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INTERVIEW/ "Let's create an attractive capital market on the inside." IPN interview with Alexandru Savva, advisor to the NBM



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IPN: Mr. Savva, the National Bank of Moldova has several concurrent tasks: ensuring price stability, implementing monetary and foreign exchange policy, supervision and viability of the banking sector, regulation and monitoring of payment systems and financial infrastructure, issuance of the national currency, etc. I want to ask you for an assessment first of all: how do you think the NBM has coped with these responsibilities in 2023?

Alexander Savva: When we talk about results, I think that the best appreciation should come from those we work for, from the citizens, but also from external partners who analyse the results at country level. In 2023, the National Bank of Moldova had an enormous workload, especially through its measures to reduce inflation, but also by taking over several tasks of the National Commission for Financial Markets: the non-banking sector, but also the insurance sector. And now, as the year comes to an end, we were happy to hear the conclusion of the international institutions, which said that the results of the NBM's work this year are very good. If I were to describe the most important activities, I would first of all highlight the monetary policy measures. In particular, the decisions on setting the base rate and required reserve norms. I am referring not only to this year's measures, but to the strategic vision and approach of the NBM, to increase these indicators during the previous year in order to stop the rase of inflation, as well as its gradual decrease during this year. Inflation was reduced from over 33% in September last year to approximately 5% by the end of this year. This is an excellent result. This has allowed the interest rates on state securities to decrease from over 20% to around 6%, to maintain reasonable interest rate limits on bank loans during this

difficult period and to return to an average of approximately 10% overall on the banking system. All these indicators show that the forecasts and assessments of the NBM experts, as well as the monetary policy decisions approved by the Executive Board, were correct and justified.

Secondly, we can refer to the activities in the field of regulation and supervision of financial institutions, implemented by the NBM. Despite external shocks and crises, caused by the war in Ukraine, post-covid effects, rising energy prices, etc., the banking system in the country has demonstrated that it is resilient and sustainable. All banks in the Republic of Moldova are well capitalised and well established. Some banks have managed not only to maintain their activity during this period, but also to expand their services and offer new banking products. Of course, this is primarily due to good bank management, but also because of the prudential requirements of the NBM with regard to internal activity and governance, measures that make the banks' shareholding transparent, the quality of assessments in the process of authorisation of officials and other measures taken by the NBM in recent years.

Payment systems and financial infrastructure is another component in the NBM's activity that can also be mentioned. As you know, the NBM is responsible for the national payment system AIPS, which is the core of transfers for the national currency, and for the activity of the Single Central Depository (SCD), which ensures the record keeping and settlement of the SS, NBC and instruments issued by enterprises and municipalities. It is a highly complex and technologically advanced machine. The fact that this year both systems operated in normal regime and there were no incidents that would have affected the settlement of payments and financial instruments is a positive result. Moreover, new projects were successfully launched on both segments. I am referring to the SEPA accession initiative and the instant payments project, which will develop the payments sector in the Republic of Moldova, as well as to the intention of SCD to establish connections with other depositories and launch omnibus accounts.

Last but not least, this year the Moldovan leu turned 30 years old, a very important event. As mentioned by the Governor of the NBM, Octavian Armașu, as well as other important guests of this event, the leu has become a symbol of the independence and sovereignty of the Republic of Moldova, but also a proof of stability of the financial system of the country.

IPN: A major change in 2023 was the National Bank taking over the responsibility for the insurance and non-bank lending systems. What did the assumption of these functions mean for the NBM and what would be the future objectives in the field of insurance and non-bank lending?

Alexandru Savva: First of all, it is important to emphasize that the decision of the state authorities to transfer these responsibilities to the NBM is the right one. It will have beneficial effects for the entire financial sector. I am sure that in the medium and long term we will see the positive impact and results of this decision. A unified approach to financial market regulation and supervision is the optimal solution for small countries with developing markets and economies. I believe that we shall continue to move in this direction.

The actual takeover of these functions by the NBM was well prepared and did not disrupt the market activity. All institutions, both insurance and non-bank lending, are continuing their activities and adapting to the new supervisory framework. In the coming periods we will focus primarily on 3 asset dimensions. First, from a supervisory perspective, there is a continuous assessment of the activity of these institutions, in particular on prudential aspects and systemic impact. Second, the regulatory framework for the functions taken over by the NBM will be reviewed. Third, technical and operational interactions will be improved, including reporting mechanisms and information systems used in these sectors. The objectives we are pursuing in the areas of insurance, non-bank lending and savings and loan associations are those that underpin the financial system: transparency and quality of shareholders, efficiency and quality of managers, efficiency and quality of the internal governance and activity framework. At the same time, we aim to ensure that all these segments benefit from a framework that will stimulate the development, expansion of services and launch of new financial products.

IPN: Your area of expertise is primarily related to financial regulation. What evolutions do you think are worth mentioning in the area of financial regulation?

Alexandru Savva: Thank you for your question, I think it is one of particular interest. The regulation and the quality of the normative acts is a fundamental area for the financial sector. It consolidates and translates into practical terms all the objectives and tasks of the NBM. We have very extensive work and ambitious plans in this regard. Aligning the regulatory framework with EU standards is one of the objectives of the "NBM 2025" Strategic Plan. In May 2023, the Executive Board approved a concept aimed at preparing Moldova's accession to the EU in the areas of the NBM's competence. A core part of the concept is the transposition of EU financial legislation. The NBM is at an advanced stage of harmonisation with the European acquis and Basel standards. We will move forward in this direction so as to ensure full transposition of European financial legislation. A great advantage for us is our cooperation with central banks in the EU. We have agreements with the European Central Bank and the European Banking Authority. Within the Twining project, offered by the EU, the NBM benefits from technical assistance from the central banks of Romania, Lithuania, and the Netherlands. All of these will provide us with tangible support in the process of transposing European legislation. Of course, taking over the acquis is not and should not be seen as a formal activity. The EU provides a very advanced regulatory framework, and its transposition will mean that we are putting a cornerstone in further development of the financial industry.

