 2022. This decline resulted from rising oil product prices and delivery challenges caused by the military conflict in the region. It should be mentioned that an important part of the imported mineral products, in particular diesel and automotive gasoline, was re-

[3] Full analytical commentary on developments in international accounts can be found at: https://www.bnm.md/ro/content/conturile-internationale-ale-republicii-moldova-trimestrul-iv-2023-date-provizorii

[4] Foreign trade in goods data compiled according to the balance of payments methodology (BPM6) contain several adjustments compared to the data compiled by the NBS, for more details on the adjustments we recommend consulting the methodology [https://bnm.md/ro/content/conturile-internationale-metodologia-de-compilare-si-baza-informationala].

exported to Ukraine. The total value of imports from the CIS fell by 45.1 percent, while imports from other countries increased by 8.3 percent and from the EU[5] by 1.6 percent. Deliveries from the EU accounted for 63.0 percent of total imports, from CIS - 15.7 percent and from other countries - 21.3 percent.

In 2023, the decrease in the export of goods to USD 3 423.5 million was driven by the export of agri-food products, which decreased by 9.9 percent (-USD 187.30 million). These were still the main category of exported goods (51.0 percent of the total), and the decrease compared to 2022 was conditioned by the 2.4-fold reduction (-USD 197.6 million)) in exports of sunflower seeds, a 2.4-fold decrease (- USD 195.7 million) in exports of corn, and a 34.1 percent decrease (-USD 125.5 million) in exports of sunflower seed, safflower or cottonseed oils. In the reference year, 60.7 percent of goods exports went to the EU, 26.7 percent - to the CIS, and the remaining 12.6 percent went to other countries. Exports to other countries decreased significantly - by 31.9 percent and to the CIS by 14.0 percent, while exports to the EU increased by 4.0 percent compared to 2022.

The decline in the services surplus was influenced by a more significant increase in imports of services (+13.4 percent), which outpaced the increase in exports (+7.0 percent), mainly due to the rise in imports of travel services, while their exports fell.

The surplus in foreign trade in services (USD 885.8 million) decreased by 2.5 percent from 2022. Imports of services increased by 13.4 percent (+USD 183.0 million), while exports increased by 7.0 percent (+USD 160.4 million). Within imports, the largest positive contribution was made by travel services. Within travel services, personal travel increased by 27.1 percent and business travel by 4.0 percent. Imports of transportation services increased by 3.7 percent to USD 577.4 million, and imports of computer services - by 31.0 percent to USD 84.7 million. The increase in exports of services resulted from the growth of computer services - by 23.9 percent to USD 580.4 million, professional and management consulting services - by 47.5 percent to USD 164.4 million, and transportation services - by 7.9 percent to USD 540.3 million.

In 2023, the positive balances of the primary and secondary income balances increased.

The 3.5-fold increase in the primary revenue surplus from 2022 to USD 209.8 million was driven by the significant increase in inflows (+21.8 percent to USD 1,094.0 million), which was higher than the increase in primary revenue outflows (+5.5 percent to USD 884.2 million). The increase in inflows was driven by the 4.0-fold increase to USD 179.4 million. USD 889.8 million, up by 6.7 percent to USD 889.8 million. Outflows were driven by interest payable on other investments, which increased by 2.1 times to USD 138.7 million. Secondary income recorded an increase in surplus by 4.4 percent from 2022 to USD 1,818.5 million. Personal remittances received from abroad by Moldovan residents decreased by 6.7 percent and totalled USD 1,122.6 million. The net value of technical assistance, humanitarian aid and grants received within the international cooperation framework by all institutional sectors increased by 2.2 percent in 2023 and amounted to USD 575.9 million.

Personal remittances[6] received by residents of the Republic of Moldova in 2023 decreased by 2.0 percent compared to 2022 and amounted to USD 1,946.3 million, which is 11.8 percent of GDP (-1.9 p.p. compared to 2022).

The capital account maintained a surplus and net external borrowing amounted to 11.4 percent of GDP.

The capital account recorded net inflows of USD 81.9 million, up 4.1 times from 2022. The capital account balance was driven by net capital inflows recorded in the private sector totalling USD 32.4 million compared to 2022, when net outflows of USD 20.3 million were

[5] EU - European Union without the Great Britain

[6] Personal remittances are a supplementary item in the balance of payments and reflect the sum of net compensation of employees (excluding compensation of employees incurred in the host country and some taxes paid by residents abroad), personal and capital transfers between households.

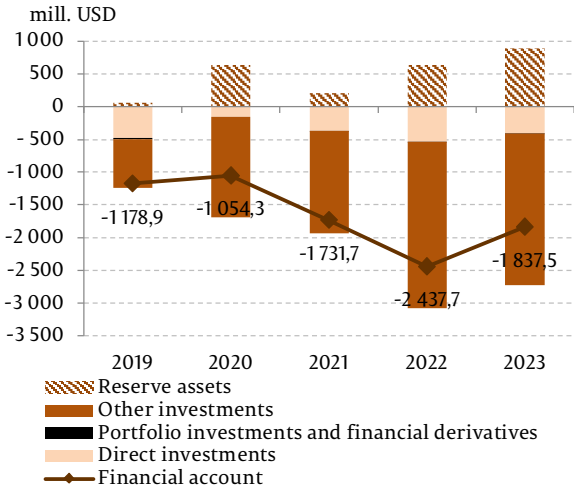
recorded. Inflows of external technical assistance to general government aimed to finance investment projects totalled USD 49.5 million, up 22.0 percent from 2022.

As a result of current and capital transactions of residents of the Republic of Moldova with non-residents, the net external financing requirements amounted to USD 1,891.8 million (-23.2 percent).

The financial account showed significant net inflows.

In 2023, the financial account resulted in net inflows of financial means, amounting to USD 1,837.5 million (Figure 1.3.2), due to a net increase in liabilities of USD 1,068.2 million and a net decrease in external financial assets of USD 769.2 million.

Figure 1.3.2. Evolution of financial account, by functional categories, net flows



Source: NBM

External financial liabilities increased by USD 473.2 million, driven primarily by financial inflows in the form of loans. In 2023, the general government drew external loans in the amount of USD 961.3 million and repaid USD 494.5 million. The National Bank of Moldova repaid USD 7.9 million of loans previously contracted from the IMF. Licensed banks carried out net repayments in the amount of USD 21.1 million, and other sectors - net drawdowns of USD 35.4 million.

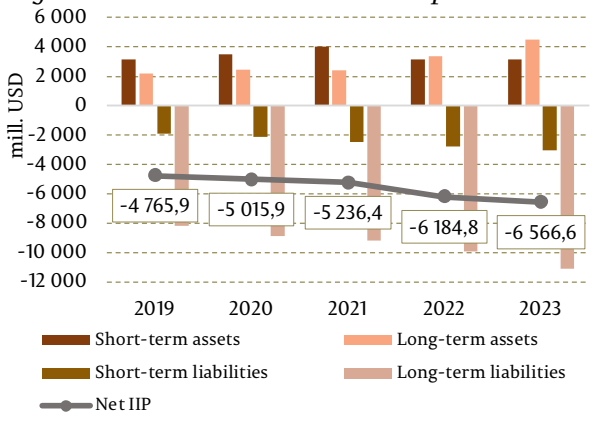
External liabilities in the form of direct investments increased during 2023 by USD 417.0 million, driven by reinvestment of profits in the amount of USD 391.5 million, and the net increase in equity participations and shares owned by non-residents - by USD 40.1 million. Liabilities in the form of trade credits and advances increased by USD 183.5 million, while liabilities in the form of portfolio investments increased by USD 1.5 million, cash and deposits decreased by USD 0.9 million and other liabilities - by USD 3.2 million.

In 2023, the net decrease in external assets representing net inflow of funds was driven by a decrease in assets in the form of cash and deposits - by USD 1,358.3 million, trade credits and advances - by USD 274.8 million, loans - by USD 26.5 million and portfolio investments - by USD 1.7 million. At the same time, reserve assets increased by USD 891.3 million, direct investments increased by USD 0.7 million.

The net debit balance of the international investment position of the Republic of Moldova was increasing in 2023.

The international investment position of the Republic of Moldova, as of December 31, 2024, amounted to -6,566.6 million USD, the debit balance deepening by 6.2 percent compared to the end of 2022 (Figure 1.3.3).

Figure 1.3.3. International investment position



Source: NBM

External financial assets amounted to USD 7,573.3 million, up by 16.4 percent since the beginning of the year, while liabilities amounted to USD -14,139.9 million, up by 11.4 percent.

The increase in the position of external financial assets during 2023 was driven by an increase in the position of reserve assets by 21.9 percent, in the form of cash and deposits –

by 68.8 percent, and in direct investments - by 2.7 percent. At the same time, assets in the form of trade credits and advances decreased by 31.5 percent, loans - by 12.5 percent, portfolio investments - by 11.2 percent.

The official reserve assets position as at 31.12.2023 amounted to 5,453.15 mill. USD, which meets all sufficiency criteria: covering at least 3 months of imports of goods and services (covered 6.6 months of actual imports); full reserve coverage of short-term external debt (covered 179.6 percent); coverage of 20.0 percent of M2 money supply (covered 86.3 percent); coverage of 100-150 percent of the amount: 30.0 percent of short-term external debt + 15.0 percent of other external liabilities + 5.0 percent of M2 + 5.0 percent of exports of goods and services (covered 230.9 percent).

The evolution of the external financial liabilities position was driven by an increase of 11.2 percent in commitments in the form of other investment (up to USD 8,582.7 million) and 11.9 percent in the form of direct investment, totalling USD 5 533.9 million. Other investments consisted of 63.8 percent of loans, 28.7 percent - trade credits and advances, 4.4 percent - special drawing rights, 2.5 percent - cash and deposits and 0.6 percent - other liabilities.

The Republic of Moldova's gross external debt amounted to 63.3 percent of GDP, with private debt accounting for the largest share.

The Republic of Moldova's gross external debt increased during 2023 by 9.1 percent, amounting to USD 10 465.7 million as of December 31, 2023, which is 63.3 percent of GDP (-2.8 p.p. compared to December 31, 2022).

In terms of maturity structure (original maturity), the increase in external debt during 2023 was driven by the increase in long-term debt by 8.8 percent (+USD 598.2 million), compared to the situation as of December 31, 2022, to USD 7,429.7 million.

Short-term external debt increased, during 2023, by 9.9 percent (+USD 274.1 million) and amounted to USD 3,036.0 million as of the end of the reporting year.

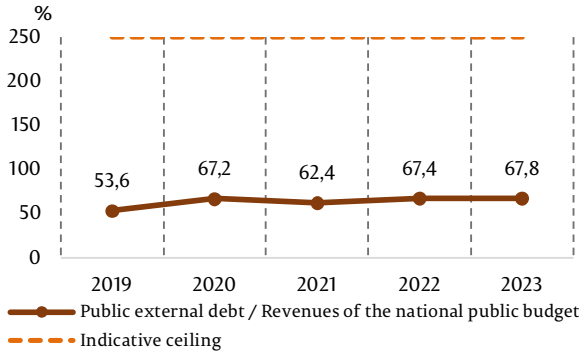
Public external debt accounted for 36.5 percent of total external debt, totalling USD 3,820.5 million[7] (+17.1 percent since the beginning of the year). Private external private debt amounted to USD 6,645.1 million, increasing by 5.0 percent since December 31, 2022.

In the currency structure of external borrowing within the public debt, 53.2 percent of external borrowing was denominated in euro and 41.5 percent in SDR.

External borrowing under private debt was predominantly contracted in euro, 55.2 percent, and in US dollars, 40.4 percent.

Public external debt remained sustainable, with all external indebtedness indicators within the ceilings set by the World Bank and the IMF[8]: Public external debt as a share of national public budget revenues amounted to 67.8 percent (Figure 1.3.4), and as a share of GDP - 23.1 percent (Figure 1.3.5).

Figure 1.3.4. Ratio between the public external debt and national public budget revenues (%)

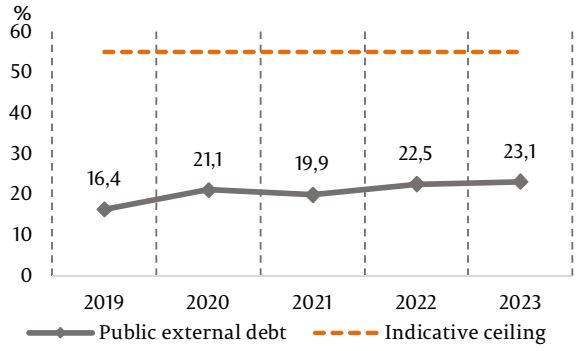


Source: NBM, Ministry of Finance

[7] Including tranches on ECF and EFF loans received in December 2021 from the IMF (reflected in accordance with the IMF Statistical Methodological Guidance of 2014 https://www.imf.org/external/np/sta/ed/ed.htm para. 2.26); data published by the Ministry of Finance on the balance of the state debt as of 31.12.2021 do not include these amounts, they are reflected as of 28.01.2022 (the date of entry into force of Law No. 7/2022 and Law No. 8/2022, approving the Government of the Republic of Moldova to get external state loan from the International Monetary Fund).

[8] Indicative ceilings based on CPIA score (Country Policy and Institutional Assessment) developed by the World Bank. In 2019, the IDA resource allocation index of the Republic of Moldova was 3.7, thus the ceilings were set at the following levels: 55 percent for the ratio of public external debt to GDP, 250 percent for the ratio of public external debt to national public budget revenues.

Figure 1.3.5. Ratio between the public external debt and GDP

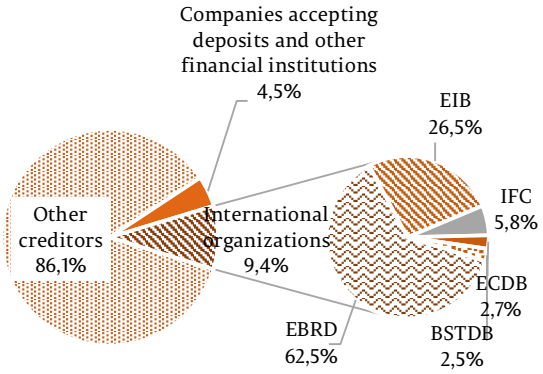


Source: NBM

The structure of the main private sector creditors is shown in Figure 1.3.6. As of December 31, 2023, international organizations (9.4 percent of the total) accounted for 62.5 percent of the total, followed by the EBRD with 62.5 percent, followed by the EIB with 26.5 percent, but the major share of 86.1 percent went to other creditors - both banks and non-financial corporations.

The analysis of the external financing quality indicators highlights advantageous external financing, as indirectly expressed by the quarterly average implicit interest rate on external debt, including loans and SDR allocations.

Figure 1.3.6. Private debt creditor structure, as of 31.12.2023 (%)



Source: NBM

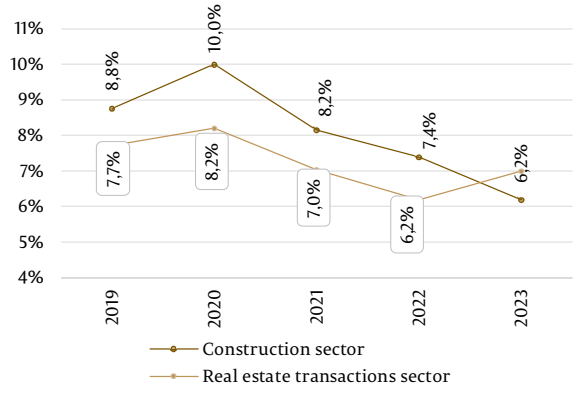
The average implied maturity of long-term external debt in the form of borrowing is decreasing since the end of 2022, but increasing compared to earlier periods of 2023. This indicator is correlated with the evolution of the refinancing rollover rate, which declined in the first 9 months of 2023, but increased in the fourth quarter of 2023 as a result of the continued external financing attraction towards the end of 2023.

1.4. Real estate sector

The year 2023 was characterized by continued low real estate market activity in the first half of the year and increased activity in the second half of the year, broadly manifested due to the buoyancy in the residential segment.

The year 2023 was also characterized by a 0.7 percent real GDP growth compared to 2022. Both the construction sector (-1.0 percent) and the real estate sector (-0.1 percent) had a negative contribution to GDP growth. At the same time, the year 2023 was characterized by an increase in the share of the "Real estate transactions" sector (+0.8 p.p.) and a decrease in the share of the "Construction" sector (-1.2 p.p.) in GDP compared to 2022 (Figure 1.4.1).

Figure 1.4.1. Evolution of the share of „construction" and „real estate transactions" sectors in GDP



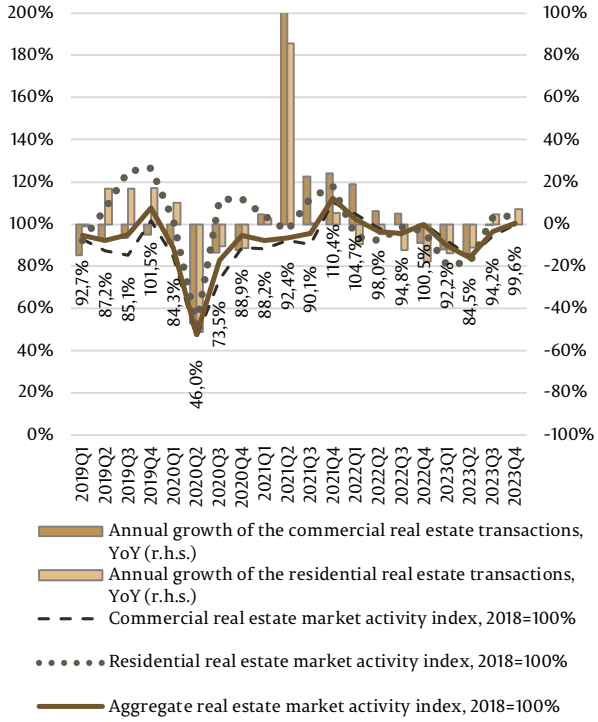
Source: prepared by NBM based on NBS data

Trading activity on the real estate market in the first half of 2023 was marked by the continuation of the trend of slowing activity that has been evident since the second half of 2022 in both the residential and non-residential segments. At the same time, during the second half of 2023, there was a moderate pick-up in the residential market, which had a

positive influence on the activity index in the real estate market[9] (Figure 1.4.2).

According to data from the Cadastre Department of the Public Service Agency, 316.5 thousand real estate transactions were recorded during 2023, a decrease of 6.0 percent from the previous year. The given change occurred largely due to a 6.9 percent decrease in the number of transactions in the non-residential segment, with the least activity occurring in the second quarter, and a 3.0 percent decrease in the number of transactions in the residential segment.

Figure 1.4.2. Dynamics of trading activity in the real estate market

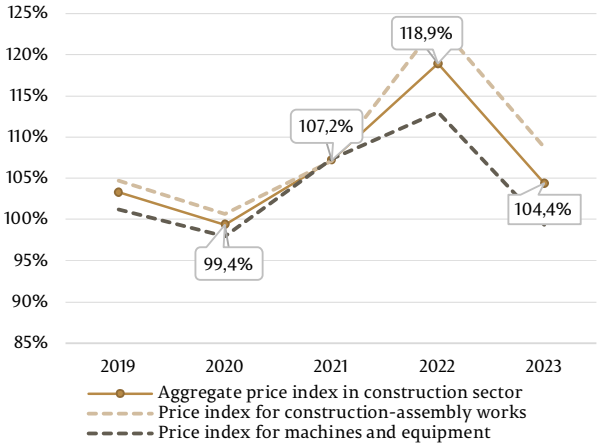


Source: prepared by NBM based on PSA data

Costs in the construction sector continued to rise in 2023, but at a more moderate pace, mainly driven by increases in the cost of materials and construction-assembly works.

After the galloping upward trend recorded in 2020-2022, the construction price index recorded a tempering of the growth rate during 2023, the phenomenon being due to the tempering of the growth rate of prices for construction-assembly works, while the price index for machinery and equipment recorded a slight decrease, especially in the fourth quarter of the year under review. Thus, the construction cost index during the analysed year increased by 4.4 percent compared to the previous year (Figure 1.4.3).

Figure 1.4.3. Evolution of construction cost index (100%=compared to previous year)



Source: prepared by NBM based on NBS data

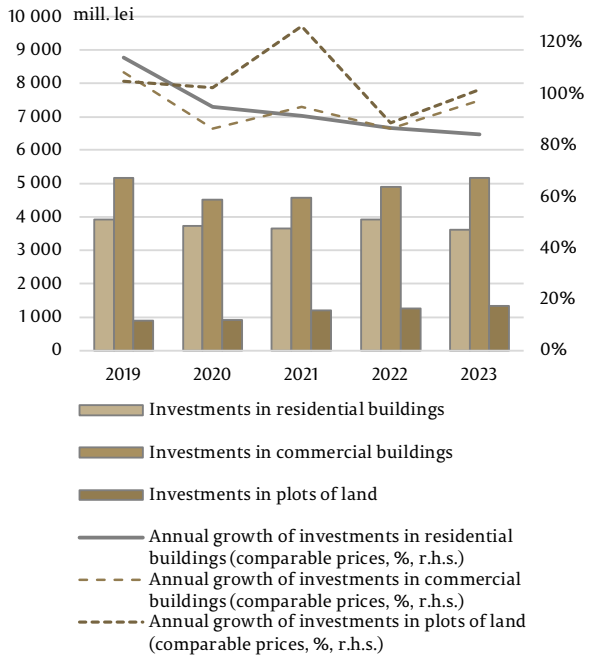
Also, in 2023, there is a decrease in investment (in comparable prices) in fixed assets, which could negatively affect the supply of newly constructed buildings.

According to NBS data, in annual terms, investment in real estate decreased.

Thus, investments in residential buildings amounted to MDL 3,600.9 million, decreasing by 15.9 percent compared to 2022, in the case of non-residential buildings they amounted to MDL 5,179.8 million, decreasing by 2.7 percent. At the same time, they increased by 1.4 percent in the case of land, registering MDL 1,339.0 million (Figure 1.4.4).

[9] The real estate market activity index is a chain index, calculated on the basis of quarterly data on the number of real estate transactions recorded by the Cadastre Department of the Public Services Agency.

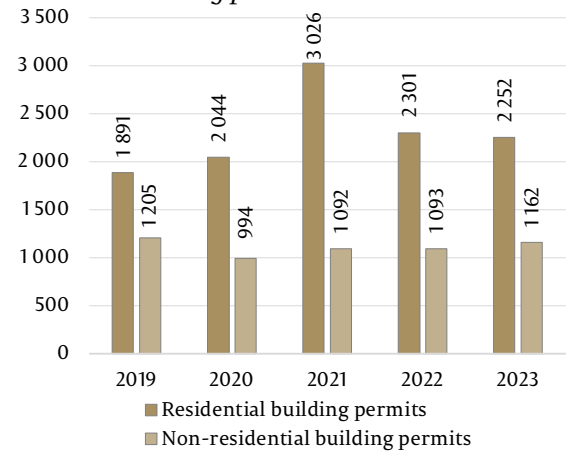
Figure 1.4.4. Investments in types of fixed assets



Source: prepared by NBM based on NBS data

The number of building permits issued during the reporting year is up from 2022 due to the non-residential segment. Thus, in 2023, for residential buildings were issued 2,252 building permits (down 2.1 percent year-on-year) and for non-residential buildings were issued 1,162 building permits, up 6.3 percent compared to the previous year (Figure 1.4.5).

Figure 1.4.5. Number of residential and non-residential building permits issued



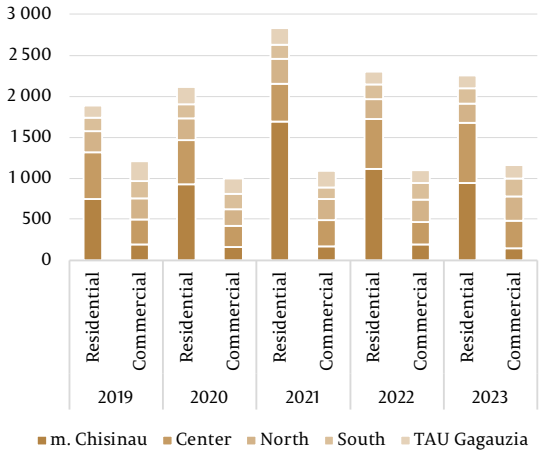
Source: prepared by NBM based on NBS data

In territorial profile, the distribution of building permits shows the concentration of future activity in Chisinau mun. and the central region of the Republic of Moldova.

At the end of 2023, about 41.9 percent of construction permits for residential buildings were issued in Chisinau mun., down by 6.7 p.p. compared to the previous year. Against this background, the share of construction permits for residential buildings from other regions increased by 6.1 percent in the central region, while the rest of the regions did not show any significant changes (between 0.1 and 0.4 percent depending on the region).

At the same time, at the end of the reporting year, the highest share of construction permits for non-residential buildings was recorded in the Central region, at the level of 28.5 percent, up by 3.4 percent in comparison with the previous year (Figure 1.4.6).

Figure 1.4.6. Residential and non-residential building permits in territorial profile

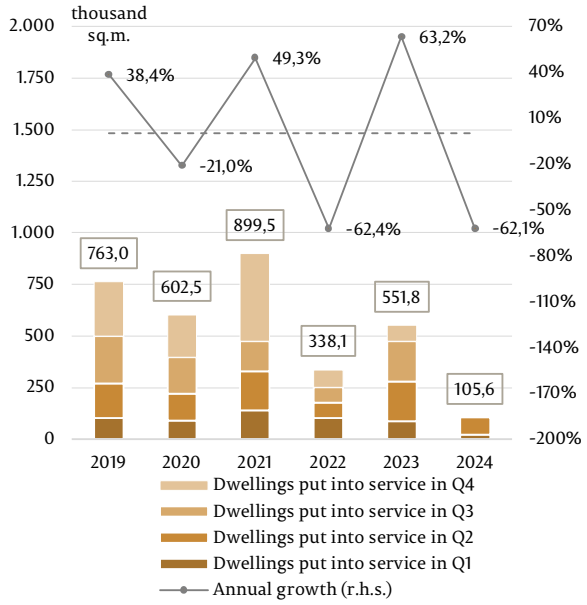


Source: prepared by NBM based on NBS data

The galloping increase in costs in the construction sector in 2022, including prices for land plots, and the tempering of their increase in 2023, restricting the requirements towards the development of construction projects, caused the volume of building permits issued to remain stable and the concentration of resources available for the completion of construction projects in progress in 2023.

During the reported year, 6.9 thousand dwellings were placed into service, up 90.6 percent from the previous year. The total area of housing units placed into service was 551.8 thousand sq.m., up 63.2 percent compared to 2022 (Figure1.4.7).

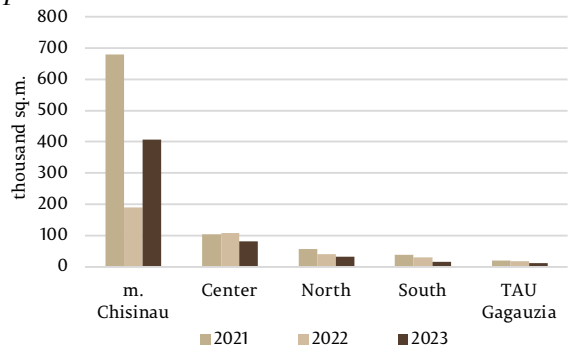
Figure1.4.7. Dwellings put into service



Source: prepared by NBM based on NBS data

Both the quantity of residential buildings and their total floor area under construction in 2023 were back on trend, after recording in 2022 the lowest values observed in the period 2010-2022. At the end of 2023, new dwellings were still concentrated in Chisinau mun., their share scored 82.1 percent of the total number of dwellings put into service in the analysed period (Figure 1.4.8).

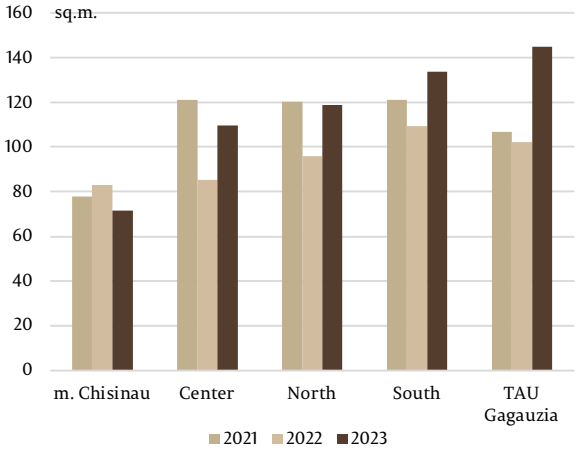
Figure 1.4.8. Dwellings put into service in territorial profile



Source: prepared by NBM based on NBS data
Note: data available from 2021 onwards

It should be noted that in 2023 for all regions of the Republic of Moldova, except Chisinau mun., there is an increase in the average surface area for a dwelling put into service compared to 2022. In the case of Chisinau mun., the area of a new dwelling decreased in annual terms by 13.9 percent to 71.4 sq.m. in 2023 (Figure 1.4.9).

Figure 1.4.9. Average surface area of a dwelling put into service by territorial profile



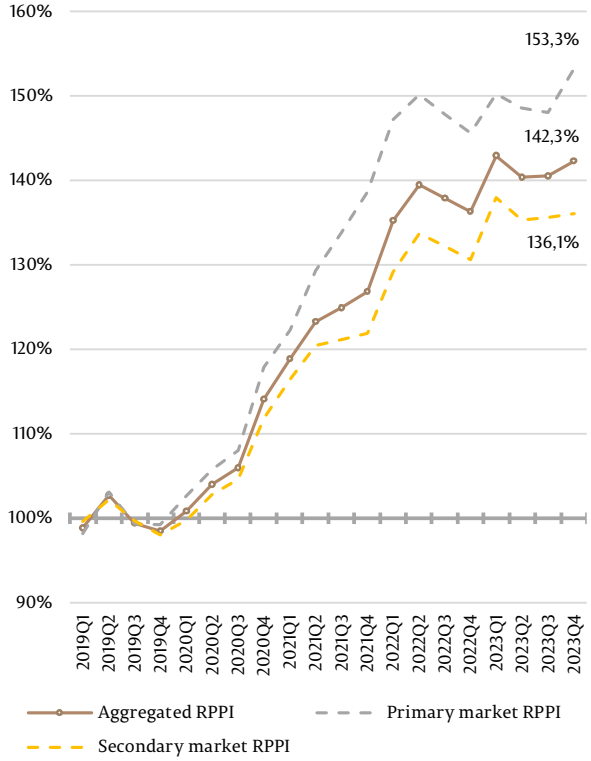
Source: prepared by NBM based on NBS data
Note: data available from 2021 onwards

Against the backdrop of favourable developments influencing the demand for residential real estate, supply prices increased, with a more pronounced rise visible in the second half of the year.

Supply prices for residential real estate during 2023 continued the upward trend observed since 2020, with the increase seen in the first and fourth quarters. Thus, during the year under review, the RPPI index increased by 4.4 percent (more moderate than during 2022), stabilizing at 142.3 percent at the end of the year, with the maximum value recorded being 142.9 percent at the end of the first quarter (Figure 1.4.10).

Appreciation in the residential real estate market was driven by developments in both primary market, for which the RPPI increased by about 5.3 percent, and secondary market, with a 4.2 percent increase in the RPPI index compared to the end of 2022.

Figure 1.4.10. RPPI index related to the Republic of Moldova



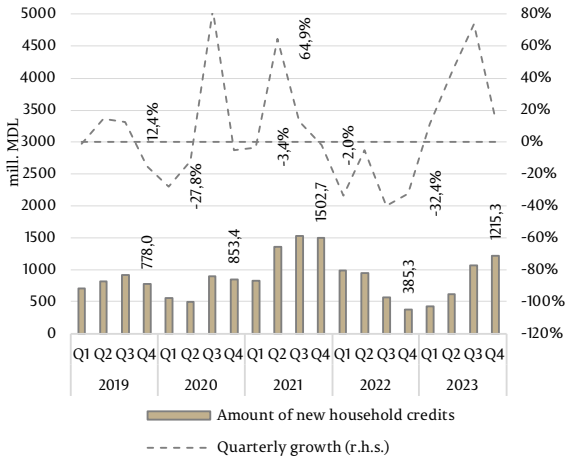
Source: NBM

On the demand side of the residential real estate market, the main stimulating factor continues to be mortgage lending opportunities.

After the reduction in 2022 in the number of bank approved applications for mortgage loans, the restriction of access and the significant increase in the cost of borrowing resulting from major inflation and the implementation of responsible lending instruments, the reported year shows a continued increase in the flow of new mortgage loans.

Thus, during the year 2023, new mortgage loans granted amounted to MDL 3,329.6 million, increasing by 14.8 percent in annual terms. The largest volume of mortgage loans was granted in the fourth quarter of 2023 (Figure 1.4.11).

