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Financial Stability Report for 2019

Financial Stability Report for 2019 [1]

SUMMARY

During 2019, the financial system of the Republic of Moldova was characterized by a high level of resilience, with uneven evolutions of the risks to which it is exposed.

Economic growth continued amid internal vulnerabilities (volatile inflation) and external vulnerabilities (negative current and capital account balances, slowing global growth as a result of trade tensions, fiscal problems in some EU countries and Brexit), the financial system, partly contributing to the recovery of the economic situation. The growth of banks' credit portfolio has accelerated, continuing the upward trend set in the previous year. Lending to the population (individuals) continued the upward trend, increasing the funding provided by both the banking and non-banking sectors.

The banking sector has achieved satisfactory financial performance, maintaining strong positions of profitability and solvency. Banks have maintained adequate capitalization in the process of implementing Basel III standards. In 2019, the growth of banking sector credit has accelerated, continuing the upward trend set in the previous year. Banks continued their efforts to reduce bad loans in their portfolios, with a non-performing loan rate of 8.5 percent at the end of the year. However, credit risk continues to pose the most significant threat to the stability of the banking sector, highlighting the importance of maintaining sufficient capital positions to absorb estimated losses even in the most pessimistic scenarios of assets quality deterioration.

During 2019, banks registered a favorable liquidity position, and the liquidity surplus in the banking sector narrowed due to the increase in the targeting of liquid assets for lending, thus, in 2019 the positive trend of the degree of banking intermediation established in 2018 continued.

The accelerated evolution of the non-bank lending sector continued, exceeding the growth rate of the national economy, but, compared to previous years, non-bank lending to population increased at a lower rate than bank lending. Thus, there continue to be premises for the accumulation of risks in the non-bank lending sector and for the increase of the general level of the households' indebtedness. The credit risk associated with foreign currency loans remains high, with the potential to contribute to increasing the exposure of borrowers, to weakening their financial situation and, respectively, to increasing the risk of non-repayment of loans in the event of unfavorable exchange rate fluctuations.

Continuing the process of aligning national legislation with international standards is key to promoting a safe, stable and transparent financial sector. Thus, the NBM continued the elaboration/ modification of normative acts for the execution of the Law no. 202/2017 on the activity of banks, namely the Regulation on

large exposures was approved, amendments were made to the Regulation on bank transactions with its affiliates persons and to the Regulation on banks liquidity, the list of jurisdictions that do not implement international transparency standards has been amended. At the same time, a new regulation on AIPS was approved, the regulations for non-bank payment service providers were improved and the legal framework related to the foreign exchange field was improved. As regards the regulatory framework applicable to the non-banking sector, the Regulation on the classification of assets by non-banking lending organizations has been approved.

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