IPN: The transposition of EU legislation will also mean better integration into international financial markets. On the other hand, it has been said that there is a lot of resistance from some authorities to the exit of Moldovan companies on foreign stock exchanges. What is the NBM's response to such criticism?

Alexandru Savva: The National Bank of Moldova does not resist these initiatives. On the contrary, we support the exit on foreign exchanges. An additional proof is the fact that the NBM has created the SCD with a modern infrastructure. And establishing connections between depositories and, in this way, opening access to foreign exchanges was one of the objectives of the SCD creation. We do understand the benefits that Moldovan companies will have. Foreign capital markets offer quality, flexibility, liquidity, speed, lower costs. But we draw attention to a particularly important aspect. If we do not develop the same business conditions in the domestic market, there is a risk that local issuers and investors will migrate to foreign markets. I believe that the NBM is best aware of these risks and discusses them so that, together with other authorities, we can find solutions. Precisely for this reason it is important to create an attractive capital market at home. We need to improve the situation with the stock exchange, the way financial instruments are issued, the trading requirements, the conditions under which investment companies operate, the conditions for the emergence of collective investment undertakings and pension funds. In fact, it has been said on many other occasions: the current level of the capital market is putting pressure on other segments of the financial market because it concentrates funding risks on the banking and non-bank credit market. The EBRD has recently carried out a very good assessment of the Moldovan capital market and has put forward a number of very valuable and effective proposals for a market development strategy. We hope that these proposals will be implemented in the next period by the relevant authorities.

IPN: Connections between depositories have been discussed for a long time. What has been achieved during this year and what is the current situation in this regard?

Alexandru Savva: I can tell you that very active work is being done in this direction. The National Bank has set up a team of experts, together with the Ministry of Finance and the Single Central Depository, which is working on establishing the links. As you know, these activities were launched at the initiative of a bank that intends to list its shares abroad. The connections we are targeting are more extensive and with wider possibilities. While in the initial version we were looking at connections that only allow the transfer of shares, we are now also considering fixed income instruments, for example bonds. If previously we only examined transfers of financial instruments without payments, now we also consider the settlement of payments. We are looking at the possibility of two-way linkages that will allow not only the export of financial instruments but also the attraction of foreign instruments to the domestic market. Therefore, we've come a long way in these activities. But a major impediment remains the lack of regulations on corporate events and other loopholes in the legislation on joint stock companies. We have informed the

relevant public authorities about this fact, and we know that the relevant ministry is currently drafting a set of amendments that will facilitate operations with financial instruments throughout the connections.

A separate project that the NBM is working on is the transition to the omnibus model for recording financial instruments. The new model assumes that the securities register will be kept by investment undertakings, and the central depository will be the link and settlement between investment undertakings. This is important not only for the links between depositories; but will also bring major benefits for the internal market. Banks and investment undertakings will be able to open securities accounts in the internal information systems. In this way, investors will be able to buy or sell financial instruments directly, for example through banking applications. This can boost trading in financial instruments, especially SS and bonds. Secondly, the omnibus model stimulates investor interest in financial market products. Early next year we will launch thematic discussions with banks and other intermediaries to jointly initiate the start of these activities. We hope that with the implementation of these initiatives, the sale and purchase of financial instruments will become as common and practical as obtaining a loan or placing a deposit with banks today.

IPN: The Moldovan leu turned 30 years old this year. In your opinion, what are the prospects for the emergence of the digital leu, as the central bank's digital currency, and in a more general framework, the evolution of cryptocurrencies such as Bitcoin?

Alexandru Savva: I am glad you make this distinction between the digital currency of central banks and cryptocurrencies such as Bitcoin, Litecoin or Ethereum. Our position and message on these cryptocurrencies remains the same: they pose high risks for the people who buy them, but also for the integrity of the financial system. We will continue to recommend that people avoid engaging in cryptocurrency operations, both as an investment and as a payment instrument. If we refer to central bank digital currencies, the situation is diametrically opposed. They are in our sights. We are analysing trends and experiences of other central banks in the field of digital currency, especially those that have launched pilot projects. If put into circulation, these instruments will be as secure, credible, and guaranteed as banknotes and coins in circulation. Like other central banks, we are at the stage of researching and studying the phenomenon of digital currency or, more broadly, digital financial assets. It's an interesting, technological, and possibly forward-looking tool. However, at this stage, it is too early to talk about the digital leu. We will keep an eye on evolutions in the area of central banks' digital currency, but will focus our efforts on other digitisation projects, primarily in the area of payments and settlements, expanding online access to banking services and products, remote identification, and other initiatives in FinTech, new regulatory (RegTech) and supervisory (SupTech) technologies. The priority for now is to reach a conclusion and efficiently implement ongoing projects - instant payments, depository linkages, omnibus model, anti-money laundering software, digital reporting by non-banking institutions, optimisation of information systems in new areas of NBM supervision and other projects we are currently working on.

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