Figure 1.4.11. Volume of new mortgage loans granted



Source: NBM

The uneven developments established in real estate sector indicate, on the one hand, the maintenance of supply in the short term, its reduction in the medium term and, on the other hand, the continuous increase in supply prices due to the decrease of the volume of construction projects at early stages in conditions of maintaining demand at the level of 2023.

Therefore, the decrease in the volume of investments, the reduction of building permits in the most active and concentrated region of the Republic of Moldova (Chisinau mun.), the developers rather focus on the completion of projects under development more than on the initiation of new projects. Furthermore, the continuous increase in prices for building materials in the post pandemic period could generate discouragement in the medium term of the supply of real estate on the primary market and, therefore, the increase in prices for new built areas.

At the same time, the increase in expenses caused by the effects of inflation, the more restricted access to financing against the background of geopolitical uncertainty could keep the demand on the real estate market lower in comparison with the previous years.

1.5. Private sector indebtedness

Households' indebtedness

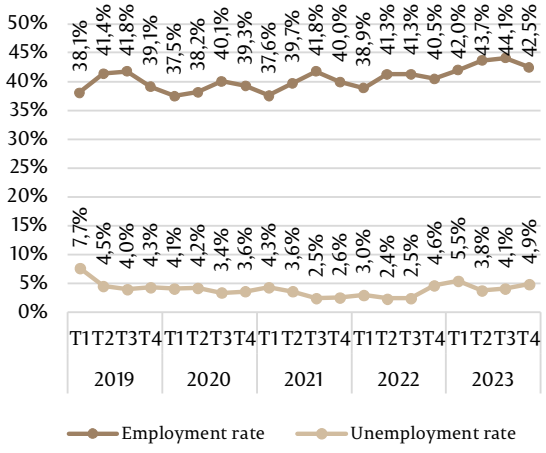
During 2023, the level of indebtedness of the households in the Republic of Moldova was affected by several risk factors, resulting from the continued inflationary pressures, which improved towards the end of the year, and regional distortions caused by the military conflict in Ukraine.

Labour market indicators show an increase in the share of job seekers and employment rate in the Republic of Moldova towards the end of the reporting year.

According to NBS data, at the end of 2023, the employment rate[10] stood at 42.5 percent, increasing by 2.0 p.p. compared to the previous year. At the same time, the unemployment rate [11] recorded 4.9 percent, increasing by 0.3 p. p. compared to the previous year (Figure 1.5.1).

The increase in both the number of job seekers and the unemployment rate indicates a process of accumulation of vulnerabilities among the households, which could have negative repercussions on banks through the channel of propagation of credit risk related to the credit portfolio.

Figure 1.5.1. Employment indicators in the Republic of Moldova

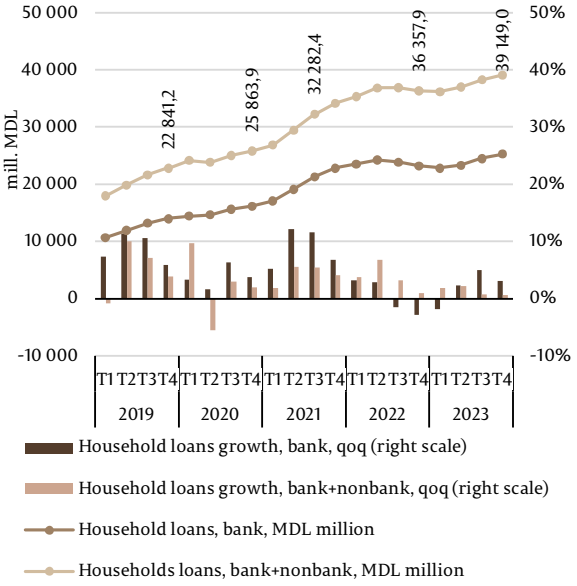


Source: NBS

After a decrease in lending to households in 2022, an upward trend is observed in 2023.

At the end of the fourth quarter of 2023, the amount of loans granted to households by the financial sector amounted to MDL 39 148.9 million (+7.7 percent compared to the previous year). Of these, about 64.6 percent were granted by the banking sector (+0.7 p.p. compared to the previous year). Thus, the balance of loans granted by banks registered the value of MDL 25,301.6 million. (Figure 1.5.2).

Figure 1.5.2. Evolution of the balance of loans granted to households



Source: NBM, NCFM

The increase in lending to the households in 2023 was largely conditioned[12], by the increase in aggregate demand from the households against the background of the easing of the lending conditions. In particular, during the reporting year, the demand for loans from households accelerated considerably, mainly driven by the improvement of the macroeconomic framework compared to 2022. The overall level of interest rates and the outlook for the housing market, including anticipated price developments, were the main factors helping the upturn in demand.

At the same time, the trend to relax the lending standards applied by banks was determined by the perception of diminishing risks, especially from the perspective of expectations regarding the general economic

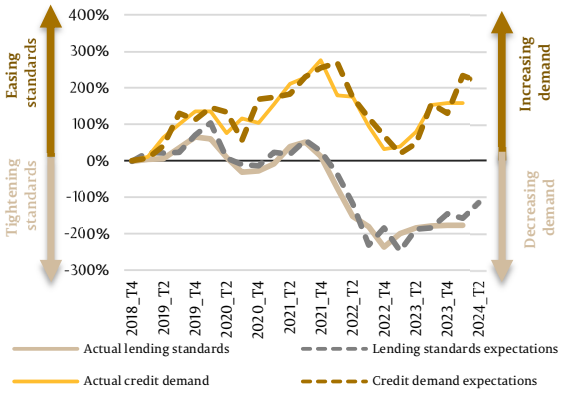
[10] Share of employed persons aged 15 and over in the total population

[11] Share of job seekers according to criteria used by NBS

[12] 6 According to the results of the Bank Lending Survey.

situation, the risk associated with the creditworthiness of borrowers, in combination with expectations regarding the developments on the real estate market (*Figure 1.5.3*).

Figure 1.5.3. Quarterly cumulative evolution of standards and demand for loans from households on the Banking Market, 2018 Q4=0%

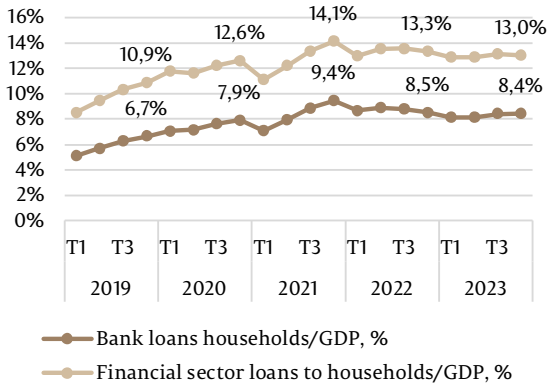


Source: NBM calculations based on Bank Lending Survey

The share of the total debt of the households in GDP continues to be lower in the case of the Republic of Moldova compared to most of the countries in the region.

At the level of the financial system, the share of loans of households in GDP at the end of the reporting year registered 13.0 percent. Bank lending to households relative to GDP decreased by 0.1 p.p. compared to the previous year, being at the level of 8.4 percent in the fourth quarter of 2023 (Figure 1.5.4).

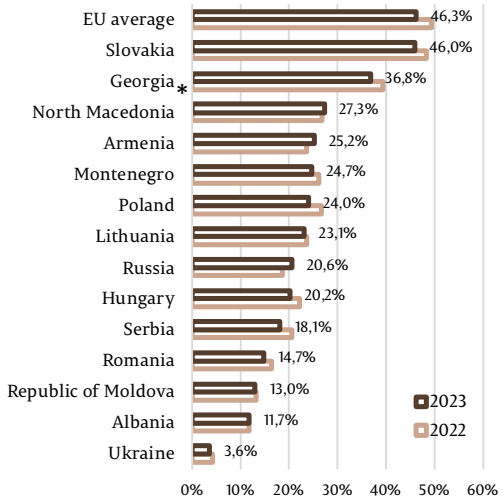
Figure 1.5.4. Share of loans portfolio granted to households in GDP



Source: NBM, NCFM

Compared with other states in the region, as well as with the European average, lending to households from the Republic of Moldova has a lower value (Figure 1.5.5), following the decreasing trend similar to most of the observed cases.

Figure 1.5.5. Share of total debt[13] of households in GDP by country and EU



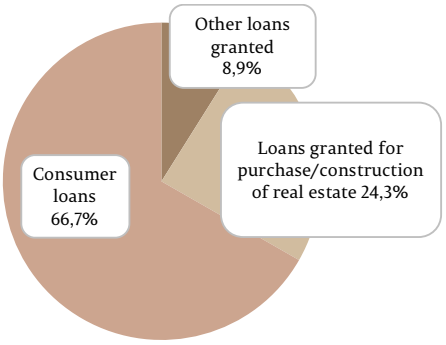
** Data related to loans granted by the non-banking financial sector as of March 30, 2023*
Source: NBM, NBS, www.ceicdata.com

The decreasing inflation rate and the decrease in interest rates towards the end of the reporting year has been an important factor in reducing the risk profile of credits granted to households.

At the end of the reporting year, the share of credits granted to households in the total portfolio of bank loans amounted to 39.6 percent, the similar indicator related to the non-bank market being at the level of 72.4 percent. At the same time, 24.3 percent (-7.3 p.p. compared to the previous year) of the total balance of bank credits granted to households were intended for the purchase and construction of real estate, 66.7 percent (+7.15 p.p. compared to the previous year) for current consumption and 8.93 percent (+0.15 p. p. compared to the previous year) for other purposes (Figure 1.5.6).

[13] Includes the total balance of credits granted to the population by banks and NBCOs.

Figure 1.5.6. Structure of the portfolio of bank loans granted to households by purpose of credit, at the end of 2023

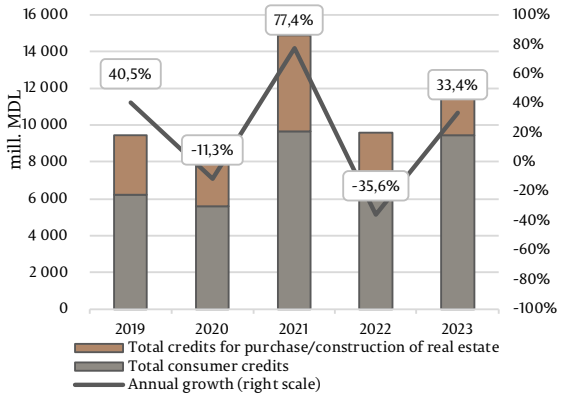


Source: NBM

The quality of loans granted to households does not register significant deficiencies at the end of the reporting year.

At the end of the reporting year, 74.0 percent (+4.2 p.p. compared to the previous year) of the total volume of new bank credits granted to households were consumer credits and 26.0 percent for the purchase and construction of real estate. Compared to 2022, there is a positive dynamic of the total volume of new loans granted to households by banks, with an overall increase of 33.4 percent (Figure 1.5.7). This evolution is driven by the increase by 41.4 percent in the volume of new credits granted for consumption and by 14.8 percent of those intended for the purchase and construction of real estate, compared to the previous year.

Figure 1.5.7. Annual volume of new credits granted to households

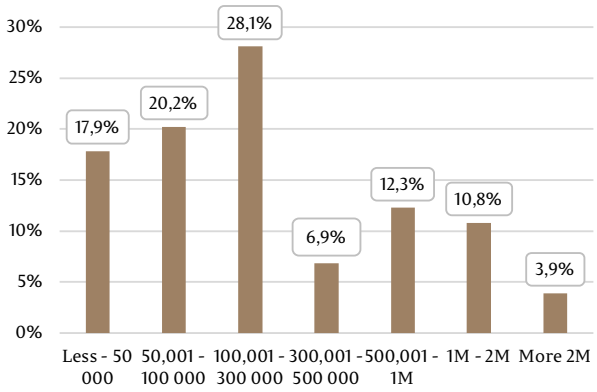


Source: NBM

During 2023, it is noted that 66.2 percent of the total household credits were in amounts below or equal to MDL 300,000, most of which are in the range between MDL 100,001 and MDL 300,000 (Figure 1.5.8).

This distribution is due to the higher demand for consumer loans, which typically show more modest balances. As regards loans with balances exceeding MDL 300,000, there was a significant decrease in their share, a trend that is mostly explained by the decrease in loans for repairs, construction or acquisition of real estate.

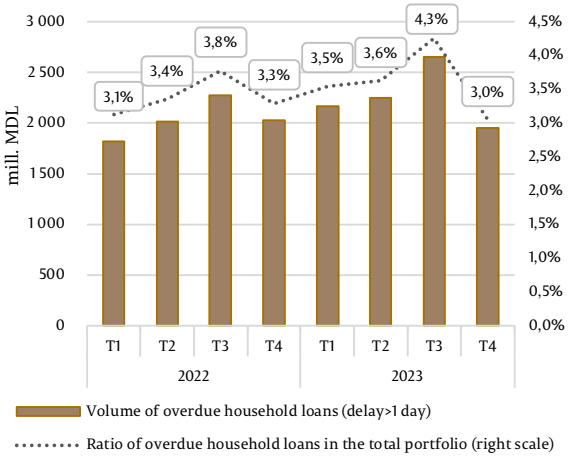
Figure 1.5.8. Distribution by balance of new household credits



Source: NBM

Compared to 2022, a decrease in the rate of overdue credits (delay >1 day) of the households to the level of 3.0 percent is noted (Figure 1.5.9). This trend was driven by the reduction of the balance of outstanding credits simultaneously with the total increase of credits granted to households.

Figure 1.5.9. Evolution of overdue households loans

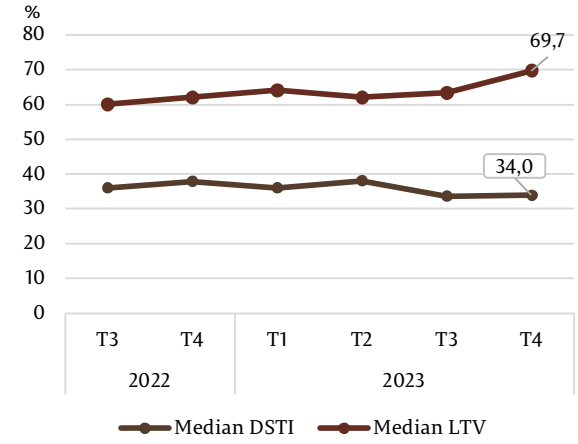


Source: NBM

Since the approval of the Responsible lending regulation in the second quarter of 2022, the median debt service to income ratio (DSTI) has remained in the range of 33-38 percent. At the same time, a trend of increasing the loan to

value ratio (LTV) was observed, indicating that the households increasingly prefer to turn to banking sources instead of own resources for the construction/purchase of real estate. A rate of 69.7 percent at the end of the year is not considered as a systemic risk, given that the limit is set at 80 percent (Figure 1.5.10).

Figure 1.5.10. Median of new credits granted for the purchase / construction of real estate



Source: NBM

Survey on the financial behaviour of the households

At the end of 2023, the NBM conducted the fourth round of the survey on the financial behaviour of the households of the Republic of Moldova, the questionnaire included 38 questions meant to cover 4 dimensions- general aspects about the respondent, their income and source, access and sources of financing, housing.

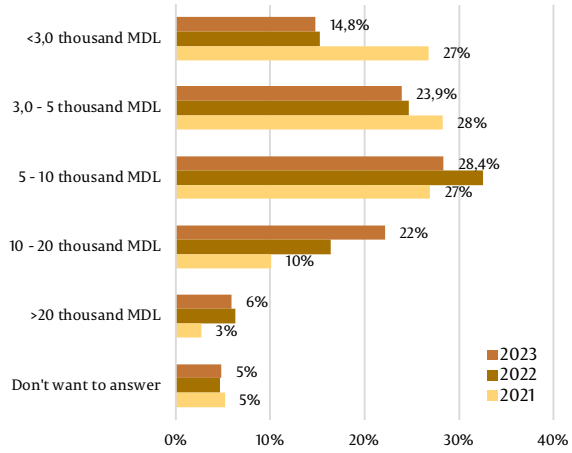
The survey was conducted on a sample of 1,015 respondents, representing different age groups, living backgrounds, genders and income levels.

Similar to the previous survey, the main sources of income of a family remain to be the salary – 60.4 percent of respondents and the pension – 39.8 percent.

Other sources mentioned by respondents are income from individual activity (10.0 percent), other social payments (11.5 percent), transfers from abroad (9.9 percent).

According to the survey data, the distribution of average monthly income within the sample of respondents is relatively uniform: 23.9 percent of respondents indicate an average monthly income between MDL 3 and 5 thousand, 14.8 percent receive monthly income below MDL 3 thousand, and 28.4 percent - between MDL 5 and 10 thousand. An income between MDL 10 and 20 receives 22.2 percent of respondents, including 5.9 percent receives income exceeding MDL 20 thousand (Figure 1.5.11).

Figure 1.5.11. Distribution of average monthly income, number of respondents

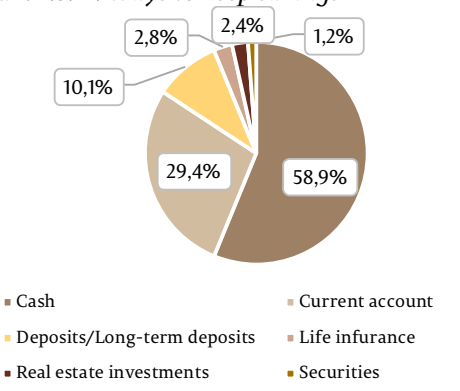


Source: Survey on the financial behaviour of the population

The degree of savings among respondents is very low, so 75.2 percent of respondents say they have not managed to make savings in the last 6 months. Similar to the results of the previous survey, the majority of respondents who still manage to save, keep their savings in cash (58.9 percent) or in a current bank account (29.4 percent).

Among other ways to keep savings were listed: deposits/term deposits (10.1 percent), life insurance (2.8 percent), investments in real estate (2.4 percent), securities (1.2 percent) (Figure 1.5.12).

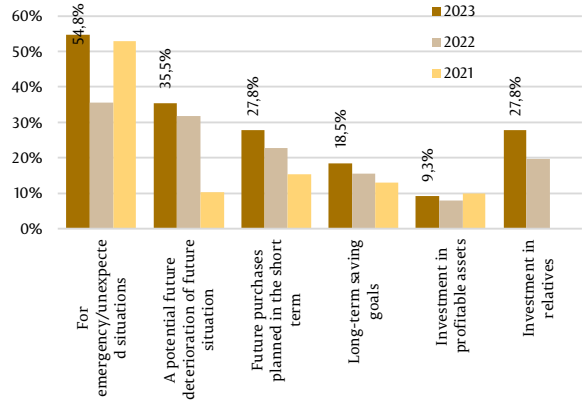
Figure 1.5.12. Ways to keep savings



Source: Survey on the financial behaviour of the population, NBM

The main purposes of the savings remain to be "for emergency/unexpected situations" (54.8 percent) and "potential deterioration of the financial situation" (35.5 percent). Other purposes mentioned by respondents are planned future purchases in the short term (27.8 percent), investments in children/grandchildren (27.8 percent), long-term savings purposes (18.5 percent), investing in profitable assets (9.3 percent) (Figure 1.5.13).

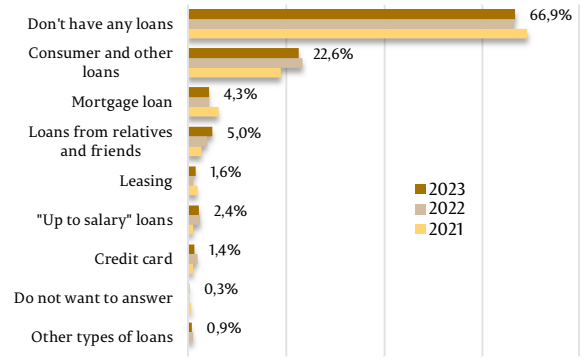
Figure 1.5.13. Purpose of respondents' savings



Source: Survey on the financial behaviour of the population

At the time of the survey, only 29.9 percent of respondents said they had used financing sources from lending institutions, the most used instrument being consumer credit (Figure 1.5.14).

Figure 1.5.14. Distribution of respondents by type of credit taken



Source: Survey on the financial behaviour of the population

In the next period, only 6.6 percent of respondents declare an interest in turning to a credit institution for financing. In the lending process, the most important aspects are considered the promptness of the lending decision (32.4 percent), the large number of subdivisions (27.7 percent), personal relationships with the institution (19.0 percent), the experience of family or friends (14.9 percent).

For more than half of the respondents (57.7 percent), the credits/ loans contracted represent a bearable burden. At the same time, 21.1 percent of respondents say they faced the situation when they failed to pay the credit payments on time, the main causes being the increase in living expenses (29.4 percent), the decrease in salary (20.6 percent), the loss of job (14.7 percent), the loss of working capacity (9.8 percent).

Indebtedness of non-financial companies

The lending activity of the non-financial companies' sector during 2023 was described by a more active polarization towards the NBCO sector, however the dominance of the banking sector was still preserved.

At the end of 2023, the balance of credits granted by banks to non-financial companies reached MDL 35,836.2 million, increasing by 1.8 percent compared to the end of 2022. It should be noted that in the lending sector of non-financial companies, banks hold the majority share compared to the non-bank lending sector (89.7 percent of the total balance of credits granted by the financial sector is attributed to the banking sector). At the same time, the balance of credits granted by NBCO to non-financial companies in 2023 marked a more pronounced increase compared to the banking sector (+5.9 percent in annual terms), having a proportional contribution to the increase in financing for the non-financial companies' sector.

Restrictive monetary conditions, as well as the presence of risks and uncertainties in the market and in the external sector have led to a decrease in the demand for financing from non-financial companies. At the same time, the easing of monetary policy during the year, as well as

competition pressures, forced banks to relax lending conditions for non-financial companies.

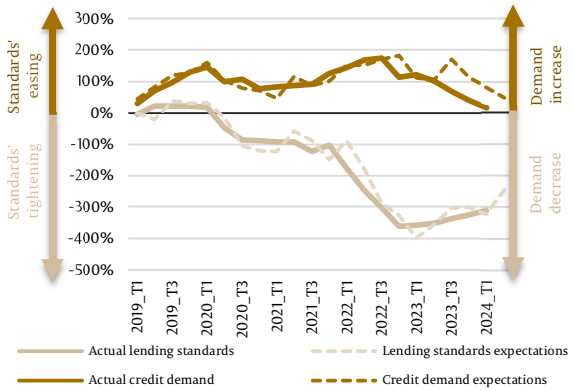
According to the bank lending survey data (Figure 1.5.15), bank lending standards for non-financial companies during 2023 had a gradual easing trend, being on average close to the anticipated level. At the same time, in the first half of the year, banks were more oriented towards tightening lending standards, with a reversal of expectations towards the end of the year in the context of monetary policy easing and inflationary pressure. The main factors highlighted by the respondents in relation to the relaxation of lending standards were competition pressure and balance sheet constraints, tempered by existing risk management.

For the first quarter of 2024, respondents anticipate the continuation of the easing trend in lending standards, with certain corrections in the first quarter of the year.

In terms of the evolution of credit demand from non-financial companies, during 2023 respondents indicated a moderate activation in the first quarter of the reporting year with a continued decline towards the end of the year. These results were significantly lower compared to the level predicted by respondents, pointing to a slower economic recovery of non-financial corporations relative to the perception of banking sector experts.

Credit demand from non-financial companies declined due to reduced interest in fixed investment and increased non-bank lending. At the same time, lending from other banks and working capital investment needs, as well as the general level of interest rates, dampened this decline in credit demand. For the first quarter of 2024, respondents report a continuation of trends set during 2023, with optimistic forecasts for the second quarter of 2024 from both credit demand and easing credit conditions.

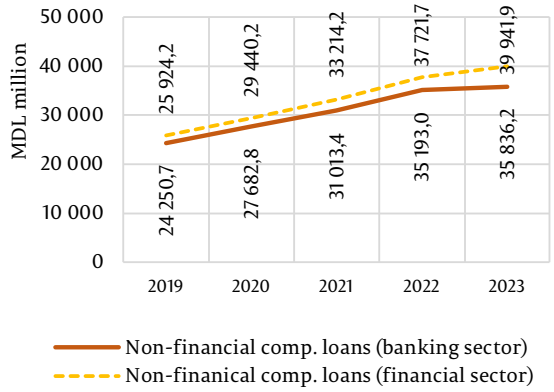
Figure 1.5.15. Cumulative quarterly evolution of standards and credit demand from non-financial companies on the national banking market, 2018 Q4=0%



Source: NBM calculations based on the bank lending survey

The 2023 trends highlighted above are reflected in the evolution of the stock of credits granted to non-financial companies by the financial sector. Thus, there is a relatively smaller increase in the portfolio of credits granted to non-financial companies by the banking sector (+1.82 percent in annual terms) compared to the non-banking sector (+62.4 percent in annual terms) (Figure 1.5.16).

Figure 1.5.16. Developments in lending to non-financial companies



Source: NBM, NCFM

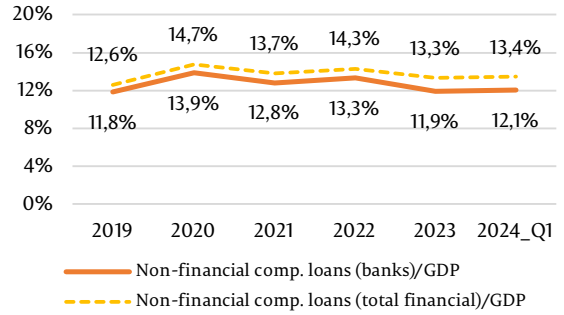
During 2023, growth in nominal terms was stronger compared to the lending activity of non-financial companies.

At the end of 2023, the share in GDP of credits to non-financial companies, granted by the financial sector (banking + non-banking) reached 13.3 percent, down by 1.0 p.p. compared to the end of 2022. At the same time, the balance of credits granted by the banking sector amounted to 11.9 percent, down by 1.4 p.p. compared to the previous year (Figure

1.5.17). In the context of the slower real recovery of the economy outlined in chapter I, the major impact of inflationary pressure on the evolution of the indicator is outlined on account of the use of nominal values of its components.

Compared to other European countries and emerging economies, the Republic of Moldova still ranks lower in financial intermediation in the non-financial companies' sector.

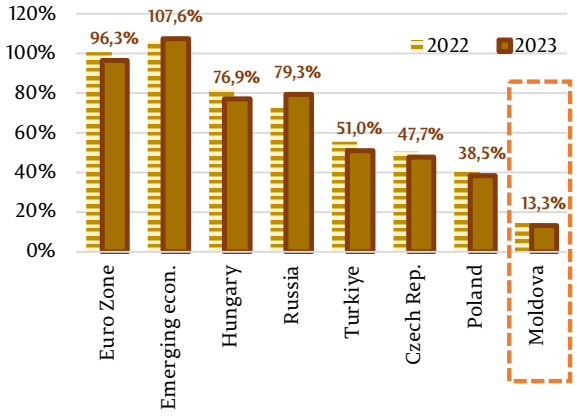
Figure 1.5.17. Share in GDP of loans granted by the banking and non-banking sector



Source: NBM, NCFM, NBS

In the international rankings, the share of financial intermediation in the non-financial companies' segment in the Republic of Moldova ranks lower than in other European countries and considerably below the average of emerging economies (Figure 1.5.18).

Figure 1.5.18. Ratio of the balance of total credits to nonfinancial companies to GDP, by country

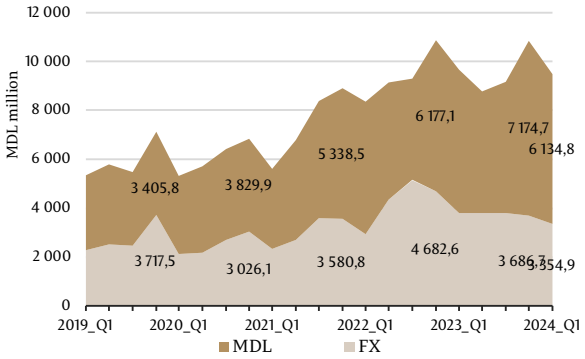


Source: Bank for International Settlements, NBM calculations

Lending activity to non-financial companies by the banking sector during 2023 showed a modest increase of 2.1 percent compared to 2022. Thus, new loans in the amount of MDL 38,462.5 million were granted during the reporting year, of which 39.1 percent were granted in foreign currency (EUR and USD). It should be noted that the share of new credits granted in foreign currency decreased in 2023 compared to 2022 by 6.2 p.p., against the backdrop of easing monetary conditions and economic recovery (Figure 1.5.19).

In a quarterly breakdown, the most modest lending activity by non-financial companies was noted during the second quarter of 2023, decreasing by 4.04 percent compared to the same situation of the previous year.

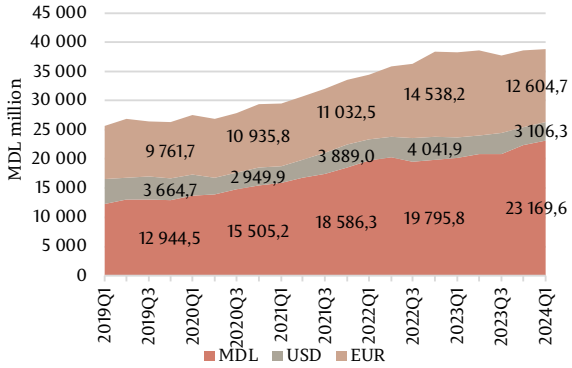
Figure 1.5.19. Quarterly evolution of new credits granted by banks to non-financial companies



Source: NBM calculations

The degree of dollarization of the credit portfolio for non-financial companies was decreasing during 2023. Thus, the share of credits granted in foreign currency in the total portfolio reached 42.0 percent at the end of 2023, decreasing by 6.4 p.p. in annual terms. At the same time, within credits granted in foreign currency, there is a pronounced tilt towards the EUR, which accounts for around 80.6 percent of total foreign currency credits (Figure 1.5.20). The export orientation towards European countries as well as national EU accession commitments are primary factors determining the prevalence of the EUR in the credit portfolio of Moldovan banks.

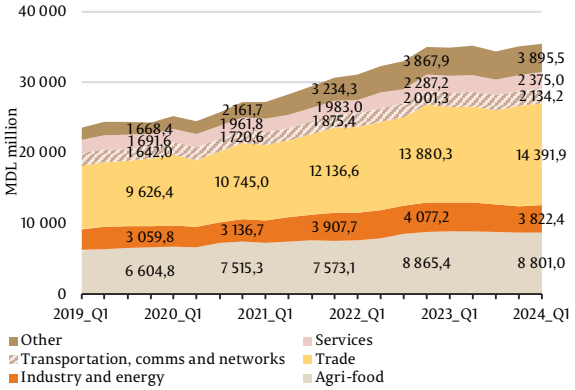
Figure 1.5.20. Quarterly developments in the portfolio of credits granted to legal entities, by currencies



Source: NBM

Financing by branches of the economy (Figure 1.5.21), continues to show a prevalence of credits granted in the trade sector in banks' portfolios. The balance of credits granted in this branch at the end of 2023 amounted to MDL 14,238.7 million (or about 40.6 percent of the total portfolio of credits granted to non-financial companies), increasing by 2.6 percent in annual terms. At the same time, the quality of credits granted to this branch is at a higher level than the average of the total portfolio, with the NPL ratio at 3.9 percent at the end of the reporting period.

Figure 1.5.21. Quarterly developments in the portfolio of credits granted to legal entities, by branches



Source: NBM

The second branch in terms of share of bank financing is the agri-food branch, which at the reporting date concentrated a balance of MDL 8,673.5 million or about 24.7 percent of the portfolio of bank credits granted to non-financial companies. At the same time, the quality of that sub-portfolio is lower compared to the entire credit portfolio, with the NPL ratio at the end of the reporting period at 10.5 percent. This situation points to some concerns for the performance of the sub-portfolio, considering the cyclical nature of the activity of the entities in the sector, as well as uncertainties related to the evolution of climatic conditions. It should be noted that, during 2023, several subsidy programs and stimulus instruments for the agri-food sector were implemented at the national level in order to strengthen the financial capacities of the entities engaged in this activity, which could temper the deterioration in the quality of the portfolio in subsequent periods.

Survey on the financial behaviour of non-financial companies

At the end of 2023, the NBM conducted the fourth round of the survey on the financial behaviour of non-financial companies in the Republic of Moldova, the questionnaire included 36 questions in 3 dimensions: general aspects about the respondent, financial performance of the company, access to and sources of financing.
The survey was conducted on a sample of 384 non-financial companies, with representation by size, types of activities, number of employees.

According to the results of the survey, the main challenges in the last 6 months are: increasing production costs (55.5 percent), lack of qualified staff (47.1 percent), decreasing purchasing power (45.3 percent), decreasing number of customers (44.3 percent), increasing competition (40.6 percent), unstable political situation (39.3 percent). These correspond to the main challenges anticipated for the next 6 months in 2022.

