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Annual Report 2013

Annual Report, 2013 [1]

Summary

External environment

The year 2013 was one of conjecture for the world economy, with many structural changes that have strengthened the new trends of development in accordance with the world macro financial situation. Euro area economy's exit from the recession, the gradual withdrawal of monetary stimulus program of the Federal Reserve System (Fed) and the Bank of Japan's policy on depreciation of the Japanese yen were among the most important events in the development process of the world economy in 2013. These events formed the basis of capital transfers from emerging markets to advanced ones, thus determining the depreciation of currencies in most emerging economies in the second half of the year. Slightly negative evolution of global prices generated some ambiguous circumstances, as in some emerging economies these were not enough to diminish the high rates of inflation, but enough to jeopardize exports of raw materials, leading to disinflation and sometimes to deflation in some advanced economies, which allowed the ongoing of stimulative monetary policy. High unemployment rates in some economies are another persistent problem in recent years, so that the production and consumption evolved below their potential levels.

Economic developments

The economy of the Republic of Moldova rebounded strongly in 2013 after a decline in 2012 due to drought. In 2013, GDP increased by 8.9 percent compared to 2012. Economic growth was more pronounced in the second half of the year, in the third and fourth quarters recorded rates of 12.9 and 11.2 percent respectively, development determined mostly by significant contribution of the agricultural sector. At the same time, economic growth was supported by depreciation of the national currency during 2013 against the currencies of major trading partners due to exports and domestic consumption. Increase in disposable income and the development of agriculture led to a promotion of household consumption by 6.5 percent in 2013. Gross fixed capital formation recorded a modest dynamics (3.3 percent), while public administration's consumption increased by 0.8 percent compared to 2012. Pronounced dynamics of agriculture had a considerable impact on net exports, export growth exceeding significantly the import growth. In 2013, economically active population increased while the unemployment rate decreased.

Inflation

In 2013, the National Bank of Moldova has created the conditions necessary to keep the inflation rate within the range of ± 1.5 percentage points from the 5.0 percent, the target set for the medium term according to its Monetary policy strategy. In the first four months of 2013, the annual rate of inflation reached the lower band of the variation range due to disinflationary pressures from aggregate demand, recording the average value of 4.4 percent. In May and June 2013, the annual inflation rate reached the upper band of the range, recording values of 5.7 and 5.5 percent respectively, with the intensification of inflationary pressures caused by food prices amid a low harvest in 2012 and by the changes in the record-keeping procedure of the products with strong seasonality by the National Bureau of Statistics. In the summer months, due to a good harvest of fruits and vegetables, annual inflation returned to the lower band of the range of ± 1.5 percentage points from the target of 5.0 percent, falling down in July to the minimum value of 3.7 percent. Subsequently, in the second half of the year, the annual inflation rate has outlined an upward trajectory, returning close to the inflation target and recording the value of 5.2 percent by the end of 2013 amid the depreciation of the national currency against the currencies of major trading partners. At the same time, core inflation remained during 2013 in the lower band of the range of ± 1.5 percentage points from the target of 5.0 percent, as a result of weak aggregate demand.

Monetary policy

The conduct of monetary policy during 2013 was affected by the complexity of the balance of risks with the prevalence of those disinflationary. The consolidation of disinflationary climate was based on reduction of economic growth expectations in major trading partners, the reduction in international food prices amid favorable meteorological conditions for harvest in 2013 and the significant decrease in oil prices.

Thus, the NBM continued to promote a monetary policy aimed at preventing the intensification of disinflationary pressures and avoiding the risk of recording an inflation rate below the lower limit of the range of the target of 5.0 percent, reducing the interest rate of monetary policy in April by 1.0 percentage points, down to the level of 3.5 percent (last change being applied on March 2, 2012), respectively, modifying the interest rate on overnight loans from 7.5 percent to 6.5 percent and the interest rate on overnight deposits from 1.5 percent to 0.5 percent. Within the sessions that followed, the NBM decided to maintain monetary policy interest rate until the end of 2013, in perspective of strengthening disinflationary risks along with the gradual recovery of the economy. Decision aimed anchoring inflation expectations in terms of strengthening the prospects of keeping inflation within the range of variation of ± 1.5 percentage points from the target of 5.0 percent.

