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# Annual Report 2020

Annual Report 2020 [1]

## Foreword



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The year 2020 was an unprecedented year globally, marked by the pandemic crisis generated by COVID-19 with severe repercussions on social-economic life. The management of this crisis has become a major concern of the worldwide countries, imposing a number of challenges on the perimeter of action of governmental and monetary authorities.

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

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

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

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

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

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

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

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

Thus, the National Bank is committed to maintaining a safe, stable and predictable monetary environment and financial system. To this end, the reforms in the banking sector have continued, but their

implementation is not sufficient. We are at the stage where we have to defend what has been achieved - to defend the reforms - and this is currently the National Bank's biggest challenge. Former shareholders through the courts, but also through the prosecution are attacking the reforms. These actions continue to represent a major risk to financial stability and could cause substantial damage to the state of the Republic of Moldova.

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

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

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

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

**Octavian Armașu**
**Governor**

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