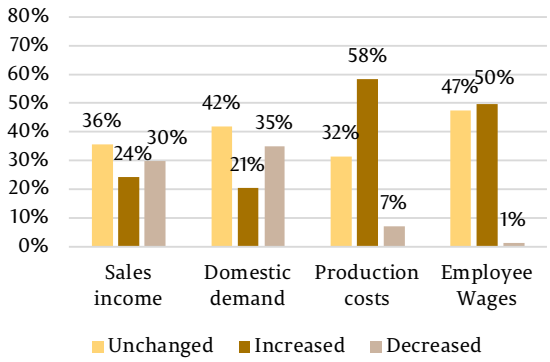
According to the respondents, such factors as: difficulties in attracting qualified staff (39.3 percent), production costs (36.2 percent), competition (30.7 percent), unpredictability of the tax environment (28.1 percent) put a high level of pressure on the company's activity.

59.4 percent of the companies responding to the survey made a profit in the previous financial year.

During 2023, the following remained unchanged: sales revenues in the opinion of 35.7 percent of responding companies; and domestic market demand for products/services in the opinion of 41.9 percent of respondents. At the same time, production costs increased according to 58.3% of the companies. As for the salaries of employees of the responding companies, they have increased according to 49.7 percent of the respondents (Figure 1.5.22).

According to the respondents, the change in company employees' wages was mainly driven by: labour legislation, change in turnover, changes in demand for products/services, inflation, tax policy.

Figure 1.5.22. Evolution of indicators in the last 6 months (first half of 2023)



Survey on the financial behaviour of non-financial companies

The main source of financing for 90.6 percent of the responding companies is the company's internal sources; 19.0 percent of the companies resorted to bank credit, 9.4 percent - to financial support from the state or districts, 7.6 percent - to foreign funds and 7.3 percent - to crowdfunding. At the same time, 8.3 percent turned to other sources of financing: non-bank lending, overdraft and credit lines, leasing/factoring.

The main reasons for choosing internal financing to meet the needs of the company, according to the respondents, similar to the previous iteration of the survey, are: sufficient internal resources and/or lack of need to borrow (47.1 percent), unwillingness of owners to take on additional debt (20.3 percent), too expensive external resources (15.9 percent), distrust of credit institutions (7.0 percent).

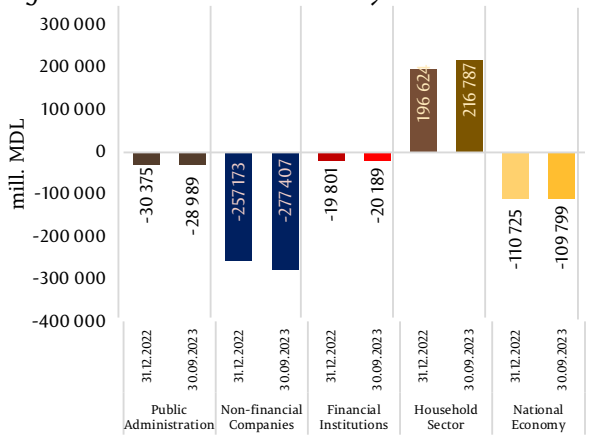
The purpose for which they intend to seek financing from a financial company, according to the respondents, is to finance an investment project (42.0 percent), to finance current needs (working capital) (32.0 percent) or both (24.0 percent). Moreover, most companies (80.7%) do not plan to turn to financial companies for financing in the next 6 months.

1.6. Sectoral balance sheets of the Republic of Moldova

The national economy remained a net debtor, mainly on the back of an increase in the net financial worth of the non-financial companies' sector, while the household sector[14] remained the main net creditor of the national economy.

The net financial value[15] of the national economy increased at the end of the third quarter of 2023 by 0.8 percent compared to the end of the fourth quarter of 2022, amounting to MDL -109,798.6 million. This development was driven by the significant increase (+10.3 percent) in the net financial value of the largest creditor of the national economy - the household sector (Figure 1.6.1).

Figure 1.6.1. Net financial value by sector

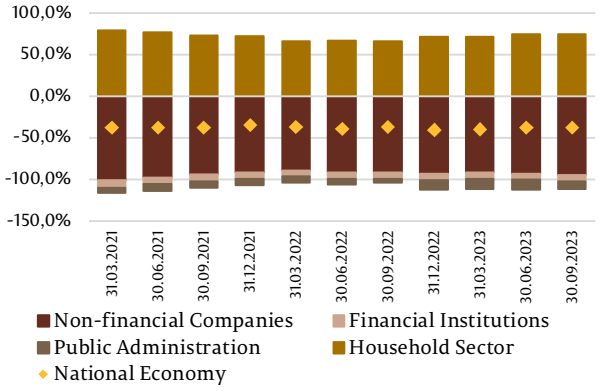


Source: NBM

The non-financial companies' sector in the reporting period was the largest net debtor of the national economy. Its net financial value decreased by 7.9 percent to MDL -277,407.0 million. The public administration sector and the financial institutions sector also had negative net financial value (debtor), but much lower compared to the non-financial companies' sector, at MDL 28,989.4 million (-4.6 percent) and MDL 20,189.0 million (-2.0 percent), respectively.

The ratio of net financial worth to GDP was -37.6 percent (compared to -40.4 percent at the end of Q4 2022) (Figure 1.6.2).

Figure 1.6.2. Evolution of the ratio between net financial value and GDP

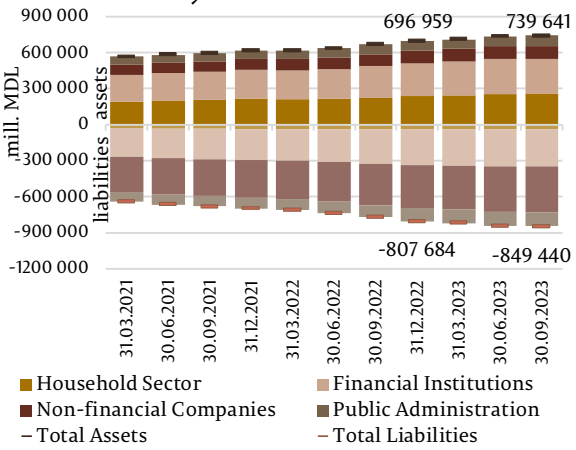


Source: NBM

The structure of financial assets and liabilities of the sectors of the national economy differs according to the type of the sector's specific core activities and its available resources.

Total financial assets and liabilities of the national economy recorded an upward trend throughout the analysed period, and at the end of the third quarter of 2023 amounted to MDL 739,641.3 million and MDL 849,439.8 million, respectively (Figure 1.6.3).

Figure 1.6.3. Financial assets and liabilities of national economy sectors



Source: NBM

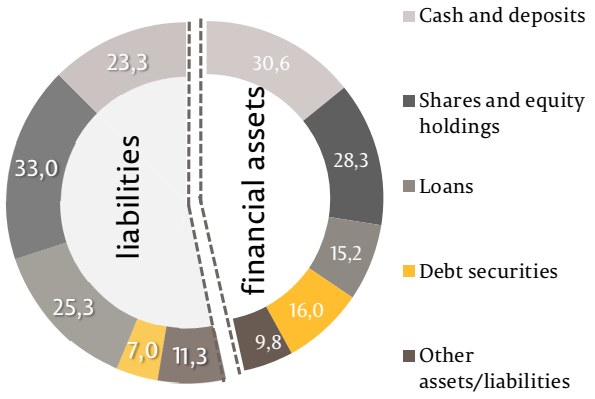
At the same time, the pace of growth of financial assets since the end of Q4 2022 (+6.1 percent) was higher than that of liabilities (+5.2 percent).
In the structure of financial assets, cash and deposits (30.6 percent) account for the largest share, while in the structure of liabilities,

[14] The households sector also includes non-profit institutions serving households.

[15] Net financial worth is the difference between total financial assets and total liabilities recorded by a sector of the national economy.

shares and equity holdings of legal entities registered in the Republic of Moldova predominate (33.0 percent) (Figure 1.6.4).

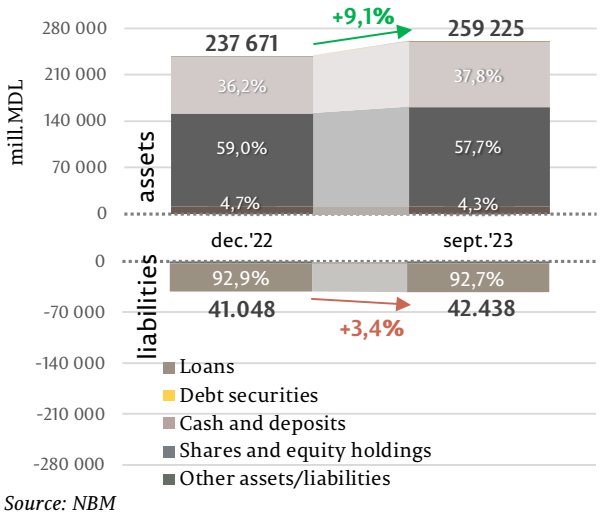
Figure 1.6.4. Structure of financial assets and liabilities of sectors of the national economy by instruments, 30.09.2023, %



Source: NBM

As of 30.09.2023, the household sector held financial assets in the amount of MDL 259,224.7 million (+9.1 percent year-on-year). The increase in assets was due to the increase in the balance of cash and deposits (+13.8 percent), the share of which accounted for 37.8 percent of the financial assets of this sector (Figure 1.6.5).

Figure 1.6.5. Structure of financial assets and liabilities of the household sector



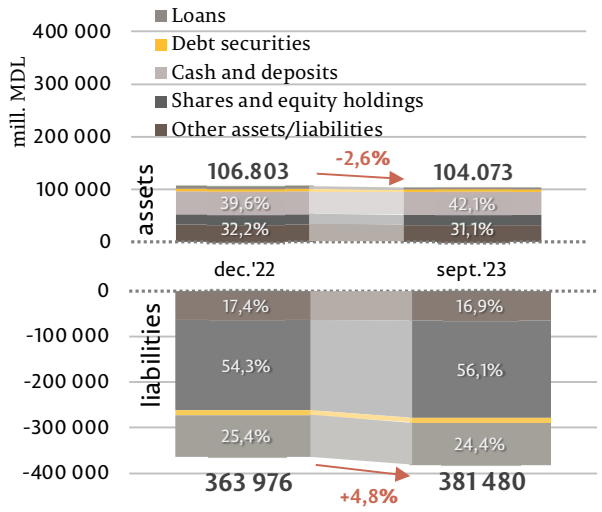
Source: NBM

At the same time, the value of shares and equity holdings increased by 6.8 percent, their share amounted to 57.7 percent, contributing to their increase by 4.0 percentage points. Liabilities of the household sector amounted to MDL 42,437.8 million (+3.4 percent), consisting mainly of contracted loans (92.7 percent of total liabilities).

The non-financial companies' sector is the largest sector of the national economy in terms of its commitments.

The non-financial companies' sector at the end of Q3 2023 held financial assets worth MDL 104,072.6 million, 2.6 percent less than at the end of Q4 2022 (Figure 1.6.6).

Figure 1.6.6. Financial assets and liabilities of nonfinancial companies



Source: NBM

In their structure, the major share was held by cash and deposits (42.1 percent of total financial assets), followed by other assets/liabilities (31.1 percent of the total).

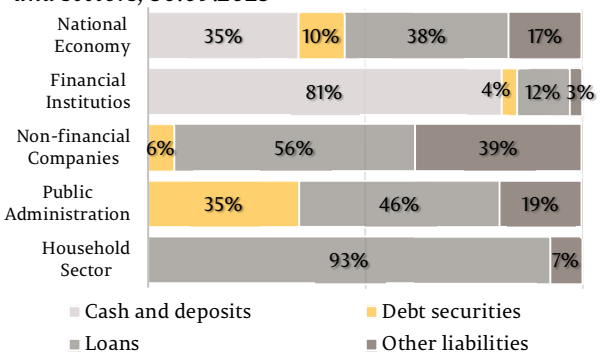
At the same time, the sector's liabilities amounted to MDL 381,479.5 mill. (+4.8 percent compared to the end of Q4 2022). They consisted mostly of shares and equity holdings (56.1 percent of total liabilities of the given sector) and contracted loans (24.4 percent).

Total debt

The largest share of the national economy's total debt, about 37.8 percent, is accounted for by loans, followed by cash and deposits with 34.8 percent (Figure 1.6.7).

The total debt of the national economy at the end of the third quarter of 2023 amounted to MDL 568,887.3 million.

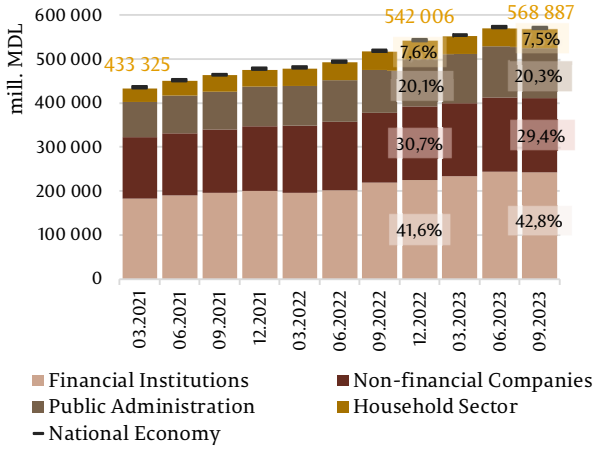
Figure 1.6.7. Total debt structure by instruments and sectors, 30.09.2023



Source: NBM

In absolute values, the total debt of the sectors of the national economy has been continuously increasing throughout the period Q1 2021 - Q3 2023 (Figure 1.6.8). At the end of Q3 2023, this indicator showed an increase of 5.0 percent compared to the end of Q4 2022.

Figure 1.6.8. Evolution of total debt by sectors



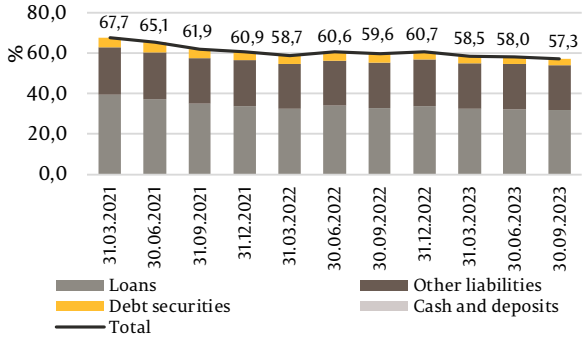
Source: NBM

The highest level of total debt, as at 30.09.2023, being caused by the specific nature of its activities as a financial intermediary, was recorded in the financial institutions' sector.

This sector had a debt of MDL 243,508.6 million, or 42.8 percent of the total debt of the national economy. In terms of instruments, cash and deposits (81.4 percent) accounted for the largest share of the sector's total debt.

The non-financial companies sector accounted for 29.4% of the total debt of the national economy. The total debt of this sector at the end of the third quarter of 2023 amounted to MDL 167,286.5 million. The value of this indicator in relation to GDP decreased by 3.4 percentage points compared to the end of the previous year, to 57.3 percent (Figure 1.6.9).

Figure 1.6.9. Evolution of the ratio between total debt of the non-financial companies' sector to GDP

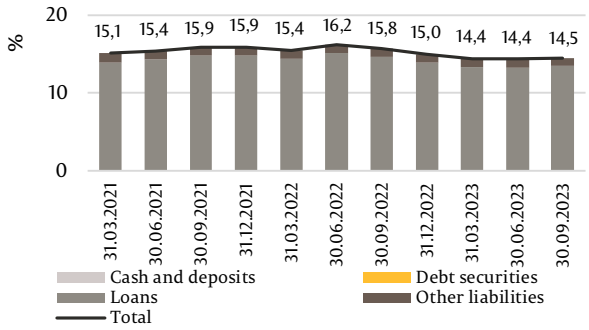


Source: NBM

In the total debt structure of this sector, the major share (55.5 percent) is accounted for by loans, followed by other liabilities (38.5 percent).

The lowest level of total debt is in the household sector, which represents 7.5 percent (MDL 42,437.8 million) of the total debt of the national economy. Total debt of the household sector as a share of GDP decreased by 0.5 p.p. compared to the end of the previous year (Figure 1.6.10).

Figure 1.6.10. Evolution of the ratio between total debt of the household sector to GDP



Source: NBM

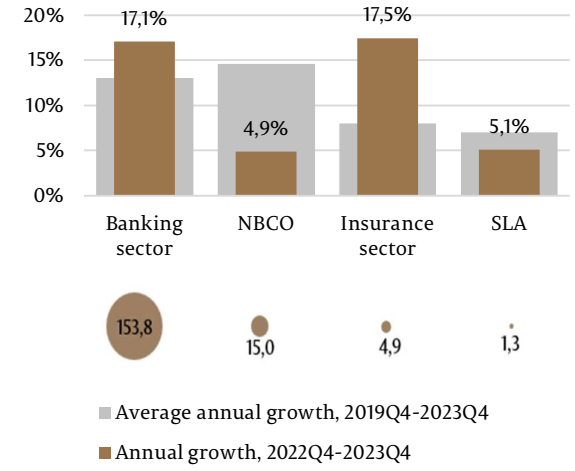
1.7. Financial system structure

The financial system of the Republic of Moldova is constantly growing, being mainly dominated by the banking sector, in terms of financial transactions and assets held by entities in the sector.

At the end of 2023, the total value of assets held by financial sector entities amounted to MDL 175.1 billion (58.3 percent of GDP), increasing by 15.9 percent compared to 2022.

The banking sector, which holds the largest share of total financial sector assets (87.9 percent), grew by 17.1 percent in 2023 compared to the previous year, outpacing the average annual growth over the last five years by 4 p.p. (Figure 1.7.1).

Figure 1.7.1. Growth rates of financial system segments



Note: The sizes of the circles proportionately show the value of the segments' assets in MDL billions as of 31.12.2023.
Source: NBM

The insurance sector grew by 17.5 percent over the reporting period, 9.4 p.p. higher than the average rate of growth in the volume of assets held by insurance companies over the past five years.

The growth rate of the volume of assets held by non-bank lending organizations was 4.9 percent in 2023, 9.7 p.p. below the average annual growth rate over the past five years.

Likewise, savings and loan associations also positioned themselves below the average growth rate of the last five years, registering an increase of 5.1 percent in 2023, compared to the sector's average annual growth rate of 7.0 percent.

According to data from the national registers, as of 31.12.2023, 364 licensed entities were active in the national financial system (5 fewer than in 2022), including 11 commercial banks, 128 active non-bank lending organizations, 216 savings and loan associations, and 9 insurance companies (Table 1.7.1).

Table 1.7.1. Number of entities within the financial system of the Republic of Moldova

Active licensed entities	**31.12.2021**	**31.12.2022**	**31.12.2023**
Banks	11	11	11
Non-bank lending organizations	143	127	128
Savings and loan associations	226	221	216
Insurance companies	11	10	9
TOTAL	**391**	**369**	**364**

Source: NBM

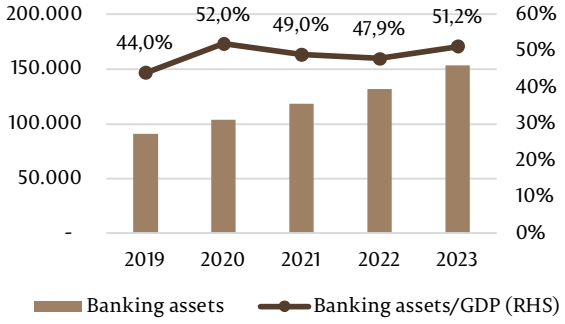
2. BANKING SECTOR RISKS

2.1. Banking sector[16]

During 2023, the banking sector has shown solid financial performance, maintaining high levels of profitability and solvency.

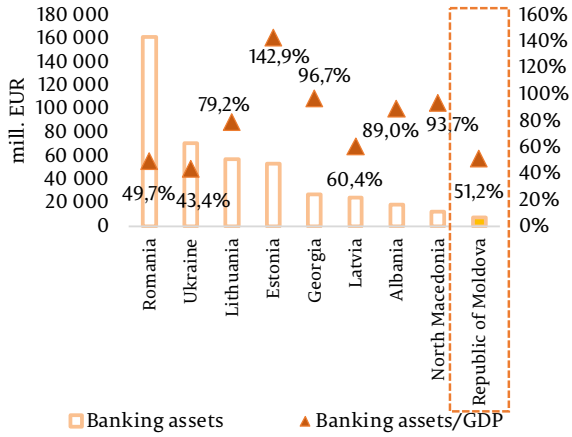
At the end of 2023, the total assets of the banking sector amounted to MDL 153,854.6 billion, up by 17.0 percent compared to 2022. Relative to GDP, however, the volume of banking assets recorded a significant increase, constituting 51.2 percent (2022: 47.9 percent) (Figure 2.1.1, Figure 2.1.2).

Figure 2.1.1. Ratio between bank assets and GDP



Source: NBM

Figure 2.1.2. The ratio between bank assets and GDP in comparison with other states in the region



Source: Eurostat, central bank official pages[17]

In order to limit the systemic impact, the NBM, on an annual basis, identifies banks that are systemically important companies and applies additional capital requirements to them (details in sub-chapter 4.1.). The 4 largest banks remain systemically important companies (Table 2.1.1). From the perspective of the volume of assets, the group of systemically important banks holds 82.1 percent of the total bank assets.

Table 2.1.1. Ranking of banks that are systemically important companies

Place based on the score	Bank name
1	CB "MAIB" JSC
2	CB "Moldindconbank" JSC
3	CB "VICTORIABANK" JSC
4	"OTP Bank" JSC

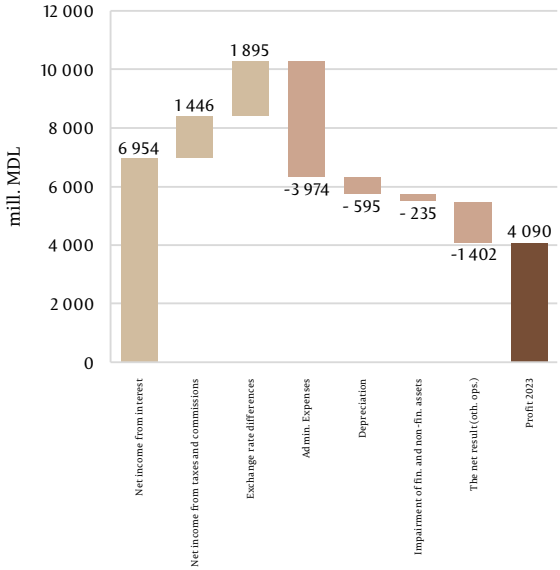
Source: NBM

In 2023, the Concentration Index (HHI) of the banking market by volume of assets registered the value of 2,006.2, increasing by 87.7 reference points compared to 2022, thus, the banking market being moderately concentrated[18].

The increase in bank profits in 2023 was largely driven by the monetary conditions on the market.

The banking sector ended 2023 with an aggregate profit of MDL 4,090.1 million, up 11.6 percent compared to 2022 (Figure 2.1.3).

Figure 2.1.3. Profitability of the banking sector



Source: NBM

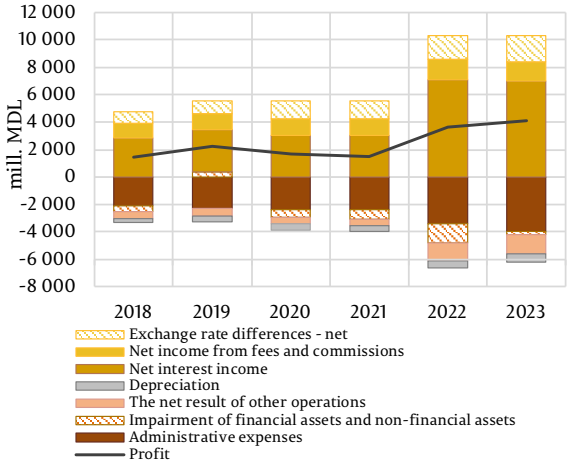
[16] Since the time of drafting the report, some bank data related to 2023 have been or are to be changed as a result of the external audit. Data for previous years represent the final data as a result of the external audit.

[17] Data on bank assets were collected from the official pages of central banks in the listed countries. At the same time, the data related to bank assets (Romania, Georgia) and GDP (Georgia) were converted into EUR according to the official rate established by the central banks as of 31.12.2023.

[18] The level of concentration is determined according to the scale: HHI<100-perfect competition, 100<HHI<1 500 – a non – concentrated market, 1 500<HHI<2 500-a moderate concentration, HHI > 2 500 – a high concentration.

The increase in profit was largely driven by a decrease in impairment charges on financial and non-financial assets by MDL 1,146.5 million (-83.0 percent), while net income from exchange rate differences increased by MDL 175.5 million (+10.2 percent) (Figure 2.1.4).

Figure 2.1.4. Bank profit structure



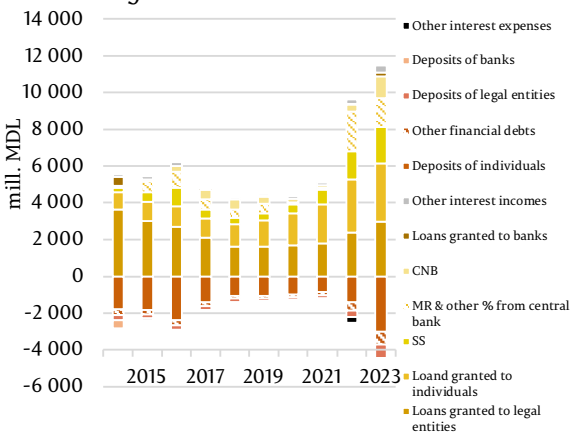
Source: NBM

The main components of interest income were interest income on credits granted to households (27.6 percent), followed by interest income of non-financial companies (25.9 percent) and other interest income received from the NBM (13.5 percent).

In 2023, interest income amounted to MDL 11 463.2 million, an increase of 19.0 percent (+ MDL 1 829.1 million) compared to 2022, while the result recorded in net interest income was down by 2.1 percent compared to 2022 (- MDL 150.4 million). This dynamic was driven by the increase in interest expenses on deposits, namely: deposits of households (+ MDL 1,607.4 million) and deposits of legal entities[19] (+ MDL 831,3 million) (Figure 2.1.5).

The structure of interest income reflects the fact that banks' business strategies continue to focus on both lending and investment activities that simultaneously provide liquidity but also a sufficient degree of safety to cushion negative shocks.

Figure 2.1.5. Structure of income and expenditure in the banking sector

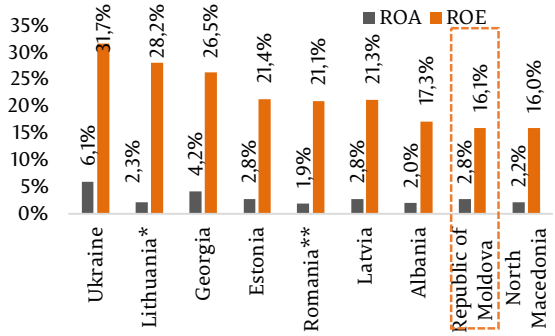


Source: NBM

In terms of expenses related to operating activity in 2023, the main factor mitigating the increase in profit for the year was the increase in administrative expenses by 16.3 percent (or + MDL 555.6 million). Also, in the structure of non-interest expenses, the most significant increases were marked by expenses related to fees and commissions (21.9 percent or MDL 333.8 million) and amortization expenses (21.6 percent or MDL 105.8 million) compared to 2022.

Profitability indicators of the banking sector were largely below the indicators recorded in emerging countries in the region and the EU (Figure 2.1.6).

Figure 2.1.6. Return on equity and assets compared to other countries in the region

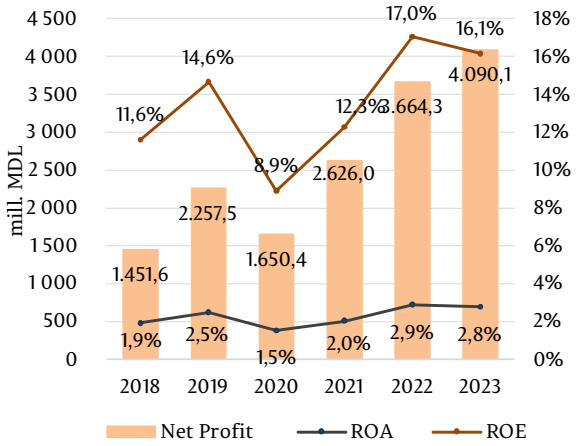


** data for Q3, 2023, **data for Q2, 2023*
Source: Financial Soundness Indicators (FSIs), IMF

During 2023, the values of the main profitability indicators of the banking sector ROA and ROE decreased, constituting 2.8 percent and 16.1 percent, accordingly (Figure 2.1.7).

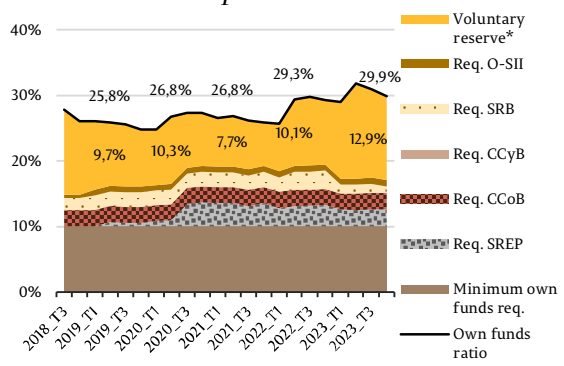
[19] Companies, non-financial companies, SMEs, non-SMEs

Figure 2.1.7. Return on equity and assets



Source: NBM

Figure 2.1.8. Breakdown of the banking sector's own funds to total risk exposure



Source: NBM

** The voluntary reserve represents the excess of own funds maintained by banks over the prudential requirements in force relative to the total amount of risk exposure*

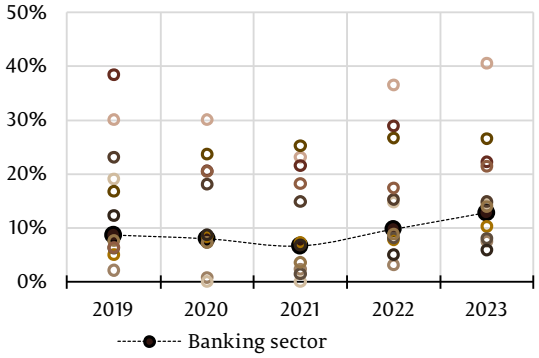
The banking sector is characterised by a consistent level of solvency, which significantly exceeds the regulated minimum level, and the leverage ratio remained well above the minimum level applicable in the EU states.

At the end of 2023, the total own funds of the banking sector amounted to MDL 20,901.7 million, up by 13.9 percent compared to the previous year due to the capitalization of profits earned by banks.

The voluntary reserve of own funds reflects the additional resilience of the banking sector in case of potential losses and ensures the continuity of lending activity. At the end of 2023, compared with the situation at the end of the previous year, the banking sector strengthened its capital position by increasing the voluntary reserve by 3.1 p.p. to 12.9 percent, as a ratio of total risk exposure (Figure 2.1.8). It should be pointed out that banks have increased their reserves on account of the NBM's relaxation of the systemic risk buffer requirement in Q1 2023. At the same time, the maintenance of a significant voluntary reserve induces additional capital costs, also signalling on the low degree of financial intermediation and low risk tolerance.

At the level of individual banks, during the last 5 years, a high degree of volatility of the voluntary reserve can be observed, ranging from 0.0 to 41.0 percent, indicating an inhomogeneous character in the capital management by banks (Figure 2.1.9).

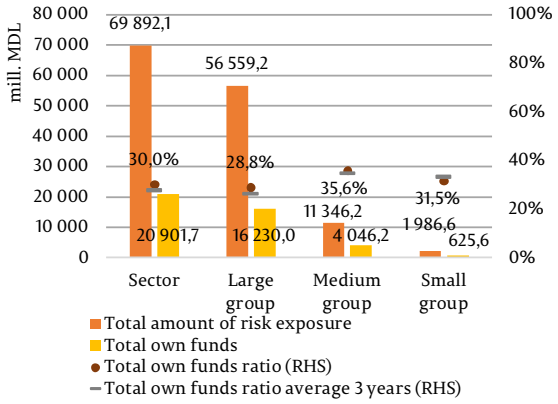
Figure 2.1.9. Dynamic distribution of voluntary reserves by banks and banking system



Source: NBM

The total own funds ratio of the banking sector at the end of the reference year amounted to 29.9 percent, an increase compared to 2022 (+0.9 p.p.), amid a rise in the volume of total own funds allocated by banks (Figure 2.1.10).

