



National Bank of Moldova

ANNUAL REPORT 2023



Notes

The National Bank of Moldova is an autonomous public legal entity, which operates in accordance with the Law No. 548/1995 on the National Bank of Moldova (republished in the Monitorul Oficial of the Republic of Moldova, 2015, No. 297-300, art. 544, with subsequent amendments).

*According to art. 69 par. (1) of the Law No. 548/1995, the National Bank of Moldova shall submit to the Parliament of the Republic of Moldova by June 1 the **Annual Report** containing information on the financial statements confirmed by the external auditor, the activity and operations of the NBM for the financial year ended and the economic situation of the State. At the same time, a copy of the Annual Report shall be submitted to the President of the Republic of Moldova for information, as provided for in art. 69 par. (1¹).*

For the elaboration of Annual Report 2023, statistical data from the National Bureau of Statistics, Ministry of Economic Development and Digitalization, Ministry of Finance, Eurostat, International Monetary Fund, National Agency for Energy Regulation, State Hydrometeorological Service were used. Statistical information provided by international organizations, national statistical offices and central banks was also analysed. The calculation of some statistical data, as well as the economic interpretation were elaborated and carried out by the National Bank of Moldova.

The Annual Report 2023 was examined and approved by the Supervisory Board of the National Bank of Moldova at its meeting of May 27, 2024.

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*The Annual Report 2023 is a translation of Raport anual 2023 in Romanian. In case of discrepancies, the version of **the Report** in the original language prevails.*

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Contents

Foreword by the Governor of the National Bank of Moldova	10
Summary	14
1 International context	21
1.1 Global economy, financial and commodity markets . . .	21
1.2 Evolution of important economies	24
1.3 Evolution of neighbouring economies and main trading partners	25
2 Economy of the Republic of Moldova	26
2.1 Real sector.	26
2.2 Evolution of inflation.	33
2.3 Public sector and fiscal policy	40
2.4 International accounts of the Republic of Moldova for 2023 (provisional data) ²	42
2.5 Public debt and external public debt of the Republic of Moldova	47
3 Monetary policy	51
3.1 Monetary policy objective	51
3.2 Monetary policy decisions	51
3.3 Monetary policy achievements	53
3.4 Monetary and foreign exchange conditions	56
3.5 Monetary market.	62
3.6 Foreign exchange market.	66

²Full analytical comments on the development of international accounts can be found at: <https://www.bnm.md/en/content/international-accounts-republic-moldova-quarter-iv-2023-preliminary-data>

4	The NBM supervisory activity	75
4.1	Banking supervision	75
4.2	Supervision of non-bank payment service providers and inspection of foreign exchange units	92
4.3	Supervision of the non-bank lending sector.	94
4.4	Insurance sector supervision.	98
4.5	Regulation and supervision in the field of preventing and combating money laundering and terrorist financing .	109
5	Financial market infrastructures	114
5.1	Regulation and monitoring of financial market infrastructures	114
5.2	Licensing, regulation and supervision of the activity of providing payment services and issuing electronic money	115
5.3	Automated Internal Payment System	117
5.4	The Single Central Securities Depository System	119
5.5	Cashless payment instruments	122
6	Cash issue	127
6.1	Development of cash (banknotes and coins) in circulation.	127
6.2	Issuing, withdrawing and processing cash	130
6.3	Numismatic issue	133
7	Legal and regulatory framework development activity	134
7.1	Prudential regulation, regulation of accounting records in banks.	134
7.2	Foreign exchange regulation.	134
7.3	Prudential regulation of the financial system.	137
8	International relations	139
8.1	International collaboration	139

9	Institutional and organizational framework	155
9.1	Corporate governance of the National Bank	155
9.2	Development prospects.	169
9.3	The strategic plan of the National Bank of Moldova . .	170
9.4	Management and organization	179
9.5	Internal audit	187
9.6	Information Technology	188
10	Research activity	191
11	External communication	192
12	Financial education	195
13	Analysis of the financial situation and position of the NBM at the individual and consolidated level for the year 2023	197
13.1	Key indicators.	197
13.2	General considerations in financial analysis	200
13.3	Analysis of the financial result at individual level . . .	212
13.4	Analysis of the financial position at individual level . .	216
13.5	Comparative analysis of the financial position and consolidated financial result	216
13.6	Capital and reserves.	217
A	Statistical tables	230

List of abbreviations

AI/ML	Artificial Intelligence/Machine Learning
AIPS	Automated Interbank Payment System
AIS	Automated Information System
API	Application Programming Interface
ARSS	Automated Remote Services Systems
BPM6	Balance of Payments and International Investment Position Manual, 6th Edition
BSCEE	Group of Banking Supervisors from Central and Eastern Europe
BSTDB	Black Sea Trade and Development Bank
CASCO	Casualty and collision
CEAM 2	Classification of Economic Activities in Moldova Rev.2
CEDB	Council of Europe Development Bank
CEF	Center of Excellence in Finance
CHIBID	Average interest rate at which the contributing banks are available to borrow in the interbank money market financial means in Moldovan Lei from other banks
CHIBOR	Average interest rate at which the contributing banks are available to lend in the interbank money market financial means in Moldovan Lei to other banks
CIF	Cost, insurance, and freight
CIS	Commonwealth of Independent States
CNB	Certificates of the National Bank
CoB	Council of Bureaux
COR	Combined operating ratio
CPF	Country Partnership Framework
CPI	Consumer Prices Index
CS	Corporate securities
CSD	Single Central Securities Depository
DEB	Decision of the Executive Board
DPO	Development Policy Operations
EACHA	European Automated Clearing House Association
EBRD	European Bank for Reconstruction and Development
ECF	Extended Credit Facility
EEA	European Economic Area

EFF	Extended Fund Facility
EIB	European Investment Bank
EIOPA	European Insurance and Occupational Pensions Authority
ESG	Environmental, Social, and Governance
ESRB	European Systemic Risk Board
ETA	External technical assistance
EU	European Union
EUR	Euro
EXBS	Export Control and Border Security Program
FAO	Food and Agriculture Organization of the United Nations
FCC	Freely convertible currency
FDA	French Development Agency
FMA	Austrian Financial Market Authority
FPSV	Fund for the Protection of Street Victims
FSSR	Financial Sector Stability Review
FSTA	Moldova Financial Sector Transparency Activity program
GB	Government bond
GDP	Gross Domestic Product
GVA	Gross Value Added
HHI	The Herfindahl-Hirschman Index
IAD	Internal Audit Department
IBRD	International Bank of Reconstruction and Development
ICAAP	Internal Capital Adequacy and Assessment Process
IEC	Individual employment contract
IFC	International Finance Corporation
IFRS	International Financial Reporting Standards
IIA	Institute of Internal Auditors
IIP	International Investment Position
IMF	International Monetary Fund
IORWG	International Operational Risk Working Group
IT	Information Technology
JICA	Japan International Cooperation Agency
JVI	Joint Vienna Institute
LB	Local budgets
LLM	Large Language Model
MDL	Moldovan leu
MGRES	Cuciurgan power plant

MHIF	Mandatory Health Insurance Fund
MISRA	Moldova Institutional and Structural Reforms Activity
MTF	Multilateral trading facility
MTPL	Motor Third Party Liability
NBC	National Bank Certificates
NBM	National Bank of Moldova
NBMI	National Bureau of Motor Insurers
NBR	National Bank of Romania
NBS	National Bureau of Statistics of the Republic of Moldova
NCC	Non-convertible currency
NCFM	National Commission for Financial Markets
NLO	Non-bank lending organization
NSC	Net settlement clearing system
OPEC+	The alliance between the Organization of the Petroleum Exporting Countries (OPEC) and a group of non-OPEC oil-producing countries.
ORA	Official Reserve Assets
PGG III	Partnership for Good Governance for the Eastern Partnership Countries
RCRBNS	Reserve of Claims Reported But Not Settled
REER	Real effective exchange rate of the national currency
RM	Republic of Moldova
ROA	Return on assets
ROE	Return on equity
RSF	Resilience and Sustainability Facility
RTGS	Real-Time Gross Settlement System
SAA	Strategic Asset Allocation
SB	State Bonds
SDR	Special Drawing Rights (XDR)
SEPA	Single Euro Payments Area
SLA	Savings and Loan Association
SOFR	Secured Overnight Financing Rate
SREP	Supervisory Review and Evaluation Process
SS	State Securities
SSIB	State social insurance budget
UPR	Unearned Premium Reserve
USAID	United States Agency for International Development
USD	US dollar

USDX	US dollar index
VAT	Value added tax
XDR	Special Drawing Rights
ZTNA	Zero Trust Network Access

Foreword by the Governor of the National Bank of Moldova



The year 2023 was marked by the maintenance of a complicated geopolitical context and, on the economic front, by a steady process of disinflation and a slow return of the economy to an upward trend. The timely and opportunely configured tight monetary policy stance together with measures to ensure the country's energy independence and other external factors contributed to these remarkable results. The effects of monetary policy decisions through the transmission mechanism have resulted in inflation returning to within ± 1.5 percentage points of the 5.0% target in October 2023 and remaining within this range so far.

In 2023, Moldova's economy recorded a slight growth of 0.7% after a decline in 2022. In this respect, disinflationary pressures from the aggregate demand deficit and a negative fiscal impulse, lower energy and food prices on the regional market, together with the government support provided to the population overlapping with the propagation of measures previously adopted by the National Bank of Moldova to limit lending, made it possible to reduce inflation and return interest rates to an acceptable level.

This outlines favorable prospects for the future in the EU accession negotiation process, and the major contribution of the NBM is visibly reflected in making Moldova an attractive destination for investors.

The monetary policies of the NBM, geared towards ensuring sufficient liquidity in the banking system, have provided the necessary conditions for lending to the real sector. Investors'

appetite for state securities (SS) continued to grow, with a historical peak in the total volume of circulating SS and a four times higher net issues value compared to the previous year. The Ministry of Finance issued 10-year maturity bonds for the first time, reflecting growing confidence of investors in state-issued instruments.

2023 was a year of improvement in the foreign exchange market. As the external trade deficit narrowed and confidence in the national currency was restored, it strengthened against both the euro and the US dollar, in contrast to the previous year when it had lost ground amid geopolitical instability and economic recession. The increase in official reserve assets by 21.9% to USD 5.45 billion ensured a high degree of foreign exchange reserve adequacy, which shows the resilience of our economy to crisis situations and thus being a positive signal for investors and creditors.

Moldova's banking system is stable, sound, well capitalized and well governed thanks to the implementation of reforms. The resilience of Moldovan banks has been demonstrated during multiple crises: despite all challenges, our banks have remained robust. The effectiveness of the banking reform is widely recognized and appreciated, including by our partners and international organizations. At the same time, we are also mindful of the expectations of the beneficiaries of financial services, especially small- and medium-sized enterprises, which have the potential to grow the economy.

We are also very active in the field of payment services, which are essential for both citizens and companies. On January 30, 2024, the NBM submitted the Moldovan application to join the Single Euro Payments Area (SEPA) to the European Payments Council. SEPA membership is beneficial for all participants as it ensures fast, transparent and secure payments at sustainable costs. On March 12, 2024, the National Bank launched, for the first time for the Republic of Moldova, the "MIA" Instant Payments System, which offers citizens a fast, secure and inexpensive way to make transactions.

The NBM is involved in Moldova's European integration. We have a leading role in 3 chapters of the EU accession negotiations – (i) Free movement of capital, (ii) Financial services and (iii) Economic and monetary policy. We are working on harmonizing the legislation and practices of the financial sector of the Republic of Moldova with European standards. This process of reforms for the EU accession is in itself a point of increasing investors' attention to Moldova, resulting in increased investment. In conclusion, all the reforms which will take place over the next few years and which derive from the negotiation of these chapters with the European Union represent as many reform measures which will be felt and will certainly lead to an increase in investors' confidence.

The NBM has an extensive experience in the field of banking supervision. At the same time, the strong interconnectedness between the non-bank financial market and the banking system has demonstrated the need for an integrated financial market architecture. Therefore, the regulation and supervision of these sectors was unified in 2023, when the NBM took over the competences covering the insurance and non-bank lending sectors. We are currently working hard to improve the regulation, supervision, corporate governance and risk management

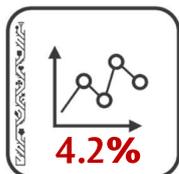
practices in the non-bank financial sector. We want both insurance companies and the non-bank lending market to develop and provide quality services to both citizens and companies.

The bank's independence and integrity, contribution to Moldova's European path, price stability and support of financial intermediation to boost economic activity, sustainable growth of the Moldovan economy and the convergence process are our objectives for the near future.

Moldova must become a member of the European Union. Membership of this community is a guarantee of peace, security, democracy and prosperity. These are the four fundamental elements for building a secure and stable future, which we are building together with the whole of society.

Anca-Dana Dragu
Governor

2023 IN FIGURES



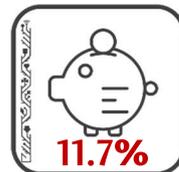
The annual rate of inflation, in December 2023, was 4.2% and was placed within the variation range of ± 1.5 percentage points from the target of 5.0%.



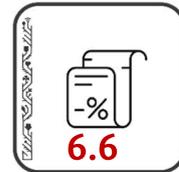
The economic activity registered a slight increase of 0.7% after the decline in 2022.



The volume of new loans granted in MDL recorded an increase of 20.2% compared to 2022.



The volume of new term deposits attracted in MDL fell by 11.7% year-on-year amid interest rate cuts and the high base effect from 2022.



The official reserve assets covered 6.6 months of actual imports.



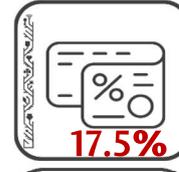
As of 31.12.2023, **11 banks licensed** by the National Bank of Moldova operated in the Republic of Moldova, including **6 branches** of foreign banks and financial groups.



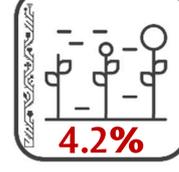
Total assets in the banking sector amounted to MDL 153,940.5 million, increasing by 17.2% compared to the end of 2022.



As of 31.12.2023, **9 insurance companies, 50 insurance or reinsurance brokers, 49 insurance agents and 35 bancassurance agents, 216 savings and loan associations and 148 non-bank lending organizations** were active in the Republic of Moldova.



In 2023, the trend of asset consolidation continued in the insurance sector, which amounted to MDL 4,979.0 million, increasing by 17.5%.



In 2023, the non-bank lending sector strengthened its position, with a 4.2% increase in assets up to the level of MDL 16,193.0 million.

Summary

International context

In 2023, the evolution of the world economy was marked by low economic growth and inflation rates falling towards the levels targeted by the authorities in the context of high interest rates. In addition to the war in Ukraine, geopolitical insecurities in October 2023 were heightened by the armed conflict between Israel and Palestine and the subsequent attacks by the Houthi rebels in Yemen on ships in the Red Sea. In terms of foreign exchange developments, the year of reference saw a depreciation of the Russian rouble and the Turkish lira. Quotes for energy resources, fertilizers, agri-food products and metals on the international market fell significantly compared to 2022. Oil quotations were less volatile compared to previous years, with the oil market in surplus for the second consecutive year, which prompted OPEC+ to actively engage through measures to reduce oil production. Natural gas prices fell to pre-crisis levels in Europe as low consumption kept gas reserves at peak levels. Economic activity was weak in the region, reflecting the consequences of the 2022 energy crisis, the cumulative effects of economic sanctions against the Russian Federation and the fallout from the war in Ukraine.

Developments of economic activity in the Republic of Moldova

In 2023, economic activity in the Republic of Moldova showed a slight increase after the decline in 2022. The GDP increased by 0.7% compared to 2022. In the first half of the year, economic activity contracted, after which, in the third and fourth quarters of 2023 the annual rate of GDP entered in positive territory, registering the values of 3.3% and 0.2%. The modest development of economic activity in 2023 was mainly supported by the rich harvest in agriculture, which created conditions for the growth of agri-food exports. A positive contribution was also generated by developments in the communications, social services, accommodation and food services sectors. However, domestic demand continued to be below potential, as confirmed by the insignificant increase in household consumption and investment, in a context of weak real income growth of the population and the tense situation in the region. Less upbeat signals regarding economic activity were also given by the negative dynamics of industry, construction, trade and transport.

In terms of uses, in 2023, household consumption decreased by 0.5% compared to 2022. At the same time, general government final consumption decreased by 3.3%. Gross capital formation in the reference period generated a negative impact of 4.2

percentage points on GDP dynamics, mainly determined by the change in inventories subcomponent. Gross fixed capital formation contracted by 1.3% compared to 2022. Exports increased by 5.1% on the back of a bumper harvest in 2023, while imports contracted by 5.1% in the context of modest domestic demand.

Inflation developments

In 2023, the average annual CPI rate was 13.4%, 15.3 percentage points lower than in 2022. During 2023, the annual inflation rate continued the downward trajectory that started in the fourth quarter of 2022. It decreased from 30.2% in December 2022 to 4.2% in December 2023. In October 2023, after a period of about two years, the annual inflation rate re-entered the range of ± 1.5 percentage points from the 5.0% target and remained within it until the end of the year.

The downward trajectory of inflation, which started in November 2022 and continued during the previous year, together with its entry and maintenance in the above-mentioned range from October 2023 to the present, was largely the outcome of the restrictive monetary policy measures of the NBM initiated in the summer of 2021 and continued consistently until the end of 2022. They were able to dampen the excessive aggregate demand in the post-pandemic period, which, together with other sectoral shocks, exerted pronounced inflationary pressures in that period. Accordingly, given the peculiarities of the transmission mechanism of the effects of monetary policy actions on the domestic economy, in the second half of 2022 and throughout 2023, as projected, demand moderated and contributed, together with the decline in energy and food prices in the region, to the downward trajectory of the annual CPI rate. This effect was also accentuated by exchange rate dynamics during 2023. At the same time, in November and December 2023, a temporary disinflationary impact was induced by the compensation of energy resources during the cold period of the year. However, although declining, core inflation and food prices continued to make positive contributions during 2023. These were largely driven by cost pressures, which gradually lost momentum, and some adverse sectoral developments. At the same time, annual price rates in agriculture, industry and construction were on pronounced downward trajectories.

Promoting monetary policy

The conduct of monetary policy during 2023 was influenced by disinflationary risks and pronounced uncertainties related to events associated with the military conflict in Ukraine, energy and other commodity prices, tariff adjustments, refugee flows and weather conditions. Monetary policy actions were appropriate from several perspectives. They were based on negative aggregate demand, negative fiscal impulse and, at the same time,

the negative impact of external demand. The monetary policy promoted by the NBM has created monetary conditions conducive to further stimulating loan and supporting domestic aggregate demand by encouraging consumption and investment, balancing the national economy and anchoring inflationary expectations, with the aim of keeping inflation within the range of the 5.0% medium-term target.

In this context, the Executive Board of the NBM decided to gradually decrease the monetary policy interest rate from 20.00% in December 2022 to 4.75% per annum in December 2023. The purpose of lowering the base rate was to ensure the continuation of the stimulus measures in the context of the monetary policy easing cycle that started at the end of 2022 amid the well-founded assumptions associated with the emergence of a disinflationary macroeconomic framework. At the same time, the required reserve ratio of funds attracted in MDL was lowered at the end of 2023 from 34.0% to 33.0%. This decision led to additional liquidity spillovers on the money market, contributing to the increase in loan resources for the real and public sectors.

The annual growth rate of broad money supply in 2023 was 18.3%. The M2 monetary aggregate grew by 20.9% annually, money in circulation increased by 12.1% annually. The average interest rate on new loans granted in national currency amounted to 12.15% annually, while the average interest rate on new deposits attracted amounted to 6.90% annually.

Banking sector

As of December 31, 2023 11 banks licensed by the National Bank of Moldova (NBM) were operating in the Republic of Moldova.

The banking sector in 2023, according to the data submitted by the banks, was characterized by high liquidity, growth of assets, loans, own funds, own funds ratio, deposits of individuals and deposits of legal entities. The profit for the year also increased compared to the previous year, mainly as a result of higher interest income and non-interest income. Interest income increased mainly from investment income on debt securities (SS, NBC) and lending income. At the same time, income from funds placed with the NBM (required reserves) decreased.

Non-performing loans in absolute value decreased, while overdue loans in absolute value increased. At the same time, portfolio quality indicators improved compared to the end of the previous year.

In 2023, the banking sector continued the trend of consolidation of own funds, which amounted to MDL 20.9 billion, increasing by 14.1%.

At the same time, all banks complied with the requirement with respect to the indicators "Total own funds ratio" and "Total own funds ratio", taking into account capital amortization. The "Total own funds ratio" indicator for the banking sector, according to the data submitted by the licensed banks, amounted to 30.0%, up by 0.7 percentage points compared to the end of the previous year.

At the same time, banks maintained a high level of liquidity and profitability.

Thus, the value of the long-term liquidity indicator (liquidity principle I) amounted to 0.69 (limit ≤ 1), an insignificant increase of 0.02 percentage points compared to the end of the previous year.

Also, as of December 31, 2023 all banks complied with liquidity principle III, which is the ratio of adjusted actual liquidity to required liquidity in each maturity band (limit ≥ 1).

The liquidity coverage ratio by sector amounted to 282.3%, an increase of 46.8 percentage points compared with the end of the previous year. The given indicator was also met by all banks (limit $\geq 100\%$ – as of January 1, 2023). The liquidity reserve as of December 31, 2023 amounted to MDL 34.4 billion, up by MDL 8.8 billion (34.6%) compared to December 31, 2022.

The profit for the year ended on December 31, 2023 in the banking sector amounted to MDL 4.1 billion, up by 12.5% year-on-year. For the year 2023, the return on assets³ and on capital⁴ of licensed banks recorded values of 2.8% and 16.3%, respectively, decreasing by 0.1 percentage points and 0.7 percentage points compared to the end of the previous year.

Assets and deposits also continued to grow, respectively by 17.2% to MDL 153.9 billion and by 19.9% to MDL 113.9 billion.

Compared to the end of the previous year, the loan portfolio in the banking sector increased by 3.7% to MDL 63.9 billion. During the year, the share of non-performing loans in the loan portfolio decreased by 0.9 percentage points to 5.6%.

The National Bank carries out ex-officio supervision on the basis of the annual prudential supervision program. For the year 2023, the prudential supervision program included various actions of a routine nature (monitoring of key indicators, analysis of financial reports submitted by banks, external audit reports, monitoring of remedial plans following on-site inspections), as well as actions in preparation of the SREP report (business model evaluation, governance and internal control framework analysis, capital and liquidity risk evaluation, analysis of ICAAP reports, etc.).

In 2023, the NBM continued its supervision of banks based on the SREP supervision and evaluation process. Thus, the results of the supervision and evaluation process (SREP) for 2020 and 2021 were approved for all 11 banks.

At the same time, the SREP monitoring and evaluation process for 2022 was carried out during 2023 and the results are to be approved in 2024.

Also, in 2023, an ex-officio thematic audit was conducted at one bank on the employee remuneration practice.

As a result, the Decision of the Executive Board of the NBM related to the thematic control was approved and sanctions in the form of

³Return on assets = annualized net income/ average assets

⁴Return on capital = annualized net income/ average shareholder's equity

finances were imposed on the President of the Board and 3 members of the Bank's Board.

Also, during 2023, 6 planned thematic controls were carried out at licensed banks. At the same time, Decisions of the Executive Board of the NBM related to thematic controls on the activity at 5 licensed banks were approved.

As a result, warnings were applied to 3 banks, as well as warnings to 6 members of the Bank's Board and to 2 members of the Bank's Executive Body.

Generally speaking, the violations and deficiencies identified in the thematic controls relate to the bank's business management framework, including issues related to internal governance, ensuring the independence and organization of the work of internal control functions, deficiencies in credit risk management, breaches of minimum requirements for banks' information and communication systems, including with regard to ICT risk management, access control, vulnerability and incident management, business continuity assurance, violations related to the payment systems area, including in relation to proper monitoring and evaluation of the day-to-day supervision of the bank's business/ operation, outsourcing risk management (evaluation of the financial performance of the outsourced service/ activity provider, as well as the efficiency of the organizational structure/ ownership structure of the provider), failure to comply with prescribed measures following the previous control.

Insurance sector

As of December 31, 2023 there were 9 insurance companies operating in the Republic of Moldova (of which 8 companies practiced only general insurance activity and one composite company simultaneously carried out activity in the categories "general insurance" and "life insurance"), 50 insurance or reinsurance brokers, 49 insurance agents and 35 bancassurance agents.

The insurance sector in 2023, according to the data submitted by professional participants in the insurance market, is characterized by an increase in total assets, capital, technical reserves, gross written premiums, and insurance claims and indemnities compared to the previous year.

Insurance companies' net profit for the year increased significantly compared to 2022, up to MDL 313.9 million, mainly due to the increase in net investment income, but also taking into account the increase in the result from insurance activity. One insurance company recorded losses as a result of the activity in 2023.

In 2023, in the insurance sector, the trend of consolidation of assets, which amounted to MDL 4,979.0 million, up by 17.5%, and technical reserves, which amounted to MDL 2,965.5 million, up by 18.7% compared to the end of the previous year, continued. Insurance companies held sufficient assets to cover the technical reserves, given the restrictions set by the legislation, mainly

government securities, reinsurer's shares in technical reserves and bank deposits were used for this purpose.

All licensed insurance companies had solvency ratios above 100%. The average solvency ratio for general insurance business at the end of 2023 was up 12.6 percentage points from the end of the previous year to 147.9%. Insurance companies also recorded liquidity ratios above 1 for each insurance category, with general insurance showing an average per sector of 3.7, up 0.4 from the end of the previous year.

During 2023, gross written premiums amounted to MDL 2,935.9 million, 18.8% more than in the previous year. At the same time, gross claims paid amounting to MDL 1,006.6 million were reported, 11.1% more than in 2022.

In 2023, the insurance density in the Republic of Moldova was MDL/capita 1,168.4, an increase of about MDL/capita 185 or 18.8% compared to the previous year. The penetration of insurance in GDP, registered a value of 0.98% in 2023, slightly up from the previous year. Total assets held by insurance companies reached a level equivalent to 1.66% of GDP at the end of 2023, up 0.12 percentage points from the previous year.

As of July 1, 2023 the supervision of the insurance sector was taken over by the National Bank of Moldova, ensuring the continuity of the processes of supervision of professional participants on the insurance market and administration of the State Automated Information System in the field of compulsory MTPL insurance. During the second semester of 2023, the supervisory process consisted in ensuring the financial stability of insurers based on a prospective risk-based approach, as well as in continuously verifying the conduct of insurance or reinsurance business and the compliance of professional participants on the insurance market with supervisory provisions and legislation. During this period, 9 ex-officio controls on the activity of professional participants in the insurance market were completed. As a result of the controls, the National Bank of Moldova issued five warnings to insurance companies, two warnings to bancassurance agents, as well as supervisory measures against two insurance companies in the form of prescriptions to remove the violations. In general, the infringements and shortcomings identified during the inspections relate to compliance with the rules on the coverage of technical reserves with eligible assets in accordance with the legal provisions, compliance with the requirements for the conclusion of compulsory internal and external MTPL insurance contracts and the recording of information on damage files in the MTPL Data Automated Information System.

After taking over the administration of the MTPL Data AIS, the National Bank of Moldova, as part of its digitalization and technological transformation strategy, focuses on modernizing and reinventing the system. To this end, a series of actions have been carried out aimed at logging changes made in the damage files, expanding and optimizing API (Application Programming Interface) services, integrating the MTPL Data AIS with the MConnect interoperability platform and the protection of personal data.

Non-bank lending sector

Non-bank lending activity is conducted through non-banking lending organizations and savings and loan associations. As of December 31, 2023, 216 savings and loan associations held licenses to carry out the activity, and special administration was established over the activity of two associations. At the same time, 148 non-bank lending organizations were operating, of which 20 organizations with suspended activity.

Over the period 2019-2023, the non-bank lending sector strengthened its position within the financial sector, with a 38.2% increase in assets from MDL 11,804.5 million in 2019 to MDL 16,193.0 million in 2023, against the background of a reduction in the number of non-bank financial entities with the right to operate. For 2023, there was a 4.2% increase in assets compared to the end of 2022.

Chapter 1

International context

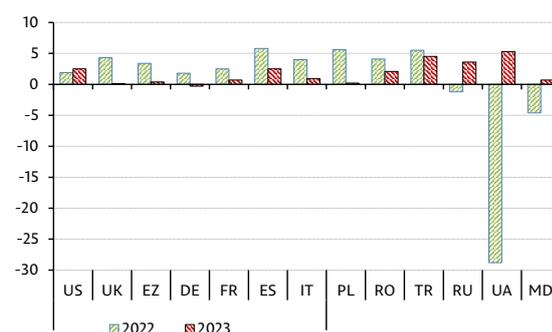
1.1 Global economy, financial and commodity markets

In 2023, the evolution of the world economy was characterized by low economic growth and inflation rates falling towards the levels targeted by the authorities in the context of high interest rates. In addition to the war in Ukraine, geopolitical insecurities in October 2023 were heightened by the armed conflict between Israel and Palestine and the subsequent attacks by the Houthi rebels in Yemen on ships in the Red Sea. In terms of foreign exchange developments, the year under review saw a depreciation of the Russian rouble and the Turkish lira. The quotations for energy resources, fertilizers, agri-food products and metals on the international market decreased significantly compared to 2022. Oil prices were less volatile than in previous years, with the oil market in surplus for the second year in a row, prompting OPEC+ to actively engage in measures to cut oil production. Natural gas prices fell to pre-energy crisis levels as low consumption kept gas reserves at peak levels. In the region, economic activity was weak, reflecting the aftermath of the 2022 energy crisis, the cumulative effects of economic sanctions against the Russian Federation and the spillover effects of the war in Ukraine.

The United States economy was one of the few economies to grow faster in 2023 than in 2022 (2.5 vs. 1.9%). The labour market and rising wages supported US consumption, which led to such a strong GDP performance. In 2023, gross domestic product in the UK and Euro area grew by 0.1 and 0.4% respectively. Germany, the hardest hit by the energy crisis, saw GDP fall by 0.3% in 2023. In addition to the fall in consumption, the gross domestic product of European countries has been affected by the drastic fall in industrial production, especially in energy-intensive sectors. Poland's economy grew by just 0.2%, while Romania's grew by 2.1%. An unexpectedly strong performance was registered by the economy of the Russian Federation, where GDP grew by 3.6% after a 1.2% decline in 2022. Defense industry demand is the main driver of growth in Russian manufacturing. With a monetary policy rate of 45.0% and a devastating earthquake, Türkiye managed to avoid a recession in 2023, with the economy growing by 4.5% in 2023 compared to 5.5% in 2022.

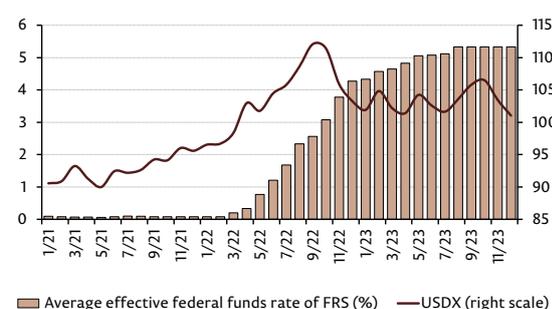
Ukraine's economy grew by 5.3%, while it contracted by 28.8% in 2022. For comparison, the economy of the Republic of Moldova's GDP grew by 0.7% compared to -4.6% in 2022 (Chart 1.1).

Chart 1.1: GDP comparative evolution in selected economies in 2022 and 2023 (%)*



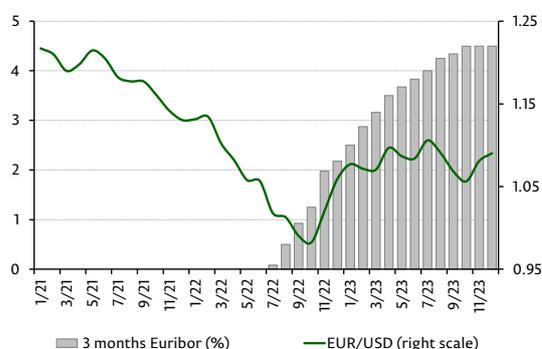
Source: Eurostat, National statistical offices of the concerned countries;
 * US – United States of America, UK – United Kingdom, EZ – Euro area, DE – Germany, FR – France, ES – Spain, IT – Italy, PL – Poland, RO – Romania, TR – Türkiye, RU – Russian Federation, UA – Ukraine, MD – Republic of Moldova

Chart 1.2: USDX evolution in the context of FRS monetary policy



Source: FRS, Bloomberg

Chart 1.3: Evolution EUR/USD and interest rates for the euro area



Source: ECB

Table 1.1: Appreciation (-)/depreciation (+) of currencies in 2023 (%)*

	USD	
	2023/ 2022	Dec.23/ Dec.22
Advanced economies		
EUR	-2.7	-2.9
JPY	7.0	6.8
GBP	-0.9	-3.7
CHF	-5.9	-7.1
Emerging economies and developing economies		
BGN	-2.7	-2.8
BYR	14.5	23.8
CNY	4.8	1.7
HUF	-5.3	-9.0
INR	5.1	0.9
PLN	-5.8	-10.3
RON	-2.4	-1.9
RUB	25.5	38.9
TRY	43.4	55.7
UAH	13.1	1.4
Republic of Moldova		
MDL	-3.9	-8.7

Source: websites of concerned central banks, NBM calculation;
 *USD – US dollar, EUR – European single currency, JPY – Japanese yen, GBP – UK pound sterling, CHF – Swiss franc, BGN – Bulgarian lev, BYR – Belarus rouble, CNY – Chinese yuan, HUF – Hungarian forint, INR – Indian rupee, PLN – Polish zloty, RON – Romanian leu, RUB – Russian rouble, TRY – Turkish lira, UAH – Ukraine hryvnia, MDL – Moldavian leu

In 2023, **US dollar** it had a relatively stable development compared to other international currencies. The driver of the appreciation was the increase in interest rates by the Federal Reserve System from 4.25-4.5% at the beginning of the year to 5.25-5.5% at the end of 2023. In addition, the performance of the US economy, which was much more satisfactory compared with other economies, contributed to the appreciation of the US dollar. Rising geopolitical risks also increased the attractiveness of the US dollar as a reserve asset. In the final months of 2023, when the annual rate of inflation in the US ranged between 3.0 and 4.0%, financial markets began to anticipate the end of the cycle of monetary tightening by the SRF and further reductions, which contributed to the depreciation of the US dollar (Chart 1.2).

The **European single currency** followed an appreciating trend against the US dollar in 2023, largely driven by the rise in ECB interest rates to 4.5%. Another factor behind the appreciation of the European single currency was the stabilization of European economies after the 2022 energy crisis. Recovering consumer demand, rising wages and increased tourism after the pandemic also contributed to the appreciation of the European single currency. At the same time, a statistical effect on the appreciation of the European single currency was the 13.5% year-on-year decline in imports, which reduced demand for other currencies (Chart 1.3).

With the US dollar stable and interest rate spreads narrowing significantly, the currencies of advanced economies appreciated against the US dollar in 2023. Thus, the Swiss franc appreciated on average by 5.9%, the European single currency by 2.7% and the pound sterling by 0.9%. At the same time, because the Bank of Japan kept interest rates negative, the Japanese yen depreciated against the US dollar by an average of 7.0% in the year under review.

The Chinese yuan depreciated by an average of 4.8% against the US dollar, reflecting intensifying problems in China's real estate sector. Among the currencies of the region's emerging economies, the **Russian rouble** and the **Turkish lira** depreciated the most, by an average of 25.5% and 43.4% respectively. The Russian rouble depreciated as a result of the partial lifting of currency restrictions by the Bank of Russia. Despite the Central Bank of Türkiye raising its monetary policy rate to 45.0%, the Turkish lira depreciated as a result of massive capital outflows. European Union currencies such as the Hungarian forint, the Polish zloty and the **Romanian leu** appreciated against the US dollar in correlation with the evolution of the European single currency, but also as a result of persistently high interest rates as monetary authorities were cautious in curbing inflationary pressures.

The **Ukraine hryvnia** depreciated on average by 13.1% against the US dollar, but the December 2023 value was 1.4% more depreciated than in December 2022. In October 2023, the National Bank of Ukraine resumed the managed exchange rate regime, after a fixed exchange rate regime had been applied due to the outbreak of war. For comparison in 2023, the Moldovan Leu appreciated on average by 3.9% against the US dollar (Table 1.1).

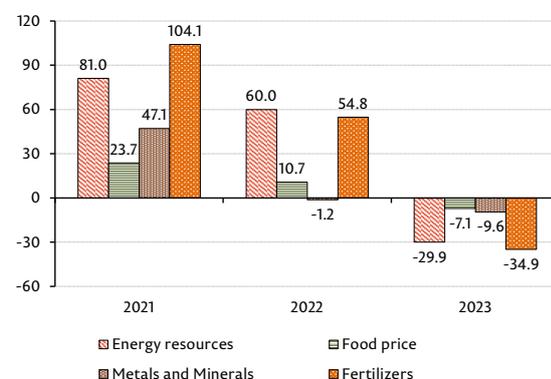
In 2023, the cumulative **international commodity price** indices fell significantly after two years of similarly significant increases. This was due to falling consumption related to rising interest rates, but also to oversupply in many market segments. Thus, fertilizer prices fell the most, by 34.9% on average, followed by energy resources by 29.9%, metals and minerals – by 9.6% and agricultural products – by 7.1% (Chart 1.4). In the food group, prices fell in all product categories except sugar, which reflected the poor outlook for the sugar cane harvest affected by the El Niño phenomenon.

European natural gas prices fell several times from their 2022 peaks, but remained above pre-energy crisis values. Thus, the Netherlands TTF price fell from an average of USD 2,478.2/1,000 cubic meters in August 2022 to an average of USD 337.9/1,000 cubic meters in July 2023, where it has since remained. The annual average price for the Netherlands TTF quotation was USD 464.0/1,000 cubic meters or 67.5% lower than in 2022. Domestic natural gas prices followed a higher trend than on the world market. Thus, according to S.A. Moldovagaz, the **weighted average purchase price of natural gas** was USD 795.38 or 5.5% lower than in 2022 (Chart 1.5).

The **Brent crude oil price** averaged USD 82.6/barrel in 2023 or down 17.2% compared to 2022. The low year-on-year volatility in oil prices was driven by weak demand as high interest rates dampened economic momentum and China's economy recovered below market expectations. On the other hand, supply from non-OPEC countries was on the rise and took market share away from OPEC countries. Geopolitical risks, especially those related to the escalation of tensions in the Middle East from October 2023, have fed insignificantly into oil price movements, with the market focusing more on oil supply and demand. Another factor influencing oil quotations was market expectations of interest rate developments in major economies. While in the first part of the year monetary tightening caused oil prices to decrease, in the second part of the period under review oil prices increased in anticipation of falling interest rates (Chart 1.6).

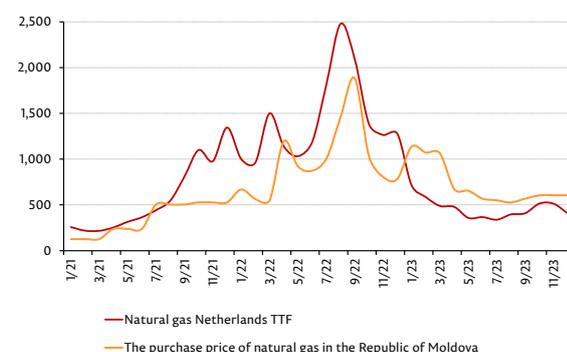
In 2023, for the second year in a row, there was a global **oil surplus** despite **OPEC+** efforts to reduce oil production and balance the market. OPEC+ began a series of oil production cuts in November 2022 that supported the price of crude oil in 2023, but the costs of these policies were mainly borne by Saudi Arabia, which cut production by 2 million barrels per day. Saudi Arabia has lost market share to non-OPEC producers, including the United States and Canada, which have extracted record volumes of oil.

Chart 1.4: The annual average growth rate of world prices (%)



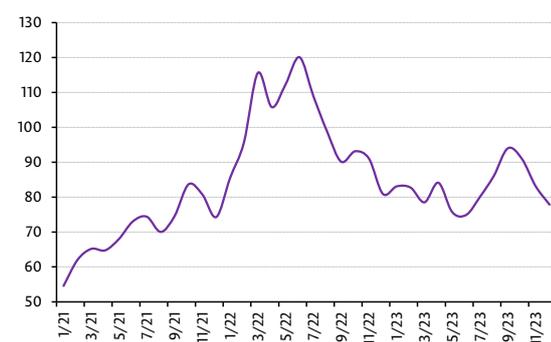
Source: World Bank, FAO

Chart 1.5: The prices of natural gas (USD/1,000 cubic metres)



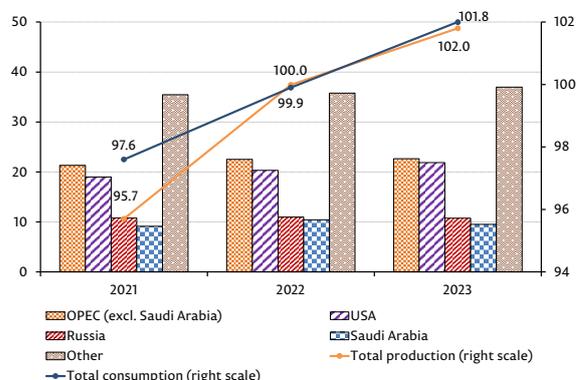
Source: World Bank, S.A. Moldovagaz

Chart 1.6: The prices of Brent oil (USD/ barrel)



Source: World Bank

Chart 1.7: World supply and by country/groups vs. world oil consumption (million barrels per day)



Source: US Energy Information Administration, NBM calculation

At the same time, countries such as Iran and the Russian Federation were quite adept at circumventing economic sanctions, which helped maintain their market shares. Throughout the year, oil producers tried to remain optimistic that the Chinese economy would reopen and that the giant's oil consumption would increase, but this did not materialize (Chart 1.7).

1.2 Evolution of important economies

In 2023, the **United States** economy was one of the few economies in the United States that grew more than in 2022 (2.5 vs. 1.9%). With persistently high inflation, the Federal Reserve System (FRS) raised interest rates significantly starting in the second half of 2022 to a cumulative 5.25-5.5%. Industrial production grew by only 0.2% compared with 2022, well below the performance of previous years. However, the labour market performed positively, with the US unemployment rate in December 2023 at just 3.7%. The US consumer prices were 3.4% higher in December 2023 than in December 2022, and the average rate of inflation was 4.1% higher in 2023.

The **United Kingdom** economy avoided recession in 2023, growing by just 0.1%. The growth was largely due to business investment as consumption was very weak under the burden of rising interest rates and successive negative shocks to real incomes. Inflation in the UK fell to 3.9% in December 2023, on the back of lower energy prices, but also as a result of the Bank of England's monetary policy measures.

In 2023, gross domestic product in the **euro area** after increases of 3.4 and 5.9% in previous years, respectively. Industrial production contracted by 2.4% and the unemployment rate remained at an average low of 6.5%. Consumer price growth moderated, with annual harmonized inflation in December 2023 registering a positive pace of 2.9%. At the same time, the average annual inflation rate in the Euro area was 5.4%.

Germany's gross domestic product fell by 0.3% in the year of reference, according to the country's Federal Statistical Office, after a 1.8% increase in 2022. Germany's industrial production contracted compared to 2022 by 1.7%, due to higher energy costs and falling domestic and foreign demand.

China's gross domestic product grew by 5.2% in 2023, according to early estimates from China's National Bureau of Statistics. Although the Chinese economy's growth pace has been in line with Beijing's official target of about 5.0%, it faces big challenges due to deflationary pressures and the real estate crisis. In December 2023, China's industrial output increased by 6.8% compared with December 2022, retail sales rose by 7.4%, and fixed investment – by 3.0% for the full year 2023. The urban unemployment rate was 5.1% in December 2023. Prices in the Chinese economy recorded the longest decline since 1999. Another major threat has been the downturn in the real estate market, which has hurt business investment, undermined job creation and reduced consumer spending. Home prices fell in December 2023 to their

lowest level since 2015, while construction and finishing costs fell 7.8% for the full year 2023. Investment in new housing, a key indicator of confidence among real estate developers, fell 20.9% in 2023. At the same time, China's population continued its historic decline in the year of reference, as the birth rate reached its lowest level ever.

1.3 Evolution of neighbouring economies and main trading partners

In 2023, **Romania's** economy recorded an increase in gross domestic product of 2.1%. The construction sector grew by 14.2%, while industrial production contracted by 4.4% on average. Exports increased by 1.5% and imports fell by 2.9%. Consumer prices rose in line with regional trends and averaged 10.4% annually (Table 1.2).

The **Poland** economy recorded an increase in gross domestic product of only 0.2% during the period under review. Industrial production contracted by 1.7%, while the construction sector expanded by 5.3%. Both exports and imports fell by 0.9% and 9.1% respectively. As in other Eastern European economies, consumer prices moderated in the wake of monetary policy tightening, falling to an annual rate of 6.2% in December 2023. Overall, however, average annual inflation averaged 11.4% in 2023 (Table 1.2).

In **Ukraine**, gross domestic product increased by 5.3% after a major decline of 28.8% in 2022. From the few data that have been released, the contraction in exports by 18.0% and the increase in imports by 14.9% stand out. At the same time, in 2023, Ukraine's industrial production increased by 5.9% and construction output by 23.6%. Consumer prices declined to an annual rate of 5.1% in December 2023, registering an average annual rate of 12.9% (Table 1.2).

With an interest rate of 45.0% and a devastating earthquake in early 2023, **Türkiye's** economy managed to avoid a recession. Thus, for the full year 2023, Türkiye's GDP grew by 4.5%, industrial production increased by 0.9%, exports increased by 0.6%, and imports contracted by 0.5%. Consumer prices rose significantly for the second year in a row, with the average annual inflation rate registering 53.9% (Table 1.2).

In 2023, the economy of the **Russian Federation** grew by 3.6%, after a 1.2% contraction in 2022. Industrial production increased by 3.5%. Against the backdrop of the cumulative effect of the depreciation of the Russian rouble, consumer prices in the Russian Federation rose by 0.7% in December 2023 compared with the previous month and by 7.4% compared with December 2022. Since July, the Bank of Russia has gradually raised the base rate from 7.5 to a cumulative 16.0% (Table 1.2).

Table 1.2: The evolution of selected indicators in neighbouring economies and main trading partners in 2023 (%)

	Euro area	Romania	Poland	Ukraine	Türkiye
GDP	0.4	2.1	0.2	5.3	4.5
CPI, annual average	5.4	10.4	11.4	12.9	53.9
CPI, Dec.23/Dec.22	2.9	6.6	6.2	5.1	64.8
Industrial production	-2.4	-4.4	-1.7	5.9	0.9
Production in construction	0.2	14.2	5.3	23.6	97.8
Export*	-1.2	1.5	-0.9	-18.0	0.6
Import*	-13.5	-2.9	-9.1	14.9	-0.5
Unemployment	6.5	5.5	2.7	X**	9.4

Source: Eurostat, National statistical offices of the concerned countries

* Data on foreign trade with goods

**Data not published

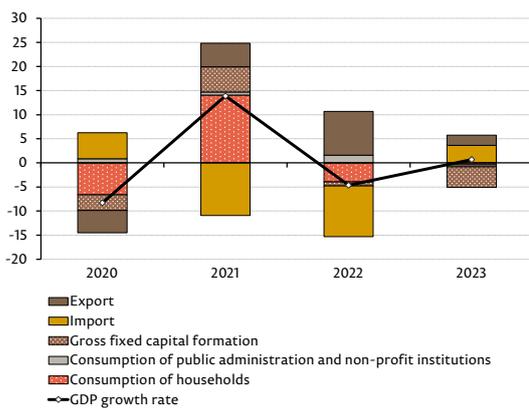
Chapter 2

Economy of the Republic of Moldova

2.1 Real sector

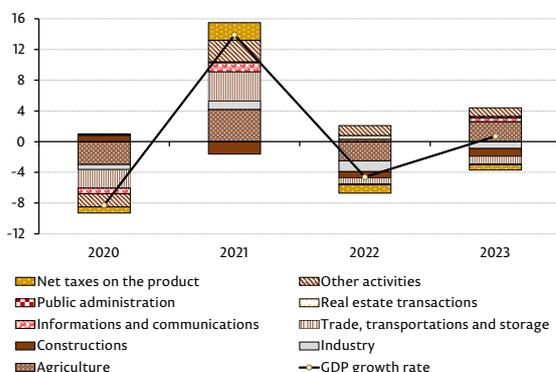
Gross domestic product

Chart 2.1: Contribution of demand components to GDP growth (percentage points)



Source: NBS, NBM calculations

Chart 2.2: Contribution of economic sectors to GDP growth (percentage points)



Source: NBS, NBM calculations

In 2023, the economic activity in the Republic of Moldova recorded a slight increase after the decline in the previous year. The GDP increased by 0.7% compared to the level in 2022. In the first half of the year, the economic activity contracted, after which, in the third and fourth quarters of 2023, the annual rate of GDP entered into positive territory, registering the values of 3.3% and 0.2%. The modest development of the economic activity in 2023 was mainly supported by the rich harvest in agriculture, which created conditions for the growth of agri-food exports. A positive contribution was also generated by the development of the communications, social services, accommodation and public catering sectors. However, domestic demand continued to be below potential, as confirmed by the insignificant increase in household consumption and investments, given the weak growth in real household income and the tense situation in the region. Less upbeat signals regarding the economic activity were outlined by the negative dynamics of industry, construction, trade and transportation.

From the utilization perspective (Chart 2.1), in 2023 household consumption decreased by 0.5% compared to 2022. At the same time, the public administration's final consumption decreased by 3.3%. The gross capital formation in the reference period generated a negative impact of 4.2 percentage points on the GDP dynamics, mainly determined by the change in stocks sub-component. Gross fixed capital formation contracted by 1.3% compared to 2022. Exports, in real terms, increased by 5.1% due to the bumper harvest in 2023, thus generating a positive impact of 2.1 percentage points, while imports decreased by 5.1% in the context of modest domestic demand.

By resource category, the GDP growth in 2023 was mainly driven by favourable agro-meteorological conditions that supported the increase in gross value added (GVA) in the agricultural sector by 31.9% compared to the previous year. As a result, this sub-component generated a positive contribution of 2.6 percentage points to the GDP dynamics (Chart 2.2) over the reference period. Positive developments, but with a more modest impact, were also recorded in other sectors. Thus, the GVA in accommodation and food service activities increased by 26.1%, and that in the information and communications sector – by 7.5%. Less upbeat signals regarding the economic activity were outlined by the

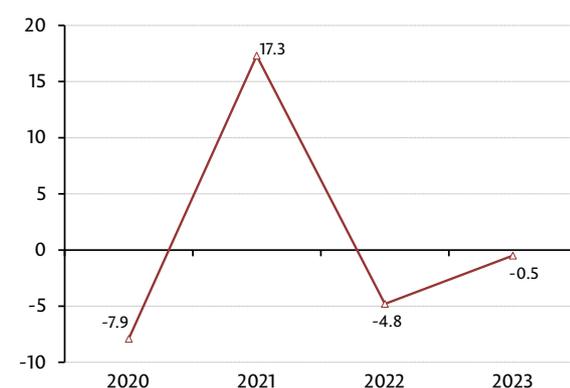
negative dynamics in industry, trade⁵ and transportation. In this regard, the GVA of the trade sub-component decreased by 3.5%, generating a negative impact of 0.6 percentage points on GDP dynamics. A negative contribution of -0.4 percentage points was determined by the decrease in GVA in transportation and storage by 8.4% compared to 2022. The industry caused a negative impact of 0.9 percentage points on GDP dynamics in 2023. Within it, the manufacturing industry decreased by 11.6% and the extractive industry by 11.9%. On the other hand, the energy industry recorded an increase of 11.1%. At the same time, the construction sector contracted by 13.8% and caused a negative contribution of 1.0 percentage points, while GVA related to real estate transactions contracted by 1.8%. The financial and insurance activities sector contracted by 1.4%. Net taxes on products recorded a decrease of 4.7%.

Household consumption

In 2023, household final consumption decreased by 0.5% compared to 2022. However, although negative, this annual rate was 4.3 percentage points higher than in the previous year (Chart 2.3). Structurally, the contraction in household final consumption in 2023 was driven by a 4.5% decrease in expenditure on goods purchases. At the same time, expenditure on the purchase of services increased by 4.7%.

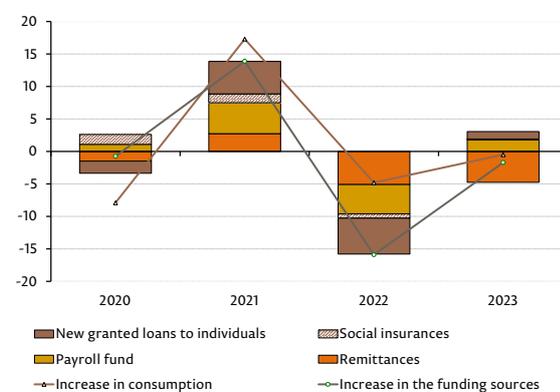
The negative dynamics of household consumption was influenced by the still modest development of the disposable income of the population in real terms. From the perspective of the main sources of financing consumption, its negative dynamics was mainly generated by the fall in remittances in real terms. In this regard, remittances in 2023 contracted by 2.0% compared to the same period of the previous year, determining a negative impact (Chart 2.4) on the possible sources of consumption financing, which was exacerbated by the appreciation trend of the exchange rate, as well as by the increase in prices. At the same time, the increase in the wage fund, social benefits and lending had a positive impact on the main sources of financing consumption and created preconditions for the attenuation of its negative rate in the reference period.

Chart 2.3: The evolution in real terms of the household final consumption growth (% , compared to the previous year)



Source: NBS, NBM calculations

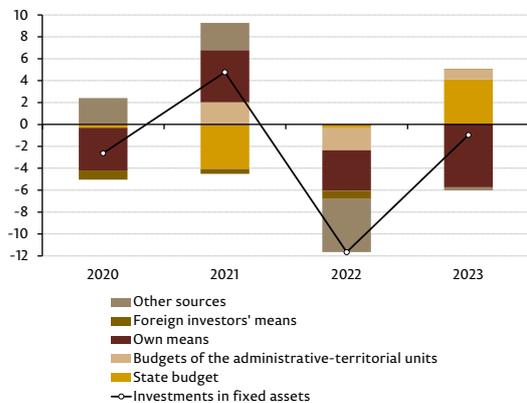
Chart 2.4: The evolution of the funding sources of household consumption (% , compared to the previous year) and contribution of components (percentage points)



Source: NBS, NBM calculations

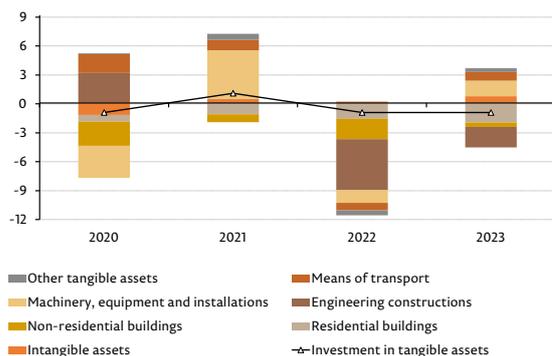
⁵Wholesale and retail trade; maintenance and repair of motor vehicles and motorcycles.

Chart 2.5: Annual investment rate by financing sources (%) and components contribution (percentage points)



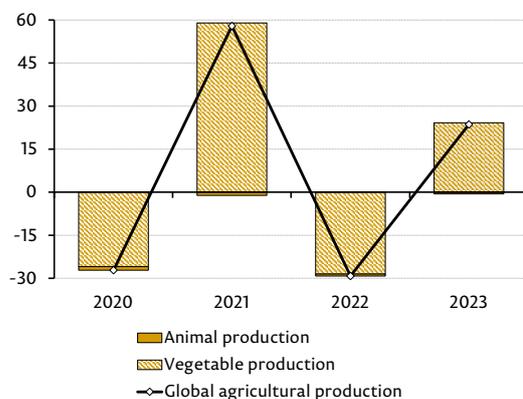
Source: NBS, NBM calculations

Chart 2.6: Annual investment rate by type of fixed assets (%) and components contribution (percentage points)



Source: NBS, NBM calculations

Chart 2.7: Annual rate of global agricultural production (%) and contribution by sectors (percentage points)



Source: NBS, NBM calculations

Investments

In 2023, investments generated a negative impact of 4.2 percentage points on the GDP dynamics, mainly due to the contribution from the change in stocks sub-component (-4.0 percentage points). Gross fixed capital formation decreased by 1.3% and generated an impact of -0.3 percentage points on the GDP dynamics. Investments in machinery and equipment declined by 4.8% and those in construction contracted by 0.4%.

The negative investment dynamics over the reference period were negatively influenced by regional uncertainty, but also by maintaining a high level of interest rates, especially in the first part of 2023.

In the reference year, investment in fixed assets contracted by 1.0% compared to the previous year. From the point of view of financing sources, this dynamics was mainly determined by the negative contribution of investments from own funds (-5.7 percentage points) and from other sources (-0.3 percentage points). This impact was partially mitigated by the contribution of investments from the state budget (4.1 percentage points) and the budgets of administrative-territorial units (0.9 percentage points) (Chart 2.5).

By type of fixed assets, the negative dynamics of investment in fixed assets was mainly driven by the impact of investment in residential buildings (-2.0 percentage points), engineering constructions (-2.1 percentage points) and non-residential buildings (-0.4 percentage points). This was partly mitigated by the contribution from intangible fixed assets (0.7 percentage points), investment in machinery, equipment and installations (1.6 percentage points), means of transportation (0.9 percentage points) and other tangible fixed assets (0.4 percentage points) (Chart 2.6).

Agricultural production

In 2023, compared to 2022, the overall agricultural production increased in comparable prices by 23.6% (Chart 2.7). This dynamic was supported by favourable developments in the crop sector (35.1%). At the same time, production in the livestock sector decreased by 1.9%. Thus, in comparison with 2022, the most significant increases in the volume of crop production were recorded in the "rape" (by 2.7 times), "hetero-oleaginous" (by 2.0 times), "cereals and grain legumes" (79.1%, of which: barley – 82.8%, wheat – 81.5%, grain maize – 77.7%, grain legumes – 43.2%), "sunflowers" (20.0%) and "soybeans" (17.4%). The contraction in the volume of production in the livestock sector was caused by a decrease in production for all types of products⁶.

It is worth noting that the livestock sector even in 2023 did not show signs of recovery, thus for the seventh consecutive year the volume of livestock production contracted.

Industrial production

The volume of industrial production by all forms of ownership decreased in real terms by 3.6% compared to 2022 (Chart 2.8). This development was mainly driven by the decrease of production in the manufacturing industry (the sub-component with the largest share) by 5.3%. At the same time, production in the extractive industry decreased by 6.5%. On the other hand, the sector "production and supply of electricity and heat, gas, hot water and conditioning air" increased by 5.4%. In the manufacturing industry, the most significant decreases were recorded in the following industrial activities: "manufacture of chemical substances and products" (-26.4%), "manufacture of clothing" (-16.8%), "printing and reproduction of recorded media" (-14.3%), "manufacture of motor vehicles, trailers and semi-trailers" (-13.2%) and "food manufacturing" (-10.7%).

Freight shipping

In 2023, rail, road, river and air transport companies transported 5.1% less freight than in 2022 (Chart 2.9). This decrease was driven by the decline in annual terms in the volume of freight transported by road (-7.1%). At the same time, air, rail and river freight transport increased in annual terms by 6.0, 3.5 and 1.5% respectively.

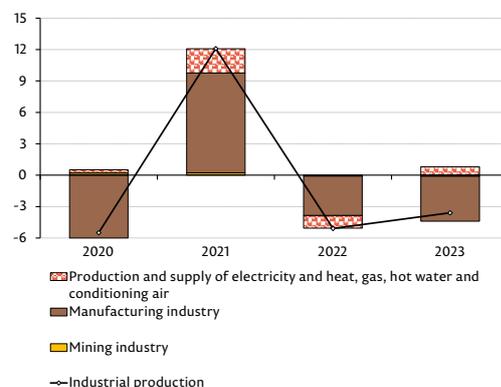
Passenger transport

In 2023, rail, road, river, air transport companies and trolleybuses carried 11.0% more passengers than in 2022 (Chart 2.10). This increase was driven predominantly by the increase in the number of passengers carried by trolleybuses (12.6%) and road (7.5%) in annual terms. At the same time, the number of passengers carried by rail and air increased in annual terms by 35.3 and 4.9%, respectively, and the number of passengers carried by waterways decreased by 3.8%.

Internal trade

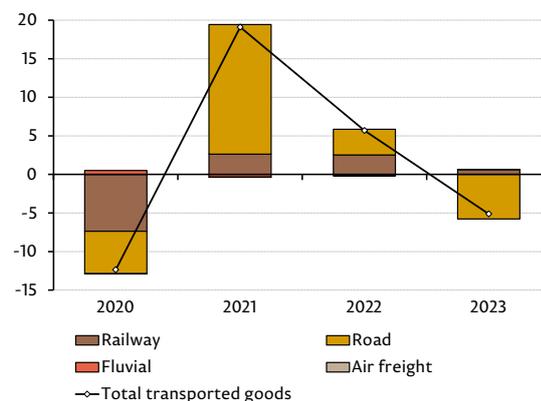
In 2023, internal retail trade (based on VAT declarations⁷) increased by an average of 7.6%, a pace, however, 14.0 percentage points lower than in 2022 (Chart 2.11). At the same time, internal wholesale trade (based on VAT declarations) in 2023 recorded an average decrease of 4.1%, this pace being 27.6 percentage points lower than in the previous year.

Chart 2.8: Industrial production development (% compared to the previous year) and components contribution (percentage points)



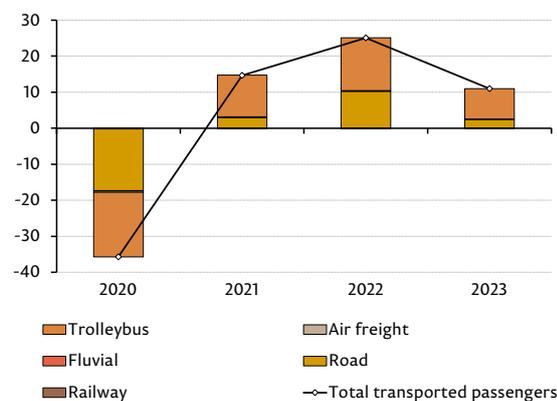
Source: NBS, NBM calculations

Chart 2.9: Development in real terms of freight transport (% compared to the previous year) and components contribution (percentage points)



Source: NBS, NBM calculations

Chart 2.10: Development in real terms of passenger transport (% compared to the previous year) and sub-components contribution (percentage points)

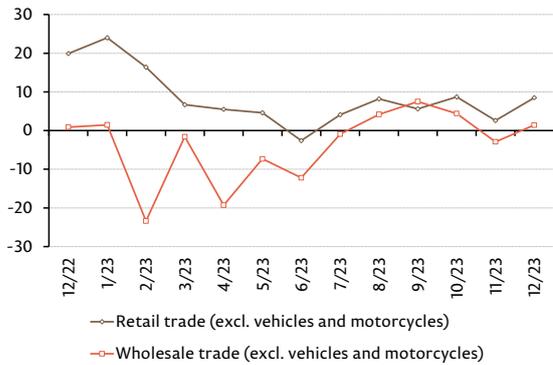


Source: NBS, NBM calculations

⁶Eggs (-4.5%), milk (-3.4%), animal breeding (live weight) (-1.4%).