The set of monetary policy instruments used by the National Bank of Moldova, commensurate with the existent operational framework, has proved to be still appropriate for implementation requirements of the inflation targeting regime.

Under the influence of increased liquidity excess, the liquidity injection activity of the NBM in 2013 may be characterized as a secondary activity, the liquidity sterilization operations from the market continued to hold the main role.

Standing facilities regime (overnight deposits and credits) of 2013 allowed banks to manage their liquidity efficiently and provided National Bank of Moldova with more flexibility to conduct the monetary policy.

In 2013, the required reserves mechanism continued to exercise the monetary control function, which is closely correlated with that of liquidity management by the NBM.

Maintaining the required reserves ratio at the level of 14.0 percent of the base was explained by the passivity of interbank money market, aiming at improving its quantitative and qualitative indicators and at improving the transmission mechanism.

Firm management of liquidity in the banking system aimed at ensuring proper functioning of the money market, maintaining the balance between price stability and national economic recovery.

The NBM intervened in the foreign exchange market during 2013 as a buyer of foreign currency in order to reduce the disinflationary pressures and to ensure the annual inflation rate will fall within the range of variation of ± 1.5 percentage points from the target of 5.0 percent, as well as to ensure foreign exchange reserves consolidation. Although the coverage of net sales of foreign currency to legal entities by the net supply of foreign currency from individuals was not uniform throughout the year, it should be mentioned that the domestic foreign exchange market in 2013 was saturated with liquidity in foreign currency. In addition to excess of foreign currency supply over the demand of foreign currency, the positive net flow of loans and and investments was a factor generating surplus of foreign currency, compared to 2012.

In light of these developments, and within the limits of promoted monetary policy, the NBM has absorbed in 2013 the foreign currency excess by purchasing foreign currency from the interbank foreign exchange market in the amount of USD 304.6 million.

At the end of 2013, foreign exchange reserves amounted to USD 2820.6 million, increasing by 12.2 percent from the end of 2012, covering about 4.8 months of imports (in 2012 - covering 4.7 months of imports).

Banking system

Tier I capital in the banking sector amounted to MDL 7919.3 million, increasing by MDL 1008.0 million (14.6 percent) as compared to the end of 2012. As of December 31, 2013, Tier I capital of banks corresponded to the established minimum standard (≥ MDL 200.0 million), with the exception of one bank.

Tier I capital increase was due to the income obtained during 2013 in the amount of MDL 1020.2 million and by the shares issuances performed by 4 banks in the mount of MDL 568.7 at the expense of additional money contributions made by the underwriters of shares. The calculated but unformed yet amount of allowances for the impairment losses on assets and conditional commitments have also increased by MDL 386.2 million, or by 15.8 percent (which decrease the amount of Tier I capital). It should be mentioned that during 2013, five banks have paid dividends in the amount of MDL 191.3 million.

The average risk-weighted capital adequacy on December 31, 2013 is still maintained at a high level of 23.4 percent, indicating a high degree of safety of banks. Compared to December 31, 2012, this indicator decreased by 0.9 percentage points due to increasing investments. As on December 31, 2013 this indicator was respected by all banks.

The assets amounted to MDL 76184.0 million, increasing by MDL 18015.5 million (31.0 percent) compared to the end of 2012. The asset growth was determined by the increase of debts by MDL 16597.3 million (34.5 percent) and by the capital increase (IFRS) by MDL 1418.2 million (14.2 percent).

The share of non-performing loans (substandard, doubtful and compromised) in total loans has decreased by 2.9 percentage points compared to the end of 2012, representing 11.6 percent on December 31, 2013.

For 2013, the return on assets and return on equity of licensed banks have recorded the value of 1.6 percent, and 9.4 percent, respectively, increasing compared to the end of 2012 by 0.8 percentage points and 5.1 percentage points, respectively.

Net interest margin was 3.9 percent on December 31, 2013, decreasing by 1.2 percentage points compared to the end of 2012.

Long-term liquidity in the banking sector was 0.7 as on December 31, 2012 and the current liquidity - 33.8 percent. Both indicators were respected by all banks.

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