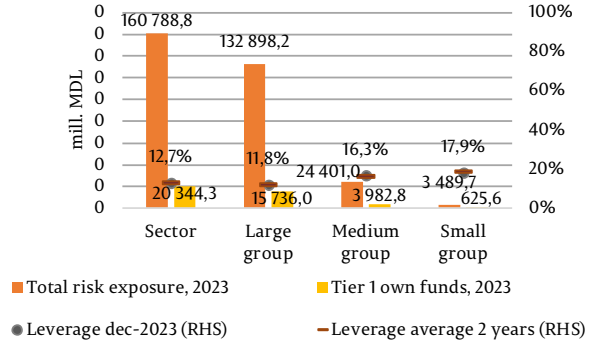
Figure 2.1.10. Banking sector capitalization ratio by sector and bank groups



Source: NBM

For the year 2023, the leverage ratio of the banking sector amounted to 12.7 percent, down by 0.3 p.p. from the previous year (Figure 2.1.11).

Figure 2.1.11. Leverage ratio by sector and bank group



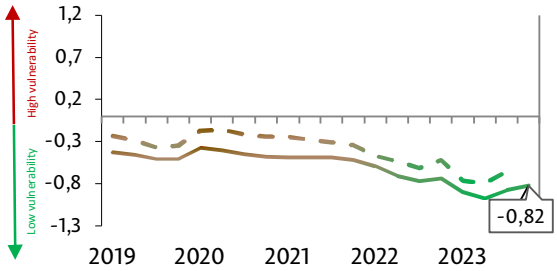
Source: NBM

The overall level of vulnerability of the banking sector, as assessed on the basis of developments in banks' main economic and financial indicators, remained below the vulnerability threshold[20].

Over the course of 2023, the banking sector recorded a favourable evolution of the overall vulnerability index[21].

At the end of the year, the banking sector accumulated an overall vulnerability index of (-0.82), a lower level than in 2022 (Figure 2.1.12). This was driven by the positive trend of strengthening banks' capital position, improving asset quality and decreasing sensitivity to market risk. At the same time, developments in the profitability ratios contributed adversely to developments in the vulnerability ratios, with the pace of growth in net income being below the level of growth in banks' assets or own funds.

Figure 2.1.12. Dynamics of the overall vulnerability index

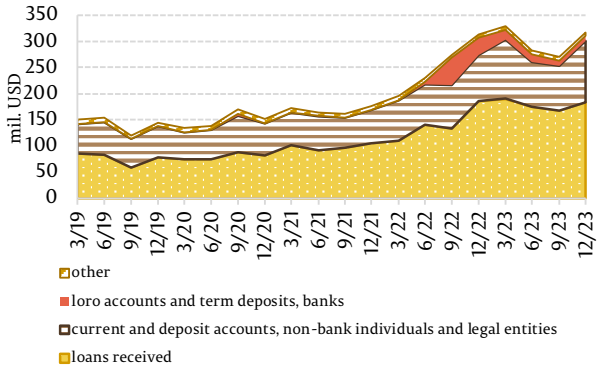


Source: NBM

Vulnerabilities of the banking sector to non-residents

In 2023, banks' foreign currency liabilities to non-residents declined slightly[22] *in outstanding amounts, decreasing both the funds attracted from foreign financial institutions, as well as external credits received by the banking sector.* Thus, banks' drawings of external loans decreased by 62.2 percent from 2022, while banks' payments to service external debt increased by 2.9 times. As a result, the balance of loans received by banks decreased by 5.4 percent[23] to USD 183.5 million (Figure 2.1.13).

Figure 2.1.13. Foreign exchange assets attracted from non-residents by item breakdown



Source: NBM

[20] The value of the overall vulnerability index equal to 0, so negative values denote a reduced level of financial vulnerability, while a positive value of the index denotes a higher financial vulnerability.

[21] Aggregate Indicator, calculated as the weighted amount based on the financial soundness indicators scores.

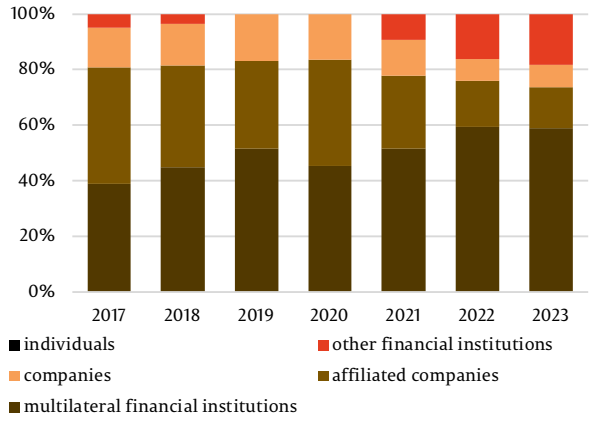
[22] By 2.4 percent excluding exchange rate influence. At effective exchange rate, the balance of banks ' foreign exchange liabilities in relation to non-residents, being mainly denominated in EUR, increased by 1.1 percent.

[23] By excluding the influence of the exchange rate. At effective rate, the balance of foreign credits received decreased by 1.4 percent.

The structure by type of creditor has not essentially changed compared to the previous year. The balance of credits received from multilateral financial institutions declined slightly compared to the previous year, but continued to account for the largest share in the structure of external credits (Figure 2.1.14).

At the same time, the interbank funding (mainly intra-group in the form of deposits) from which local banks benefited has decreased. Thus, at the end of 2023 the balance of interbank funding amounted to USD 9.4 million compared to USD 34.0 million at the end of 2022, reaching a peak balance of USD 33.9 million during the year. The balance on current and deposit accounts in foreign currency of non-resident non-banking non-resident customers increased by USD 28.6 million or 32.2 percent[24], to USD 117.3 million, as a result of the increase in those of legal entities.

Figure 2.1.14. Structure of loans received by banks, by type of creditors



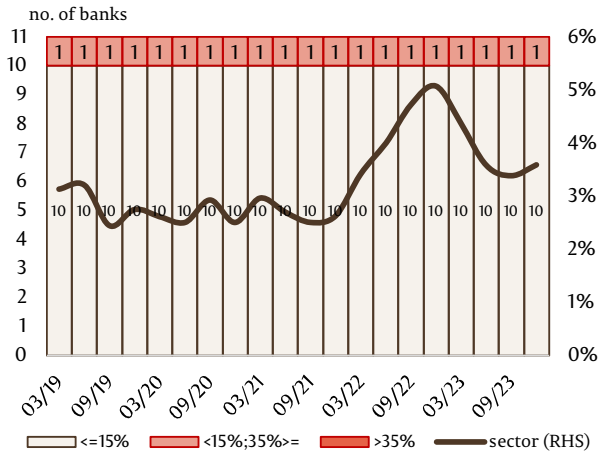
Source: The Debt Management and Financial Analysis System

Other types of liabilities to non-residents continued to be negligible in both level and evolution.

Under these conditions, the exposure of local banks through foreign currency resources attracted from non-residents narrowed compared to 2022, standing at low levels (Figure 2.1.15).

At the end of the reporting year, the exposure amounted to 3.6 percent in relation to total capital and liabilities (compared to 2022: 4.6 percent, 2021: 2.6 percent; 2020: 2.5 percent, 2019: 2.7 percent). According to the situation at the end of the reporting year, 10 of the banks remain to be exposed through the foreign exchange attracted from non-residents in total capital and liabilities in reasonable proportions of up to 15 percent (minimum - 0.2 percent, maximum - 8.1 percent). Between 15 percent and 35 percent ranks only one bank founded by foreign investors.

Figure 2.1.15. Exposure to non-residents through foreign exchange in relation to total capital and liabilities, by groups of banks



Source: NBM

2.2. Credit risk

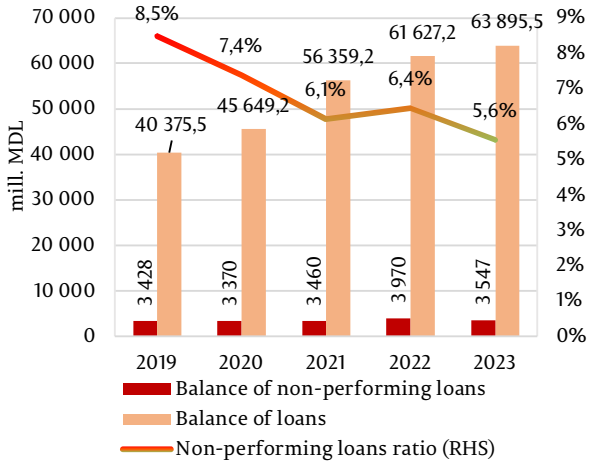
The credit risk improved in 2023, mainly due to the return of the macroeconomic situation to favourable conditions.

The credit portfolio in the banking sector continued its trend of slowing growth. In 2023, banks increased their credit portfolios by MDL 2,268.3 million (+3.7 percent; 2022: +9.3 percent), with the total balance amounting to MDL 63,895.5 million at the end of the period.

At the same time, the quality of bank credits marked a favourable trend, reaching the lowest level in the last 10 years. The stock of non-performing credits was reduced by 10.7 percent compared to 2022, which led to a 0.9 p.p. decrease in the non-performing credit ratio to 5.6 percent aggregate for the banking sector (Figure 2.2.1).

[24] By excluding the influence of the exchange rate. At effective rate, the balance of current and deposit accounts of non-resident non-bank clients increased by 35.0 percent.

Figure 2.2.1. Evolution of credit balance and non performing credits ratio in total credits



Source: NBM

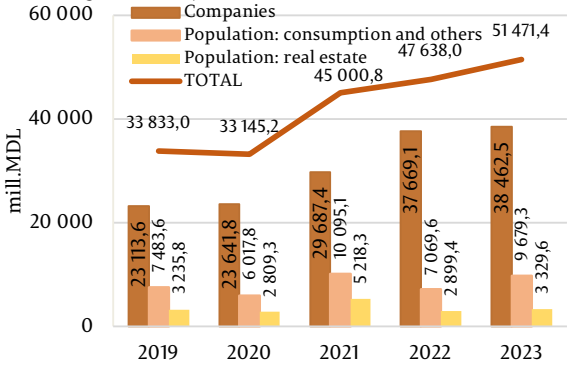
The decrease in the rates on credits influenced the acceleration of the lending of the population starting with the third quarter, but also the migration of the preferences of companies for lending in national currency.

The value of new credit agreements concluded by banks (Figure 2.2.2) during the year recorded an increase of 5.9 percent compared to 2022 (2022/2021: +5.8 percent), mainly as a result of the recovery of the growth rate of lending in the third-fourth quarter against the background of falling rates.

This positive trend has mainly helped the significant increase in the volume of new credits granted to the population of 30.5 percent compared to 2022.

The currency structure of new credits granted was characterized by an increase in the volume of new credits in national currency, which reached an annual growth rate of 22.1 percent, and by a decrease in demand for credits in foreign currency (and/or pegged to the exchange rate) (-7.7 percent). This trend was influenced by the decline in rates resulting in the acceleration of lending to households since the third quarter and the migration of companies' preferences from foreign currency to MDL lending.

Figure 2.2.2. Evolution of the total volume of new credits granted by banks



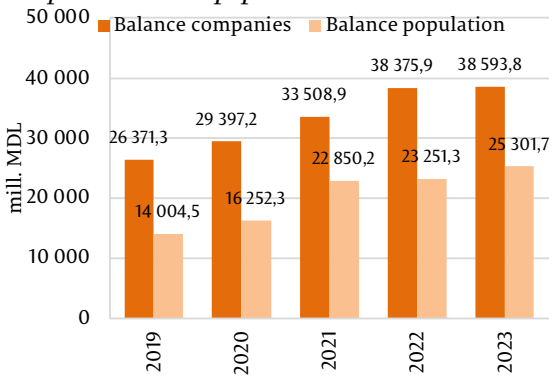
Source: NBM

In the separate analysis of the credit portfolio, 2023 was marked by a considerable slowdown in the lending of companies, simultaneously with the recovery of the upward trend of credits granted to households.

The annual growth rate of the balance of credits to companies slowed significantly in 2022, the total balance being practically the same level at the end of 2022 (+0.6 percent).

At the same time, the balance of credits granted by banks to households marked a recovery, the annual growth rate (+8.8 percent) being below the average of previous years. Therefore, the share of credits granted to households in the total credit portfolio of banks increased to 39.6 percent (dec-2022: 37.7 percent) (Figure 2.2.3).

Figure 2.2.3. Evolution of the balance of credits to companies and the population

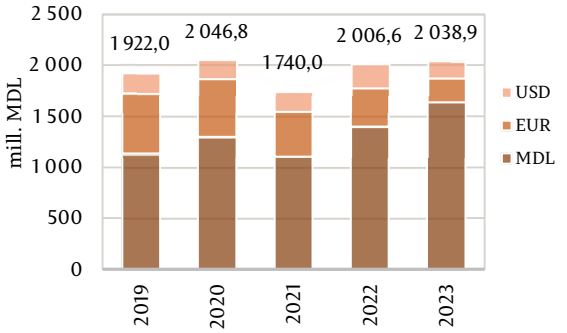


Source: NBM

The indicators characterizing credit quality had a favourable dynamic on the segments of the banking portfolio related to households and credits denominated in EUR.

During the analysed period, expired credits registered a slight increase, the amount of credits with payment delays of more than 30 days being 1.6 percent higher than the end of 2022, and holding a share of 3.2 percent of the banking portfolio. In disaggregation on currencies, credits in EUR record the lowest rate of expired credits - 1.7 percent, followed by credits in MDL - 3.5 percent (Figure 2.2.4).

Figure 2.2.4. Evolution of the balance of expired credits, by currency



Source: NBM

In 2023 lending standards, after considerable tightening in 2022, relaxed for both the population sector and non-financial companies.

According to the opinion of the survey respondents on bank lending[25], the favourable trend of lending standards for the population was determined by interest margins, general terms and conditions, but also by the attenuation of the risk perception related to this sector of borrowers. At the same time, the demand for lending from the population marked a rapid rise, which, in combination with the relaxation of lending standards, resulted in the acceleration of lending to households by banks.

Lending standards for lending to non-financial companies also tended to ease in 2023, driven mainly by competition pressure but significantly affected by risk perception and tolerance. In particular, the most exposed economic sectors to credit risk, according to respondents, are the sectors: agriculture, energy, construction, but also SME debtors. At the same time, the demand for loans from non-financial companies reversed towards a downward trend.

Credit quality had a favourable dynamics in 2023 of both those granted to companies and those granted to the population.

The most negative trend was the credit portfolio granted to companies operating in the energy sector, which in 2023 recorded an increase in the NPL rate by 10.4 p.p., thus 12.1 percent of the credits granted to this sector being classified by banks into non-performing categories. It should be noted that this increase was temporary, influenced by the situation of a single client of a bank.

Table 2.2.1. Non-performing credit ratio by types of credits and branches of activity

Name of debtors' branch	Balance 2023, MDL mill.	NPL ratio	
		2023	2022
Agriculture	4,521.8	15.4%	14.7%
Food industry	4,151.7	5.1%	5.9%
Constructions	1,186.5	5.5%	10.1%
Consumer credits	11,199.9	4.9%	7.0%
Energy industry	749.1	12.1%	1.8%
TAU/ institutions subordinated to the TAU	926.9	0.0%	0.0%
Productive industry	2,601.5	12.2%	16.9%
Trade	14,238.7	3.9%	4.5%
Non-banking financial environment	2,757.6	0.3%	1.6%
Acquisition of real estate	13,282.3	2.3%	2.1%
Individuals performing an entrepreneurial activity	1,714.4	12.3%	7.2%
Transport, telecommunication and network development	2,106.9	6.9%	5.7%
Field of service provision	2,168.2	8.1%	13.1%
Other credits granted	2,290.2	9.3%	11.5%
Total	**63,895.5**	**5.6%**	**6.4%**

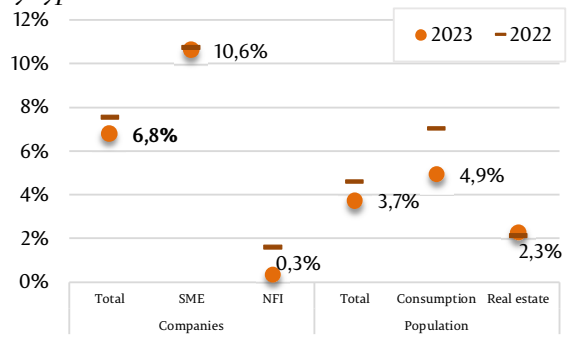
Source: NBM

[25] The National Bank of Moldova conducts the survey on bank lending quarterly, in order to determine the financing conditions and the risk profile of the financial-banking system of the Republic of Moldova, with the participation of 11 responding banks.

Also, credits granted to individuals performing entrepreneurial activity registered a deterioration in quality, reaching an NPL rate of 12.3 percent. At the same time, favourable dynamics recorded the NPL rates of credits granted to construction companies (-4.9 p.p.), the field of service provision (-5.9 p.p.), consumer credits (2.1 p.p.), other credits (-2.3 p.p.), but also the non-bank financial environment (-1.3 p.p.). These four categories total MDL 22,203.8 million or 34.8 percent of the bank credit portfolio (Table 2.2.1).

At the same time, the quality of credits granted to SMEs, which represent about 30 percent of the total bank credit portfolio, remained practically at the same level compared to 2022, but still performing below the average in the corporate sector (Figure 2.2.5).

Figure 2.2.5. Rate of non-performing bank credits by type of debtors

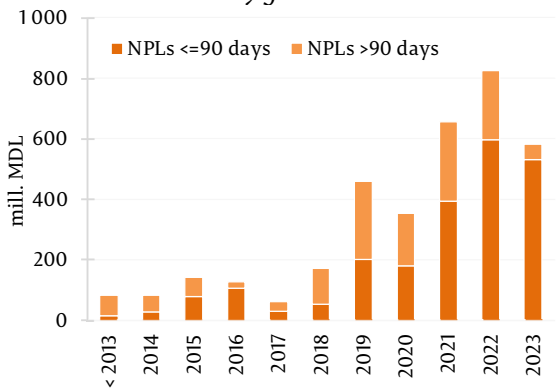


Source: NBM

Non-performing exposures during the period of economic imbalances and the banking crisis of 2014-2015 decreased significantly in relation to the situation at the end of 2023. Of the total stock of non-performing credits 16.4 percent are credits with the date of granting in 2023.

The breakdown of non-performing credits by date of granting shows that over 2/3 of the total balance of non-performing credits, existing in banks' balance sheets as of December 2023, represent credits granted in 2020-2023. It is noteworthy that they were classified as non-performing by banks, largely on the basis of criteria other than the number of days overdue, which indicates a more cautious and forward-looking approach in the credit quality assessment process (Figure 2.2.6).

Figure 2.2.6. Breakdown of non-performing credits as of December 2023 by grant date



Source: NBM

The average default rate was more unfavourable in 2023 compared to 2022, both for the portfolio of companies and for the population, and the highest rates in 2023 were recorded in the fourth quarter for the population and the first quarter for companies.

The share of companies (A-D) new entrants in the category of 90+ days overdue (E) in a period of 12 months was 1.8 percent in 2023 (2022: 1.6 percent), and in the case of the population this indicator was 3.5 percent (2021: 3.2 percent) (Table 2.2.2).

A significantly higher default rate recorded credits with payment delays between 30 and 90 days (C and D) of companies, which in 2023 migrated at a rate of 20.2 percent (2022: 16.5 percent) in category E, and for the population this rate improved considerably to the value of 13.4 percent (2022: 23.4 percent). An unfavourable development in relation to 2022 recorded the rate of "recovery" of category E debtors which constituted 4.1 percent for companies and 5.4 percent for the population.

Table 2.2.2. Debtor migration matrix[26] by the number of days of payment arrears[27] (Dec 2022–Dec 2023)

Companies	A	B	C	D	E
A	97.1%	1.2%	1.0%	0.3%	0.3%
B	52.7%	18.5%	11.3%	4.3%	13.1%
C	34.3%	6.2%	13.6%	16.6%	29.4%
D	14.0%	1.6%	4.2%	10.4%	69.9%
E	2.9%	0.2%	0.5%	0.3%	96.1%

Population	A	B	C	D	E
A	96.7%	1.1%	1.0%	0.5%	0.7%
B	36.1%	27.4%	7.5%	6.7%	22.3%
C	31.3%	5.9%	12.4%	24.2%	26.3%
D	10.0%	5.0%	10.0%	5.3%	69.7%
E	3.1%	0.6%	1.2%	0.5%	94.6%

Source: NBM

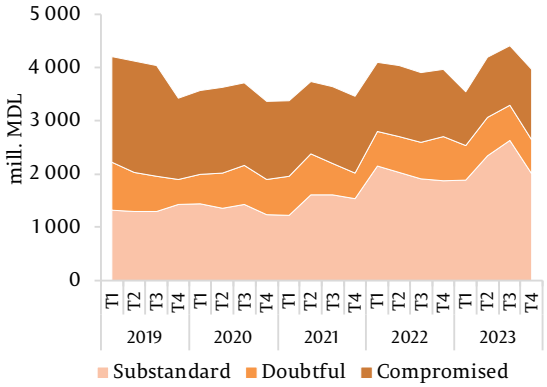
The structure of non-performing credits by risk category shows a decrease in the balance of credits classified in the "dubious" and "compromised" risk categories, which resulted in the total decrease in the stock of non-performing credits.

Thus, at December 31, 2023, non-performing credits continued to be concentrated, mainly, in the "substandard" risk category (Figure 2.2.7), with a share of 53.0 percent of the total non-performing credits by sector.

The way to determine and define "performing credits" differs between states, as do the regulations on scrapping non-performing credits from banks' balance sheets.

It is worth mentioning that in the Republic of Moldova a more conservative approach is applied, the classification of non-performing credits being considered a number of qualitative factors[28] additional to the number of days overdue.

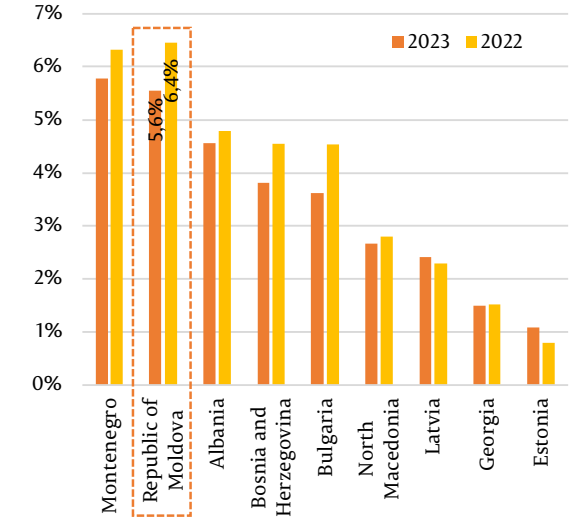
Figure 2.2.7. Structure of non-performing credits by risk category in dynamics



Source: NBM

Thus, the rate of non-performing credits in the domestic banking sector was at a higher level compared to the rates of the countries in the region (Figure 2.2.8), with the exception of Montenegro.

Figure 2.2.8. The non-performing credits ratio in the Republic of Moldova compared to the rates of the countries of the region



Source: NBM, IMF

[26] Interpretation: the spaces to the right of the diagonal axis represent the migrations of debtors into more unfavourable categories (more days outstanding), the percentage of the diagonal axis reflects the share of loans remaining in the same category, and the spaces to the left - migrations into more favourable categories.

[27] Average quarterly migration rate of unique debtors between categories: A - delay up to and including 15 days, B - delay between 16 and 30 days, C - delay between 31 and 60 days, D - delay between 61 and 90 days, E - delay over 90 days.

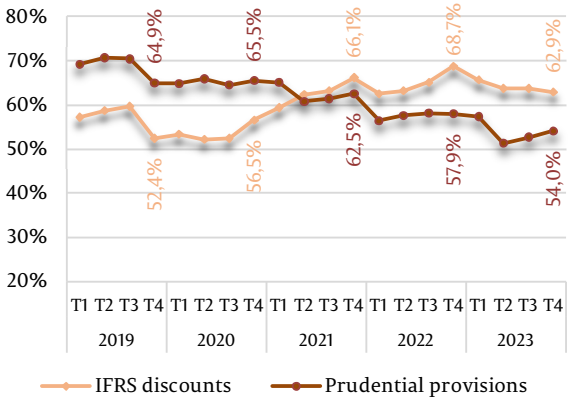
[28] Banks in the Republic of Moldova classify loans in accordance with the Regulation No. 231/2011 on the classification of conditional assets and liabilities, (the provisions of which are considered to have a more conservative approach compared to the practices of other countries), which stipulates that when assessing conditional assets and, the bank shall take into account at least the following:
a) the counterparty's current financial situation assessed in terms of its ability to honour its commitments;
b) compliance with the terms of the contract;
c) the counterparty's ability to pay based on historical financial performance and estimated future cash flows;
d) the current market value of the pledged item and its degree of liquidity on the Moldovan market;
e) the counterparties business environment, the state of the economic sector in which it operates and its position within this sector;
f) the credit history of the counterparties compliance with its obligations under the credit agreements;
g) compliance with the business plan or technical and economic rationale (including subsequent amendments and additions);
h) the financial situation and payment capacity of the person providing a personal guarantee (surety) or the insurer;
i) other factors which may affect the counterparty's compliance with the terms of the contract.

The degree of coverage of non-performing credits with provisions, although it has decreased, remains sufficient to protect the banks ' solvency from possible credit default losses.

At the end of the analysed year, 54.0 percent of credits were covered with prudential provisions, recording a decrease of 3.9 p.p. during 2023. This dynamic is mainly due to the reduction of credits classified as "compromise" and related provisions. At the same time, the coverage rate of credits and advances classified as impaired assets (in Stage 3 according to IFRS 9) with accounting provisions decreased during the year, but remained above the prudential level of coverage and registered 62.9 percent at the end of the year (Figure 2.2.9), thus, almost 2/3 of the amount of loans and advances being covered with accumulated depreciation, which allows to protect banks ' solvency from possible losses in case of non-repayment of these credits.

The results of stress tests show that the banking sector is resilient, with banks resisting stress tests in adverse macroeconomic scenarios.
The NBM regularly conducts stress tests in order to quantify the resilience of the banking sector.

Figure 2.2.9. Development of non-performing credit coverage ratio



Source: NBM

The solvency of banks is tested through simulations of macroeconomic crises with estimated impact on the own funds' ratio. The stress test results are not a forecast but a simulation of scenarios to answer the "what if?" question.

In the adverse stress scenario simulating a severe economic crisis characterized by stagflation and a reduction in GDP, all banks would comply with the regulated own funds ratio requirements.

Box 1. Lending in foreign currency

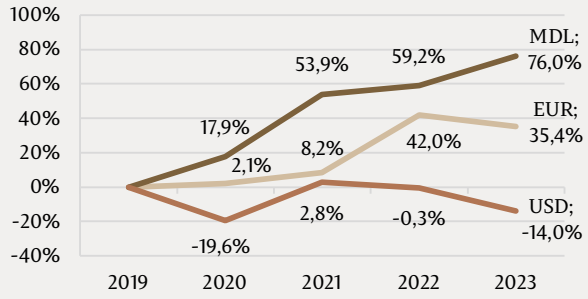
Foreign currency lending fell in 2023. Lending in MDL increased mainly on account of household lending.

EUR-denominated credits decreased for the first time in 8 years. The EUR portfolio balance decreased by 4.7 percent compared to the same period in 2022, amounting to EUR 688.3 million in total per banking sector or 20.9 percent of the total credit portfolio. USD credits continued the decline recorded over the last 8 years (except 2021). Thus, USD credits were less and less demanded by bank clients, with their stock in 2023 shrinking by 13.8 percent and their share in the total bank credit portfolio reaching 5.0 percent (2022: +6.6 percent) (Figure 2.2.10).

Companies' demand for foreign currency credits fell in 2023.

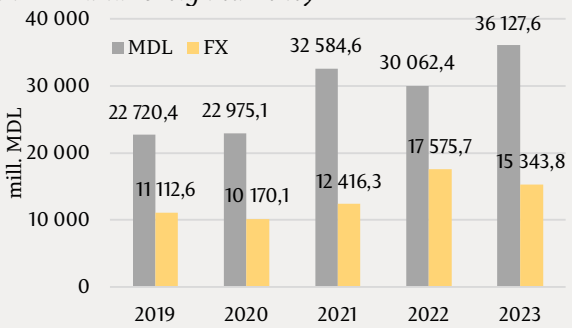
In 2023, the volume of new credits granted in foreign currency and pegged to the exchange rate equalled 30 percent of the total amount of new contracts concluded by banks or MDL 15,343.8 million (-12.7 percent compared to the previous year, equivalent in MDL) (Figure 2.2.11).
This development is also explained by a decline in companies' demand for foreign currency credits, even as banks' lending standards continue to tighten.
At the end of 2023, foreign currency credits accounted for 25.8 percent of the total portfolio (2022: 30.5 percent). MDL credits pegged to the foreign exchange rate accounted for 3.1 percent of the total gross credit portfolio (MDL 1,980.0 million).

Figure 2.2.10. Cumulative growth rate of credit balance on currency (2019 = 0 percent)



Source: NBM

Figure 2.2.11. Dynamics of the volume of new credits in MDL and foreign currency



Source: NBM

The risk profile of foreign currency lending has improved compared to previous periods, amid an overall decline in foreign currency lending in 2023, with the NPL ratio falling below that of MDL lending.

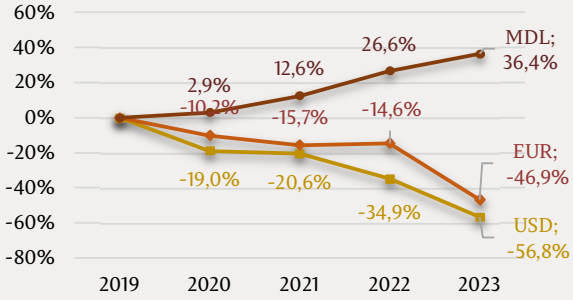
The rate of non-performing credits denominated in foreign currency continued the favourable trend and decreased in 2023 to 4.9 percent, of which the rate of credits in EUR amounted to 5.8 percent and that of credits in USD - 7.2 percent (Table 2.2.3). This favourable trend was due to a reduction in the balance of non-performing credits in both EUR and USD (Figure 2.2.12).

Table 2.2.3. Non-performance ratio by type of debtors and currencies

Debtor/ Currency	Companies		Population		TOTAL
	NPL ratio	Balance, MDL mill.	Rata NPL	Balance, MDL mill.	
MDL	8,2%	20 912,7	3,8%	24 490,1	**5,8%**
EUR	3,9%	13 051,1	3,2%	271,7	**3,9%**
USD	7,1%	3 147,9	10,8%	41,9	**7,2%**
Attached	10,6%	1 482,1	1,4%	497,9	**8,3%**
TOTAL	**6,8%**	**38.593,8**	**3,7%**	**25.301,7**	**5,6%**

Source: NBM

Figure 2.2.12. Cumulative growth rate of the NPL balance by currency (2019 = 0 percent)



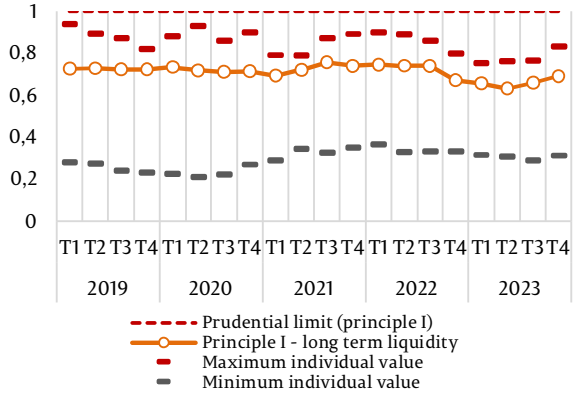
Source: NBM

2.3. Liquidity risk

During 2023, banks have recorded a favourable liquidity position, with liquidity ratios recording higher levels relative to regulated requirements.

The long-term liquidity indicator (principle I) calculated for the banking sector increased during the year from 0.67 to 0.69 (regulatory limit ≤1.0) (Figure 2.3.1), and at the individual level, no bank recorded a value above the established limit.

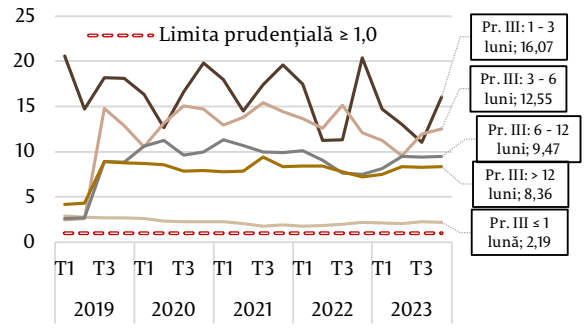
Figure 2.3.1. Evolution of the long-term liquidity indicator



Source: NBM

The values of the liquidity indicator by maturity bands (principle III) were above the minimum limit for each maturity band, decreasing year-on-year in all bands except for the 1-3 months band (Figure 2.3.2). Aggregated over the banking sector, the narrowest liquidity corridor is ≤1 month (2.19), but still sufficiently above the regulated minimum limit.