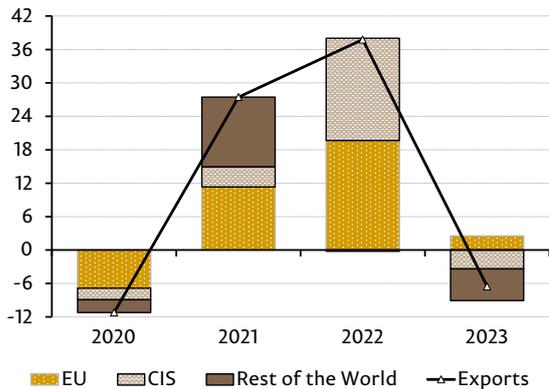
⁷https://statistica.gov.md/ro/statistici-privind-indicii-valorici-ai-vanzarilor-livrarilor-de-marfuri-si-servi-12_60432.html

Chart 2.11: Internal trade (based on VAT declarations), (% compared to the previous year)



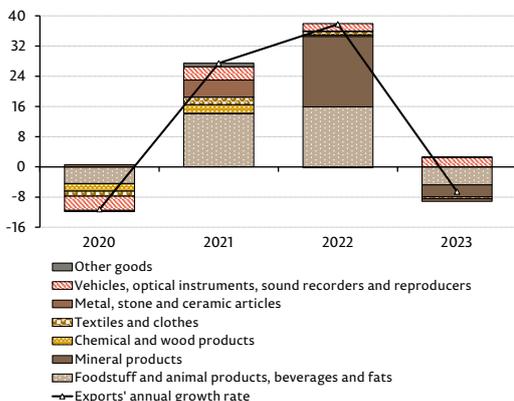
Source: NBS, NBM calculations

Chart 2.12: Development of the annual rate of exports (%) and contribution by country categories (percentage points)



Source: NBS, NBM calculations

Chart 2.13: Development of the annual rate of exports (%) and contributions by commodity groups (percentage points)



Source: NBS, NBM calculations

External trade⁸

In 2023, against the backdrop of modest internal aggregate demand, the annual rate of imports (expressed in USD) moved into the negative territory. At the same time, the weak external demand did not create favorable preconditions for the development of exports, thus their annual rate in 2023 fell into the negative range. It should be noted that some positive signals were seen in the second half of 2023, in the context of positive developments in the agricultural sector, but these were not robust enough to contribute to the revival of exports (expressed in USD).

The annual rate of exports (expressed in USD) recorded a level of -6.5%, thus being 44.3 percentage points lower than in 2022. The downward trajectory of the annual rate of exports was driven by the development of exports to CIS countries and those classified as "Rest of the World" (Chart 2.12). At the same time, exports to EU countries increased by 4.3%. In 2023, the share of exports to the EU accounted for about 65.4%, while those to the CIS and those classified as "Rest of the World" accounted for 22.2 and 12.5%, respectively.

By product category, the contraction in the annual rate of exports in 2023 was driven by the development of exports of "foodstuff and animal products, beverages and fats" and "mineral products" (Chart 2.13). Thus, the contraction in agri-food products exports was driven by the modest agricultural harvest in 2022. It is worth noting that the re-export of mineral products to Ukraine has been decreasing, both on the background of declining volumes and prices.

Analyzing the export development by origin of products, it can be noticed that the contraction of the annual rate of exports in 2023 was driven both by the decrease in re-exports and exports of domestic goods (Chart 2.14).

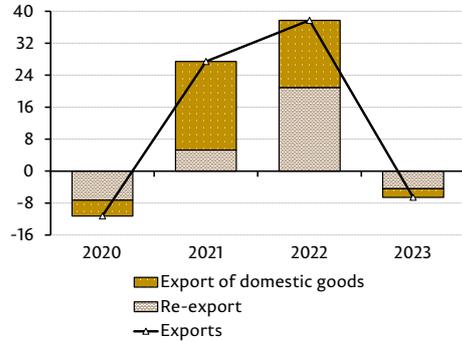
The annual import rate recorded a level of -5.9% or 34.4 percentage points lower than in 2022. The contraction in the annual rate of imports in 2023 was influenced by the development of imports from CIS and EU countries (Chart 2.15). In 2023, the share of imports from the EU amounted to about 48.3%, while those from the CIS and those classified as "Rest of the World" accounted for 18.6 and 33.1%, respectively.

By commodity groups (Chart 2.16), it can be observed that the dynamics of imports in 2023 was driven by the development of imports of "mineral products". Thus, the sharp decrease in the prices for energy resources on the international market, overlapping with the decrease in demand for petroleum products from Ukraine⁹ has determined the trajectory of imports of mineral products in 2023. The import related to other product categories was an anemic one.

⁸Quarterly data on the development of the Republic of Moldova's external trade, expressed in US dollars, were used.

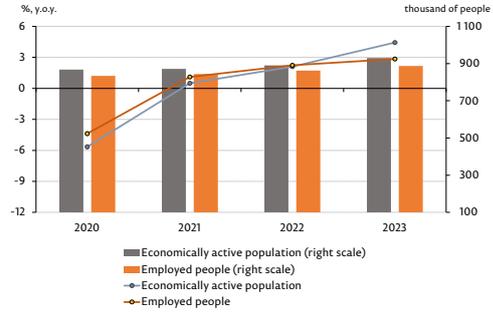
⁹Part of the petroleum products were imported through companies from the Republic of Moldova and subsequently exported to Ukraine.

Chart 2.14: Development of the annual rate of exports (%) and contribution by origin (percentage points)



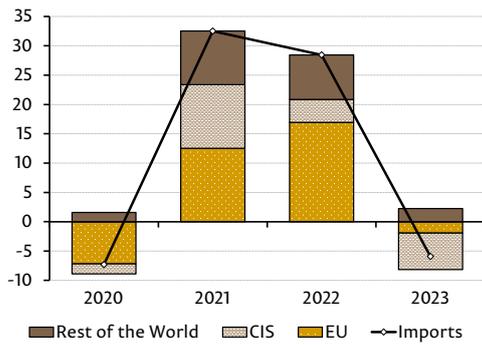
Source: NBS, NBM calculations

Chart 2.17: Economically active population and employed population



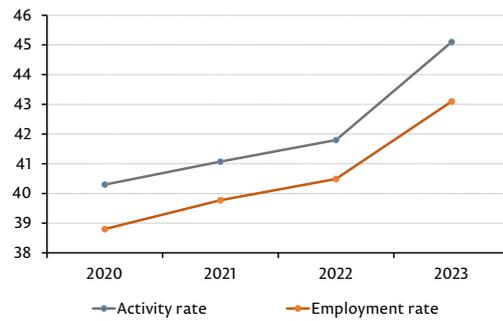
Source: NBS, NBM calculations

Chart 2.15: Development of the annual rate of imports (%) and contribution by country categories (percentage points)



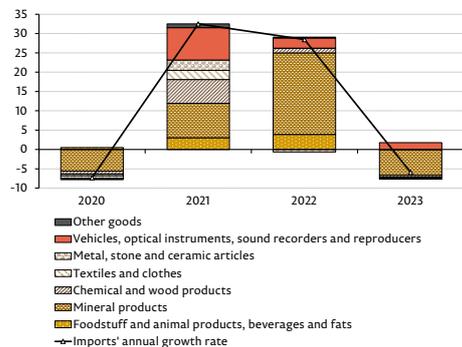
Source: NBS, NBM calculations

Chart 2.18: Development in the population's activity and employment rates (%)



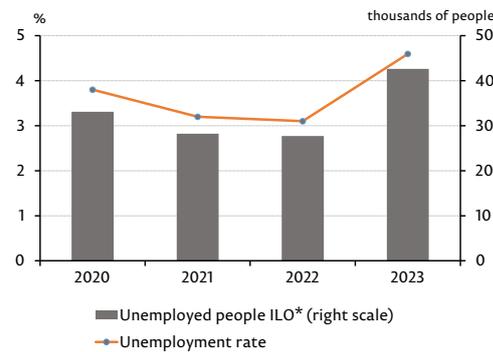
Source: NBS, NBM calculations

Chart 2.16: Development of the annual rate of imports (%) and contribution by commodity groups (percentage points)



Source: NBS, NBM calculations

Chart 2.19: Development in the number of unemployed and unemployment rate (%)

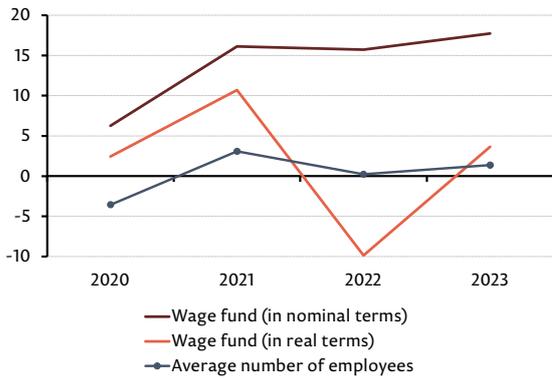


Source: NBS, NBM calculations
*International Labour Office

Labour market

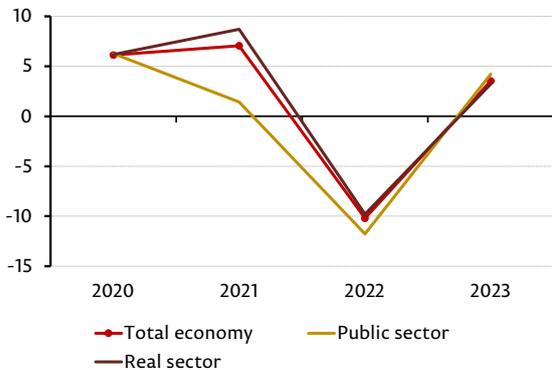
Labour force

Chart 2.20: Wage fund in the economy and average number of employees (% , compared to the previous year)



Source: NBS, NBM calculations

Chart 2.21: Average real wage (% , compared to the previous year)



Source: NBS, NBM calculations

In 2023 both the economically active population and the employed population have registered a positive dynamics. Thus, the economically active population amounted to 929.5 thousand persons, 4.4% higher than in 2022, and the employed population amounted to 886.9 thousand, 2.9% higher than in 2022 (Chart 2.17).

At the same time, the economic activity rate constituted 45.1%, being 3.3 percentage points higher than in 2022, and the employment rate registered 42.5%, 2.6 percentage points higher than in 2022 (Chart 2.18).

At the same time, the number of unemployed people in 2023 increased by about 14.9 thousand people up to 42.6 thousand people. The unemployment rate amounted to 4.6%, being lower (by 1.5 percentage points) than in 2022 (Chart 2.19).

Wage income

In 2023, the wage fund per economy increased by 17.7% compared to 2022. Adjusted for CPI dynamics, the wage fund increased by 3.6% compared to 2022. At the same time, the average number of employees in the national economy increased by 0.3% compared to 2022 (Chart 2.20).

All sectors of the economy recorded increases in the wage fund. At the same time, the most important positive contributions to the dynamics of the wage fund come from the information and communications, trade, education, industry and transportation sectors.

During the analyzed period, the average wage earnings in the national economy recorded an increase of 17.3% compared to 2022. The budget sector of the economy recorded an increase in the average wage earnings by 18.2%, and in the real sector – by 17.0%. The average wage earnings increased in all branches of the economic activity. The most significant increases were recorded in recreation and leisure activities, administrative services, education and in transportation and storage.

In real terms, the annual growth rate of the average wage earnings in the economy amounted to 3.4% in 2023 (Chart 2.21), in the real sector it reached 3.1%, and in the budgetary sector 4.2%.

2.2 Evolution of inflation

Consumer Price Index (CPI)

In 2023, the average annual CPI rate amounted to 13.4%, 15.3 percentage points lower than in 2022 (Table 2.1). Throughout 2023, the annual inflation rate continued the downward trajectory that started in the fourth quarter of 2022, declining from 30.2% in December 2022 to 4.2% in December 2023. In the first nine months of the year, the annual inflation rate was above the upper limit of the 5.0% \pm 1.5 percentage point range stipulated in the Medium-term monetary policy strategy. In October 2023, after a period of about two years, the annual inflation rate re-entered the above-mentioned range and remained within it until the end of the year (Chart 2.22).

The downward trajectory of inflation over the previous year and its maintenance within \pm 1.5 percentage points of the 5.0% target in the fourth quarter of 2023 was largely the result of the NBM's restrictive monetary policy measures initiated in the summer of 2021 and continued consistently until the end of 2022. These succeeded in moderating the excessive aggregate demand in the post-pandemic period, which, coupled with other sectoral shocks, exerted pronounced inflationary pressures in that period. Accordingly, given the peculiarities of the transmission mechanism of the effects of monetary policy actions on the domestic economy, in the second half of 2022 and throughout 2023, as projected, the demand moderated and thus contributed, together with the decline in energy and food prices in the region, to the downward trajectory of the annual CPI rate. This effect was also accentuated by the exchange rate dynamics during 2023.

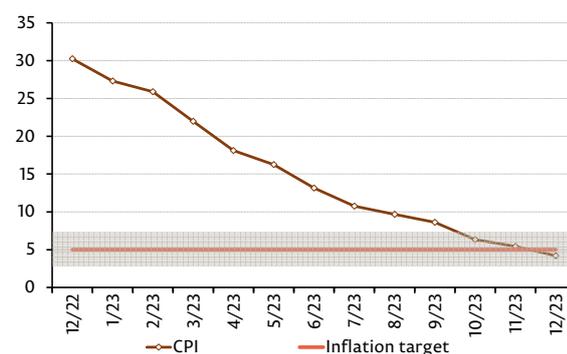
At the same time, in November and December 2023, a temporary disinflationary impact was induced by granting compensations for energy resources during the cold period of the year. However, although declining, core inflation and food prices continued to make positive contributions during 2023. These were largely driven by cost pressures, which gradually lost some of their intensity, and by some adverse sectoral trends.

Table 2.1: Average annual rate of CPI

	2020	2021	2022	2023
CPI, yoy, %	3.8	5.1	28.7	13.4

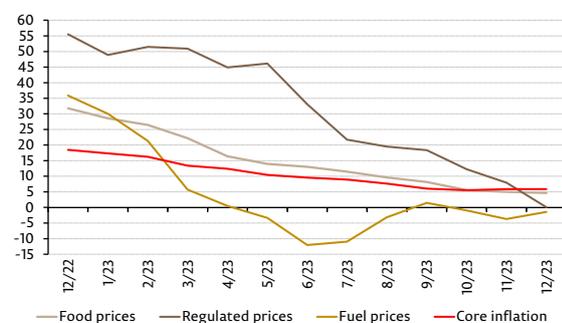
Source: NBS

Chart 2.22: Annual CPI rate (%)



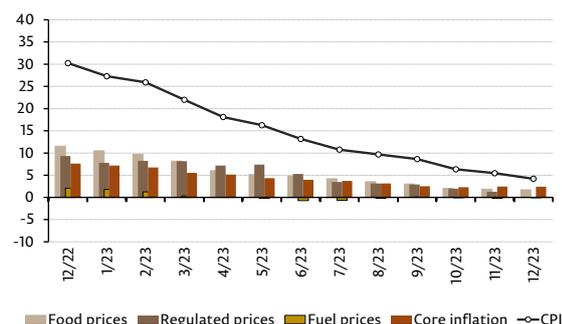
Source: NBS, NBM calculations

Chart 2.23: Annual rate of inflation subcomponents (%)



Source: NBS

Chart 2.24: Annual inflation evolutions and contribution of subcomponents (percentage points)



Source: NBS, NBM calculations

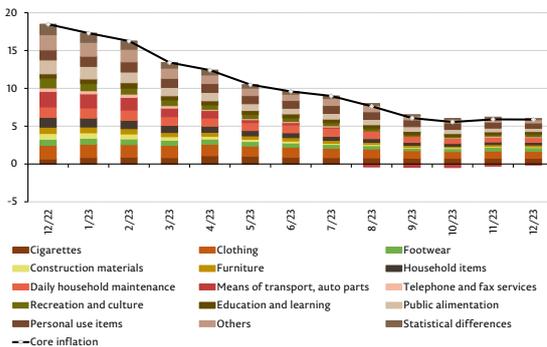
Core inflation¹⁰

During 2023, the annual growth rate of core inflation was on a downward trajectory. It declined significantly from 18.5% in December 2022 to 5.5% in October 2023.

The gradual moderation in the annual core inflation rate can be associated with the gradual dissipation of the side effects of the tariff adjustments on gas, electricity and fuel in the previous periods. An additional impact on this trend has been exerted by the downward trajectory of raw materials and energy products prices. The moderation in core inflation can also be attributed to a modest aggregate demand. In this respect, aggregate demand continued to exert disinflationary pressures on the components of core inflation against the background of modest dynamics in household disposable income in real terms.

At the same time, disinflationary pressures on core inflation during this period were also exerted by the exchange rate dynamics. In 2023, the average official exchange rate of the MDL appreciated by 3.9% against the US dollar and by 1.3% against the European single currency.

Chart 2.25: Contribution of subcomponents (percentage points) to the annual core inflation dynamics (%)



Source: NBS, NBM calculations

In the last two months of 2023, the annual core inflation rate recorded a slight increase, largely in the context of adverse sectoral trends. It thus increased from 5.5% in October to 5.9% in December.

Structurally, the moderation in the annual core inflation rate was mainly supported by decreasing the impact of the sub-components "means of transportation, auto parts", "public alimentation", "recreation and culture", "clothing", "daily household maintenance", "construction materials" (Chart 2.25). The adjustment of excise taxes on tobacco products, as well as the establishment of a minimum marketing price for cigarettes, led to a positive impact from cigarette prices during 2023.

In December 2023, within the annual dynamics of core inflation (5.9%), the most pronounced increases in annual terms were recorded in the sub-components "cigarettes" (17.4%), "education and learning" (14.3%), "daily household maintenance" (11.4%), "personal use items" (10.0%), "footwear" (9.6%), "public alimentation" (6.5%) and "clothing" (5.9%).

¹⁰Core inflation is calculated by the National Bureau of Statistics by excluding prices outside the area influenced by monetary policy measures promoted by the National Bank of Moldova, such as food and beverages, fuels, products and services with regulated prices.

Food prices

Throughout 2023, the annual rate of food prices showed a marked downward trend, decreasing by 27.2 percentage points to 4.6% in December 2023. This trend was mainly driven by lower contributions from the groups "mill products", "vegetables", "meat and meat products", "milk and dairy products", "fresh fruits" and "fats" (Chart 2.26). Thus, the lack of inflationary pressures on the international market (Chart 2.27), the shortage of demand on the domestic market, the rich agricultural year, the lack of pressures from the MDL/USD exchange rate, overlapping with the disappearance of cost pressures, contributed to the moderation of the growth rates of food prices during the period under analysis.

On the international market, the annual rate of food prices was in the negative range for the thirteenth consecutive month (December 2023: -10.6%), and the levels recorded during the last five months of 2023 are significantly lower than those recorded during the same period of 2021 (Chart 2.27).

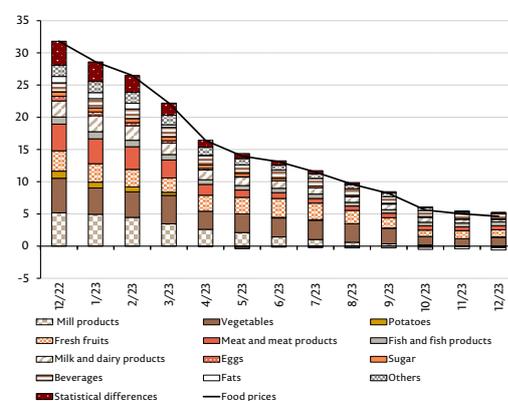
Regulated prices

During 2023, the annual rate of regulated prices outlined a pronounced downward trajectory. It declined from 55.5% in December 2022 to 0.1% in December 2023 (Chart 2.28). This dynamics was determined, on the one hand, by the decrease of some tariffs during the year, but on the other hand, by the implementation of the energy compensation package from the state. At the same time, the statistical effect of the high base period in the year 2022 also represented a significant factor on the decrease in the annual growth rate of regulated prices.

The beginning of the year 2023 was marked by tariff adjustments for electricity and heat. In this regard, from January 1, 2023, the price for electricity was set at MDL 3.42/kWh, 120 bani/kWh less than the previous price (I.C.S. "Premier Energy" S.R.L.) and MDL 3.84/kWh, 81 bani/kWh less than the previous price (S.A. "Furnizarea Energiei Electrice Nord")¹¹. At the same time, the tariff for thermal energy (from March 2023) was set at MDL 3,577 /Gcal¹² (S.A. "Termoelectrica") or about 25.3% higher than the previous tariff.

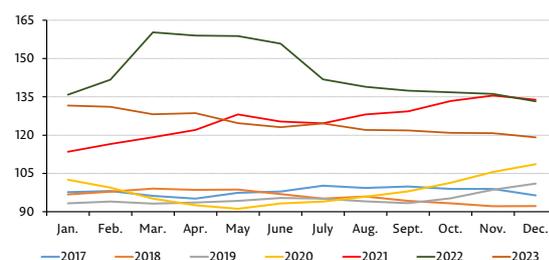
In April 2023, the dynamics of regulated prices were largely supported by the full reflection in the CPI of the tariff adjustments previously made, in the context of the end of the compensation period for gas, district heating and hot water tariffs¹³ with the end of the 2022-2023 cold season, which resulted in a more pronounced impact from these sub-components on the annual

Chart 2.26: Contribution of components to the annual food prices dynamics (percentage points)



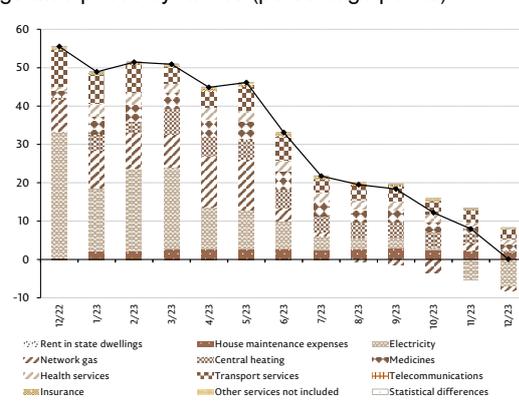
Source: NBS, NBM calculations

Chart 2.27: Evolution of the international food price index, FAO index



Source: FAO, NBM calculations

Chart 2.28: Contribution of components to the annual regulated prices dynamics (percentage points)



Source: NBS, NBM calculation

¹¹<https://anre.md/de-la-1-ianuarie-2023-consumatorii-finali-vor-achita-mai-putin-pentru-energia-electrica-3-609>

¹²<https://anre.md/anre-a-ajustat-pretul-la-energia-electrica-produsa-si-tariful-pentru-energia-termica-livrata-consumatorilor-de-catre-sa-termoelectrica-3-636>

¹³<https://www.anre.md/anre-a-ajustat-preturile-reglementate-la-gazele-naturale-energia-termica-si-energia-electrica-produsa-de-centralele-electrice-de-termoficare-3-394>

rate. On the other hand, the signing of a new contract for the purchase of electricity from MGRES for a period of six months at a price USD 7 lower than the value of the previous contract created preconditions for the decrease in the electricity tariff. Thus, on April 12, 2023, ANRE adjusted the electricity tariff downward. In this regard, the tariff reduction was applied to I.C.S. "Premier Energy" S.R.L. by about 12.6% (299 bani/kWh compared to 342 bani/kWh), and to FEE Nord – by about 6.8% (358 bani/kWh compared to 384 bani/kWh)¹⁴. Subsequently, by the ANRE decision of June 7, 2023¹⁵, the tariff for domestic consumers for network gas was decreased from MDL 29.3/cubic metre (with VAT) to MDL 18.1/cubic metre (with VAT). This adjustment supported the reduction of the tariff for thermal energy by S.A. "Termoelectrica" and S.A. "CET-Nord" by about 9.0%.

In addition, in the first ten days of July, ANRE lowered again the tariffs for electricity supplied by I.C.S. "Premier Energy" S.R.L. – in the amount of 257 bani/kWh, 42 bani/kWh less than the previous price and by S.A. "Furnizarea Energiei Electrice Nord" – in the amount of 320 bani/kWh, 38 bani/kWh less than the previous price¹⁶.

Towards the end of 2023, the annual rate of regulated prices amplified the downward trajectory of previous periods. This dynamics was determined, on the one hand, by the further adjustment of some tariffs, as well as by the effects of compensations on energy resources granted to the population for the period November 2023 – March 2024, which supported the decrease in final prices for consumers of natural gas, thermal energy, electricity¹⁷. With the beginning of the cold season, from November 2023 the state program on compensations for energy resources granted to the population for the period from November 2023 to March 2024 started¹⁸. In addition, on November 10, the electricity tariffs were adjusted¹⁹.

Thus, for the consumers of I.C.S. "Premier Energy" S.R.L., in the center and south of the country, the tariff was set in the amount of 2.39 bani/kWh, 18 bani/kWh less than the previous price, and for the consumers of S.A. "FEE-Nord", in the north of the country, in

¹⁴<https://anre.md/anre-a-micsorat-preturile-reglementate-pentru-furnizarea-energiei-electrice-3-662>

¹⁵<https://anre.md/anre-a-micsorat-pretul-pentru-furnizarea-gazelor-naturale-3-688>

¹⁶<https://anre.md/anre-a-micsorat-preturile-si-tarifele-reglementate-pentru-energia-electrica-3-705>

¹⁷According to the Methodology for calculating the Consumer Price Index, when estimating the effective average prices/tariffs for the supply of natural gas, electricity and thermal energy, the NBS took into account the compensations granted by the Government for the payment of energy bills for household consumers, in compliance with Law No. 241/2022 on the Energy Vulnerability Reduction Fund, as well as Government Decisions No. 704/2022 and No. 814/2022. The preliminary estimate of the average effective price for energy resources in November this year (taking into account the compensations in the invoice) was made on the basis of the information available on the date of preparation of the CPI calculations. When preparing the CPI data in the coming months, new available data on the supply of energy resources (including possible recalculations made in the invoice by operators/suppliers) will be taken into account – taken from the official website of the NBS.

¹⁸https://cancelaria.gov.md/sites/default/files/document/attachments/nu-876-mmps-2023_0.pdf

¹⁹<https://anre.md/anre-a-micsorat-preturile-reglementate-pentru-furnizarea-energiei-electrice-3-777>

the amount of 2.88 bani/kWh, 32 bani/kWh less than the previous price.

The downward trajectory of the annual rate of regulated prices was also supported by a declining contribution from prices for transportation services, largely as a result of the lowering of the ceiling tariffs²⁰ during 2023, which led to lower prices for transportation services for passengers by bus. On the other hand, prices for air services showed an upward trend on the background of uncertainties related to this sector, also supported by the cancellation of some scheduled flights. At the same time, during 2023, positive but decreasing contributions were also driven by prices of medical services and medicines.

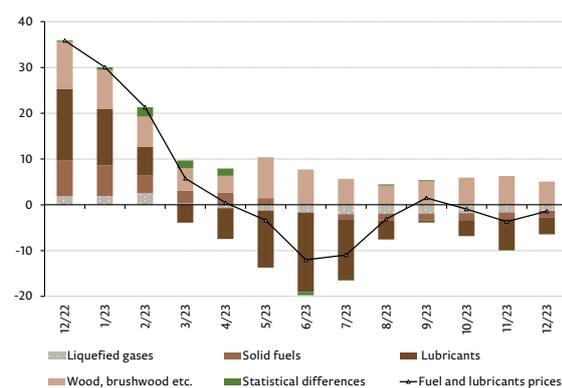
A positive impact on the annual rate of regulated prices was generated by the increase in water and sewage tariffs in Chisinau²¹, Comrat²², Cahul²³, Orhei²⁴, Edinet²⁵.

Fuel and lubricants prices

In the first half of 2023, the annual rate of fuel and lubricants prices was characterized by a pronounced downward trajectory, subsequently, starting from July, this was reversed. Thus, the annual rate declined from 35.9% in December 2022 to 12.0% in June 2023 (Chart 2.29), mainly due to the decline in combustibles prices, mainly as a result of the considerable decrease in oil prices on the international market. Thus, the average oil price (Brent) in the first half of 2023 amounted to USD 79.8/barrel, 20.0% lower than the average oil price in 2022. The disinflationary impact generated by lower oil prices was partially mitigated by the change in the excise tax rate on gasoline and diesel for 2023, as well as by the trajectory of the MDL/USD exchange rate. Subsequently, on the background of rising oil prices (in the second half of 2023, the average price of Brent oil amounted to USD 85.4/barrel), the annual rate of fuel and lubricants prices increased to -1.4% in December 2023.

The downward trend in the annual rate of fuel and lubricants prices in 2023 was also supported by the development of liquefied gases prices. During 2023, the prices for "wood, brushwood etc." exerted a positive impact, especially since May, which was supported by the increase in their prices in accordance with the Price Catalog for the sale of wood products within the Agency "Moldsilva", approved by Order No. 69 of 31.03.2023²⁶.

Chart 2.29: Contribution of components (percentage points) to the annual increase in fuel and lubricants prices (%)



Source: NBS, NBM calculations

²⁰<https://anta.gov.md/content/tarife-plafon>

²¹<https://newsmaker.md/ro/tariful-pentru-apa-si-canalizare-s-ar-putea-ieftini-anre-se-intalneste-in-sedinta-pentru-a-aproba-noile-tarife/>

²²<https://grt.md/utverzhdzenie-tarifov-na-vodu-i-kanalizacziyu-v-komratskom-municzipalnom-sovete-vyzvalo-diskussii/>

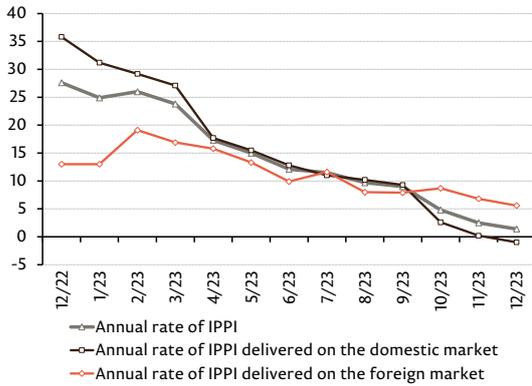
²³<https://www.anre.md/anre-a-aprobatavizat-tarifele-pentru-serviciul-public-de-alimentare-cu-apa-si-de-canalizare-furnizatprestat-de-catre-cinci-operatori-din-domeniu-3-713>

²⁴ANRE endorsed/approved the tariffs for public water supply and sewerage services provided by three operators in the field

²⁵Monitorul oficial No 477-479a (8983-8985a)3, p. 14

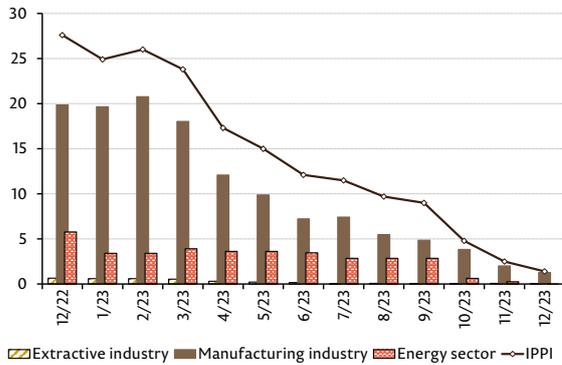
²⁶On the application of the Price Catalog for the sale of wood products within the enterprise, approved by Order No. 69 of 31.03.2023 | Orders / Regulations | Edinet Forestry Enterprise (silvicultura.md)

Chart 2.30: Annual rate of prices in industry (%)



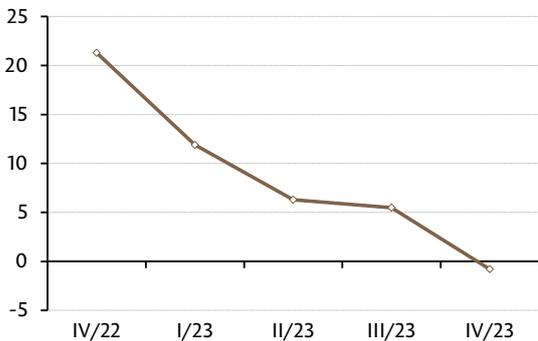
Source: NBS

Chart 2.31: Annual rate of prices in industry (%) and its components contribution classified by main branches (percentage points)



Source: NBS, NBM calculations

Chart 2.32: Evolution of the annual rate of prices in construction (%)



Source: NBS

Industrial production prices

Throughout 2023, the annual rate of industrial prices recorded a pronounced downward trajectory. Thus, in December 2023, it amounted to 1.4%, 26.2 percentage points lower than in December 2022. It should be noted that in the last quarter of 2023, the annual rate of prices of products delivered on the domestic market was lower than that of prices of products delivered on the foreign market, in contrast to the previous months when the opposite situation was observed (Chart 2.30).

Analyzing the evolution of the annual industrial price rate by main branches, it can be observed that its sharp moderation was supported by developments in the manufacturing industry and the energy sector (Chart 2.31). It is worth noting that, in the context of the easing of the global energy crisis, the annual rate of prices in the energy sector recorded a pronounced downward trend, registering a 0.1% pace in December 2023. At the same time, against the background of disappearing cost pressures, the annual price rate in the manufacturing industry moderated considerably, registering 1.4% in December 2023. The significant decrease in prices in the "food industry" and prices of "other non-metallic mineral products" mainly contributed to the downward trajectory of the annual price rate in the manufacturing industry. At the same time, the annual price rate in the extractive industry recorded a level of 3.7%, generating a minor contribution to the price dynamics in industry.

Prices in construction

Throughout 2023, the annual rate of prices in construction recorded a pronounced downward trajectory. Thus, in the fourth quarter of 2023 it stood at -0.8%, 22.1 percentage points lower than in the fourth quarter of 2022 (Chart 2.32).

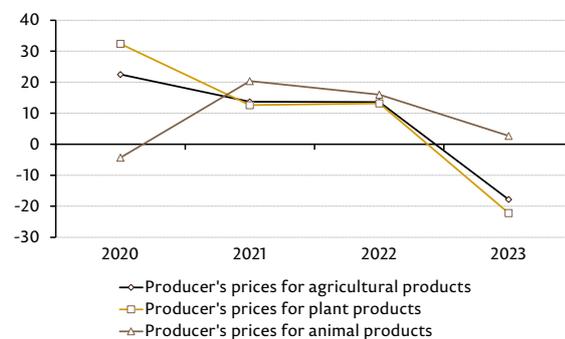
Producer's prices for agricultural products

In 2023, producer's prices for agricultural products decreased by 17.8% compared to the previous year, as a result of a 22.2% decrease in the prices of crop products (Chart 2.33), in the context of a rich agricultural year, but also of pronounced disinflationary pressures felt at the regional level. At the same time, prices for animal products increased by 2.7%.

The development of prices for crop products was mainly driven by decreases in the prices of "barley" (-36.9%), "rape" (-36.1%), "wheat" (-34.6%), "sunflower" (-34.3%), "rye" (-33.8%), "soybeans" (-24.1%) and "corn" (-17.0%). At the same time, price increases were recorded for the following product groups: "stone fruits" (30.6%), "potatoes" (25.1%), "grapes" (20.3%) and "seed fruits" (15.1%).

The increase in prices for animal products was driven by price increases in all product categories. Thus, the prices of milk, eggs and meat (live weight) increased by 7.7, 4.2 and 2.1%, respectively. It should be noted that the decline in the volume of livestock production for the seventh consecutive year contributed to the steady decrease in the supply of animal products on the domestic market. As a consequence, the decrease in the domestic supply of animal products, coupled with the increase in production costs, has influenced the upward trend in producer's prices for animal products.

Chart 2.33: Annual rate of producer's prices for agricultural products (%)

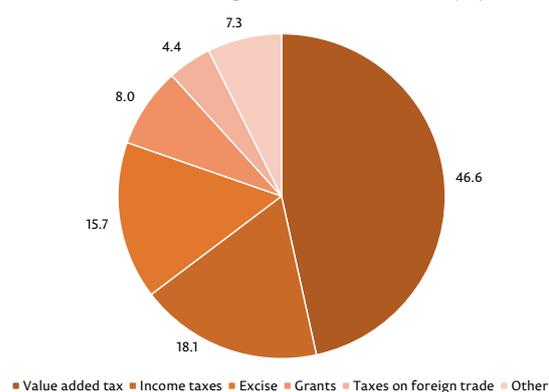


Source: NBS

2.3 Public sector and fiscal policy

Implementing the state budget

Chart 2.34: State budget revenue structure (%)



Source: Ministry of Finance

In 2023, revenues totaling MDL 64,603.6 million were accrued to the state budget, 9.0% more than in the previous year. In the revenue structure of the state budget, the major share is held by taxes and fees – 87.3%, which amounted to MDL 56,415.6 million, increasing by MDL 4,479.7 million or 8.6% compared to 2022. Of these, taxes and duties on goods and services amounted to MDL 41,881.8 million or by MDL 3,354.9 million more than in the previous year, taxes on income – MDL 11,687.5 million and taxes on foreign trade and foreign operations – MDL 2,812.0 million (Chart 2.34). As a share of GDP, taxes and duties in 2023 amounted to – 18.8%.

In 2023, grants amounting to MDL 5,137.0 million were disbursed, MDL 830.7 million more than in 2022. In the revenue structure of the state budget, grants accounted for about 8.0%. The share of grants in the GDP amounted to about 1.7%.

Other revenues of the state budget amounted to MDL 3,035.6 million, up by 1.2% or by 36.2 million MDL from the previous year. These receipts accounted for 4.7% of the total and 1.0% of the GDP.

According to the results of the budget execution in 2023, the state budget expenditures totaled MDL 80,727.1 million, which is by MDL 12,153.6 million or by 17.7% annually, compared to 2022. As a share in the GDP, the state budget expenditures realized in 2023 accounted for 26.9%.

In functional terms, the largest expenditures were recorded in social protection – MDL 21,381.8 million, up by 13.7% year-on-year, expenditures for education amounted to MDL 17,476.0 million, 19.1% above the level recorded in 2022, and those for general-purpose state services – MDL 12,611.2 million, 44.8% more than in the previous year.

The budget year for 2023 ended with a budget balance (deficit) amounting to MDL 16,123.5 million. This represents 5.4% of GDP. The financing of the state budget deficit was predominantly from debt, from both external and domestic sources.

As of December 31 2023, the balance of money means on the state budget accounts increased by MDL 534.1 million and amounted to MDL 3,403.6 million compared to December 31 2022.

Implementing the national public budget

In 2023, national public budget indicators were affected by risks and uncertainties at the global, regional and national level, as a result of spillovers from the tense situation caused by the military conflict in the neighbouring country, weak domestic demand as

a consequence of the decline in household consumption and investment, and modest recovery of economic activity. As a result, revenues have increased at a slower annual pace and government expenditure has increased at a faster pace. The slowdown in economic activity, weak domestic demand, changes in the saving and investment behaviour of the population, and increased transfers have affected the revenues of the population and economic agents and the taxes and duties collected to the state budget, respectively. Thus, according to the data provided by the Ministry of Finance, the revenues of the national public budget amounted to MDL 102,299.2 million, 11.8% above the level of revenues accumulated in 2022 (Chart 2.35). Reported to the GDP, revenue collected in 2023 amounted to 34.1%, 0.7 percentage points more than in the previous year.

The major share of budget revenues was accrued from taxes and duties, which accounted for 61.6% (MDL 63,006.1 million). Compulsory insurance contributions and premiums accounted for 28.4% (MDL 29,022.4 million), while the share of grants and other revenues amounted to 5.2% (MDL 5,347.0 million) and 4.8% (MDL 4,923.7 million) of total budget revenues, respectively (Chart 2.36).

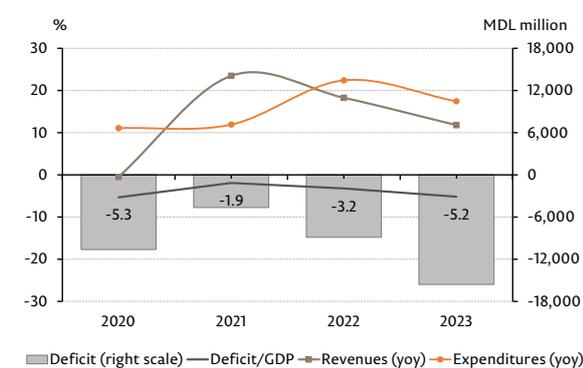
During the reporting year, the Republic of Moldova received financial support for budget support in the form of external grants in the amount of MDL 5,347.0 million or 17.8% more than in 2022. As a share of GDP, grants amounted to 1.8%, 0.1 percentage points more than in the previous year. The support provided by international financial organizations and donor countries is an important contribution to the efforts to revive the economy and implement the reforms needed to upgrade and re-launch the Republic of Moldova.

Budget spending has also been increased to improve social assistance and support the population. As a result, national public budget expenditures in the reference year totalled MDL 117,871.0 million, an increase of 17.4% compared to 2022. Of the total expenditures, the largest share was spent on social protection – 38.2%, 15.9% was allocated for education, and 13.5% for health protection. Public spending, as a share of GDP, amounted to 39.2% or 2.7 percentage points more than in 2022.

It should be noted that during 2023, transfers from the state budget (SB) to the state social insurance budget (SSIB), mandatory health care insurance fund (MHIF) and local budgets (LB) were made in the amount of MDL 44,179.1 million (up by 16.1% compared to 2022). The major share of transfers was directed to local budgets, about 47.1% of total transfers, followed by transfers to SSIB, about 37.4%, with MHIF receiving more modest funding of 15.5%.

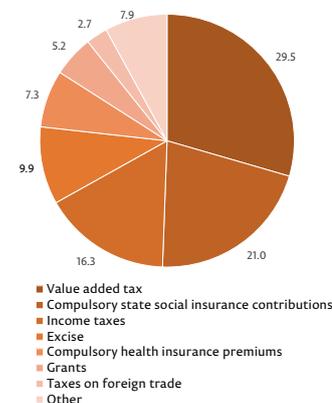
In this context, in 2023, the execution of the national public budget resulted in a deficit of MDL 15,571.8 million. In relation to the GDP, this deficit represents 5.2%, 2.0 percentage points above the 2022 level. The sources of financing of the national public deficit consisted of net external borrowing in the amount of MDL 8,613.2 million, which represents 2.9% of GDP (down by 1.9 percentage points from the previous year), changes in balances in the amount of – MDL -1,329.3 million or -0.4% of GDP (down by 2.5 percentage points from the previous year). At the same time, balances of money mean on the accounts of the component budgets of the national public budget amounted to MDL 7,622.6 million at the end of the year.

Chart 2.35: National public budget indicators



Source: Ministry of Finance

Chart 2.36: Structure of national public budget revenues (%)



Source: Ministry of Finance

2.4 International accounts of the Republic of Moldova for 2023 (provisional data)²⁷

Chart 2.37: Current account – main components

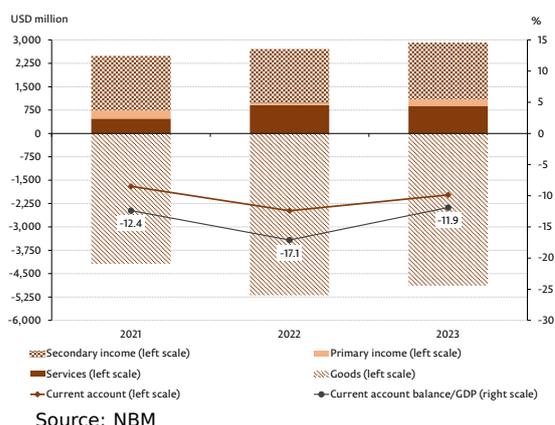
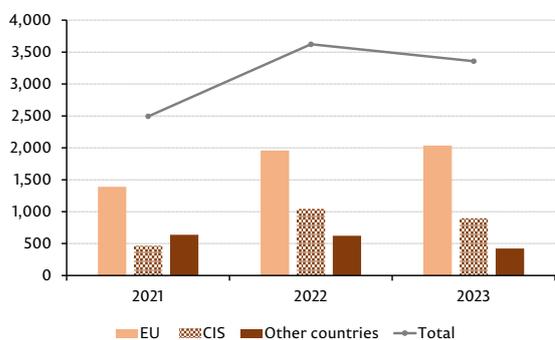
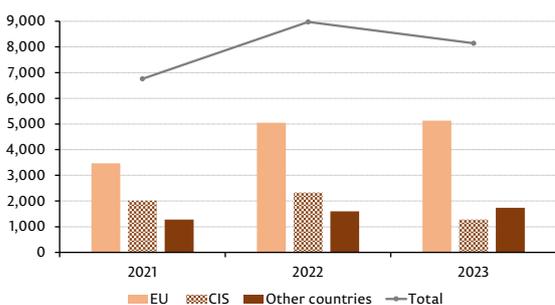


Chart 2.38: Exports of goods, by geographical area (USD million)



Source: Prepared by the NBM based on NBS data excluding goods for/after processing (for which no change of ownership takes place) and duty-free shop sales.

Chart 2.39: The import of goods, by geographical areas, prices CIF (USD million)



Source: Prepared by the NBM on the basis of NBS data, import selections (CIF prices) according to the country of delivery principle, excluding goods for/after processing (for which no change of ownership takes place).

Balance of payments

According to preliminary data, in 2023, the balance of the **current account** of the balance of payments of the Republic of Moldova recorded a deficit of USD 1,973.7 million, Relative to GDP, the current account amounted to -11.9% (compared to -17.1% in 2022) (Chart 2.37, table A.1). This dynamics was driven by a decline in the external trade deficit in goods, increases in primary and secondary income surpluses, while the services balance surplus declined insignificantly.

The deficit in *external trade in goods*²⁸ recorded in the balance of payments amounted to USD 4,887.8 million and decreased by 5.9% due to the more pronounced decrease in the import of goods USD (-580.9 million) compared to the export (USD -275.9 million). The ratio of the deficit balance of external trade in goods to GDP was -29.5% (compared to -35.8% in 2022).

The export of goods recorded in the balance of payments (excluding goods after/for processing) totaled USD 3,425.5 million (-7.5% compared to 2022).

In the reference year, 60.7% of the export of goods was directed to the EU, 26.7% – to the CIS, and the rest went to other countries. Significant contributions to the decrease in exports were made by exports to other countries, which decreased by 31.9%, and exports to CIS, which decreased by 14.0%, while exports to EU increased by 4.0% compared to 2022 (Chart 2.38).

Agri-food products were still the main category of exported goods (51.0% of the total), their export decreased by 9.9% compared to 2022, mainly due to the decrease in exports of sunflower seeds, which fell by 2.4 times (USD -197.6 million), corn – by 2.4 times (USD -195.7 million) and sunflower seed, safflower or cottonseed oil – by 34.1% (USD -125.5 million).

At the same time, exports of wheat and meslin increased considerably – by 3.9 times (USD +165.7 million) and rapeseed – by 2.7 times (USD +72.9 million).

The decrease in agri-food exports by 9.9% was largely driven by the continued decline in international food prices and quotations (Chart 2.27) and partly mitigated by overall domestic agricultural production (Chart 2.7).

²⁷Full analytical comments on the development of international accounts can be found at: <https://www.bnm.md/en/content/international-accounts-republic-moldova-quarter-iv-2023-preliminary-data>

²⁸Data on external trade in goods, compiled according to the balance of payments methodology (BPM6), contain a series of adjustments compared to the data compiled by the NBS, for more details on the adjustments we recommend to consult the methodology [<https://www.bnm.md/en/content/international-accounts-methodological-standards-and-data-sources>]

It should be noted that exports of machinery, appliances and equipment recorded the highest increase – by 38.1 % (USD +122.7 million).

The *import of goods* recorded in the balance of payments (excluding goods after/ for processing) amounted to USD 8,313.3 million (-6.5% compared to 2022). The decrease in imports in 2023 was conditioned by imports from CIS, which decreased by 45.1% as a result of the exceptional situation in the region and accounted for 15.7% of the total. Imports from the EU increased by 1.6%, making up 63.0% of the total value, while imports from other countries increased by 8.3%, up to 21.3% of the total (Chart 2.39).

The import of *mineral products* decreased by 31.7% compared to 2022 (USD -893.0 million), as a result of lower domestic demand, mitigated by higher prices of petroleum products. It should be noted that a significant share of imported mineral products, especially diesel and automotive gasoline, was exported (re-exported) to Ukraine. At the same time, the import of machinery, appliances, equipment increased by 5.7%, vehicles and aircrafts – by 8.0%, and optical instruments and appliances – by 19.0%.

The import of *energy products and electricity*, in 2023, amounted to USD 1,859.8 million, registering a decrease of 32.4% compared to 2022. The most significant decrease was the import of natural gas (in gaseous state) – by 2.2 times, diesel fuel – by 17.8%, electricity – by 2.7 times, the import of automotive gasoline decreased by 14.5%, and the import of coal – by 50.8%. At the same time, fuel oil imports increased by 7.6% (Chart 2.40). The decrease in the import of energy products and electricity was driven by the reduction in domestic consumption as a result of the significant increase in regulated tariffs, as well as the decrease in prices on the international market (Chart 1.5).

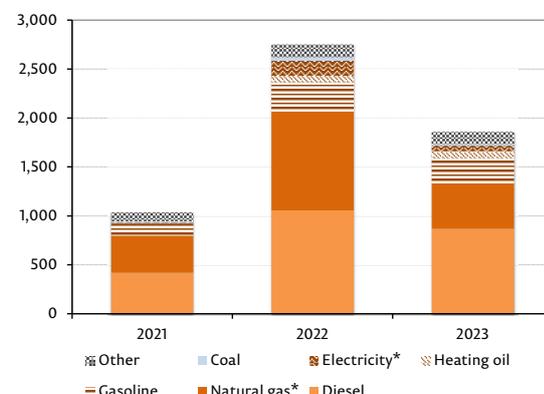
The external trade surplus in *services* fell by 2.5% compared to 2022, to USD 885.8 million, as a result of a larger increase in imports of services (USD +183.0 million) than in exports (USD +160.4 million). The ratio of the services balance to GDP amounted to 5.4%, down by 0.9 percentage points compared to the level in 2022 (Chart 2.41).

Within imports, the largest positive contribution was made by travel services, which increased by 19.9% to USD 515.2 million, of which personal travel increased by 27.1% and business travel by 4.0%. The import of transportation services increased by 3.7% to USD 577.4 million, and of computer services – by 31.0% to USD 84.7 million. The increase in the export of services resulted from the growth of computer services by 23.9% to USD 580.4 million, professional and management consulting services – by 47.5% to USD 164.4 million, and transportation services – by 7.9% to USD 540.3 million.

In 2023, the *primary income* surplus increased by 3.5 times compared to 2022 and totaled USD 209.8 million, constituting 1.3% relative to GDP (Chart 2.42). This dynamics was driven by an increase in inflows of primary incomes (USD +196.2 million) higher than the increase in outflows (USD +46.1 million).

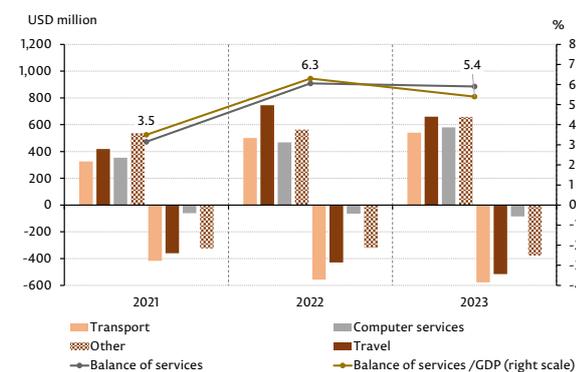
The inflows development was driven by a 4.0 times increase, to USD 179.4 million, in income from reserve assets management

Chart 2.40: Imports of energy products and electricity (million USD, CIF prices)



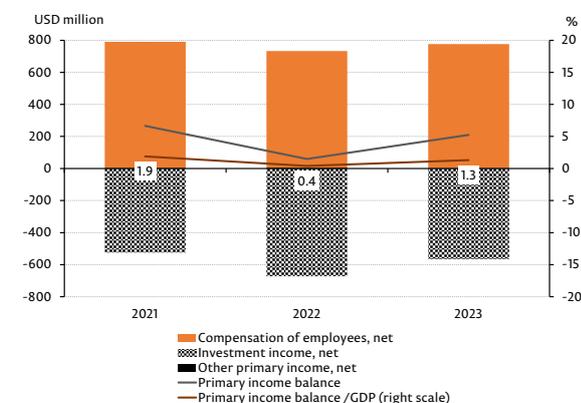
Source: Prepared by the NBM on the basis of NBS data, import selections (CIF prices) according to the country of delivery principle, by excluding goods for/after processing (for which no change of ownership takes place). * Data for the years 2022-2023 have been partially adjusted based on the principle of change in ownership

Chart 2.41: Exports and imports of services



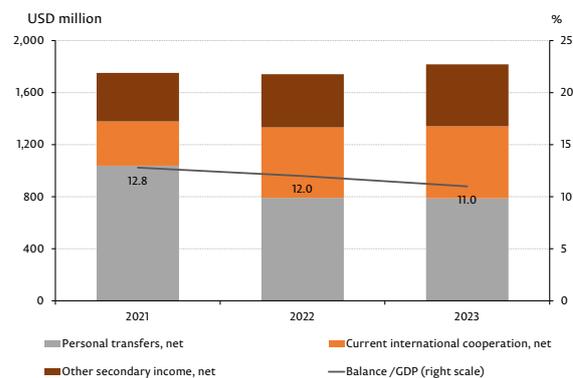
Source: NBM

Chart 2.42: Primary income, by components



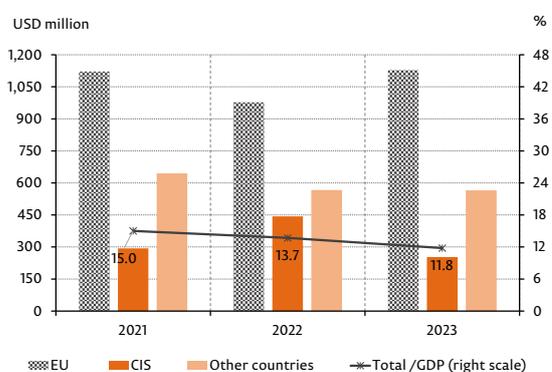
Source: NBM

Chart 2.43: Secondary income, by components



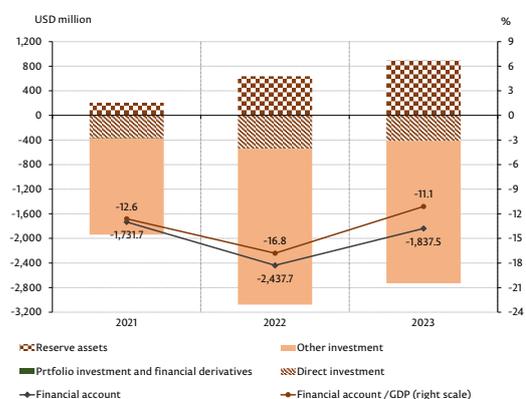
Source: NBM

Chart 2.44: Geographical distribution of personal remittances



Source: NBM

Chart 2.45: Financial account by functional categories



Source: NBM

Note: (+) net outflows, (-) net inflows of capital.

and remuneration of resident employees for work performed for non-resident employers, which rose by 6.7% 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 in 2023 recorded a 4.4% increase in the surplus compared to 2022, to USD 1,818.5 million (11.0% relative to GDP) (Chart 2.43). This development was due to the decrease in secondary income outflows USD (-101.9 million) exceeding inflows USD (-25.7 million). Personal transfers received by Moldovan residents from abroad decreased by 6.7% and amounted to USD 1,122.6 million, while outflows decreased by 19.0% (to USD 334.3 million). Technical assistance, humanitarian aid, and grants received under international cooperation by all institutional sectors increased by 2.2% in 2023 and amounted to USD 575.9 million.

*Personal remittances*²⁹ received by the residents of the Republic of Moldova amounted to USD 1,946.3 million (-2.0% compared to 2022), which represents 11.8% relative to GDP. The decrease in remittance inflows was driven by lower inflows from CIS and other countries (-42.8% and -0.3%, respectively). At the same time, remittances from EU increased by 15.4% compared to 2022 (Chart 2.44). Remittances to non-residents (debit) amounted to USD 470.0 million, down by 21.9%.

The capital account recorded in 2023 net inflows of USD 81.9 million, up 4.1 times compared to 2022, when it amounted to USD 20.2 million. The capital account balance was driven by net inflows registered in the private sector, which amounted to USD 32.4 million, compared to 2022, when net outflows amounted to USD 20.3 million. At the same time, inflows of external technical assistance of the public administration for the financing of investment projects amounted to USD 49.5 million, up by 22.0% compared to the previous year.

The sum of the current and capital account balances shows that, as a result of current and capital transactions of Moldovan residents with non-residents, the external **net borrowing requirement** amounted to USD 1,891.8 million (-23.2%), which is 11.4% in relation to GDP.

In 2023, the **financial account** resulted in net capital inflows of USD -1,837.5 million, as a result of an increase in liabilities of USD 1,068.2 million, and a decrease in external financial assets of USD 769.2 million (Chart 2.45).

External liabilities increased on the account of the preponderance of financial inflows as a result of an increase in external liabilities in the form of *borrowings* – by USD 473.2 million, mostly contracted by public administration (Table A.2).

The public administration contracted new external loans totaling USD 961.3 million in 2023, the main lenders being: the European Bank for Reconstruction and Development – USD 315.2 million, the International Monetary Fund – USD 217.8 million, the

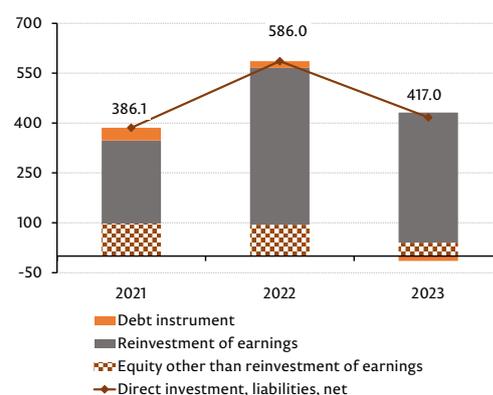
²⁹Personal remittances are a supplementary item in the balance of payments and reflect the sum of net remuneration of employees (excluding the expenses of workers incurred in the host country and some taxes and duties paid by the residents abroad), personal and capital transfers between households.

International Bank for Reconstruction and Development - USD 113.0 million, the European Commission – USD 97.0 million, the Japan International Cooperation Agency – USD 92.2 million, the International Development Association – USD 46.3 million, the French Development Agency – USD 43.1 million, the European Investment Bank – USD 19.1 million, the Council of Europe Development Bank – USD 12.5 million, and other creditors – USD 5.2 million. Repayments by public administration in the same period amounted to USD 494.5 million. The National Bank of Moldova repaid USD 7.88 million of the loans previously contracted from the IMF. The licensed banks made net repayments in the amount of USD 21.1 million, while other sectors – net drawings of USD 35.4 million.

External commitments in the form of *direct investments* increased by USD 417.0 million during 2023, a dynamics driven by the reinvestment of profits amounting to USD 391.5 million, a net increase in equity and non-resident-owned shares by USD 40.1 million, while debt instruments decreased by USD 14.6 million (Chart 2.46).

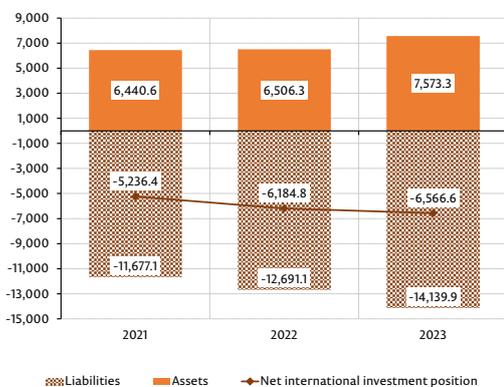
In 2023, the net decrease in *external assets* which represent net inflows of funds, was driven by a decrease of USD 1,358.3 million in assets in the form of *cash and deposits, trade credits and advances* – by USD 274.8 million, of *loans* – by USD 26.5 million, *portfolio investments* – by USD 1.7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

Chart 2.46: Direct investments: net accumulation of liabilities, disaggregated by instruments (USD million)



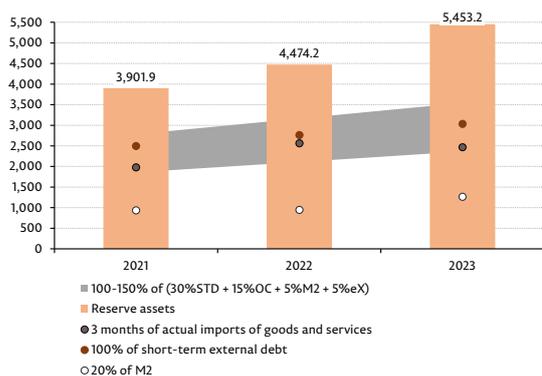
Source: NBM

Chart 2.47: International investment position in dynamics, at the end of the period (USD million)



Source: NBM

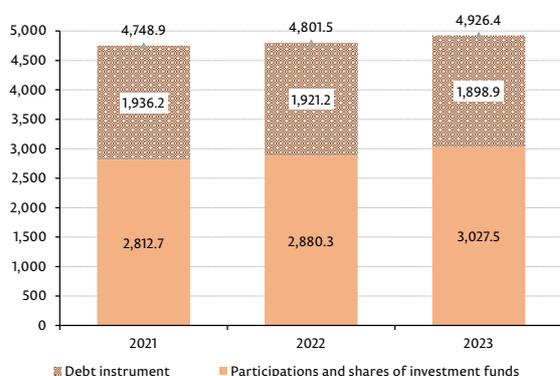
Chart 2.48: Indicators of the sufficiency of official reserve assets of the Republic of Moldova (USD million)



Source: NBM

Note: STD – short-term debt (after original maturity), OC – other commitments, M2 – money supply, eX – exports of goods and services.

Chart 2.49: Direct investments, liabilities, basic components, position* at the end of the period (USD million)



Source: NBM

* Positions calculated according to the balance sheet value

International investment position of the Republic of Moldova on December 31, 2023

The international investment position (IIP) of the Republic of Moldova, as of December 31, 2023, amounted to USD -6,566.6 million (or -39,7% relative to the GDP), the net debit balance deepening by 6.2% compared to the end of 2022 (Table A.3, Chart 2.47).

Position of the *external financial assets* totaled USD 7,573.3 million, increasing by 16.4% since the beginning of the year, and liabilities – USD 14,139.9 million, up by 11.4%.

The change in the asset position as of December 31, 2023 was due to other changes (USD +1,707.5 million), fluctuation in the exchange rates of the original currencies against the US dollar (USD 115.6 million), change in prices of financial instruments (USD 13.2 million) and negative flow on the balance of payments (USD -769.2 million).

From the point of view of the structure of IIP by functional categories, the increase in the position of external financial assets as of December 31, 2023 was influenced by the increase in the position of reserve assets by 21.9%, those in the form of cash and deposits – by 68.8%, as well as direct investments – by 2.7%. At the same time, assets in the form of trade credits and advances decreased by 31.5%, loans – by 12.5%, portfolio investments – by 11.2%.

The official reserve assets position amounted to USD 5,453.2 million as of December 31, 2023, which meets all sufficiency criteria: covering at least 3 months of imports of goods and services (covered 6.6 months of actual imports); fully covering short-term external debt by reserves (covered 179.6%); covering 20.0% of M2 money supply (covered 86.3%); covering 100-150% of the amount: 30% of short-term external debt +15.0% of other external commitments +5.0% of M2, +5.0% of exports of goods and services (covered 230.9%) (Chart 2.48).