Figure 2.3.2. Liquidity indicator dynamics by maturity bands



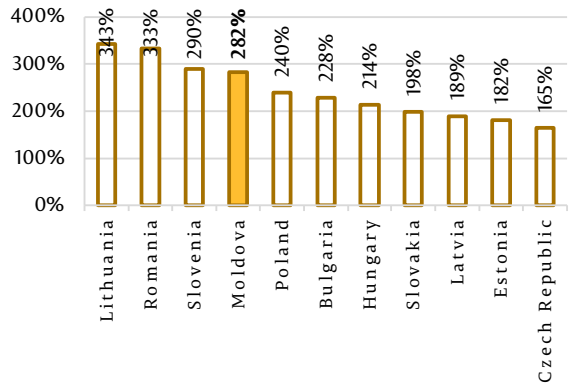
Source: NBM

Banks have sound liquidity reserves and inflows relative to outflows.

The aggregate value of the liquidity needs coverage ratio (LCR) on the domestic banking sector registered 282.3 percent at the end of 2023 (+46.8 p.p. compared to the previous year). All banks maintain a level of the ratio above the minimum regulatory limit.

Relative to the countries in the region, the aggregate level of the LCR on the domestic banking sector is above the average of the EU countries in the region (Figure 2.3.3).

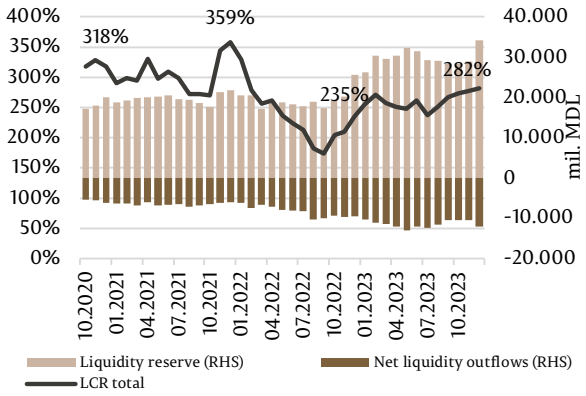
Figure 2.3.3. LCR indicator in relation to EU countries



Source: NBM

The sharp increase in the LCR ratio over the course of 2023 is mainly based on the considerable increase in the liquidity buffer (Figure 2.3.4).

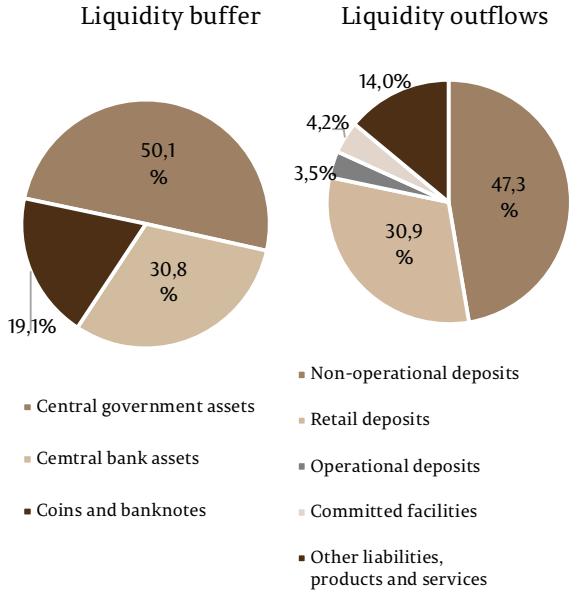
Figure 2.3.4. Evolution of the LCR indicator



Source: NBM

Central government assets account for a significant share of the total liquidity reserve in the LCR (50.1 percent), followed by central bank assets (30.8 percent) and coins and banknotes (19.1 percent), while liquidity outflows are generated by non-operational deposits (47.3 percent) and retail deposits (30.9 percent) (Figure 2.3.5).

Figure 2.3.5. Structure of the reserve and liquidity outflow from the LCR indicator as of 31.12.2023



Source: NBM

Deposits remain the main source of funding for the banking sector in the Republic of Moldova.

The balance of deposits recorded a higher growth than in previous years and amounted to MDL 113,861.3 million (+19.9 percent compared to the previous year). At the same time, the share of deposits in total assets amounted to 74.0 percent, up by 1.7 p.p. compared to the previous year. In terms of currency, the share of deposits in MDL amounted to 63.1 percent of total deposits, up by 3.1 p.p. from the previous year, and deposits in foreign currency - correspondingly 36.9 percent. At the same time, at the end of 2023, sight deposits amounted to 59.5 percent of total deposits, and time deposits - constitute 40.5 percent. It should be noted that the pace of growth of sight deposits (24.7 percent compared to the previous year) and time deposits (13.5 percent compared to the previous year) is increasing compared to the end of 2022.

The "loans/deposits" ratio decreased by 8.8 p.p. compared to the previous year and remains at a low level, indicating a reduction in financial intermediation amid faster deposit-taking relative to slower lending growth.

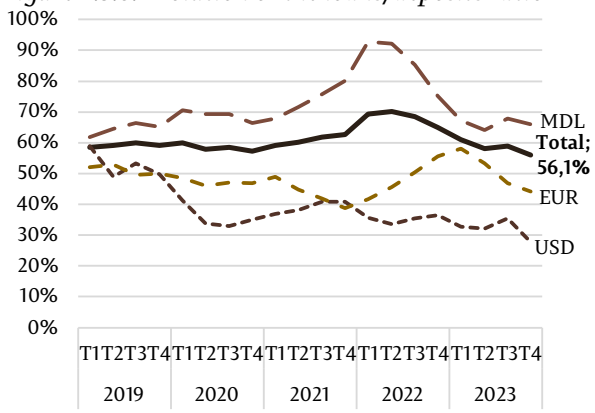
In the breakdown by the main currencies present on banks' balance sheets, the largest decrease in the "loans/deposits" indicator was recorded for EUR (-11.3 p.p. compared to the previous year), as the balance of loans decreased and, at the same time, the balance of deposits in EUR increased. At the same time, the loans/deposit ratios in MDL and USD declined by 8.6 p.p. and 9.2 p.p. respectively compared to end-2022, largely as a result of the sharp increase in the deposit balance compared to the more moderate development of the loan balance in MDL and USD during 2023 (Figure 2.3.6).

The population continued to maintain its net lending position to the banking sector.

According to the separate analysis by client category, the "loans/deposits" ratio in the retail segment declined from 39.4 percent to 34.3 percent during 2023, as a result of the moderation in lending and a significant increase in the balance of retail deposits.

Note that during 2023 the non-financial corporate sector became a net creditor of banks. Thus, the "loans/deposits" ratio in the non-financial corporations' segment decreased from 107.7 percent to 79.7 percent, as the balance of loans to non-financial companies decreased.

Figure 2.3.6. Evolution of the loans/deposits ratio



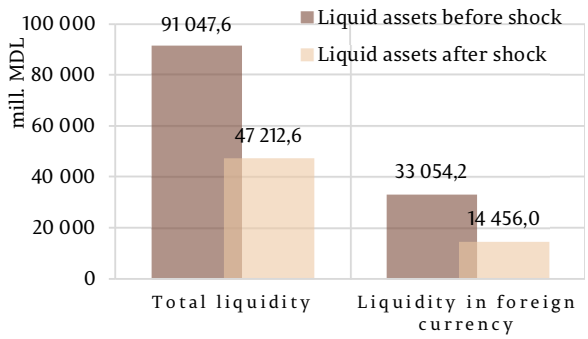
Source: NBM

Liquidity stress test exercises did not identify liquidity issues in banks.

Throughout 2023, periodic stress scenario simulations were conducted to assess banks' ability to honour their obligations. For this purpose, liquid asset inflows were calculated over a one-month horizon, together with non-uniform withdrawals of deposits by type of depositor (households, legal entities, banks).

The results obtained did not identify liquidity shortages at the level of individual banks or at the aggregate banking sector level (Figure 2.3.7). Under these conditions, the liquidity risk of the domestic banking sector is currently low and the liquidity position is sufficiently cushioned to cope with significant withdrawals of deposits both in domestic and foreign currency.

Figure 2.3.7. Impact of liquidity shock on banks' liquid assets as of 31.12.2023



Source: NBM

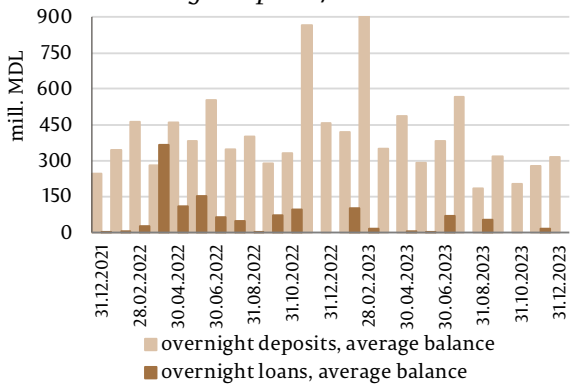
Overnight loans/deposits

Banks' demand for the overnight deposit facility offered by the NBM declined slightly compared to the previous year, as banks typically used the overnight deposit facility towards the end of the reserve maintenance periods, as they fulfilled their reserve requirements.

The total volume of overnight deposits amounted to MDL 96,914.9 million (2022: MDL 110,901.5 million), with the average daily stock standing at MDL 395.4 million, down from the previous year's level of MDL 429.9 million.

The average monthly balance of banks' overnight placements recorded uneven values during the year, with the maximum (MDL 996.6 million) in February (banks anticipated significant declines in interest rates and placed overnight deposits right from the beginning of the booking period) and the minimum (MDL 184.7 million) in August (Figure 2.3.8).

Figure 2.3.8. The evolution of the average monthly balance of overnight deposits/loans



Source: NBM

Regarding the overnight credit facility, in 2023, banks borrowed less from the NBM through overnight loans, against the backdrop of the increased excess liquidity in the market during the year.
The total amount of overnight loans granted by the NBM in 2023 amounted to MDL 6,507.0 million, a decrease of about 2.2 times compared to the previous year (MDL 14,074.0 million). The monthly maximum of overnight loans granted in 2023 was recorded in January, with a balance of 101.9 million MDL.

Money market operations of the NBM

In the context of the large liquidity surplus on the money market, fuelled also by the consistent interventions of the NBM on the foreign exchange market in the first half of the year in the amount of USD 277.4 million (about MDL 5,164.6 million), the daily balance of the CBN continued the alert upward trend initiated at the end of the previous year and reached a peak of MDL 17,553.7 million in mid-2023.

The daily balance of the CBN stopped its upward movement in the following period and then went into a downward movement, as part of the liquidity migrated to the government securities market, taking into account the policy of easing monetary conditions promoted by the NBM and the increasing need to finance the budget deficit on the account of the issuance of SS (the Ministry of Finance carried out the largest issuances during this period). In December, the daily stock of the CBN again recorded a more marked increase, reaching MDL 11,169.9 million at the end of 2023.

The NBM conducted the CBN placement auctions with weekly frequency, 14-day maturity and with the announcement of the maximum interest rate (NBM base rate). In 2023, the quantitative parameters (volume of liquidity drained through certificates issued and the average annual stock of CBN placements) increased more than 4 times compared to the previous year. The average annual balance of NBM certificates amounted to MDL 10,923.6 million.

Throughout 2023, the NBM maintained repo operations, providing additional liquidity management support to banks.

Repo operations were conducted on a weekly basis through the procedure of 14-day, fixed-rate (NBM base rate plus a margin of 0.25 percentage points) open tenders without a ceiling. The re-establishment and maintenance of a considerable net liquidity surplus on the money market until the end of the year materialized in the sporadic and insignificant recourse of banks to liquidity-providing operations. Thus, the volume of delivered liquidity (MDL 125.0 million) was significantly lower than in the previous year (MDL 41 370.0 million).

2.4. Market risk

Evolution of the base rate and interest rates applied by banks

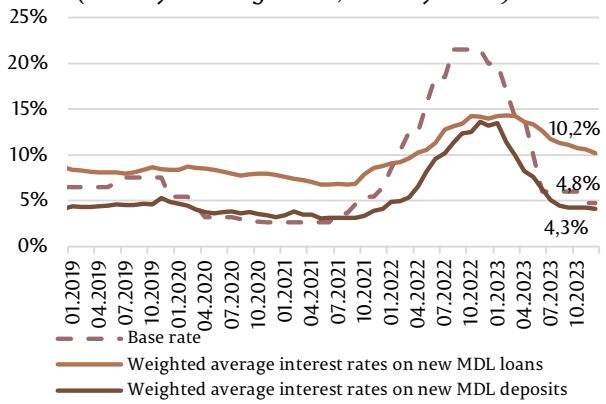
During the period under review, the base rate applied to the main monetary policy operations of the NBM increased significantly, in response to the strong inflationary trend observed during the year.

The corridor system of interest rates on the standing facilities used by the NBM during 2023 continued to signal the general stance of monetary policy, contributing to the easing of money market interest rates, as the close relationship between the monetary policy rate and market interest rates is an important factor for monetary transmission.

During 2023, there were five base rate changes. At the end of 2023, the base rate was 4.8 percent, 15.3 percentage points lower than at the end of the previous year.

Interest rates on new loans and deposits have reacted appropriately, but the dynamics of their decline have been weaker compared to the monetary policy instrument. Monthly weighted average interest rates on new deposits attracted and new loans granted declined sharply in the first half of 2023 and stabilized thereafter, in line with the dynamics of the base rate (Figure 2.4.1).

Figure 2.4.1. Evolution of base rate and weighted average interest rates of new loans and deposits in MDL (total by banking sector, total by terms)



Source: NBM

In general, the strategy of small banks to offer higher deposit rates while charging higher interest rates on loans compared to the banking market average is maintained.

The weighted average interest rate charged during 2023 on new loans granted in domestic currency at the banking sector level amounted to 12.7 percent for loans to households and 11.7 percent for loans to legal entities. At the level of individual banks, at the end of the year, the average effective rates applied to new loans in national currency ranged between 8.1 and 14.2 percent for loans granted to legal entities and between 8.5 and 12.5 percent for loans granted to households.

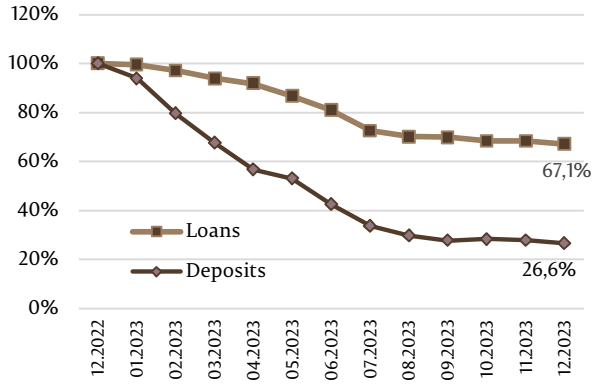
At the same time, the weighted average interest rate applied during 2023 on new deposits attracted in MDL at the level of the banking sector amounted to 7.4 percent for deposits attracted from households, and 5.4 percent for deposits attracted from legal entities. The average effective rates applied by banks at the end of the year ranged between 3.4 and 5.4 percent for households and between 2.3 and 5.2 percent for legal entities.

The analysis in dynamics of rates on new loans and deposits granted by banks to households during 2023 showed a downward trend for lending and deposit rates in MDL, a decrease in rates for deposits in foreign currency and an increase in rates for loans in foreign currency.

The interest rate on new loans in MDL to households at the end of 2023 was 32.9 percent lower than at the end of the previous year.

The most pronounced decline occurred in July and June, when the weighted average rate on new loans decreased by 8.5 and 5.7 percent, respectively, compared to the previous month (Figure 2.4.2).

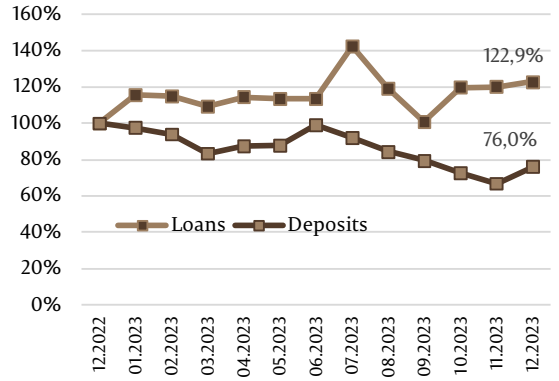
Figure 2.4.2. Increase of average rates on loans and new deposits granted to households, in national currency (dec.2022 = 100%)



Source: NBM

In the case of new foreign currency-linked loans to households, the weighted average rate increased by 22.9 percent in 2023. The evolution of this rate reflected the reaction of other central banks in developed countries to inflationary shocks (Figure 2.4.3).

Figure 2.4.3. Increase in average rates on new loans and new deposits granted to households, in foreign currency (dec.2022 = 100%)



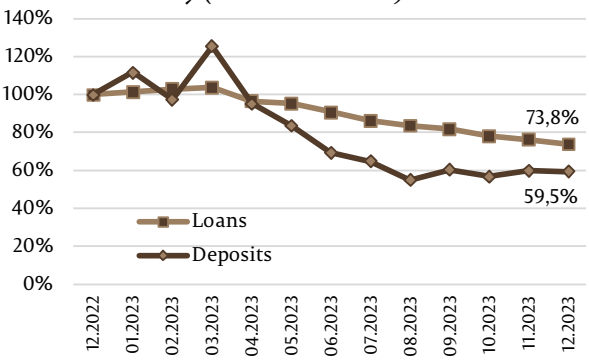
Source: NBM

For new domestic currency deposits attracted from households during 2023, the weighted average interest rate fell sharply by 73.4 percent. The most pronounced declines occurred in February and April, when the weighted average interest rate fell by 14.4 and 10.9 percent, respectively, relative to end-2022. For those in foreign currencies, the decline was more moderate, at 24.0 percent, with an upward trend towards the end of the year.

Rates on new loans granted in domestic currency showed a downward trend for the corporate segment, while rates on foreign currency-denominated loans for the same category of clients increased. In terms of deposits attracted in domestic currency, rates declined for both households and corporations. Rates on foreign currency deposits fell for households and increased for legal entities.

The weighted average interest rate on new loans granted in national currency to legal entities decreased compared to the end of 2022, its dynamics reaching a level of 73.8 percent compared to the reference period (Figure 2.4.4).

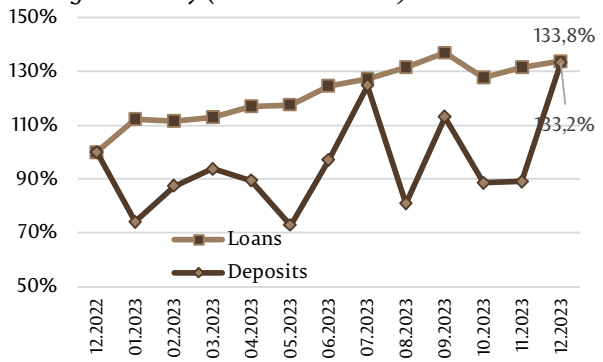
Figure 2.4.4. Evolution of average rates on new loans and deposits granted to legal entities, in national currency (dec.2022 = 100%)



Source: NBM

The weighted average rate on new loans in foreign currency to legal entities has trended in the opposite direction. At the end of 2023, it reached 133.8 percent relative to 2022, slightly higher than the weighted average rate on new foreign currency loans to households in foreign currency (Figure 2.4.5).

Figure 2.4.5. Evolution of average rates on new loans and deposits granted to legal entities, in foreign currency (dec.2022 = 100%)



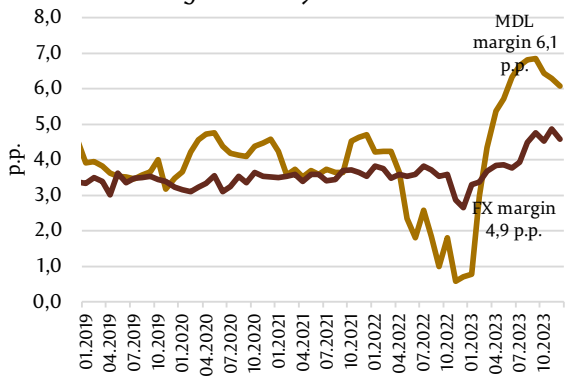
Source: NBM

A similar development was seen in the average rates of new foreign currency deposits attracted from legal entities. They increased to 133.2 percent during the reporting year. It is worth noting that this increase is very close to the dynamics recorded in foreign currency, and much higher than the evolution of new deposits granted to legal entities in domestic currency.

Over the reference period, deposit rates declined more sharply than lending rates, with the exception of rates on new foreign currency loans and deposits for legal entities, which led to a widening of the interest spread.

Thus, the interest margin on operations in national currency increased by 5.4 p.p. compared to December 2022, constituting 6.1 p.p., and the interest margin on operations in foreign currency increased by 1.9 p.p. compared to December 2022, constituting 4.9 p.p. (Figure 2.4.6).

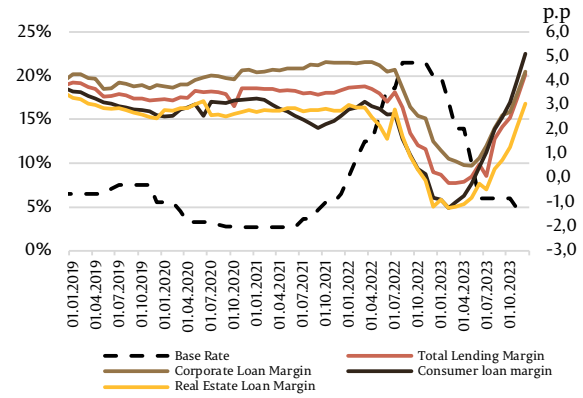
Figure 2.4.6. Interest margin on operations in national and foreign currency



Source: NBM

There is also an increase in the total lending margin during 2023, on the back of a sharper decline in the deposit rate compared to the lending rate. By type of loans, the margin for consumer loans increased the most, which amounted to 5.1 p.p. at the end of the year, followed by the margin for loans to corporate entities with a value of 4.4 p.p., and real estate loans with a value of 3.1 p.p. (Figure 2.4.7).

Figure 2.4.7. Interest margin developments for different types of loans



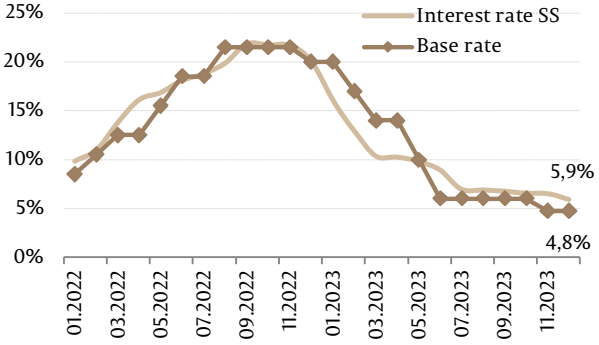
Source: NBM

SS issues: interest rates

SS interest rates have continued to deepen their decline, driven by the acceleration of the monetary policy rate cut cycle.

Interest rates on the SS market continued the gradual downward movement that had started at the end of the previous year, but with a slowdown in the second part of the analysis period. Thus, the minimum value of 5.9 percent recorded at the end of the period was more than 10 p.p. below the maximum value at the beginning of the year (Figure 2.4.8).

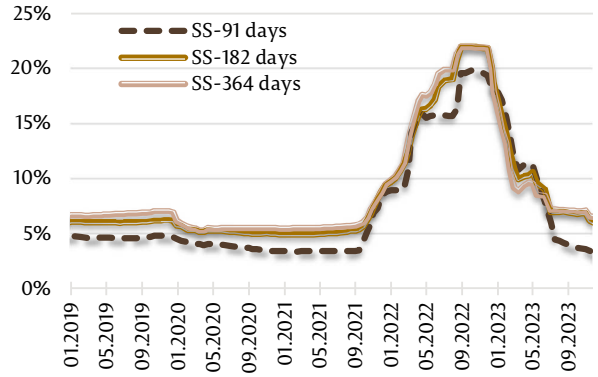
Figure 2.4.8. Dynamics of the SS interest rate compared to the evolution of the base rate



Source: NBM

In the second half of the period, interest rates moved relatively flat, also associated with a distancing of interest rates on 182-day and 364-day securities from those on 91-day securities, which remained close to the deposit facility rate (Figure 2.4.9). This is explained by the Ministry of Finance's increase in the indicative issuance volume of longer-maturity SS in the management year.

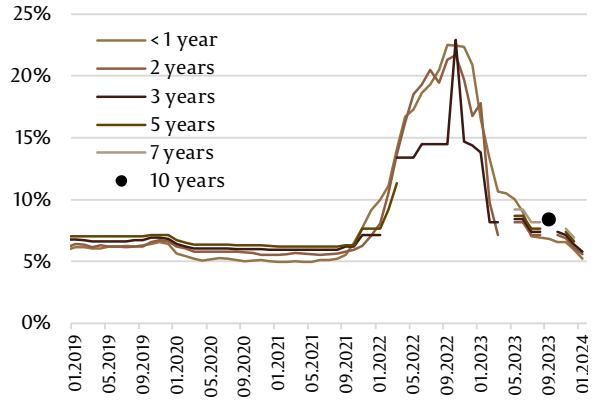
Figure 2.4.9. Dynamics of the SS interest rate with maturity up to one year



Source: NBM

In addition to securities with usual maturities, the Ministry of Finance issued for the first time in September 10-year bonds. On this fund, the total volume of SS issued in 2023 was the highest in historical perspective (MDL 34,743.7 million) (Figure 2.4.10).

Figure 2.4.10. Dynamics of interest rates on SS maturing in one year and over



Source: NBM

The decline in the base rate during 2023 has strongly influenced the rate of the SS maturing up to one year, reaching 8.6 percent during 2023, compared to 17.8 percent in 2021. A similar trend is observed for the dynamics of SS maturing one year and beyond. This is explained by the Ministry of Finance's increase in the indicative issuance volume of longer-maturity SS with longer maturities in the management year.

The amplitude of the declines varied according to the maturity of the securities. Thus, the strongest decrease was recorded for Treasury bills with an outstanding maturity of 364 days, constituting 10.22 percent, followed by bills with an outstanding maturity of 182 days, and those with an outstanding maturity of 91 days, which recorded decreases of 8.9 and 6.5 percent, respectively. For SS with a maturity of more than one year, the largest decrease was recorded for SS with a maturity of 2 years, constituting 10.26 percent. The annual weighted average nominal weighted average interest rates on SS traded over the last two years at primary market auctions, broken down by maturity, are shown in Table 2.4.1.

Table 2.4.1. Nominal annual weighted average weighted average nominal SS interest rates by maturity (%)

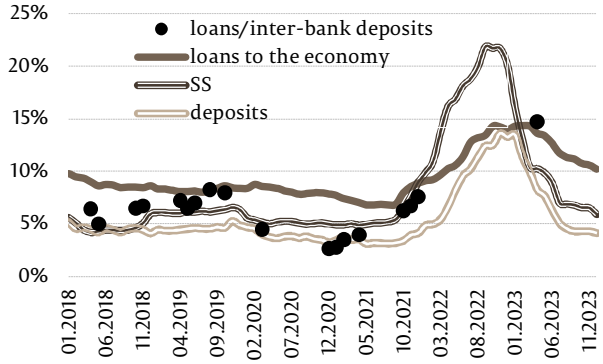
	TB 91 days	TB 182 days	TB 364 days	SS >1 year	GB 2 year	GB 3 year	GB 5 year	GB 7 year	GB 10 years
2023	9.21	8.80	8.15	8.62	9.31	8.56	7.36	8.60	8.42
2022	15.69	17.69	18.37	17.76	19.57	14.57	9.98	10.25	-

Note: actual interest rates are shown for GB
Source: NBM

In the hierarchy of yields on the financial market, interest rates on loans granted in the economy took first place. Marked by a large decline at the beginning of 2023, the interest rates on SS declined towards the middle of the corridor formed by the rates on loans granted and deposits attracted in the economy, oscillating within it until the end of the year.

At the beginning of the year, interest rates on new loans outpaced SS interest rates and remained in this position until the end of the year, distancing themselves significantly from them (Figure 2.4.11).

Figure 2.4.11. Evolution of financial market interest rates



Source: NBM

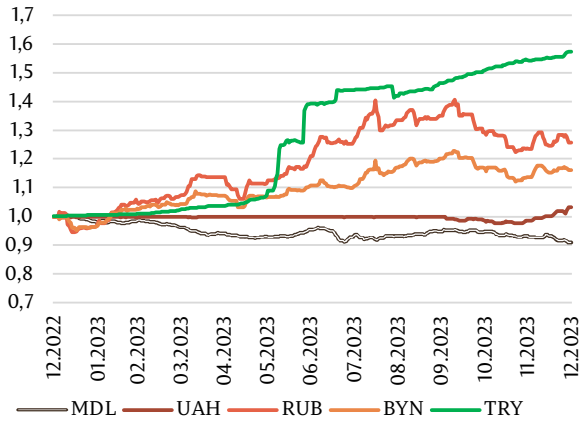
Currency risk: dynamics of the MDL exchange rate

In 2023, the MDL appreciated on average against the USD by 3.9 percent and against the EUR by 1.3 percent.

At the end of the year, the MDL appreciated by 9.1 percent against the USD and by 5.0 percent against the EUR.

During the reference period, the currencies of the countries in the region depreciated against the USD, against the backdrop of the geopolitical situation and inflationary pressures. At the same time, exchange rate volatility was lower compared to last year. The national currencies of Turkey, the Russian Federation and Belarus depreciated more against the USD (Figure 2.4.12).

Figure 2.4.12. Evolution of the currencies of the main partners of the CIS, Ukraine and Turkey against USD, 31.12.2022=1, (+) depreciation; (-) appreciation

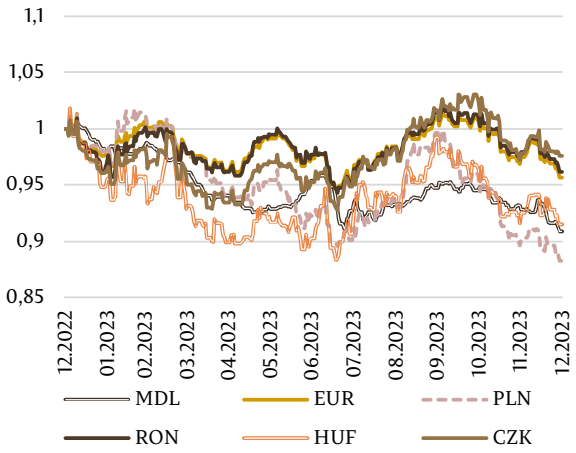


Source: NBM

The currencies of the Republic of Moldova's main trading partners in the EU had an inverse dynamic, on average strengthening against the USD due to expectations of interest rate cuts by the Federal Reserve (Figure 2.4.13).

Under these circumstances, the MDL strengthened on average by 10.5 percent against the basket of currencies of major trading partners, weighted by their shares in the RM's foreign trade.

Figure 2.4.13. Evolution of some major EU trading partners' currencies against the USD, 31.12.2022=1, (+) depreciation; (-) appreciation



Source: NBM

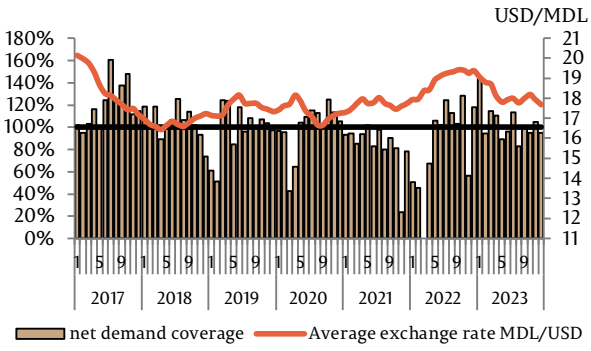
After a volatile 2022, in 2023 the Moldovan leu appreciated against the USD and the European single currency, thanks to a surplus of foreign exchange on the domestic market. The trade balance deficit narrowed and confidence in the national currency strengthened in 2023, in contrast to the previous year, when there was a foreign exchange deficit caused by external shocks, geopolitical turmoil and economic recession.

At level of USD 2,873.6 million, the net supply of foreign exchange from households increased in annual terms by 16.4 percent. In contrast to the trends observed in 2022, the de-dollarization of cash savings contributed to an increase in the supply of foreign currency from households, even though net transfers from abroad to households fell by 6.8 percent.

The coverage of net demand by the net supply of foreign currency amounted to 101.7 percent compared to 78.9 percent in the previous year (Figure 2.4.14).

At the same time, the net demand for foreign exchange by economic agents decreased by 6.1 percent year-on-year to USD 2,825.5 million, as the merchandise trade deficit fell by 5.4 percent. In particular, the demand for foreign exchange from energy resource importers was reduced due to the mild winter, the accumulation of strategic natural gas reserves and the diversification of gas supply sources, which were financed by loans from development partners. The uneven spread of the foreign exchange surplus during the year made it necessary for the NBM to intervene on the foreign exchange market by purchasing foreign exchange in the amount of USD 347.7 million, of which about 80 percent was realized in the first half of the year.