The financial liabilities position was driven by the positive flow recorded in the balance of payments (USD 1,068.2 million) and the fluctuation in the exchange rates of the original currencies against the US dollar (USD 474.8 million.) At the same time, the change in the prices of financial instruments (USD -50.3 million) and other changes (USD -43.9 million) influenced the financial liabilities position in a downward direction.

Commitments in the form of *other investments* increased by 11.2% and those in the form of *direct investments* (Chart 2.49) by 11.9%.

Other investments consisted of 63.8% of loans, 28.7% – trade credits and advances, 4.4% – special drawing rights, 2.5% – cash and deposits, and 0.6% – other liabilities.

At the same time, commitments in the form of direct investments increased by 11.9% compared to December 31, 2022, accounting for a share of 39.1% in the country's external liabilities. Direct investments consisted 66.0% of equity capital (+18.8% compared to December 31, 2022), 34.0% – debt instruments (+0.5%).

In the geographic distribution of direct investments in the form of accumulated holdings and shares, those from the EU countries increased by 19.7%, accounting for the major share of 86.3%, and those from other countries increased by 10.0%, accounting for 13.0%. At the same time, direct investments in the form of holdings and equity from the CIS increased 2.8 times to USD 24.2 million compared to USD 8.8 million at 31.12.2022.

The main economic activities that have attracted foreign direct investments in the form of equity capital are: financial and insurance activities (35.2%), wholesale and retail trade (25.8%) and manufacturing industry (18.6%) (Chart 2.50).

2.5 Public debt and external public debt of the Republic of Moldova

Public debt

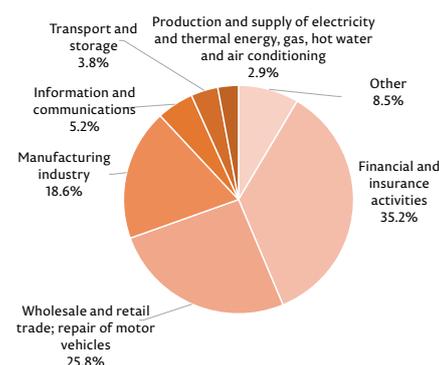
At the end of 2023, the public debt of the Republic of Moldova amounted to MDL 104,003.1 million, representing 34.6% of GDP. The public debt increased, at the end of 2023, by MDL 9,343.1 million or by 9.9%, on account of the increase in domestic public debt (with a positive contribution of 5.5 percentage points) and external public debt recalculated in national currency (with a positive contribution of 4.4 percentage points). As a share of GDP, domestic public debt amounted to 13.2% and external public debt to 21.4% (Chart 2.51).

As of December 31, 2023 the public debt consisted of 61.9% external public debt and 38.1% domestic public debt.

The foreign currency balance of external public debt as of December 31, 2023 increased by 17.7% from December 31, 2022 to USD 3,696.2 million. External public debt, in MDL terms, totaled MDL 64,337.0 million at the end of the reporting year, up by 6.9% compared to the end of 2022.

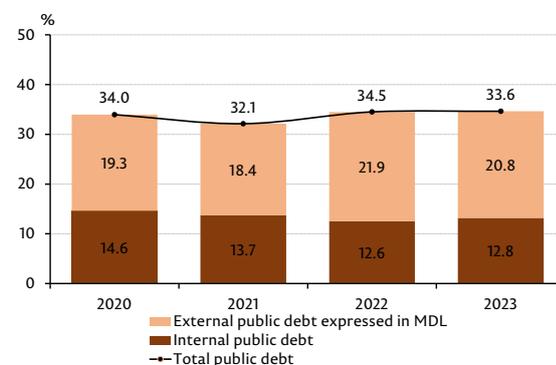
Domestic public debt at the end of 2023 amounted to MDL 39,666.1 million, 15.0% higher than at the end of 2022. The increase in domestic public debt was driven by the additional issuance of SS on the primary market by 27.7%. Also, in 2023, SS issued in 2016 for the enforcement of payment obligations derived from state guarantees in the amount of MDL 310.0 million were redeemed. Thus, at the end of 2023, the domestic public debt consisted of SS issued on the primary market (65.0%), SS

Chart 2.50: Direct investments, accumulated equity capital at 31.12.2023, by economic activities (according to CEAM 2), %



Source: NBM

Chart 2.51: Public debt as a share of GDP (%), end of year

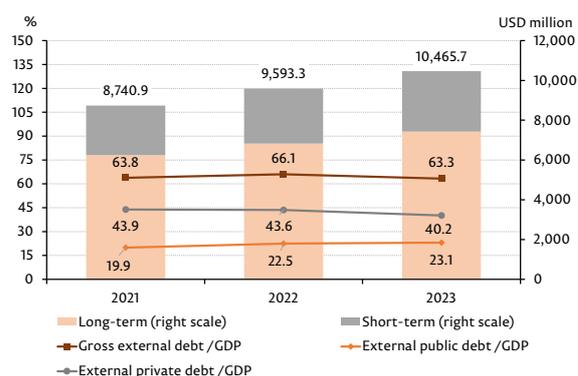


Source: Ministry of Finance, NBS, NBM calculations

issued for the enforcement of state guarantees (29.6%) and converted SS (5.4%).

In 2023, funds in the amount of MDL 5,301.5 million (twice as much as in 2022) were used to service the public debt from the national public budget. External public debt service amounted to MDL 1,434.0 million (2.6 times more than in 2022), and domestic public debt service amounted to MDL 3,867.5 million (85.5% more than in 2022).

Chart 2.52: Gross external public debt in dynamics



Source: NBM

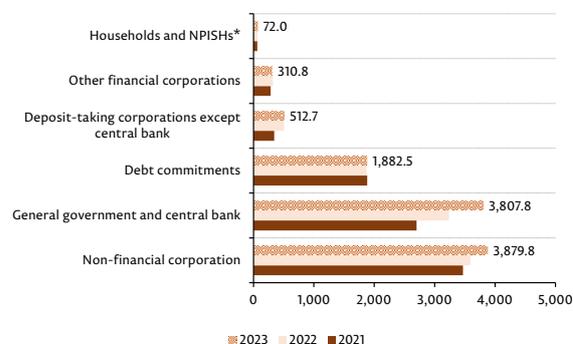
External public debt of the Republic of Moldova

Gross external public debt of the Republic of Moldova increased by 9.1%, amounting to USD 10,465.7 million at the end of the year, which is 63.3% of GDP (-2.8 percentage points compared to December 31, 2022) (Chart 2.52, table A.4).

In terms of maturity structure (original maturity), the increase in external public debt during 2023 was driven by the increase in *long-term* debt by 8.8% compared to the situation as of December 31, 2022 to the level of USD 7,429.7 million. External public debt on *short-term* increased by 9.9% to USD 3,036.0 million at December 31, 2023.

External public debt by *short-term* comprised: trade credits and advances (consisting of advances received for exports and outstanding invoices for imports) – 87.4 percent, deposits (term and sight) of non-residents with banks licensed in the Republic of Moldova – 7.0%, other debt-related liabilities – 1.7%, intra-group loans – 1.1%, other borrowing on *short-term* – 2.8%. *Long-term* external debt comprised: intra-group loans – 13.8%, other debt-related liabilities – 7.4%, SDR allocations – 5.1%, trade credits and advances – 1.1%, other long-term borrowing – 72.6%.

Chart 2.53: External public debt structure - sectoral overview (USD million)



Source: NBM

*NPISH - non-profit institutions serving households

External public debt accounted for 36.5% of total external public debt, amounting to USD 3,820.5 million³⁰ (+17.1% at beginning of the year). *Private external debt* amounted to USD 6,645.1 million, increasing by 5.0% compared to December 31, 2022.

In terms of institutional sectors, as at December 31, 2023, the largest share of total external public debt was held by *non-financial corporations* – 37.1% (-0.3 percentage points compared to December 31, 2022). They were followed by *government* with a share of 35.8% (+2.7 percentage points), *intragroup credit* in direct investment (which has no sectoral distribution), including liabilities for gas import – 18.0% (-1.5 percentage points), *deposit-taking corporations, exclusive central bank* with a share of 4.9% (-0.4 percentage points), *other financial corporations* – 3.0% (-0.4 percentage points), *NBM* – 0.5% (-0.2 percentage points), *households* – 0.7%, with the same share as at the end of 2021 (Chart 2.53).

³⁰ including tranches of ECF and EFF loans received in December 2021 from the IMF (reflected according to IMF Methodological Guidance Statistics ED, 2014 <https://www.imf.org/external/np/sta/ed/ed.htm> para 2.26); the data published by the Ministry of Finance on the public debt balance as of December 31, 2021 do not include these amounts, they are reflected as of January 28, 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's borrowing of the external public loan from the International Monetary Fund).

As of December 31, 2023, the main creditor of the state is the IMF with 30.8% (USD 1,178.1 million³⁰), followed by the World Bank Group with a share of 28.0% of total public debt or USD 1,069.1 million and the EIB with 11.8% (USD 449.9 million).

The currency structure of external borrowing within the *public debt* was dominated by borrowing in EUR – 53.2% – and SDR commitments accounted for 41.5%.

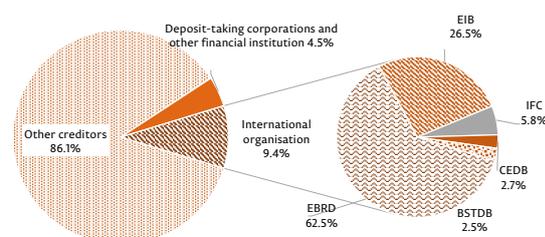
External borrowing under the *private debt* framework was predominantly contracted in EUR – 55.2% and in USD – 40.4%.

The structure of the private sector's main creditors is shown in chart 2.54. As of December 31, 2023, international organizations (9.4% of the total) accounted for EBRD with 62.5%, followed by EIB with 26.5%, but the major share of 86.1% was held by other creditors, both banks and non-financial corporations.

The main external debt indicators are shown in table A.5.

The implied average maturity of long-term external debt in the form of loans is down since the end of 2022, but up compared to earlier periods of 2023. This indicator is correlated with the evolution of the 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 process also in 2023.

Chart 2.54: Creditor structure of private debt (%)



Source: NBM

Note: CEDB – Council of Europe Development Bank, BSTDB – Black Sea Trade and Development Bank, IFC – International Finance Corporation

Relations of the National Bank with the Government of the Republic of Moldova

Government debt to the National Bank

As at December 31, 2023 the public debt to the National Bank in the form of state securities in the NBM's portfolio amounted to MDL 13,814.6 million and consisted of:

- government bonds (GB) issued and transmitted to the National Bank on October 4, 2016 in order to execute the obligations of the Ministry of Finance derived from the public guarantees No. 807 of November 17, 2014 and No. 101 of April 1, 2015 – MDL 11,751.2 million. The related interest (coupon) rate was 1.40% for maturities of 8-9 years and 5.30% for maturities of 10-25 years;
- state securities (SS) obtained in the NBM portfolio following the conversion of loans previously contracted by the Ministry of Finance from the NBM – MDL 2,063.4 million. During 2023, SS obtained in the NBM's own portfolio as a result of reissuances had a maturity up to 2 years (TB and SS) with an average interest rate of 11.16%.

In 2023, SS issued for the execution of payment obligations derived from public guarantees were redeemed in the amount of MDL 310.0 million.

State deposits placed at the National Bank of Moldova

During 2023, the Ministry of Finance placed term deposits with the National Bank for the purpose of managing the resources of the Single Treasury Account in the total volume of MDL 197.8 million with maturity ranging from 3 months to 2 years. The interest rate ranged from a minimum of 6.95% per annum to a maximum of 15.98% per annum.

As of December 31, 2023 the balance of the Ministry of Finance's term deposits placed with the National Bank amounted to MDL 100.6 million. The weighted average rate of the balance was 9.01% and the average term – 517 days.

Chapter 3

Monetary policy

3.1 Monetary policy objective

According to the provisions of Law No. 548/1995 on the National Bank of Moldova, the NBM is the central bank of the Republic of Moldova, being an autonomous public legal entity that establishes and promotes monetary and foreign exchange policy in the state. During 2023, the NBM operated in accordance with the provisions of the Medium-term monetary policy strategy approved by the Council of Administration of the National Bank of Moldova on December 27, 2012.

The fundamental objective was achieved through the monetary policy framework associated with the direct inflation targeting regime.

According to the strategy, in order to ensure and maintain price stability, the NBM has set the annual inflation target, measured by the consumer price index published monthly by the National Bureau of Statistics, at the level of 5.0% with a possible deviation of ± 1.5 percentage points.

During 2023, the National Bank of Moldova promoted a stimulative monetary policy, aiming to support the balancing of the national economy by creating monetary conditions for the stimulation of credit in the context of lowering related costs, encouraging consumption, thus contributing to boost aggregate demand.

At the same time, monetary policy measures have been geared towards creating the monetary conditions necessary to bring inflation back within the range of ± 1.5 percentage points of the 5.0% inflation target and to keep it within this range over the medium-term.

3.2 Monetary policy decisions

During 2023, there were held eight meetings of the Executive Board of the National Bank of Moldova on monetary policy, all meetings were held according to the approved schedule. At the meetings of the Executive Board of the National Bank of Moldova on monetary policy during 2023, five decisions to decrease, three decisions to maintain and no decision to increase the base rate applied to the main short-term monetary policy operations and the rates on overnight deposit and credit facilities were taken.

At the same time, the Executive Board of the National Bank of Moldova adopted decisions on the required reserve ratio of funds attracted in MDL and non-convertible foreign currency, seven decisions to maintain and one decision to decrease. Respectively, seven decisions of maintenance and one decision of decrease were taken with regard to the required reserve ratio from funds attracted in freely convertible foreign currency.

Global, regional and national risks and uncertainties were magnified in the year of reference by the geopolitical armed conflicts in Ukraine, Palestine and Yemen. Risks associated with energy prices, production and transportation costs, international commodity and food prices, which remained persistent throughout the year, together with disruptions in supply, production and transportation chains, dampened the recovery of the global economy amid weak external demand and low consumption.

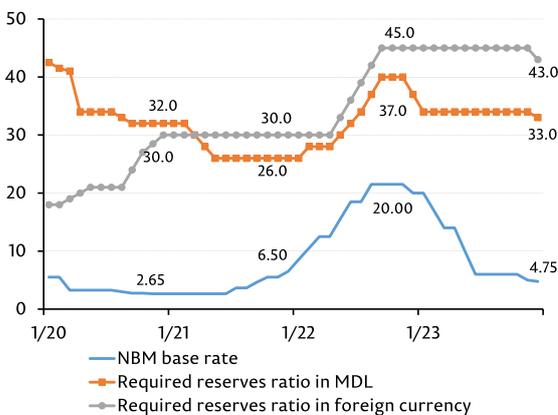
Persistently high global inflation has prompted central banks to raise monetary policy interest rates or keep them at higher levels. Central banks signalled that the end of the monetary policy tightening period was approaching as inflation forecasts for the coming periods were revised downwards within the inflation target range.

Under these conditions, in order to mitigate the above-mentioned external disinflationary factors, as well as internal factors such as negative domestic aggregate demand, determined by a negative fiscal impulse, the monetary policy promoted by the NBM has created monetary conditions that are likely to balance the national economy by encouraging consumption and investment. At the same time, monetary policy decisions have been geared towards slowing down the rapid rate of decline in the annual inflation rate until it returned to the target range and subsequently kept it within the target range of 5.0% over the medium-term.

Thus, during 2023, the National Bank of Moldova undertook monetary policy easing measures and, under these circumstances, the Executive Board of the NBM decided to gradually decrease the monetary policy interest rate from 20.00% in December 2022 to 4.75% annually in December 2023 (Chart 3.1). By lowering the base rate, the aim was to ensure the continuation of the stimulus measures in the context of the monetary policy easing cycle starting at the end of 2022 against the background of sound assumptions associated with a disinflationary macroeconomic framework. At the same time, the required reserve ratio of funds attracted in MDL was lowered at the end of 2023 from 34.0% to 33.0%. This decision led to additional liquidity spillovers on the money market, contributing to the increase in credit resources for the real and public sectors.

The NBM aimed and achieved, towards the end of 2023, its goal to anchor inflationary expectations and bring inflation back within the range of ± 1.5 percentage points of the 5.0% medium-term inflation target.

Chart 3.1: Development of monetary policy instruments



Source: NBM

3.3 Monetary policy achievements

In 2023, the NBM continued to actively use the components of the operational framework of monetary policy in order to adjust monetary conditions with a view to bringing the annual inflation rate back in line with the stationary target of 5.00% \pm 1.50 percentage points on a sustainable basis.

In this context, the NBM has associated the consistent cuts in the monetary policy interest rate with a corresponding decrease in the interest rates on standing facilities. In addition, and in correlation with the current and prospective developments in the structural liquidity position of banks, as well as with developments in the main segments of the financial market, the NBM has insignificantly lowered the reserve requirements for both liabilities in lei and liabilities in foreign currency.

Open market operations

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

The daily balance of the NBC stopped its ascent in the following period, continuing a downward trend, with part of the liquidity migrating to the government securities market, taking into account the policy of easing monetary conditions promoted by the NBM and the growing 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 NBC again recorded a more marked increase, totalling MDL 11,169.9 million at the end of 2023 (Chart 3.2).

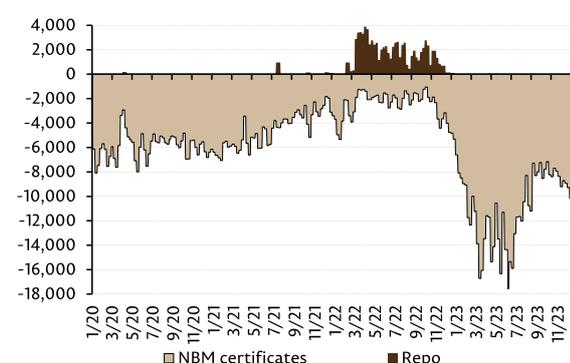
Issuance of NBM certificates

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

Repo operations

Repo operations were carried out on a weekly basis through the no-ceiling tender procedure for 14-day and at fixed rate (NBM base rate plus a margin of 0.25 percentage points). 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 delivery operations. Thus, the volume of delivered liquidity (MDL 125.0 million) was significantly lower than in the previous year (MDL 41,370.0 million).

Chart 3.2: Evolution of the daily balance of open market operations (MDL million)



Source: NBM

Standing facilities

The standing facility interest rate corridor used by the NBM continued to signal the general stance of monetary policy, ensuring, together with money market operations, an adequate level of short-term liquidity in the banking system.

During 2023, the National Bank continued monetary easing measures, including by lowering monetary policy rates.

Interest rates on standing facilities continued the downward trend that started at the end of 2022, with four significant rate decreases (by 3.0 and 4.0 percentage points) in the first half of 2023, with the maintenance of symmetric corridor around the base rate at ± 2.0 percentage points. In the second half of the year, policy rates were maintained at the same level until the end of the year, with a further decrease of 1.25 percentage points only in November.

Thus, as of December 31, 2023 the rates fell to 6.75% and 2.75% for overnight loans and overnight deposits, respectively.

During 2023, banks made use of both standing facilities offered by the NBM.

During the reference year, banks made less use of the **overnight deposit facility** offered by the NBM, typically using the overnight deposit facility towards the end of the reserve maintenance periods as they fulfilled their reserve requirement.

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 MDL 429.9 million in the previous year.

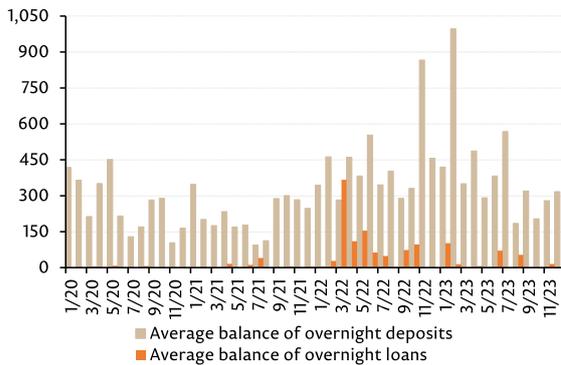
The average monthly balance of banks' overnight deposits recorded uneven values during the year, the maximum (MDL 996.6 million) being reached in February (banks anticipating significant decreases in interest rates placed overnight deposits right from the beginning of the reservation period), and the minimum in August (MDL 184.7 million), (Chart 3.3).

With regard to **overnight credit facility**, in 2023, banks borrowed less from the NBM through overnight loans, on the back 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, about 2.2 times lower than in the previous year (MDL 14,074.0 million). The monthly peak of overnight loans granted in 2023 was recorded in January, with a balance of MDL 101.9 million.

Required reserves

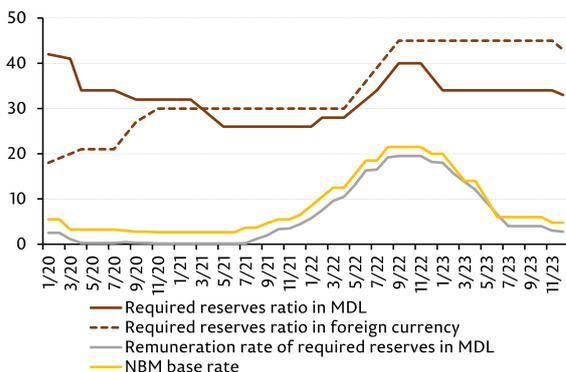
During 2023, amid increasing disinflationary pressures, the NBM lowered the required reserve ratio of funds attracted in MDL and in non-convertible foreign currency (NCC) by 4.0 percentage points and the required reserve ratio of funds attracted in freely convertible currencies (FCC) by 2.0 percentage points (Chart 3.4). The NBM continued its policy of recalibration, increasing the gap between the two norms up to 10.0 percentage points, with the aim of increasing the efficiency of the transmission of monetary impulses to the real sector. As at December 31, 2023 the required reserve ratio in MDL amounted to 33.0% and that in FCC – to 43.0%, compared to 37.0% and 45.0%, respectively, as at December 31, 2022.

Chart 3.3: Evolution of average monthly balance of overnight deposits/credits in 2020-2023 (MDL million)



Source: NBM

Chart 3.4: Evolution of the required reserves norm in MDL and in foreign currency in 2020-2023 (%)



Source: NBM

In this context, required reserves in MDL maintained by banks in the period December 16, 2023 – January 15, 2024 amounted to MDL 22,840.9 million, up by 13.4% compared to the reserves maintained by banks in the period December 16, 2022 – January 15, 2023, with the funds attracted in MDL and NCC recording an increase of 27.1% (Chart 3.5).

As of December 31, 2023 required reserves in FCC held by banks amounted to USD 243.8 million and EUR 638.7 million. Compared with December 31, 2022 required reserves in USD decreased by 4.1% and those in euros increased by 5.4%. The attracted means subject to reservation in USD increased by 0.4% and those in EUR increased by 10.3%.

According to Article 17 of Law No. 548/1995 on the National Bank of Moldova, required reserves may be remunerated and, in accordance with the related regulatory framework, if required reserves are remunerated, interest shall be paid on the part exceeding 5.0% of the liabilities on the basis of which required reserves are established. During 2023, in line with monetary policy decisions, the interest rate on the overnight deposit facility of the NBM, from which the required reserves in MDL are remunerated, decreased successively to 2.75% at the end of December. Under these circumstances, the interest rate on required reserves in MDL decreased from 18.19% in December 2022 to 2.75% in December 2023. The interest rate on required reserves in FCC was maintained at the level of 0.01% until the issuance of Executive Board Decision No. 221 of 7 November 2023, when the interest rates on required reserves in USD and EUR were changed from the fixed rate of 0.01% to separate variable rates calculated from the SOFR and €STR³¹, decreased by 2.0 percentage points each. The new rates of interest on required reserves in FCC came into effect starting with the interest payment for November, at the end of 2023 constituting 3.34% for required reserves in USD and 1.90% for those in EUR. The decrease in the rate of remuneration of required reserves in MDL contributed to the decrease in the NBM's expenditures on interest on required reserves by MDL 627.25 million (or 29.4%) compared to 2022, amounting to MDL 1,508.6 million (Chart 3.4).

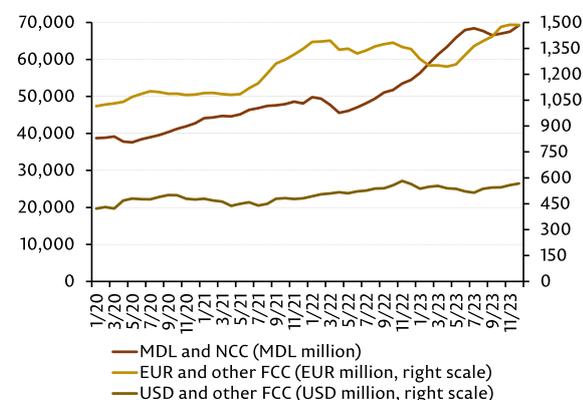
Interventions on the domestic foreign exchange market

In 2023, the National Bank of Moldova intervened on the domestic foreign exchange market as a buyer of foreign exchange in order to avoid excessive fluctuations in the exchange rate of the MDL in the context of the large surplus of foreign exchange recorded at different times of the year.

During the analysed period, the volume of net transactions of the National Bank of Moldova carried out on the interbank foreign exchange market against MDL at the exchange rate date amounted to USD 359.18 million, including foreign exchange conversions with World Bank institutions in the net amount of USD 11.47 million (Chart 3.6).

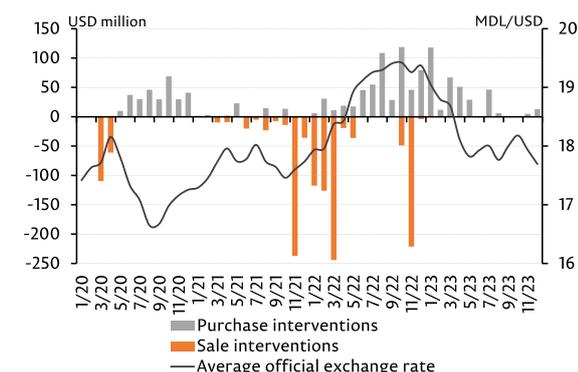
In addition, during the period under review, the NBM carried out sale swap operations amounting to USD 118.63 million (equivalent to EUR 110.0 million).

Chart 3.5: Evolution of the attracted means subject to reservation in the years 2020-2023 (averages per observation period)



Source: NBM

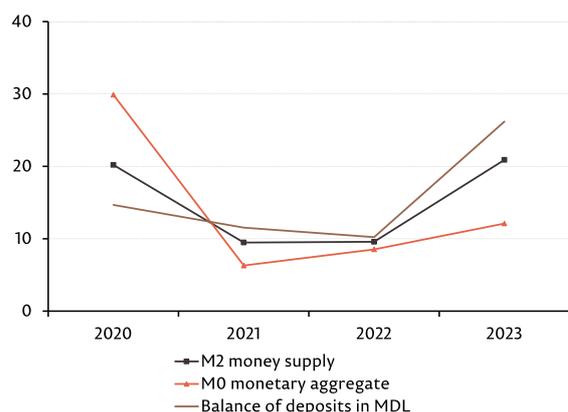
Chart 3.6: Evolution of the official MDL/USD exchange rate and the volume of NBM interventions in 2020-2023



Source: NBM

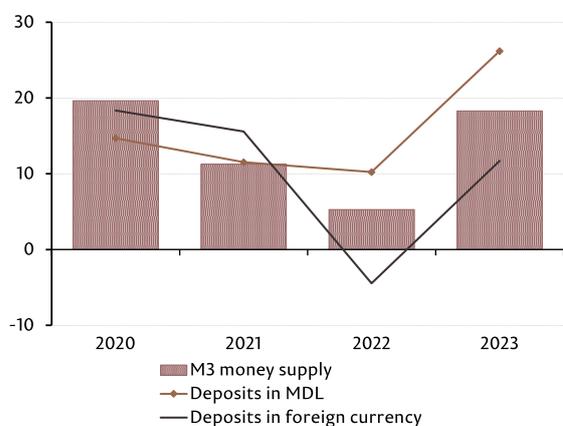
3.4 Monetary and foreign exchange conditions

Chart 3.7: Evolution of M2 money supply components (% increase compared to the same month last year)



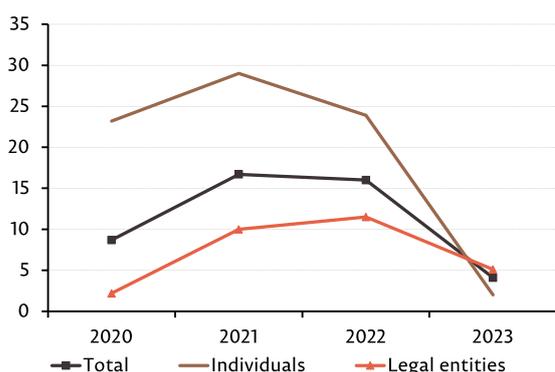
Source: NBM

Chart 3.8: Dynamics of the main components of M3 money supply (% increase compared to the same month last year)



Source: NBM

Chart 3.9: Average annual balance of credits granted in economy (% annual growth)



Source: NBM

Dynamic of monetary indicators

The development of monetary indicators during 2023 was marked by the particularities of the transmission mechanism and the effects of monetary policy decisions on the domestic economy and the financial-banking sector. High rates on bank deposits in the first half of 2023 helped to maintain the annual growth rates of all monetary aggregates. Thus, the annual growth rate of money supply, in a broad sense, at the end of 2023 accelerated considerably compared to the previous year, constituting 18.3% in annual terms. This indicates an expansion of money supply in the economy. The increase in the volume of term and sight deposits also led to significant changes in the structure of the money supply, with the main contribution coming from the balance of deposits in domestic currency.

Money supply

During 2023, the National Bank of Moldova reacted to reducing inflationary pressures by adopting a looser monetary policy, which led to a significant reduction in the base rate. By easing monetary conditions, the NBM tends to encourage consumption by facilitating borrowing and investments. Although it has lowered the base rate to stimulate economic growth and has kept the level of required reserve ratios constant, changes in the structure of the money supply have been influenced by various factors, such as changes in the population's behaviour with regard to savings and investments, exchange rate developments and changes in monetary policy and interest rate policy implemented by the central bank.

As a result, the money supply (M2) increased by 20.9% in 2023, 11.3 percentage points above the level of annual growth in 2022 (Chart 3.7). A more detailed analysis of the M2 monetary aggregate reflects the amplification of the growth rate until May 2023, after which, until the end of 2023 the growth rate moderated, remaining on a positive growth trend, largely influenced by the evolution of deposits in national currency. Both deposits in MDL and money in circulation recorded positive developments during the reporting year. Thus, at the end of 2023, deposits in the national currency and money in circulation increased by 26.2% and 12.1%, respectively, compared to 2022.

The development of deposits in MDL (Chart 3.8) was largely driven by the increase in sight deposits of legal entities. Term deposits in MDL had a more limited impact, their growth constituting 8.7% annually.

³¹Euro short-term rate

At the end of December 2023, money in circulation amounted to MDL 38,555.3 million, up by MDL 4,149.3 million since the beginning of the year. The annual growth rate of money in circulation during 2023 continued in an upward direction, reaching the peak of 16.1% annually in August 2023, thereafter, it moderated, fluctuating insignificantly at a constant level, and towards the end of the year it increased to 12.1% annually.

During the year there was an increase in the average cash turnover compared to the previous year. The most essential contributions to the increase in cash in circulation were releases of cash from ATMs and releases for foreign exchange transactions from individuals.

At the same time, money supply (M3) recorded an annual increase of 18.3%, the growth rate being 13.0 percentage points higher than in 2022 (Chart 3.8).

At the end of 2023, the growth rate of foreign currency deposits amounted to 11.7%, driven by the contribution of term deposits as well as sight deposits. Term deposits in foreign currency recalculated in MDL grew by 16.3% annually and sight deposits by 8.0% annually.

The share of deposits in Moldovan lei in total deposits amounted to 64.6% at the end of the year, increasing by 2.8 percentage points, while the share of deposits in foreign currency – 35.4%.

In the structure of deposits in Moldovan lei, the share of term deposits in total deposits in MDL at the end of December 2023 amounted to 41.9%, decreasing by 6.7 percentage points compared to the end of December 2022. Regarding the structure of foreign currency deposits, 46.3% represented term deposits, 1.8 percentage points above the level recorded at the end of 2022.

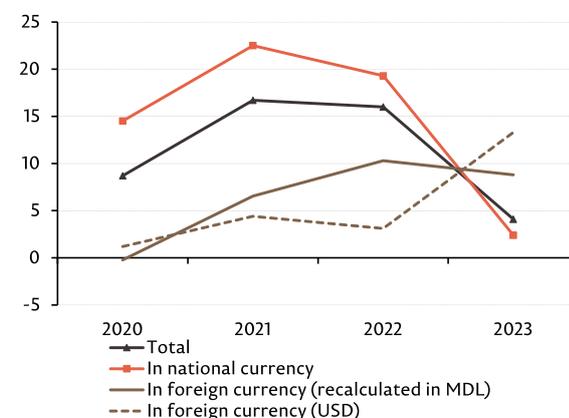
Lending market

The average annual balance of demand vis-à-vis the economy for 2023 continued to decline as the annual paces of both sectoral components slowed (Chart 3.9). Thus, the average annual balance of total demand to the economy recorded an annual growth rate, in nominal terms, of only 4.1%, compared to 16.0% in 2022. The slowdown in the pace of growth was largely driven by a decline in the national currency component, in the context of a decline in new credits granted by the licensed banks in the first half of 2023, amid high related interest rates and tight lending conditions (Chart 3.10). The annual growth rate of the average annual balance of demand vis-à-vis the economy in national currency decreased compared with 2022 by 16.9 percentage points and accounted for 2.4% (Chart 3.10).

It should be noted that the growth rate of demand vis-à-vis the economy determined on the basis of the average annual balance expressed in US dollars increased compared to 2022, but recalculated in national currency, it decreased, amid the appreciation of the national currency.

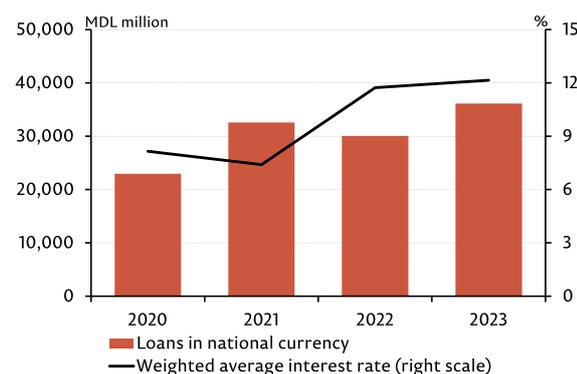
Against this background, the share of total demand to the economy in the national currency has increased to 70.1%, compared to 64.8% in 2022.

Chart 3.10: Dynamics of the components of the average annual balance of loans granted in economy (% annual growth)



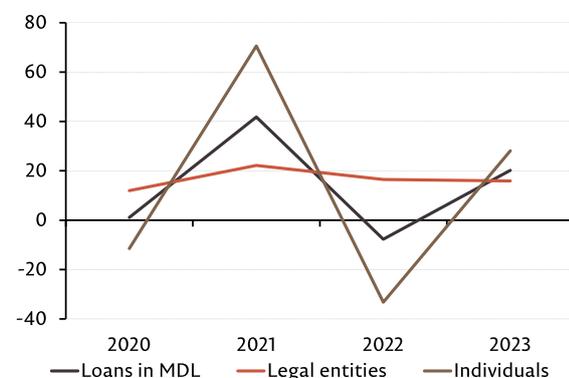
Source: NBM

Chart 3.11: Dynamics of the volume and weighted average rates to new loans granted in MDL



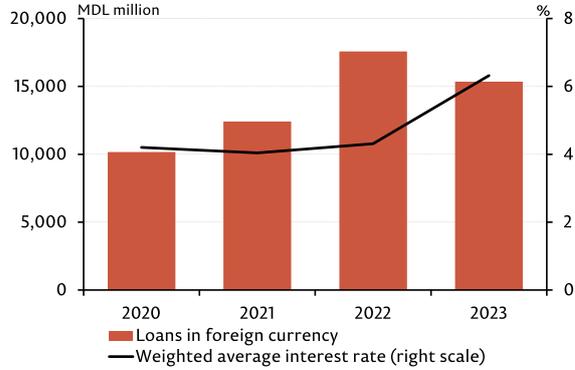
Source: NBM

Chart 3.12: Dynamics of volume of new loans granted in MDL (% annual growth)



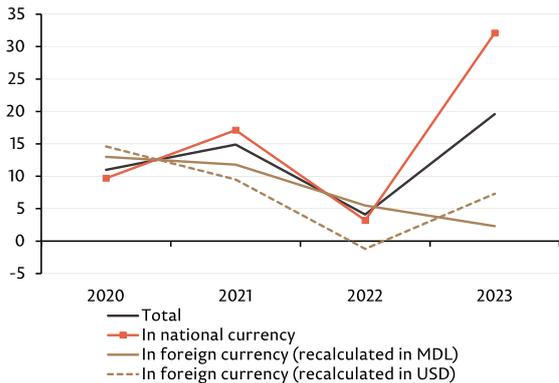
Source: NBM

Chart 3.13: Dynamics of volume and weighted average rates on new loans granted in foreign currency and linked to the exchange rate



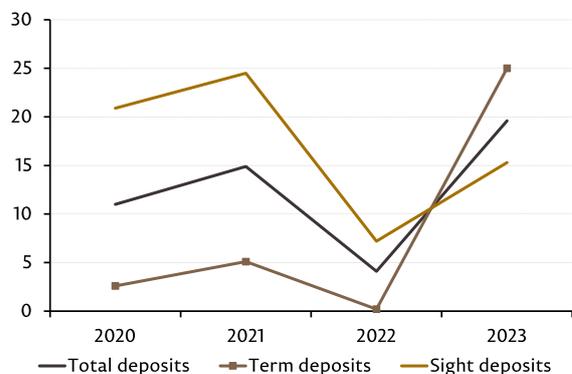
Source: NBM

Chart 3.14: Dynamics of the components of the average annual balance of attracted deposits (% annual growth)



Source: NBM

Chart 3.15: Dynamics of the average annual balance of attracted sight and term deposits (% annual growth)



Source: NBM

Evolution of new loans granted by the licensed banks

In 2023, the annual dynamics of new credits granted by licensed banks recorded an upward trend (Chart 3.11) as a result of the increase in lending in national currency, amid gradual rate cuts during the year (Chart 3.18). Under these conditions, the share of credits in MDL in total increased and amounted to 70.2% compared to 63.1% in 2022. As a result, the dollarization degree of the new credits granted by the licensed banks decreased.

In 2023, the total volume of the new credits granted by the licensed banks in national currency had an upward trend and amounted to MDL 36,127.6 million (Chart 3.11), higher than in 2022 by 20.2% (Chart 3.12). The annual variation was generated by the increase in the credits granted to legal entities by 15.9% and by the sharp increase in the credits granted to individuals, by 28.1% (Chart 3.12). The development of the credits granted to individuals was mainly due to consumer credits, whose annual growth was 41.8%. The dynamics of lending to this segment led to an increase in the share of MDL credits to individuals up to 37.6%, compared to 35.3% in 2022.

At the same time, in the reporting year, the volume of credits granted in foreign currency and pegged to the foreign exchange rate, recalculated in MDL, was 12.7% lower than in 2022 and amounted to MDL 15,343.8 million (Chart 3.13). The dynamics was influenced by the increase in interest rates on this segment and the migration, in the second half of 2023, to credits granted in national currency.

Deposit market

The annual change in the MDL average total balance of deposits has considerably accelerated its growth in 2023, due to the structural components in national currency (Chart 3.14). The average annual balance of deposits in MDL recorded an annual growth rate of 31.8%, compared to 3.2% in 2022, mainly on the back of the increase in new deposits attracted with relatively high interest rates at the end of 2022 and the first half of 2023. At the same time, the annual growth rate of foreign currency deposits, determined on the basis of the balance expressed in USD, recorded a positive trend.

With regard to the placement term, the development of the average total balance of deposits was influenced by the notable amplification of the annual growth rate of the balance of term deposits (the highest increase for the periods analyzed) (Chart 3.15). At the same time, the average annual balance of term deposits in national currency increased by 31.6% in 2023. Both components, legal entities and individuals, have contributed to this development.

Evolution of new term deposits attracted by the licensed banks

In 2023, the new term deposits attracted by licensed banks were on a downward trajectory compared to the previous year amid the reduction of the national currency segment as a result of significant reductions in interest rates in the second half of the year.

The total volume of term deposits amounted to MDL 43,913.4 million, 5.2% lower than in the previous year. The decrease was entirely driven by MDL term deposits, which recorded an annual decrease of 11.7%, with interest rate cuts in the second half of 2023 and the high base effect in 2022 (Charts 3.16 and 3.18). The decline in national currency term deposits was driven by the downward trend in deposits attracted from both individuals and legal entities. The majority share, analogous to the previous year, was accounted for by deposits attracted from individuals (with a share of 76.9%), which decreased by 8.4%.

On the other hand, deposits attracted in foreign currency, recalculated in national currency, increased (Chart 3.17), but at a slower annual pace compared to the previous year. At sectoral level, the increase was generated by the rise in term deposits attracted in foreign currency from individuals, whose share reached 72.2%, compared to 61.7% in 2022.

Interest rates on deposits attracted and new credits granted by the licensed banks

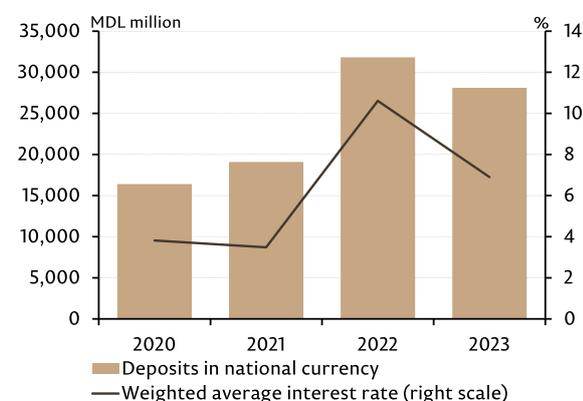
Reflecting the effects of the NBM's monetary policy decisions to gradually reduce the base rate, interest rates on term deposits and credits granted in national currency declined.

During 2023, the Executive Board of the National Bank of Moldova gradually lowered the base rate applied to the main monetary policy operations with a view to stimulating lending and supporting domestic aggregate demand, balancing the national economy and anchoring inflation expectations, aiming to keep inflation within the target range in the medium-term. Thus, in line with several decisions, the base rate was reduced from 20.00% annually at the beginning of 2023 to 4.75% annually in November 2023 (Chart 3.18).

Interest rates on new loans granted by the licensed banks

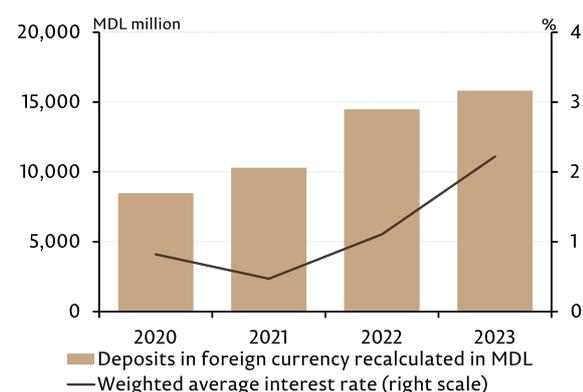
In the context of the transmission mechanism of monetary policy decisions and the situation on the money-foreign exchange market, the weighted average interest rate on new credits granted by the licensed banks in MDL decreased from 14.34% annually in February (maximum value) to 10.22% annually in December 2023 (minimum value) (Chart 3.18).

Chart 3.16: Dynamics of volume and weighted average rates on new term deposits attracted in MDL



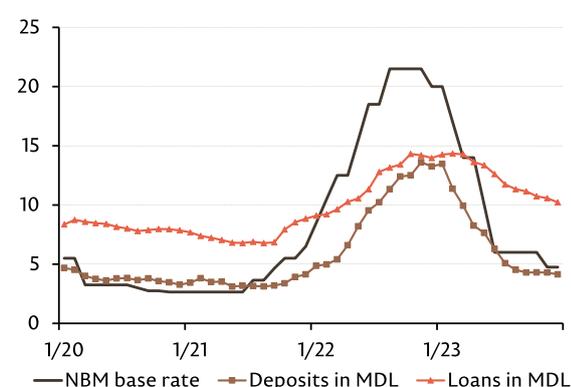
Source: NBM

Chart 3.17: Dynamics of volume and weighted average rates on new term deposits attracted in foreign currency recalculated in MDL



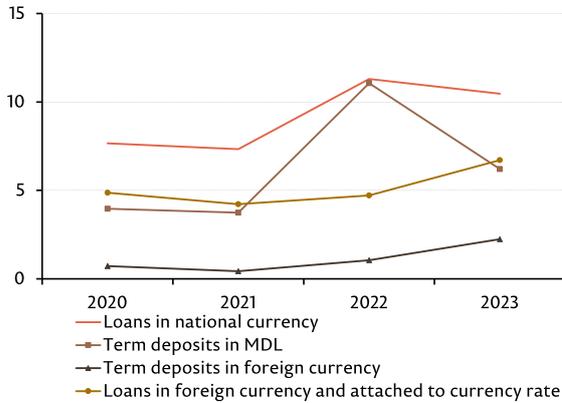
Source: NBM

Chart 3.18: Average interest rates in MDL (% annually)



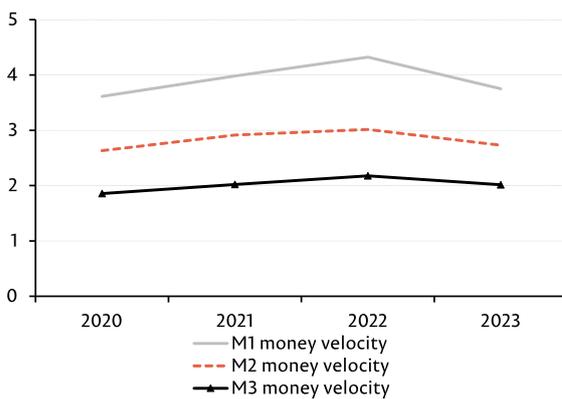
Source: NBM

Chart 3.19: Average interest rates on credit and deposit balances, end-of-year (% annually)



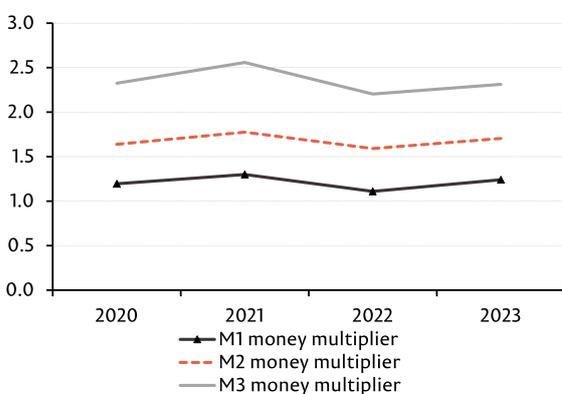
Source: NBM

Chart 3.20: Money velocity of circulation (percentage points)



Source: NBM

Chart 3.21: Money multiplier indicators (percentage points)



Source: NBM

At the sectoral level, monthly developments were similar. Thus, the weighted average interest rate on new credits to individuals declined from 16.38% annually in January to 11.04% annually in December 2023, as a result of the reductions in interest rates on new credits for consumption and real estate. In the legal entities segment, the weighted average interest rate on MDL credits also declined and came down from a high of 13.78% annually in March to 9.80% annually in December 2023.

Interest rates on new term deposits

Against the backdrop of gradual reductions in the NBM base rate during 2023 and the situation created on the money market, the weighted average interest rate on term deposits attracted in MDL has significantly decreased. In 2023, the weighted average interest rates on new term deposits attracted in national currency by the licensed banks ranged from 13.47% annually in January to 4.13% annually in December (Chart 3.18). Weighted average interest rates on deposits attracted from individuals also declined considerably, from 14.67% annually in January to 4.15% annually in December 2023. It should be noted that, the weighted average interest rate on deposits attracted from legal entities in December 2023 amounted to 4.10% annually. At the same time, the annual weighted average interest rate on term deposits in national currency amounted to 6.90% annually, 3.71 percentage points lower than in 2022 (Chart 3.16).

Interest rates on balances

Following the developments in the money market, the impact of the reductions in interest rates on new transactions was also reflected on the downward trajectory of weighted average interest rates on the MDL balance of both term deposits and credits granted by the banking system (Chart 3.19).

The weighted average interest rate on the balance of credits granted in national currency at the end of 2023 amounted to 10.47% annually, 0.83 percentage points lower than at the end of 2022. At the same time, the weighted average interest rate on the balance of credits granted in foreign currency and pegged to the exchange rate amounted to 6.71% annually, 2.00 percentage points higher than at the end of 2022.

A sharp decrease in the national currency segment was recorded in the weighted average interest rate on the balance of term deposits in MDL. At the end of the year, this interest rate amounted to 6.21% annually, 4.85 percentage points lower than at the end of the previous year. The weighted average interest rate on the balance of foreign exchange deposits at the end of 2023 increased compared to the end of 2022 and amounted to 2.24% annually.

Monetary indicators

In 2023, money circulation velocity indicators reversed the upward trend that started in the previous year, which gradually lost intensity under the influence of disruptions in real economic activity, but also of a higher growth rate of monetary aggregates than the growth rate of nominal GDP.

The velocity of circulation of the monetary aggregate M1 decreased by 0.6 percentage points to 3.8 percentage points (Chart 3.20). The circulation velocity coefficient of the monetary aggregate M2 decreased by 0.3 percentage points to 2.7 percentage points. At the same time, the velocity of circulation of the monetary aggregate M3 recorded 2.0 percentage points, down by 0.2 percentage points below the level recorded in the previous year.

As regards the indicators of money multipliers, in the reference year, they accentuated the trend recorded in the previous year, as a result of the increase in both the money supply and the monetary base. In 2023, money indicators increased, the M3 money multiplier increased by 0.11 percentage points to 2.31 percentage points (Chart 3.21), the M2 money multiplier – by 0.11 percentage points to 1.70 percentage points, and the M1 money multiplier reached 1.24 points, up by 0.13 percentage points.

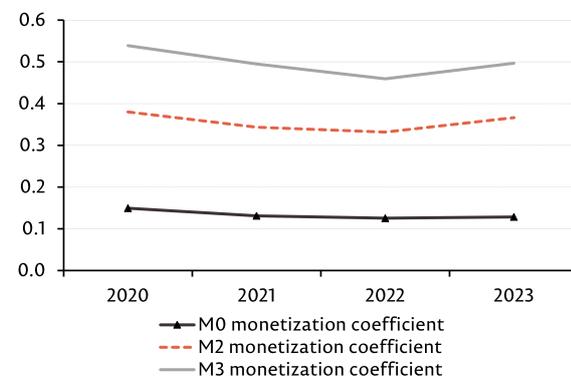
During 2023, the monetization coefficient of the economy tended to recover on all components. This development was driven by the tightening cycle and the stimulative monetary policy stance during 2022-2023, respectively. Thus, at the end of 2023, the M3 monetization coefficient of the economy reached 0.50 points (Chart 3.22), 0.04 percentage points above the previous year. The M2 monetization coefficient stood at 0.37 points, being 0.03 percentage points above the level of 2022. The M0 monetization coefficient was 0.13 points, similar to that of the previous year.

The indebtedness degree of the economy during 2023 decreased compared to the previous year by 1.4 percentage points and constituted 22.0%. This development in the indebtedness of the economy was due to the fact that the pace of growth of credits granted by the banking sector was below the pace of growth of economic activity.

At the same time, the economy's lending coefficient (the ratio of credits to deposits) declined during 2023 by 10.3 percentage points up to 59.7% (Chart 3.23), as a result of higher rates of deposit growth than credit growth.

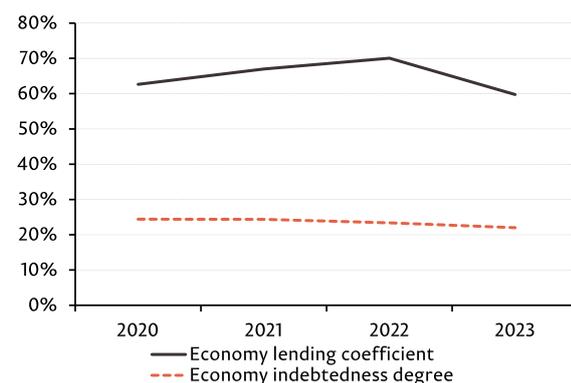
The degree of dollarization of the balance of credits granted in the economy has interrupted its upward trend, recording decreases at the end of 2023 and constituting 29.9% of the total balance of credits, lower than at the end of the previous year by 5.3 percentage points, as a result of the more pronounced decrease in foreign currency lending during 2023. The dollarization of deposits recorded a decrease of -2.8 percentage points and amounted to 35.4% at the end of the year (Chart 3.24).

Chart 3.22: Monetization coefficient of the economy (percentage points)



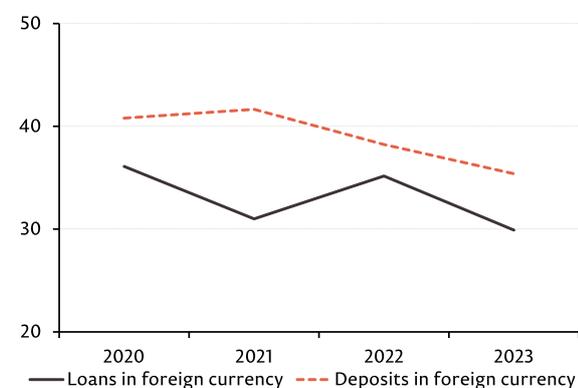
Source: NBM

Chart 3.23: Economy lending coefficient and the degree of indebtedness (%)



Source: NBM

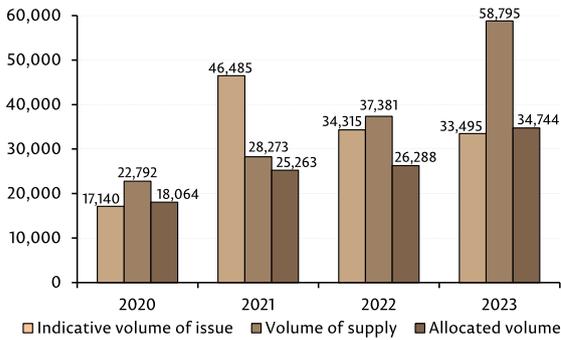
Chart 3.24: Degree of dollarization in the economy (%)



Source: NBM

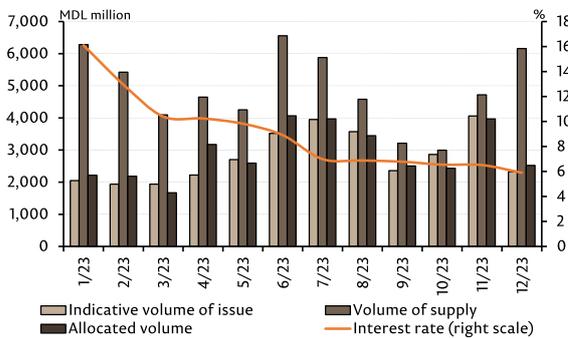
3.5 Monetary market

Chart 3.25: Quantitative indicators of the primary market of SS (MDL million)



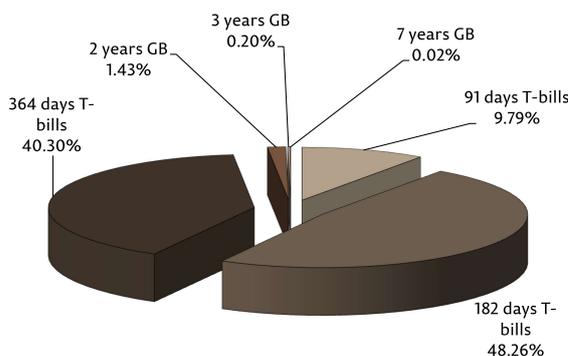
Source: NBM

Chart 3.26: Monthly dynamics of primary market indicators of SS



Source: NBM

Chart 3.27: Structure of SS issues by maturity in 2022



Source: NBM

Primary market of state securities

In 2023, on the state securities market, relevant, from the perspective of investors' interest in these securities, were the new increases recorded by the ratio between the volume requested by investors and the volume announced at auctions, as well as the ratio of the volume accepted to that announced by the Ministry of Finance, which reached 1.76 and 1.04 respectively (from 1.09 and 0.77 respectively in 2022), as the number of auctions conducted was lower than in the previous year (111 compared to 129). In addition to the securities with usual maturities relevant for these indicators, the Ministry of Finance issued for the first time in September, bonds with a maturity of 10 years. Against this background, the total volume of SS outstanding in 2023 was the highest from a historical perspective (MDL 34,743.7 million), and the value of net issues increased by about four times compared to the previous year (Chart 3.25).

The development of interest rates on the primary market of state securities reflected the combined influences exerted during 2023 by the persistence of excess liquidity in the banking sector and, implicitly, by the interest shown by investors for this type of placements, as well as by the decreases in the NBM's monetary policy rate.

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 low of 5.90% recorded at the end of the period was more than 10.0 percentage points lower than the peak at the beginning of the year (Chart 3.26).

The pronounced interest of non-bank investors for placements in SS was also illustrated by the new momentum, at the highest values in recent years, of the volumes purchased by them during 2023 – MDL 7,537.2 million (MDL 6,686.8 million in 2022) or 21.7% of the SS placed (25.4% in 2022).

These developments were accompanied by favourable changes in the structure of newly issued state securities. Investors, continuing to express their aversion to the risk, opted for state securities with an outstanding maturity of up to one year, which accounted for the largest share in the total state securities issued. At the same time, the Ministry of Finance, by intervening with changes in the usual maturity structure of bonds, adjusting their offer to market conditions and issuing for the first time in September bonds with a maturity of 10 years, increased the average maturity of the securities issued from 253 days to 304 days (Charts 3.27 and 3.28).

SS interest rates continued to deepen their decline, driven by the acceleration of the downward cycle in monetary policy interest rates, falling more frequently and steeply below the lower end of the interest rate corridor in the first half of the year. In the second half of the period, however, they moved relatively flat, associated also with a distancing of the interest rates on 182-day and 364-day securities compared to 91-day securities, which remained close to the deposit facility interest rate. This is explained by the increase by the Ministry of Finance in the management year of the indicative volume of SS issues with longer maturities (Chart 3.29).

The annual average also recorded a notable decrease: from 17.76% in 2022 to 8.62% in 2023. However, the magnitude of the decreases was heterogeneous in terms of the maturity of the securities, being more pronounced for the 182 and 364-day terms.

The interest annual weighted average nominal rates on securities traded over the past two years at primary market auctions, broken down by maturity, are presented in the table 3.1.

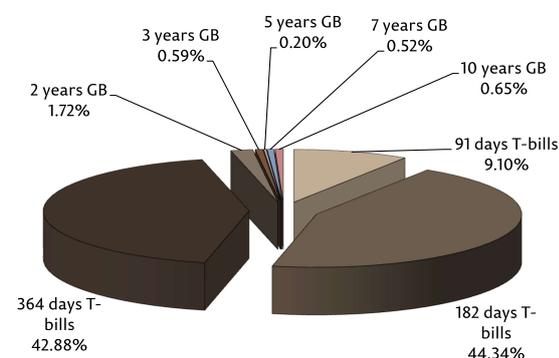
In the hierarchy of yields, interest rates on credits to the economy have taken the first place on the financial market. Marked by a sharp decline at the beginning of 2023, the interest rates on SS fell towards the middle of the corridor formed by the rates on credits granted and deposits attracted in the economy, oscillating within it until the end of the year. The spread between the interest rates on the credits granted and the deposits placed widened at the beginning of the reference period and remained in this position until the end of the year (Chart 3.30).

The volume of state securities, placed on the primary market through auctions, in circulation on December 31, 2023, amounted to MDL 25,781.5 million at nominal value (Chart 3.31). At the sale-purchase price it amounted to MDL 24,408.6 million, recording an increase of MDL 6,500.0 million at the end of the management year compared to the end of the previous year. Of the SS in circulation on December 31, 2023, those with residual maturity up to 3 months accounted for 25.3%, from 3 to 6 months – 28.2%, from 6 to 12 months – 38.4%, over 1 year – 8.1% (values comparable with those recorded in the previous year).

Secondary market for state securities

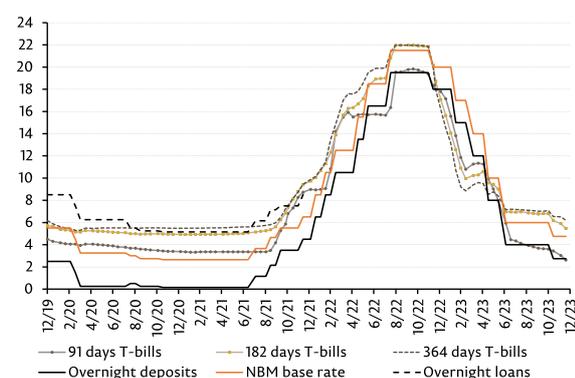
The total volume of secondary market transactions for 2023 as a whole increased by about 54% compared to the previous year, amounting to MDL 720.0 million (2022: MDL 466.6 million), with a concentration of transactions in the second quarter of the period under review. The maximum monthly value (MDL 168.3 million) was recorded in May.

Chart 3.28: Structure of SS issues by maturity in 2023



Source: NBM

Chart 3.29: Dynamic of nominal interest rates on SS with the maturity up to one year (%)



Source: NBM

Table 3.1: Annual weighted average nominal interest rates of the state securities by maturities (%)

	2023	2022
91 days T-bills	9.21	15.69
182 days T-bills	8.80	17.69
364 days T-bills	8.15	18.37
SS with maturity up to one year	8.62	17.76
2 years GB	9.31	19.57
3 years GB	8.56	14.57
5 years GB	7.36	9.98
7 years GB	8.60	10.25
10 years GB	8.42	-

Source: NBM

Note: effective interest rates are shown for government bonds.

Yields on state securities with a maturity of up to one year traded on the secondary market followed the trend of the primary market of the SS, reflecting changes in the NBM's monetary policy rates. Thus, the monthly average interest rate peaked at 15.05% in January, with a continuous decrease throughout the year, reaching a minimum of 4.83% in December (Chart 3.32).

Average annual interest rate on SS with a maturity of up to one year amounted to 9.39% (2022: 14.39%), as the weighted average maturity decreased to 165 days (2022: 192 days).

As regards the maturity structure of SS traded on the secondary market, the most traded securities continue to be those with a maturity of up to one year (Charts 3.33 and 3.34). However, the maturity ladder shows a return in low volumes of trading in government bonds (GB), including 10-year, which were first issued on the primary market in 2023.

Evolution of interbank market indicators in Moldovan lei

Reference interest rates applied on the interbank money market

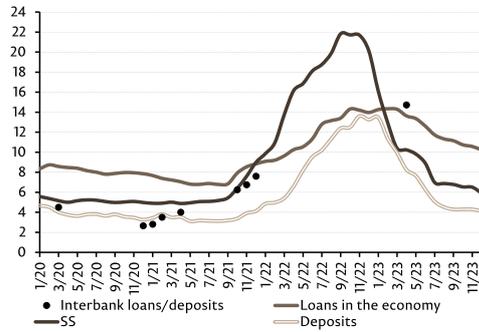
The curve of reference rates CHIBOR/ CHIBID (calculated on the basis of indicative interest rates for placing/ attracting funds in national currency on the interbank market) reacted promptly to the changes in the NBM's monetary policy rate during 2023.

In their turn, CHIBOR rates declined sharply in the first three quarters of the year, under the loose monetary policy stance. Rates thus reached their lowest in October and then remained above the monetary policy interest rate, but positioned on a downward trajectory. Thus, their values declined substantially in December 2023 compared to those recorded in the same period of the previous year, namely by 14.04 percentage points in the case of the CHIBOR 2W rate, which reached 8.19% at the end of the period (Chart 3.35).

Interbank loans/ deposits market in Moldovan lei

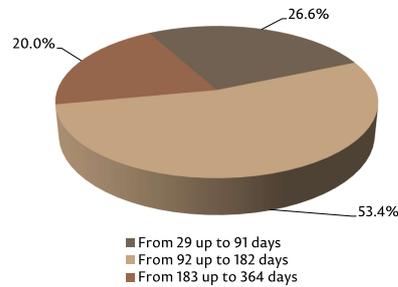
In 2023 as a whole, on the interbank credit/ deposit market, transactions were recorded by a small number of participants on a very short (overnight) term. The total volume of transactions amounted to MDL 133.0 million, all of which were recorded during April. The annual weighted average value of interbank credit/ deposit yield amounted to 14.72%.

Chart 3.30: Dynamic of interest rates on the financial market (%)



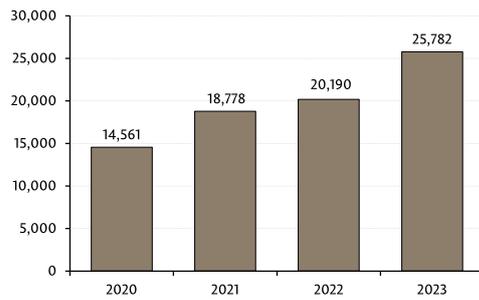
Source: NBM

Chart 3.33: Structure of SS traded on the secondary market by maturity split in 2022



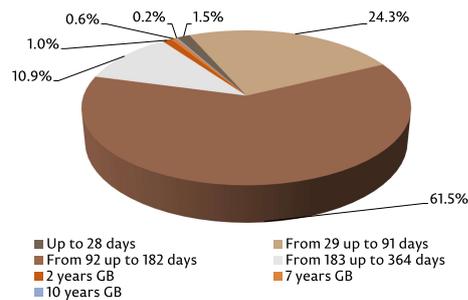
Source: NBM

Chart 3.31: Dynamic of SS volume in circulation at the end of the period (MDL million)



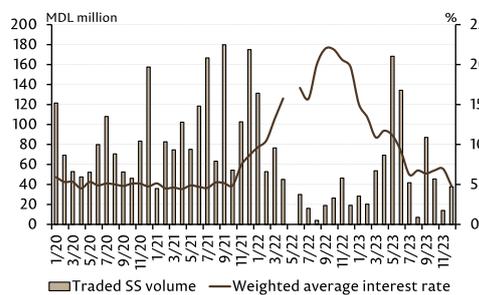
Source: NBM

Chart 3.34: Structure of SS traded on the secondary market by maturity split in 2023



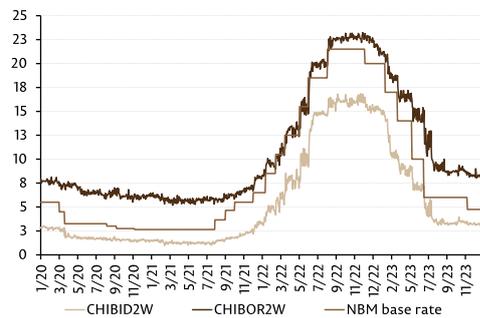
Source: NBM

Chart 3.32: Dynamic of SS indicators (T-bills) traded on the secondary market in the period 2020-2023



Source: NBM

Chart 3.35: Evolution of reference rates on the interbank market and the NBM base rate (%)



Source: NBM

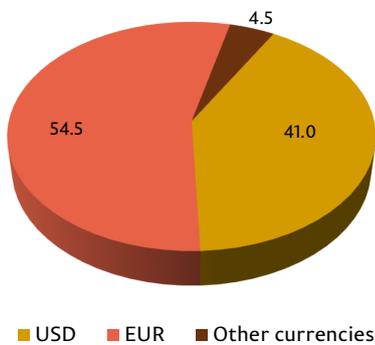
3.6 Foreign exchange market

Chart 3.36: The turnover of foreign exchange transactions against MDL realized on the domestic foreign exchange market, in structure by settlement modality (transfer or cash), years 2020-2023 (%)



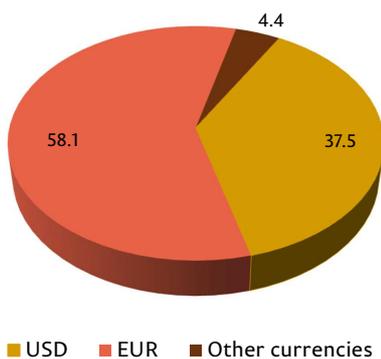
Source: NBM

Chart 3.37: Currency structure of the total turnover of foreign exchange transactions against MDL carried out on the domestic foreign exchange market in 2022 (%)



Source: NBM

Chart 3.38: Currency structure of the total turnover of foreign exchange transactions against MDL carried out on the domestic foreign exchange market in 2023 (%)



Source: NBM

Evolution of the foreign exchange market of the Republic of Moldova

The total turnover of currencies traded against MDL decreased by 6.0% to the equivalent of USD 21,708.3 million (Table A.6), as a result of the decrease in the turnover of transactions of licensed banks with the NBM, non-resident banks and legal entities.

The turnover in giro transactions decreased by 7.9%, while the turnover in cash transactions increased slightly by 0.7%. Thus, the share of the turnover of the foreign exchange market by transfer decreased from 77.6% in the previous year to 76.0% (Chart 3.36).

In the structure by type of counterparty of giro transactions, transactions with individuals increased by 1.3 percentage points up to 9.0%, however, the majority share is still held by legal entities (91.0%).

As regards foreign exchange operations in cash, 60.2% were carried out through the foreign exchange offices of licensed banks.

The euro continued to be the preferred currency for foreign exchange operations, holding the majority share in the currency structure of the total turnover of the domestic foreign exchange market – 58.1%, up by 3.6 percentage points compared to the previous year (Charts 3.37 and 3.38). The euro held the majority share in both the cash transactions segment of the foreign exchange market (71.6%) and in the giro transactions segment (53.9%) (Table A.7).

The European single currency also maintained its dominant position in terms of the number of transactions. Around 70% of foreign exchange transactions with non-bank legal entities were carried out against the euro (Chart 3.39).

Transactions against the euro predominate in terms of the number of transactions up to the equivalent of USD 1 million, with conversions of larger amounts still predominantly carried out in US dollars (Charts 3.40 and 3.41).

The turnover of foreign exchange operations against MDL carried out by licensed banks amounted to USD 19,635.8 million, down by 7.1% compared to the previous year. The turnover of operations carried out with legal entities, which accounts for the majority share in the operations carried out by licensed banks, decreased by 5.4%. Sales to economic agents fell more (-5.7%) compared with purchases from them (-4.8%), as the decrease in imports was more pronounced than in exports. At the same time, turnover of transactions with individuals and foreign exchange offices increased slightly, by 0.6%, due to an increase in purchases by 4.6%. At the same time, sales to individuals and foreign exchange offices decreased by 11.2%, once the comparison year contains the period of foreign exchange market agiotage (first quarter of 2022).

With regard to the interbank foreign exchange market, the turnover of transactions between resident banks increased by 5.4%, while the turnover of transactions with non-resident banks decreased by 34.8%.

Overall, there was a surplus of foreign exchange on the domestic foreign exchange market, with net purchases of foreign exchange from individuals, foreign exchange offices and other sources (USD 3,113.3 million) being higher than the level of net demand for foreign exchange from economic agents (USD 2,825.5 million³²). Under these circumstances, during the year, the NBM intervened by purchasing foreign exchange from licensed banks in the amount of USD 347.7 million. About 80% of the NBM's purchases were carried out in the first half of the year, when there was a surplus of foreign exchange, mainly due to the decrease in the demand for foreign exchange for the import of energy resources (Table A.8).

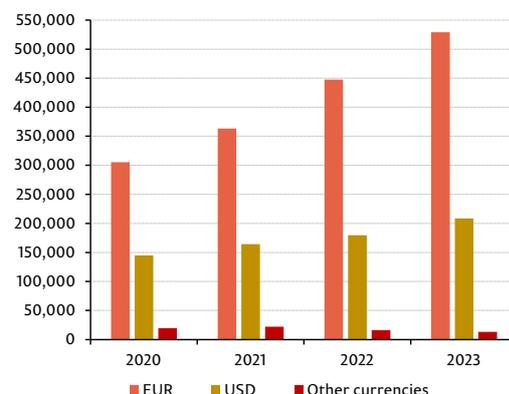
Foreign exchange assets and liabilities dynamics of licensed banks

During the reporting year, the **balance sheet foreign exchange assets and liabilities**³³ of the licensed banks increased, and their balances at December 31, 2023 were USD 2,778.3 million and USD 2,764.2 million, respectively, up by 17.7 and 18.8%, respectively, compared to December 31, 2022. Excluding foreign exchange differences³⁴, balance sheet foreign exchange assets and liabilities increased by 13.9% and 15.0%, respectively. As a share of banks' total assets and liabilities both indicators decreased compared with the end of 2022. Thus, balance sheet foreign exchange assets amounted to 31.4% of total assets (-3.0 percentage points) and balance sheet foreign exchange liabilities – to 37.8% (-3.5 percentage points) of total liabilities.

Balance sheet foreign exchange assets and liabilities remain mostly denominated in euro. In 2023, the share of this currency increased slightly, accounting for more than 74.0% in the structure of both indicators (Charts 3.42 and 3.44).

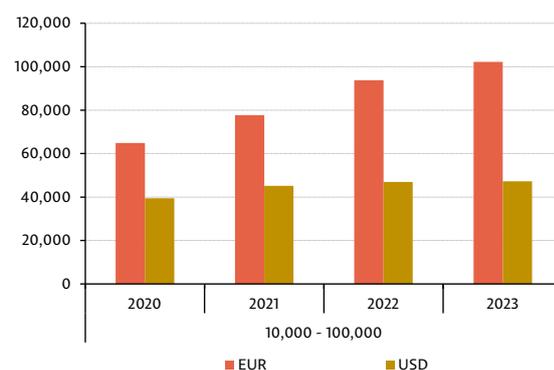
In the structure of assets by items, there was a positive dynamics of banks' foreign currency holdings, which amounted to USD 741.4 million at the end of the reporting year, increasing by 86.6% compared to the previous year, and excluding exchange rate differences – by 82.4%. In particular, there was an increase in the balance of funds held in "Nostro" accounts and placements, including overnight placements with foreign banks (Tables A.9 and A.10). At the end of the reporting year, foreign currency holdings accounted for 26.7% of the total balance sheet foreign exchange assets.

Chart 3.39: Total number of foreign exchange transactions with legal entities, by currencies



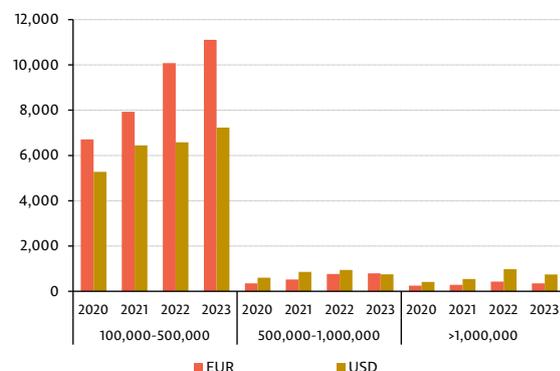
Source: NBM

Chart 3.40: Number of transactions in euro and US dollars on the intra-bank foreign exchange market by transfer, broken down by amount traded (with the equivalent from USD 10,000 to USD 100,000)



Source: NBM

Chart 3.41: Number of transactions in euro and US dollars on the intra-bank foreign exchange market by transfer, broken down by amount traded (greater than the equivalent of USD 100,000)



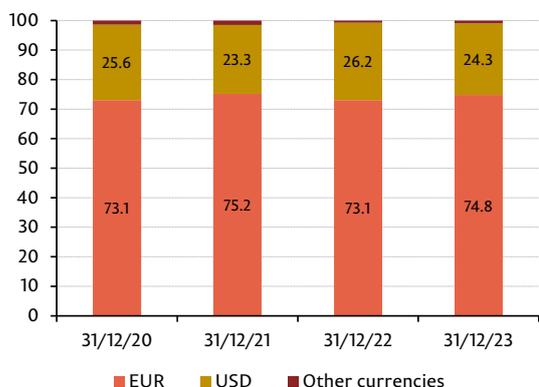
Source: NBM

³²The amount also includes some foreign exchange conversions carried out by a licensed bank with a non-resident bank on behalf of a local company with foreign capital.

³³Both indicators exclude the regulatory position and include assets and liabilities pegged to foreign exchange.

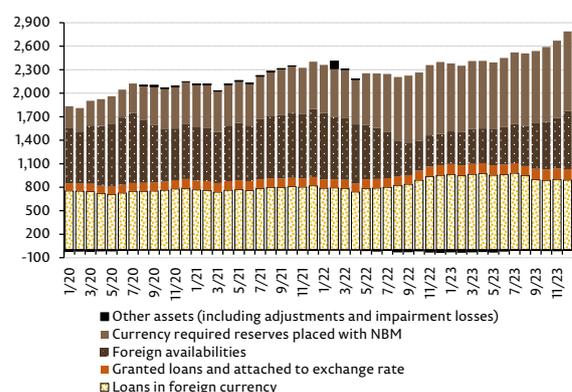
³⁴Which arise from the recalculation into US dollars of the currencies in which foreign exchange assets and liabilities are denominated.

Chart 3.42: Currency structure of balance sheet foreign exchange assets, effective exchange rate (%)



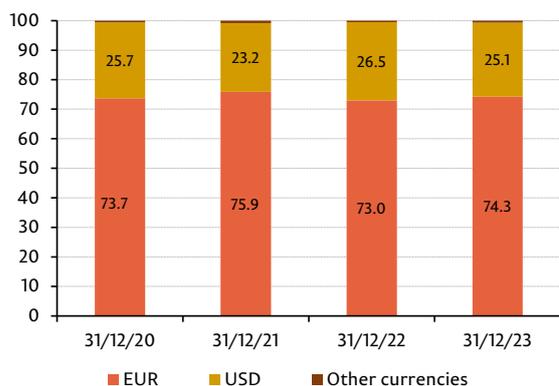
Source: NBM

Chart 3.43: Balance sheet foreign exchange assets, at effective exchange rates, broken down by type of asset (USD million)



Source: NBM

Chart 3.44: Currency structure of balance sheet foreign exchange liabilities, effective exchange rate (%)



Source: NBM

With regard to the currency structure of local banks' holdings, as at December 31, 2023, the European single currency accounted for the majority share – 62.4%, followed by the US dollar – 34.0% and other currencies – 3.6%.

During 2023, taken as a whole, the foreign currency lending activity of licensed banks decreased by 6.2%³⁵. Thus, the portfolio of loans granted in US dollars (including those granted in MDL pegged to the exchange rate of the MDL against the US dollar) contracted by 17.7%, while the portfolio of loans granted in euro (including those granted in MDL pegged to the exchange rate of the MDL against the euro) – by 3.2%³⁶.

Under these circumstances, the balance of foreign currency loans granted decreased to USD 1,031.7 million (of which USD 139.2 million was pegged to the exchange rate). The balance of foreign currency loans granted at the end of the reporting year amounted to 37.1% – about 8.7 percentage points lower than at the end of 2022.

Against the backdrop of the increase in attracted funds subject to reserve requirements, as at December 31, 2023, the balance of *required foreign exchange reserves* increased to USD 1,015.0 million – by 10.7% more than at the end of 2022 and became the asset with the largest share in total balance sheet foreign exchange assets (36.5%), overtaking the loans granted.

On the liabilities side, funds attracted by banks in euro increased by 15.6% and those in US dollars by 12.3% (without exchange rate differences).

In the structure of balance sheet foreign exchange liabilities of the licensed banks, 86.4% went to the traditional ones: term and sight deposits³⁷ of non-banking customers (hereinafter – foreign exchange accounts). At the end of 2023, the balance of foreign exchange accounts amounted to USD 2,389.6 million – up by 23.4%, and excluding exchange rate differences – by 19.6% compared to the end of 2022.

In 2023, corporate and individual bank customers increased their placements in both sight and term accounts. Respectively, the balance of sight funds held in customer accounts increased by 17.1% (by 13.5% excluding exchange rate differences) to USD 1,558.0 million, and the balance of term funds increased by 37.0% (by 32.8% excluding exchange rate differences) to USD 831.6 million.

Term deposits in foreign currency attracted from non-bank customers of banks, mostly individuals, covered 93.2% of the foreign currency loans granted in foreign currency by licensed banks (excluding those pegged to foreign exchange rates) compared to 63.8% at the end of 2022.

³⁵Excluding exchange rate differences, foreign currency lending activity decreased by 9.4%.

³⁶Excluding exchange rate differences, it decreased by 7.4%.

³⁷Current accounts and sight deposits.

As at December 31, 2023 compared to December 31, 2022, banks' foreign exchange liabilities to individuals increased by 1.1 percentage points as a share of total balance sheet foreign exchange liabilities, whose balance increased by 21.3% (+17.5%, without exchange rate differences) to USD 1,392.0 million. This dynamic was due to increased confidence in the domestic banking system compared to the previous year, when there were withdrawals by individuals from their foreign exchange accounts due to the agiotage in the foreign exchange market. Thus, at the end of the reporting year, the shares of foreign exchange account balances of individuals and non-bank legal entities amounted to 50.4% and 35.0%, respectively, in the total balance sheet foreign exchange liabilities of licensed banks.

In 2023, the level of foreign currency loans attracted by banks decreased, predominantly external loans, with repayments of loans by licensed banks exceeding drawings. Respectively, the balance of loans received by banks decreased by 5.6% (without exchange rate differences) to USD 268.4 million.

At the end of the reporting year, the balance sheet foreign exchange liabilities of licensed banks to non-residents amounted to 11.5% compared to 13.5% at December 31, 2022.

Conditional foreign exchange assets and liabilities, at the end of 2023, recorded approximately the same amounts – USD 24.0 million and USD 24.1 million, respectively, reflecting local banks' commitments to carry out foreign exchange/ currency swaps (Table A.13).

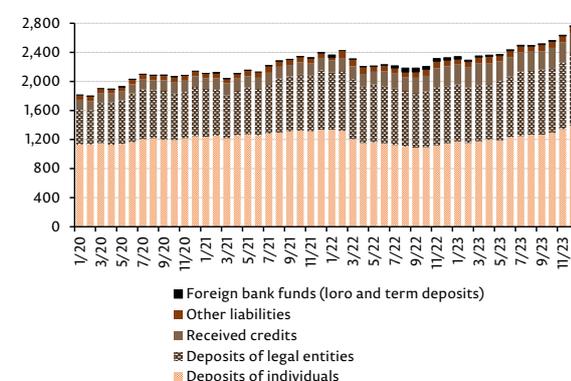
Nominal and real effective exchange rate evolution

According to the end-2023 exchange rate, the national currency appreciated against the US dollar and the European single currency by 9.1% and 5.0%, respectively (Chart 3.46). On average, the Moldovan leu appreciated in smaller proportions, by 3.9% against the US dollar and by 1.3% against the euro.

As for the dynamics in relation to the US dollar of the currencies of countries with significant weights in the foreign trade of the Republic of Moldova and, respectively, included in the basket REER³⁸, the appreciation of the Swiss franc, the European single currency and the currencies of Central and Eastern European countries was highlighted, similar to the Moldovan leu. At the same time, the Turkish lira, the Russian rouble, the Belarusian rouble, the Ukrainian hryvnia and the Chinese yuan depreciated against the US dollar (Chart 3.47). Thus, in 2023, the Moldovan leu appreciated, on average, by 10.4% in nominal terms and by 12.2% in real terms against the currencies of the countries – main trading partners. All trading partners, with the exception of Hungary, contributed to this dynamics, with the contributions of the Russian Federation – by 4.3 percentage points, Ukraine – by 2.1 percentage points and Romania – by 1.4 percentage points (Charts 3.48 and 3.49).

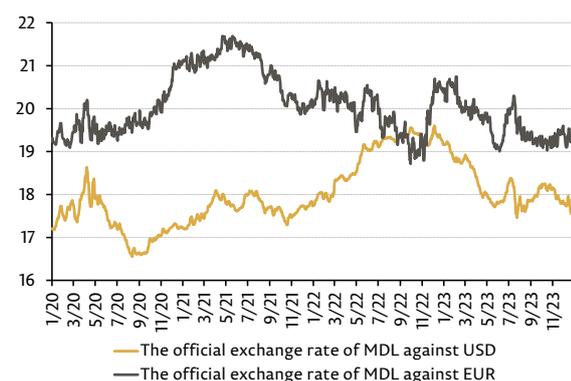
There was a surplus of foreign exchange on the local foreign exchange market in 2023 as a whole, but there were periods

Chart 3.45: Balance sheet foreign exchange liabilities, at effective exchange rates, in structure by liability type (USD million)



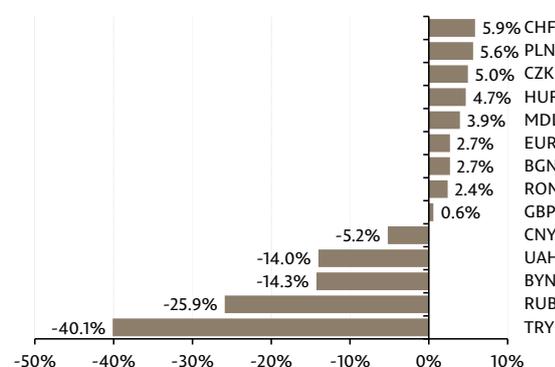
Source: NBM

Chart 3.46: Official exchange rate fluctuations of the national currency against the US dollar and the euro (MDL)



Source: NBM

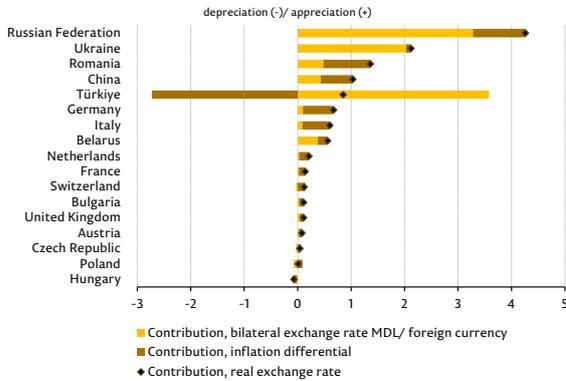
Chart 3.47: Evolution of the currencies of some major trading partners of the Republic of Moldova and countries in the region against the US dollar, 2023/2022 (%)



Source: NBM

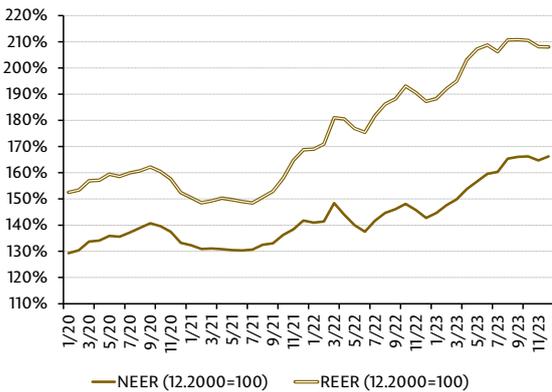
³⁸According to the updated weights with those of 2020-2022 of the main trading partners in the foreign trade of the Republic of Moldova.

Chart 3.48: Contribution of the main trading partners of the Republic of Moldova to the change in the real effective exchange rate in 2023 (percentage points)



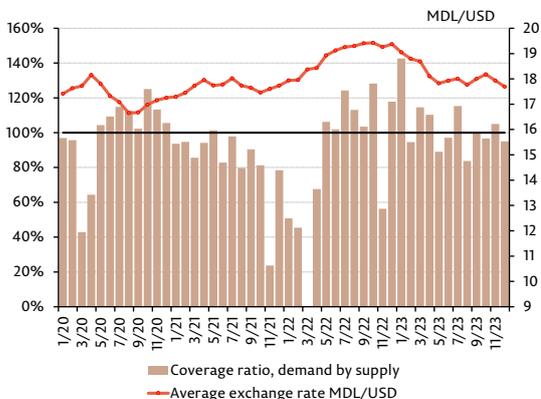
Source: NBM

Chart 3.49: The dynamics of the real effective exchange rate of the national currency calculated on the basis of the weights of the main trading partners over the period 1/2020 – 12/2023 (%)



Source: NBM

Chart 3.50: Coverage of net demand by net supply and exchange rate dynamics



Source: NBM

when the demand for foreign exchange prevailed and periods when the supply of foreign exchange prevailed. In contrast to the previous year, when there was a foreign exchange deficit caused by external shocks, geopolitical instability and economic recession, in 2023 the situation on the foreign exchange market improved, as the external trade deficit narrowed and confidence in the national currency was restored. Thus, both exports and imports of goods decreased by 6.5% and 5.9%, respectively, as a result of which the merchandise trade balance was in deficit, but the negative balance recorded in 2023 was 5.4% lower than that recorded in 2022.

The net supply of foreign exchange from individuals increased in annual terms by 16.4% compared to 2022, reaching USD 2,873.6 million. Notwithstanding the fact that net transfers from abroad to individuals decreased by 6.8% compared to 2022, the supply of foreign exchange from individuals was boosted by the process of dedollarization of cash savings, the opposite trend to that recorded during 2022. The trend was manifested in a decrease in the degree of dollarization of deposits, with the level of the indicator moving from a maximum of 31.8% at the beginning of 2023 to a minimum of 33.8%. The net supply of foreign currency by individuals continued to be mainly denominated in euro (73.7%³⁹), while other currencies, mainly pound sterling, also stood out (Chart 3.51).

A contribution to the nominal appreciation of the exchange rate of the Moldovan leu was the net demand for foreign currency from economic agents, which decreased by 6.1% compared to the previous year, to USD 2,825.5 million. The decrease in net demand was mainly due to lower sales of foreign exchange to importers of energy resources in the context of high temperatures during the winter and the reconfiguration of the modality of natural gas import for the population on the right bank of the Dniester, which was fully realized through the state-owned company Energocom and financed by foreign loans. Inflows of foreign exchange from various international organizations to support refugees in Ukraine also continued to increase. Increased foreign exchange supply was also recorded from economic agents in the agricultural, transportation and information and communication technology sectors. At the same time, the impact of the above-mentioned factors on the decrease in net demand for foreign exchange by legal entities was partly offset by higher foreign exchange sales than in the previous year to importers of various consumer goods and to providers of non-banking financial services and tourism services.

Under these circumstances, the degree of coverage of the net demand for foreign exchange from economic agents by the net supply of foreign exchange from individuals amounted to 101.7% in the reference period, compared to 78.9% in the previous year. Thus, the NBM intervened on the domestic foreign exchange market by purchasing foreign exchange in the amount of USD 347.7 million in order to reduce the excessive volatility of the exchange rate, mainly in the first half of the year when there was a surplus of foreign exchange (Chart 3.50).

Being determined by the supply and demand factors described above, during the reporting period, the Moldovan leu was on a moderate appreciation trend, especially in the first two quarters, after which, in the second half of the year, it moderated in the context of a more balanced foreign exchange market.

³⁹Calculated by applying a constant exchange rate.

Official reserve assets

According to the year-end situation, official reserve assets amounted to USD 5,453.1 million, increasing by 21.9% compared to the end of 2022, mainly due to financial assistance from Moldova's main development partners. In this regard, the following inflows of external loans and grants were noted:

World Bank institutions (the International Bank for Reconstruction and Development and the International Development Association) have allocated the equivalent of USD 265.5 million, of which:

- USD 225.3 million under the Emergency Response, Resilience and Competitiveness Development Policy Operations (DPO) program, including USD 122.7 million – grant component, USD 102.6 million (equivalent to EUR 92.1 million) – loan component;
- the equivalent of USD 40.1 million for various investment projects.

Under the IMF-supported economic and financial reform program, the tranches 4, 5 and 6 of credit for budget support under the Extended Credit Facility and the Extended Fund Facility were disbursed in the amount of USD 217.85 million (equivalent to 162.55 million XDR).

The European Commission, on behalf of the EU, has disbursed EUR 196.7 million, equivalent to USD 212.0 million, of which EUR 7.2 million for investment projects and the rest in the form of budget support, namely:

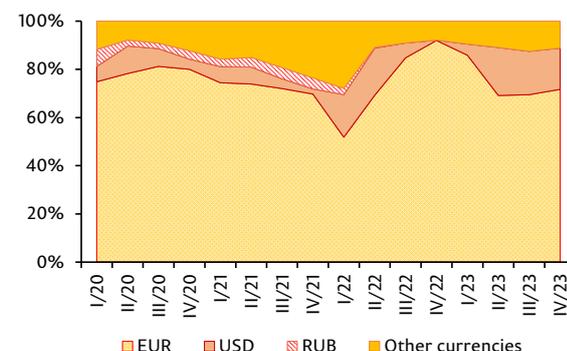
- EUR 119.5 million (equivalent to USD 128.4 million) under the new macro-financial assistance program, including EUR 87.0 million – loan and EUR 32.5 million – grant;
- EUR 70.0 million (equivalent to USD 75.7 million) in the form of a grant, contribution to the Energy Vulnerability Reduction Fund, to support vulnerable population affected by increased energy prices.

Budget support in the amount of USD 132.9 million has been allocated within the bilateral relations of the Republic of Moldova:

- The Japan International Cooperation Agency (JICA) has provided a preferential loan in the amount of JPY 13.5 billion (equivalent to USD 89.8 million) for the realization of the "Economic Recovery Development Policies" Project;
- The French Development Agency (FDA) has granted a EUR 40.0 million loan (equivalent to USD 43.1 million) to finance energy infrastructure, energy efficiency and renewable energy reforms.

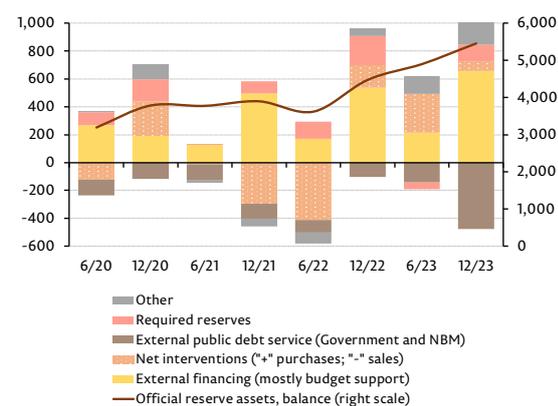
At the end of 2023, official reserve assets sufficiently covered actual imports of goods and services, about 6.6 months of imports.

Chart 3.51: Currency structure of the net supply of foreign exchange from individuals (recalculated at a constant exchange rate) (%)



Source: NBM

Chart 3.52: Official reserve assets (ORA), by flow type (USD million)



Source: Bloomberg

Management of foreign exchange reserves

In accordance with Articles 5, 16, 53 and 71 of the Law No. 548/1995 on the National Bank of Moldova, the NBM shall keep and manage the foreign exchange reserves of the State, perform foreign exchange operations using the reserves and maintain them at an adequate level for the realization of the monetary and foreign exchange policy of the State. The role of foreign exchange reserves is to ensure the credibility and macro-financial stability of the country, to honor the payments on the State's foreign liabilities and to cope with unpredictable exogenous shocks.

In managing foreign exchange reserves, the NBM ensures a high degree of safety and the necessary level of investment liquidity. The NBM's investment policy is prudent, aiming to promote sustainable investments (ESG: environmental, social, governance) and optimize profitability as secondary objectives, with safety and liquidity of reserves being the primary objectives, which indicates a low risk appetite. An essential element of the foreign exchange reserve management process is the investment risk management, which is achieved by imposing investment constraints and limits.

The table A.14 presents the main risks related to the management of foreign exchange reserves and the techniques applied to mitigate the exposure.

Since July 2013, Strategic Asset Allocation (SAA) is being implemented in collaboration with the World Bank. Strategic asset allocation implies a long-term asset management vision geared towards achieving the optimal level of return and risk. In the context of the SAA, international reserves are divided into three tranches (current, liquidity and investment) according to its specific objectives and regulations, this approach ensures that the objective is achieved more effectively.

The world economy in 2023 continues to recover from pandemics, Russia's invasion in Ukraine and the chain-linked price hike crisis impacting on living costs. Despite war-disrupted energy and food markets and unprecedented monetary tightening to combat high inflation, economic activity has slowed but not stalled. However, growth remains slow and uneven, with widening divergences. Inflation and economic activity are influenced by the commodity price shock in 2022. Economies heavily dependent on energy imports from Russia have seen a steeper increase in energy prices and a sharper slowdown. The pass-through of higher energy commodity prices has played an important role in higher core inflation in the euro area in contrast to the United States, where core inflation pressures instead reflect a tight labour market.

The process of foreign exchange reserve management is conditioned by developments in the global economy, the decisions of the world's major central banks, in particular the monetary authorities in the US and the euro area, taking into account the importance of the respective currencies in the structure of official reserve assets.

Thus, the US Federal Reserve's benchmark rate evolved from 4.25-4.50% at the beginning of the year, positioning itself at the end of December 2023 in the range of 5.25-5.50%, while the European Central Bank's rate rose successively from 2.50% to 4.50% (Chart 3.53). The decisions were also reflected in the volatility of the exchange rate of the main currency pair, in terms of speed of reaction, policy adaptation, transmission, expected effect, etc.

The evolution of the monetary policy rates set by the monetary authorities was implicitly reflected in the dynamics of yields on financial instruments, with a significant impact on the financial performance of the National Bank, increasing the return on foreign exchange reserves.

Official reserve assets, as at December 31, 2023 compared to December 31, 2022, increased by 21.9% or by about USD 979 million (from USD 4,474 million to USD 5,453 million). Foreign exchange reserves are managed with a low risk appetite, with assets allocated in safe instruments also used by other central banks: correspondent account placements (usually with other central banks), term placements and securities, which are categorized into supranational (issued by supranational institutions), government (issued by the US government, the governments of the member countries of the European Union and other government issuers) and non-government (issued by agencies) securities.

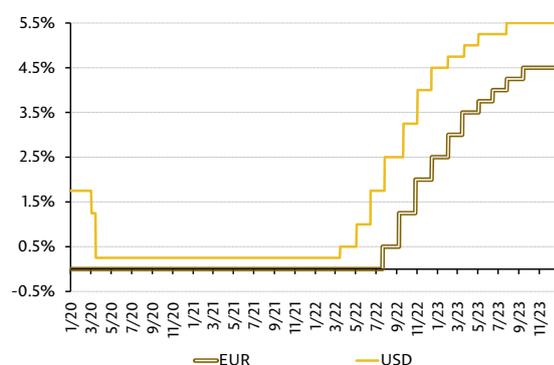
Part of the foreign exchange reserves are managed externally by the World Bank. In accordance with the Investment Advisory and Management Agreement between the International Bank for Reconstruction and Development (IBRD) and the National Bank of Moldova, dated December 8, 2010 (extended by the DEB No. 168 of December 30, 2015), the IBRD is the adviser and agent of the NBM for the management of a portion of external assets, limited to 20% of foreign exchange reserves. At December 31, 2023, the share of externally managed assets constituted 4.4% of foreign exchange reserves.

In 2023, taking into account the expectations of yield evolution, as reflected including in the inverted yield curve of government securities, the duration of the internally and externally managed US dollar securities portfolios was extended and the portfolio of securities valued at amortized cost was supplemented. The value of the portfolio valued at amortized cost, as of December 31, 2023, constituted approximately USD 518.7 million or 9.5% of the foreign exchange reserves.

According to the year-end situation, 78.9% of the reserves are invested in securities, 14.6% constitute term placements, and 6.5% – held in the form of cash and holdings in correspondent accounts. Thus, there is a reallocation by investment instruments, mainly in favor of securities (Chart 3.54).

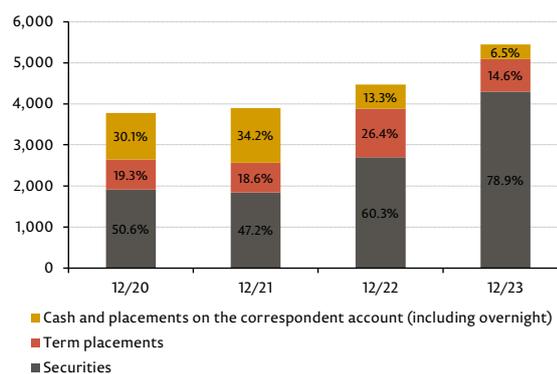
In 2023, the US dollar continued the depreciation trend, relative to most reserve currencies, that it had been on at the end of the previous year. During the first semester, it exhibited a volatile path and recovered against the euro and other major currencies in the first part of the third quarter of 2023. The upward trajectory continued as bond yields rose, but this slowed as expectations on monetary policy rates moderated and the Middle East conflict emerged.

Chart 3.53: Monetary policy rates in the US and EU (%)



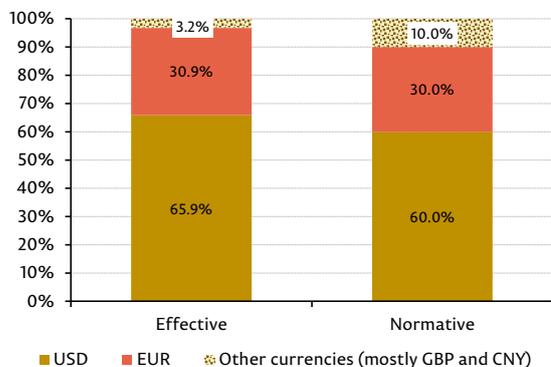
Source: NBM

Chart 3.54: Structure of foreign exchange reserves by investment instruments at the end of 2020-2023 (USD million)



Source: NBM

Chart 3.55: Currency structure of foreign exchange reserves as at 31.12.2023 (%)



Source: NBM

At the same time, as the threat of high energy prices in the euro area receded, gas prices plummeted to their lows before Russia's invasion of Ukraine. This sharp fall in gas and electricity prices was beneficial for the economy as a whole and the region avoided the hard recession that was expected. At the same time, following the example of the Federal Reserve, the European Central Bank had to additionally tighten monetary policy in view of persistent inflationary pressures. At the same time, the global focus on the war in Ukraine was overshadowed in October by the outbreak of geopolitical conflict in the Middle East. These factors generated significant fluctuations of the European single currency against the US dollar during 2023.

The evolution of the world economic environment and the persistence of heightened uncertainty led to the gradual adjustment of the normative currency structure of reserves by increasing the share of the European single currency by 5 percentage points to the detriment of the US dollar, the permissible deviation of ± 10 percentage points favoring the adoption of tactical decisions to adjust the currency composition of reserves during the year and adapt it in line with market expectations. According to the year-end figures, the US dollar continues to have the majority share in the structure of foreign exchange reserves – 65.86% (Chart 3.55).

Based on the evolution of the world economy in 2023, in particular the US and the EU, the financial market environment and the evolution of exchange rates against the US dollar (the reporting currency of the reserves), the management of foreign exchange reserves generated a profit of USD 179.36 million, at an average profitability rate of 3.72%.

Chapter 4

The NBM supervisory activity

4.1 Banking supervision

Developments in the banking sector

Core indicators of the banking system

As of December 31, 2023, 11 banks licensed by the National Bank of Moldova were operating in the Republic of Moldova, including 6 subsidiaries of foreign banks and financial groups.

The total number of subdivisions of licensed banks in the Republic of Moldova amounted to 557, of which 283 branches and 274 agencies.

As of December 31, 2023, 8,560 persons were employed in the banking sector. On average, each employee had assets under management amounting to MDL 18.0 million, up by MDL 2.5 million (16.4%) compared to the end of 2022.

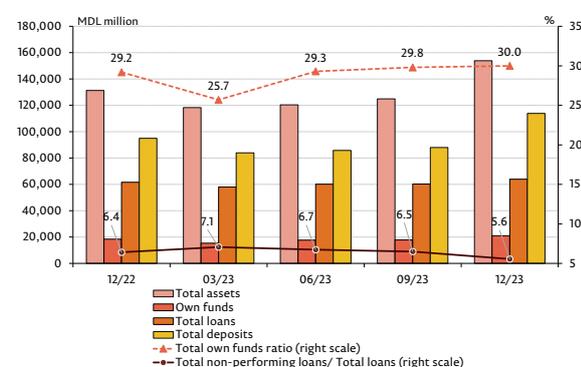
The financial situation of the banking sector as of December 31, 2023 was satisfactory. Banks are sufficiently capitalized, own funds amounted to MDL 20,947.3 million, up by MDL 2,589.9 million (14.1%) compared to the previous year, and the total own funds ratio remains at a high level, registering the value of 30.0%, by 0.8 percentage points more than in 2022, as a result of the increase in own funds. According to the reports submitted by banks, all banks complied with the "Total own funds ratio" indicator (the limit for each bank $\geq 10\%$) and the additional requirements imposed by supervisory measures.

The dynamics of the main financial indicators are shown in the chart 4.1.

The profit for the year ended on December 31, 2023 amounted to MDL 4,123.4 million per sector, increasing by MDL 459.1 million (12.5%) compared to the previous year, as a result of the increase in interest income by MDL 1,829.6 million (19.0%), income from fees and commissions – by MDL 302.8 million (10.1%) and income from the exchange rate difference – by MDL 175.5 million (10.2%). At the same time, interest expenses increased by MDL 1,977.0 million (78.2%) and non-interest expenses decreased by MDL 183.2 million (2.2%).

For 2023, the return on assets⁴⁰ and on equity⁴¹ of banks amounted to 2.8% and 16.3% respectively, down by 0.1

Chart 4.1: Dynamics of the main financial indicators for the banking sector of the Republic of Moldova for the period 31.12.2022* – 31.12.2023



Source: NBM

* Data as of December 31, 2022 throughout the text are adjusted according to the results of the external audit.

⁴⁰Return on assets = $\frac{\text{Annualized net income}}{\text{Average assets}}$

⁴¹Return on equity = $\frac{\text{Annualized net income}}{\text{Average equity}}$

percentage points and 0.7 percentage points respectively, compared to the previous year.

Total assets totaled MDL 153,940.5 million, increasing during 2023 by MDL 22,572.3 million (17.2%).

As of December 31, 2023, the balance of the gross (prudential) loan portfolio amounted to 41.5% of the total assets or MDL 63,895.5 million, increasing during the period under review by MDL 2,268.3 million (3.7%). At the same time, non-performing loans decreased by MDL 423.2 million (10.7%) to MDL 3,547.2 million respectively, the share of non-performing loans in total loans decreased by 0.9 percentage points, amounting to 5.6%.

The balance of deposits increased during 2023 by MDL 18,892.8 million (19.9%) up to MDL 113,861.3 million, due to the increase in deposits of legal entities by MDL 11,321.7 million (32.2%) up to MDL 46,505.5 million and deposits of individuals by MDL 8,070.9 million (13.7%) up to MDL 67,088.6 million. At the same time, banks' deposits decreased by MDL 499.8 million (65.2%) to MDL 267.2 million.

Own funds

As of December 31, 2023, own funds by sector, according to the data submitted by banks, amounted to MDL 20,947.3 million, recording an increase of MDL 2,589.9 million (14.1%) during the year.

The increase in own funds was determined by the reflection by banks of eligible profits after the General Shareholders' Meetings and after obtaining the NBM's permission to include the obtained profits in own funds. Also, other reserves were increased by MDL 151.3 million (prudential difference and IFRS accounted at year-end). At the same time, the positive difference between allowances for losses on assets and contingent liabilities (prudential allowances) and allowances for impairment losses on assets and provisions (IFRS allowances) was increased by MDL 333.3 million, other intangible assets by MDL 152.9 million. At the same time, subordinated liabilities decreased by MDL 35.6 million, as a result of the calculation of amortization on subordinated liabilities with a maturity of less than 5 years and the exchange rate difference.

Also, during the reporting year, 6 banks have distributed capital in the form of dividends totaling MDL 1,265.9 million.

The structure of total own funds of 9 banks consists entirely of basic tier 1 own funds (total by sector – MDL 20,390.0 million), while 2 banks (BC "MOLDOVA – AGROINDBANK" S.A. and B.C. "ProCredit Bank" S.A.) also have tier 2 own funds (subordinated loans in the amount of MDL 494.0 million and MDL 63.4 million, respectively).

As of December 31, 2023, the total own funds ratio on the banking sector was 30.0%, increasing by 0.8 percentage points compared to the end of the previous year. The given indicator was met by all banks (limit for each bank $\geq 10\%$). At the same time, banks also complied with the requirement related to the "Total own funds ratio" indicator, taking into account capital buffers. Thus, in

addition to the minimum own funds requirement of 10%, banks are required to maintain core tier 1 own funds necessary to meet the requirements for the capital conservation buffer (2.5%), the countercyclical capital buffer (0.0%), the systemic risk buffer (1%) and, where applicable, the systemically important institution buffer (0.5%/ 1.0%/ 1.5%) (the O-SII buffer).

At the same time, the NBM's Executive Board, following the results of the Supervisory Review and Evaluation Process of banks' activity (SREP), has imposed specific capital requirements for each bank, depending on the individual risk profile, which were also respected by all banks.

The dynamics of core tier 1 own funds and total own funds over the period under review are shown in the chart 4.2.

The change in the structure of the banking sector's own funds in terms of concentration by groups of banks is shown in the chart 4.3.

The share of total own funds of large banks in the total own funds of the banking sector amounted to 77.7%, up by 0.6 percentage points compared to the end of the previous year.

At the same time, the share of total own funds of medium and small-sized banks amounted to 19.3% and 3.0% respectively, decreasing by 0.4 percentage points and 0.2 percentage points respectively.

During the reference period, the significant share of foreign investments in banks' capital was maintained, which amounted to 88.9% as of December 31, 2023 (Chart 4.4), being at the same level as at the end of the previous year.

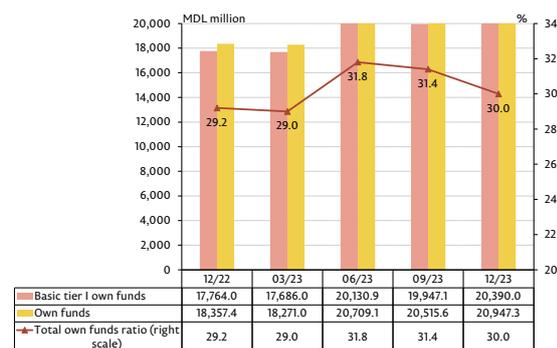
Among foreign investors participating in the capital formation of Moldovan banks are banks from Italy, Romania, Hungary, as well as the European Bank for Reconstruction and Development and investors from Germany, Bulgaria, the Netherlands, Austria, Estonia, United Kingdom of Great Britain, Greece, Iraq.

Out of the total number of banks, 4 banks have capital entirely consisting of foreign investments (of which 3 subsidiaries of foreign banks and financial groups: B.C. "EXIMBANK" S.A., BCR Chişinău S.A. and B.C. "ProCredit Bank" S.A.), 6 banks – with capital consisting of foreign and domestic investments and one bank – with capital entirely consisting of domestic investments.

Assets and their quality

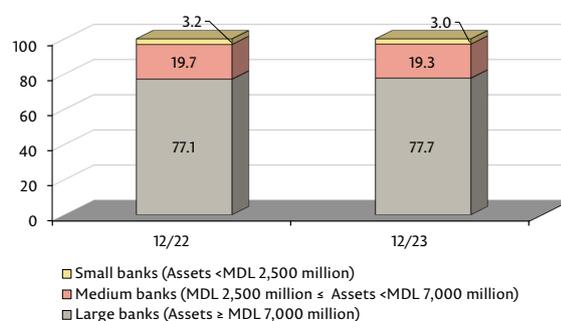
Total assets by sector amounted to MDL 153,940.5 million, increasing by MDL 22,572.3 million (17.2%) compared to the end of the previous year. The main source of financing of assets are liabilities, which increased by MDL 19,227.0 million (17.8%) to MDL 127,279.2 million, mainly due to the increase in deposits attracted by MDL 18,849.1 million (19.8%) to MDL 113,993.1 million. At the same time, during 2023, a bank attracted financial resources through issues of securities (bonds) in order to increase long-term sources of financing and diversification of financing instruments in the amount of MDL 254.7 million. At the same

Chart 4.2: The dynamics of own funds (MDL million) and the total own funds ratio (%) on the banking sector of the Republic of Moldova for the period 31.12.2022* – 31.12.2023



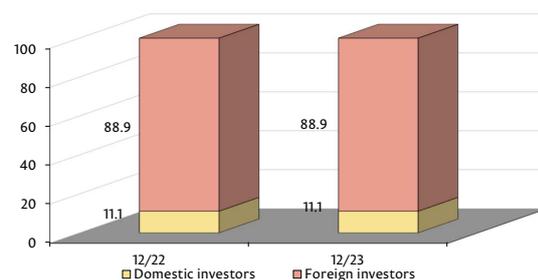
Source: NBM

Chart 4.3: The dynamics of the concentration of total own funds of the banking sector of the Republic of Moldova by groups of banks for the period 31.12.2022* – 31.12.2023 (%)



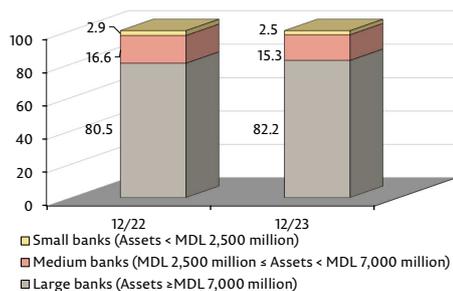
Source: NBM

Chart 4.4: Share capital structure of the banking sector in the Republic of Moldova, according to the source of investments for the period 31.12.2022* – 31.12.2023 (%)



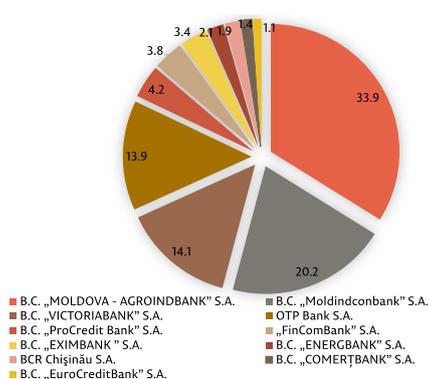
Source: NBM

Chart 4.5: Dynamics of the concentration of assets by groups of banks for the period 31.12.2022* – 31.12.2023 (%)



Source: NBM

Chart 4.6: Concentration of the banking sector's assets as of December 31, 2023 (%)



Source: NBM

time, other financial liabilities decreased by MDL 374.3 million (3.8%) to MDL 9,600.3 million.

Another source of financing of assets is the capital, which increased by MDL 3,345.3 million (14.3%) to MDL 26,661.3 million, as a result of the profit achieved in the reporting period.

During 2023, the assets-to-GDP ratio (2023 forecast) increased by 1.4 percentage points, from 47.9% to 49.3% (Chart 4.8), on the background of the higher pace of asset growth (17.2%) compared to the GDP growth⁴² (13.9%).

The concentration of the banking sector's assets is shown in the chart 4.5.

The banking sector's assets are concentrated in the group of large banks (as determined by the NBM). At the end of 2023, the group of large banks included 4 banks (BC "MOLDOVA – AGROINDBANK" S.A., BC "Moldindconbank" S.A., B.C. "VICTORIABANK" S.A., OTP Bank S.A.). The share of banks' assets of this group amounted to 82.2% as of December 31, 2023, increasing by 1.7 percentage points compared to the end of 2022. The share of banks' assets in the group of medium-sized banks (BC "ProCredit Bank" S.A., "FinComBank" S.A., BC "EXIMBANK" S.A., BC "ENERGBANK" S.A., BCR Chişinău S.A.) decreased by 1.3 percentage points, amounting to 15.3%, while the share of banks' assets in the group of small-sized banks (BC "COMERTBANK" S.A., BC "EuroCreditBank" S.A.) decreased by 0.4 percentage points, amounting to 2.5%. The composition of the groups at the end of 2023 remained unchanged compared to the end of 2022.

It should be noted that the limits of the dominant position on the banking market by asset size were respected. The largest share of the bank's total assets in relation to total assets in the banking sector was held by BC "MOLDOVA – AGROINDBANK" S.A., accounting for 33.9% (limit $\leq 35\%$), followed by BC "Moldindconbank" S.A. – 20.2% (Chart 4.6).

Following the analysis of the concentration of the banking sector of the Republic of Moldova, the Herfindahl-Hirschman index (the value of which does not exceed 10,000) was calculated based on the share of bank assets in total assets in the banking sector. The given index is calculated as the sum of squares of market shares of all banks in the sector. In international practice the following division is used:

- HHI below 100 indicates a market with perfect competition;
- HHI between 100 and 1,500 indicates an unconcentrated market;
- HHI between 1,500 and 2,500 indicates a moderate concentration;
- HHI above 2,500 indicates a high concentration.

⁴²GDP in current prices.

Thus, following the calculations, obtaining $HHI=2,006.5$ we conclude that the banking sector of the Republic of Moldova shows a moderate concentration.

In the assets structure, the largest share returned to the balance sheet item "Loans and advances at amortized cost", which accounted for 40.6% (MDL 62,487.1 million), down by 4.1 percentage points compared to the end of the previous year. The share of funds at the NBM amounted to 26.1% (MDL 40,181.4 million), decreasing by 2.1 percentage points. The share of banks' investments in state securities (SS) and certificates of the National Bank (CNB) amounted to 19.7% (MDL 30,392.3 million), increasing by 4.5 percentage points. The remaining assets, amounting to 13.6% (MDL 20,879.7 million), are held by banks in other banks, in cash, tangible fixed assets, intangible fixed assets etc. Their share increased by 1.7 percentage points.

The structure of banking sector's assets according to the main components is shown in the chart 4.7.

The gross loan portfolio (according to prudential reports) as of December 31, 2023 amounted to MDL 63,895.5 million, increasing during the year by MDL 2,268.3 million (3.7%). The increase in the loan portfolio was recorded on a monthly basis, except for the months of January, May and August.

At the same time, the share of the gross loan portfolio in GDP decreased by 2.0 percentage points, constituting 20.5% as of December 31, 2023 (Chart 4.8), against the background of the growth rate of the loan portfolio being lower (3.7%) than the growth of GDP⁴² (13.9%).

In the context of risk distribution by branch, the largest share in the total loan portfolio was held by loans granted to trade – 22.3% (MDL 14,238.7 million), loans granted for real estate purchase/ construction – 20.8% (MDL 13,282.3 million), followed by consumer loans – 17.5% (MDL 11,199.9 million).

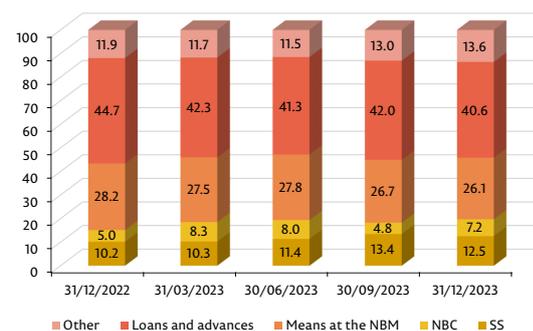
The detailed structure of the banking sector's loan portfolio, according to the branch in which the debtor is operating, is shown in the chart 4.9.

The highest increase in 2023 was recorded in consumer loans – by MDL 1,190.4 million (11.9%) up to MDL 11,199.9 million, in loans for real estate purchase/ construction – by MDL 989.1 million (8.1%) up to MDL 13,282.3 million, in loans granted to trade – by MDL 358.4 million (2.6%) up to MDL 14,238.7 million, in loans granted to the non-banking financial sector – by MDL 288.3 million (11.7%) up to MDL 2,757.6 million, in loans granted to administrative-territorial units/ institutions subordinated to administrative-territorial units – by MDL 213.3 million (29.9%) up to MDL 926.9 million.

At the same time, the largest decrease during 2023 was recorded in loans granted to food industry – by MDL 248.1 million (5.6%) up to MDL 4,151.7 million, in loans granted to construction sector – by MDL 230.8 million (16.3%) up to MDL 1,186.5 million, in other granted loans – by MDL 181.0 million (7.3%) up to MDL 2,290.2 million, in loans granted to energy industry – by MDL 178.2 million (19.2%) up to MDL 749.1 million.

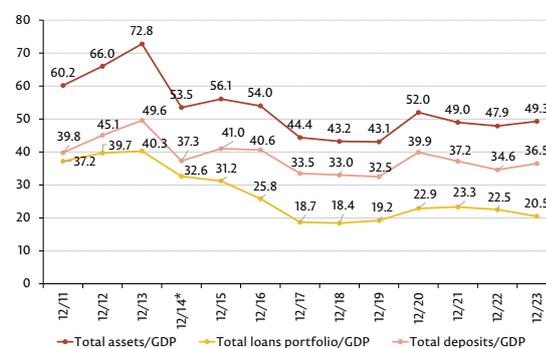
During 2023, non-performing loans (substandard, doubtful and impaired) in absolute value decreased by MDL 423.2 million

Chart 4.7: The dynamics of the banking sector's asset structure for the period 31.12.2022* – 31.12.2023 (%)



Source: NBM

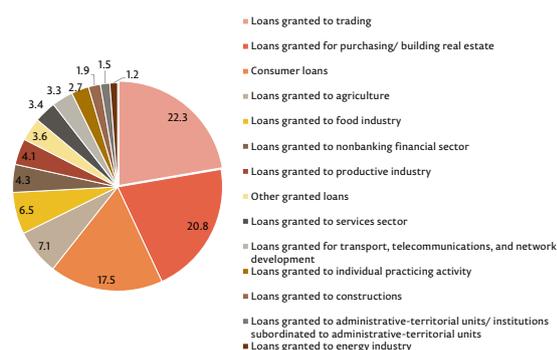
Chart 4.8: The dynamics of assets, loans and deposits relative to GDP (%)*



Source: NBM

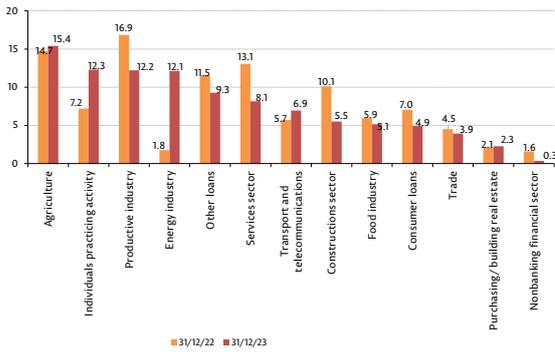
* For 2014 B.C. "BANCA SOCIALĂ" S.A., Banca de Economii S.A. and B.C. "UNIBANK" S.A. were excluded from the calculation.

Chart 4.9: Breakdown of loans by branch as of December 31, 2023 (%)



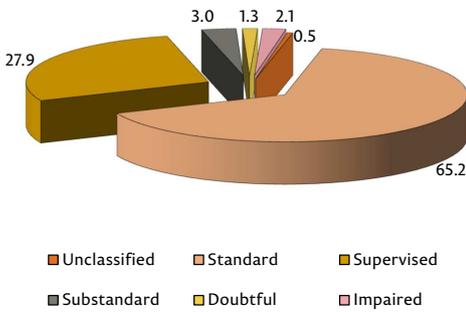
Source: NBM

Chart 4.10: Breakdown of non-performing loans by branch as of December 31, 2023 (%)



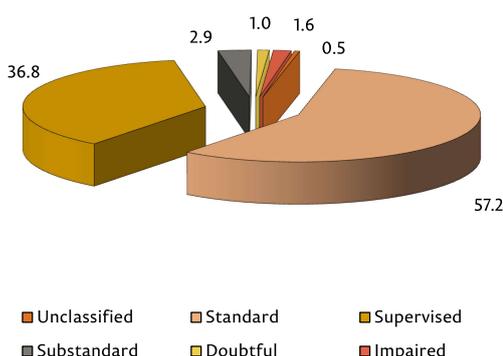
Source: NBM

Chart 4.11: Dynamics of the loan portfolio structure according to the classification categories as of December 31, 2022* (%)



Source: NBM

Chart 4.12: Dynamics of the loan portfolio structure according to the classification categories as of December 31, 2023 (%)



Source: NBM

(10.7%) constituting MDL 3,547.2 million, as a result of repayment of loans on the account of direct payments, derecognition of non-performing loans and reclassification into performing categories due to improvement in the financial situation of some debtors. At the same time, the share of non-performing loans in total loans decreased by 0.9 percentage points compared to the end of 2022, constituting 5.6% as at December 31, 2023.

According to the distribution of non-performing loans by branch, we note that as of December 31, 2023, the highest shares are recorded in: loans granted to agriculture – 15.4%, loans granted to individuals performing an activity – 12.3%, loans granted to productive industry – 12.2%, loans granted to energy industry – 12.1%, other loans – 9.3%, loans in the area of rendering of services – 8.1%, loans granted in the area of transport, telecommunications and network development – 6.9%, loans granted in the area of construction – 5.5%.

At the same time, it is worth mentioning that loans granted for the purchase/ construction of real estate and loans granted to the non-banking financial sector record relatively small shares in the level of non-performing loans, which are 2.3% and 0.3%, respectively.

The ratio of non-performing loans by branch in the banking sector is shown in the chart 4.10.

Share of net non-performing loans⁴³ in own funds has decreased by 1.3 percentage points, constituting 7.4% as of December 31, 2023.

Compared to the end of the previous year, the following migration of the loan portfolio by classification categories has been recorded, which is reflected in the chart 4.12:

- the share of loans classified as "standard" (2% risk category) decreased by 8.0 percentage points up to 57.2%;
- the share of loans classified as "supervised" (5% risk category) increased by 8.9 percentage points up to 36.8%;
- the share of loans classified as "substandard" (30% risk category) decreased by 0.1 percentage points up to 2.9%;
- the share of loans classified as "doubtful" (60% risk category) decreased by 0.3 percentage points up to 1.0%;
- the share of loans classified as "impaired" (100% risk category) decreased by 0.5 percentage points up to 1.6%;
- the share of loans not subject to classification remained unchanged, being insignificant – 0.5%.

The level of provisioning for non-performing loans (the ratio of allowances calculated on non-performing loans in the total non-performing loans) was high, constituting 54.0%, ranging by bank from 36.2% up to 80.1% and down 3.9 percentage points compared to the previous year.

⁴³Net non-performing loans = the amount subject to classification on non-performing loans minus allowances thereon

The share of calculated loan loss allowances in total loans as of December 31, 2023 constituted 5.9%, decreasing insignificantly by 0.4 percentage points compared to the end of 2022.

It should be noted that the calculated allowances (prudential allowances) on all assets and contingent liabilities as of December 31, 2023, amounted to MDL 4,520.6 million, decreasing by MDL 176.1 million (3.7%) compared to December 31, 2022, while the allowances for impairment losses formed (IFRS allowances) amounted to MDL 3,643.3 million, decreasing by MDL 687.0 million (15.9%), the difference recorded – MDL 877.3 million.