Figure 2.4.14. Degree of coverage of net demand for foreign exchange from economic agents by net supply of foreign exchange from households and dynamics of the MDL exchange rate



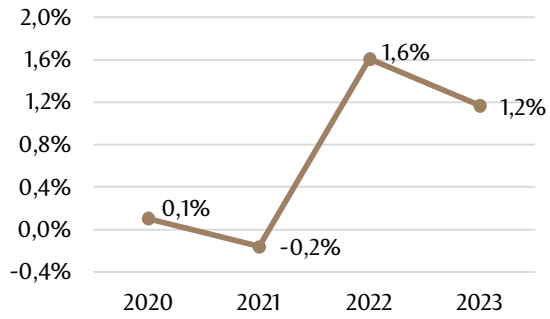
Source; NBM

Currency risk: OFEP of the banking sector

The ratio of OFEP to own funds of the banking sector in the Republic of Moldova was within prudential limits and the impact of the sector's direct exposure to exchange rate volatility was reduced.

At the end of 2023, the size of OFEP by sector for all currencies amounted to 1.2 percent of banks' total own funds (+MDL 239.7 million), compared to 1.6 percent (+ MDL 294.7 million) in 2022 (Figure 2.4.15).

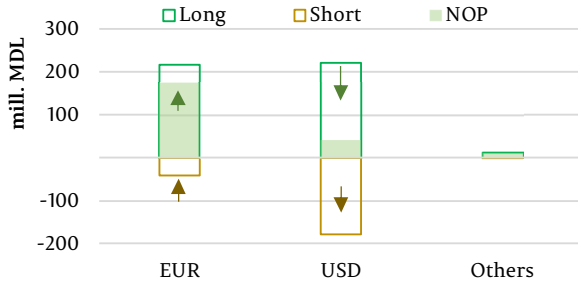
Figure 2.4.15. Evolution of the share of open foreign exchange position in own funds on the banking system



Source: NBM

This decrease was due to an increase in the short position and a decrease in the USD long position, particularly observed for large banks (Figure 2.4.16). There has also been a strong increase in the EUR long position for a large bank compared to end-2022.

Figure 2.4.16. Open foreign exchange position as of 31.12.2023, by currencies



Note: This graph shows the OFEP for 2022, as well as the amount of the banks' long and short positions at the end of the current year (t) as well as the previous one (t-1). The arrows indicate the direction of evolution of the banks' positions compared to the previous year.
Source: NBM

2.5. Risk of contagion

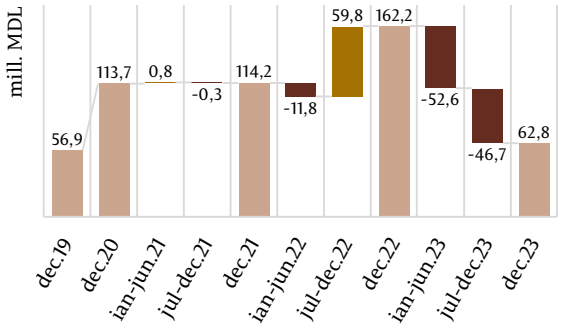
During 2023, the domestic banking sector maintained a low level of contagion risk in terms of interbank placements and exposures to the non-bank financial sector.

Net interbank placements[29] of licensed banks of the Republic of Moldova in the domestic banking sector at the end of 2023 amounted to MDL 62.8 million (Figure 2.5.1). The stress test results did not identify cases of direct

[29] Net interbank placements are the sum of funds placed by banks on an individual basis, with funds placed by a bank being offset by funds attracted by the bank from the same counterparty.

contagion between banks, due to the low level of banks' net interbank placements.

Figure 2.5.1. Evolution of local banks' net placements in the domestic banking sector



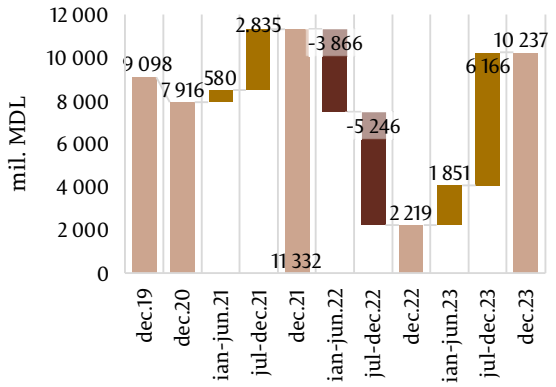
Source: prepared by NBM

Potential external spill overs stem from five countries where banks' investments are concentrated.

The volume of net investments of domestic banks in foreign banks increased by 2.6 times compared to the end of the previous year, up to MDL 8,017.5 million (Figure 2.5.2).

The increase in net placements was mainly recorded on behalf of systemically important banks.

Figure 2.5.2. Evolution of the balance of net placements of local banks in foreign banks



Source: prepared by NBM

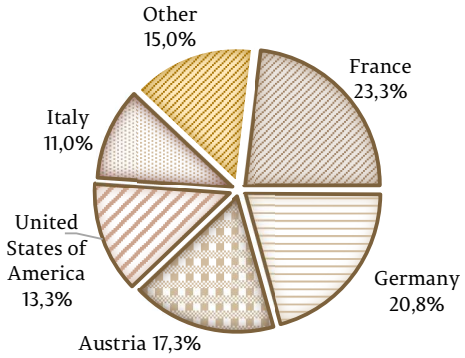
The gross interbank placements of domestic banks are concentrated in banks in the USA, France, Germany, Austria, Italy, France and Germany with a share of 85.6 percent (Figure 2.5.3).

However, the banks in the Republic of Moldova remain in a net creditor position vis-à-vis foreign counterparties, which exposes them more to the risks of external contagion than their ability to influence counterparties in other countries.

Banks' interbank networks are mainly diversified.

Net placements in the domestic banking sector are concentrated in two systemically important banks and one small bank.

Figure 2.5.3. Distribution of gross placements of domestic banks by country



Source: prepared by NBM

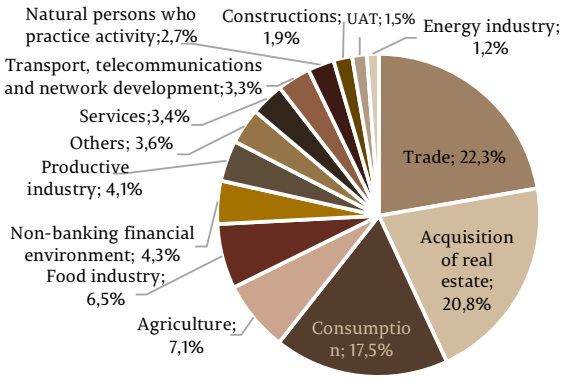
As for the placement of banks abroad, the number of foreign counterparties at the end of 2023 has reduced to 40 correspondent banks from 18 countries of the world. It should be mentioned that the foreign banks that hold most of the placements of the domestic banks have high investment ratings granted by the international authorities, which decreases the potential risk of contagion through the respective placements.

Concentration of sectoral exposures

Loans granted to non-financial companies in the field of trade, real estate loans and consumer loans concentrate more than half of the bank exposures, and the share of the last 2 types of loans recorded the largest advance in the structure of the bank loan portfolio.

The largest volume of loans in banks' portfolios was granted to companies active in the field of commerce (22.3 percent), followed by loans granted to households for the purchase and/or construction of real estate (20.8 percent) and consumer loans (17.5 percent). Exposures to the other branches are significantly lower and do not exceed a share of 8.0 percent of the banks' loan portfolio (Figure 2.5.4).

Figure 2.5.4. Distribution of bank loan portfolio by branches of debtors' activity, 31.12.2023



Source: prepared by NBM

The share of loans granted to individuals is increasing in the portfolios of banks as a result of the acceleration of lending to this segment of borrowers, as a result of the decrease in interest rates.

During 2023 there is a decrease in the share of loans granted to most economic sectors (Table 2.5.1), the most pronounced being the decrease in the share of loans granted to the food industry (-0.6 p.p.). At the same time, loans granted to households increased their share in the bank loan portfolio after the decrease in 2022, in particular consumer loans (+1.3 p.p.), but also loans granted for the acquisition / construction of real estate (+0,8 p.p).

Table 2.5.1. Dynamics of the share of loans granted by banks by branches, compared to the previous year

Branch name	31.12.2023	2019-2023
Agriculture	▼	
Food industry	▼	
Constructions	▼	
Consumer loans	▲	
Energy industry	▼	
TAU/ institutions subordinated to the TAU	▲	
Productive industry	▼	
Trade	▼	
Non-banking finance sector	▲	
Purchase/construction of real estate	▲	
individuals practicing activity	▲	
Transport, telecommunications and network development	▲	
Services	▼	
Other	▼	

Source: prepared by NBM

Bank portfolios are characterized by relatively high sectoral diversification.

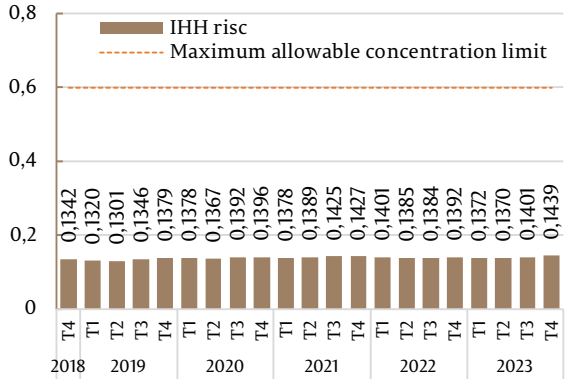
From the perspective of common exposures to economic sectors, the level of sectoral concentration of banks' portfolios was assessed, considering also the risks related to each sector by applying the characteristic risk amplifier[30] for each sector. Risk-adjusted concentration indicator (Figure 2.5.5) accumulate low values. Higher concentration levels[31] have been identified at individual level, but even the most concentrated portfolio is well below the estimated maximum allowable concentration limit[32].

[30] The risk amplifier does not assess the volatility of each sector in relation to the country's economy, but considers the existence of a risk taking into account the sectoral structure of the banks ' portfolios.

[31] The level of concentration was determined by amplifying the variable, which represents the level of concentration (Herfindahl-Hirschman index) in a sector, with the level of nonperforming loans corresponding to this sector.

[32] The maximum allowable concentration limit represents the maximum value of the bank's concentration level that did not result in recovery or resolution procedures.

Figure 2.5.5. Evolution of the risk-adjusted concentration indicator in relation to the maximum allowable concentration limit



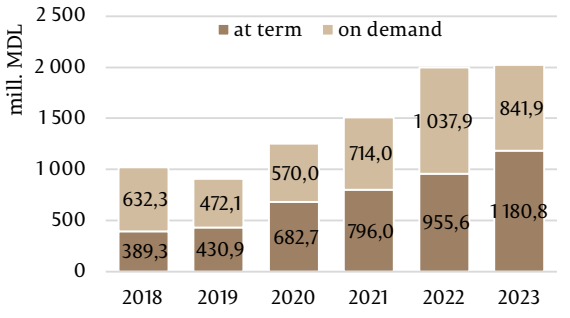
Source: prepared by NBM

Intersectoral contagion

The interactions of the banking sector with the non-banking financial sector, although increasing, show an insignificant risk of contagion.

The direct exposure of the banking sector to the non-banking sector shows the increase in values compared to the previous year. According to the information reported by the banks, the balance of NBFI deposits in banks at the end of 2023 amounted to MDL 2,022.8 million or 1.8 percent of the balance of deposits attracted by banks. Their distribution by maturity is almost equal, 41.6 percent of deposits being placed at sight (higher degree of volatility), and 58.4 percent – at term (Figure 2.5.6). In structure on coins, 50.2 percent of NBFI deposits are denominated in MDL and 49.8 percent – in foreign currency.

Figure 2.5.6. Evolution of the balance of deposits attracted from NBFIs in the structure by maturity



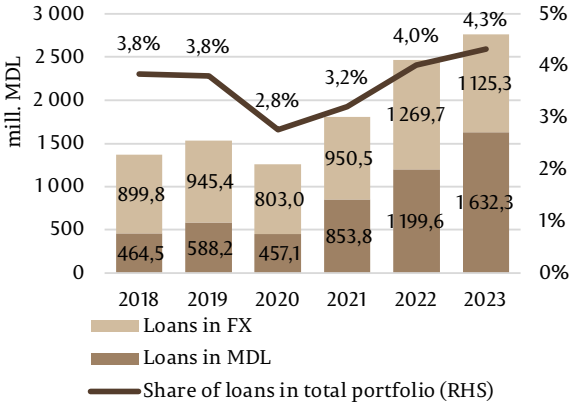
Source: prepared by NBM

In terms of assets, banks' direct exposures to NBFI are low and do not pose significant risks to financial stability through the direct contagion channel.

The maximum share of individual bank holdings in IBFN capital does not exceed 3.0 percent of the bank's own funds, not being a source of contagion for the banking sector.

Loans granted by banks to the non-bank financial environment at the end of 2023 constituted only 4.3 percent of the loan portfolio (Figure 2.5.7), and their quality (non-performing loans rate of 1.7 percent) is significantly more favourable compared to the value of the non-performing loans rate aggregated on the total banking portfolio (5.6 percent).

Figure 2.5.7. Share of loans granted by banks to NBFI



Source: prepared by NBM

2.6. Risk related to information and communication technologies

In the current context, where Information and Communication Technologies (ITC) are ubiquitous, they have fundamentally transformed the way we connect, exchange information and conduct our daily activities. These changes bring with them both advantages and significant challenges, especially in the field of Information Security.

As personal and financial information is increasingly digitized, the importance of implementing safeguards against online threats increases.

Against the same background, banking has evolved significantly, adopting new technologies to face changes in regulations, while increasing security to deal with these growing risks. This continuing evolution underscores the essential role of innovation in technology to provide a safe and efficient financial management environment.

During 2023, according to the Allianz Risk Barometer study, cyber incidents (34%) and disruption (34%) were the top risks worldwide. Cyber incidents, such as it outages or ransomware attacks, rank as the most important risk globally for the second year in a row[33].

As a result of the evaluations carried out, the main risks associated with the field of Information and Communication Technologies within the licensed banks were identified, referring to:
- using operating systems that are no longer supported by suppliers;
- deficiency of specialized staff in information security, necessary to ensure an adequate degree of protection against cyber threats;
- deficiencies related to the process of ensuring business continuity;
- weaknesses in ICT risk management.

As a result of the controls carried out and the deficiencies identified by the NBM, the banks have strengthened the resilience capacities and those for ensuring the protection against cyber threats and attacks. The risk related to Information and Communication Technologies (ICT) was a major concern for banks in 2023, amid technological progress and increasing dependence on information systems.

[33] https://commercial.allianz.com/content/dam/onemarketing/commercial/commercial/reports/Allianz-Risk-Barometer-2023.pdf

3. RISKS OF THE NON-BANKING SECTOR

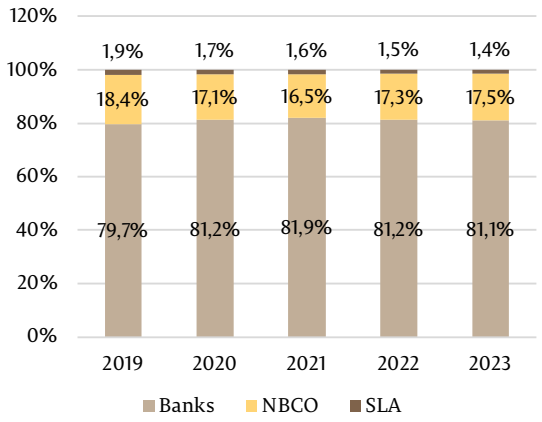
3.1. Non-bank lending sector

The National Bank took over the supervision of the non-bank lending sector from July 2023. Non-bank lending activity is carried out through non-bank credit organizations (NBCO) and Savings and Loan Associations (SLA).

The non-bank lending sector strengthened its position in the financial sector during 2023, with an increase in the portfolio of assets.

By the amount of loans granted, the non-bank lending sector maintains an approximate share of 19.0 percent in total loans granted in the banking and non-banking financial sector, with a slight increase in the period 2022-2023 (Figure 3.1.1.).

Figure 3.1.1. Share of loan portfolios and credits granted by banks, NBCO and SLA[34]



Source: prepared by NBM

During the period 2019-2023 the non-bank lending sector strengthened its position in the financial sector, with an increase of 38.2 percent of assets from MDL 11,804.5 million in 2019 to MDL 16,193.0 million in 2023, simultaneously with the reduction of the number of non-bank financial entities with the right of activity.

On 31.12.2023, an increase in assets of 4.2 percent was recorded compared to the end of 2022.

Savings and loan associations

The SLA sector remains relatively small by assets and the number of beneficiaries is also the most fragmented compared to the other components of the financial system.

In 2023, the SLA sector continued to strengthen, with a smaller number of associations returning a larger volume of assets. The market share of the 10 largest SLA is 57.8 percent and the maximum market share of 1 SLA is 23.2 percent.

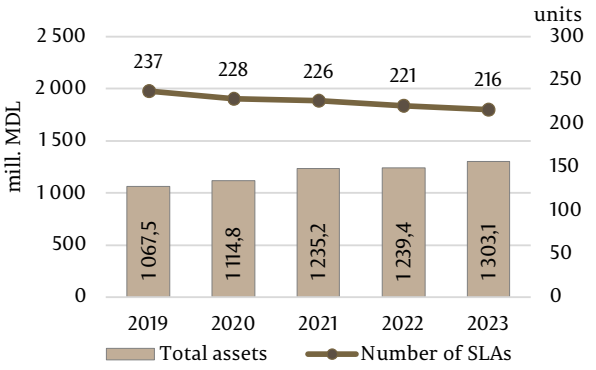
According to the situation on 31.12.2023, 216 associations hold licenses for the activity of SLA. In the last 5 years, the number of associations has decreased by 21 units.

During 2023, the number of loan recipients (29,968) decreased by 11.9 percent, while the number of depositors (6,945) did not undergo significant changes and remained approximately at the year-end level of 2022.

The activity of the SLA during 2023 had unfavourable developments manifested by the reduction of the loan portfolio and the increase in the rate of non-performing loans.

As of 31.12.2023, the total assets of SLA amounted to MDL 1 303.1 million, increasing by 5.1 percent compared to the end of 2022 (Figure 3.1.2). In SLA's asset structure, 88.7 percent returns on loans granted.

Figure 3.1.2. Developments in the number of SLAs and their assets



Source: prepared by NBM

[34] Share in total loans and loans granted by banks, SLAs and NBCOs

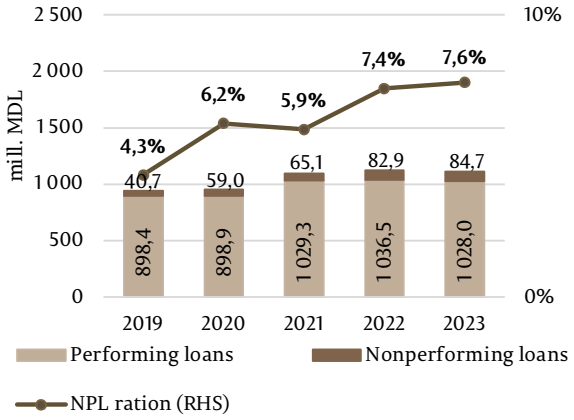
The total amount of loans to members amounted to MDL 1,112.7 million (Figure 3.1.3), down by 0.6 percent compared to the previous year.

Credit risk

The quality of SLA loans worsened slightly in 2023 and remains unfavourable in relation to the period up to 2022.

The rate of non-performing loans at the end of the reporting period was 7.6 percent, increasing by 0.2 p. p. compared to the previous year (Figure 3.1.3).

Figure 3.1.3. Loans granted to SLAs



Source: prepared by NBM

Financing risk

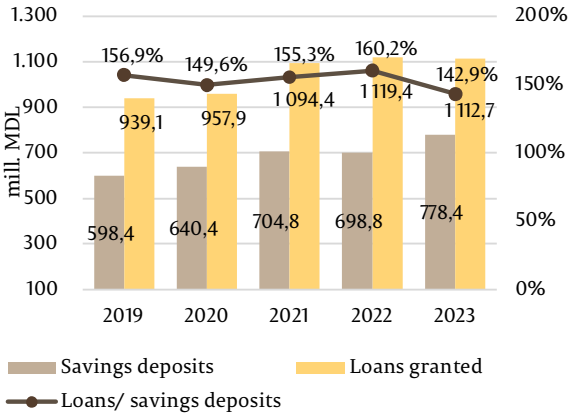
The sources of financing of the SLA remain predominantly own funds, in the case of the SLA of Category A, and savings deposits, in the case of the SLA of Category B.

Category A SLA is financed at the rate of 19.7 percent of the account of the loans received, and the equity share represents 77.6 percent of the total assets.

At the same time, for Category B SLA, in the structure of financing sources, 58.9 percent represent savings deposits, 5.2 percent – loans received, and the share of equity represents 33.3 percent.

The consolidated value of savings deposits attracted from SLA members amounted to MDL 778.4 million (Figure 3.1.4), up 10.1 percent compared to the value of deposits registered at the end of 2022.

Figure 3.1.4. Ratio of loans granted by SLA to deposits attracted

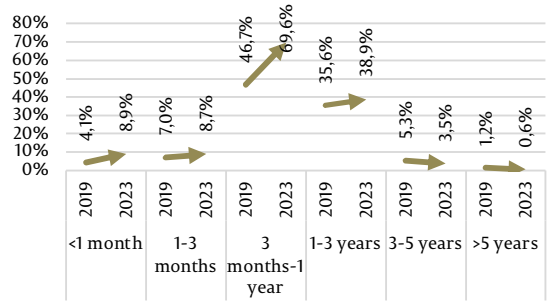


Source: prepared by NBM

Short-term savings deposits account for over half of the deposits attracted and their potentially more volatile nature creates risks in liquidity management.

As of 31.12.2023 deposits up to 1-year increase by 27.3 percent compared to the previous year and constituted 87.2 percent of the total savings deposits attracted (Figure 3.1.5). This increase could create difficulties for SLA in managing liquidity efficiently.

Figure 3.1.5. Evolution of the share of savings deposits by maturity



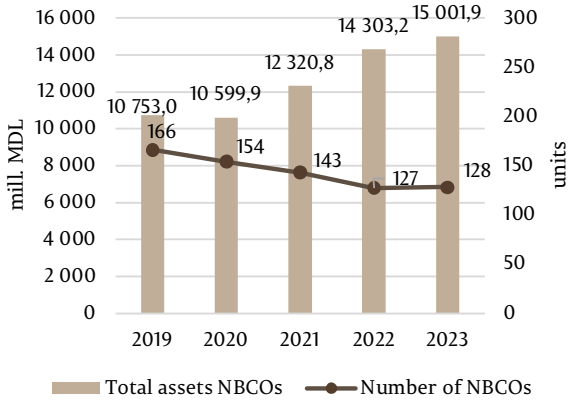
Source: prepared by NBM

Non-bank credit organizations

The high degree of concentration of the NBCO market still persists, with the market shares of the 10 largest NBCO remaining practically at the same level compared to the previous year.

At the end of 2023, the lending market 148 NBCOs were operating (Figure 3.1.6), of which 20 organizations with suspended activity.

Figure 3.1.6. Evolution of assets and NBCO number

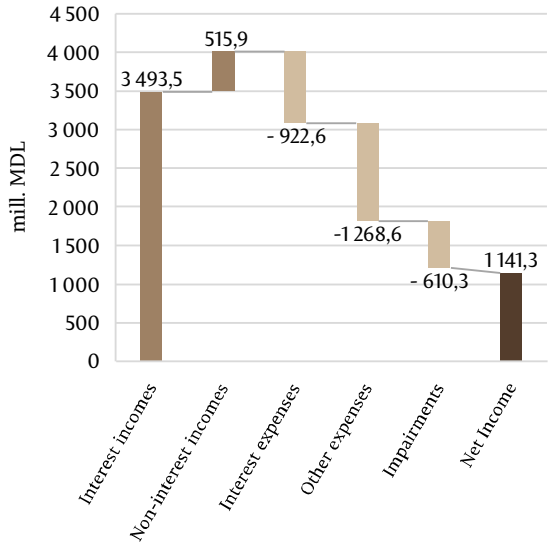


Source: prepared by NBM

The growth rate of NBCO assets decreased considerably in relation to the trend recorded in 2021-2022.

The NBCO sector reported net profit of MDL 1,141.3 million in 2023 (Figure 3.1.7), up 18.1 percent from 2022. The increase in profits in 2023 was largely driven by higher interest income, lower other operating expenses and risk costs.

Figure 3.1.7. Profitability of the NBCO sector

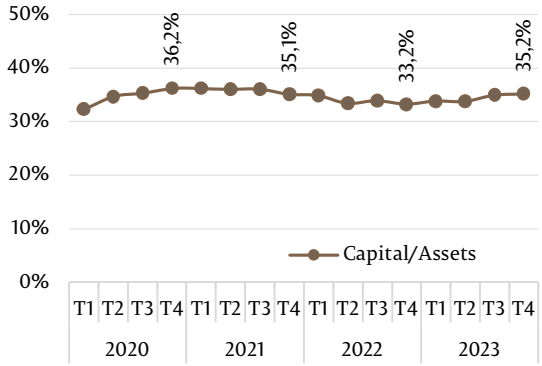


Source: prepared by NBM

During 2023, the return on assets (ROA) and the return on equity (ROE) increased. ROA reached 7.6 percent and ROE – 21.6 percent.

At the end of the fourth quarter of the reference year, the "Capital/assets" ratio registered 35.2 percent, increasing by 2.0 p.p. compared to the same period of the previous year (Figure 3.1.8).

Figure 3.1.8. Evolution of the aggregate capital/assets ratio of NBCO

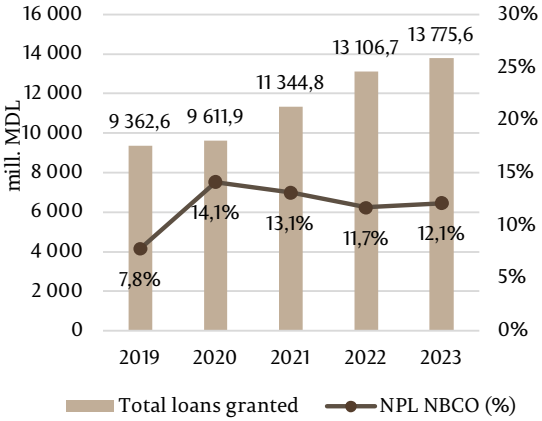


Source: prepared by NBM

Credit risk

Credit risk is an essential component of the NBCO's work. In 2023, the quality of loans granted by NBCOs marked an unfavourable development due to the faster accumulation of non-performing loans in the total portfolio (Figure 3.1.9). The unfavourable dynamics of 2023 reversed the trend, albeit slow, but recovering the quality of the NBCO portfolio after the pandemic.

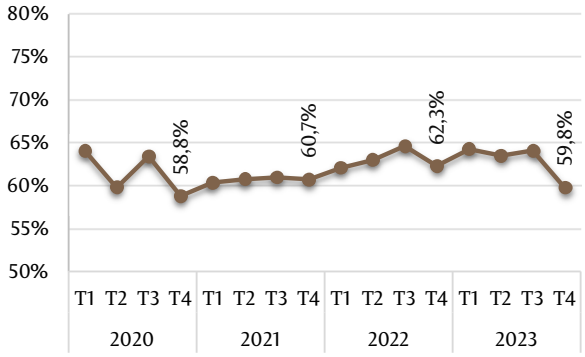
Figure 3.1.9. Dynamics of non-performing loans NBCO



Source: prepared by NBM

After the decrease at the end of 2022, the provision coverage rate registered an upward dynamics during the first 2 quarters of 2023, at the same time, in the fourth quarter of 2023 the provision coverage rate of non-performing loans marked a decrease of 4.3 p. p. compared to the previous quarter and registered the level of 59.8 percent (Figure 3.1.10).

Figure 3.1.10. Dynamics of the provisioning ratio of non-performing loans



Source: prepared by NBM

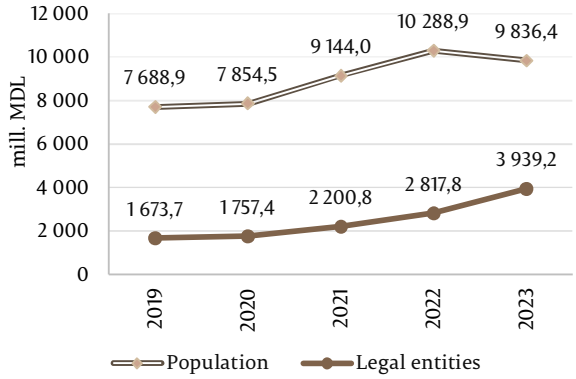
At the end of the fourth quarter of the reference year, the total assets of NBCO amounted to MDL 15,001.9 million, of these 91.8 percent representing the loan portfolio. Thus, the value of the loan portfolio amounted to MDL 13,775.5 million, increasing by 668.9 million. MDL (+5.1 percent) in relation to the end of 2022.

The expansion of the loan portfolio granted by NBCO is due to the increase in loans granted to legal entities.

The balance of loans granted to legal entities in the fourth quarter amounted to MDL 3,939.2 million, registering an increase of 39.8 percent compared to the end of 2022 (Figure 3.1.11).

After the entry into force of the regulation on responsible lending requirements applied to NBCOs, the annual growth rate of the loan portfolio granted to households by NBCOs stagnated, amounting to MDL 9,836.4 million, down by 4.4 percent compared to the same period of the previous year.

Figure 3.1.11. Dynamics of loans granted by NBCO by type of debtor



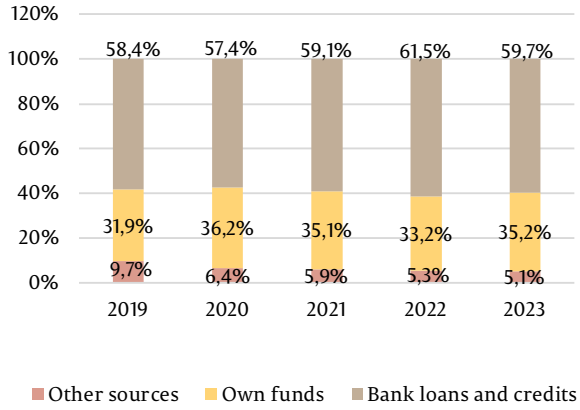
Source: prepared by NBM

Financing risk

The structure of the NBCO financing sources did not register significant changes during the analysed year, being mainly composed of bank loans and loans from non-residents.

NBCOs are financed at the rate of 35.2 percent of equity, 59.7 percent of loans and credits and 5.1 percent of means attracted from other sources (Figure 3.1.12).

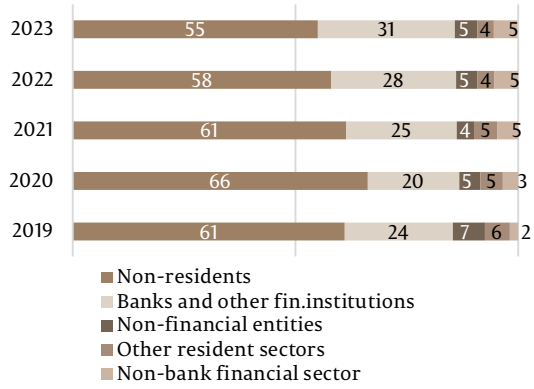
Figure 3.1.12. NBCO financing sources



Source: prepared by NBM

At the end of the fourth quarter of 2023, the share of financing attracted from non-residents constituted 54.6 percent of the total loans and credits attracted or MDL 4,887.5 million, of which in foreign currency-89,5 percent or MDL 4,374,4 million.
Also, NBCO actively borrows from banks, the balance of contracted loans registering an increase during 2023 (Figure 3.1.13).

Figure 3.1.13. Structure of loans / credits received by NBCO, %

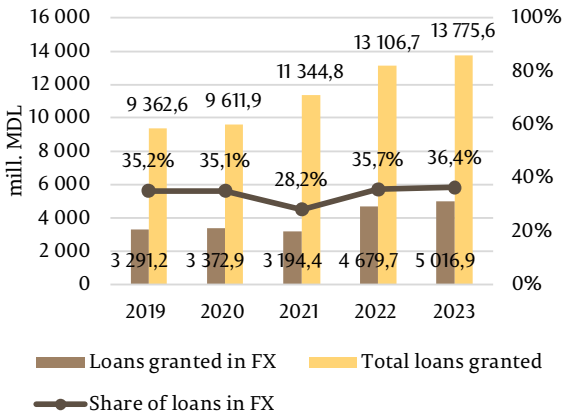


Source: prepared by NBM

Foreign exchange risk

At the end of the fourth quarter of 2023, the loans granted by NBCO attached to the currency exchange amounted to MDL 5,016.9 million or 36.4 percent of total loans granted, registering an increase of 7.2 percent compared to the same period of the previous year (Figure 3.1.14).