Thus, the share of allowances for impairment losses on loans (IFRS allowances) in the calculated allowances on loans (prudential allowances) in the banking sector decreased by 10.1 percentage points up to 85.2%, ranging from 15.3% to 179.4%.

Banks' exposures to affiliated persons account for insignificant shares in total loans – 2.0% (banking sector average). The indicator "Ratio of exposures to affiliated persons to eligible capital" (limit for each bank \leq 20% of eligible capital) as of December 31, 2023 was met by all banks (banking sector average – 6.3%).

As of December 31, 2023, the indicator "Ratio of the sum of the ten largest net debts to the total portfolio of loans and contingent liabilities (maximum limit for each bank – 30% of the total net loans) was met by all banks (banking sector average – 18.9%). At the same time, only one bank was found to exceed the above-mentioned indicator which, according to Chapter IV point 26 of the Regulation on Large Exposures No. 109/2019, is not considered a violation if the bank maintains an additional own funds requirement on the respective excess.

The indicator on the total amount of the bank's net exposures in Moldovan lei pegged to foreign exchange to individuals, including those engaged in entrepreneurial or other type of activity (limit for each bank \leq 30% of eligible capital) was met by all banks. The sector average of the nominated indicator amounted to 3.8%.

The ratio of the total amount of net exposures, other than mortgage exposures, towards individuals, pegged to foreign exchange to total normative capital (the limit for each bank \leq 10% of eligible capital) was also met by all banks. The average by sector of this indicator amounted to 0.4%.

The ratio of the total amount of investment in real estate to total own funds by sector constituted 18.0% (the limit for each bank \leq 50%) and was met by all banks.

Incomes and profitability development

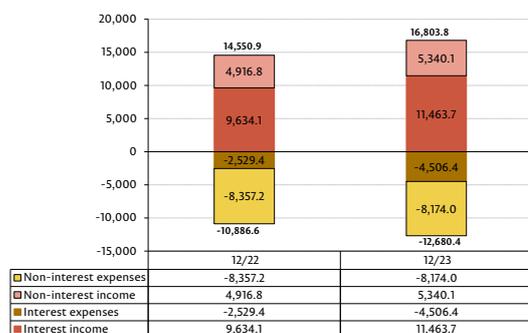
As of December 31, 2023, the profit for the year for the banking sector amounted to MDL 4,123.4 million, increasing by MDL 459.1 million (12.5%) compared to the end of the previous year, mainly as a result of the increase in interest income by MDL 1,829.6 million (19.0%), in income from fees and commissions by MDL 302.8 million (10.1%) and in income from exchange rate differences by MDL 175.5 million (10.2%).

Interest income increased compared to the end of the previous year by MDL 1,829.6 (19.0%) up to MDL 11,463.7 million. During the mentioned period, the largest increase in interest income was recorded in income from investments in debt securities (SS, CNB), which amounted to MDL 1,315.5 million (69.2%) up to MDL 3,215.5 million, followed by the increase in income from investments in loans – by MDL 1,124.9 million (20.2%) up to MDL 6,699.3 million. At the same time, there was a decrease by MDL 610.7 million (28.3%) up to MDL 1,548.9 million in the income from funds placed with the NBM (required reserves).

In the structure of interest income, the largest share returned to the income obtained from investments in loans – 58.4%, which increased by 0.6 percentage points compared to December 31, 2022, followed by the share of income obtained from investments in debt securities (SS, CNB) – 28.1%, which increased by 8.3 percentage points compared to December 31, 2022, and the share of income obtained from funds placed with the NBM – 13.5%, which decreased by 8.9 percentage points compared to December 31, 2022 (as a result of the decrease in the required reserve ratio from 37% as of December 31, 2022 to 33% as of December 31, 2023, at the same time, the remuneration rate on required reserves also decreased from 18% to 3.0% during the reference period).

Non-interest income increased by MDL 423.3 million (8.6%) up to MDL 5,340.1 million, mainly as a result of the increase in income from fees and commissions by MDL 302.8 million (10.1%) up to MDL 3,302.4 million and the increase in income from exchange rate differences by MDL 175.5 million (10.2%) up to MDL 1,895.4 million.

Chart 4.13: The dynamics of banking sector's income and expenses for the years 2022* – 2023 (MDL million)



Source: NBM

At the same time, interest expenses also increased by MDL 1,977.0 million (78.2%) up to MDL 4,506.4 million, as a result of the increase in the balance of deposits attracted by 19.9% (MDL 18,892.8 million). At the same time, the average rate on deposits in national currency decreased from 11.06% on December 31, 2022 to 6.21% on December 31, 2023, while the average rate on deposits in foreign currency increased from 1.05% on December 31, 2022 to 2.24% on December 31, 2023. The income and expenditure dynamics of banks are shown in the chart 4.13.

During the reporting period, non-interest expenses decreased by MDL 183.2 million (2.2%) up to MDL 8,174.0 million, mainly as a result of the decrease in losses due to impairment of financial assets by MDL 1,285.8 million (87.6%). The decrease in losses due to impairment of financial assets is due to the improvement in the quality of the loan portfolio, the decrease in the loan portfolio of some banks due to the repayment of previously granted loans.

Total income amounted to MDL 16,803.8 million, increasing by MDL 2,252.9 million (15.5%) compared to the end of the previous year, of which interest income amounted to 68.2% (MDL 11,463.7 million) and non-interest income – 31.8% (MDL 5,340.1 million).

At the same time, total expenses amounted to MDL 12,680.4 million, increasing by MDL 1,793.8 million (16.5%) compared to the previous year, of which interest expenses accounted for 35.5% (MDL 4,506.4 million) of total expenses, and non-interest expenses – 64.5% (MDL 8,174.0 million) of total expenses. Administrative expenses – 48.6% (MDL 3,973.8 million) and expenses related to

fees and commissions – 22.7% (MDL 1,856.3 million) accounted for a significant share of non-interest expenses.

The structure of the banking sector's income and expenses for 2023 is shown in the charts 4.14 and 4.15.

For 2023, the return on assets⁴⁴ and capital⁴⁵ of banks amounted to 2.8% and 16.3% respectively, down by 0.1 percentage points and 0.7 percentage points respectively, compared to the previous year.

Net interest margin⁴⁶ amounted to 5.4% as of December 31, 2023, down by 1.2 percentage points compared to the end of the previous year.

The dynamics of the banking sector's net interest margin, return on assets and return on equity for the period 31.12.2022 – 31.12.2023 are shown in the chart 4.16.

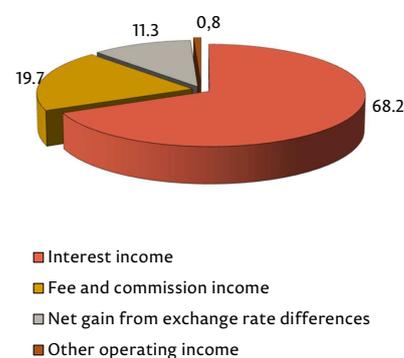
The average monthly value of interest-earning assets increased during 2023 by MDL 20,832.8 million or 17.8%, constituting MDL 137,571.7 million as of December 31, 2023. The significant share of interest-earning assets in the total assets of the banking sector, which amounted to 87.8%, indicates the ability of banks to generate income in the future.

Liabilities, liquidity and compliance with legal requirements

Banks' liabilities as of December 31, 2023 amounted to MDL 127,279.2 million, increasing by MDL 19,227.0 million (17.8%) compared to December 31, 2022. The largest share in the total liabilities as of December 31, 2023 was held by financial liabilities measured at amortized cost (customer deposits, other financial liabilities) – 97.3% (MDL 123,848.2 million), which increased in absolute value by MDL 18,729.6 million (17.8%) compared to the end of the previous year.

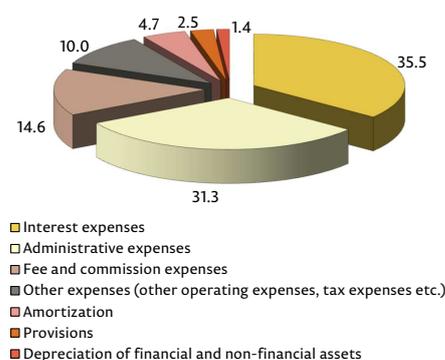
Customer deposits accounted for MDL 113,993.1 million or 89.6% of the total liabilities, the absolute amount of customer deposits increased compared to December 31, 2022 by MDL 18,849.1 million (19.8%). Simultaneously, other liabilities increased by MDL 425.1 million (21.4%) up to MDL 2,414.4 million (including transit and clearing amounts, payment card operations, settlements with bank's employees, other individuals and legal entities, settlements with the budget, settlements on the purchase/ sale of securities and foreign currency, etc.), provisions – by MDL 119.8 million (17.0%) up to MDL 823.7 million (including provisions for business restructuring, liabilities related to pensions and employee benefits, provisions related to expenses for damages that may result from lawsuits filed against the bank, financing commitments, other provisions), financial liabilities held for trading – by MDL 1.7 million (106.3%), constituting MDL 0.1 million, financial liabilities designated at fair value through profit

Chart 4.14: Structure of the banking sector's income in 2023 (%)



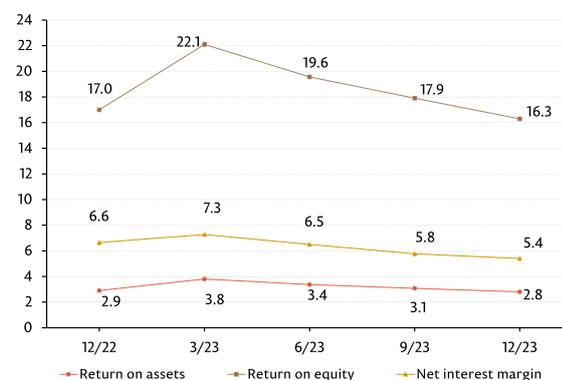
Source: NBM

Chart 4.15: Structure of the banking sector's expenses in 2023 (%)



Source: NBM

Chart 4.16: The dynamics of the banking sector's net interest margin, return on assets and return on capital for the period 31.12.2022* – 31.12.2023 (%)



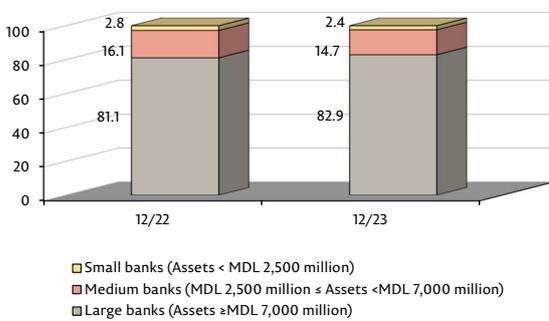
Source: NBM

⁴⁴Return on assets = $\frac{\text{Annualized net income}}{\text{Average assets}}$

⁴⁵Return on equity = $\frac{\text{Annualized net income}}{\text{Average equity}}$

⁴⁶Net interest margin = $\frac{\text{Annualized net interest income}}{\text{The average interest-earning assets}}$

Chart 4.17: Dynamics of debt concentration of the banking sector, by groups of banks, for the period 31.12.2022* – 31.12.2023 (%)



Source: NBM

or loss – by MDL 0.1 million (0.4%) up to MDL 27.9 million. At the same time, during 2023, in order to increase the sources of long-term financing and diversification of financing instruments by a bank, debt securities in the amount of MDL 254.7 million were issued. At the same time, other financial liabilities decreased by MDL 374.2 million (3.8%) up to MDL 9,600.4 million (including loans (overnight, short-term and medium-term) from the NBM, the Government, international financial organizations, etc.), tax liabilities – by MDL 49.3 million (23.0%) up to MDL 164.9 million (Table A.15).

The share of large banks' liabilities in total banking sector liabilities as of December 31, 2023 constituted 82.9%, up by 1.8 percentage points compared to December 31, 2022. Respectively, the share of medium-sized banks' liabilities decreased by 1.4 percentage points, constituting 14.7% as of December 31, 2023, and the share of small-sized banks' liabilities decreased by 0.4 percentage points, constituting 2.4% of the total liabilities by sector.

The concentration of banking sector's liabilities is shown in the chart 4.17.

The balance of deposits, according to the prudential reports as of December 31, 2023, amounted to MDL 113,861.3 million, increasing by MDL 18,892.8 million (19.9%) compared to December 31, 2022, as a result of the increase in deposits of legal entities by MDL 11,321.7 million (32.2%) up to MDL 46,505.5 million, deposits of individuals by MDL 8,070.9 million (13.7%) up to MDL 67,088.6 million. At the same time, banks' deposits decreased by MDL 499.8 million (65.2%) up to MDL 267.2 million.

The total share of deposits in GDP increased from 34.6% in 2022 up to 36.5% in 2023.

As of December 31, 2023, in the total deposits, 36.9% (equivalent to MDL 41,959.2 million) were deposits in foreign currency, the absolute value of which increased compared to the end of the previous year by MDL 4,011.1 million (10.6%) on the account of attracting funds – by MDL 6,223.4 million, and on the account of the re-evaluation as a result of the exchange rate fluctuation they decreased by MDL 2,360.6 million (the calculation from the re-evaluation of deposits was carried out on the basis of EUR, USD, Russian rouble, Romanian leu and Ukrainian hryvnia, the share of other currencies being insignificant). Deposits in MDL accounted for 63.1% of total deposits or MDL 71,902.1 million, increasing by MDL 14,881.7 million (26.1%) compared to the previous year.

The value of the long-term liquidity indicator for the banking sector (liquidity principle I, assets with a repayment term of more than two years/financial resources with a potential withdrawal term of more than two years) amounted to 0.69 (average by sector), ranging from 0.31 to 0.83, with an insignificant increase of 0.02 percentage points compared to the end of the previous year. The given indicator was met by all banks (limit for each bank ≤ 1).

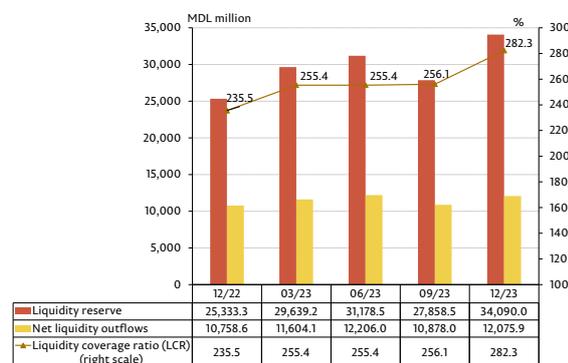
As of December 31, 2023, liquidity principle III, which is the ratio of adjusted actual liquidity to required liquidity in each maturity band (limit ≥ 1), was met by all banks, ranging from 1.48 in the maturity band up to and including 1 month to 124.33 in the maturity band between 1 month and 3 months inclusive.

The liquidity coverage ratio (LCR) indicator by sector amounted to 282.3% and ranged from 195.5% to 661.6%, increasing by 46.8 percentage points compared to the end of the previous year. All banks complied with this indicator (limit $\geq 100\%$ – as of January 1, 2023).

The liquidity reserve as of December 31, 2023 amounted to MDL 34,090.0 million, increasing by MDL 8,756.6 million (34.6%) compared to December 31, 2022. At the same time, net liquidity outflows in the period under review increased by MDL 1,317.3 million (12.2%), amounting to MDL 12,075.9 million. Details are shown in the chart 4.18.

Thus, liquidity indicators reveal the existence of adequate sources of funding to cover both short-term and long-term liquidity needs.

Chart 4.18: Indicator on liquidity coverage ratio (LCR) by components (MDL million) and LCR (%)



Source: NBM

Market risk sensitivity

The foreign exchange risk is regulated by the NBM's normative acts, and the limits of long and short open foreign currency positions are established for each currency ($\leq +10\%$ and $\geq -10\%$, respectively), as well as for all currencies ($\leq +20\%$ and $\geq -20\%$, respectively). These limits were met by all banks.

The share of foreign currency balance sheet assets combined with foreign currency pegged assets in total assets as of December 31, 2023 amounted to 31.4%, being 0.1 percentage points higher than the share of foreign currency balance sheet liabilities and foreign currency pegged liabilities in total assets, which amounted to 31.3%. The insignificant difference between the shares of foreign currency assets and foreign currency liabilities indicates that foreign exchange risk is well managed by the banks and is minimal, respectively.

Foreign placements of Moldovan banks as of December 31, 2023, according to the data submitted by banks, amounted to MDL 9,504.2 million, increasing by MDL 5,221.2 million (121.9%) compared to the end of the previous year and accounting for 6.2% of total assets (as of December 31, 2022 – 3.3%) and 45.4% of own funds (as of December 31, 2022 – 23.3%). The largest increases in placements were in France by MDL 1,373.0 million (163.7%), in Germany – by MDL 1,295.7 million (190.5%), in Austria – by MDL 1,037.7 million (172.4%). At the same time, placements in Russia decreased the most – by MDL 35.3 million (68.3%). Details are shown in the table A.16.

As of December 31, 2023, France accounted for the largest share of total placements by sector – 23.3%, followed by Germany – 20.8%, Austria – 17.2%, the US – 13.3% and Italy – 11.0%. Placements are predominantly made in highly-rated countries and banks, which indicates a cautious activity.

According to the Regulation on the classification of assets and contingent liabilities, banks reduce their own funds by the size of the reductions formed, taking into account the rating assigned by the international agencies by country and bank.

Supervisory activity

In order to protect the interests of depositors, as well as to ensure the stability and viability of the banking system, the National Bank of Moldova conducts the prudential supervision of banks in the Republic of Moldova, ensuring compliance with the legal requirements for the prevention and limitation of risks specific to the banking activity.

During 2023 there was a moderation in the intensity of the challenges to banks, but they did not disappear completely. At the same time, the National Bank has undertaken the necessary supervisory measures to ensure the stability and viability of the banking system of the Republic of Moldova.

The main areas on which the banking supervision process was focused in 2023, according to the set priorities, were: the identification and adequate management of credit risk and limitation of the indebtedness of the population, the maintenance of an adequate level of liquid assets, the applicability of internal stress tests and their degree of correspondence with the macroeconomic conditions, the analysis, assessment and resolution of vulnerabilities related to the payment systems and payment services, the prevention and combating money laundering and terrorist financing, the identification and effective management of the risk associated with the information and communication technologies.

In 2023, the NBM continued its supervision of banks based on the SREP supervision and assessment process. Thus, the results of the SREP for 2020 and 2021 were approved for all 11 banks.

At the same time, during 2023, the SREP supervision and assessment process for the year 2022 was carried out and its results are to be approved in 2024.

Ex officio controls

The National Bank conducts ex officio supervision on the basis of the annual prudential supervision program. For the year 2023, the prudential supervision program included various routine actions (monitoring of key indicators, analysis of financial reports submitted by banks, analysis of external audit reports, monitoring of remedial plans following on-site inspections), as well as actions in view of the preparation of the SREP report (business model assessment, analysis of governance and internal control framework, capital and liquidity risk assessment, analysis of ICAAP reports, etc.).

In 2023 an ex officio thematic control was carried out at a bank regarding the remuneration practice of employees. As a result, the Decision of the Executive Board of the NBM related to the thematic control was approved and sanctions in the form of fines were imposed on the Chairman of the Board and 3 members of the Board of the bank.

The National Bank will continue to act in accordance with the legislation of the Republic of Moldova and international best practices, applying all the instruments assigned by law and statute, with a view to increasing the level of transparency of the ownership structure and ensuring prudent and sound management of licensed banks.

On-site inspections

During the year 2023, 6 planned thematic inspections of licensed banks were carried out.

Also, Decisions of the Executive Board of the NBM related to the thematic inspections on the activity at 5 licensed banks were approved.

As a result, warnings were applied to 3 banks, as well as warnings to 6 members of the Bank's Board and 2 members of the Bank's Executive Body.

In general, the violations and deficiencies identified in the thematic inspections relate to the bank's business management framework, including issues related to the internal governance, ensuring the independence and organization of the activity of internal control functions, deficiencies in credit risk management, violations of minimum requirements for banks' information communication systems, including with regard to ICT risk management, access control, vulnerability and incident management, business continuity assurance, violations related to the payment systems area, including in relation to the proper monitoring and evaluation of the day-to-day supervision of the bank's activity/ operation, outsourcing risk management (assessment of the financial performance of the outsourced service/ activity provider, as well as the efficiency of the organizational structure/ ownership structure of the provider), failure to comply with the measures prescribed following the previous inspection.

Early intervention and shareholder transparency actions

As of December 31, 2023, no bank was supervised under the early intervention regime. In January 2023, the Executive Board of the National Bank of Moldova decided, by unanimous vote, to lift the early intervention regime at B.C. "ENERGBANK" S.A. previously applied, as a result of the finding on January 11, 2019 of the concerted activity of a group of shareholders with a qualified holding in the amount of 52.55% in the bank's capital, without the prior written permission of the NBM, the effects of the law on the suspension of the exercise of certain rights of the shareholders becoming effective. The decision was taken with the restoration of the functionality of the Bank's Board and Management Committee, ensuring the quorum necessary to hold meetings and take decisions in accordance with the normative and internal acts of B.C. "ENERGBANK" S.A.

Banks in liquidation

As of December 31, 2023, there were 4 banks in the process of forced liquidation.

With regard to the liquidation process of Banca de Economii S.A., BC "BANCA SOCIALĂ" S.A. and B.C. "UNIBANK" S.A., initiated in 2015, we mention that with the aim of recovering the funds of these banks, during 2023, the liquidators reported that they cooperated with the criminal prosecution bodies, undertook organizational measures on the sale of assets owned and possessed by the banks and continued to work with the debtors of the banks.

The bank's liquidator has full and exclusive powers to direct, manage and control the bank and to take all measures to liquidate the bank efficiently and to obtain the maximum amount from the sale of assets.

As a result, at the end of 2023, 41 actions were underway in the courts to recover funds previously granted by the banks, in a total amount of MDL 3,820.1 million. At the same time, under the management of the criminal prosecution bodies there were 63 criminal cases filed on the basis of the liquidators' referrals.

As a result of the actions taken by the liquidators during the process of liquidation of the three banks, funds totaling MDL 2,938.8 million were collected, including MDL 117.2 million in 2023 (Banca de Economii S.A. – MDL 78.7 million, BC "BANCA SOCIALĂ" S.A. – MDL 36.8 million and B.C. "UNIBANK" S.A. – MDL 1.7 million).

The funds obtained in the process of the liquidation of banks were used to cover the expenses related to the liquidation process, as well as to honor the claims related to the emergency loans granted to Banca de Economii S.A., BC "BANCA SOCIALĂ" S.A. and B.C. "UNIBANK" S.A., until the appointment of the liquidators of the respective banks. Thus, up to December 31, 2023, funds in the amount of MDL 2,832.0 million were repaid, including in 2023 – MDL 102.5 million (Banca de Economii S.A. – MDL 69.0 million, BC "BANCA SOCIALĂ" S.A. – MDL 33.0 million and B.C. "UNIBANK" S.A. – MDL 0.5 million).

Resolution funding mechanisms

In 2020 the bank resolution fund became operational. It was set up to cover the needs related to the effective application of resolution tools in accordance with the provisions of Law No. 232/2016 on the recovery and resolution of banks.

The Banking Resolution Fund consists of:

- annual contributions to reach the target level set by law;
- extraordinary contributions, if the annual contributions are insufficient in the opinion of the resolution authority;
- loans and other forms of support.

The resources of the Banking Resolution Fund are administered by the Deposit Guarantee Fund in the Banking System, which, as the administrator of the Banking Resolution Fund, is obliged to invest the available financial resources of the Fund in low-risk assets. The use of the resources of the Banking Resolution Fund is decided by the NBM, as resolution authority, for the purposes described in Law No. 232/2016, while the calculation and payment of contributions by banks is carried out in accordance with the Regulation on the manner of calculation and payment of contributions to the Banking Resolution Fund, approved by the DEB of the NBM No. 74 of 20.03.2020 (in force from 30.04.2020).

According to the law, the financial resources of the Banking Resolution Fund are to reach an amount at least equal to 3.0% of the amount of guaranteed deposits of all banks licensed on the territory of the Republic of Moldova. At the time of calculation of the last annual contributions for 2024, this amount constituted approximately MDL 573.4 million. As of December 31, 2023, the banks have fully paid the annual contributions calculated by the NBM for the years 2020-2023. Thus, at the end of 2023, the resources of the resolution fund amounted to MDL 524.7 million. During 2024, banks are to pay contributions to the resolution fund in the amount of MDL 211.5 million.

The establishment of the resolution fund contributes to the consolidation of the banking sector and its credibility, in support of depositors' interests.

Banking sector risk assessment

Macro-prudential supervision

During 2023, the National Bank of Moldova continued to ensure the macro-prudential supervision of the financial system in order to maintain financial stability, taking into account the developments in the domestic financial sector, the domestic and external macroeconomic environment, as well as the uncertainties generated by the regional geopolitical risks.

With a view to identifying vulnerabilities in the banking system and preventing the excessive build-up of systemic risk, the National Bank of Moldova continued to assess banks' resilience to adverse scenarios and potential risks through stress tests and sensitivity studies in the banking sector. These macro-prudential analytical tools have contributed to assessing the ability of Moldovan banks to cope with the potential shocks generated by the uncertainty of macroeconomic and financial developments.

The stress tests used by the National Bank of Moldova focus on scenarios of credit risk, liquidity risk, interest rate risk, foreign exchange rate risk, contagion risk, and combinations thereof. The stress tests are performed on the basis of information reported by banks and estimate the impact of simulated shocks at the banking sector and individual bank level.

The results of the stress tests on credit risk at the banking sector level do not indicate significant systemic vulnerabilities. In addition, the simulation of shocks at the level of individual banks

indicates a sufficient level of banks' own funds, and most of the simulated shocks would not lead to breaches of the minimum prudential levels set for banks' capital.

In 2023, the results of the stress tests confirmed the high level of liquidity of the banking sector, the banks being able to withstand scenarios simulating deposit withdrawals at historical maximum rates, and no liquidity shortages or breaches of prudential requirements for the applied stress scenarios were recorded.

Moreover, in order to assess the potential risks that could affect the stability of the sector and of each bank, the National Bank conducts the study on the identification of banking sector vulnerabilities. During 2023, the results of the study indicated a reduction in the degree of vulnerability of the banking sector compared to the previous year. At the individual level, the majority of banks continued the process of strengthening their resilience degree, while the overall vulnerability indices remained below the alert threshold.

In order to assess the opinion of banks' risk managers on the major risks to which the financial system is exposed, the National Bank of Moldova conducts the Systemic Risk Survey every six months. According to the respondents' opinion, both traditional key risks (macroeconomic, sovereign) and specific risks (geopolitical) persist in the financial system. At the same time, at the end of 2023, banks estimated the probability of the occurrence of an event with a high impact on the financial system in the next 12 months at a medium to high level. Medium-term expectations (1-3 years) for the occurrence of an adverse event are estimated at a high to very high level.

In order to determine the financing conditions and the risk profile of the sectors financed by the banks of the Republic of Moldova, the NBM conducts the Bank Lending Survey on a quarterly basis. Starting with the first quarter and throughout 2023, the results of the survey indicated the resumption of the trend of easing lending standards for both legal entities and individuals. Banks' short-term expectations point to a slight easing of lending standards for legal entities and an easing of lending standards for individuals.

Macro-prudential policy tools

With a view to increasing the resilience of banks to possible adverse developments, within the strategic objective of strengthening the financial stability function and macro-prudential supervision, the National Bank of Moldova, as the supervisory authority, applies the following set of macro-prudential supervision tools for banks in the Republic of Moldova.

At the ordinary meeting of the National Financial Stability Committee, in extended composition, held on September 15, 2023, it was approved the Strategy on macro-prudential policy, which describes the national regulatory framework in the field of financial stability, sets out the objectives of macro-prudential policy, the intervention mechanism, the toolkit, as well as the role of national authorities involved in the decision-making process. The strategy has been developed and approved in line with the provisions of Law No. 209/2018 on the National Financial Stability

Committee, as well as on the basis of the European Systemic Risk Board recommendation (ESRB/2011/3 and ESRB/2013/1) on the macro-prudential mandate of national authorities and on the intermediate objectives and macro-prudential policy tools.

Thus, the Executive Board of the National Bank of Moldova set the capital buffer rates applied to the banks of the Republic of Moldova as at the end of 2023, as follows:

- The capital conservation buffer rate, applied to all banks, was maintained at the level of 2.5% of the total amount of banks' risk exposure;
- The countercyclical buffer rate for exposures located in the Republic of Moldova has been maintained at the level of 0% of the amount of banks' risk exposure;
- The systemic risk buffer rate⁴⁷ for exposures located in the Republic of Moldova was maintained at the level of 1.0% of the amount of banks' risk exposure;
- Capital buffer ratios for banks, which have been identified as systemically important institutions (O-SIIs), ranged between 0.5 and 1.5% of the total amount of banks' risk exposure.

As a result, at the end of 2023, the total capital buffer requirement applied to banks in the Republic of Moldova varied between 3.5% and 5.0%, depending on the systemic importance of the bank.

During 2023, macro-prudential tools aimed at limiting the indebtedness of individuals, such as loan-to-collateral ratio, debt service-to-income ratio, and maximum credit maturity, continued to be applied. The requirements on how to calculate these indicators were introduced by Regulation No. 101/2022 on responsible consumer lending by banks in order to ensure responsible lending, where banks assess the creditworthiness of the consumer when granting loans.

Thus, the loan-to-collateral ratio applies to loans granted to consumers for real estate investment and may not exceed 80% of the value of the pledged real estate, and the debt service-to-income ratio applies to loans granted to consumers and may not exceed 40% of the consumer's confirmed income. At the same time, the maximum maturity of the loan granted to the consumer has also been limited – 5 years for consumer loans and 30 years for real estate investment loans. It should be noted that Regulation No. 101/2022 provides for certain exceptions or stricter requirements for some specific cases.

⁴⁷The increased rate by 2.0 percentage points of the systemic risk buffer for banks' exposures to credit risk related to resident individuals, except for individuals engaged in entrepreneurial activity, introduced in May 2022, was revoked in October 2023.

4.2 Supervision of non-bank payment service providers and inspection of foreign exchange units

Supervision of non-bank payment service providers

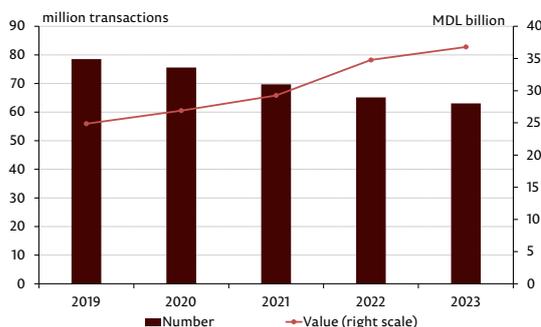
In accordance with Article 93 paragraph (2) letter b) of Law No. 114/2012 on payment services and electronic money, the National Bank supervises the activity of payment institutions, electronic money institutions, postal service providers as payment service providers, banks as payment service providers and electronic money issuers.

In 2023, thematic inspections were carried out at 5 non-bank payment service providers, during which their compliance with the requirements of the legislation related to payment systems and payment service provision was checked. As a result, the following violations were found:

- lack of full protection of the funds received from the payment service users;
- failure/ delay in informing the NBM about changes in the information on the administrators of some paying agents/ branches;
- the framework contracts concluded with the payment service users contain provisions contrary to the legislation in force;
- failure to inform payment service users about the charges they have to pay or about changes to these charges;
- lack of quarterly assessment of registered claims;
- failure to inform the NBM about the cessation/ suspension of the activity in money remittance systems.

As a result of the inspections carried out, proposals and recommendations were made on the actions to be taken in order to eliminate the infringements and shortcomings detected and, where appropriate, remedial measures were ordered and sanctions applied. Thus, in 2023 sanctions in the form of warnings were applied to 3 providers and fines to 2 non-bank payment service providers.

Chart 4.19: Number and value of payments made via non-bank payment service providers, 2019-2023



Source: NBM

The NBM has also carried out ex officio monitoring of the activity conducted by the payment service providers, including through continuous monitoring of their activity on the basis of quarterly reports submitted to the NBM, as well as by examining the referrals (complaints) related to the activity of payment service providers, examining the information published on their websites, examining changes in the ownership structure, etc.

During 2023, 63 million payment transactions were carried out through non-bank payment service providers, down by 3.3% compared to the number of transactions carried out in 2022, totaling MDL 36.8 billion, 5.8% more than the value of transactions carried out in 2022 (Chart 4.19).

Inspection of foreign exchange units

According to the provisions of Article 62 of the Law No. 62/2008 on foreign exchange regulation, the NBM shall control the compliance of foreign exchange units with the provisions of the foreign exchange legislation.

During 2023, 51 inspections were carried out at foreign exchange units, as a result, the following violations were found:

- failure to maintain/ keep the circulating funds, consisting of money contributions to the share capital at the level established by the legislation;
- late reporting to the NBM of the monthly report on transactions carried out;
- reporting with errors/ non-reporting/ changing information on the daily buying and selling rates of the main foreign currencies;
- lack of internal procedures regulating the way in which the buying and selling rates of foreign currencies are changed;
- refusing the access of the control team to the premises of the foreign exchange unit, in order to perform the inspection;
- use of not up-to-date/ non-compliant forms;
- lack of video recordings related to the activity of currency exchange in cash with individuals.

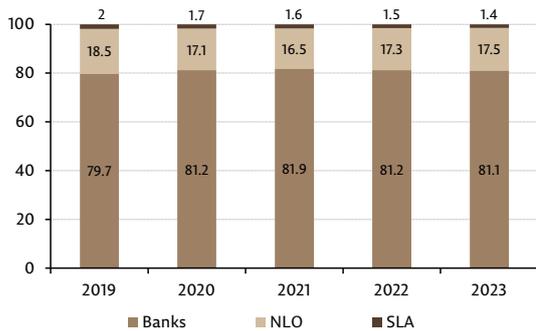
In the context of the violations found, the following sanctions were applied:

- 1 sanction of license withdrawal;
- 7 sanctions of suspension of activity;
- 14 fine enforcement sanctions;
- 10 written warnings.

4.3 Supervision of the non-bank lending sector

The National Bank took over the supervision of the non-bank lending sector from July 2023.

Chart 4.20: Share of loans and credits granted by banks, NLOs and SLAs (%)



Source: NBM

The non-bank lending activity is carried out through non-bank lending organizations (NLO) and Savings and Loan Associations (SLA).

By value of loans granted, the non-bank lending sector maintains a share of about 19% of total loans granted in the banking and non-banking financial sector, with a slight increase over the period 2022-2023.

Over the period 2019-2023, the non-bank lending sector strengthened its position within the financial sector, with a 38.2% increase in assets, from MDL 11,804.5 million in 2019 to MDL 16,193.0 million in 2023, against the background of a reduction in the number of non-bank financial entities with the right to operate.

For the year 2023 there was a 4.2% increase in assets compared to the end of 2022.

Savings and Loan Associations

Starting from July 1, 2023, pursuant to Law No. 178/2020 on the amendment of some normative acts, the NBM has taken over the regulatory and supervisory powers of the Savings and Loan Associations from the National Commission for Financial Markets. Thus, in accordance with Article 46 paragraph (1) of the Law on Savings and Loan Associations No. 139/2007, the National Bank is the only state body that regulates and supervises the activity of the associations.

The Savings and Loan Associations sector remains relatively small (1.5% the share of loans granted by Savings and Loan Associations in the total volume of loans granted within the financial sector) and also remains the most fragmented compared to the other components of the financial system. In 2023, the Savings and Loan Associations sector continued to consolidate, a smaller number of associations holding a larger volume of assets.

As of December 31, 2023, 216 associations hold licenses to carry out the activity of SLAs, the activity of 2 SLAs is under special administration. Over the last 5 years, the number of associations has decreased by 21 units.

During 2023, the number of borrowers (339,521) and depositors (6,945) did not change significantly and remained at the level of 2022.

As of December 31, 2023, the total assets volume of the SLAs amounted to MDL 1,303.1 million, up by about 5% compared to the end of 2022. The maximum weight in the structure of SLAs's assets is accounted for by the loans granted, which constituted 88.7% of total assets.

The market share of the 10 largest SLAs is 57.8%, the maximum market share held by 1 SLA is 23.2%.

The total amount of loans granted to members amounted to MDL 1,168.7 million, according to the statement as of December 31, 2023, up by 4.5% compared to the previous year.

Credit risk

The quality of loans granted by the SLAs has slightly worsened compared to the level of 2019-2021.

The non-performing loans ratio for 2023 increased insignificantly compared to 2022 and by 1.7 percentage points compared to 2021.

Funding risk

The financing sources of the SLAs remain own funds for category A SLAs and savings deposits for category B SLAs. Category A SLAs are financed 19.7% on the basis of the loans received, and the share of equity capital represents 77.6% of total assets. At the same time, for category B SLAs, 58.9% of the sources of financing are savings deposits, 5.2% are on the basis of loans received, and the share of equity capital is 33.3%.

Short-term savings deposits account for over half of the deposits attracted, and as of December 31, 2023, deposits up to 1 year accounted for 64.0% of the total savings deposits attracted, compared to 45.6% of the loans granted up to 1 year. The ratio of deposits attracted to loans granted by category B SLAs is 70% at the end of the reporting period.

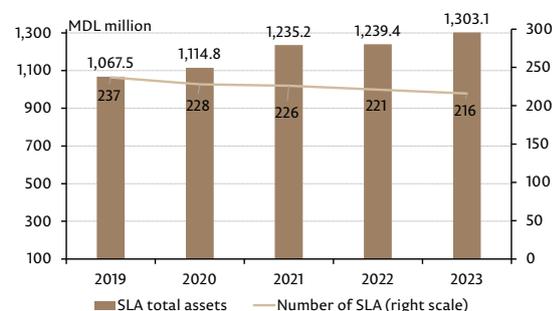
The supervisory activity of Savings and Loan Associations

During the second semester of 2023, 4 unannounced inspections were carried out at Savings and Loan Associations.

The infringements and shortcomings found during the controls carried out relate mainly to:

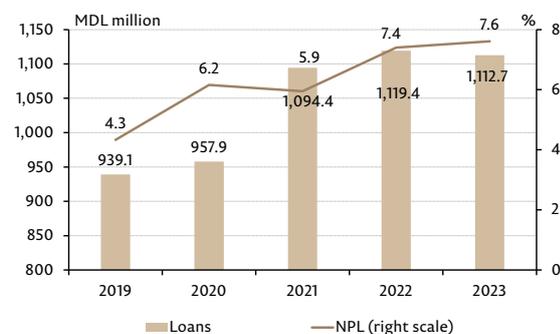
- non-compliance with the restrictions on holding the minimum amount of the institutional reserve;
- acceptance of savings deposits, granting loans, exceeding the maximum weight of loans with overdue more than 30 days, classifying and establishing provisions for losses on loans in violation of the Financial Prudence Rules of Savings and Loan Associations;

Chart 4.21: Development of assets and number of SLAs



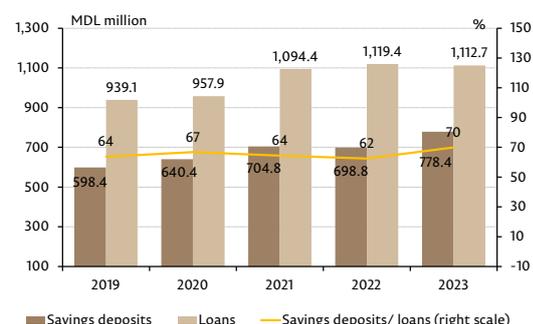
Source: NBM

Chart 4.22: The dynamics of SLAs's non-performing loans



Source: NBM

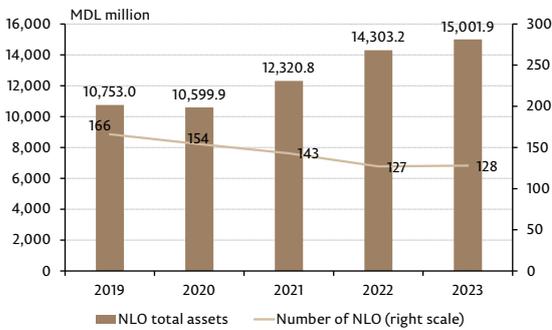
Chart 4.23: Ratio between the deposits attracted and loans granted by the SLAs



Source: NBM

- holding the positions of administrators contrary to the restrictions laid down in the Regulation on the requirements for the administrators of Savings and Loan Associations;
- non-compliance with the limit of 0.04% per day of the total amount of the loan granted, set for the "other payments" component;
- non-compliance with licensing conditions;
- failure to comply with the association's obligation to apply to the court for repayment of the loan and the interest calculated thereon within 30 calendar days from the date the loan and the interest thereon are more than 180 days past due.

Chart 4.24: Development of assets and number of NLOs



Source: NBM

Non-bank lending organizations

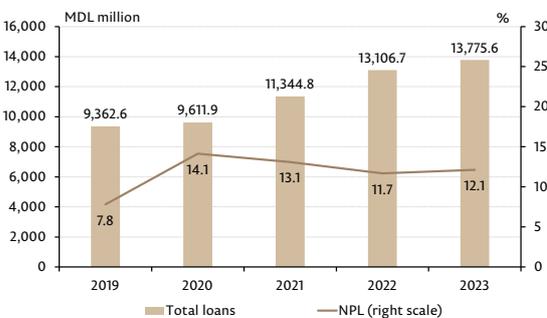
Similar to the field of Savings and Loan Associations, the regulatory and supervisory powers have been taken over under the same law starting from July 1, 2023. In accordance with Article 23 paragraph (1) of Law No. 1/2018 on non-bank lending organizations, the National Bank is the state body that regulates and supervises the activity of non-bank lending organizations.

The high degree of concentration of the NLOs market continues to persist, with the market shares of the 10 largest NLOs remaining practically unchanged compared to the previous year, increasing from 73.6% to 75.6%.

At the end of 2023, there were 148 NLOs active in the non-bank lending market, of which 20 organizations with suspended activity.

The NLOs sector reported a net profit of MDL 1,141.27 million for 2023, up by 18.1% compared to 2022. The increase in profits in 2023 was largely driven by higher interest income (+5.1%), lower risk costs (-9.8%) and other operating and administrative expenses (-9.0%). During 2023, the return on assets (ROA) and return on equity (ROE) increased. For the 2023 period, the ROA reached 7.6% compared to 5.7% for 2022, ROE 21.6% compared to 16.4%.

Chart 4.25: Dynamics of NLOs's non-performing loans



Source: NBM

Credit risk

The credit risk is a key component in the NLOs activity. During 2023, there was a faster accumulation of non-performing loans relative to the total loan portfolio, which caused the non-performing loan ratio to slightly increase to 12.1%.

The coverage of non-performing loans by provisions improved during the year, reaching 64.7% at the end of the period under review.

Funding risk

The structure of financing sources of the NLOs did not change significantly during the year under review, being mainly composed of bank credits and loans from non-residents. The NLOs are financed 35.2% from equity capital and 59.7% from credits and loans, and 5.1% from funds attracted from other sources.

At the end of 2023, the share of financing attracted from non-residents amounted to 55.7% of total credits and loans attracted or MDL 4,976.6 million, of which in foreign currency 87.9% or MDL 4,376.8 million.

Foreign exchange risk

At the end of 2023, loans granted by the NLOs pegged to the foreign exchange rates amounted to MDL 5,016.9 million, or 36.4% of total loans granted, recording an increase of 28.5% compared to the end of the previous year.

In financing sources, foreign currency loans (62.2%) constitute the dominant share. The amount of foreign currency loans constitutes MDL 5,566.0 million, up by 4.2% compared to 2022.

The supervisory activity of non-bank lending organizations

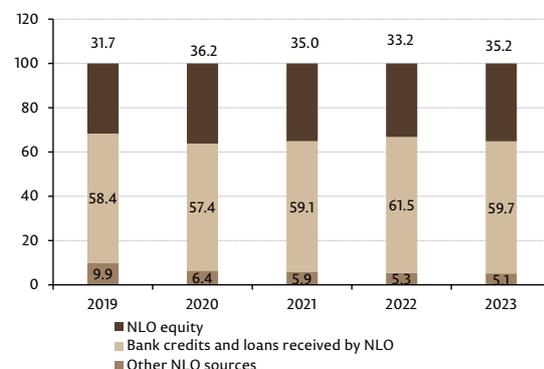
During the second semester of 2023, 2 unannounced inspections were carried out at non-bank lending organizations (one ex officio and one on-site).

The infringements and shortcomings found during the controls carried out relate in particular to:

- failure to comply with the requirements on the development and approval of internal regulations on service provision and business management framework;
- failure to comply with the requirements for publishing information on the website;
- failure to comply with the prescribed minimum share capital requirements;
- failure to comply with the requirements regarding the publication and submission of the audit report to the supervisory authority;
- failure to submit to the supervisory authority documents confirming the compliance of the executive body with the legal provisions;
- failure to comply with the rules of responsible lending by admitting in the lending process the exceeding of the maximum permissible level of consumer indebtedness.

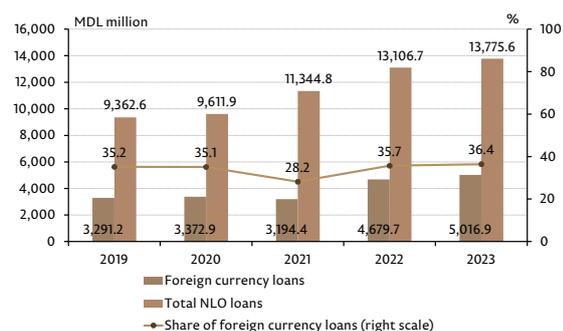
The NBM has also addressed the risk-based supervision of non-bank lending organizations, which involves the ex officio monitoring of the activity of non-bank lending organizations, including through the continuous monitoring of their activity, the analysis of quarterly reports submitted to the NBM and the examination of referrals (complaints) related to their activity.

Chart 4.26: The financing sources of the NLOs



Source: NBM

Chart 4.27: Loans granted or pegged at foreign exchange rates



Source: NBM

4.4 Insurance sector supervision

Basic indicators characterizing the insurance sector

In accordance with the Law No. 178/2020 on the amendment of some normative acts, as of July 1, 2023, the National Bank of Moldova shall exercise the duties of licensing, authorization, regulation and supervision of insurance or reinsurance companies, insurance and/ or reinsurance intermediaries and the National Bureau of Motor Insurers of the Republic of Moldova.

At the same time, in 2023 there were made important amendments to the normative framework regulating the insurance or reinsurance activity: on January 1, 2023 the Law No. 92/2022 on the insurance or reinsurance activity entered into force, and on April 1, 2023 the Law No. 106/2022 on compulsory motor third party liability insurance for damages caused by vehicles entered into force. Law No. 92/2022 on insurance or reinsurance activity partially transposes Directive 2009/138/EC (Solvency II), introducing new requirements on own funds of insurance or reinsurance companies, minimum capital requirement, management bodies of insurance companies and persons holding key positions, corporate governance, stricter requirements on the spread of assets allowed to cover technical reserves and minimum capital requirement, etc.

As of December 31, 2023, there were 9 insurance companies operating in the Republic of Moldova (of which 8 companies practiced only general insurance activity and one company practiced composite activity), 50 insurance or reinsurance brokers, 49 insurance agents and 35 bancassurance agents.

The financial situation of the insurance sector at the end of 2023 was satisfactory. According to the reports submitted by the insurance companies, there were no cases of non-compliance with prudential indicators. All insurance companies have registered solvency ratios and liquidity ratios above the minimum legal requirements. At the end of 2023, insurance companies were holding total assets amounting to MDL 4,979.0 million, up by 17.5% from the end of the previous year, and net assets amounted to MDL 1,610.0 million, up by 25.5% compared to December 31, 2022. As of December 31, 2023, the insurers formed gross technical reserves amounting to MDL 2,965.5 million, 18.7% more than at the end of the previous year.

During 2023, the insurance companies underwrote gross premiums amounting to MDL 2,935.9 million, 18.8% more than in the previous year. At the same time, gross claims paid out were reported in the amount of MDL 1,006.6 million, 11.1% more than in 2022.

The net profit for the year ended on December 31, 2023 amounted to MDL 313.9 million, increasing by MDL 211.2 million compared to the previous year, due to the increase in net investment income by MDL 140.5 million and in the technical result from the insurance activity by MDL 41.6 million.

For the year 2023, the return on equity registered by the insurance companies was 19.5%, 11.5 percentage points higher than the previous year. The return on assets was 6.3%, up by 3.88 percentage points compared to 2022.

Assets, solvency and liquidity of insurance companies

Total assets of insurance companies amounted to MDL 4,979.0 million at the end of 2023, up by MDL 740.8 million or 17.5% compared to the end of the previous year, while the value of total debts increased by MDL 463.7 million (16.0%). Thus, the excess of assets over liabilities (net assets) increased by MDL 326.9 million or 25.5% during the reporting period, reaching MDL 1,610.0 million.

All licensed insurance companies record solvency ratios above 100%. The average solvency ratio for the general insurance activity at the end of 2023 was up by 12.6 percentage points compared to the end of the previous year and constituted 147.9%, with insurance companies reporting solvency ratios ranging from 126.8% to 183.6%. For the life insurance activity a solvency ratio of 625.1% was recorded, a significant increase by 36.7 percentage points compared to the situation as of December 31, 2022.

As of December 31, 2023, all insurance companies have recorded a liquidity ratio⁴⁸ greater than 1 for each insurance category, ranging for the general insurance activity between 2.4 and 6.6. On average in the insurance sector, the liquidity ratio for the general insurance activity was up by 0.41 points compared to the end of the previous year (from 3.25 to 3.66), while for life insurance a slight decrease of 0.48 points was reported (from 24.34 to 23.85).

Technical reserves, asset coverage of technical reserves

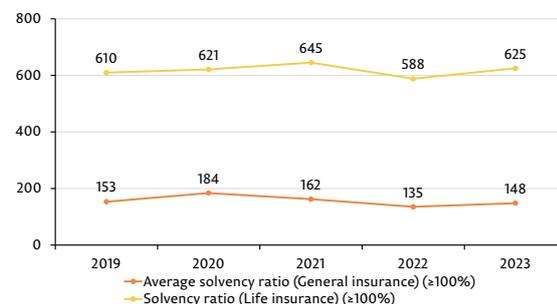
At the end of 2023, insurance companies had gross technical reserves totaling MDL 2,965.5 million, up by 18.7% compared to the situation as of December 31, 2022, broken down by the two insurance categories as follows:

- gross technical reserves constituted for general insurance registered a volume of MDL 2,129.1 million, representing 71.8% of the total technical reserves;
- for life insurance, technical reserves were formed in the amount of MDL 836.4 million, a level corresponding to a share of 28.2% of the total technical reserves.

The technical reserves for the general insurance activity recorded an increase of MDL 407.6 million or 23.7% compared to the end of the previous year, mainly resulting from the increase by MDL 226 million or 21.8% of the Unearned Premium Reserve (UPR) and by MDL 109.3 million or 33.2% of the Reserve of Claims Reported But Not Settled (RCRBNS).

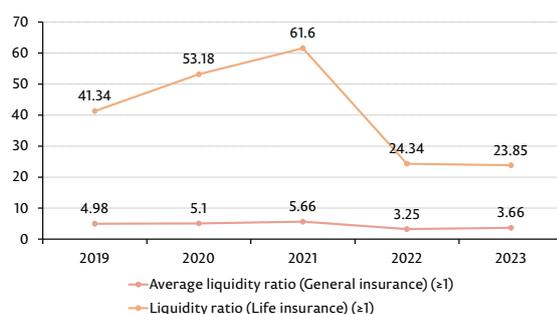
For the general insurance activity, the largest share in the gross technical reserves belongs to the Unearned Premium Reserve (UPR) – 59.36% and to the Reserve of Claims Reported But Not

Chart 4.28: Development of the average solvency ratio in the insurance sector during the period 2019-2023 (%)



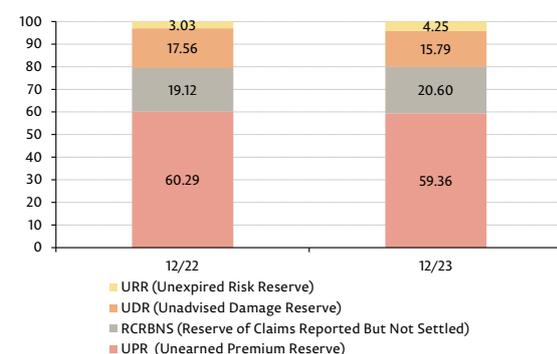
Source: NBM

Chart 4.29: Development of the average liquidity ratio in the insurance sector during the period 2019-2023



Source: NBM

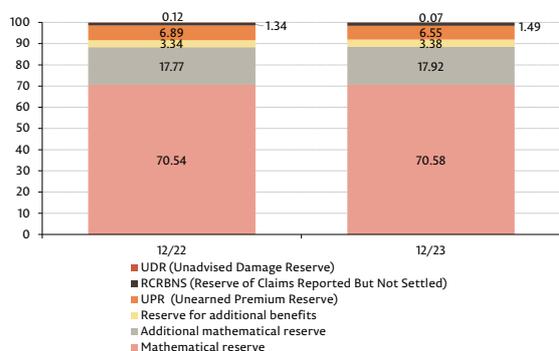
Chart 4.30: Structure of technical reserves constituted for the general insurance activity (%)



Source: NBM

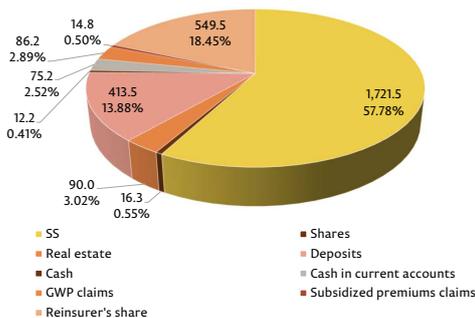
⁴⁸The liquidity ratio is determined as the ratio of liquid assets to the insurers' short-term obligations towards policyholders. According to the legal requirements, its value must be over the unit.

Chart 4.31: Structure of technical reserves constituted for the life insurance activity (%)



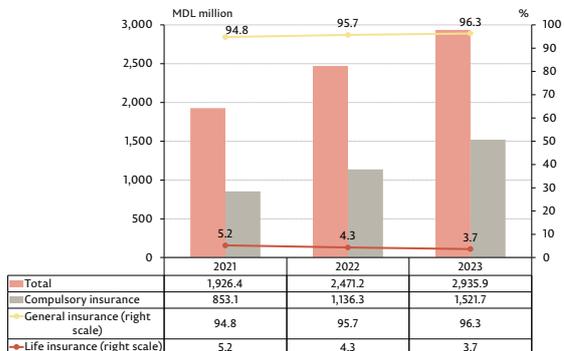
Source: NBM

Chart 4.32: Structure of the assets covering the technical reserves as of December 31, 2023 (MDL million, %)



Source: NBM

Chart 4.33: Development of gross premiums underwritten by the insurance companies during the period 2021-2023



Source: NBM

Settled (RCRBNS) – 20.6%, with no significant changes compared to the previous year.

In the case of life insurance, gross technical reserves were formed in the amount of MDL 836.4 million, MDL 60.6 million or 7.8% more than at the end of the previous year. The largest part of the reserves (88.5%) were mathematical reserves and additional mathematical reserves, with no change compared to the end of the previous year.

As of December 31, 2023, the insurance companies held sufficient assets to cover the technical reserves, taking into account the restrictions set in the legislation. The assets used by the companies to cover technical reserves were distributed as follows: state securities – MDL 1,721.5 million or 57.8% of assets covering technical reserves, reinsurer's share – MDL 549.5 million (18.5%), deposits – MDL 413.5 million (13.9%), real estate – MDL 90 million (3%), claims related to gross underwritten premiums – MDL 86.2 million (2.9%), cash on current accounts – MDL 75.2 million (2.5%), shares traded on a regulated market – MDL 16.3 million (0.6%), cash in the cash desk – MDL 12.2 million (0.4%), claims related to subsidized premiums – MDL 14.8 million (0.5%).

Gross underwritten premiums, claims and damage rates

During 2023, the insurance companies underwrote gross premiums amounting to MDL 2,935.9 million, by 18.8% more than the gross premiums underwritten in the previous year.

As in the previous years, in 2023 the insurers' market in the Republic of Moldova was strongly oriented towards general insurance, which accounted for 96.34% of the total gross premiums underwritten by the insurance companies (MDL 2,828.4 million), while the value of gross premiums underwritten for life insurance amounted to MDL 107.6 million, equivalent to 3.66% of the total volume of gross premiums underwritten.

As of December 31, 2023, the number of policies/ contracts in force in the Republic of Moldova amounted to 1,283.2 thousand units, an increase of 55.7 thousand units or 4.5% compared to the number of contracts in force at the end of the previous year. Of the total number of policies/ contracts in force, 97.9% related to general insurance and 2.1% to life insurance.

Gross underwritten premiums for life insurance registered an increase of MDL 0.7 million or 0.6% compared to 2022.

The total volume of gross underwritten premiums during 2023 for the general insurance activity increased by MDL 464.1 million or 19.6% compared to the previous year, up to MDL 2,828.4 million. The structure of gross underwritten premiums by classes of general insurance is shown in the chart 4.34.

Thus, out of the total gross underwritten premiums for general insurance, the largest shares were held by the classes *Compulsory motor third party liability insurance* (which includes domestic MTPL, "Green Card", TIR Carnet, CMR Carnet) and *Insurance of land vehicles, other than railway vehicles (CASCO)*, accounting for over 74% of the market. The other insurance

classes recorded gross underwritten premiums of less than MDL 200 million or 7.1% each.

In 2023, the market continued to be highly dependent on compulsory motor insurance (domestic MTPL and "Green Card"), which accounted for 53.8% of gross underwritten premiums for general classes of insurance, with an increasing trend over the last three years. Gross underwritten premiums for domestic MTPL insurance increased by 46.6% compared to the previous year, up to MDL 1,066.9 million, while gross underwritten premiums for "Green Card" increased by 11.3%, up to MDL 454.8 million. It should be noted that the total volume of gross underwritten premiums for domestic MTPL increased both due to the increase in reference premiums and the increase in the number of policies issued by 50.4 thousand units (7%), while for "Green Card" the increase was generated exclusively by the increase in the number of policies issued by 62.8 thousand units (18.4%), with reference premiums remaining unchanged.

The average premium for domestic MTPL insurance in 2023 was MDL 1,378/unit, up by MDL 373/unit or 37.11% compared to 2022. For "Green Card" insurance, the average premium was MDL 1,124/unit, by MDL 71/unit or 5.9% less than in 2022.

With reference to other classes of insurance, there were significant increases in gross underwritten premiums in 2023 compared to the previous year for the class *Insurance of land vehicles, other than railway vehicles (CASCO)* – by MDL 83 million or 17.6%, for the class *Accident insurance* – by MDL 26.2 million or 51.5% and for the class *Other property insurance (agricultural crops insurance)* – by MDL 13.3 million or 17.1%.

The most significant decrease in the volume of underwritten premiums in 2023 compared to 2022 is recorded for the class *Aircraft liability insurance* – by MDL 49.5 million or 37.5%.

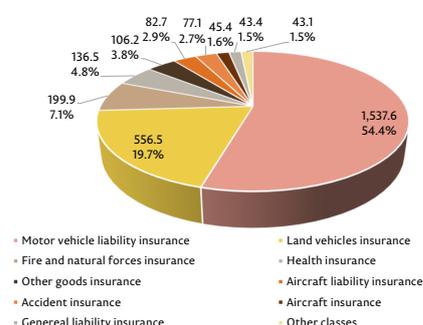
As regards general insurance, most premiums were underwritten by "ASTERRA GRUP" S.A., followed by "MOLDASIG" S.A. and "GENERAL ASIGURĂRI" S.A.

Starting from the value of the Herfindahl-Hirschman Index (HHI) of 1,301.5, calculated taking into account the volume of gross underwritten premiums by the insurance companies, as well as from the concentration ratios CR_3 of 49% and CR_5 of 72%, the general insurance market in the Republic of Moldova is characterized by a low to moderate level of concentration.

There is only one insurance company operating on the life insurance market, which simultaneously carries out activity in the general and life insurance categories – "GRAWE CARAT ASIGURĂRI" S.A.

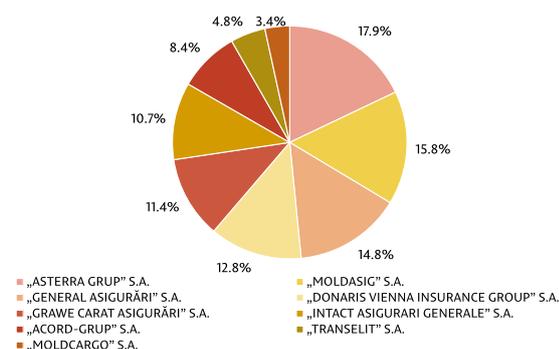
In view of the recent legislative amendments, insurers holding a license to conduct activity in the "general insurance" category or in the "life insurance" category are entitled, without having a reinsurance license, to conduct proportional reinsurance activity and non-proportional reinsurance activity only within the limits of the types/ classes of insurance for which they have obtained the license. During 2023, the gross underwritten premiums by a company for risks received in reinsurance from non-resident insurers amounted to MDL 0.67 million, divided by classes *Insurance of seagoing lake and river vessels, Marine, lake and river liability insurance* and *Financial loss insurance*.

Chart 4.34: The structure of gross underwritten premiums by the insurance companies during 2023, by classes of general insurance (MDL million, %)



Source: NBM

Chart 4.35: Structure of gross underwritten premiums during 2023, by insurance companies (%)



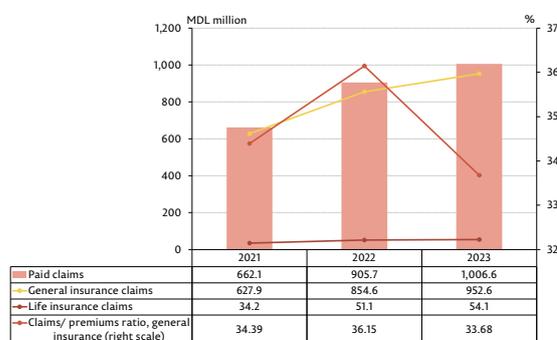
Source: NBM

Gross claims paid by the insurance companies

During 2023, the insurance companies reported gross claims paid, cumulatively for the 2 categories of insurance, amounting to MDL 1,006.6 million, MDL 101.1 million or 11.1% more than the claims paid during the previous year, of which:

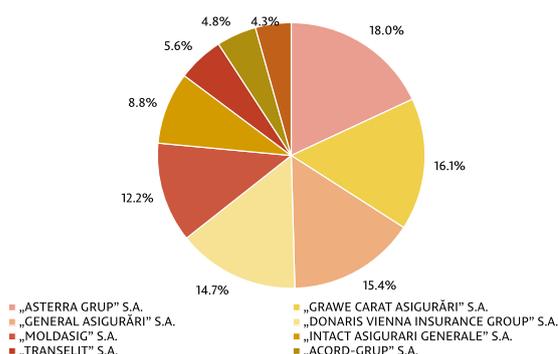
- MDL 952.6 million, or 94.63%, were claims related to general insurance contracts, registering an increase of MDL 98 million, or 11.5%, compared to the previous year.
- MDL 54.1 million or 5.37% were the amounts paid out for life insurance indemnities (including annuities and payments for matured contracts), registering an increase of MDL 3 million or 5.9% compared to 2022.

Chart 4.36: Development of claims paid by the insurance companies during the period 2021-2023



Source: NBM

Chart 4.37: Structure of the claims paid for general insurance classes during 2023, by insurance company (%)



Source: NBM

Insurance claims have been on an upward trend over the last three years for both insurance categories. In 2023, the ratio of claims to premiums (gross values) for the general insurance activity was 33.7%, decreasing by 2.5 percentage points compared to the previous year.

Of the total amount of claims, MDL 490.5 million or 48.7% were claims related to compulsory insurance (domestic MTPL, "Green Card"), up by MDL 93.4 million or 23.5% compared to the previous year. The claims paid out for domestic MTPL insurance amounted to MDL 361.7 million, up by MDL 61.6 million or 20.53% more than in 2022. At the same time, insurance companies paid claims for foreign MTPL insurance ("Green Card") in the amount of MDL 128.8 million, by MDL 31.8 million or 32.8% more than during the previous year.

The average damage for domestic MTPL insurance in 2023 was MDL 18,682/unit, up by MDL 2,020/unit or 12.2% more than in 2022. For "Green Card" insurance, the average damage was MDL 74,424/unit, up by MDL 5,074/unit or 7.3% more than in 2022.

In addition to compulsory insurance, the largest increases in claims compared to 2022 were reported for the classes *Insurance of land vehicles, other than railway vehicles (CASCO)* – by MDL 34.9 million or 13.2%, *Health insurance* – by MDL 21.9 million or 44.5%, and *Insurance of goods in transit* – by MDL 8.1 million up to MDL 11.3 million.

The largest decreases in insurance claims were registered for the class *Aircraft insurance* – by MDL 53.5 million or 98.5%, and for the class *Other property insurance* – by MDL 10 million or 18.2%.

With reference to the claims paid for general insurances, it can be noted that about half of them refer to three insurance companies – "ASTERRA GRUP" S.A., "GRAWE CARAT ASIGURĂRI" S.A. and "GENERAL ASIGURĂRI" S.A.

Subsidized insurance activity in agriculture

During 2023, four insurance companies carried out activity in the field of subsidized insurance of production risks in agriculture, having concluded 680 subsidized insurance contracts for production risks in agriculture with the insured amount of MDL 1.2 billion. The cumulative amount of gross underwritten premiums amounted to MDL 105.0 million, an increase of MDL 11.8 million compared to the amount recorded in 2022. Insurance claims amounted to MDL 44.4 million, recording a decrease by MDL 10.0 million compared to the previous year.

Transfer of risks in reinsurance

The total amount of premiums ceded in reinsurance amounted to MDL 678.1 million, an increase of MDL 59.3 million compared to 2022. At the same time, the degree of ceded premiums in reinsurance decreased by 1.94 percentage points compared to the level recorded in the previous year (23.1% compared to 25.04%).

At the same time, 16.07% of claims (MDL 161.8 million) were recovered from reinsurers in the reporting period, down by 5.07 percentage points compared to the previous year.

With regard to the reinsurance cession area by countries, according to the insurance companies' reports, the premiums ceded in reinsurance were mainly directed to reinsurers headquartered in the Cayman Islands – 29.71%, Barbados – 19.3%, France – 7.2%, Austria – 4.6%, the Czech Republic – 4.2%, the United Kingdom – 2.9 percent, Switzerland – 2.9%, to reinsurance pools with reinsurers in multiple countries – 11.9% and to a pool of reinsurers for the "Green Card" insurance (through the National Bureau of Motor Insurers) – 6.2% of the total premiums ceded in reinsurance.

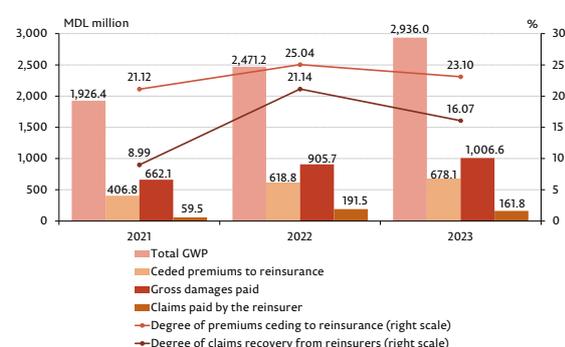
It should be noted that in accordance with the requirements laid down in the legislation in force, as from January 1, 2023, the transfer of risks in reinsurance may only be carried out to reinsurers with a credit rating of not less than BBB+ as assessed by the Standard & Poor's, Fitch-IBCA, AM BEST or Moody's rating agencies or to reinsurers subject to the EU Solvency II regime in an EU member state or an OECD member state and registering a solvency ratio of at least 120%.

Rate of damages and expenses

The net combined operating ratio (COR)⁴⁹, calculated on aggregate data for all classes of general insurance, recorded a value of 96.40% as of December 31, 2023, with no significant changes compared to the value recorded in the previous year. With regard to compulsory insurance, for domestic MTPL insurance the gross combined operating ratio was 95.0%, down by 3.3 percentage points compared to the end of the previous year, and for foreign MTPL ("Green Card") insurance the gross combined operating ratio was 87.3%, down by 7.4 percentage points compared to 2022.

⁴⁹ The combined operating ratio is the ratio of damages, costs, expenses and premiums collected.

Chart 4.38: Transfer of risks in reinsurance



Source: NBM

Revenues and profitability development

At the level of the entire insurance market, the net result of the activity in 2023 was positive, with the net profit recorded amounting to MDL 313.9 million, up by MDL 211.2 million or 205.7% more than in 2022. The increase in the net profit was due to the significant increase in the net investment income, which amounted to MDL 165.9 million as of December 31, 2023, MDL 140.5 million more than in 2022. The net investment income corresponds to 47.1% of the profit recorded in the sector before taxation.

The net technical result, an indicator that refers to the result obtained by companies from (basic) insurance activity, amounted to MDL 175.5 million, up by MDL 41.6 million or 31.0% compared to 2022. The net technical result corresponds to 49.8% of the profit recorded in the sector before taxation.

The return on equity (ROE) recorded by insurance companies in 2023 was 19.5%, 11.5 percentage points higher than in 2022. The return on assets (ROA) was 6.3%, 3.88 percentage points higher than in 2022.

Activity of the National Bureau of Motor Insurers of the Republic of Moldova (NBMI)

The management of the Fund for the Protection of Street Victims⁵⁰

Since the beginning of the year, the Fund for the Protection of Street Victims (hereinafter – FPSV) has recorded contributions in the amount of MDL 10.7 million (1% of the gross underwritten premiums for domestic MTPL insurance), 46.6% more than in the previous year, resulting from the increase in the same proportion of the gross underwritten premiums for domestic MTPL.

During the reporting period, 339 claims were settled out of the Fund, of which 4 cases related to unidentified perpetrators and 335 cases – to lack of insurance policy (83.0% were accidents caused by individuals and 17.0% – by legal entities). The amount of compensation paid, during 2023, amounted to MDL 9.5 million, of which more than 96.2% related to property damage. As of December 31, 2023, the Fund had 108 unsettled claims, and a reserve of MDL 6.8 million was created. The balance of FPSV at the end of the reporting period amounted to MDL 33.2 million, 22.5% more than at the beginning of the year, of which 91.7% is invested in state securities and the remaining 8.3% is held in the settlement account.

⁵⁰FPSV is a fund set up in order to protect the persons damaged as a result of accidents caused by vehicles whose owners and/or users have not concluded compulsory MTPL insurance contracts, by unidentified vehicles and/or drivers, by vehicles that are not registered or have not been subject to registration on the territory of the Republic of Moldova and/or by vehicles obtained illegally and not covered by MTPL insurance.

Management of the Compensation Fund

The Compensation Fund is established and managed in accordance with the General Regulation of the Council of Bureaux (CoB).

As of December 31, 2023, for the Compensation Fund, contributions in the amount of MDL 22.7 million (5% of the gross underwritten premiums for foreign MTPL insurance) were calculated, 11.3% more than in the same period of the previous year, due to the increase in the volume of gross underwritten premiums.

During the reporting period, 402 claims files were settled out of the Compensation Fund, of which two claims (0.5%) were for false "Green Card" policies, 80.6% were claims regularized in the Republic of Moldova (amounts due to the damaged persons in the Republic of Moldova, to compensate for losses caused by holders of "Green Card" insurance certificates issued by foreign insurers), and 18.9% related to the reimbursement to foreign counterparties of the amounts paid by them as insurance compensation for losses caused by holders of "Green Card" insurance certificates, members of the NBMI.

The amount of compensation paid amounted to MDL 21.6 million, of which 43.4% represented bodily injury and 56.6% – property damage. We should note that the amount of compensation paid out in the reporting period increased by 25.5% compared to the previous year, when compensation in the amount of MDL 17.3 million was paid out. As of December 31, 2023, the Compensation Fund has recorded 76 unsettled claims, for which a reserve in the amount of MDL 4.8 million has been formed.

As of December 31, 2023, the Compensation Fund recorded assets in the amount of MDL 134.3 million, 6.3% more than at the beginning of the year.

Activity of insurance intermediaries

As of December 31, 2023, the intermediation market consisted of 50 insurance and/or reinsurance brokers, 49 insurance agents and 35 bancassurance agents.

According to the reporting as of December 31, 2023, insurance intermediaries concluded 960.1 thousand insurance contracts (48.8% of the total number of contracts concluded on the market), with insurance premiums underwritten in the amount of MDL 1,701.7 million, up by MDL 297.1 million compared to the previous year. Intermediated premiums accounted for about 58.0% of the total gross underwritten premiums. The calculated commissions reached the level of MDL 614.0 million, increased by MDL 8.7 million, including from the intermediation of insurance contracts – MDL 597.4 million and from the activity of assistance and settlement of claims files – in the amount of MDL 16.6 million. The following distribution of premiums and commissions by categories of intermediaries was recorded:

The share of intermediated premiums by intermediaries is reflected in the adjacent graph.

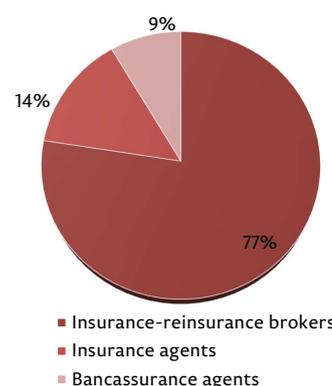
Thus, the largest share was held by insurance brokers – 77.4%, insurance agents – 14.0% and bancassurance agents – 8.5%.

50 brokers of insurance reinsurance	<ul style="list-style-type: none"> insurance premiums brokered amounted to MDL 1,318.1 million, representing 44.7% of total GWP;
	<ul style="list-style-type: none"> calculated commissions amounted to MDL 487.2 million, including intermediation – MDL 465.6 million, and assistance – MDL 16.6 million.

49 agents of insurance legal entities	<ul style="list-style-type: none"> intermediated premiums amounted to MDL 238.7 million, representing 8.0% of total GWP;
	<ul style="list-style-type: none"> commissions calculated from brokerage – MDL 72.7 million.

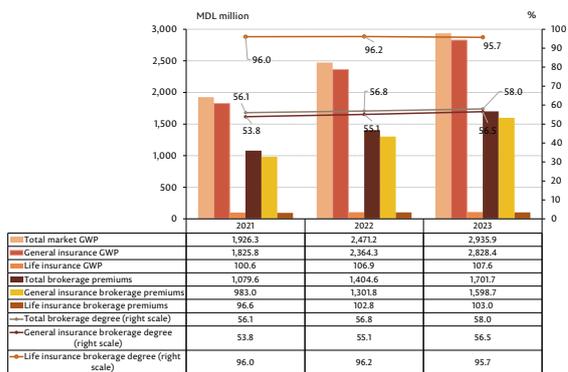
35 agents bancassurance	<ul style="list-style-type: none"> brokered premiums amounted to MDL 144.9 million, representing 4.9% of total GWP;
	<ul style="list-style-type: none"> commissions calculated from brokerage – MDL 54.1 million.

Chart 4.39: Share of intermediated premiums by intermediaries (%)



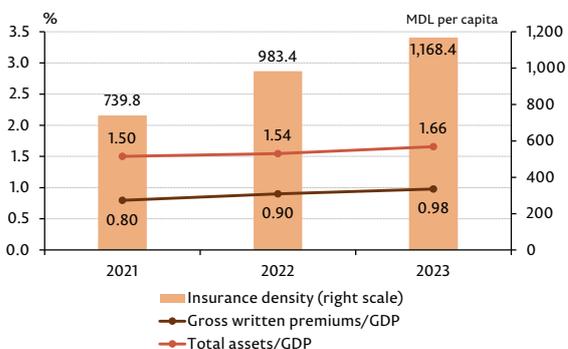
Source: NBM

Chart 4.40: Degree of intermediation



Source: NBM

Chart 4.41: Integrating the insurance sector into the economy in the period 2021-2023



Source: NBM

The intermediation degree for the year 2023 reached the level of 58.0%, and dispersed by insurance categories it amounted to 56.5% for general insurance and 95.7% for life insurance.

Integrating the insurance sector into the economy

Insurance density, calculated as the ratio of the value of gross underwritten premiums on the territory of the Republic of Moldova to the number of its inhabitants, is an indicator that shows how much, on average, a country's inhabitant 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% compared to the previous year.

The penetration degree of insurance in GDP, an indicator calculated as the ratio of the value of gross premiums underwritten by the insurance companies in the Republic of Moldova to the gross domestic product, registered a value of 0.98% in 2023, slightly increasing compared to the previous year.

Total assets held by the insurance companies reached a level equivalent to 1.66% of GDP at the end of 2023, up by 0.12 percentage points compared to the previous year.

Supervisory activity

As of July 1, 2023, the supervision duties of the insurance sector have been taken over by the National Bank of Moldova, ensuring the continuity of the supervision processes of professional participants on the insurance market and the administration of the State Automated Information System in the field of compulsory MTPL insurance.

Following the taking over of the regulatory and supervisory duties in the insurance sector, the main goal of the National Bank of Moldova is to support the development of the supervised entities by ensuring an appropriate regulatory framework and a transparent, proportionate, comprehensive and risk-based supervisory process. The main objective of the supervision is to protect the rights and interests of contractors, insured persons, insurance beneficiaries and third parties suffering losses under insurance contracts and to ensure the stability of the insurance system in the Republic of Moldova. At the same time, the National Bank of Moldova shall apply the same approach as for the supervision of banks in promoting sound corporate governance and strengthening the internal control functions within the supervised entities.

During the second semester of 2023, the supervisory process consisted in ensuring the financial stability of insurers based on a forward-looking risk-based approach, as well as in continuously verifying the conduct of the insurance or reinsurance activity and the compliance of professional participants in the insurance market with the supervisory provisions and the legislation.

The supervision of professional participants in the insurance market included various routine actions, including the analysis of

specialized reports and financial statements submitted by the supervised entities, monitoring of key indicators, analysis of the governance and internal control, assessment of the solvency and liquidity of the insurance companies as well as of the coverage of technical reserves with eligible assets in accordance with the requirements of the legislation, analysis of the reinsurance programs of the insurance companies, etc.

During this period, 9 ex officio controls on the activity of professional participants on the insurance market were completed. As a result of the controls, the National Bank of Moldova issued five warnings to insurance companies, two warnings to bancassurance agents, as well as supervisory measures against two insurance companies in the form of prescriptions for the removal of violations.

In general, the infringements and shortcomings identified during the controls relate to compliance with the rules on the coverage of technical reserves with eligible assets in accordance with the legal provisions, compliance with the requirements for the conclusion of compulsory domestic and foreign MTPL insurance contracts and the recording of information on claims files in the MTPL Data Automated Information System.

Administration of the MTPL Data Automated Information System

Starting from July 1, 2023, the National Bank of Moldova has taken over the management of the MTPL Data Automated Information System (hereinafter – MTPL Data AIS). The MTPL Data AIS is an information system intended for the electronic processing of compulsory internal and external motor third party liability insurance documents. This system is used to process applications, contracts, policies and certificates of compulsory motor third party liability insurance and to manage vehicle caused claims files. The basic task of the MTPL Data AIS is to record, collect, accumulate, update, control and analyze information on insurance contracts, internal and external MTPL policies, insured persons, damaged persons, claims files and insurance compensation.

After taking over the management of the MTPL Data AIS, the National Bank of Moldova, as part of its digitalization and technological transformation strategy, is focusing on the modernization and reinvention of the System.

During 2023 the following actions have been set and realized:

- Logging of changes made to the claims files.

The existing architecture at the time of taking over the management of the MTPL Data AIS did not allow the complete and consistent logging of the changes made in the claims files processed through the System, generating difficulties in the process of tracking and verifying the changes made.

In order to ensure a complete and transparent monitoring, a system for logging the actions performed on the data was developed and implemented in the second semester of 2023. This important update has improved the transparency of the processes associated with the management of claims files and is a useful tool for the supervision and monitoring of the activity of insurance companies in the given segment.

- New digital toolkit API (Application Programming Interface)
In November 2023, the National Bank of Moldova announced about the expansion and optimization of API services within the MTPL Data AIS. This development marks an important step in the digital transformation of the insurance sector, offering considerable benefits for both the professional participants and end consumers of insurance financial services.
The new digital tools facilitate the programmatic registration of MTPL insurance policies and improve the efficiency and security of associated processes, providing instant access to insurance services.
- Integration of the MTPL Data AIS with the MConnect interoperability platform
In accordance with the provisions of Law No. 142/2018 on data exchange and interoperability, the National Bank of Moldova, in its capacity as a public participant, has committed to exchange data, including data associated with insurance-related processes, through the MConnect interoperability platform, and the procedure for interconnecting the MTPL Data AIS with the MConnect interoperability platform was completed on December 01, 2023. This technological development allows immediate access to authentic, complete and truthful administrative data, including vehicle data identified on the basis of provisional registration certificates. This operational upgrade ensures an increased accuracy of vehicle data in the MTPL Data AIS and a considerable acceleration of the processes associated with the completion of MTPL insurance policies.
- Personal data protection
Particular attention is paid to the protection of personal data. In this context, the strategy for the anonymization of personal data consumed in the process of calculating the MTPL insurance premium has been developed and the mechanism for monitoring the access to personal data has been established, the information on the access to data from the state registers of the population and vehicles being now available in the MCabinet, ensuring an additional level of security and transparency.

4.5 Regulation and supervision in the field of preventing and combating money laundering and terrorist financing

In an increasingly complex and interconnected financial world, the risks associated with illegal money laundering and terrorist financing activities, as well as the proliferation of weapons of mass destruction pose a serious threat to the stability and integrity of the financial system. The National Bank of Moldova, as the authority responsible for the supervision and regulation of designated reporting entities in accordance with the requirements of Law No. 308/2017 on combating money laundering and terrorist financing (hereinafter "Law No. 308/2017"), has a significant role in ensuring the compliance of the supervised sector and the stability of the domestic financial system. In this context, the relevant developments, challenges and initiatives to prevent and combat money laundering and terrorist financing, which took place in 2023, were characterized by certain activities and events.

Thus, during the year, the National Bank of Moldova continued to strengthen the regulatory framework in line with the international standards and to make concerted efforts to assess and manage the risks associated with money laundering and terrorist financing. Promoting a culture of compliance and respect for rules among the supervised reporting entities has been a priority. In this regard, one of the events of primary importance for the NBM's work in the area of preventing and combating money laundering and terrorist financing that took place in 2023, pursuant to Law No. 178/2020 on the amendment of some normative acts and Law No. 66/2023 on the amendment of some normative acts, was the assumption of the competences and supervisory duties of non-bank lending organizations, Savings and Loan Associations, insurance or reinsurance companies and insurance and/or reinsurance intermediaries carrying out activities within the limits of life insurance classes, including those with investment participation. Thus, as of July 1, 2023, the supervisory competences of the National Bank of Moldova in the field of preventing and combating money laundering are extended to banks, foreign exchange units (other than banks), payment institutions, electronic money issuers and postal service providers operating in accordance with Law No. 114/2012 on payment services and electronic money, as well as to reporting entities on the pre-booked non-bank financial market. In total, there are more than 800 registered reporting entities.

In the same vein, taking into account the sectoral risk for each type of supervised reporting entity, during 2023, a series of inspections and verifications were carried out, covering both compliance issues of supervised reporting entities in the scope including the assessment of internal control programs and systems dedicated to preventing and combating money laundering and terrorist financing, as well as the verification of high-risk operations, such as transfers abroad or in high-risk jurisdictions, operations carried out through card payment systems and digital applications, operations of a nature to circumvent international restrictive measures, etc. (19 checks

carried out remotely, following which the competent authorities were informed as appropriate). In addition, 23 inspections were carried out during 2023, of which 1 ex officio and 1 on-site inspection at banks, 2 inspections at non-bank payment service providers and 19 inspections at foreign exchange units (other than banks). As a result of the inspections carried out, shortcomings in the own programs for preventing and combating money laundering and terrorist financing and situations of non-compliance with the provisions of the legislation in the field of prevention of money laundering and terrorist financing were identified. Accordingly, based on the findings, sanctions and/or measures to remedy deficiencies were ordered in accordance with the provisions of Law No. 75/2020 on the procedure for establishing violations in the field of prevention of money laundering and terrorist financing and the manner of application of sanctions, namely 9 prescriptions. In order to remedy the deficiencies and non-compliances found and to improve the internal control systems, each reporting entity concerned in the inspections carried out has developed action plans/ measures. At the same time, in the case of a bank, as a result of the finding of violations of the Provision of the Commission for Exceptional Situations No. 45, the sanction *written warning* was imposed.

The supervisory activities in the area of prevention of money laundering and terrorist financing of the relevant sectors, also included continuous information flows between the National Bank and the supervised entities. The amount, complexity and intensity of these information flows were determined both by the type of the supervised entity, its business model, internal governance, the level of risk of money laundering and terrorist financing, and the global and regional circumstances of the period in question.

External audit is one of the important tools in carrying out supervision activities in the field of preventing and combating money laundering, which provides an independent perspective on the degree of compliance of the reporting entities with the requirements of the normative framework. Thus, during the year, the external audit of all licensed banks was carried out by audit firms approved by the National Bank of Moldova, in order to verify and assess the adequacy and implementation of banks' internal policies and procedures in the area of preventing and combating money laundering and terrorist financing. We should note that such an exercise is carried out on an annual basis and is already in its 5th consecutive year. The results of the audits will increase the vigilance of banks in their dealings with customers, as well as improve the internal control system to prevent potential illicit financial flows or the direct or indirect use of their services and products for money laundering, terrorist financing and proliferation of weapons of mass destruction.

Considering the fact that financial technologies and practices are evolving, the risks associated with money laundering and terrorist financing are becoming more complex and sophisticated, the National Bank of Moldova is opting for a proactive approach in adapting and improving its operational supervisory framework. In this way, with the USAID support, on October 5, 2023, the NBM launched the IT solution on monitoring the transparency of shareholders in banks and remote analysis in the field of preventing and combating money laundering and terrorist financing. In particular, the activities of the 4th stage of the project – training and testing of the IT solution were carried out

and the activities planned for the implementation of the 5th stage of the project – preparation of the production environment and *go-live* were realized. Thus, the activities associated with anonymization and data loading, performing technical and functional tests, adjusting the project documentation, user training, testing the solution for optimizing the data loading algorithms on the production environment, completing the end-user acceptance testing, etc. were continued.

Close cooperation with other national and international authorities has been essential in the NBM's efforts to combat cross-border threats. Thus, in the context of its regulatory duties and in line with the recommendations of the Council of Europe's Moneyval Committee, the NBM has developed and submitted for public consultation the following draft normative acts: a) the draft Decision of the Executive Board of the National Bank of Moldova on the amendment of the Regulations of the NBM No. 200, 201 and 202 establishing the requirements for preventing and combating money laundering and terrorist financing in the activity of banks, non-bank payment service providers and foreign exchange units; b) the draft Decision of the Executive Board of the National Bank of Moldova on the approval of the Regulation on the requirements for preventing and combating money laundering and terrorist financing in the activity of non-bank financial institutions; and c) the draft Decision of the Executive Board of the National Bank of Moldova on the approval of the Regulation on the requirements for the identification and verification of the identity of customers by electronic means.

Subsidiarily, the NBM issued opinions on the most important legislative drafts relevant to this area, which were the subject of the specialized analysis, namely: draft Law on amending and supplementing Law No. 308/2017 on preventing and combating money laundering and terrorist financing and Law No. 75/2020 on the procedure for establishing violations in the field of prevention of money laundering and terrorist financing and the manner of application of sanctions; draft Law on amending and supplementing Law No. 25/2016 on the implementation of international restrictive measures; draft Law on the execution of cash settlements and for amending some normative acts. At the same time, the National Bank examined and issued the required opinion on the draft Decision on amending and supplementing the Parliament Decision No. 239/2020 on the approval of the National Strategy for preventing and combating money laundering and terrorist financing for the years 2020-2025 and the Action Plan for the implementation of the Strategy for the years 2020-2025; draft Government Decision on the approval of the draft Law on the amendment of some normative acts (single No. 979/ME/2022), etc.

As collaboration between national and international authorities in the field of preventing money laundering and combating the financing of terrorism is an essential aspect in ensuring the efficiency and effectiveness of efforts to combat money laundering and terrorist financing, the NBM has maintained an intensive exchange of information, expertise and resources, both internally and externally. In this way, the Money Laundering Prevention and Combating Service has been provided with more information on the issues identified following the profiling analysis in relation to the activities carried out by the supervised reporting entities and/or related to higher risk transactions.

Externally, the National Bank of Moldova continued to actively participate in the meetings of the MONEYVAL Committee of the Council of Europe, in terms of assessing the progress achieved by the Republic of Moldova in the field of preventing and combating money laundering and terrorist financing.

Further in the context of external activities, but also considering the objectives of the NBM to constantly enhance the supervisory capacities and the quality of the given activities, during 2023, the NBM employees, trained in the supervisory activities in the field of preventing and combating money laundering and terrorist financing, participated in the work of working groups of various external technical assistance projects. Within the framework of the EU Twinning Project "Strengthening supervision, corporate governance and risk management in the financial sector of the Republic of Moldova", implemented by a consortium consisting of the National Bank of Romania, the Central Bank of the Kingdom of the Netherlands and the Bank of Lithuania, with the participation of experts from the Financial Supervisory Authority and the National Authority for Consumer Protection of Romania, during the year, 2 study visits (on March 14-16, 2023 and October 11-13, 2023) were organized to the National Bank of Romania (NBR). The representatives of the National Bank of Moldova benefited from specialized trainings and presentations provided by the NBR experts on the regulation of non-bank lending organizations, practices of conducting risk-based supervision – off-site and on-site, types of internal files and reports used for monitoring the development of indicators recorded by non-bank financial institutions, etc.

In August 2023, in the framework of the technical assistance mission of the International Monetary Fund (IMF) experts related to the Antimoney Laundering Data Analytics Capacity Development Project, the NBM staff participated in discussions related to the development of the internal framework and tools for analyzing the money laundering risks associated with cross-border payments, including the development of transaction monitoring tools. Similarly, the NBM actively participated in the workshop on Combating Financial Threats, conducted under the Export Control and Border Security Program (EXBS) funded by the US Treasury Department, which aims to improve the mechanism for the identification and enforcement of international restrictive measures by the reporting entities and the NBM (as supervisor) related to persons, groups and entities involved in terrorist and proliferation financing activities.

Another programme relevant to the NBM's supervisory activity in this area is the programme "Strengthening the anti-money laundering and asset recovery regime in the Republic of Moldova", organized within the framework of the Joint European Union/ Council of Europe Programme "Partnership for Good Governance for the Eastern Partnership Countries (PGG III)" for the period 2023-2026. The project is designed to provide support to the Republic of Moldova to enhance the effectiveness of measures to combat money laundering and terrorist financing and aims to strengthen the capacity of specific structures in the field of asset recovery and parallel financial investigations.

With reference to the cooperation with regional organizations, the NBM representatives participated, in March 2023, in the Training on Cryptocurrencies Risks, Investigations and Supervision, and,

in October-November 2023, in the Advanced Training on Virtual Assets Investigations, conducted by the Organization for Security and Cooperation in Europe in collaboration with the United Nations Office on Drugs and Crime.

In order to ensure an effective cooperation and exchange of information between supervisors from different EU and non-EU countries, the NBM has initiated discussions with the Austrian Financial Market Authority (FMA), to deepen the cooperation on issues related to combating money laundering and terrorist financing within the colleges of supervisors.

Chapter 5

Financial market infrastructures

5.1 Regulation and monitoring of financial market infrastructures

According to the *Law No. 548/1995 on the National Bank of Moldova*, the regulation and monitoring of financial market infrastructures in the Republic of Moldova is one of the basic duties of the National Bank of Moldova.

This duty is performed in accordance with the international best practices, recommendations, principles and standards in this field issued by the Bank for International Settlements, the European Central Bank, the International Monetary Fund and the World Bank.

In order to implement the instant payments scheme, provided for in the Concept on the development of the payments domain in the Republic of Moldova⁵¹, during 2023 the project implementation stages continued.

The project is dedicated to the implementation of a new type of payments (instant payments), being oriented towards the development of the payment system in the Republic of Moldova and the modernization of payment services, in order to provide the financial community in our country with a payment system with infrastructures of a performance that meets the expectations and demands of payment service providers, as well as modern payment instruments that would meet the needs of individual and corporate consumers.

During 2023, the final acceptance documents related to the analysis and design phase, the IT solution construction phase, with the provider testing activities of the IT solution, the initiation of the training phase, user testing and go-live were approved. The launch of the system took place on March 12, 2024, meeting the deadlines in the project plan. Simultaneously with the launch of the system, the "MIA" brand (mia.bnm.md) was launched on the market, which will encompass all payment services that will be introduced on the market by payment service providers, with the support of the National Bank, and which will be based on the use of the instant payment system.

The targeted measures will strengthen the payment system in the Republic of Moldova, improve operational and liquidity risk management and facilitate the implementation of new payment instruments and services. Also, premises will be created for the efficient development of innovative payments, including mobile

⁵¹<https://www.bnm.md/ro/content/extras-din-conceptul-privind-dezvoltarea-domeniului-de-plati-din-republica-moldova>

payments, with immediate final settlement and the possibility of immediate re-use of the money received. As a result, the economic flows circuit will become easier, the innovative payments sector will be better able to attract investment and the speed of money circulation in the economy will increase. These will bring benefits at several levels – to payment service providers and end consumers (individuals), as well as economic operators and authorities.

According to Article 5 of *Law No. 548/1995 on the National Bank of Moldova*, the NBM regulates and monitors financial market infrastructures, under the conditions established by law, and promotes their safe and efficient functioning. In the context of the basic objective, the payment and settlement systems of the Republic of Moldova, whose stable and efficient functioning is essential for the financial stability, the implementation of monetary policy and the promotion of public confidence in cashless payments, are subject to monitoring by the National Bank.

In the area of the monitoring of payment and settlement systems, the following are subject to monitoring:

1. Payment and settlement systems (large-value payment systems and large-volume and small-value payment systems);
2. Securities clearing and settlement systems;
3. Payment schemes (card payments, money remittance);
4. Payment instruments (including automated remote service systems).

In exercising the monitoring function, the NBM pays particular attention to systems that process, clear and settle large-value payments and pose a substantial risk in the event of an operational or settlement failure.

5.2 Licensing, regulation and supervision of the activity of providing payment services and issuing electronic money

According to *Law No. 114/2012 on payment services and electronic money*, the NBM licenses, regulates and supervises the activity of payment service providers and electronic money issuers.

The licensing process of non-bank payment service providers (payment institutions, electronic money institutions and postal service providers) and the registration of payment agents takes place in compliance with a set of requirements, which ensure a uniform and competitive approach to access to the activity of providing payment services and its performance on the territory of the Republic of Moldova.

As of December 31, 2023, nine non-bank payment service providers were active in the Republic of Moldova: two payment institutions, one postal service provider and six electronic money issuers.

The normative framework developed by the NBM, in the context of the payment services provision activity, aligns the domestic regulations in this area with the European rules, materializing in the adoption of the necessary normative acts for the performance of the activity on the payment services provision market. This framework represents an essential support for increasing the number of modern and secure payment services, increasing the degree of competition on the payment services market due to the access of non-bank payment service providers to the market in addition to licensed banks, thus promoting efficiency and improved quality, reducing the costs of services, as well as achieving a high level of cashless payments and reducing the amount of cash in circulation.

In 2023, the National Bank of Moldova continued to benefit from the Twinning technical assistance project entitled: "Strengthening supervision, corporate governance and risk management in the financial sector", implemented in the Republic of Moldova with the support of the European Union, and one of the components of this project is to ensure the necessary prerequisites for the accession of the payment service providers community in the Republic of Moldova to the Single Euro Payments Area (SEPA).

Thus, through this project, the National Bank of Moldova received support in aligning its legislation and regulatory framework to the SEPA rules, as well as assistance in preparing the SEPA accession file (demonstrating the Republic of Moldova's compliance with the criteria for the extension of the SEPA geographic scope) as a non-European Economic Area (non-EEA) member state. The membership application, together with the complete file, was submitted to the responsible EU authorities (European Payments Council) on January 30, 2024.

At the same time, on December 6, 2023, the National Bank, in the framework of the EU Twinning project, organized an event entitled "Aligning to EU payment security standards in the digital era". The aim of the event was to inform the society as well as the private business community about the main developments in the field of payment systems and requirements in terms of payment security and continuity, as well as the progress achieved within the Twinning project. The conference was attended by high-ranking officials, representatives of the Delegation of the European Union to the Republic of Moldova and the NBM's partners in the Twinning project, namely the Implementation Consortium consisting of the National Bank of Romania, the Central Bank of the Kingdom of the Netherlands and the Central Bank of Lithuania, in collaboration with the Financial Supervisory Authority of Romania and the National Authority for Consumer Protection of Romania, as well as representatives of payment service providers in the Republic of Moldova (banking and non-banking).

The following changes were also made to the secondary normative framework relevant to payment systems and their participants during 2023. Thus, on June 08, 2023, the Executive Board of the NBM adopted the Decision No. 108 "For the approval of the Regulation on credit transfer, direct debiting and IBAN code

assignment", which entered into force on August 5, 2023. The adoption of Decision No. 108 of 08.06.2023 of the Executive Board of the NBM was dictated by the amendments and additions made to Law No. 114/2012 on payment services and electronic money (by Law No. 209/2022 on the amendment of some normative acts, law transposing Directive (EU) 2015/2366 on payment services in the internal market (PSD2)). The rules related to credit transfer in national and foreign currency were adopted and improved. Also, some requirements for direct debiting were established and Article 5 and the Annex of Regulation (EU) No. 260/2012 establishing technical and business requirements for credit transfer and direct debit transactions in euro were transposed (its transposition being one of the criteria for the accession of the community of payment service providers from the Republic of Moldova to SEPA).

5.3 Automated Internal Payment System

The Automated Internal Payment System (AIPS) is the system through which payments in Moldovan lei of/ through participants are made in an automated way within the territory of the Republic of Moldova. AIPS is composed of the real-time gross settlement system (the RTGS system), the net settlement clearing system (the NSC system) and the instant payment system (the Instant system). The RTGS system is intended for the processing of urgent and large-value payments, the NSC system is intended for the processing of small-value payments and the Instant system is intended for the immediate/ instant processing of small-value payments. We note that the Instant system was launched on March 12, 2024, so for 2023 it did not process transactions.

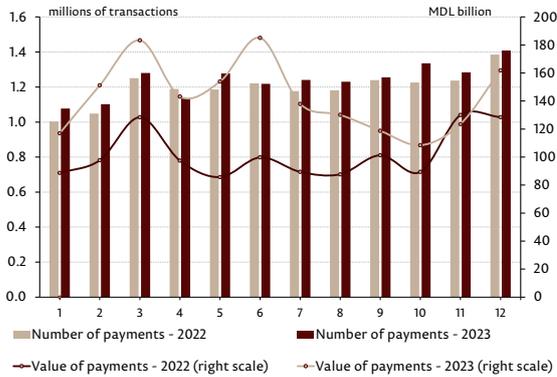
At the end of 2023, 20 participants were registered in the AIPS:

- National Bank of Moldova;
- 11 banks licensed by the National Bank of Moldova;
- Cash and settlement center in Tiraspol city;
- 3 non-bank payment service providers;
- State Treasury of the Ministry of Finance, including as a mandated participant;
- Single Central Securities Depository S.A.;
- Deposit Guarantee Fund in the banking system.

In 2023, a total volume of 14.8 million transactions worth MDL 1.7 trillion was processed through the AIPS, increasing both in number (3.5 %) and value (40.1%) compared to 2022. The average daily volume⁵² of transactions amounted to 59.2 thousand transactions worth MDL 6.8 billion. The maximum volume of payments settled daily in the AIPS was reached on April 25, 2023, with 123.8 thousand payments being settled.

⁵²In 2023 there were 251 operational days.

Chart 5.1: The number and value of payments processed in the AIPS, 2022-2023



Source: NBM

On average per day, 3.9 thousand payments were settled through the RTGS system, amounting to MDL 5.8 billion, and 55.3 thousand payments were settled through the NSC system, amounting to MDL 1,008.1 million. The average value of a payment settled in the RTGS system amounted to MDL 1,505.8 thousand, and the average value of a payment settled in the NSC system – MDL 18.2 thousand.

In terms of the structure of payments made through the AIPS in the reference year, it was found that payment transactions made by the participants *on behalf of the customers* were predominant (99.9% of the number of settled transactions), but the total value of these transactions remains relatively low (only 34.3% of the value of settled transactions).

In terms of the structure of the payments made *on behalf of the customers* by the AIPS participants, we note the following representation:

- ordinary customer transfers – 60.3% of total payments;
- transfers related to budgetary payments – 36.6%;
- other types of payments – 3.1%.

In terms of value, the transactions in the AIPS performed *on behalf of the customers* have the following structure:

- ordinary customer transfers – 61.6% of total payments;
- budget transfers – 30.3%;
- other types of payments – 8.1%.

During 2023, the average system availability for participants was 99.9%, an indicator confirming the participants' ability to use the AIPS without discontinuity or incident during the program's operating hours.

5.4 The Single Central Securities Depository System

The Single Central Securities Depository System (CSD) is administered (managed and operated) by the S.A. Single Central Securities Depository.

The CSD system is a securities settlement system, which ensures the provision by the Central Depository of securities registration, centralized administration, settlement and, where appropriate, ancillary services. The CSD system is based on modern straight-through-processing technology connected to the AIPS and provides an efficient infrastructure and services for the settlement of securities transactions and the registration of ownership rights in securities.

At the end of 2023, 18 participants were registered in the CSD system, of which:

- National Bank of Moldova;
- 11 banks licensed by the National Bank of Moldova;
- Deposit Guarantee Fund in the banking system;
- 5 non-bank investment companies.

Securities registration services provided by the CSD

At the end of 2023, there were 407.9 million SS and CNB securities with a nominal value of MDL 50.8 billion registered in the CSD system.

At the same time, according to the data presented by the CSD at the end of 2023, there were 1,030.9 million corporate securities (CS) registered in the CSD system, of which 1,028.5 million were common shares, 2.3 million preferred shares, 7.5 thousand municipal bonds and 12.9 thousand corporate bonds. The total value of CS amounted to MDL 19.8 billion for the reference period, of which 98.3% of the total value of CS represented ordinary shares.

Settlement services

During 2023, 9.6 thousand transfer orders worth MDL 677.2 billion were settled in the CSD system.

Supervision of the CSD activity

For the year 2023, no controls have been planned and carried out on the CSD activity.

Monitoring of the CSD activity

During 2023, changes were made to the structure of CSD fees for the settlement of transactions with state securities (SS) with long maturity concluded on the regulated market (RM) or in the multilateral trading facility (MTF), taking into account the Central Depository's proposals, by introducing a fee that will be applied exclusively for the settlement of transactions with SS with long maturity concluded on the RM or MTF.

At the same time, the regulatory, monitoring and supervisory framework of the CSD has been reworked in order to detail the perimeter of activities of the CSD, the competences of the NBM and the National Commission for Financial Markets (NCFM) related to the regulation and supervision of the CSD have been more clearly defined and separated. In this regard, it was adopted the Law No. 292 of 19.10.2023 on the amendment of some normative acts (strengthening aspects of financial market infrastructures), which includes amendments to Law No. 234/2016 on the CSD.

Main activities and achievements:

Activities in the context of CSD integration into international financial markets by establishing connections with foreign central depositories

In 2023, the CSD continued discussions and activities related to the establishment of the connection between the CSD and the Romanian Central Depository (RoClear). In this context, the CSD participated in the work of the following working groups:

- the working group on the capital market, set up by the Minister of Economic Development and Digitalization, whose purpose is to develop regulations to facilitate the integration of Moldovan issuers in regional and international capital markets;
- the working group for the elaboration of the Concept on the SS issuance and circulation mechanisms through the CSD, set up by the NBM, which aims to expand the SS issuance and circulation mechanisms by establishing links between the CSD and foreign depositories.

At the same time, taking into account the fact that, in order to establish a link, the CSD needs to identify, assess and manage the potential sources of risks induced by the link, the Report on the risk analysis and mitigation measures for cross-border links established by the CSD with the Romanian Central Depository was prepared.

Enhancing the role and capacity of the CSD in financial market infrastructure

The CSD participated in discussions within the working group, set up by the NBM for the elaboration of the Strategy for the development of the regulatory and activity framework of the CSD, which is to identify the objectives and strategic directions of development of the CSD.

At the same time, CSD has participated in several projects aimed at developing the financial market in the Republic of Moldova. Thus, the CSD provided the necessary assistance to EBRD representatives within the project "Market development strategy and business plan for the Moldovan capital market infrastructure", which carried out the assessment of the financial market infrastructure in the Republic of Moldova.

The CSD also continued the activities within the project team for the implementation of the technical solution of the Information System "Program of direct sale of state securities to individuals in the Republic of Moldova" (retail platform).

Strengthening the internal regulatory framework

The improvement of the internal regulatory framework is one of the main tasks of the CSD, during 2023 a number of internal regulations and procedures will be drafted and approved, as well as some of the existing legislation will be adjusted.

Procedures on how to calculate and collect payments and commissions by the CSD, Procedures on how to prepare and execute the CSD budget, Internal Procedures on reporting operations with SS-CNB, as well as some regulations and procedures related to risk management have been developed and approved.

Internal Procedures for the encumbrance on securities with obligations, Reconciliation Procedures, CSD Accounting Policies and Issuer and Securities Registration Procedures have been adjusted.

Strengthening the internal risk management system

During 2023, particular attention was given to the development of the internal risk management system, such as: safeguarding assets, improving decision making, increasing organizational resilience, optimizing the use of resources, improving operational performance, enhancing stakeholder confidence, complying with applicable regulations, capitalizing on opportunities, and reducing costs associated with threats.

In this context, several activities have been carried out, including: the elaboration of the Risk Committee Regulation, the Risk Management Procedures and the Procedures for the description of operational processes within the CSD. The Risk Assessment Report was also updated and the CSD Risk Register was developed.

Strengthening the internal risk management system and related activities remains a priority for the CSD and for future reporting periods.

Strengthening the security of the CSD System and the normative framework applied to the settlement of transactions

The CSD has jointly carried out the following mandatory testing required by the normative framework with CSD participants:

- in accordance with the Regulation on the conditions for granting, suspension and withdrawal of the status of participant of the Single Central Securities Depository, approved by the Decision of the Executive Board of the National Bank of Moldova No. 159 of July 11, 2018, the Single Central Securities Depository has conducted the testing of the capacity of the participants of the CSD to react in incident situations;
- in accordance with the provisions of Article 43 paragraph (3) of the Law No. 234/2016 on the Single Central Securities Depository, the testing of procedures for the insolvency of the participants of the CSD was carried out.

Continued development of the CSD System functionalities

During 2023, several needs have been identified at the CSD level to operate technical changes to the CSD System in order to remove existing constraints and to correctly run operations in the system, or to develop system functionality.

Jointly with the developer of the CSD System, optimization/development work was carried out on the information system and related instruments.

5.5 Cashless payment instruments

Cashless payment instruments are essential components of payment systems, and the National Bank shall monitor them in order to ensure their efficient and safe use.

Of all payment instruments, the most used by the population (individuals) are payment cards. It should be noted that the NBM is taking relevant measures, in agreement with other national authorities and institutions, in order to promote the use of cashless payment instruments and to make the circulation of funds transparent.

Payment cards

The number of cards⁵³ in circulation at the end of 2023 was 3.29 million units and recorded an increase of 17.6% compared to the end of 2022 (Chart 5.2).

⁵³Standardized and, where appropriate, personalized information medium through which the cardholder, usually with the use of a personal identification number and/or other codes allowing his/her identification, depending on the type of payment card, has remote access to the payment account to which the payment card is attached in order to carry out payment transactions.

Against the background of the increase in the number of cards in circulation, the number of *of active cards*⁵⁴ increased by 13.5% compared to the end of 2022, and the share of active cards in the total number of cards in circulation did not change significantly, constituting 59.5%. It should be noted that this rate of card utilization has remained at the same level over the last few years.

With regard to the technical solution of payment cards, the number of proximity (contactless) cards has seen an increase of 18.4% since 2022. The rapid increase in the share of these types of cards in the total number of cards in circulation has contributed to the gradual replacement of hybrid cards, which in turn previously replaced magnetic stripe cards. Thus, by the end of 2023, *contactless cards* held the major share (98.3%) of all cards in circulation in the Republic of Moldova. *Hybrid cards* (microprocessor and magnetic stripe cards), whose number decreased by 74.2% since the end of 2022, accounted for 0.5% of the total number of cards in circulation in the Republic of Moldova. *Virtual cards* held a modest share of 1.2%, having been increasing with significant variations over the last few years. By the end of 2023, *magnetic stripe cards* were no longer in circulation.

In 2023, 214.0 million transactions worth MDL 150.2 billion were carried out, both in the country and abroad, through payment cards issued by payment service providers in the Republic of Moldova, an increase compared to 2022 by 29.4 % in number and 20.2% in value.

Of the total volume of transactions carried out with cards issued in the country, 85.5% were non-cash payments and 14.5% – cash withdrawals. The number of cashless payments increased by 34.7% compared to the previous year, while the number of cash withdrawals increased by 5.1% compared to the same period.

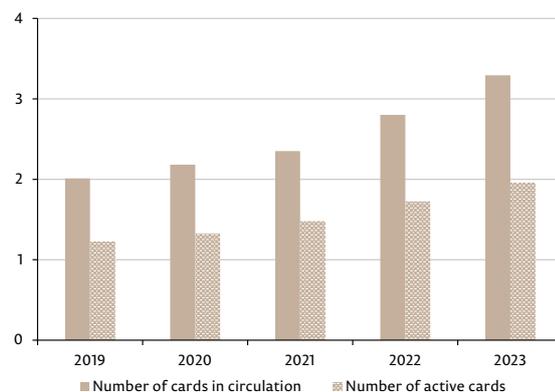
Every day, an average of 84.8 thousand cash withdrawals and about 501.4 thousand non-cash payments are made with payment cards issued in the Republic of Moldova. The average value of a cash withdrawal reached MDL 2,889, up by 7.7% compared to 2022. At the same time, a non-cash payment averaged MDL 332, decreasing by 1.8% compared to 2022.

Domestic transactions⁵⁵ carried out with payment cards issued by payment service providers represent 87.3% (186.9 million transactions) of the total number of transactions carried out with cards issued in the Republic of Moldova.

Out of total domestic transactions, the share of non-cash payments amounted to 83.6% in number (79.7% for 2022) and 34.7% in value (30.8% for 2022).

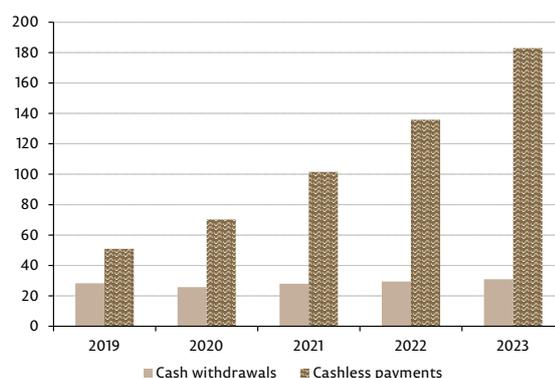
Every day, an average of 84.1 thousand cash withdrawals and about 427.8 thousand non-cash payments are made with domestic payment cards on the territory of the Republic of Moldova. The average value of a domestic cash withdrawal transaction amounted to MDL 2,883, up by 7.9% compared to

Chart 5.2: Number of payment cards in circulation, years 2019-2023 (million units)



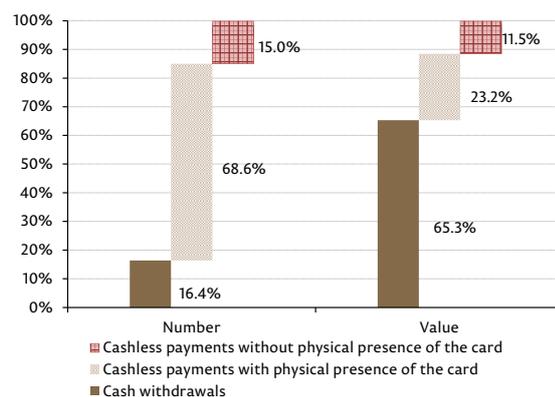
Source: NBM

Chart 5.3: Number of transactions carried out with payment cards issued in the Republic of Moldova, years 2019-2023 (million transactions)



Source: NBM

Chart 5.4: Structure of domestic operations, year 2023

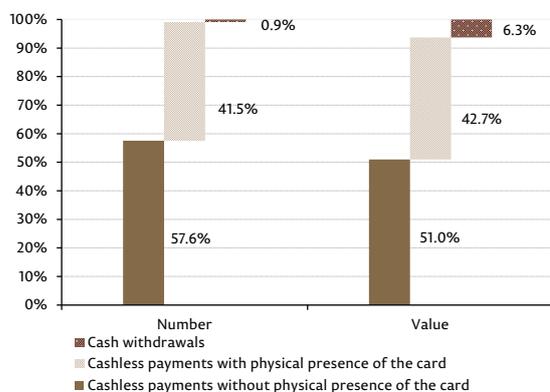


Source: NBM

⁵⁴Payment card with at least one financial transaction during the reporting period.

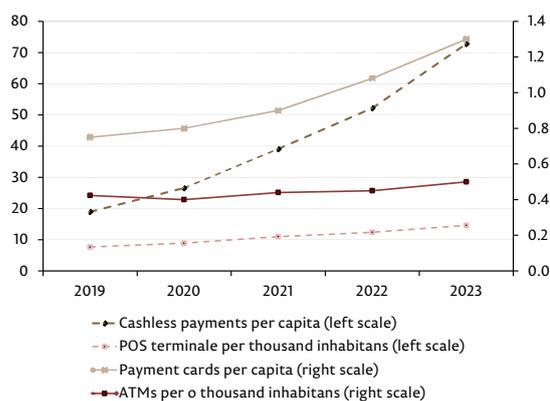
⁵⁵Payment transaction carried out at an accepting provider from the Republic of Moldova with cards issued by payment service providers from the Republic of Moldova.

Chart 5.5: Percentage of transactions carried out abroad with cards issued in the Republic of Moldova, year 2023



Source: NBM

Chart 5.6: Development indicators of the payment cards market in the Republic of Moldova, years 2019-2023



Source: NBM

2022. At the same time, an average non-cash payment had a value of MDL 301, decreasing by 0.7% compared to 2022.

Of the total number of domestic transactions, 68.6% were cashless payments made with card-present and 15.0% with card-not-present (CNP) (Chart 5.4).

The number of transactions with cards issued in the Republic of Moldova and carried out abroad during 2023 (27.1 million transactions) showed an increase of 25.0% compared to the previous year. However, the number of transactions carried out abroad is about 7 times lower than the number of transactions carried out domestically with cards issued in the Republic of Moldova. Out of the total number of transactions carried out abroad, 99.1% represent cashless payments, up by 25.3% compared to 2022. It should be noted that 57.6% of the total number of transactions carried out abroad are cashless payments made without the physical presence of the card, while 41.5% are cashless payments made with the physical presence of the card (Chart 5.5). These data show that approximately 2 out of 4 transactions carried out abroad with cards issued in the Republic of Moldova are online purchases, and the increase in their volume shows the convenience and consumer confidence in the electronic use of this payment instrument.

With regard to the assessment of the payment card fraud situation, the basic indicator applied is the share of the total value of frauds committed in the total value of transactions carried out both at home and abroad with payment cards issued by local providers. In the Republic of Moldova, this indicator amounted to 0.019% for the year 2023, which is about 1.5 times lower than the European average (0.028% for the year 2021⁵⁶).

The positive trends that were evident in the cards market in the Republic of Moldova during 2023 were as follows:

- The number and value of payments with cards issued in the Republic of Moldova made at the physical locations of domestic merchants increased by 43.2% and 37.1%, respectively, compared to the previous year;
- The number and value of domestic card payments made without physical use of the card (on e-commerce platforms, automated remote service systems, etc.) increased by 12.2% and 32.5% respectively compared to 2022;
- 58.1% of the number of non-cash transactions carried out abroad with payment cards issued in the Republic of Moldova are e-commerce payment transactions;
- The payment card acceptance network in the Republic of Moldova expanded during 2023, the number of POS terminals increased by 4.4 thousand units compared to the previous year, constituting 36,709 POS terminals at the end of the reporting year;
- The share of *contactless* cards in circulation has seen a steady increase from 97.6% at the end of 2022 to 98.3% at the end of 2023, due to the gradual replacement of the *hybrid* cards by *contactless* cards.

⁵⁶Report on payment card fraud, published by the European Central Bank in 2023 <https://www.ecb.europa.eu/pub/cardfraud/html/ecb.cardfraudreport202305~5d832d6515.en.html>

Automated remote servicing systems

Automated remote servicing systems (ARSS) are IT solutions and/or equipment, made available to holders by payment service providers, which enable them by means of a software application, an authentication method and a means of communication to have remote access to the means held on the payment account for the purpose of obtaining information on the status of the payment account and the transactions carried out, and to carry out transactions on behalf of and at the order of the holder against the means held on the payment account.

The total number of ARSS holders totaled 3,935.1 thousand at the end of 2023, increasing by 23.0% from 2022. The number of active holders⁵⁷, also showed an upward trend of 27.3% to 1.2 million, which shows the growing interest and confidence of payment service providers' customers in using ARSS. Of the total ARSS holders, active holders account for 31.5% (Chart 5.7).

The distribution of ARSS holders by the type of systems used reveals that 50.3% of them are registered in internet-payments systems (up 4.0 percentage points from end-2022) and 49.7% of their total number are mobile-payments holders (up 4.0 percentage points from end-2022). At the same time, during 2023 it was found that payment service providers stopped offering PC-payments systems (PC-payments holders were only legal entities), and during 2021-2023 they also stopped offering telephone-payments systems.

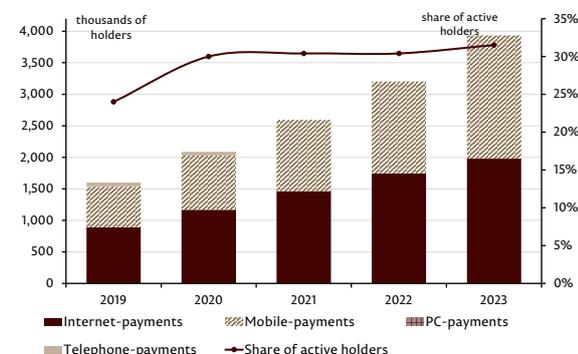
In 2023, 57.1 million transactions were carried out via ARSS, 20.6% more than in 2022. The increase in the number of transactions through ARSS can be argued by the fact that customers of payment service providers are increasingly paying for various services/goods through ARSS due to the convenience it offers.

The value of all transactions conducted through ARSS by individuals and legal entities amounted to MDL 989.8 billion during 2023, up by 5.9% from the previous year, indicating an increase in customers' confidence to conduct transactions through ARSS (Chart 5.8). About 94.2% of the value of transactions conducted through the ARSS were by legal entities.

Credit transfer

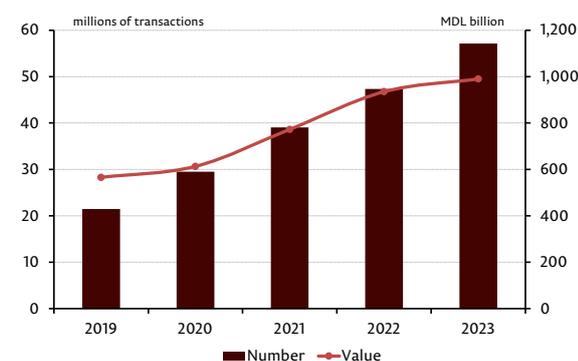
Out of the total number of credit transfer payment transactions initiated by bank customers (28.4 million transactions), 89.1% were in electronic format via ARSS. Over the last 5 years there has been a continuous increase in this indicator, from 74.4% in 2019 to 89.1% in 2023, which indicates an increase in the degree of digitalization of payment services in the Republic of Moldova. Also, in relative terms, the number of credit transfers initiated electronically increased compared to the previous year by 22.8%, while the number of paper-based credit transfers increased by 18.1% compared to 2022. At the same time, the value of credit transfer transactions initiated by the clients of the providers reached MDL 797.3 billion, of which 90.0% were carried out electronically and 10.0% were paper-based.

Chart 5.7: Number of ARSS users by type of systems, end 2019-2023



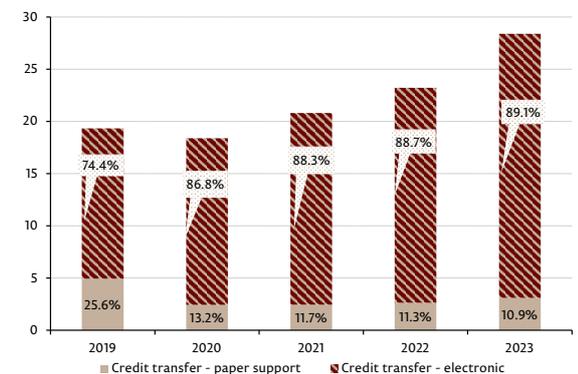
Source: NBM

Chart 5.8: The number and value of ARSS transactions, 2019-2023



Source: NBM

Chart 5.9: Number of credit transfer transactions carried out, 2019-2023 (million transactions)



Source: NBM

⁵⁷ ARSS holder that has carried out at least one financial transaction during the reporting period through an automated remote servicing system.

Direct debiting

During 2023, 150.6 thousand transactions totaling MDL 163.6 million were carried out through direct debit, decreasing both in number and value by 13.5% and 5.1%, respectively, compared to 2022. The total number of users of this instrument amounted to about 4.1 thousand at the end of 2023, 12.8% less than in the previous year. These developments still indicate low popularity and use of this payment method.

Chapter 6

Cash issue

In 2023, cash in circulation maintained its upward trend (+11.4%, up to a value of MDL 42,098.5 million⁵⁸), with a growth rate 2.7 percentage points higher than in 2022.

6.1 Development of cash (banknotes and coins) in circulation

Banknotes in circulation, at the end of 2023, amounted to MDL 41,694.3 million in value terms, about 11.3% more than at the end of the previous year. The value development of banknotes in monetary circulation according to the nominal values structure is shown in the chart 6.1.

At the end of 2023, there were about 334.2 million banknotes in circulation, an increase of 3.2% compared to the end of 2022. The nominal value development of banknotes in monetary circulation in quantitative terms is shown in the chart 6.2.

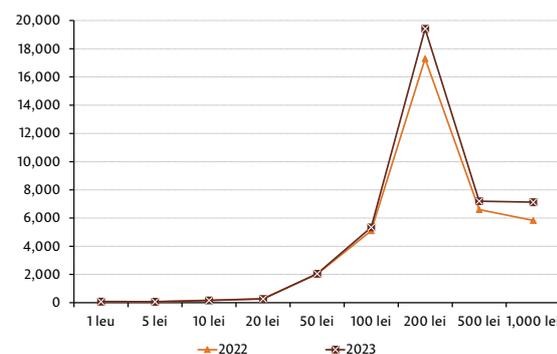
The banknote with a nominal value of MDL 200 continued to be the most widely used banknote, with a share of 29.1% in the total number of banknotes in circulation, followed by the banknote with a nominal value of MDL 1, with a share of 23.5% (3.4 percentage points less than in 2022, related to the natural withdrawal from circulation due to wear and tear) and the MDL 100 nominal value with a share of 16.0%. The smallest share in the total number of banknotes in circulation went to banknotes with a nominal value of MDL 5 (3.9%) and MDL 1,000 (2.1%).

According to the nominal values structure, the quantity of banknotes in circulation at the end of the reporting period was approximately: for MDL 1 – 78.6 million banknotes, MDL 5 – 13.0 million banknotes, MDL 10 – 16.5 million banknotes, MDL 20 – 13.1 million banknotes, MDL 50 – 41.1 million banknotes, MDL 100 – 53.3 million banknotes, MDL 200 – 97.1 million banknotes, MDL 500 – 14.4 million banknotes and MDL 1,000 – 7.1 million banknotes.

The nominal values structure of banknotes in circulation at the end of 2023 is shown in the chart 6.3.

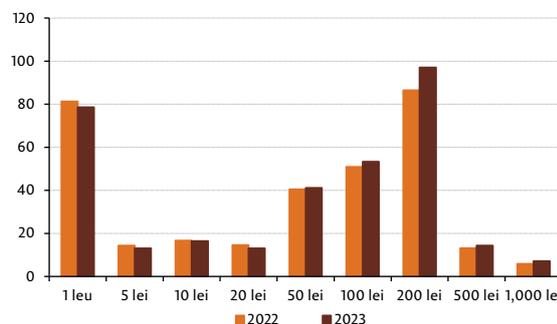
At the end of 2023, there were MDL 113.5 million coins in circulation, their total value amounted to MDL 246.2 million, both the quantity and the value index being up by about one third

Chart 6.1: Nominal value development of banknotes in monetary circulation in value terms (MDL million)



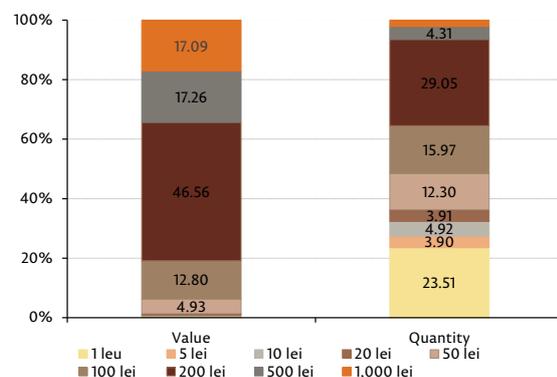
Source: NBM

Chart 6.2: Nominal value development of banknotes in monetary circulation in quantitative terms (million banknotes)



Source: NBM

Chart 6.3: Nominal value structure of banknotes in circulation at the end of 2023



Source: NBM

⁵⁸Including cash balance in the central cash office

(+32.5% and +37.3% respectively) compared to 2022 (Charts 6.4 and 6.5).

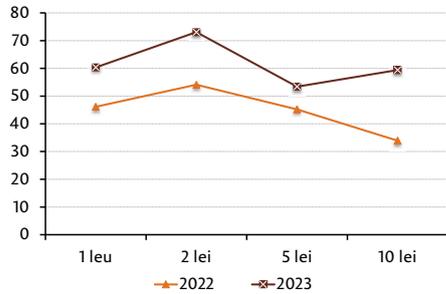
The number of MDL coins in circulation increased for all nominal values, predominantly the MDL 1 and MDL 2, as a consequence of the replacement of the MDL 1 and MDL 5 nominal value banknotes, which were gradually withdrawn from circulation as they were worn out. In terms of quantity, at the end of the reporting period, the MDL 1 and MDL 2 coins accounted for 85.4% of all MDL coins in circulation (Chart 6.6). The highest share in the total value of MDL coins in circulation was also in 2023 for the MDL 2 coin (29.7%).