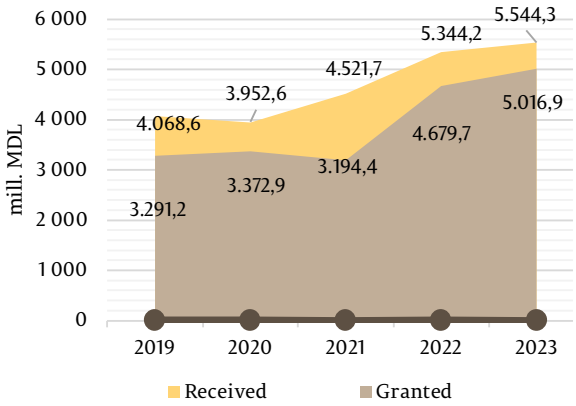
Figure 3.1.14. Loans granted attached to the exchange rate



Source: prepared by NBM

In financing sources, 61.9 percent foreign currency loans constitute the dominant part. The value of foreign currency loans is MDL 5,544.3 million, up 3.7 percent, above the level at the end of 2022 (Figure 3.1.15).

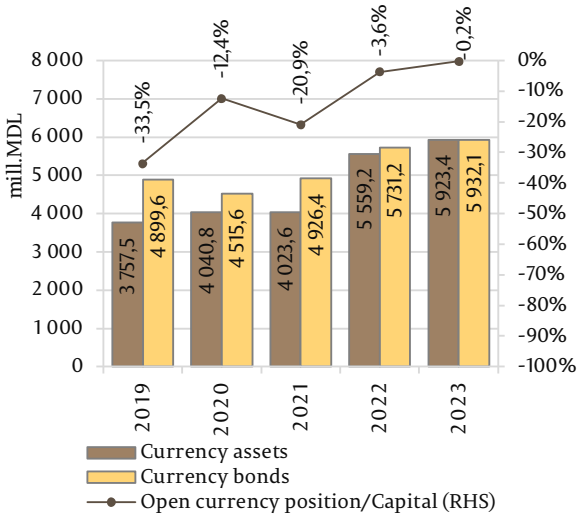
Figure 3.1.15. Loans in foreign currency and attached to the exchange rate: received vs. granted



Source: prepared by NBM

The excess of foreign currency bonds against foreign currency assets or assets attached to the exchange rate forms the short open currency position (Figure 3.1.16), and during 2023 it shows a slight improvement, reaching a minimum of the last 5 years.

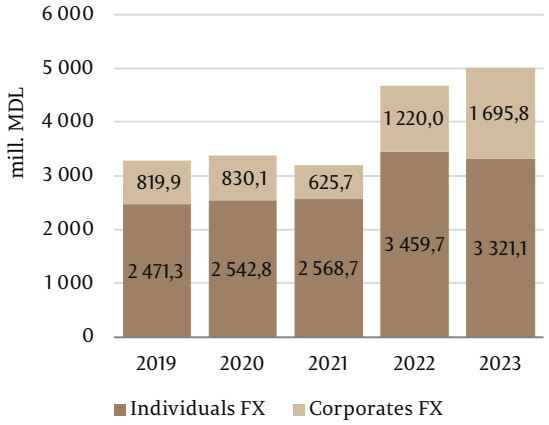
Figure 3.1.16. Evolution of aggregate currency position



Source: prepared by NBM

Foreign exchange rate loans to households (Figure 3.1.17), which are considered to be more sensitive to foreign exchange risk, accounted for 26.3 percent of NBCO's total portfolio or MDL 3,321.1 million (62.8 percent of aggregate equity).

Figure 3.1.17. Dynamics of the MDL equivalent of the loan portfolio of the NBCO attached to the exchange rate



Source: prepared by NBM

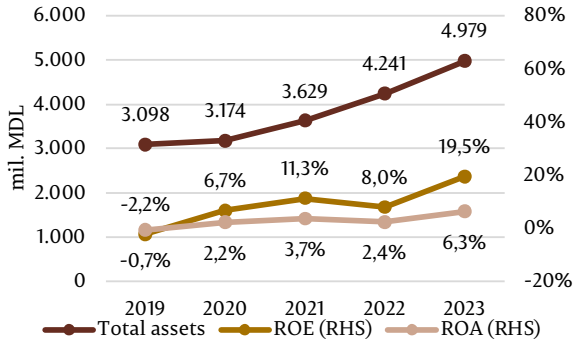
3.2. Insurance sector

During 2023, insurance companies increased their assets, recording both profits and losses from activity.

At the end of 2023, 9 insurance companies were operating on the insurance market (of which 8 companies practiced only general insurance activity and one company practiced composite activity). During the period analysed, there was a withdrawal of the business license from an insurance company.

The insurance market is a moderately concentrated market[35], the HHI Market Concentration Index in terms of assets as of 31.12.2023 being equal to1 673. The first five companies by size of assets held 78.8 percent of total assets, the top five companies by size of compensation paid - 77.8 percent of the volume of compensation paid, and the five largest companies by volume of premiums written - 73.6 percent of total gross premiums written. The assets of insurance companies increased by MDL 740.8 million during the analysed period (Figure 3.2.1) and constituted MDL 4,979.0 million (+17.5 percent compared to 2022).

Figure 3.2.1. Evolution of insurance companies' assets



Source: prepared by NBM

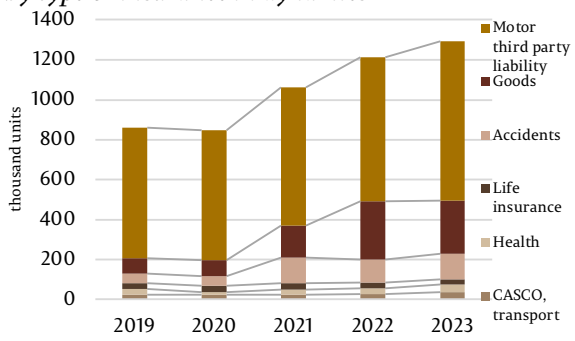
In 2023, insurers reported a net profit of MDL 313.9 million, with MDL 211.3 million or 205.7 percent more than in 2022. The return on capital indicators (ROE) recorded positive values between 16.3 percent and 43.1 percent at the end of the reporting period; an insurance company reported negative value of the return indicator, while ROE per sector was established at the level of 19.5 percent, with 11.5 p.p. more than in 2022. At the same time, the return on assets indicators (ROA) registered positive values between 3.3 percent and 18.6 percent; an insurance company registered negative value of the profitability indicator, and the ROA per sector was established at the level of 6.3 percent, by 3.9 p.p. more than in 2022.

The activity of insurance companies, during 2023, recorded increases on the main volume components, against the background of economic recovery and market conditions.

During 2023, insurance companies reported 1,968,256 insurance contracts, up 1.7 percent from the previous year. Of these, 1,283,244 policies remained in force at the end of the reporting period, the insured amount reaching MDL 341,444.8 million. The structural composition of the types of policies issued did not undergo significant changes during 2023, with the majority of policies (54.4 percent) at the end of the reporting year representing insurance contracts on motor civil liability (Figure 3.2.2).

[35] *The Herfindahl-Hirschman Index (HHI) is calculated as the sum of the squares of the market shares of all market participants, and the level of concentration is determined according to the scale: HHI<100 - perfect competition, 100<HHI<1500 - an unconcentrated market, 1500<HHI<2500 - moderate concentration, HHI>2500 - high concentration.*

Figure 3.2.2. Distribution of the number of policies by type of insurance in dynamics

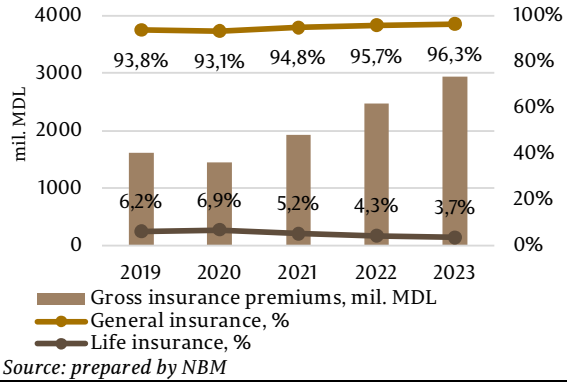


Source: prepared by NBM

As in previous years, in 2023 the insurance market in the Republic of Moldova was strongly focused towards the general insurance activity.

The volume related to gross insurance premiums subscribed (including those received in reinsurance) in 2023 increased by 18.8 percent compared to the same period of the previous year, reaching the level of MDL 2,935.9 million (Figure 3.2.3). General Insurance held a share of 96.3 percent of the total gross premiums written by insurance companies (MDL 2,828.4 million), while the value of the gross premiums written for life insurance was MDL 107.6 million, equivalent to 3.7 percent of the total volume of gross premiums written.

Figure 3.2.3. Evolution of premium volumes subscribed by insurance companies

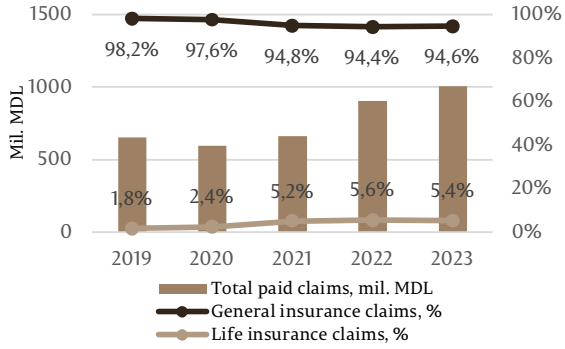


Source: prepared by NBM

The most significant increase was recorded accident insurance (+51.5 percent), credit insurance (+29.4 percent); motor third party liability insurance (+33.6 percent).

Compared to the volume of gross premiums written, the volume of gross compensation paid by insurance companies during the analysed period increased relatively less in annual terms, increasing by 11.1 percent compared to the volume recorded at the end of 2022 (Figure 3.2.4).

Figure 3.2.4. Evolution of the amounts of claims paid by insurance companies



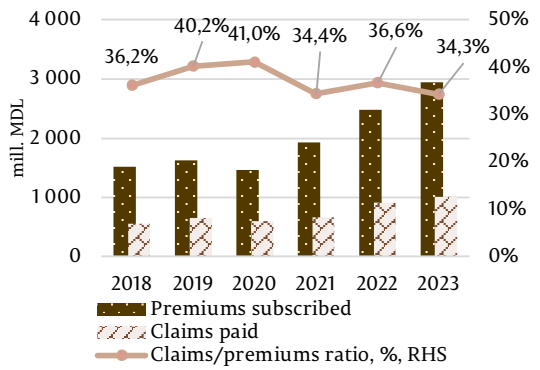
Source: prepared by NBM

Claims related to general insurance contracts amounted to MDL 952.6 million or 94.6 percent, registering an increase of MDL 98.0 million or 11.5 percent compared to the previous year, and the amounts paid for life insurance allowances (including annuities and payments for maturing contracts) amounted to MDL 54.1 million or 5.4 percent, registering an increase of MDL 3.0 million or 5.9 percent compared to 2022.

The ratio between the annual volume of claims and the annual volume of subscribed premiums decreased compared to the previous year against the background of a sharper increase in the volume of subscribed premiums.

At the same time, the ratio of claims paid and premiums subscribed by insurance companies was 34.3 percent, decreasing by 2.3 p.p. compared to the end of 2022 (Figure 3.2.5).

Figure 3.2.5. Evolution of the ratio between claims paid and premiums subscribed by insurance companies



Source: prepared by NBM

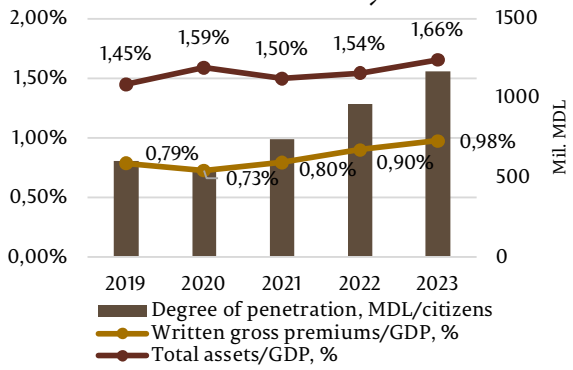
Integration of the insurance sector into the economy

Insurance density, calculated as the ratio between the value of gross premiums written on the territory of the Republic of Moldova and the number of its inhabitants, is an indicator that shows how much, on average, the resident of a country spends on insurance products. In 2023, the insurance density in the Republic of Moldova was MDL 1,168.4 / inhabitant, increasing by about MDL 185 / inhabitant or 18.8 percent compared to the previous year.

The degree of penetration of insurance into GDP, an indicator calculated as the ratio between the value of gross premiums written by insurance companies in the Republic of Moldova and the gross domestic product, registered a value of 1.0 percent in 2023, slightly increasing compared to the previous year. The total assets held by insurance companies reached at the end of 2023 at a level equivalent to 1.7 percent of GDP, increasing by 0.12 p.p. compared to the previous year (Figure 3.2.6).

The solvency ratio[36] of insurance companies denotes a sufficient level of solidity in most companies, *and the liquidity coefficient is placed at a super unitary level.*

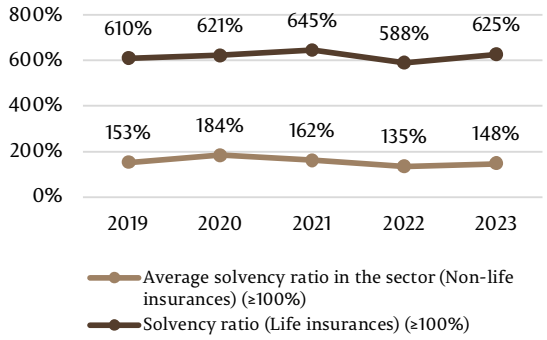
Figure 3.2.6. The degree of penetration of the insurance sector into the economy



Source: prepared by NBM

All licensed insurance companies record solvency rates above 100.0 percent. The average solvency rate for the non-life insurance business at the end of 2023 increased by 12.6 percentage points compared to the end of the previous year and amounted to 147.9 percent, with insurance companies reporting solvency rates between 126.8 percent and 183.6 percent. For the life insurance business, a solvency ratio of 625.1 percent was registered, significantly increasing by 36.7 percentage points compared to the situation at the end of 2022 (Figure 3.2.7).

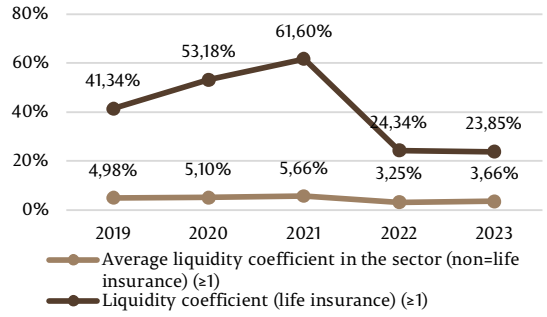
Figure 3.2.7. Evolution of the average solvency ratio in the insurance sector between 2019-2023



Source: prepared by NBM

On 31.12.2023, all insurance companies registered a liquidity coefficient[37] greater than 1 for each category of insurance, ranging for the non-life insurance activity between 2.4 and 6.6. On average, in the insurance sector, the liquidity ratio for the non-life insurance business was up by 0.4 points compared to the end of the previous year(from 3.3 to 3.7), and for life insurance a small decrease of 0.5 points was reported (from 24.3 to 23.9) (Figure 3.2.8).

Figure 3.2.8. The evolution of the average liquidity coefficient in the insurance sector during the period 2019-2023



Source: prepared by NBM

[36] Ratio between the amount of the available solvency margin and the amount of the minimum solvency margin

[37] The ratio of liquid assets to debt falling due.

The insurance/reinsurance brokers market remains active throughout 2023.

As of 31.12.2023, 50 insurance/reinsurance intermediaries (brokers) were operating on the insurance market. During 2023, brokers brokered 960.1 thousand insurance contracts (which represents 48.8 percent of the number of policies issued by insurance companies); the share of contracts brokered by brokers is increasing by 27.7 percent compared to 2022. At the same time, the volume of intermediate subscribed premiums amounted to MDL 1,701.7 million, up MDL 297.1 million compared to the previous year, which represents 58.0 percent of the total volume of subscribed premiums.

3.3. Non-bank payment service providers

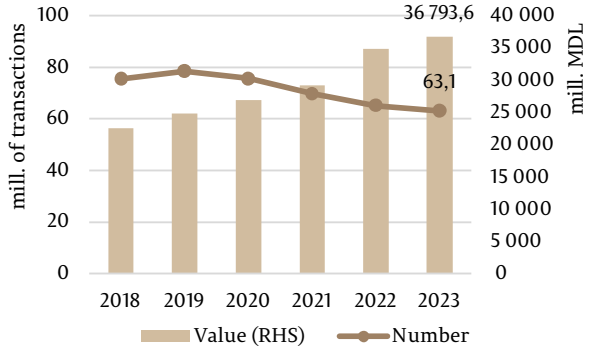
The National Bank supervises the activity of non-bank payment service providers by performing ex officio and on-the-spot checks.

As of 31.12.2023, nine non-bank PSPs were operating in the Republic of Moldova, including two payment companies, one postal service provider and six electronic money companies. In 2023, five thematic controls were carried out, within which the activity of licensed non-bank PSPs was subject to verification.

During the year, the activity of non-bank PSPs recorded an increase in the value of payment transactions, and their number decreased compared to 2022.

Through non-banking PSPs, in 2023, 63.1 million of payment transactions were made, down by 3.3 percent compared to 2022, in the total value of MDL 36.8 billion, by 5.8 percent more than in 2022 (Figure 3.3.1). In the last 5 years (2019 – 2023) there is a continuous increase in the average value of the payment transactions made, from MDL 316.7 in 2019 to MDL 583.6 in 2023.

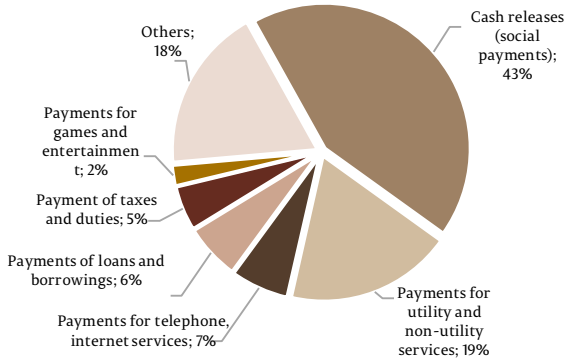
Figure 3.3.1. Evolution of the number and value of payments made via non-bank PSPs



Source: prepared by NBM

Cash releases in the form of social payments constitute the largest share in the total value of operations performed in 2023 by non-bank PSPs (43.0 percent), followed by payments for communal and non-communal services (18.6 percent). Other types of payment transactions hold small shares below 7.0 percent (Figure 3.3.2).

Figure 3.3.2. Share of the value of payment transactions made by non-bank PSPs in 2023



Source: prepared by NBM

In order to minimize financial risks, non-bank PSPs are bound to protect, on special bank accounts, the funds of payment service users, received in exchange for the issued electronic money and for the performance of payment transactions.

Financial indicators of PSP activity in 2023 registered increases.

At an aggregate level, non-bank PSPs recorded a total profit of about MDL 180.7 million in 2023, after losses of MDL 16.9 million registered in 2022.

At the same time, in 2023 there is an increase in the equity capital and assets owned by non-bank payment service providers by 25.3 and 7.6 percent respectively compared to 2022 (Table 3.3.1). As of 31.12.2023, the equity value held by non-bank payment service providers was in accordance with the provisions of the Law No. 114/2012 on payment services and electronic money.

Table 3.3.1. Evolution of the main indicators of non-banking PSP activity

No. of ord.	Financial indicators	2023	2022	Annual dynamics
1	Number of transactions, mill. of operations	63.1	65.1	-3.2%
2	Total transaction value, MDL million	36.8	34.8	5.8%
3	Total assets, MDL million	2,583.4	2,401.4	7.6%
4	Equity, MDL million	688.3	549.2	25.3%
5	Net Profit (Loss), MDL million	180.7	-16.9	1,167.4%

Source: prepared by NBM

4. MACROPRUDENTIAL INSTRUMENTS AND MEASURES

4.1. The macroprudential instruments of the NBM

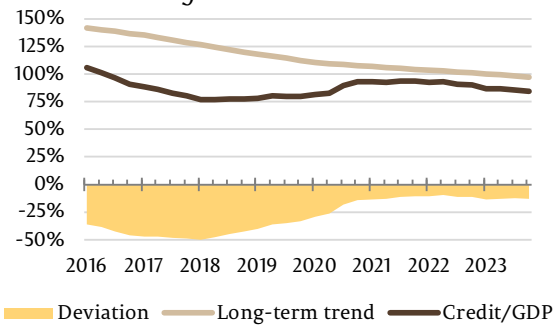
The macroprudential instruments of the NBM are provided in the *Macroprudential Policy Strategy*, approved by the National Committee on Financial Stability in September 2023, and are applied to prevent, reduce or mitigate systemic risks, in order to achieve the objectives of macroprudential policy.

Currently, the macroprudential instrument implemented by the NBM consists of capital buffers for banks and requirements for limiting the indebtedness of consumers.

Requirements for banks on the levels of the capital conservation buffer and countercyclical capital buffer remained at levels similar to those at the end of 2022.

The capital conservation buffer rate applied to all banks was maintained at 2.5 percent of the total amount of risk exposure of the respective banks. The countercyclical buffer rate for exposures located in the Republic of Moldova was maintained at the level of 0 percent of the total amount of risk exposure of banks, considering the negative values of the deviation of the Credit/GDP ratio from its long-term trend[38] (Figure 4.1.1), deviation based on which the buffer rate is calculated.

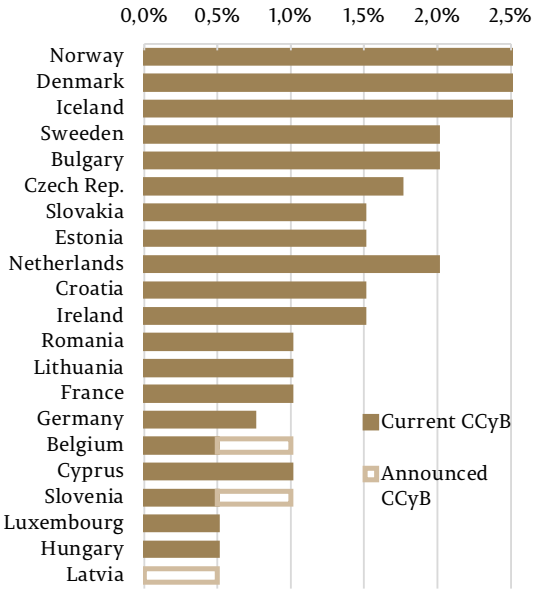
Figure 4.1.1. Evolution of the credit / GDP ratio in relation to its long-term trend



Source: prepared by NBM based on NBM and NBS data

In some EU countries, increased countercyclical buffer rates have entered or are due to enter into force during 2024, set in the context of increased lending activity and uncertainties regarding macroeconomic developments (Figure 4.1.2).

Figure 4.1.2. Countercyclical capital buffer rates set by EU countries



Countercyclical capital buffer rates set by EU countries
Source: European Systemic Risk Board (01.07.2024)

The current regulatory framework caps the countercyclical capital buffer rate at 2.5 percent of relevant risk exposures[39]. Also, one of the requirements for the activation of the countercyclical buffer is the announcement of the rate that will be applied in 12 months from the date of establishment.

The systemic risk buffer rate for exposures located in the Republic of Moldova was maintained at the level of 1.0 percent of the banks' risk exposure amount, at the same time, the increased systemic risk buffer rate for banks' exposures to credit risk related to resident households was repealed.

[38] The trend represents the evolution of the series from which fluctuations generated by transitory shocks are removed and is calculated by applying a bidirectional HP filter with the value of the flattening parameter λ = 400 000, according to Basel methodology and international practice.

[39] In justified cases, a countercyclical buffer rate of more than 2.5 percent of the total risk exposure amount shall be allowed to be set.

In October 2023, it was decided to repeal the rate increased by 2 percentage points of the systemic risk buffer for banks' exposures to credit risk related to resident households, except for individuals performing entrepreneurial activity[40], introduced in May 2022 and therefore easing the capital requirements applied to banks.

The decision of easing was taken in the context in which the conditions that led to the introduction of the increased rate of the systemic risk buffer have been overcome, the credit quality indicators (non-performing loans, expired loans) gradually returned to a positive trend, and disinflationary conditions at national and regional levels determined the reduction of interest rates on loans with variable interest, but also a less negative influence on the real incomes of the population.

The capital buffer rates for banks, which have been identified as systemically important institutions (O-SII), varied, depending on the bank's accumulated score, between 0.5 and 1.5 percent of the total banks' risk exposure during 2023.

The national banking sector is dominated by four banks, which have exceeded the threshold of systemic importance threshold. At the end of 2023, these banks held 82.1 percent of banking sector assets, 81.3 percent of bank loans and 84.2 percent of banking sector deposits from non-financial residents.

In order to reduce the likelihood of financial difficulties on the part of systemic banks and reduce their moral hazard, the NBM set O-SII buffer rates[41], on an individual basis, according to the score[42] accumulated by each bank as of 31.12.2023 (Table 4.1.1).

Table 4.1.1. O-SII buffer rates (from 09.04.2024)

Name of the bank	Buffer rate
CB „MAIB" JSC	1.5%
CB „Moldindconbank" JSC	1.0%
CB „VICTORIABANK" JSC	1.0%
OTP Bank JSC	1.0%

Source: NBM

During 2023, banks did not need additional capital to comply with macroprudential measures on additional capital requirements. The banks' capitalization level were above the level of capital requirements.

Macroprudential instruments aimed at limiting the indebtedness of consumers continued to be applied in 2023, such as loan to value ratio, debt service to income ratio, as well as the maximum maturity limit of the loan.

The requirements for the calculation of these indicators were introduced by Regulation No.101/2022 on responsible lending to consumers by banks (in force since July 1, 2022), to ensure responsible lending, in which banks carry out the assessment of the creditworthiness of the consumer when granting loans. A similar act was approved for the non – bank lending market - Regulation No. 20/5/2022 on responsible lending requirements applied to non-bank lending organisations, which came into force on September 1, 2022.

Thus, the DSTI indicator is applied to all loans granted to consumer and should not exceed 40 percent of the average confirmed monthly net income of the consumer, and the LTV indicator is applied to real estate investment loans granted to consumers and may not exceed 80 percent of the value of pledged properties. At the same time, the maximum maturity of the loan granted to the consumer was also limited – 5 years for consumer loans and 30 years for loans for real estate investments.

During 2023, there is a continuation of the trend of granting new loans to individuals by banks within the established limits of the indicators, according to the Regulation No. 101/2022.

DSTI indicator

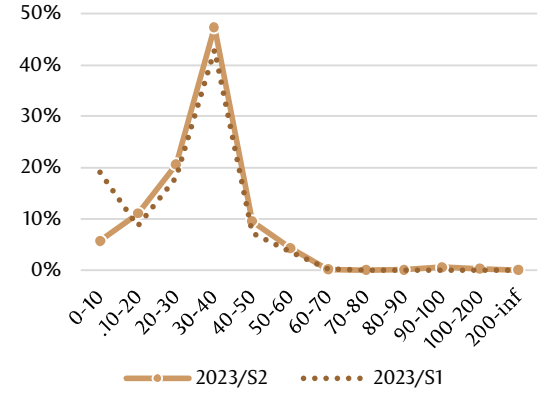
During the second half of 2023 compared to the first half of 2023, the distribution of the DSTI indicator from the half-yearly volume of new loans granted to individuals (Figure 4.1.3) it showed a slight growth trend on most

[40] Decision of the Executive Board of the NBM No. 210/2023
[41] Decision No. 95/2024 of the Executive Board of the NBM, in force as of 09.04.2024
[42] It is calculated according to the Methodology for the identification of O-SII in the Republic of Moldova, approved by the Decision of the Executive Board of the NBM No. 71/2023.

tranches. It should be mentioned that 39.27 percent of these loans were granted for the purchase / construction of the real estate.

In the second half of the reporting year, 84.79 percent of the new loans of individuals were granted with DSTI below 40 percent, 28.24 percent of them being loans granted for the purchase / construction of real estate.

Figure 4.1.3. Evolution of the share of the volume of credits by tranches of the DSTI indicator



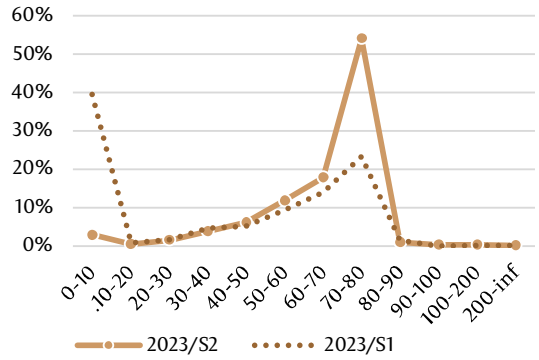
Source: NBM

LTV indicator

During the second semester of 2023, the distribution of the LTV indicator from the semi-annual volume of new loans granted to households for the purchase / construction of real estate, guaranteed with real estate for residential, commercial and land use (Figure 4.1.4) recorded an increasing trend on most tranches below the established limit, with a sharp accumulation of new loans granted on the 70-80 percent tranche.

In the second half of the reporting year, 98.41 percent of the new loans of households were granted with LTV below 80 percent.

Figure 4.1.4. Evolution of the share of the volume of credits by tranches of the LTV indicator



Source: NBM

Box 2. The role of the countercyclical capital buffer in ensuring financial stability

Following the global financial crisis, the Basel III regulations introduced the countercyclical capital buffer (CCyB) aimed at increasing the resilience of the banking sector and reducing the pro-cyclicity of bank lending.

Banks have the requirement to maintain the countercyclical capital buffer, established with a gradual increase within the limits of rates of 0 and 2.5 percent of the size of risk-weighted assets during the period of economic expansion and which can be used to absorb losses during the recession by relaxing the requirement for the given buffer. Thus, the CCyB is intended to ensure the absorption of financial shocks and volatility in order to prevent major financial crises and reduce their impact when they happen.

According to the Basel framework, capital buffers "can be relaxed as losses occur" so that banks can "conduct business as normal when their capital falls to its conservation range".

Although, there is concern that the increase in the CCyB rate could burden the economy with a cost that far exceeds the expected benefits, however, the states that activated the buffer did not record negative effects on the economy, but also expanded the macroprudential policy space to be able to face potential crises.

According to Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, taking into account the global financial crisis of 2007-2008 and the pro-cyclical mechanisms that

helped trigger it and worsen its effects, the Financial Stability Board, the Basel Committee on Banking Supervision (BCBS) and the G-20 issued recommendations to mitigate the pro-cyclical effects of financial regulation.

In December 2010, BCBS published international regulatory standards on bank capital adequacy. Thus, according to Directive 2013/36/EU (including in its subsequent editions), the countercyclical buffer rate, expressed as a percentage of the total risk exposure amount, shall be between 0 and 2,5 percent, calibrated in steps of 0,25 percentage points or multiples of 0,25 percentage points. In justified cases, the countercyclical buffer rate may be set in excess of 2,5 percent of the total risk exposure amount.

In the Republic of Moldova, at the end of 2023, the size of the countercyclical buffer rate in conditions of no risk is null.

In order to orient in the process of establishing the countercyclical buffer rate for the Republic of Moldova, a reference point is calculated for the countercyclical buffer, corresponding to the level of deviation of the value of the Credit/GDP ratio from its long-term trend.
According to the provisions of point 29 of Regulation No. 110/2018 "The reference point for buffer reflects, in a relevant manner, the credit cycle and the risks due to the excessive credit growth in the Republic of Moldova and takes into account the peculiarities of the economy of the Republic of Moldova. The reference point for buffer is based on the deviation of the "loans to the private sector/gross domestic product" ratio from its long-term trend, taking into account, at least:

1) an indicator of the increase in lending levels in the Republic of Moldova and, in particular, an indicator reflecting the changes in the ratio "loans granted to the private sector of the Republic of Moldova / gross domestic product";
2) any recommendation issued by the designated national macroprudential authority, as defined in the legislation in force."

The value of the HP filter parameter λ applied to estimate the referential is the one-way HP filter 400 000, included in the calculation methodology based on the recommendations of the Basel Committee on Banking Supervision[43].
At the same time, other parameters of the HP filter (400 000 bidirectional, 1 600 unidirectional and 1600 bidirectional) were used to confirm the phase of the financial cycle.

Strategy for setting the neutral positive rate for the countercyclical buffer

With the materialization of the pandemic shock, in the European Union area only about 14 percent of the capital released for loss absorption came back from macroprudential policy instruments.

The given imbalance, in large part, occurred due to the fact that the formation of reserves of macroprudential level was very limited during the pre-pandemic period. Thus, when the shock materialized, macroprudential authorities had at their disposal limited mechanisms for financial support of the banking sector.
Therefore, in the post pandemic period, some macroprudential authorities established the positive neutral rate of the countercyclical capital buffer. It consists in adopting a rate with a value greater than zero in the normal "neutral" zone of the financial cycle, which would allow justifying the positive value of the buffer when the cycle is not increasing.

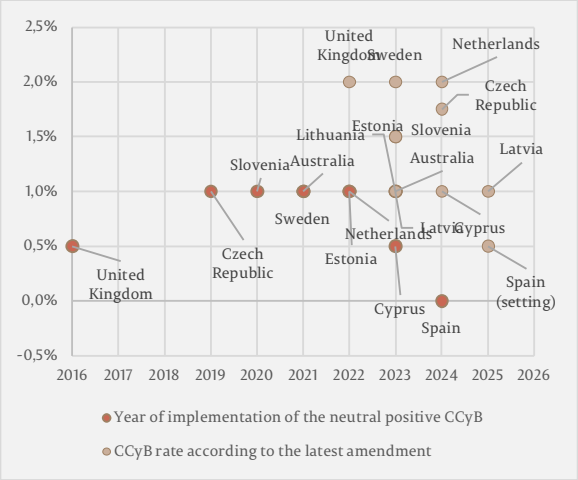
[43] The recommendation is included in the "Guidance for national authorities operating the countercyclical capital buffer", Basel Committee on Banking Supervision, 2010, https://www.bis.org/publ/bcbs187.pdf.

The aim of this strategy is to facilitate a possible decrease in capital requirements in the event of an unpredictable or imported crisis. A null buffer would provide no room for manoeuvre and could not be used as an economic policy tool.

Thus, this strategy allows the adjustment of the CCyB buffer both in the direction of increase and decrease, which improves transparency in the approval of the CCyB rate with the avoidance of late decisions in connection with the evolution of the financial cycle.

In addition to providing shock resistance, the positive neutral buffer allows a more gradual accumulation of the size of its rates in the upward phase of the financial cycle.
Thus, the first country to establish the positive neutral rate of 1 percent was the Great Britain (2016), after which it was implemented in the Czech Republic (2019, the rate of 1 percent), Australia (2021, the rate of 1 percent), Sweden (2021, the rate of 2 percent), Cyprus (2022, the rate of 0.5 percent), Latvia (2023, the rate of 0.5 percent and gradual increase to 1 percent) and other states (Figure 4.1.5).

Figure 4.1.5. The size of the positive neutral countercyclical buffer rate in different states



Source: prepared by the NBM on the basis of the macroprudential authorities ' web pages in the respective states

4.2. The National Committee on Financial Stability

The National Committee on Financial Stability Committee continued to meet quarterly, in order to examine the current situation in the financial system and to analyse the risks that could threaten financial stability at system level.

Thus, during 2023, four ordinary meetings of the committee were held in an expanded format, in which the risks in the banking sector, the non-bank lending sector and the insurance sector were examined, as well as the actions taken or initiated by the supervisory authorities to mitigate these risks.

Other topics examined during the meetings concerned the analysis of the impact of inflation on financial stability, the evolution of the capital market, as well as the examination of the opportunity to develop a mechanism for performing back-to-back transactions in the insurance sector, similar to the one applied in the banking sector, being issued a recommendation to the Government of the Republic of Moldova for this purpose.

At the same time, in accordance with the provisions of art. 8, letter e) of Law No. 209/2018 on the National Committee on Financial Stability, during the extended meeting of the Committee on 15 September 2023, the strategy on macroprudential policy was approved, which establishes the operational framework for macroprudential policy and its implementation, ensuring transparency and predictability of the decision-making process.

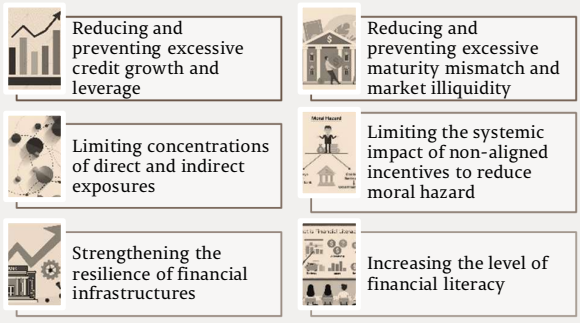
Box 3. Macroprudential policy strategy

Macroprudential policy strategy (the Strategy) establishes the operational framework for achieving the objectives of macroprudential policy, in order to ensure transparency and predictability of the decision-making process.

In particular, the Strategy describes the national regulatory framework for maintaining financial stability; establishes the link between the ultimate objective of macroprudential policy and the intermediate objectives and macroprudential instruments; explains the coordination mechanism between the relevant national authorities involved in the decision-making policy and establishes the elements of macroprudential policy communication.

The final objective of macroprudential policy is to safeguard the stability of the financial system as a whole, including strengthening the resilience of the financial system, limiting the contagion effect and reducing the accumulation of systemic risks, thus ensuring a sustainable contribution of the financial sector to economic growth. The final objective is achieved through the implementation of intermediate objectives, which are designed to enhance the operability, transparency, and accountability of macroprudential policy by contributing to the decision-making basis at the instrument selection stage (Figure 4.2.1).

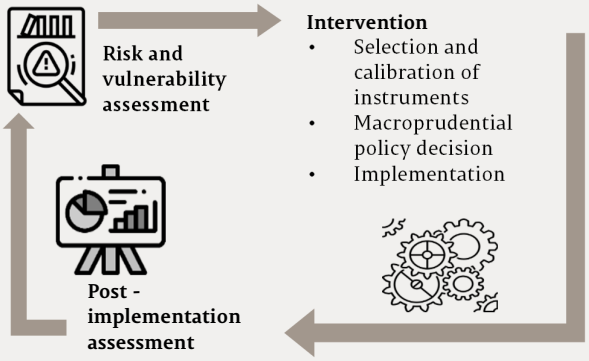
Figure 4.2.1. Intermediate objectives of macroprudential policy



Source: NBM

Macroprudential policy shall be carried out by competent authorities within the boundaries of the supervised sectors. At national level, the designated macroprudential authority, responsible for coordinating the implementation of macroprudential policy, is the National Financial Stability Committee (NFSC). The implementation of macroprudential policy is carried out in three stages (Figure 4.2.2).

Figure 4.2.2. Stages of the macroprudential regulation cycle



Source: NBM

The first stage of the decision-making cycle consists of the analysis and assessment of systemic risk, a process in which the competent authority identifies existing and potential systemic risks. The analysis is followed by the selection of the appropriate tools for the potential intervention, their calibration and estimated assessment of effectiveness, followed by the actual implementation of the instrument. The third step consists in periodic reassessment of the effectiveness of the tool and the preconditions that led to its application.

The strategy illustrates the recommended macroprudential tool according to the intermediate objective pursued and the size of the risk addressed, but the decision-making is not limited to pre-established rules, also having a discretionary component that allows competent authorities to ensure an appropriate selection and calibration of instruments.

At the same time, the document explains the importance of the independence of macroprudential policy, but also its interaction with other policies, interinstitutional cooperation, and the channels for communicating decisionsto ensure transparency.

5. RECENT DEVELOPMENTS AND PERSPECTIVES

5.1. Regulations to strengthen the financial stability framework

The National Bank continued to amend the framework on prudential regulation of the financial system, currency regulation and other changes with substantial impact on financial stability.

During 2023, to apply the Law No. 202/2017 on the activity of banks, the NBM made changes:

- to *the Regulation No. 292/2018 on requirements regarding the members of the governing body of the bank, the financial holding company or mixed holding, the heads of a branch of a bank from another state, the persons holding key positions and the liquidator of the bank in liquidation process*. The amendments contain materializations regarding the applicability of the elements of the interviewing procedure, including provisions related to the obligation of the NBM to interview the persons promoted to the positions of heads of the bank branch from another state, chief accountant, financial director of the bank / bank branch from another state, as well as of the heads of the control function of the bank.

- to *the Regulation no. 147/2019 on branches and secondary offices of banks,* providing the improvement of the existing regulatory framework in the context of the digitization of the activity processes related to the supervision of banks, including the receipt of information on branches and secondary offices through the IT solutions of the NBM.

Aligning the banking legislation of the Republic of Moldova with international standards by improving the quantitative and qualitative mechanisms of banks administration will contribute to promoting a secure and stable banking sector, increasing the transparency, trust and attractiveness of the domestic banking sector for potential investors and creditors of banks, as well as for depositors and customers, developing new financial products and services.

In 2023, a number of important amendments to Law No. 62/2008 on foreign exchange regulation entered into force (operated by Law No. 363/2022 for amending certain normative acts), which aim to improve the legal framework related to the currency field, taking into account the commitments of the Republic of Moldova assumed under the association agreement with the European Union and amending the legal framework in some related areas.

The amendments are aimed at strengthening the licensing and supervision process of foreign exchange units, administrators, shareholders/associates of foreign exchange offices and hotels, their beneficial owners, so that the NBM, as supervisory authority, has legal instruments to ensure an adequate supervision of the activity of foreign exchange units. Some restrictions have been imposed (by depriving the right to practice foreign exchange activity) on the administrators, associates/shareholders of foreign exchange offices, beneficial owners of foreign exchange offices who systematically violate the provisions of the foreign exchange legislation related to the conduct of foreign exchange activity in cash with individuals or whose activity has been suspended. The performance by the license holder of the foreign exchange activity on addresses other than those indicated in the license will serve as the basis for the withdrawal of the licence.

Changes made in the part related to the adjustment of Law No. 62/2008 in accordance with the provisions of Law 308/2017 on preventing and combating money laundering and terrorist financing have the effect of excluding the establishment of control or management positions within the foreign exchange office/hotel by criminals and organized criminal groups, by their accomplices.

Changes related to the authorization of foreign exchange operations by the NBM are aimed at concretizing the basis for refusal to authorize the foreign exchange operation - finding by the NBM of a situation that may have a significant negative impact on ensuring the stability of the domestic foreign exchange market and / or the implementation of the foreign exchange policy of the country.

To adjust the secondary normative acts according to the provisions of Law No. 62/2008 on foreign exchange regulation, were amended:

- the Instruction No. 12/2020 on notification of external commitments, the Instruction No. 11/2009 on the reporting of certain foreign exchange operations by the licensed banks and the Regulation No. 29/2018 on conditions and procedures for performing foreign exchange operations, in the context of excluding the need to notify and report to the NBM the guarantees issued by non-resident guarantors in favour of residents, reducing the ceiling for notifying to the NBM the loans received by residents from non-residents from EUR 50,000 to EUR 10,000 (or their equivalent), changing the procedures for notifying and reporting to the NBM, establishing the obligation of resident legal entities to notify external commitments and to report to the NBM.

- The Regulation No. 304/2016 on licensing of foreign exchange entities was amended in the context of implementing the solution to streamline the licensing process of foreign exchange offices and hotels, performing other procedures regulated by Law No. 62/2008. Thus, foreign exchange offices and hotels will submit to the NBM the documents related to the licensing process through the NBM web portal (component of the NBM Information System on licensing, authorization and notification). In order to streamline the processes of licensing and supervision of the activity of foreign exchange units*, the provisions related to the control and sanctioning of foreign exchange units were incorporated in a new normative act, namely in the Regulation on carrying out controls and application of sanctions to foreign exchange entities.*

- The Regulation No. 335/2016 on the activity of foreign exchange entities was adjusted in order to regulate the requirement on the availability by foreign exchange units of surveillance systems and video recording of their activity (in order not to admit violation of the rights of customers of foreign exchange units), as well as suspending the currency exchange operations in case of technical malfunctions or other incidents.

- The Instruction No. 232/2011 on the procedure of submission to the National Bank of Moldova by the foreign exchange offices and hotels of the reports in electronic form and the Instruction No. 296/2016 on reporting to the National Bank of Moldova by foreign exchange offices and hotels were modified in the context of implementing the solution for streamlining the NBM licensing, authorization and notification process, in the part related to the presentation to the NBM by foreign exchange offices and hotels of reports in electronic form, through the NBM WEB portal.

- The Regulation No. 216/2015 on residents' accounts abroad, the Regulation No. 51/2009 on the authorization of certain foreign exchange operations by the National Bank of Moldova, the Regulation No. 165/2019 on certain aspects related to export and import of cash and of traveller's cheques by banks and the Regulation No. 14/2009 on the issuance by the National Bank of Moldova of authorizations to export funds from the Republic of Moldova have been amended in order to regulate the application and documents for obtaining the authorization, specifying the conditions for the authorization of foreign exchange operations, updating the requirements regarding the documents attached to the application for the issuance of the NBM authorization, optimizing the list of documents for obtaining the authorization, reporting to the NBM and in order to establish the requirement to reflect the source of the money to be used for performing foreign exchange operations.

According to the provisions of Law No. 178/2020 for the amendment of certain normative acts, starting with July 1, 2023, the NBM is the competent authority for the licensing/authorization, regulation and supervision of the non-banking financial sector taken over from the NCFM.

Through the Twinning Technical Assistance Project "Strengthening supervision, corporate governance and Risk Management in the financial sector", implemented with the support of the European Union, the NBM

benefited from support in order to align the national legislation with Directive 2009/138/EC of the European Parliament and of the Council of 25.11.2009 on the taking-up and pursuit of the business of insurance and reinsurance (Solvency II).

The aim of the project is to strengthen the insurance sector and prepare the market for the application of the "Solvency II" regime – the implementation of internal governance and risk management requirements by insurance companies.

The "Solvency II" regime refers to quantitative requirements, including minimum and solvency capital; qualitative requirements, including risk management, actuarial, internal control and internal audit; reporting requirements, etc. it also sets out conditions for licensing insurance/reinsurance companies, the right of insurance companies to provide services and freedom of establishment (FOS&FOE), improving the supervisory process, the way to manage crises.

In 2023, the Law No. 575/2003 on deposit guarantee in the banking system was repealed, being replaced by Law No. 160/2023 regarding the guarantee of deposits in banks, developed by the DGFBS.

The new law was developed with a view to transposing (partially) the Directive 2014/49/EU on deposit guarantee schemes into national law. The law establishes the status of the deposit guarantee fund in the banking system as an autonomous entity under public law, which creates and maintains the bank deposit hedge fund and the Bank Resolution Fund. The new law stipulates that the level of coverage of the deposit guarantee is MDL 100 thousand, and from January 1, 2025 it will be MDL 200 thousand, per depositor per bank (compared to MDL 50 thousand, the previous level). The target level of the bank deposit coverage fund is 4 percent and is to be reviewed by the DGFBS Board of Directors every 3 years. The contributions of banks to the bank deposit coverage fund shall be determined according to the risk category of each member institution of the Fund.

Also, in 2023, the Law No. 192/1998 on the National Commission for Financial Market, through which the Commission became the entity responsible for protecting the rights of consumers of financial services. These powers extend to professional participants of the capital market, the insurance market, non-bank lending organisations, banks and payment service providers. Accordingly, administrative and control procedures were included in the area of protecting the rights of consumers of financial services and sanctioning for non-compliance.

In 2023, by Decision of the Executive Board of the NBM No. 108, the Regulation on credit transfer, direct debiting and the assignment of IBAN codes was approved (in force as of August 5, 2023). The approval was prompted by the amendments and additions to the Law on Payment Services and Electronic Money No. 114/2012 (by the Law on the amendment of certain normative acts No. 209/2022, which transposes the Directive (EU) 2015/2366 on payment services in the internal market (PSD2)).

The rules for credit transfer in national and foreign currency have been improved. Also, some requirements have been established for direct debits, with the transposition of article 5 and the Annex to Regulation (EU) No. 260/2012 establishing technical and business requirements for credit transfers and direct debits in euro (its transposition is one of the criteria for the accession of the community of payment service providers from the Republic of Moldova to SEPA).

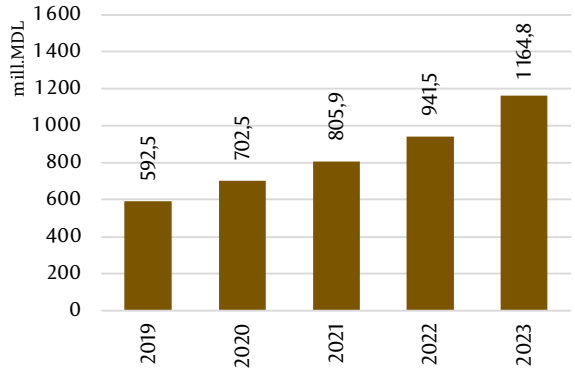
5.2. Deposit guarantee and Resolution fund in the banking sector

The coverage level of deposits of private individuals and legal entities, residents and non-residents, doubled to the level of MDL 100,000. In 2023, the capitalization[44] of DGFBS resources reached 3.95 percent.

Since the establishment of the fund (01.01.2004) financial means were accumulated in the total amount of MDL 1 164.8 million, of which MDL 666.3 million - initial and quarterly contributions of banks and MDL 552.1 million - income from the investment activity of DGFBS.

During the reporting year, the financial means for guaranteeing deposits increased by MDL 223.3 million or by 23.7 percent, as of 31.12.2023 the available means of the DGFBS being worth MDL 1,164.8 million (Figure 5.2.1) or 3.95 percent of all covered deposits registered in the banking sector.

Figure 5.2.1. Available means of DGFBS



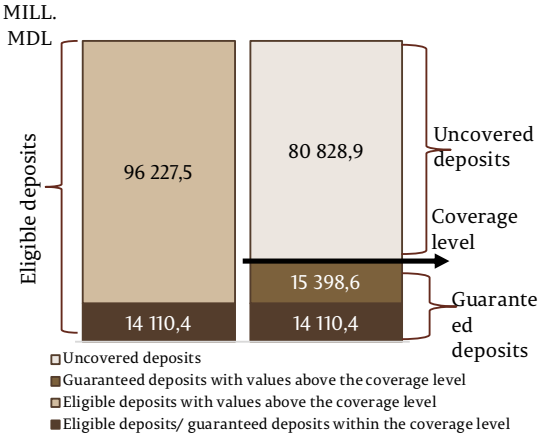
Source: prepared by the NBM based on DGFBS data

Considering the coverage level of MDL 100,000, they are sufficient to cover deposits simultaneously guaranteed at 4 banks (2 small and 2 medium-sized) or any bank, except for systemically important banks for which, according to the provisions of Law No. 232/2016 on the recovery and resolution of banks, the resolution procedure is applicable.

The level of full coverage of deposits of eligible individuals and legal entities reached 97.3 percent of the number of depositors and 26.7 percent of the amount of guaranteed deposits.

Over the analysed period, the balance of guaranteed deposits increased by 58.0 percent to MDL 29,509.0 million (Figure 5.2.2), due to the significant increase in the value of guaranteed deposits as a result of the doubling of the coverage level. In disaggregation by type of depositors, guaranteed deposits of private legal entities accounted for just over 10.3 percent of total guaranteed deposits, while guaranteed deposits of individuals accounted for 89.7 percent of the amount of guaranteed deposits respectively.

Figure 5.2.2. Positioning of eligible deposits against the coverage level, 31.12.2023



Source: DGFBS, Activity Report for 2023

As administrator of the Bank Resolution Fund, the DGFBS continued to build up the financial resources of the Bank Resolution Fund, which stood at 1.8 percent of the volume of guaranteed deposits.

During the reporting year, the Bank Resolution Fund received contributions from banks in the total amount of MDL 117.9 million. As the contributions were collected from banks, the DGFBS ensured the investment process from the available resources of the Bank Resolution Fund, recording at the end of 2023 investment income in the amount of MDL 57.4 million.

[44] The ratio between the calculated financial means of the fund and the total amount of guaranteed deposits

As of 31.12.2023, the total financial resources of the Bank Resolution Fund amounted to MDL 524.7 million, which is 59.3 percent against the target level of 3% of the amount of guaranteed deposits set by Law No. 232/2016 on the recovery and resolution of banks.

5.3. Climate risk management by financial companies

Activities undertaken by central banks to mitigate the negative economic effects of climate change, including effects on financial systems, are becoming increasingly important. The NBM has joined this trend since 2023 to ensure that climate risks do not threaten financial stability.

Under the Program supported by the Resilience and Sustainability Facility in the context of the Memorandum of Economic and Financial Policies with the International Monetary Fund, the NBM is committed to develop a sustainable financial framework based on best practices to strengthen resilience to climate change.

Thus, as a reform measure under the above-mentioned program, the NBM developed the Roadmap for Sustainable Finance of the Republic of Moldova[45]. This document is significant for financial sector entities and other stakeholders in their efforts to integrate sustainability criteria into their decision-making processes and to contribute to the achievement of the Sustainable Development Goals. The Roadmap consists of four main pillars under which concrete actions and measures are planned. The activities set out will help to identify, quantify, monitor and properly manage climate risks and inform the financial sector actors regarding their risk exposure.

At the same time, in order to promote and implement the activities set out in the Roadmap, a Memorandum of Understanding was signed between the Government of the Republic of Moldova, the NBM and the NCFM on the development of the framework for sustainable and environmentally responsible finance, and the Consultative Group on Sustainable Finance was created, with the participation of representatives of the NBM, the NCFM, the Association of Moldovan Banks and relevant ministries.

The NBM benefits from the support of the International Finance Corporation (IFC), a member of the World Bank Group, in the development of the sustainable finance framework.

In addition, as of November 8, 2023, the National Bank has joined the Sustainable Banking and Finance Network (SBFN) platform. SBFN is a voluntary community of financial sector regulators, central banks, ministries of finance, ministries of environment and industry associations in emerging markets committed to promoting sustainable finance. The NBM's membership of the SBFN aligns the country's financial system with national and global priorities in this area.

In order to determine the practices and policies applied by licensed banks and insurance companies to monitor and manage climate risks, the NBM prepared the Climate Change Survey, conducted during November 2023, with the participation of 11 banks and 9 insurers.

The survey included questions related to climate risks and their scope in the institutions' strategic documents, how climate risk is managed, as well as questions on transparency and information related to climate risk management.

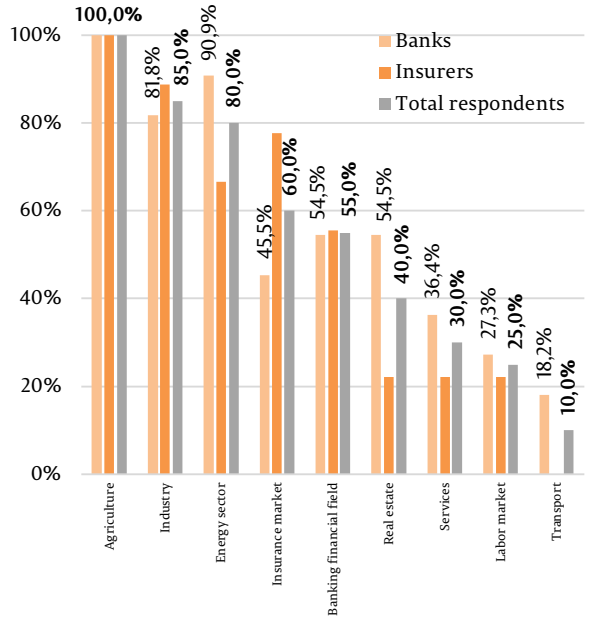
I. Strategy and governance

- The majority of respondents (80.0 percent) believe that climate risks could have a material impact on the institution.
- According to the respondents' opinion, climate risks have the greatest impact on the following sectors of the economy: agriculture (100.0 percent), industry (85.0 percent), energy sector (80.0 percent), insurance market (60.0

[45] Decision of the NBM Executive Board No. 145/2024

percent), banking financial field (55.0 percent) (Figure 5.3.1).

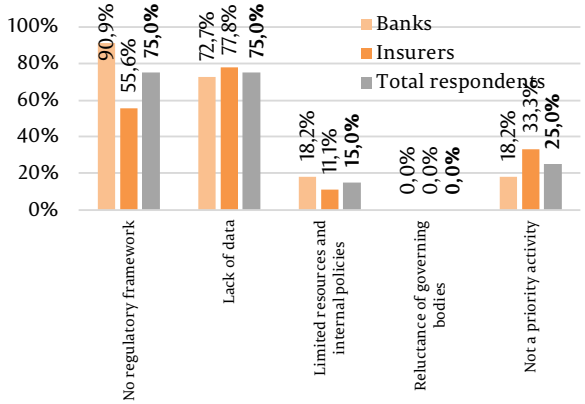
Figure 5.3.1. Sectors of the economy where climate risks have the greatest impact



Source: NBM, Climate Risk Survey

- For 60.0 percent of respondents, climate risks are taken into account in the institution's development strategy, while for another 30.0 percent of respondents climate risks are not taken into account, but there are plans to change the strategy in response to climate risks.
- Less than half of respondents have introduced products/services in response to climate change (40.0 percent). However, 45.0 percent are considering the introduction of products/services to this end, with banks considering the development of green credit products, investment loans for energy efficiency and renewable energy, and insurers - physical risk insurance mainly for the agricultural sector.
- The main external factors that motivate respondents to strengthen their climate risk management are: requirements of investors/institutions providing financial support (60.0 percent), customer requirements (50.0 percent), policies of parent companies (45.0 percent), availability of specialized consulting/assistance (40.0 percent).
- The main obstacles identified by respondents to strengthening climate risk management are: lack of regulatory framework (75.0 percent), lack of data (75.0 percent), limited resources and internal policies (15.0 percent) (Figure 5.3.2). At the same time, 25.0 percent of respondents also mention that this activity is currently not a priority activity for their institutions.

Figure 5.3.2. Obstacles to strengthening the institution's climate risk management

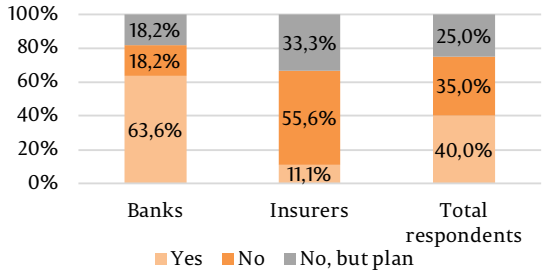


Source: NBM, Climate Risk Survey

II. Risk management

- 40.0 percent of the respondents mentioned that internal climate risk management documents are in place in the institution, half of which also have internal documents in the process of development (Figure 5.3.3). At the same time, 60.0 percent of the respondents who do not have internal climate risk management documents, 25.0 percent have such documents in the process of development.

Figure 5.3.3. Availability of internal climate risk management internal acts in the institution



Source: NBM, Climate Risk Survey

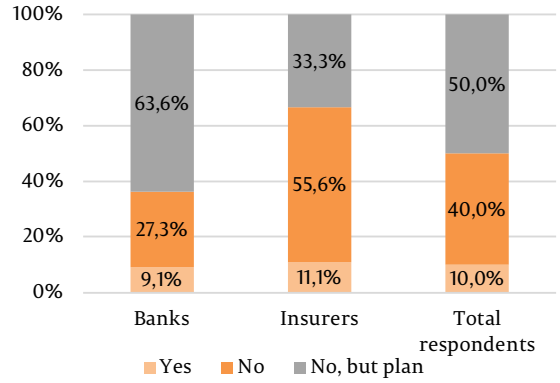
- Some of the sources used to measure and monitor climate risks are heat maps/sector level assessments (15.0 percent), climate

and weather data (15.0 percent), environmental, social and governance (ESG) assessments (15.0 percent), national policy changes (10.0 percent).

III. Stress tests

- 10.0 percent of respondents use stress testing to assess potential losses in case climate risks materialize. 50.0 percent of respondents, predominantly from the banking sector, although not currently using stress tests, plan to apply them to assess the potential impact of climate risks in the near future (1-2 years) (Figure 5.3.4).
- Respondents face certain obstacles to using stress testing to assess potential losses in case of materialization of climate risks such as lack of required data (70.0 percent), lack of clear and harmonized terminology for the scope of "green finance" and environmentally sustainable projects (70.0 percent), difficulties in modeling transmission relationships/mechanisms (55.0 percent), insufficient internal resources (35.0 percent), lack of regulatory framework (10.0 percent). At the same time, for 35.0 percent of insurers, this is not a priority in their activity.

Figure 5.3.4. Existence of stress testing to assess potential losses in case of materialization of climate risks



Source: NBM, Climate Risk Surve

ANNEXES

Systemic Risk Survey [46]

Traditional key risks (macroeconomic, credit) as well as specific risks (geopolitical, sovereign) persist in the financial system.

Geopolitical risk emerges as the most important risk, with a high probability of materialization, a high potential impact and a very difficult management capacity. In order of importance, the second major risk is macroeconomic risk, assessed as having a medium to high probability of materialization, a high potential impact and a relatively difficult management capacity. Sovereign risk ranks third in the risk hierarchy by importance, characterized by a medium probability of occurrence, a relatively high potential impact and a very difficult management capacity (Table 1.1).

The dynamics show an increase in importance for most of the analysed risks, except for Covid-19, macroeconomic (a significant decrease from the previous year), real estate and sovereign risks (a slight decrease from the previous year) (Figure 1.1).

Table 1.1. Rating of risks analysed in the survey by category

2023	Importance	Likelihood	Potential impact	Management capacity
Geopolitical risk	3,98	4,00	4,00	4,09
Macroeconomic risk	3,38	3,55	3,82	3,09
Sovereign risk	3,21	2,73	3,73	3,73
Credit risk	3,19	3,27	3,55	2,91
Cyber risk	3,02	3,18	3,27	2,91
Reputational risk	2,71	2,36	3,27	3,00
Regulatory risk	2,61	2,82	3,00	2,55
Environmental risk	2,46	2,55	2,64	2,73
Real estate risk	2,21	2,18	2,36	2,27
Covid-19 risk	2,12	2,27	2,45	2,18

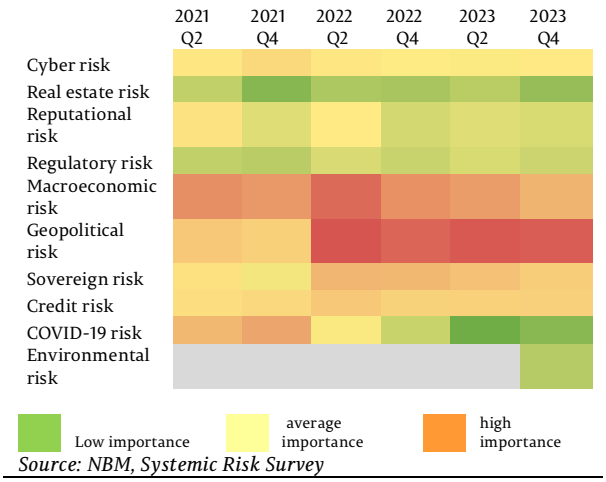
*Note: **Importance** was calculated as the geometric mean of the probability of occurrence, potential impact, and management capacity. **Likelihood:** 1 –not significant, 2 – low, 3 – medium, 4 – high, 5-certain. **Potential impact:** 1 – not significant, 2 – low, 3 – medium, 4 – high, 5-extremely high. **Management capacity:** 1 – very easy, 2 – relatively easy, 3 – relatively difficult, 4 – very difficult, 5 – not manageable.*
Source: NBM, Systemic Risk Survey

In the systemic risk survey, a potential new systemic risk - environmental risk - was assessed.

It was assessed as having a low likelihood of materialization and low potential impact on the environment, with a relatively difficult management capacity.

All respondents perceive the real economy and an external event as major potential sources of systemic risk, followed by the political domain (72.7 percent), the social framework (45.5 percent) and the banking financial field (36.4 percent).

Figure 1.1. Dynamics of the importance of risks during the last 5 years



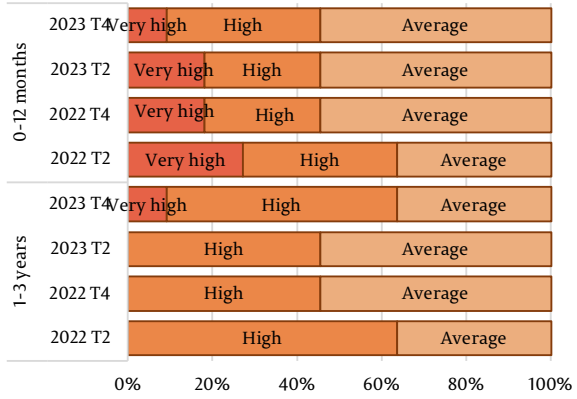
Source: NBM, Systemic Risk Survey

The likelihood of a high-impact event occurring in the next 0-12 months is expected to be medium to high, with a decrease in the number of those who rated the likelihood as "very high". Medium-term (1-3 years) expectations for the occurrence of an adverse event have become more pessimistic, reflecting an increase in the number of banks rating the likelihood of an adverse event as "high" and "very high" (Figure 1.2).

The soundness of the financial system is assessed as moderately high (81.8 percent), being expected to maintain it (81.8 percent).

[46] NBM conducts the systemic risk survey on a semi-annual basis, in order to capture the opinion of the risk managers of the banks on the major risks of the financial system.

Figure 1.2. Evolution of perceptions on the likelihood of a high impact event in the short term (<1 year) and medium term (next 1-3 years)



Source: NBM, Systemic Risk Survey