At the end of 2023, there were 960.5 million divisible coins in circulation, equivalent to MDL 140.8 million, with the quantity value increasing by 2.5% and the value by 2.8% compared to the previous year (Charts 6.7 and 6.8).

The increase in the quantity of divisible coins in circulation is mainly due to the increase in the number of 10 bani and 25 bani nominal value coins.

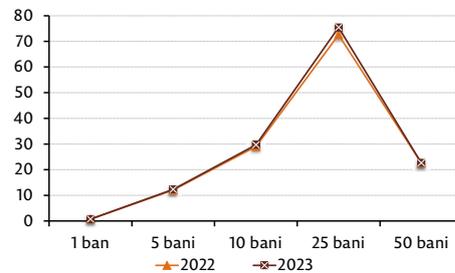
At the end of the reporting year, the 25 bani coin held the largest share in the structure of coins in terms of both quantity and value, with 31.4% and 53.6% respectively, followed by the 10 bani coin with 30.9% and 21.1% respectively (Chart 6.9).

Chart 6.4: Nominal value development of MDL coins in monetary circulation in terms of value (MDL million)



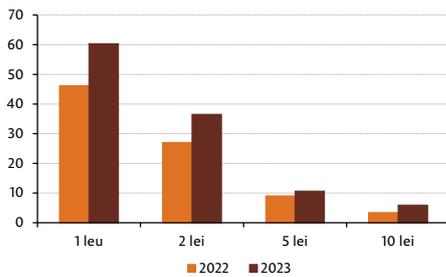
Source: NBM

Chart 6.7: Nominal value development of divisible coins in monetary circulation in terms of value (MDL million)



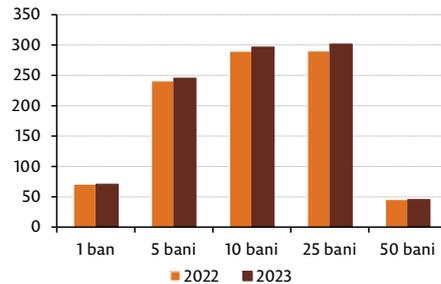
Source: NBM

Chart 6.5: Nominal value development of MDL coins in monetary circulation in terms of quantity (MDL million)



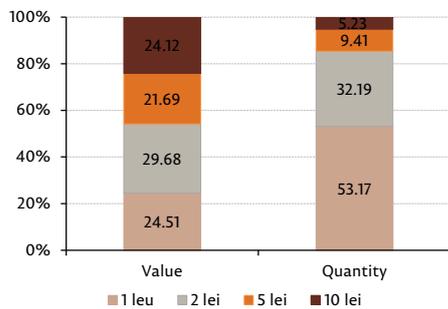
Source: NBM

Chart 6.8: Nominal value development of divisible coins in monetary circulation in terms of quantity (million coins)



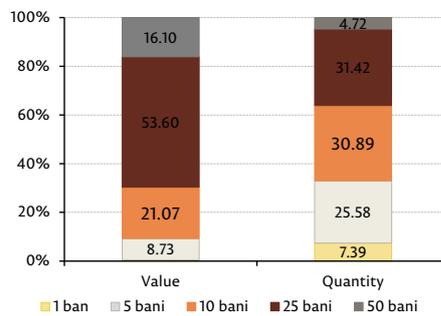
Source: NBM

Chart 6.6: Nominal value structure of MDL coins in circulation at the end of 2023



Source: NBM

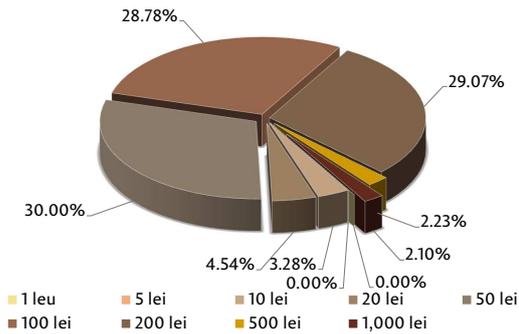
Chart 6.9: Nominal values structure of divisible coins in circulation at the end of 2023



Source: NBM

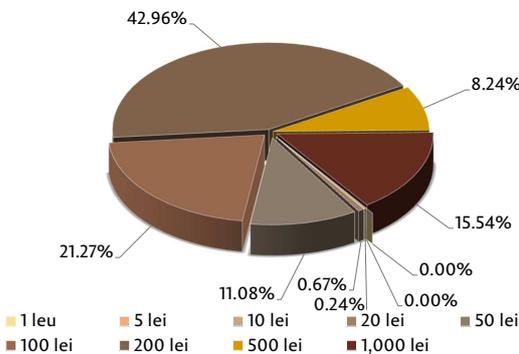
6.2 Issuing, withdrawing and processing cash

Chart 6.10: Banknotes issued in 2023 in quantitative terms



Source: NBM

Chart 6.11: Banknotes issued in 2023 in value terms



Source: NBM

During 2023, the National Bank of Moldova put into circulation cash in the total amount of MDL 9,080.2 million⁵⁹, about 13.8% less than in 2022.

The banknotes issued in 2023 amounted to MDL 9,009.5 million (of which MDL 7,254.9 million are modernized banknotes), and in terms of quantity – 66.6 million banknotes, with a decrease of about 14.0% and 15.3%, respectively, compared to the previous year.

The number of banknotes in circulation continued to decrease for the MDL 1, MDL 5 and MDL 10 nominal value banknotes, in the context of their gradual replacement by MDL coins, and a downward trend for the MDL 20 nominal value banknotes.

According to the nominal values structure, the quantity of banknotes put into circulation amounted to: MDL 10 – 2.2 million banknotes, MDL 20 – 3.0 million banknotes, MDL 50 – 20.0 million banknotes, MDL 100 – 19.2 million banknotes, MDL 200 – 19.3 million banknotes, MDL 500 – 1.5 million banknotes and MDL 1,000 – 1.4 million banknotes.

The nominal values structure of banknotes in circulation is presented in terms of quantity and value in chart 6.10 and chart 6.11 respectively.

The MDL coins, including commemorative coins, issued in 2023, amounted to MDL 66.9 million in value, about 6.1% more than in 2022, and to 27.9 million coins in quantity, about 0.2% less than in 2022.

The quantitative structure by nominal values of MDL coins issued in 2023 indicates: for MDL 1 – 14.2 million coins, MDL 2 – 9.5 million coins, MDL 5 – 1.6 million coins, MDL 10 – 2.5 million coins, and for commemorative coins – 0.1 million coins.

The share per each nominal value of MDL coins issued is presented, in terms of quantity and value in the chart 6.12 and chart 6.13 respectively.

The divisible coins issued in 2023 amounted to MDL 3.8 million in value and 23.3 million coins in quantity, about 2.2% and 5.0% less than in 2022, respectively.

The nominal values structure of divisible coins issued has changed quantitatively compared to 2022 and indicates: for 5 bani – 5.0 million coins, 10 bani – 6.7 million coins, 25 bani – 11.5 million coins.

The share per each nominal value of divisible coins issued in 2023 is presented, in terms of quantity and value, in the chart 6.14 and chart 6.17 respectively.

⁵⁹Excluding jubilee and commemorative banknotes and coins

During 2023, 56.2 million banknotes (about 22.6% less than in 2022) were returned to the central bank through deposits made by licensed banks, which amounted to MDL 4,770.5 million (about 36.5% less than in 2022). The quantitative and value share of banknotes by nominal values withdrawn from circulation is shown in the chart 6.15 and chart 6.18 respectively.

In 2023, the National Bank processed 59.7 million banknotes (16.3 million banknotes less than in 2022) in the exercise of its tasks related to maintaining the quality of banknotes in circulation, by checking both authenticity and quality. Following automated processing, about 26.9 million banknotes were withdrawn as unfit for monetary circulation.

In 2023, the National Bank ensured the necessary cash for the smooth operation of money circulation in terms of quantity, value and nominal values structure, as well as took appropriate measures to ensure the quality of currency in circulation.

Also, in 2023, when we marked the 30th anniversary of the introduction of the national currency in the Republic of Moldova, during the visits to the NBM's exhibition hall organized as part of the financial education events, the National Bank constantly informed the public about the security features of the national currency, in order to raise awareness on the methods of verifying the authenticity of banknotes and coins issued by the central bank.

Counterfeits recorded for national currency

During 2023, counterfeits⁶⁰ of banknotes registered in the banking system totaled 536 pieces, down by about 2.0% compared to 2022. Compared with the total number of 334.2 million genuine banknotes in circulation at the end of the reporting period, the number of counterfeits remained low, at 1.6 pieces per 1 million genuine banknotes in circulation (compared with 1.7 pieces in 2022).

The highest number of counterfeits was recorded for the MDL 100 nominal value banknote, with 216 pieces, followed by the MDL 200 nominal value banknote, with 133 counterfeits and the MDL 20 nominal value banknote, with 128 counterfeits.

The share of counterfeits by nominal values identified during 2023 and 2022 is shown in the chart 6.16 and chart 6.19 respectively.

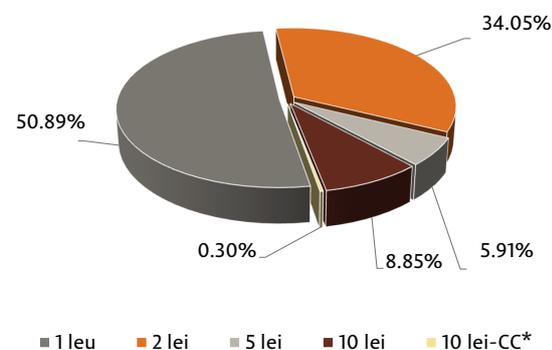
Throughout 2023, the NBM regularly cooperated with the Ministry of Internal Affairs in withdrawing counterfeit or suspect banknotes from circulation and, through the Internal Counterfeit Recording System, continued to ensure that the banking community was kept informed on an operational basis about the methods of detection and withdrawal of counterfeits.

In order to protect the national currency against forgery/counterfeiting, the National Bank emphasizes the importance of the general public's awareness of the security features of the national currency⁶¹ and of exercising caution against this phenomenon when making daily cash payments, verifying the authenticity of banknotes and coins. In the case of suspected counterfeit banknotes, inform the police immediately.

⁶⁰Counterfeits or suspected counterfeits until the results of an expert opinion are issued

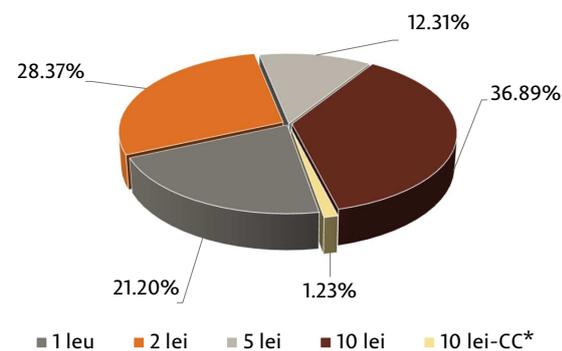
⁶¹<https://www.bnm.md/ro/content/elementele-de-siguranta-pe-leul-moldovenesc>

Chart 6.12: MDL coins issued in 2023 in terms of quantity



Source: NBM
*commemorative coins

Chart 6.13: MDL coins issued in 2023 in terms of value



Source: NBM
*commemorative coins

Chart 6.14: Divisible coins issued in 2023 in terms of quantity

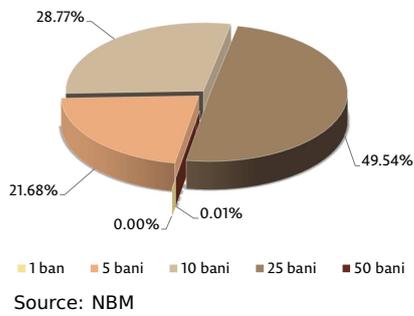


Chart 6.17: Divisible coins issued in 2023 in terms of value

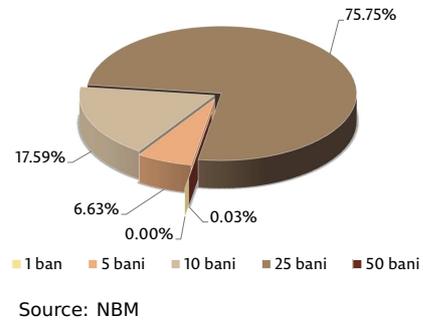


Chart 6.15: Banknotes withdrawn from circulation in 2023 in quantitative terms

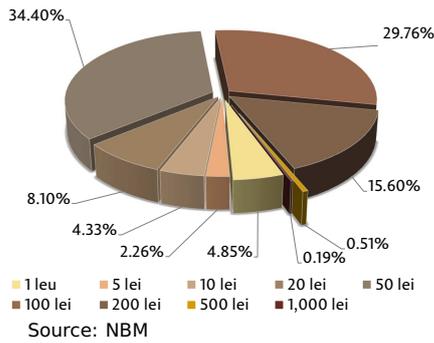


Chart 6.18: Banknotes withdrawn from circulation in 2023 in terms of value

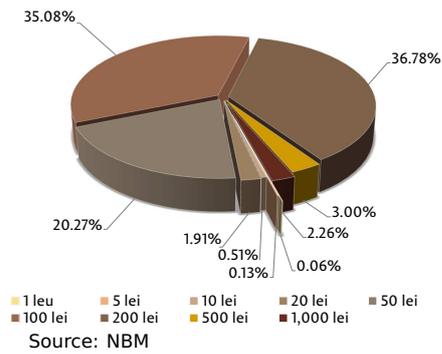


Chart 6.16: Structure by nominal values of counterfeit banknotes detected in 2023 in terms of quantity

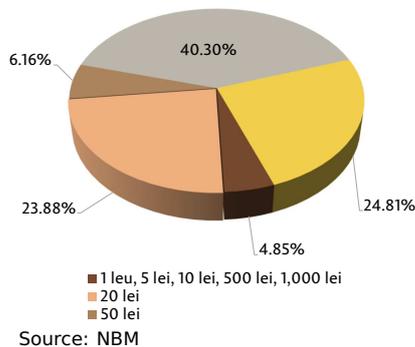
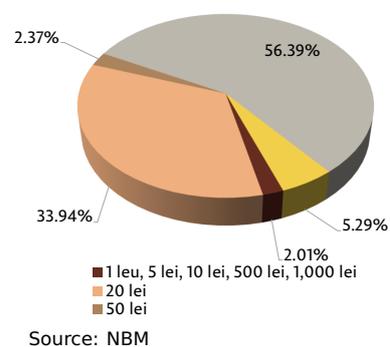


Chart 6.19: Structure by nominal values of counterfeit banknotes detected in 2022 in terms of quantity



6.3 Numismatic issue

At the end of 2023, there were 46.9 thousand commemorative banknotes and 124.5 thousand jubilee and commemorative coins in circulation.

Pursuant to the Law on the National Bank of Moldova No. 548/1995, the National Bank of Moldova launched in 2023 a new numismatic issue of five commemorative and jubilee coins with various themes, of which two coins dedicated to the anniversary of the Moldovan leu made of gold and silver. The initial mintage of the gold coins is 300 units and of the silver coins – 500 units. These coins may be issued additionally until the total mintage for each coin reaches 5,000 copies.

The mintage of the coins in the 2023 issue varies depending on the theme and the metal from which they are made, with a total of 1,500 silver coins and 300 gold coins issued.

Table A.18 includes details on the jubilee and commemorative coins for the 2023 issue.

Chapter 7

Legal and regulatory framework development activity

7.1 Prudential regulation, regulation of accounting records in banks

During 2023, in order to implement the Law on the activity of banks, the National Bank of Moldova introduced amendments to *Regulation No. 292/2018 on the requirements for members of the governing body of the bank, financial holding or mixed holding company, heads of the branch of a bank in another state, persons holding key positions and for the liquidator of the bank in liquidation*. The amendments contain concretizations with regard to the applicability of the elements within the interviewing procedure, including provisions related to the obligation of interviewing by the National Bank of Moldova of the persons appointed to the positions of heads of the bank's branch in another state, chief accountant, chief financial officer of the bank/branch of the bank in another state, as well as heads of the bank's control function.

Similarly, amendments were made to *Regulation No. 147/2019 on branches and secondary offices of banks* which provide for the improvement of the existing regulatory framework in the context of digitalization of the business processes related to the supervision of banks, including the receipt of information on branches and secondary offices through the IT solutions of the National Bank of Moldova. Concomitantly, in the context of prior approval for the distribution of profits to shareholders, the inclusion of the option to issue an approval for a lower amount than that requested by the bank, if the requested amount may lead to non-compliance with own funds requirements or other prudential indicators, or to jeopardise the bank's stability.

Aligning the banking legislation of the Republic of Moldova to international standards by improving the quantitative and qualitative mechanisms of banks' management will contribute to the promotion of a safe and stable banking sector, to 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, to the development of new financial products and services.

7.2 Foreign exchange regulation

In 2023, a series of important amendments to the Law No. 62/2008 on foreign exchange regulation (operated by Law No. 363/2022 on the amendment of some normative acts) entered into force.

The purpose of the amendments to Law No. 62/2008 is to improve the legal framework in the foreign exchange field, taking into account the commitments of the Republic of Moldova under the Association Agreement with the European Union and to amend the legal framework in some related areas.

The amendments introduced are aimed at the implementation by the NBM of the solution for streamlining the licensing, authorization and notification process, which concerns the licensing of foreign exchange offices and hotels that intend to perform foreign exchange activity in cash, which allows the use of digital technologies and the automation of the licensing process of foreign exchange activity of foreign exchange offices and hotels.

The amendments introduced are aimed at strengthening the process of licensing and supervision of foreign exchange units, administrators, shareholders/ associates of foreign exchange offices and hotels, their beneficial owners, so that the NBM, as a supervisory authority, has legal instruments to ensure adequate supervision of the activity of foreign exchange units. Some restrictions have been established (by deprivation of the right to perform foreign exchange activity) regarding the administrators, associates/ shareholders of the foreign exchange offices, beneficial owners of the foreign exchange offices which systematically violate the provisions of the foreign exchange legislation related to the performance of the 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 other addresses than the ones indicated in the license shall serve as a ground for license withdrawal.

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

The law includes rules aimed at ensuring that the foreign exchange units conduct their activity in strict compliance with the legal provisions and do not allow the violation of the rights of their customers, in particular in the part related to the revocation of foreign exchange operations, by establishing the requirement for the foreign exchange units to have surveillance and video recording systems of their activity.

The amendments related to the authorization of foreign exchange operations by the NBM concern:

- bringing the procedure for authorization of foreign exchange operations in line with the provisions of the Administrative Code in the part referring to the suspension of the administrative procedure;
- establishing as a ground for refusal for the foreign exchange operation authorization – the 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 state foreign exchange policy.

The threshold for notification to the NBM of loans/ credits received by residents from non-residents was lowered from EUR 50,000 to EUR 10,000, in order to ensure a higher degree of accuracy of statistics related to the external sector and to analyze the evolution of the foreign exchange market, foreign exchange turnover from the supervisory and anti-fraud perspective, financial stability.

In order to adjust the secondary normative acts in accordance with the provisions of the Law on Foreign Exchange Regulation, the following have been amended:

Instruction No. 12/2020 on the notification of external commitments, Instruction No. 11/2009 on the reporting of foreign exchange operations by licensed banks and Regulation No. 29/2018 on the conditions and manner of carrying out foreign exchange operations, in the context of excluding the need for notification and reporting to the NBM of guarantees issued by non-resident guarantors in favour of residents, lowering the threshold for notification to the NBM of loans/ credits received by residents from non-residents from EUR 50,000 to EUR 10,000 (or their equivalent), amending the procedures for notification and reporting to the NBM, establishing the obligation for resident legal entities to notify external commitments and report to the NBM on the operations carried out exclusively in electronic form.

Regulation No. 304/2016 on the licensing of foreign exchange units was amended in the context of the implementation of the solution for streamlining the licensing process of foreign exchange offices and hotels, carrying out other procedures regulated by Law No. 62/2008. Thus, the foreign exchange offices and hotels shall submit to the NBM the documents related to the licensing process through the NBM's WEB portal (component of the NBM's 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 into a new normative act, namely into the Regulation on the performance of controls and application of sanctions to foreign exchange units.

Regulation No. 335/2016 on the activity of foreign exchange units has been adjusted in order to regulate the requirement for foreign exchange units to have in place surveillance and video recording systems of their activity (in order to prevent the violation of the rights of the foreign exchange units' customers), as well as to stop the foreign exchange activity in case of technical failures or other incidents.

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 Instruction No. 296/2016 on the reporting to the National Bank of Moldova by the foreign exchange offices and hotels were amended in the context of the implementation of the solution for streamlining the NBM's licensing, authorization and notification process, in the part related to the submission to the NBM by the foreign exchange offices and hotels of the reports in electronic form, through the NBM's WEB portal.

Regulation No. 216/2015 on the accounts of residents abroad, Regulation No. 51/2009 on the authorization of certain foreign exchange operations by the National Bank of Moldova, Regulation No. 165/2019 on some aspects related to the export and import of cash and traveller's cheques by banks and Regulation No. 14/2009 on the issuance by the National Bank of Moldova of authorizations for the removal of funds from the Republic of Moldova were amended in order to regulate the manner of submission of the application and documents for obtaining the authorization, to specify the conditions for authorization of foreign exchange operations, to update the requirements regarding the documents to be attached to the application for the issuance of the NBM authorization, to optimize the list of documents for obtaining the authorization, to report to the NBM, to establish the requirement to reflect the source of origin of the funds to be used for performing foreign exchange operations.

7.3 Prudential regulation of the financial system

According to the provisions of Law No. 178/2020, as of July 1, 2023, the National Bank of Moldova is the competent authority for licensing/ authorization, regulation and supervision of the non-banking financial sector taken over from the National Commission for Financial Markets.

At the same time, according to Article X paragraph (6) of Law No. 214/2023 on the amendment of some normative acts (ensuring the transfer of duties in accordance with Law No. 178/2020 on the amendment of some normative acts), the process of elaboration of draft normative acts initiated by the National Commission for Financial Markets until July 1, 2023 will continue from the stage at which these drafts were at July 1, 2023. Thus, within the National Bank, it was continued the promotion of draft normative acts related to the audit of insurance or reinsurance companies; requirements to own funds, assets admitted to cover technical reserves and minimum capital requirement, solvency and liquidity of the insurance or reinsurance company; training requirements and professional competence in insurance; requirements for persons holding managerial positions in insurance and/ or reinsurance intermediaries; the Register of insurance and bancassurance agents and the obligations of insurers regarding the supervision of such agents, as well as drafts of a series of normative acts for the implementation of Law No. 92/2022 on insurance or reinsurance activity.

At the same time, as of July 1, 2023, the National Bank of Moldova became a beneficiary of the Twinning technical assistance project "Strengthening supervision, corporate governance and risk management in the financial sector", implemented with the support of the European Union, in order to bring the normative acts in line with the European framework.

Through this project, the National Bank of Moldova received support to align national legislation with Directive 2009/138/EC of the European Parliament and of the Council of November 25, 2009

on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II).

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

The purpose 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.

Also, within the framework of the above mentioned project, assistance was obtained in order to amend the domestic normative framework related to motor third party liability, with a view to ensuring its alignment with the European framework in this field (EU Directive 2009/103/EC of the Parliament (MTPL)).

In this context, with the support of the Twinning project experts, the National Bank of Moldova has conducted activities in order to transpose the European normative framework into the domestic legislation.

Chapter 8

International relations

8.1 International collaboration

International Monetary Fund (IMF)⁶²

During 2023, the cooperation between the Republic of Moldova and the IMF developed mainly in the context of the implementation of the 40-month program supported by the IMF through the Extended Credit Facility (ECF)⁶³ and the Extended Fund Facility (EFF)⁶⁴, approved in December 2021. The initial amount of the program was USD 558.3 million (400 million Special Drawing Rights (SDRs)), which was supplemented in 2022 by about USD 260.11 million (SDR 194.26 million). It is worth noting that from the inception to the end of 2023, from the total amount of the program supported by the ECF and the EFF, an amount of USD 468.31 million (SDR 348.5 million) was disbursed.

In January 2023, following the finalization by the IMF's Board of Executive Directors⁶⁵ of the second evaluation of the above-mentioned program, the Republic of Moldova benefited from about USD 27 million (SDR 20.65 million)⁶⁶ for the budget support. During the assessment, the IMF representatives noted the firm implementation of the program by the authorities of our

⁶²<http://bnm.md/ro/content/relatia-republicii-moldova-cu-fondul-monetar-international-fmi>

⁶³The Extended Credit Facility (ECF) is a financing instrument of the IMF through which eligible (low-income) countries can receive financial assistance on concessional terms, in a more flexible and better tailored form to their various needs, including during crises (e.g., in the case of protracted balance of payments problems).
<https://www.imf.org/en/About/Factsheets/Sheets/2023/Extended-Credit-Facility-ECF>

⁶⁴The Extended Fund Facility (EFF) is an IMF financing instrument for countries with large balance of payments imbalances caused by structural impediments or slow economic growth and inherently precarious balance of payments positions.
<https://www.imf.org/en/About/Factsheets/Sheets/2016/08/01/20/56/Extended-Fund-Facility>

⁶⁵The IMF's Board of Executive Directors is one of the IMF's bodies, being composed of 24 Executive Directors (elected by member countries) and the Managing Director of the IMF, who chairs the meetings of this Board. The Executive Board is responsible for running the day-to-day activity of the IMF and usually meets several times each week and largely carries out its work on the basis of documents prepared by the IMF management and staff.
<https://www.imf.org/external/np/sec/memdir/eds.aspx>

⁶⁶The Special Drawing Right (SDR) is an international reserve asset created by the IMF. The value of the SDR is determined on the basis of a currency basket consisting of 5 currencies: the US dollar, the euro, the pound sterling, the Chinese Yuan Renminbi and the Japanese Yen.
<https://www.imf.org/en/About/Factsheets/Sheets/2016/08/01/14/51/Special-Drawing-Right-SDR>
<https://imf.md/press/pressw/press-230109.html>

country, through the successful implementation of commitments in the areas of financial governance, and welcomed the adoption of the law that will ensure the strengthening of the autonomy and institutional governance of the National Bank of Moldova (NBM). At the same time, the importance of protecting the independence of the NBM, which has a fundamental role in strengthening the credibility of the NBM and the effectiveness of the policies promoted by it, was also mentioned.

In April 2023, following an IMF staff mission from March 1-14, 2023, the IMF's Board of Executive Directors completed the third evaluation of the program with the Republic of Moldova and noted that, despite the crises facing our country, inflation has declined, the fiscal situation remains good, international reserves continue to provide adequate safeguards against external shocks, and licensed banks are well capitalized, liquid and profitable. Thus, with a view to budget support, the Republic of Moldova has obtained immediate access to about USD 96 million (SDR 70.95 million).

Between September 25 and October 16, 2023, a team of IMF experts held discussions in Chisinau and remotely with representatives of the authorities of our country in the context of the fourth evaluation of the program supported by the ECF and EFF and the new program supported by the Resilience and Sustainability Facility (RSF). During the evaluation the following were assessed: progress in implementing structural reforms, including in the areas of budgetary governance and financial sector supervision, the well calibrated monetary policy of the NBM, sufficient foreign exchange reserves to withstand external shocks, a resilient financial sector and progress in implementing reforms to strengthen financial supervision, as well as efforts to develop the capital market and increase financial inclusion.

The RSF program has a duration of 22 months and provides financing of around USD 169 million (SDR 129.375 million) and aims to support the authorities in implementing the reform agenda to overcome the challenges caused by climate change. The program will focus on improving the legal, institutional and financial environment to accelerate the implementation of climate measures (including climate-smart infrastructure and energy sector policies) and on mobilizing green finance.

At the same time, consultations between the IMF and the Republic of Moldova on the basis of Article IV of the IMF Articles of Agreement⁶⁷. The discussions covered topics such as reforms to promote inclusive, sustainable and green economic growth and Moldova's integration into the European Union.

The findings of the IMF mission were also supported by the IMF Executive Board on December 7, 2023, finalizing the fourth evaluation of the program with the Republic of Moldova supported through ECF and EFF. Thus, our country was able to access the tranche amounting to about USD 95 million (SDR 70.95 million). The Board of Executive Directors also approved the extension of

⁶⁷IMF engages annually (as a rule) in bilateral discussions with member states, in accordance with the provisions of Article IV of the IMF Articles of Agreement, were finalized for the year 2023 within the framework of the mission. An IMF mission visits the member state, collects economic and financial information and discusses with the authorities the economic policies and developments in the country. Following the visit, the mission prepares a report which forms the basis for discussions in the IMF Executive Board.

the existing program by 6 months, until October 19, 2025. At the same time, the above-mentioned RSF Program was approved.

In 2023, total payments related to the servicing of loans granted by the IMF to the NBM amounted to SDR 7.9 million (equivalent to USD 10.5 million), of which payments for the principal amount of the loan amounted to SDR 5.9 million (equivalent to USD 7.9 million), and payments for interest on loans amounted to SDR 2.0 million (equivalent to USD 2.7 million).

As of December 31, 2023, the balance of financial commitments to the IMF, from which the NBM has benefited, amounted to: EFF – SDR 35.8 million (USD 48.0 million) and ECF – SDR 6.4 million (USD 8.6 million).

During 2023, the IMF carried out the exercise to review the IMF membership quotas in accordance with the IMF Articles of Agreement⁶⁸, which provides for a periodic review, not more than once every five years, of the quotas of its members. Thus, on December 15, 2023, the IMF's Board of Governors completed the 16th General Review of Quotas, which was geared towards the need to strengthen the IMF's financing capacity, and approved a 50% increase in IMF members' quotas (USD 320 billion or SDR 238,6 billion), the replacement of Bilateral Borrowing Agreements from IMF resources and the reduction of borrowing agreements under the New Borrowing Arrangements⁶⁹. Thus, as a result of the above-mentioned increase, the total amount of quotas will be USD 960 billion (SDR 715.7 billion). Governors representing 92.86% of the total voting rights voted in favour of the Resolution on the quota increase, exceeding the 85% required for the approval of the Resolution. In this context, following the adoption of Resolution No. 79-1, each IMF member is required to submit his/her consent on his/her quota increase by November 15, 2024.

Taking into consideration that the Republic of Moldova is represented in the IMF Board of Governors by the members of the Executive Board of the NBM, who hold the positions of Governor and Alternate Governor, respectively, in this Board, the representatives of the NBM participated in the Spring and Annual Meetings of the IMF and the World Bank Group, which took place on April 11-14, 2023, in Washington, USA, and on October 9-15, 2023, in Marrakech, Morocco. During these meetings, a series of topics of great actuality and interest were discussed, including the evolution and recovery of the global economy, the challenges and risks it is facing, financing to strengthen countries' resilience to climate change, the principles of global cooperation, economic reforms, regional economic prospects, support for low-income countries, central banks' strategies to reduce inflation, artificial intelligence, etc.

⁶⁸The Articles of Agreement of the International Monetary Fund can be accessed on the IMF website at the following address:

<https://www.imf.org/external/pubs/ft/aa/pdf/aa.pdf>

Excerpt from the IMF Articles of Agreement:

"Article III (Quotas and Subscriptions), Section 2 (Adjustment of quotas)

(a) The Board of Governors shall at intervals of not more than five years conduct a general review, and if it deems it appropriate **propose** an adjustment, of the quotas of the members."

⁶⁹The Republic of Moldova is not a party to the New Borrowing Arrangements nor to the Bilateral Borrowing Arrangements.

The Governor of the NBM also attended the meeting of the IMF Constituency⁷⁰, which took place from May 24-27, 2023, in Montenegro and where they discussed about migration and the coordination of macroeconomic, financial and structural policies to fight high inflation and avoid crises and recessions.

European Union (EU)⁷¹

The European integration of the Republic of Moldova has become a major national desideratum and during 2023 the actions aimed at achieving this goal were continued.

Thus, following the submission by the Republic of Moldova of contributions to the EU Enlargement Package – a set of documents on EU enlargement policy, on November 8, 2023, the European Commission adopted the Enlargement Package for 2023, in which it recommended to the European Council to start accession negotiations with the Republic of Moldova. Thus, the progress of the Republic of Moldova was for the first time comprehensively assessed in the EU Readiness Assessment cycle and reflected in a detailed Report.

The detailed report on the Republic of Moldova contains an analysis of Moldova's level of preparedness to meet the criteria for EU membership. The Report is structured by EU accession negotiation chapters and contains findings, conclusions and recommendations for Moldova to take into account in order to move forward in the EU accession process.

At the same time, the detailed report of the European Commission reflects the level of preparedness of the Republic of Moldova for EU accession, as assigned by the Commission, with regard to some of the chapters relevant for the NBM's activity. In this context, with reference to the chapters that cover the areas of competence of the NBM, we note that the Commission has noted some progress in Chapter 4 "Free movement of capital", Chapter 9 "Financial services" and Chapter 17 "Economic and monetary policy".

Thus, with reference to Chapter 4 "Free movement of capital", the Commission noted that Moldova has progressed by 0.5 points compared to 2022 and is between a certain and moderate level of preparedness in this area. Some progress has been registered following the adoption of a new legislation to align national legislation with the 5th Anti-Money Laundering Directive. National legislation has also been aligned with the EU Payment Services Directive 2. Moldova is also preparing to apply for membership of the Single Euro Payments Area (SEPA).

⁷⁰Within the IMF, the Republic of Moldova is part of the group of countries (constituency) that includes: Andorra, Armenia, Belgium, Bosnia and Herzegovina, Bulgaria, Cyprus, Croatia, Georgia, Israel, Luxembourg, the Republic of North Macedonia, Montenegro, the Kingdom of the Netherlands, Romania, the Republic of Moldova and Ukraine. The Executive Director at the IMF, representing the countries in this group since November 2020, is Paul Hilbers, elected for a 4-year term.

⁷¹The cooperation relations between the Republic of Moldova and the EU are developed on the basis of the Association Agreement between the Republic of Moldova on the one hand, and the European Union and the European Atomic Energy Community and their Member States, on the other hand, signed in Brussels on June 27, 2014, in force since July 1, 2016 (provisionally applied since September 1, 2014).

In Chapter 9 "Financial Services", Moldova has a certain level of preparedness and has made satisfactory progress (plus 1 point) compared to the previous year by partially aligning its legislation with *Directive 2009/138/EC on the taking-up and pursuit of the business of insurance and reinsurance* (the so-called Solvency II Directive), which requires insurance and reinsurance undertakings in the EU to have sufficient financial resources and lays down rules on governance, risk management, transparency and prudential rules, and *Directive 2009/103/EC on motor third party liability insurance and the enforcement of the obligation to insure against such liability*, which provides for the establishment of a mechanism to compensate victims of road accidents in the event of insolvency of the liable insurer.

In Chapter 17 "Economic and monetary policy", according to the Commission's opinion, Moldova was assessed as having a certain level of preparedness in the area of economic and monetary policy. However, progress was noted during the reporting period on the drafting of the package of legislative amendments aimed at strengthening the institutional autonomy and governance of the central bank, as well as the strengthening of the central bank's capacity as part of the financial sector surveillance reform⁷².

Subsequently, the European integration process of the Republic of Moldova has advanced significantly, culminating in the EU leaders' decision of December 14, 2023 to open accession negotiations with the Republic of Moldova and their invitation to the EU Council to adopt the negotiating framework, after the completion of the steps set out in the Commission's report.

It is important to note that the NBM, as a central bank, actively promotes legislative, institutional and functional amendments to support the fulfillment of the economic criterion for EU accession, thus contributing to Moldova's rapprochement to the EU.

In this context, during 2023, the representatives of the NBM continued to carry out activities, according to their areas of competence, within the working groups established by the Coordination Mechanism of the European Integration Process of the Republic of Moldova, approved by Government Decision No. 868/2022, which aims to organize the processes of inter-institutional coordination in accordance with the EU accession criteria and gradual preparation of the Republic of Moldova for the opening of EU accession negotiations (the NBM participates in 12 working groups).

Thus, in the process of preparation for EU accession, during 2023, the NBM participated in the elaboration of the compartments corresponding to its field of activity included in the policy and reporting documents prepared by the Republic of Moldova, namely:

- (i) presented the contributions to the EU Enlargement Package for 2023;
- (ii) participated in the elaboration of the Economic Reform Program for the years 2024-2026, which sets the medium-term macro-fiscal policy framework and includes an agenda

⁷²https://www.eeas.europa.eu/delegations/moldova/comisia-adopt%C4%83-pachetul-de-extindere-pentru-anul-2023-recomand%C3%A2nd-%C3%AEnceperea-negocierilor-cu-ucraina_ro?s=223

of structural reforms aimed at ensuring competitiveness and economic growth, which is assessed by both the European Commission and the European Central Bank;

- (iii) participated in the elaboration and updating of the National Action Plan for Moldova's accession to the EU for the years 2023-2027⁷³;
- (iv) participated in the meetings of the cooperation platforms established within the framework of the RM-EU Association Agreement: the Association Committee RM-EU in the trade configuration of October 5-6, 2023, the RM-EU Association Committee of November 16-17, 2023, the RM-EU Subcommittee for economic cooperation and other sectors (Cluster I) of November 22, 2023, where topics such as the macroeconomic situation and prospects of the Republic of Moldova, progress of structural reforms, the situation of the financial sector, etc. were discussed.

Also, during 2023, the NBM continued to strengthen cooperation relations with European institutions, such as the European Central Bank, the European Banking Authority, the European Commission's Directorate General for Economic and Financial Affairs (DG ECFIN), the Directorate General for Financial Stability, Financial Services and Capital Markets Union (DG FISMA), as well as with EU central banks responsible for the supervision of EU credit institutions with branches in the Republic of Moldova.

World Bank

In 2023, the NBM continued the dialog with the World Bank, during which the necessary information was presented for the objective assessment of the situation in the domestic financial system, in order to facilitate the decision-making of this international financial institution to continue to provide financing in various priority areas for the Republic of Moldova.

In March 2023, the World Bank Group's Board of Executive Directors approved a new Country Partnership Framework (CPF) for Moldova for the period 2023-2027⁷⁴, aimed at supporting the sustainable recovery of our country. Thus, the new CPF provides financing and analytical and advisory activities for the implementation of reform programs aimed at restoring economic growth and job creation. It should be noted that the NBM participated in the endorsement process of the above-mentioned document.

At the same time, it should be noted that the World Bank regularly organizes trainings for the NBM representatives in the areas of activity of the central bank such as: foreign exchange reserves management; risk management, compliance and internal audit; banking supervision, etc.

⁷³https://www.legis.md/cautare/getResults?doc_id=139891&lang=ro

⁷⁴<https://www.worldbank.org/ro/news/press-release/2023/03/14/moldova-to-advance-green-inclusive-and-competitive-development-agenda-supported-by-new-world-bank-group-framework>

European Bank for Reconstruction and Development (EBRD)⁷⁵

EBRD is one of the major international financial institutions providing continuous and valuable support to the Republic of Moldova, particularly in the process of developing and strengthening the banking sector.

On February 23, 2023, the EBRD Board of Directors approved the Country Strategy for the Republic of Moldova for the period 2023-2028. One of the strategic priorities of this document is to support the development of resilient financial infrastructure by continuing active policy dialogue with other international partners, such as the International Monetary Fund and the European Union, to strengthen the resilience of the financial sector, including by harmonizing regulations with EU standards. It should be noted that the NBM has collaborated with the EBRD in order to finalize the above-mentioned strategy, as well as continues to cooperate with this institution in order to develop the banking sector in our country.

The presence of the EBRD as a shareholder in the banking sector contributes to the improvement of corporate governance, which complements the NBM's efforts to admit only quality shareholders in the sector, which fully meet the criteria of honorability and professionalism.

European Automated Clearing House Association (EACHA)⁷⁶

During 2023, the NBM continued to cooperate with EACHA by exchanging information and experience in the field of payment processing houses' activities. On May 9-10, 2023, the representatives of the NBM, as members of EACHA, participated in the "EACHA Payment Forum" organized in Budapest, Hungary. The participation in this event took place in the context of the realization of the strategic objectives of the NBM, namely, the accession of the banking sector to the Single Euro Payments Area (SEPA) and the implementation of instant payments.

International Operational Risk Working Group (IORWG)⁷⁷

In 2023, the NBM continued to participate in IORWG activities by providing responses to requests and studies initiated by the group,

⁷⁵<http://bnm.md/ro/content/relatia-republicii-moldova-cu-banca-europeana-pentru-reconstructie-si-dezvoltare-berd>

⁷⁶*European Automated Clearing House Association (EACHA)* is a non-profit organization of clearing system administrators and payment processing centres. Within the EACHA, several payments industry working groups are organized to address issues such as interoperability within the Single Euro Payments Area (SEPA). EACHA currently consists of 26 members from 23 countries. The NBM, as the administrator of the Automated Interbank Payment System (AIPS), became a member of EACHA in 2014.

⁷⁷*International Operational Risk Working Group (IORWG)* is a working group for central banks and monetary and supervisory authorities, which aims to exchange experiences, innovate methodological frameworks and share best practices among central banks in the field of operational risk management. The NBM became a member of the IORWG in 2015.

among the most important being: the "Survey on Operational Risk Severity Matrix", "Survey on Strategic Risks Management", "Survey on Maturity Model & Trends and Best Practices", "Survey on ORM Model & Governance", "Survey on Vendor Risk Management".

The Centre of Excellence in Finance (CEF)⁷⁸

On June 22, 2023, the representatives of the NBM participated in the Annual Meeting of the CEF Governing Council, which took place in Tirana, Albania. During the meeting, the following topics were approved: the CEF activity report for the year 2022 and the Director's report, changes in the organizational structure of the CEF, updating of the work program, election of the CEF Governing Council Chair, etc. Thus, according to the rotation principle, the Governor of the NBM was elected as the Chair of the CEF Governing Council for the period June 2023-June 2024.

Also during the above-mentioned event, the representatives of the NBM participated in the High Level Conference on Green Financing in the South-Eastern Europe, at which the progress achieved was reviewed and next steps were planned on how the South-Eastern Europe region could make its contribution to making Europe the first climate-neutral continent by 2050.

The Group of Banking Supervisors from Central and Eastern Europe (BSCEE)⁷⁹

The Group of Banking Supervisors of Central and Eastern Europe (BSCEE) is a regional organization without legal personality, established in 1991 in Budapest. The BSCEE members are banking supervisory institutions from 24 countries. The purpose of BSCEE is to promote and maintain cooperation between banking supervisory authorities in Central and Eastern Europe, to serve as a high-level forum for the exchange of experience, supervisory techniques, information and know-how.

On June 7-9, 2023, the representatives of the NBM attended the 35th Annual Conference of the BSCEE, which took place in Sarajevo, Bosnia and Herzegovina, where the following topics were discussed: priorities and challenges in the field of regulation and supervision for 2023, the current situation of the banking sector and news in the regulatory field, the report of the BSCEE Secretariat, the amendment of the BSCEE Agreement, the election of the BSCEE Chair, etc.

⁷⁸*Centre of Excellence in Finance (CEF)* is an international organization with the mission to support the implementation of reforms in the areas of public finance and banking and finance in South-Eastern Europe through training activities. The CEF was established in 2001 in the framework of the Stability Pact for South-Eastern Europe by the Government of Slovakia, on the initiative of the Slovenian Ministry of Finance and in close cooperation with other Ministries of Finance of the former Yugoslav countries and Albania. In 2015 the CEF became an international organization after 14 successful years as a regional institution. The Republic of Moldova became a member of the CEF through the approval of Law No. 115/2015 for the ratification of the Agreement on establishing the Center of Excellence in Finance. The Republic of Moldova is represented in the Governing Council of the CEF by the NBM and the Ministry of Finance, each holding one voting right in the decision-making process.

⁷⁹https://www.bscee.org/o_nas/wspolpraca_miedzynarodowa/bscee_index

The NBM also continued its collaboration with BSCEE members during 2023, through the exchange of information and experience in the field of banking supervision and regulation.

Cooperation with other regional organisations

In the context of the taking over, as of July 1, 2023, of the regulatory competences in the fields of insurance, reinsurance and non-bank lending, the NBM representatives participated during 2023 in a series of events organized by international and regional organizations in the field.

Thus, on March 22, 2023, the representatives of the NBM participated in virtual format in the Eastern Cooperation Conference of the European Insurance and Occupational Pensions Authority – (EIOPA)⁸⁰, dedicated to regulators and supervisors from outside the European Economic Area in the Eastern European and Balkan areas interested in the implementation of European insurance regulation. The event placed particular emphasis on cooperation and exchange of supervisory experience, as well as on the possibilities for training and strengthening institutional capacities in the field.

The NBM representatives also participated in the 21st meeting of the Insurance Supervisory Initiative of Central, South-Eastern and Eastern European Authorities⁸¹ (Central Eastern and South-Eastern European Insurance Supervision Initiative – CESEE ISI), organized on April 19-20, 2023 in Budva, Montenegro, which addressed current topics in the field of insurance regulation and supervision.

Cooperation with other central banks and banking supervisory authorities of other countries

Throughout 2023, the National Bank of Moldova (NBM) cooperated with central banks, regulatory and supervisory authorities of other countries in order to fulfill its tasks, which is one of the international cooperation vectors of the NBM. This cooperation is focused on the exchange of information and experience, study visits, technical assistance, negotiation, conclusion and implementation of cooperation agreements to strengthen the financial sector in the Republic of Moldova.

One of the reliable partners with which the NBM has continued a fruitful cooperation in the reporting year is the **National Bank of Romania**. Thus, through a joint effort and in cooperation with the Academy of Economic Studies of the Republic of Moldova and the Academy of Economic Studies of Bucharest, the *School of Modern*

⁸⁰European Insurance and Occupational Pensions Authority (EIOPA) is part of the European system of financial supervision, which has the following responsibilities: to contribute to the stability of the financial system, to ensure the transparency of financial markets and products, and to contribute to the protection of policyholders and members and beneficiaries of pension schemes.

⁸¹The Insurance Supervisory Initiative of Central, South-Eastern and Eastern European Authorities was launched in 2011 by the Austrian Financial Market Supervisory Authority and the Hungarian Financial Supervisory Authority with the aim of strengthening cross-border cooperation between insurance supervisors from the region.

Finance program was launched, which comes to bring closer the specialized academic environment of the Republic of Moldova and Romania and to provide a good opportunity for Moldovan master students to observe and analyze the functioning mechanism of a central bank in the European Union, as well as other important financial institutions in Romania. Thus, the first two editions of this specialized program were held in 2023.

Additionally, during the reporting year, the NBM and the National Bank of Romania have been in dialog to provide a framework for cooperation in the field of bank resolution. Thus, based on the Cooperation Agreement between the National Bank of Moldova and the National Bank of Romania, signed on June 11, 2021, the two institutions are working together to sign a Cooperation and Information Exchange Agreement in the field of bank resolution. This agreement would foster the development of a framework for bilateral cooperation and exchange of information between authorities to facilitate the planning and implementation of the resolution of banks/ credit institutions, as well as to strengthen the institutional capacities of the signatory parties, related to their role and responsibilities in this field.

The **Bank of Lithuania** is also a central partner with which the NBM concluded a Memorandum of Understanding on March 21, 2023, replacing the 2017 Memorandum. The update of the cooperation framework between the NBM and the Bank of Lithuania marks the transition to a new stage of cooperation between the two institutions. The new Memorandum builds on the fruitful cooperation between the NBM and the Bank of Lithuania in the past and paves the way for deeper cooperation in the context of the Republic of Moldova's candidate status for accession to the European Union (EU). It aims to further develop a general framework for bilateral cooperation through exchange of information and experience in the areas of central bank activities such as financial market regulation and supervision, central bank governance, cooperation in the field of European integration and other areas of interest.

On the subject of concluding bilateral Memoranda of Understanding, the NBM is also engaged in dialog with the **Bulgarian Financial Supervisory Commission**. The need to formalize the cooperation between the two institutions stems from the presence of Bulgarian investments in the Moldovan banking and other sectors, as well as the international commitments set out in the Association Agreement between the Republic of Moldova and the EU. The purpose of this Memorandum is to cooperate and exchange information in the field of licensing, authorization, regulation and supervision of entities falling under the competence of the NBM and the respective Commission.

Cooperation with the **Central Bank of Luxembourg** in 2023 focused on the area of internal audit. In this regard, the NBM employees participated in the *14th Conference of Internal Audit Managers of the Central Banks of the French-speaking countries*, hosted this year by the Central Bank of Luxembourg, during July 20-21. The participation in this event brought added value to the institution by familiarizing it with the strategic challenges discussed at the conference and assessing the experience of the NBM's internal audit function in the light of these challenges. At the same time, the participation in the conference allowed the strengthening of bilateral cooperation relations with the Central

Bank of Luxembourg, as well as with other central banks of French-speaking countries participating in the event.

The NBM received support from the **National Bank of Georgia** and the **National Bank of Ukraine** who shared their experience in preparing the Single Euro Payments Area (SEPA) accession file, which is one of the major projects implemented by the NBM. In addition, the National Bank of Ukraine contributed with its informational support to the exercise of the NBM's tasks to ensure the transparency of shareholding in payment institutions licensed by the NBM. In its turn, the NBM shared with the National Bank of Ukraine and the **National Bank of Azerbaijan** its experience in organizing the cash management process. In the context of receiving other requests for information from the Central Bank of the Republic of Azerbaijan on various areas of activity of the NBM, it was agreed that a Memorandum of Understanding should be signed between these institutions, which would provide for the establishment of a bilateral framework for cooperation and exchange of information and would set out the necessary commitments on ensuring confidentiality of information.

In the course of the year, the NBM delegated participants to a number of training events and seminars on various areas of the central bank activity, organized by the Czech Central Bank, the Central Bank of France, the National Bank of Georgia, the National Bank of Germany, the Central Bank of Italy, the Central Bank of Poland, the Polish Financial Supervisory Authority, the National Bank of Romania, the Central Bank of the Kingdom of the Netherlands, the National Bank of Ukraine and the National Bank of Hungary.

The NBM representatives participated in training sessions offered by the regional training center Joint Vienna Institute (JVI)⁸² in the following areas: insurance and reinsurance and the non-banking financial sector; research, forecasting and financial stability; anti-money laundering and combating the financing of terrorism; communication, financial education and protocol; external cooperation and European integration; sustainable economy; Fintech; human resources management; foreign exchange reserve management; monetary and foreign exchange policy implementation; monetary policy; reporting and statistics; bank resolution; determination of the exchange rate regime of the national currency and banking supervision.

At the same time, the NBM cooperated with the following supervisory authorities from other countries in order to carry out the tasks of licensing the activity of banks: the Federal Financial Supervisory Authority of Germany, the National Bank of the Republic of Northern Macedonia, the National Bank of Slovenia, the National Bank of Hungary, the National Bank of Croatia, the Central Bank of Mongolia, the Bank of Albania, the Bank of Estonia.

⁸²JVI is a regional training center for public sector officials, mainly from Central, Eastern and South-Eastern Europe, the Caucasus and Central Asia. It was established in 1992 by the Austrian authorities (Federal Ministry of Finance and the Austrian Central Bank), the International Monetary Fund and several other international organizations.

External technical cooperation with international organizations and central banks of other countries

External technical assistance (ETA) remains an essential tool for the institutional strengthening of the NBM. It contributes to the process of reforming and strengthening the banking and non-banking financial sector of the Republic of Moldova through the implementation of best international practices and standards.

In order to ensure the successful implementation of the NBM's strategic objectives, as well as to strengthen its capacities in various fields of activity, the NBM promotes a continuous and efficient cooperation in various technical cooperation projects with external development partners and counterpart institutions from other countries.

In 2023, the NBM received external technical assistance to strengthen institutional capacities in multiple areas such as: financial stability; payment systems; enhancement of the bank recovery and resolution framework; prevention and combating money laundering and terrorist financing; financial markets; reporting and statistics; banking supervision; SupTech and FinTech areas; financial education and others.

ETA donors in the reporting period included: the European Union, the International Monetary Fund, the World Bank Group, the United States Agency for International Development, the European Bank for Reconstruction and Development, the National Bank of Romania, the Bank of Lithuania and the Ministry of Finance of the Kingdom of the Netherlands.

The **European Union** (EU), through its technical assistance programs and tools, is a major catalyst in the efforts to strengthen the financial sector of the Republic of Moldova. Taking into account the progress of the Republic of Moldova in the EU accession process by being granted the status of candidate country, as well as taking into account the conclusions and recommendations of the European Commission in the framework of the EU Enlargement Package, the NBM is working with the European institutions to strengthen its institutional capacities, which will directly contribute to the realization of activities to align with EU requirements and standards.

A valuable support from the EU, from which the NBM has benefited during 2023 and which is designed to contribute to the advancement of the European path of the Republic of Moldova, is the *European Union High Level Advisers' Mission to the Republic of Moldova*. The EU High Level Advisor for the financial services sector started his activity on November 15, 2023. His mission is focused on advising the NBM, in the context of the European integration process of the Republic of Moldova, in the banking and non-banking areas, including financial supervision, financial stability, combating money laundering and terrorist financing, payment systems.

Of major importance in supporting the NBM's commitments and efforts to strengthen the financial sector and align with EU best practices and standards is the Twinning project *Strengthening supervision, corporate governance and risk management in the financial sector*, funded by the European Union. As of October

2021, the NBM benefits from the valuable assistance of EU partner institutions, namely the National Bank of Romania as a senior partner, the Central Bank of the Kingdom of the Netherlands and the Bank of Lithuania as junior partners, the Financial Supervisory Authority and the National Authority for Consumer Protection of Romania.

Among the results of this project are the approval of the macro-prudential policy Strategy by the National Committee on Financial Stability on September 15, 2023; the development of a new domestic regulatory framework for the supervision and monitoring of financial market infrastructures and payment services, aligned with international best practices and the EU acquis; the assessment of the compliance of the current regulatory framework in the Republic of Moldova with the requirements of the Single Euro Payments Area schemes in the context of the preparation of the application file for the Single Euro Payments Area (SEPA).

Also, in the field of payment security and payment systems, within the Twinning project was organized the Conference *Alignment to EU standards for Payment Security in the Digital Age* which took place on December 6, in Chisinau. The aim of the conference was to present the main developments in the field of payment systems security, the best practices for implementing payment security measures in the digital environment, as well as the requirements for payment security and continuity. The conference was attended by high-ranking officials of the Delegation of the European Union to the Republic of Moldova, NBM partners of the Twinning project, representatives of the banking community and payment service providers from the Republic of Moldova (banking and non-banking).

In 2023, the European Commission approved three NBM requests for assistance through the TAIEX instrument, namely: *Evaluation of capacities for alignment with the Eurostat balance of payments vademecum; Compilation of financial accounts within the System of National Accounts; Improvement of research activity within the National Bank of Moldova*. This assistance is to be provided during 2024 by the selected experts from the EU member states.

During the reporting year, the NBM, with the support of external partners, strengthened its capacities in the area of preventing and combating money laundering and terrorist financing. In this context, the NBM participates in the *Improving the anti-money laundering and asset recovery regime in the Republic of Moldova* project within the framework of the joint program of the European Union and the Council of Europe "Partnership for Good Governance". This project is aimed at supporting the competent institutions of the Republic of Moldova, including the NBM, to increase the effectiveness of the measures in place to combat money laundering and terrorist financing, and to strengthen the capacities of the structures responsible for asset recovery and parallel financial investigations. The NBM experts also participated in trainings conducted by the Organization for Security and Co-operation in Europe (OSCE), in collaboration with the United Nations Office on Drugs and Crime, under the title: *"Innovative policies to mitigate money laundering risks from the use of virtual assets"*. This project is designed to support the governments of Georgia, Republic of Moldova and Ukraine in strengthening the capacity of competent authorities in mitigating

criminal risks related to virtual assets and cryptocurrencies with the help of analytical tracking software.

To achieve the same objective of preventing money laundering and terrorist financing, a dedicated IT solution was launched on October 5, which will be owned, managed and used by the NBM to monitor the transparency of the financial system shareholders and transactions. It is a first for central banks in the region to have such an IT system, and the NBM has achieved this feat with the generous support received from the **United States Agency for International Development (USAID)** project *Moldova Financial Sector Transparency Activity (FSTA)*⁸³, implemented in 2019-2023.

On the subject of preventing and combating money laundering and terrorist financing, the NBM, together with the Service for Prevention and Combating Money Laundering and the State Tax Service, has also received technical assistance from the **International Monetary Fund (IMF)**. Thus, in April and August, missions of experts from the Legal Department of the IMF took place in order to provide the NBM with support for the *development of the framework and tools for analyzing the money laundering risks arising from cross-border payments*.

In order to achieve the NBM's strategic objective on strengthening the monetary policy framework and optimizing the implementation of monetary policy, the IMF is providing technical assistance to the NBM in the area of *liberalization of capital foreign exchange operations*, the need for which has increased in the context of the granting of the Republic of Moldova the status of candidate country for EU accession by the Council of Europe. In the area of improving the money market infrastructure and operations, the NBM also received technical assistance from the **European Bank for Reconstruction and Development (EBRD)**. In this context, the EBRD carried out a diagnostic exercise of the money market in the Republic of Moldova, which resulted in a number of recommendations aimed at improving the money market environment and infrastructure, communication and information dissemination. As an essential component of the financial system, a developed money market will contribute to increasing its efficiency and stability, as well as facilitating the financing of market participants.

Two other technical assistance projects that the NBM received from the IMF were carried out in the context of the implementation of the recommendations made following the Financial Sector Stability Review exercise (FSSR)⁸⁴ conducted by IMF experts in 2021. The first project focused on *defining the framework for granting emergency liquidity assistance* under which the IMF experts conducted an assessment mission at the NBM and a report is to be submitted next year. The second project focused on the *improvement of the legal framework for the forced liquidation of banks*, and as a result of the IMF assistance,

⁸³The "Moldova Financial Sector Transparency Activity" project has 4 major objectives: 1. Strengthening the capacity of the Government of the Republic of Moldova and the NBM in the fight against financial crime; 2. Capacity building and support to the Single Central Securities Depository of Moldova; 3. Capacity building and support to the National Commission for Financial Markets; 4. Supporting the Government of the Republic of Moldova to improve fiscal/ budgetary transparency.

⁸⁴launched in late 2017, the FSSR diagnostic exercise is an in-depth analysis of financial sector vulnerabilities, combined with an analysis of the assessed countries' capacities to recover and address these vulnerabilities.

an optimal model for the regulation and management of the forced liquidation process of banks was identified.

The area of bank resolution is also the subject of technical assistance provided to the NBM by the experts of the Financial Sector Advisory Center (FinSAC) of the **World Bank**. This assistance focused on the revision of Law No. 232/2016 on the recovery and resolution of banks, taking into account the updates of the relevant European Directive. Thus, with the support of foreign experts, the draft amendment to the law was finalized and submitted to the Ministry of Finance for endorsement and further public consultations.

The World Bank, in line with its mandate to promote global sustainable development, is providing technical assistance in areas that help to achieve this goal. In the case of the assistance provided to the NBM, we refer to two projects: *Developing a sustainable financing framework for the financial sector of the Republic of Moldova and the National Strategy for Financial Inclusion*. The need for the first project stems from the climate and social changes of the last decade that are taking place globally and directly affecting the Republic of Moldova, and the second from the benefits that a high degree of financial inclusion can bring to the sustainable economic development of the country. Thus, experts from the NBM and the World Bank's International Finance Corporation (IFC) are currently working on the elaboration of a roadmap on sustainable finance and have agreed to deploy a mission of World Bank experts in 2024 to prepare a diagnostic report on the current situation in the context of the elaboration of the National Strategy for Financial Inclusion.

A precondition for increasing financial inclusion in the Republic of Moldova is financial education of the population. To this end, the NBM has benefited from the support of the **Ministry of Finance of the Kingdom of the Netherlands and the Organization for Economic Cooperation and Development (OECD)** in conducting research on adult financial literacy and exchange of best practices in this field. This year also saw the launch of the *Financial Literacy Campaign* which is the largest campaign of its kind in Moldova's experience. It is organized by the NBM, in partnership with the Independent Analytical Center "Expert-Grup" and with the support of the USAID "Moldova Institutional and Structural Reforms Activity" (MISRA) Program of the **United States Agency for International Development (USAID)**. Also with the support of USAID/ MISRA, the concept of the National Strategy for Financial Education has been elaborated and is to be endorsed and agreed at inter-institutional level.

In addition to the topic of financial education, on the agenda of technical assistance provided to the NBM by USAID/ MISRA is also the capitalization of the potential of information technologies in streamlining processes. Thus, in the context of the launch in 2024 by the NBM of the Instant Payments solution⁸⁵, the donor has financed the development of the brand identity and visual elements of the solution. Additionally, as part of the *Developing the skills and capacity needed to implement SupTech*⁸⁶, with the

⁸⁵The Instant Payments solution will allow making transfers and payments in MDL within the country simpler and cheaper, just by using a mobile phone number

⁸⁶Surveillance technology or SupTech is the use of technology by supervisors to provide innovative and effective surveillance solutions that will support a more efficient, flexible and responsive surveillance system

financial support from USAID/ MISRA, a group of NBM experts benefited from a Cambridge Supervision Technology Lab online training course aimed at increasing the NBM team's skills in the use of information technology in the supervision of financial institutions.

Developing the skills of the institution's employees is a continuous concern of the NBM. Thus, in collaboration with the **Center of Excellence in Finance (CEF)** and with the support of the **Ministry of Foreign Affairs of Slovenia and the Ministry of Finance of the Kingdom of the Netherlands**, the NBM launched in June 2023 the project *NBM LearnOrgLab – Institutional transformation into a learning-oriented organization*. It should be noted that the NBM is the first institution in the region to benefit from such a project. The aim is to transform the NBM into a learning-oriented institution through the development of internal management capacity, professional development and an enabling environment for the cultivation of a culture of learning and dissemination of knowledge.

In order to strengthen their institutional capacities, the NBM staff also conducted study visits to several central banks in 2023. Thus, two study visits took place at the **National Bank of Romania** on August 10-11 on the field of bank resolution and on October 9-11 on the field of document management and archiving. In this respect, the institutional experience gained during the visits will contribute to the improvement of the organizational structure of the NBM as resolution authority and to the modernization of the document management services within the institution. Another study visit of the NBM experts took place on November 19-21 to the **Central Bank of the Republic of Türkiye (CBRT)** and aimed to study the experience of the CBRT in compiling financial accounts⁸⁷ in order to take on the best practices in this area.

The NBM, in its turn, supports central banks by hosting study visits and sharing its own experience. Thus, on April 19-21, the NBM received experts from the **Bank of Lithuania**, during which the NBM's practice of recording external loans, compiling external sector statistics, as well as the collection and use of credit card data was presented. On February 13-17, at the recommendation of the United Nations Conference on Trade and Development, the NBM was visited by the representatives of the **Central Bank of Uganda** to familiarize themselves with the experience of recording and monitoring external debt in the private sector, and the use of the "Public Debt Management and Financial Analysis" system to manage external debt in an efficient and sustainable manner in support of the country's economic development, poverty reduction, increased transparency and good governance.

⁸⁷The international accounts of the Republic of Moldova include the balance of payments, the international investment position and the gross external debt, the compilation of which is a core function of the National Bank of Moldova. Based on the international accounts data, the NBM also publishes other statistics related to the external sector of the national economy, including: money transfers from abroad in favour of individuals, the statistics on foreign direct investments.

Chapter 9

Institutional and organizational framework

9.1 Corporate governance of the National Bank

Law No. 548/1995 on the National Bank of Moldova provides the legal authority and governance framework of the National Bank.

The corporate governance structure comprises the governing bodies, committees supporting the governing bodies, risk management and control levels (external and internal). This structure is complemented by strategic planning, the compliance and ethics framework, which includes the NBM's Code of Ethics and Professional Conduct, the National Bank of Moldova's anti-fraud policy, the information security policy, the management of personal data, and public access to the NBM's normative acts, statistics and publications.

Governing bodies of the National Bank

Supervisory Board

The Supervisory Board is composed of 7 members appointed by the Parliament for a 7-year term of office: 4 non-salaried members of the NBM and 3 members from the executive structure of the National Bank – the Governor, the First Deputy Governor and a Deputy Governor. The Chairman of the Supervisory Board is the Governor of the NBM. During 2023, the Supervisory Board functioned in full composition. In July 2023, the Parliament appointed two new members of the Supervisory Board – Natalia Gavrilița and Vitalie Lemne, who replaced Alexandru Pelin and Valeriu Iașan, and in December 2023, the Parliament dismissed the NBM Governor, Chairman of the Supervisory Board and the Executive Board, Octavian Armașu, and appointed the new Governor of the National Bank – Anca Dragu, who holds the positions of Chairman of the Supervisory Board and the Executive Board.

In exercising the powers assigned by law, the Supervisory Board shall: (i) approve the annual report and the annual financial statements; (ii) adopt the standards of the internal control system, continuously verify and evaluate the functioning of the internal control system; (iii) appoint to office the Controller General, upon the proposal of the Audit Committee and determine the terms of his/her remuneration, (iv) adopt the rules of professional ethics; (v) determine the National Bank's payroll fund, the level of

remuneration of the members of the Executive Board and the amount of monthly allowances of the members of the Supervisory Board who are not also members of the Executive Board; (vi) submit proposals to increase the capital of the National Bank; (vii) approve the National Bank's expenditure estimates and investment allocations and monitor their execution; (viii) select, on the basis of a tender, the external audit organization; (ix) determine the manner of creation and functioning of the National Bank's committees; (x) determine the nominal value, the design of banknotes and coins, the manner of putting into circulation and the conditions of their withdrawal from circulation; (xi) approve the internal regulations related to the exercise of duties. The Supervisory Board shall submit to the Parliament, at least annually, reports on the supervisory activity carried out.

For the execution of its duties during 2023, 9 meetings of the Supervisory Board were convened, at which 46 decisions were approved, with the following topics:

- Approval of the Report on internal audit activity in 2022;
- Approval of the Internal Audit Strategy of the NBM for 2023-2025;
- Submission of the proposal to increase the statutory capital of the National Bank of Moldova according to the financial statement as of and for the management period ended on December 31, 2022;
- Approval of the Code of Ethics and Professional Conduct of the National Bank of Moldova;
- Approval of the reports on the level of implementation in the second semester of 2022 and in the first semester of 2023 of the projects of the National Bank of Moldova;
- Approval of the Report on operational risk management in 2022 in the National Bank of Moldova;
- Approval of the Report of the Audit Committee of the National Bank of Moldova on the monitoring activity in 2022;
- Approval of the Annual Report of the National Bank of Moldova for the year 2022;
- Approval of the Report of the Supervisory Board of the National Bank of Moldova on the supervisory activity carried out in 2022;
- Approval of the graphic designs, nominal values and putting into circulation of the jubilee and commemorative coins, issuance of 2023;
- Examination of the direct or indirect financial interests of the members of the governing bodies and members of their families;
- Approval and amendment of internal normative acts of the National Bank of Moldova;
- Approval of the Financial Statements of the National Bank of Moldova for the year ended on December 31, 2022;

- Approval of the expenditure estimates and allocations for investments of the National Bank of Moldova for the year 2024;
- Approval of the Annual Internal Audit Plan for 2024;
- Approval of the indicative work program of the Supervisory Board for the year 2023.

During 2023, 2 decisions of the Supervisory Board were submitted for publication in the Monitorul Oficial of the Republic of Moldova (according to the annex A.19).

In its activity, the Supervisory Board has continuously cooperated with the representatives of the Republic of Moldova's development partners and other financial-banking institutions on issues of common interest. The Supervisory Board promoted the transparency of decision-making and monitored the activities of the NBM with reference to its statutory duties.

Executive Board

The Executive Board is composed of 5 members appointed by the Parliament: the Governor, the First Deputy Governor and three Deputy Governors. The Chairman of the Executive Board is the Governor of the National Bank.

The member of the Executive Board, the Deputy Governor Arcadie Albul has ceased his activity on December 31, 2023, according to the Parliament's decision No. 402/2023.

According to Law No. 548/1995, the main duties of the Executive Board are: (i) to determine the monetary policy in the State, including the level of interest rates on monetary policy instruments, the conditions for granting credits, the type and level of reserves that banks are obliged to maintain with the National Bank; (ii) to determine the foreign exchange policy in the State and the exchange rate regime of the national currency; (iii) to decide on the mode of issuing licenses, authorizations, permissions, approvals to be issued by the National Bank; (iv) to examine the results of the controls carried out on the entities supervised by the National Bank and to adopt the decisions related thereto; (v) to decide on the issuance of claims of the National Bank, the volume and conditions of their issuance; (vi) to adopt the normative acts of the National Bank; (vii) to ensure the implementation of the decisions of the Supervisory Board; (viii) to plan and organize the current activity of the National Bank.

Meetings of the Executive Board shall be convened by its Chairman at least once a month.

For the execution of its duties during the year 2023, 95 meetings of the Executive Board were convened, at which 279 decisions were examined and approved.

The said decisions concerned the following areas:

- Monetary and foreign exchange policy of the National Bank of Moldova;

- Financial stability;
- Payment Systems Oversight Policy in the Republic of Moldova;
- Banking regulation and supervision;
- Regulation and supervision in the field of combating money laundering and terrorist financing;
- Bank resolution;
- Financial markets;
- Reporting and statistics;
- Cash transactions;
- Accounting policy of the National Bank of Moldova;
- Internal acts of the National Bank of Moldova.

During 2023, 32 decisions of the Executive Board were submitted for publication in the Monitorul Oficial of the Republic of Moldova (according to the annexes A.19 and A.20).

The Executive Board has continuously promoted: the application of monetary policy instruments and measures to ensure and maintain price stability; the provision of the economy with the national currency and the promotion of the credibility of the national currency; the regulation and supervision of the activity of financial institutions, as well as the efficiency, safety, accessibility and innovativeness of payments.

Structure of the governing bodies:

Octavian ARMAȘU until 21.12.23; Anca DRAGU from 22.12.23
Governor, Chairman of the Supervisory Board (SB) and of the Executive Board (EB)

Vladimir MUNTEANU
First Deputy Governor, Vice-Chairman of the SB and the EB

Tatiana IVANICICHINA
Deputy Governor, member of the SB and the EB

Constantin ȘCHENDRA
Deputy Governor, EB member

Arcadie ALBUL
Deputy Governor, EB member

Dumitru URSU
SB member

Alexandru PELIN until 30.07.23; Natalia GAVRILIȚA from 31.07.23
SB member

Valeriu IAȘAN until 30.07.23; Vitalie LEMNE from 31.07.23
SB member

Vadim ENICOV
SB member

Governor

The Governor of the National Bank is appointed by the Parliament on the proposal of the President of the Parliament.

In accordance with the *Law on the National Bank of Moldova*, the Governor is responsible for formulating monetary and foreign exchange policy initiatives to be submitted to the Executive Board, as well as for their execution. The Governor also organizes and directs the activity of the Bank and represents it in its relations with any legal or natural person both in the Republic of Moldova and abroad, issues binding orders and provisions for the employees of the National Bank, supervises their execution.

Committees

In order to ensure the efficiency of the decision-making process, the Audit Committee, the Investment Committee, the Risk Committee and the Business Continuity Committee operate within the NBM. The Standing Committees have their own operating regulations detailing their specific purpose, composition, duties and responsibilities.

Audit Committee

The Audit Committee is composed of 3 members of the Supervisory Board who are not employees of the National Bank. The members of the Audit Committee shall be approved for the duration of their term of office as members of the Supervisory Board of the National Bank of Moldova. Upon expiration of the membership of the Supervisory Board, the membership of the Audit Committee shall also expire.

With the expiration of the terms of office of the members of the Supervisory Board, namely Mr. Valeriu Iașan and Mr. Alexandru Pelin, two new members were approved in the Audit Committee, as follows:

- Mr. Vitalie Lemne, Chairman of the Audit Committee, Member of the Supervisory Board of the NBM and
- Ms. Natalia Gavrilița, Member of the Audit Committee, Member of the Supervisory Board of the NBM.

The decision was taken at the meeting of the Supervisory Board of the National Bank of Moldova, by Decision No. 29 of 29.09.2023.

Performance of duties

The Audit Committee carries out its activity on the basis of the provisions of Article 26 and Article 28 of the Law No. 548/1995 on the National Bank of Moldova and the Regulation on the functioning of the Audit Committee of the National Bank of Moldova, approved by the Decision of the NBM's Supervisory Board No. 15 of December 22, 2016 (hereinafter – Regulation No. 15/2016).

According to the provisions of Article 28 of Law No. 548/1995, the Audit Committee has the following basic duties:

- a) monitors the financial reporting process of the National Bank;
- b) monitors the effectiveness of the internal control and risk management system;
- c) monitors and directs the internal audit function;
- d) monitors the independence and activity of the external audit.

Regulation No. 15/2016 sets out the detailed areas and duties of the activity, which fall within the competence of the AC, based on the powers granted by Law No. 548/1995, in line with international practices and includes: the financial reporting of the NBM; internal control and risk management; independence of internal and external audit.

During 2023, the governing bodies ensured the smooth functioning of the operational activity, management of the necessary business processes, the start of new projects and the implementation of ongoing projects related to the transformation and automation of the NBM's activity processes. The governance and working structure of the NBM Audit Committee was also maintained, without significant adjustments to the legal and normative framework. The Audit Committee held its meetings both in the physical presence of its members and remotely, using the technical means of the NBM. In particular, remote communication means were used in the process of interaction of the AC members with the representatives of the external auditor FOE KPMG Moldova LLC.

In order to fulfill its legal duties, the Audit Committee has access to the necessary information through the Internal Audit Department. During the reporting period, audit mission reports and quarterly and annual summary reports were submitted. The Audit Committee also requested and received additional information from other subdivisions of the NBM.

The secretarial activities of the Audit Committee are performed by the Secretary of the AC, appointed by the Controller General from among the employees of the Internal Audit Department.

During 2023, the Audit Committee undertook a number of practical measures and actions to improve the NBM's internal processes. The main topics of the AC meetings were:

- a) Examination, together with the members of the external audit team, of the Annual Financial Statements and their compliance with International Financial Reporting Standards;
- b) Examination and coordination of the Addendum Agreement to the contract concluded with the audit organization, which relates to the schedule of provision of audit services related to the financial statements for the financial year ended on December 31, 2022 and amendments to the composition of the financial audit team;
- c) Examination and coordination of the NBM Internal Audit Strategy 2023-2025 and the Detailed Implementation Plan of the NBM Internal Audit Strategy 2023-2025;

- d) Examination of Quarterly Summary Reports on the results of audit activities, the Report on internal audit activity in 2022 and coordination of the Internal Audit Plan for 2024;
- e) Examination of the Report on the results of the self-assessment of the internal audit activity within the NBM;
- f) Examination of information on the recommendations of the Internal Audit Department;
- g) Examination of proposals regarding the training budget and the IAD employees salary budget and proposals to amend the IAD state structure for 2024;
- h) Approval of the Report on the monitoring activity of the Audit Committee in 2022;
- i) Approval of the performance indicators and objectives for the year 2023 set for the Controller General of the NBM, Director of the Audit Department of the NBM and assessment of the results of the Controller General's activity for the year 2023;
- j) Examination of the procedures for monitoring and control of risk exposures and compliance issues that could have a material impact on the NBM's Financial Statements.

The results of the activity were recorded in the minutes of the meetings, which reflect the findings and decisions of the Audit Committee.

The internal audit function in the NBM is independent and corresponds to best governance practices by subordinating the Internal Audit Department of the NBM to the Supervisory Board. The monitoring of the IAD activity is carried out permanently by the Audit Committee of the NBM.

In 2023, the Internal Audit Department performed its activity in accordance with the Annual Internal Audit Plan for 2023, which was developed based on the risk assessment and duly approved. The Audit Plan for 2023 was 100% accomplished.

The financial reporting process of the National Bank shall be carried out in accordance with the provisions of the normative and methodological framework that ensures the accounting of assets and liabilities and the preparation of financial statements reflecting the financial position of the Bank at the reporting date and its financial performance, cash flows for the year ended, in accordance with International Financial Reporting Standards.

In the control and risk management system of the NBM, the "3 lines of defense" concept is implemented and the control environment is sufficiently defined and applicable to mitigate the existing risks.

The IAD shall present quarterly to the Audit Committee information on the results of the operational and financial risk management, including general data on the methods and techniques applied to mitigate risk exposure as well as data on the evolution of the risk quantification indicators recorded.

The external audit of the annual financial statements, accounts and registers of the National Bank of Moldova for the years 2020-2024 is carried out by the audit organization FOE KPMG Moldova LLC.

The external auditors are independent from the activity and governing bodies of the NBM, and the Annual Financial Statements, confirmed by the external audit, and the external auditor's Report are published on the official website of the National Bank of Moldova together with the Annual Report of the NBM.

Investment Committee

The Investment Committee is established in order to assist the Executive Board of the NBM in reviewing the investment policies and strategies related to the management of the foreign exchange reserves of the State. The Investment Committee is composed of 10 members, NBM employees, including 2 members of the Executive Board, one of whom is the Chairman of the Board.

Meetings of the Investment Committee are usually convened on a monthly basis, and extraordinary meetings are organized for urgent or major issues. The Investment Committee met in 2023 in 12 ordinary meetings. At each meeting, the performance of the investment portfolio, developments and forecasts related to the domestic foreign exchange market and international financial markets, dynamics and factor analysis of risk indicators were analyzed.

At the same time, issues related to the short- and medium-term investment strategy related to the Strategic Asset Allocation (SAA) were periodically discussed. With reference to the adoption of tactical decisions related to the NBM's investment strategy, 2 extraordinary meetings were additionally convened.

Furthermore, in accordance with the provisions of the Regulation on the management of international reserves and in line with the established practice, at the end of 2023 the Investment Committee members reviewed the SAA framework. In this context, strategic investment decisions were examined with a view to capitalizing on investment alternatives, taking into account the international financial market environment and the trends emerging, provided that the safety and liquidity of the investments were ensured.

Risk Committee

The Risk Committee, as part of the second line of defense, is set up to assist the Executive Board in providing direct objective oversight over the management of the operational risk management system in the National Bank. The Risk Committee is composed of 8 voting members, including one member of the Executive Board – the Chairman of the Risk Committee.

The Risk Committee meets quarterly in ordinary sessions. If necessary or at the request of the Governor, or any other member of the Executive Board, it may be convened ad hoc.

In 2023, the Risk Committee held 5 meetings.

The basic decisions taken concerned:

1. examination and endorsement of the **annual report** on the *operational risk management in 2022 in the National Bank of Moldova, the dashboard and the risk profile as at 31.12.2022*;

2. endorsement of the **maturity level 3** operational risk management system in the NBM by 31.12.2022 and its development objectives for 2023;
3. taking note of the *quarterly reports* on the results of the self-assessment of operational risks by activity processes of the NBM;
4. quarterly taking note of the *NBM operational risk profile* for the processes assessed in 2023;
5. endorsement of risk response strategies and quarterly approval of the proposed *additional control measures* for the response to the ROp from the *yellow area* of the risk profile;
6. taking note of the *information related to incidents* with impact on the activity processes and validating their level of impact;
7. *proposals* of implementing control measures *for incident management*;
8. taking note of the information on the membership activity of the International Operational Risk Working Group – IORWG;
9. taking note of the information on the implementation of the decisions taken at the Risk Committee meetings.

Business Continuity Committee

The Business Continuity Committee is established to assist the Executive Board in managing effective business continuity in order to achieve the continuity objectives of the National Bank of Moldova. The Business Continuity Committee is composed of 12 members, of which 10 are voting members, including one member of the Executive Board – the Chairman of the Business Continuity Committee, who is the Governor of the National Bank.

The Business Continuity Committee meets annually in ordinary meetings and ad hoc meetings are organized in case of events that may affect the continuity of the NBM's activity.

In 2023, the Business Continuity Committee did not meet in ordinary or ad hoc meetings.

Control levels

External control

External audit

The external audit of the National Bank shall be carried out annually on the financial statements, accounts and registers of the NBM, in accordance with the International Standards on Auditing, by an independent auditing company with a recognized reputation and experience in the field of auditing central banks and international financial institutions, selected by the Supervisory Board on the basis of a tender. The external auditor's Report shall be published together with the annual financial statements of the

National Bank. The same external audit organization may not be appointed consecutively for a period exceeding 5 years.

National Bank's safety assessment by the IMF

Periodically, the credibility and safety of central banks is assessed by the IMF experts to receive assurance on the implementation and operation by the NBM of control, accounting, reporting and auditing systems related to the management of resources, appropriate to the integrity of the operations carried out. The assessment covers six key areas relevant to the control and governance within central banks according to the GELRIC acronym:

- *G* – governance arrangements;
- *E* – external audit mechanism;
- *L* – legal framework and central bank independence;
- *R* – financial reporting;
- *I* – internal audit mechanism;
- *C* – internal controls system.

Audit of the Court of Accounts of the Republic of Moldova

The external public audit on the legality and regularity of expenditure estimates and investment allocations is carried out by the Court of Accounts, limited, according to Law No. 548/1995, to the examination of the operational efficiency of the decisions taken by the management of the National Bank, except for those related to the implementation of the monetary and foreign exchange policy of the National Bank and the management of the State foreign exchange reserves.

Risk management and internal control

The National Bank aligns its risk governance and internal control system with the international standards COSO⁸⁸, ISO 31000⁸⁹, best practices in the field (including those of the International Operational Risk Working Group in Central Banks (*IORWG*), the National Bank being a member of it).

In the context of operational risk management, with the approval of the *Framework on operational risk management in the National Bank of Moldova*, the Supervisory Board has established the risk tolerance in the National Bank.

Risk management and internal control within the NBM are established according to the ***three lines of defense***.

The first line of defense manages risks and is *represented by the NBM subdivisions*, which are also the "owners" of the risks. The

⁸⁸COSO – The Committee of Sponsoring Organizations of the Treadway Commission.

⁸⁹ISO 31000 – Risk Management – Guidelines, International Organization for Standardization.

heads of subdivisions (line managers) bear responsibility for identifying and managing the risks inherent in the activity processes and IT systems whose owners they are, and appropriately establish control activities in the risk management process. In 2023, operational risk self-assessment activities by activity processes continued with the establishment of control measures to keep risks within the tolerance zone, with reporting of the results to the operational risk management function. The subdivisions apply on a daily basis a set of control procedures for the activity processes and systems they manage, ensuring their effectiveness and efficiency.

The second line of defense consists of organizing the process, providing the methodological framework, coordination and independent supervision of the risk management and internal control process. The functions of the second line of defense include specific mechanisms and processes to implement the appropriate financial and operational risk management system and exercise internal control. The second line of defense is represented by the structures with *dedicated financial and operational risk management functions, the Investment Committee, and the Risk Committee and Business Continuity Committee*. At the level of this line, the methodological framework for an efficient risk management process in the NBM is developed: the internal framework on how to carry out and control foreign exchange operations, operational risk management by activity processes, ensuring business continuity and information security, personal data protection, standards, policies and plans for responding to incidents, which disrupt or threaten the operational functions of the National Bank. An incident management system is in place at the National Bank, which keeps records of incidents, including the measures taken and the persons responsible for carrying them out.

The financial risk management shall be organized in accordance with the functions, specificities and role of the Bank as the central bank of the Republic of Moldova and the duties assigned to the National Bank by Law No. 548/1995. The Executive Board shall assume responsibility for the establishment and supervision of the financial risk management framework, including through the Investment Committee, whose creation and functioning mode shall be determined by the Supervisory Board. The financial risk management activity is regulated by internal rules and monitored by the Executive Board, which reviews issues related to the monetary, investment and foreign exchange policy of the National Bank. The way in which the financial risks are managed is detailed in the Consolidated and Separate Financial Statements and in the Independent Auditor's Report⁹⁰ published on the official website of the NBM.

The operational risk management function ensured in 2023 the organization and conduct of operational risk self-assessment meetings by activity processes. Based on the operational risk self-assessment, the operational risk profile was developed and reported quarterly and annually to the Risk Committee. At the same time, internal trainings were conducted for the representatives of the subdivisions (heads of subdivisions, operational risk officers and participants in the assessed processes).

⁹⁰[https://bnm.md/ro/search?partitions\[0\]=677&post_types\[677\]\[0\]=913](https://bnm.md/ro/search?partitions[0]=677&post_types[677][0]=913)

The operational risk assessment procedure is carried out according to the Framework for operational risk management in the NBM⁹¹ (excerpt published on the official website). The assessment consists of determining the level of impact and likelihood based on the 5 levels presented in the Annex to the framework⁹¹. The impact of the operational risk is assessed in terms of *the impact on the NBM's activity, reputational impact and financial impact*. In order to manage and mitigate risks within the approved risk tolerance zone, a number of control measures are established, such as: segregation of functions, financial control, authorizations, authorized/ limited access, dual checks, documentation, reporting, information systems, measures to ensure business continuity, protection, etc.

In order to avoid the materialization of certain operational risks that may lead to activity disruptions, financial losses or damage to the reputation of the NBM, 5 risk response strategies are applied in the risk assessment: *avoid (denial); mitigation (reduction); transfer (externalization); acceptance and follow-up (monitoring)*.

In order to provide a consolidated picture of all types of operational risk exposures, a risk profile is prepared which prioritizes the qualitative assessment of the risks specific to the NBM's activity: figure 2 in annex A.37.

Likewise, the operational risk management function prepares the operational risk profile by risk categories, divided including by operational risk triggers, and represents the average risk levels by the categories presented: figure 1 in annex A.37.

As a result of operational risk management in 2023, all risks fall within the risk tolerance zone approved by the Supervisory Board.

At the same time, the operational risk management function represents the NBM as a member of the IORWG.

Compliance function aims to create, develop and ensure the observance within the National Bank of a compliance framework, as well as to provide the necessary support in developing and implementing an effective internal control system to manage the compliance risk related to the established regulations.

The third line of defense provides an independent and objective assurance and is represented by the internal audit. The internal audit provides the governing bodies and line managers with independent reasonable assurance on the adequacy and effectiveness of governance, risk management and internal control, including how the first and second lines of defense are achieving their risk management objectives. It should be noted that the internal normative framework on the functioning of the internal audit, which is approved at the level of the Supervisory Board, has been revised, bringing it in line with the mandatory elements of the International Professional Practices Framework (IPPF), developed by the Institute of Internal Auditors (IIA). According to the external assessment report dated March 14, 2021, the internal audit function was rated "Generally Compliant" with the IIA Standards and Code of Ethics, which represents the highest level of compliance.

⁹¹https://bnm.md/files/extras_Cadru.pdf

Internal control in the NBM also operates through a set of regulations approved by the governing bodies and ensures the effective management of resources to achieve the NBM's mission and strategic objectives.

Compliance and Ethics Framework

Code of Ethics and Professional Conduct of the National Bank of Moldova

In 2023, the new Code of Ethics and Professional Conduct of the NBM was approved, aligned to best practices and setting requirements for all employees to adhere to the highest standards of professional ethics. To this end, the Code lays down rules on the compliance with the legal regime of conflicts of interest, declaration of assets and personal interests, incompatibilities and restrictions, improper influence, gifts. At the same time, it provides for the rules of professional ethics related to the use of the NBM resources, the conduct of procurement procedures, internal relations, personal financial transactions of the employees, external activities, conduct in external and international relations in the performance of the NBM employees' duties, as well as measures for their protection.

Anti-fraud policy

The National Bank's anti-fraud policy promotes fraud risk awareness and management.

It aims to identify the areas of activity subject to the risk of fraud and to implement appropriate control measures at all levels of the National Bank, which will contribute to the prevention and detection of fraud, monitoring the risk of fraud and promoting consistent organizational conduct. The anti-fraud policy also sets out the conditions for conducting investigations in the prevention and examination of suspected fraud.

The implementation of the anti-fraud policy, staff training on fraud risk and fraud risk management, reporting suspicions of fraud – all these establish and develop an *anti-fraud culture*, which deters potential perpetrators and strengthens the commitment of the National Bank's staff to fight fraud. The responsibility of all National Bank staff has a major contribution to creating an environment conducive to raising awareness of the risk and consequences of fraud.

The governing bodies of the National Bank promote a zero tolerance policy on fraud and corruption.

Measures to combat money laundering and terrorist financing

The National Bank of Moldova is committed to implementing international standards in the field of preventing and combating money laundering and terrorist financing, including in its own field of activity. To this end, the authority has developed and approved internal rules, aligned to international standards, which aim to avoid the involvement of the central bank in operations or activities of money laundering, terrorist financing or circumvention

of international restrictive measures (hereinafter "ML/TF and ESI"). Having as a key element the principle of risk-based approach, the internal normative framework of the National Bank of Moldova on preventing and combating money laundering and terrorist financing establishes both rules related to the governance of the authority in the field of reference, as well as internal control and risk management measures for ML/TF and ESI associated with the operations carried out.

Thus, during 2023, measures have been carried out to manage the risks associated with the area of preventing and combating money laundering and terrorist financing and implementing international sanctions, such as: identification of operations with increased risk of ML/TF and ESI, taking into account, including the results of the national risk assessment of the area of reference; continuous application of the real-time payment screening service, which aims to ensure the implementation of international restrictive measures with reference to the customer payments; establishment of control and management measures for the identified risks; continuous exchange of information between the structural sub-units of the National Bank on the identified risks, changes in the risk level of certain operations, measures necessary for the effective management of these risks, etc. Consequently, the internal reporting process on ML/TF and ESI risks continued, both that addressed to the Executive Board member coordinating the given activity and the reporting process to the Executive Board.

At the same time, as one of the key pillars for achieving compliance objectives in the area of ML/TF and ESI is training, the NBM continued to strengthen the professional capacities of the staff in charge of implementing the requirements of the relevant normative framework, by involving them in various training programs organized, including within technical assistance missions.

Information Security Policy

The National Bank's Information Security Policy, approved by the Supervisory Board, sets the overall organizational context to ensure the achievement of information security and cybersecurity objectives in the NBM. It also sets out requirements to ensure the secure management of information within the NBM and minimize the impact that may arise as a result of security incidents.

The members of the Supervisory Board and the members of the Executive Board, as well as any employee of the National Bank are obliged to ensure the security of the information in their possession and to which they have access in whatever form. At the same time, the responsibilities in the process of ensuring information security are clearly established and divided, as regards information management, monitoring the use and dissemination of information, reporting information security incidents and how to investigate them.

In the same context, in order to ensure information security in the NBM, in accordance with the Information Security Policy, the Information Security Officer of the NBM is appointed.

Personal data management

The National Bank processes personal data in accordance with Law No. 133/2011 on personal data protection. The National Bank

has effective policies, procedures and information systems in place to ensure the protection of personal data. In the National Bank is appointed the personal data protection officer who is responsible for informing and advising the NBM staff, the members of the Executive Board in the processing of personal data, monitoring compliance with regulations, carrying out awareness-raising and training of the staff involved in personal data processing operations, cooperation with the National Center for Personal Data Protection.

Public access to NBM normative acts, statistics and publications

Public access to the normative acts, statistics and publications of the National Bank ensures a high degree of transparency, while respecting the independence and confidentiality of certain aspects related to the fulfillment of the National Bank's duties. The publication of various data and analyses related to the duties of the National Bank, as well as the promotion of openness in relations with target groups are of major importance in the Bank's external communication.

The National Bank pays great attention to the backward link in the communication scheme. Thus, by sending regular and frequent messages, the National Bank provides the necessary explanations on its activity and the functioning of the banking sector. The operation of the interactive database on the website of the National Bank ensures the public access to information, data and analysis and aims to provide accurate, timely, clear and transparent information for the formation of a public opinion on the decisions of the National Bank, as well as for the conduct of various studies and research.

9.2 Development prospects

The development prospects of the NBM are largely correlated with the implementation of the strategic and cross-cutting objectives set in the new Strategic Plan of the National Bank of Moldova "NBM 2025", approved in early 2023.

Therefore, during 2024, the NBM will focus its efforts on continuing the activities related to the ongoing projects and reforms, while at the same time continuing the activities resulting from projects related to the objectives outlined in the new strategy. The evolution of major ongoing NBM projects is presented in annex A.21 "Evolution of major NBM projects during 2023".

Among the key priorities of the NBM for the year 2024, taking into account the strategic objectives of the institution, the following are highlighted:

- ✓ Performance of activities in the framework of the project on the preparation of the Republic of Moldova's accession to the EU in the NBM's areas of competence:
 - self-assessment (self-screening) by the NBM of the degree of compatibility with the EU legislation, prioritizing the transposition of normative acts;

- the participation of the NBM in the comprehensive bilateral screening process;
- ✓ Completion of the Twinning project "Strengthening supervision, corporate governance and risk management in the financial sector";
- ✓ Launching instant payments in Moldova;
- ✓ Finalization of the project on the implementation of the solution for streamlining the process of shareholder transparency monitoring and remote analysis in the field of preventing and combating money laundering and terrorist financing;
- ✓ Signing of the application for accession of the Republic of Moldova to the Single Euro Payments Area (SEPA); Submission of the file on the accession of the Republic of Moldova to SEPA to the European Payments Council;
- ✓ Strengthen the regulatory framework for the non-banking financial sector by developing relevant draft primary and secondary legislation;
- ✓ Strengthening the relevant regulatory framework to enhance the financial intermediation;
- ✓ Development of the NBM strategy in the field of Suptech – strengthening institutional capacities in the field of supervision through technology and innovation;
- ✓ Endorsement of the Roadmap for Sustainable Financing of the Republic of Moldova, with the support of the International Finance Corporation (as part of the technical assistance to develop the framework on sustainable financing for the financial system);
- ✓ Strengthening the financial education and inclusion function. Development of the National Financial Education Strategy, with the support of USAID;
- ✓ Continuation of the activities related to the promotion of the draft law on the amendment of some normative acts related to the consolidation of the NBM's activity framework;
- ✓ Further digitization of the NBM's activity processes related to the core activity areas, as well as the internal governance area.

9.3 The strategic plan of the National Bank of Moldova

The year 2023 was marked by the approval by the Executive Board of a new strategy – the Strategic Plan of the National Bank of Moldova "NBM 2025".

The Strategic Plan of the National Bank of Moldova "NBM 2025" is based on the results of the "SWOT" analysis, the achievements, but also the lessons learned during the previous strategic planning cycles from which were drawn improved and coordinated guidelines with the bank's subdivisions, in line with the current

economic requirements and challenges, stimulating the continuous development, in order to achieve the strategic objectives.

The new Strategic Plan of the National Bank of Moldova includes the strategic directions of the bank's development for the next 3 (three) years, during which the NBM aims to continue the reforms in the financial sector, within the limits of its legal mandate, but also to strengthen the joint efforts in ensuring the stability and viability of the banking system by supporting the general economic policy of the state.

The NBM will continue its efforts on strengthening the monetary policy and financial markets, financial stability, supervision and regulation of the financial-banking and non-banking sectors, development of financial market infrastructures and enhancing the quality of the national cash currency.

At the same time, the broadening of the NBM's range of duties, following the takeover from the National Commission for Financial Markets (NCFM), starting from July 1, 2023, of the supervisory and regulatory powers of the non-banking financial system, pushes the bank towards new substantial institutional reforms, integrated in the new strategy of the bank.

The fundamental elements of the Strategic Plan of the National Bank of Moldova "NBM 2025" refer to the mission, vision, values, core business areas, strategic objectives and cross-cutting objectives.

Mission of the National Bank of Moldova

The fundamental objective of the National Bank is to ensure and maintain price stability. Without prejudice to its fundamental objective, the National Bank aims to ensure the stability and viability of the banking system and to support the general economic policy of the State.

Vision of the National Bank of Moldova

The National Bank of Moldova is an independent, performing and transparent institution, resilient to the challenges of the external environment, proactive in its actions and credible in its decisions, guided by good governance practices, with a strengthened team of professionals, committed to fulfilling its mandate for the benefit of all citizens.

Values of the National Bank of Moldova

Independence – autonomy in the exercise of the duties established by law, impartiality and objectivity, without any interference from other authorities or persons.

Responsibility – an ongoing concern for the economic, social and environmental impacts of the work carried out and decisions taken.

Flexibility – openness to change, innovativeness and agility.

Team spirit – unity and consistency in values and actions, commitment, care, support and mutual respect.

Credibility – policies, reforms, communication and attitudes that inspire trust and confidence in the public and markets by applying the principles of transparency.

Professionalism – competence, efficiency, ethics, integrity, decision assumption, continuous improvement.

Resilience – human resources, internal procedures and information technologies resilient to external shocks, which maintain the security and diligence in the functioning of the institution.

Core business areas

The core business areas constitute the pillars of the NBM's strategy for the next (3) three years and relate to: monetary policy, financial stability, banking and non-banking financial sector supervision, financial market infrastructures and national cash currency. Each area listed is assigned a strategic objective.

Strategic objectives

The Strategic Plan of the National Bank of Moldova "NBM 2025" contains 7 (seven) strategic objectives, of which 5 (five) objectives derive from the core business areas (numbers 1-5 in the list below) and 2 (two) relate to the support and governance business areas (numbers 6 and 7 in the list below), as follows:

- 1.** Strengthening the monetary policy framework and optimizing monetary policy implementation;
- 2.** Strengthening the financial stability function and macro-prudential supervision;
- 3.** Strengthening the supervisory function at the financial-banking and non-banking sector level;
- 4.** Ongoing development of financial market infrastructures and contribution to increasing cashless payments;
- 5.** Enhancing the quality of national currency and strengthening the national cash currency insurance function;
- 6.** Strengthening institutional resilience and agility;
- 7.** Developing and capitalizing human capital.

Cross-cutting objectives

In order to align the new strategy of the NBM with international development practices, i.e. the new global trends towards a safer and more sustainable environment, the Strategic Plan "NBM 2025" integrates the current drivers of the global economy, such as climate change, innovation and digitalization, financial inclusion and research. Thus, five (5) cross-cutting objectives have been included in the Strategic Plan, which will be considered, implemented and monitored in the process of realizing the strategic objectives set in the new Strategic Plan, as applicable. The cross-cutting objectives relate to:

- 1.** alignment with EU standards and international cooperation;
- 2.** research, innovation and digitalization;
- 3.** financial education and inclusion;
- 4.** social and environmental responsibility;

5. diversity, equity and organizational inclusion.

During the year 2023, achievements have been recorded to implement the strategic objectives listed above. The achievements refer to the 49 (forty-nine) operational/complementary objectives derived from the strategic objectives, including achievements related to the cross-cutting objectives, with some of the most important achievements included in the table below. In addition, the annex A.21 "Evolution of the NBM's major projects during 2023" presents the most important achievements related to the NBM's major projects derived from the strategic objectives.

Table 9.1: Major achievements recorded during 2023

Strategic objective	Major achievements recorded during 2023
1. Strengthening the monetary policy framework and optimizing the implementation of monetary policy	<ul style="list-style-type: none"> ✓ The moderation of the inflationary process as a result of a restrictive monetary policy conduct and the return of inflation in the fourth quarter of 2023 within the range of the inflation target. ✓ Initiation of the activities related to the promotion of the liberalization of foreign exchange capital operations, by submitting to the International Monetary Fund the information requested in the context of capital account liberalization, including in the context of the assessment of the legal framework of the Republic of Moldova. ✓ Successful reading and recording of the new MX messages and further development of the project on the migration of SWIFT MT type messages related to cross-border payments to SWIFT MX type messages, according to the migration plan to the new ISO 20022 standards.
2. Strengthening the financial stability function and macro-prudential supervision	<ul style="list-style-type: none"> ✓ Approval by the National Financial Stability Committee of the macro-prudential policy Strategy. ✓ Finalization of the model project for macro-prudential stress testing developed as a result of the external technical assistance received under the Twinning project. ✓ Approval of the new version of the Methodology for identifying systemically important financial institutions in the Republic of Moldova. ✓ Finalization of the risk maps of the real estate sector, of the non-banking financial sector, of the population sector. ✓ Adjustment of Law No. 232/2016 on Banks Recovery and Resolution with the support of World Bank assistance. Send the draft Law to the Ministry of Finance for promotion. ✓ Continuation of the activities to improve the legal framework for the forced liquidation of banks in the framework of technical assistance provided by the International Monetary Fund. ✓ Elaboration of a new Collaboration Agreement between the NCFM and the NBM.
3. Strengthening the supervisory function at the level of the banking and non-banking financial sector	<ul style="list-style-type: none"> ✓ The successful takeover by the NBM of the regulatory and supervisory duties of the non-banking financial sector previously held by the NCFM: <ul style="list-style-type: none"> - Ensuring the continuity of activity processes within the perimeter of the non-banking financial sector subject to takeover, as well as their integration into the NBM's operational model; - Making relevant changes to the legal framework to ensure the efficiency of the transfer of duties process; - Ensuring the endorsement of the secondary normative acts elaborated by the NCFM, as well as initiating the improvement of the relevant regulatory framework related to the sector taken over; - Taking over data and information on physical media. Providing workspace; - Taking over information systems (MTPL Data, SIREM), data and information in electronic format, ensuring information security.

continued on the next page

Strategic objective	Major achievements recorded during 2023
	<ul style="list-style-type: none"> ✓ Initiation of the elaboration of draft primary and secondary legislation relevant for the alignment of the domestic legal framework with the European legal framework in the insurance field (Directive 2009/138/EC (Solvency II) and in the field of compulsory motor third party liability insurance (Directive 2009/103/EC (MTPL)). ✓ Elaboration and public consultation of secondary regulations in the field of combating money laundering and terrorist financing, following the essential amendments made by Law No. 66/2023 for amending some normative acts. ✓ Launch for use of the solution for streamlining the process of shareholder transparency monitoring and remote analysis in the field of preventing and combating money laundering and terrorist financing, with the support of USAID. ✓ Realization of the public consultation of the Regulation on minimum requirements for banks' Information and Communication Systems. ✓ Obtaining technical assistance from the USAID-funded Cambridge SupTech Lab under the SupTech project – strengthening institutional capacity in the field of supervision through technology and innovation. Elaboration of the draft Report on the diagnostic of the supervision field, as one of the preliminary steps to initiate the project.
4. Ongoing development of financial market infrastructures and contribution to increasing cashless payments	<ul style="list-style-type: none"> ✓ Finalization of the analysis/ design and construction steps, training, testing and go-live steps within the project of implementation of instant payments in the Republic of Moldova. Assess the level of training of each participant and carry out activities to promote the instant payment system. ✓ Finalizing the application for the accession of the banking sector to the Single Euro Payments Area (SEPA). ✓ Strengthening the primary regulatory framework for monitoring financial market infrastructures, schemes, arrangements and payment instruments. ✓ Strengthening the normative framework for the activity of payment service providers, on aspects of: <i>licensing; authorization; reporting; credit transfer and direct debit; strict customer authentication; operational and security risks; outsourcing of functions; notification of exempted activities; petitions/ opinions under Law No. 114/2012; monitoring of financial market infrastructure and participants thereof, etc.</i> ✓ Development of the regulatory, monitoring and supervisory framework of the Single Central Securities Depository. ✓ Participation of the NBM in the GigaHack Hackathon, related to "<i>Open Banking and Instant Payments: Revolutionizing Fintech</i>". Testing of the instant payments sandbox solution by the Hackathon participants.
5. Enhancing the quality of the national currency and strengthening the national cash insurance function	<ul style="list-style-type: none"> ✓ Starting the project on the creation of the Cash Processing Centre. Elaboration of the project initiation documents, including the Action Plan.

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Strategic objective	Major achievements recorded during 2023	
6. Strengthening institutional resilience and agility	<ul style="list-style-type: none"> ✓ Carrying out the market consultation procedure with a view to initiating the procedure for the procurement of a new IT system for banking, cash operations and internal resource management (<i>Core Banking and ERP</i>). ✓ Approval of the Code of Ethics and Professional Conduct by the Executive Board and the Supervisory Board. ✓ Start of the project on the implementation of the IT solution for ensuring the security of the NBM local network and interaction with the Internet. Procurement of equipment. Initiation of the process of reorganization of the NBM network architecture through the ZTNA (Zero Trust Network Access). ✓ Continuation of the activities within the project on the digitization of the NBM archive. Carrying out the activities related to the finalization of the draft amendment to the Regulation on the activity of the NBM archive. ✓ Participation in the International Monetary Fund's international project to revise the methodology for compiling the international account according to the Balance of Payments and International Investment Position Manual BPM6 and to develop proposals for the Balance of Payments and International Investment Position Manual BPM7 – in the framework of the current account working group. ✓ Participation in the World Bank's international project, with the support of the International Monetary Fund and EuroStat, to improve remittance data. ✓ Publication, for the first time, of the sectoral balance sheets of the Republic of Moldova. ✓ Strengthening the organizational structure of the NBM with a view to increasing operational efficiency. ✓ Development and promotion of the NBM's image as an employer through the participation in external events dedicated to staff recruitment, as well as the organization of internal initiatives: "<i>The Career Day at the NBM</i>" and "<i>Career Week at the NBM</i>". ✓ Strengthening the organizational culture by assessing the organizational culture and formulating the desired future culture, organizing a series of events dedicated to recognizing the results of the professional activity, strengthening team spirit and collaboration. 	
	7. Developing and capitalizing human capital	<ul style="list-style-type: none"> ✓ Launch of the NBM LearnOrgLab project – Institutional transformation into a learning oriented organization. Questioning employees on organizational culture, conducting workshops, launching the micro-learning project, organizing coaching sessions, training internal trainers. ✓ Launch of the NBM e-Learning course development platform and creation of electronic learning resources. ✓ Initiation of the project on the digitalization of recruitment, identification, selection and hiring processes. ✓ Continuation of internal training sessions, induction sessions and career orientation.

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Strategic objective	Major achievements recorded during 2023
<p>Cross-cutting objectives:</p> <p>1. Alignment with EU standards and international cooperation</p> <p>2. Research, innovation and digitalization</p> <p>3. Financial inclusion and education</p> <p>4. Social and environmental responsibility</p> <p>5. Diversity, equity and organizational inclusion</p>	<ul style="list-style-type: none"> ✓ Starting the project "Preparing the Republic of Moldova for accession to the European Union in the areas under the competence of the National Bank of Moldova". Approval of the project implementation concept. ✓ Completion of activities (with the achievement of expected results) for all the 5 components of the Twinning project "Strengthening supervision, corporate governance and risk management in the financial sector". ✓ Agreement with the International Monetary Fund on updates to the Memorandum of Economic and Financial Policies. ✓ Signing of a new Memorandum of Understanding between the National Bank of Moldova and the Bank of Lithuania. ✓ Collaboration with several foreign institutions in order to conclude cooperation agreements (Central Bank of the Republic of Azerbaijan, European Central Bank, Bulgarian Financial Supervision Commission, National Bank of Romania (as Resolution Authorities). ✓ The organization by the NBM of the conference "Alignment to EU standards for payment security in the digital era" within the Twinning project, with the support of the European Union. ✓ Modernization of the NBM's internal website (IntraNet) and preparation of the platform for further expansion. ✓ The launch of API services for the programmatic registration of MTPL insurance policies, for increased efficiency and security of the operational processes of insurance policies contracting. ✓ The interconnection of MTPL Data with the MConnect interoperability platform, in order to guarantee the quality and operability of the decision-making process, thanks to real-time access to authentic, complete and truthful administrative data. ✓ Development of the portal rca.bnm.md, including information tools for calculating the insurance premium, which will ensure, once put into operation, including full digitalization of the certificate on the damage caused and the implementation of the service of history of registered damage of the vehicle. ✓ Initiate and develop the draft normative act on the use of Cloud services in the NBM, balancing the potential of Cloud technologies with the need for security and compliance. ✓ Launching of the project on the elaboration of the National Strategy for Financial Education with the support of USAID/ MISRA, with the organization of the National Forum for Financial Education in the Republic of Moldova. ✓ Launching of the National Financial Education Campaign and the results of the survey on the level of financial education among the population of the Republic of Moldova. ✓ Launching of the financial education podcast "Make Sense of Money". ✓ Launching of the "School of Modern Finance" program in Romania, for master and student economists from the Academy of Economic Studies of Moldova. ✓ Organization of various financial education events, including: <ul style="list-style-type: none"> - <i>Financial education sessions for students and pupils, including visits to the NBM exhibition hall;</i> - <i>Global Money Week;</i> - <i>Events such as "In the World of Bănuț" and "Open Doors Day";</i> - <i>The fourth edition of the financial education camp "Make Sense of Money";</i>

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Strategic objective**Major achievements recorded during 2023**

- ✓ Accession of the NBM to the Sustainable Banking and Finance Network.
 - ✓ Elaboration of the draft Roadmap for Sustainable Financing of the Republic of Moldova, with the support of the International Finance Corporation (as part of the technical assistance for the development of the framework on sustainable financing for the financial system).
 - ✓ Strengthening the civic spirit of the NBM employees by organizing internal initiatives, as well as supporting and participating in external initiatives of social and environmental responsibility, including: *National blood donation campaign; Greening the Plain; organizing the initiative to clean the bed of the Bâc river and a forested area, organizing various charitable actions.*
-

9.4 Management and organization

According to the Strategic Plan of the National Bank of Moldova "NBM 2025", two of the set strategic objectives are partially or fully related to the human resources domain:

Strengthening institutional resilience and agility and Developing and capitalizing human capital. Strengthening institutional resilience and agility encompasses operational objectives such as: strengthening institutional capacity, including in the context of taking over the supervision of the non-banking financial sector, strengthening governance and organizational culture, developing and promoting the NBM's image as an employer.

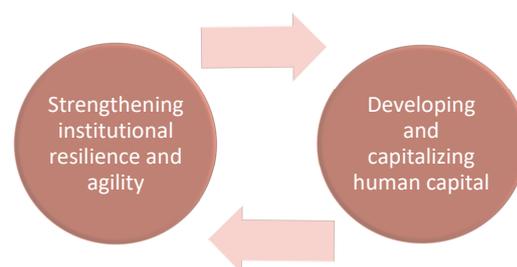
Developing and capitalizing human capital encompasses operational objectives such as: developing the integrated human resources management system, creating a motivating and inspiring work environment, continuous professional development, developing the internal training center and knowledge transfer capabilities, developing leadership and management competencies.

In order to achieve the strategic objectives, the key priorities in human resources management and development in 2023 have been focused in particular on these areas, and the measures undertaken are detailed below.

Organizational developments

In 2023, there were changes in the organizational structure of the National Bank of Moldova aimed to contribute to the achievement of the Bank's strategic objectives and its core duties, as well as to increase its efficiency by optimizing the hierarchical levels. In particular, they were carried out in the context of the need for institutional adjustment in order to ensure an appropriate structure and a sufficient number of posts for an optimal assumption of regulatory, licensing and supervisory tasks of some non-banking financial institutions from the National Commission for Financial Markets, in accordance with the provisions of Law No. 178/2020 on the amendment of some normative acts. Thus, the functions related to the core duties of the NBM regarding the supervision of the insurance sector, non-banking lending and savings and loan associations have been developed by optimizing the existing subdivisions specialized in the areas of supervision, regulation and licensing, resolution, anti-money laundering and combating the financing of terrorism, etc. At the same time, some subdivisions related to the support and governance field in areas such as legal, information security and information technologies, etc. have been optimized.

Another relevant change was made in the organizational structure in the field of foreign relations and European integration, in order to strengthen the institutional capacity of the NBM to cope with the



volume and complexity of activities related to European integration commitments in the context of our country's obtaining the status of candidate country for accession to the European Union in 2022.

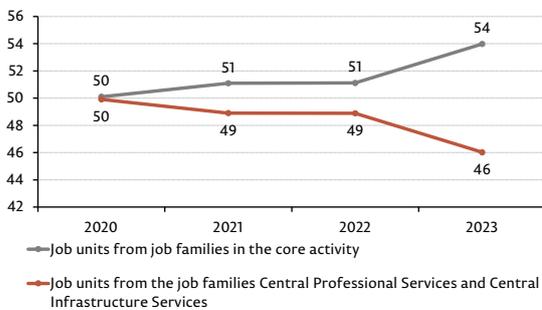
In overall terms, these changes are aimed at increasing the NBM's ability to adapt to changes in the external environment by redefining responsibilities, restructuring activities, and strengthening long-term institutional capacity and resilience.

At the same time, several executive functions have been adapted to the current needs of the subdivisions, with no impact on the total number of staff units.

Thus, at the end of 2023, the number of units of functions of the NBM constituted 691 units, of which:

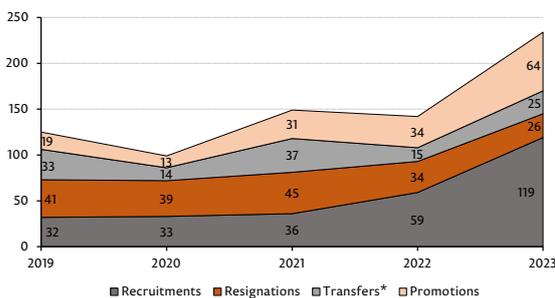
- active employees – 534 people;
- vacancies (including temporary vacancies) – 157 units.

Chart 9.1: Evolving structure (%)



Source: NBM

Chart 9.2: Human resources management processes (number of persons)



Source: NBM

*The total number of transfers includes those carried out in the context of reorganizations

The changes realized during the year 2023 led to the improvement of the control domain indicator which increased from 4.9 in 2022 to 5.6 executors per one manager in 2023. As a result of the changes, the ratio of the number of units related to the core duties of the NBM of about 54% to the number of units related to the support area of about 46% has also changed (for comparison in 2022 this ratio was about 51% for the core duties of the NBM and about 49% for the support and governance area).

Human resource management at the NBM is the strategic approach to effective staff management, which includes the set of organizational operations with regard to hirings, dismissals, transfers and promotions. Overall, in 2023, there was a 100% increase in the number of new hires compared to the previous year. This is due to intensified efforts to promote the NBM's image as an employer, to broaden the outreach of vacancies, as well as to a certain improvement in the labour market.

There was also a significant increase in internal mobility, particularly in the context of promotions following competitions. The NBM employees have the possibility of professional growth, changing jobs according to their interests, thus respecting eligibility and fairness at work. This phenomenon is an incentive facility for the employees. Thus, the development and maintenance of reliable human resources management processes, as well as the strengthening of an integrated human resources management system, aims, at the institutional level, to ensure a sufficient number of staff corresponding to the requirements and needs of the NBM's activities.

Human resource management

Fluctuation rate

In 2023, the voluntary staff turnover of the NBM was 5.20%, decreasing compared to 2022 when it was 8.14%. The decreasing trend shows that the human resources policies of the National

Bank are functional and adapted to the changing requirements of the reference market. Analyzing the voluntary turnover by hierarchical levels, for managerial positions, in 2023 it equaled zero, a trend maintained from 2022, which has a positive effect on the continuity of the NBM's activity by retaining a high-level expertise. For executive functions, voluntary turnover is decreasing, reaching a rate of 6.72% in 2023. It should be noted that the voluntary turnover includes only persons who resigned on their own initiative, excluding from the calculation persons employed on fixed-term contracts with pensioner status and those who left for other reasons (retirement, termination of employment contract, downsizing, etc.), additionally, the dismissals of the NBM employees whose employment contracts were suspended in the year prior to the year in which they actually resigned were excluded.

Payroll system

The payroll system used within the NBM for the remuneration of employees was implemented in 2018 as part of the project for the implementation of an integrated human resources management system, carried out with the assistance of the consulting company with international experience, including in the field of central banks and international financial organizations Korn Ferry (Hay Group). The payroll system for NBM employees provides for the establishment of a direct relationship between job value and pay level, as well as ensuring internal equity and external competitiveness of pay, which entails the following benefits: alignment of the salary with the reference market; internal equity (positions with the same value have the same salary level); external competitiveness (positions with the same value have the same salary level with the reference market); attractive employer (increasing the attractiveness of the NBM as an employer in the labour market); clear rules (the system provides clear rules for promotion in salary steps); improvement of the working environment.

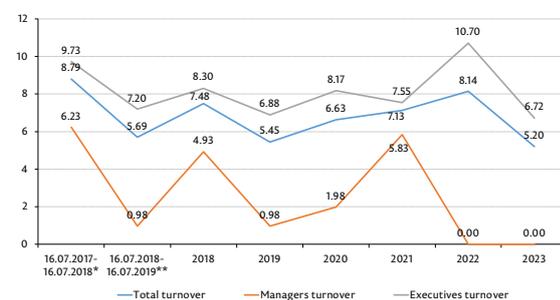
In 2022, in order to ensure the competitiveness of the NBM as an employer, in collaboration with the consultant Korn Ferry, the wage system was adjusted to the reference market, a necessity imposed by the major consequences on the labour market of the COVID-19 pandemic, the energy crisis generated by the tense situation in the region, labour migration, etc.

In order to ensure that the level of remuneration of the National Bank's employees is not lower than the level of remuneration of positions of similar impact and complexity in the banking sector and/or the general services market, the payroll system of the NBM's employees is regularly updated/ adjusted by applying maintenance tools that take into account the developments in the reference market.

Equity and inclusion

The importance of respect for equity, equality and inclusion is a priority in the staff policy of the NBM. Ensuring the principles of equity and inclusion is an important aspect of the Republic of

Chart 9.3: Voluntary turnover of the NBM staff (%)



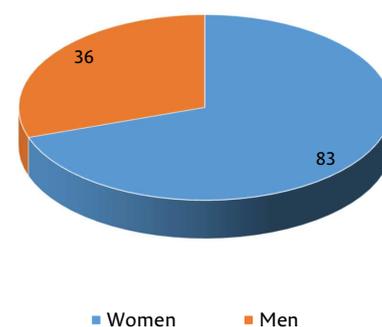
Source: NBM

*Year of implementation of the new payroll system

**Year after the implementation of the new payroll system

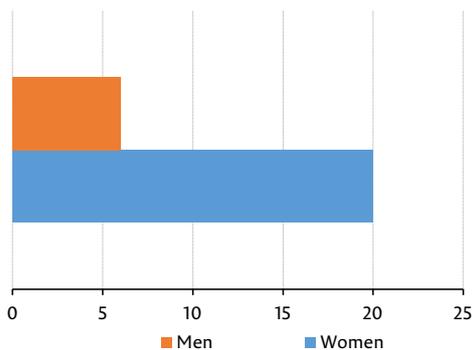
Note: Dismissals preceded by suspension IEC have not been included in the calculation

Chart 9.4: Number of persons employed in 2023 by gender



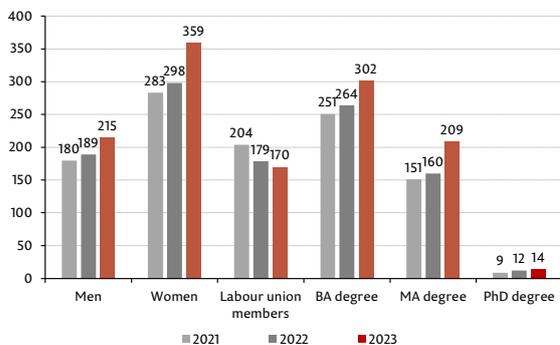
Source: NBM

Chart 9.5: Number of resignations in 2023 by gender



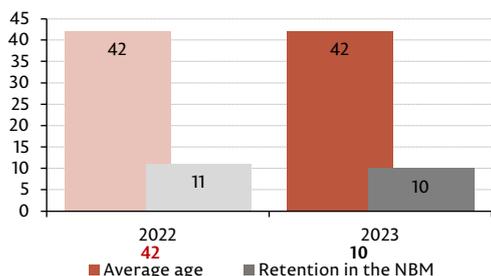
Source: NBM

Chart 9.6: General information on NBM employees (number of persons)



Source: NBM

Chart 9.7: Average age and retention in the NBM (years)



Source: NBM

Moldova’s path towards European integration and new objectives to strengthen the institutional capacity of the NBM. In 2023, the NBM has certified 9 persons, employees with disabilities, who work in the NBM under legal conditions without violating their rights and obligations, ensuring equity with other employees. The NBM provides all conditions for the employment of staff with respect for the values of equity and inclusion, where employees are valued, respected and promoted according to their competences and not according to other criteria.

After analyzing the situation regarding the employment of staff, we note the major difference in employment between women and men. This is a country-wide phenomenon, which provides for an increase in the number of women employed in the context of gender equality policy.

During the reference year, there was an increase in the share of employees with Master’s degrees and the number of employees with PhD degrees at the National Bank of Moldova, which has a positive impact on the skills and performance of employees.

The average age of the Bank’s staff at December 31, 2023 was 41 years and 9 months. Almost two-thirds were female (63%) and more than one-third (37%) were male. It is also worth noting that women are represented at a rate of 50% in leadership positions and 52% in managerial positions.

The retention of NBM employees has been decreasing from 11 years in 2022 to 10 years in 2023 as a result of the intensified recruitment process in 2023, as well as the transfer hiring of staff from the National Commission for Financial Markets engaged in activities transferred to the NBM in accordance with Law No. 178/2020 on amending some normative acts. The share of employees with up to one year of experience in the NBM increased from 11% in 2022 to 20% in 2023.

Professional training

Professional development

During 2023, in order to ensure the development of professional skills and increase the human capital of the NBM, about 78.3% of the effective employees benefited from various forms of further training. The training events being selected according to individual professional development needs, starting from the training programs offered by development partners, as well as by ensuring internal knowledge transfer.

Knowledge transfer internally was carried out through the organization of seminars and presentations by the NBM experts, mainly aligned with the objectives of the NBM. In general, the sessions were conducted online, with access for all the NBM staff, while knowledge-building sessions were also organized at the departmental level. Internal trainings facilitated the transfer of knowledge from specialized subdivisions to employees in other subdivisions on various areas of the Bank’s activities (Chart 9.8).

At the same time, during 2023, the NBM employees participated in external trainings on various areas, conducted by the Bank’s

development partners and specialized organizations, as shown in the chart 9.9.

At the same time, in 2023, the NBM launched the project "NBM LearnOrgLab" – institutional transformation into a learning-oriented institution, implemented in cooperation with the Center of Excellence in Finance in Ljubljana, Slovenia, with the financial support of the Ministry of Finance of the Kingdom of the Netherlands, the Ministry of Foreign and European Affairs of the Republic of Slovenia and the Ministry of Finance of the Republic of Slovenia. Under the project, 17 learning initiatives were carried out, including 5 thematic workshops, 4 webinars, 4 learning products, 3 study visits and, for the first time for the NBM, a group coaching programme and an individual coaching programme were organized to strengthen and develop managerial and intra-departmental cooperation skills. The coaching programmes will continue in 2024. Another novelty was the implementation of the learning product in a micro-learning format, delivered during the thematic week: "Europe, closer".

The project activities covered topics in the areas of: managing and facilitating the learning process; developing and promoting organizational culture conducive to learning; developing trainer skills; managing change and decision-making. The events were conducted in both physical and online presence, each offering a learning product that the NBM will further utilize. Thus, as a result of the activities planned for 2023, about 300 NBM staff members were trained in the direction of learning capacity development and knowledge transfer, about 70 managers participated in workshops in the areas of organizational culture development, change management and decision-making. At the same time, within the programme, 20 NBM staff members were trained in the field of training of trainers, in order to create the NBM's internal trainers' base, one of the learning products delivered by them being the thematic micro-learning weeks.

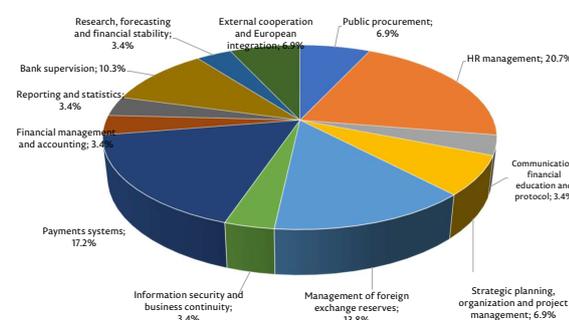
In 2023, the functionality of the NBM's e-learning platform was expanded to include recordings and thematic courses for new employees, as well as the development of courses in interactive format. The learning resources generated by the "NBM LearnOrgLab" project complement the platform.

Another employee skills development initiative was to support employees who wish to study English. Thus, the internal normative framework providing incentives to study English was adjusted.

Performance management

The performance management system is a tool applied by the National Bank of Moldova since 2016 in order to increase the efficiency of employees' activity. Thus, following the evaluation of the results of the employees' activity for the year 2023, a stable evolution of the performance was observed compared to the previous periods (Chart 9.10).

Chart 9.8: Structure of staff professional development through internal training, by areas (%)



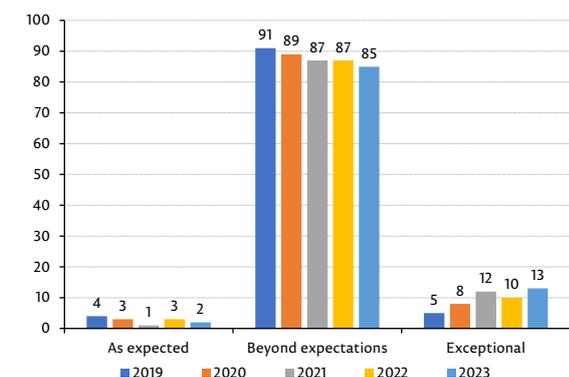
Source: NBM

Chart 9.9: Participation of the NBM employees in trainings provided by external providers, by areas (number of persons)



Source: NBM

Chart 9.10: Evolution of the performance level of NBM employees (%)



Source: NBM

Work environment and organizational culture

To fortify organizational culture and efforts to strengthen it, an assessment of the current organizational culture according to an internationally applied methodology was carried out in 2023, followed by two workshops to define the desired organizational culture and to develop strategic directions to strengthen the organizational culture. To facilitate its implementation, a change management and decision-making workshop was organized. The actions were carried out as part of the process of transforming the NBM into a learning organization in the framework of the "NBM LearnOrgLab" project.

At the same time, the National Bank of Moldova took over the supervision of the non-banking financial sector, in this context a number of activities were carried out for the effective integration of employees transferred from the National Commission for Financial Markets. As a result, training sessions were conducted for them related to the processes within the NBM and aspects related to the opportunities offered by the NBM as an employer, induction and orientation sessions in which they were familiarized with the working environment and its regulations, as well as with the activity of the Bank's subdivisions.

At the same time, as a result of the positive experience gained during the 2022 period, the practice of remote working for the NBM employees whose duties can be performed without physical presence at the NBM premises, using information and communication technology means, was continued. This tool is intended to be used both to ensure the continuity of the NBM's activity in a situation of increased risk and as a benefit offered by the employer for a more flexible, modern and dynamic working environment, adapted to the new developments in the labour market.

In addition, activities and events were organized throughout the year to help strengthen the organizational culture and maintain a sense of institutional belonging.

In this context, events were held, during which were presented the strategic plan "NBM-2025", the annual report, the "NBM LearnOrgLab" project was launched, the Traditional blouse (Ie) Day at the NBM, the Friendship Day etc. were organized.

In addition, in order to promote a balance between personal and professional life, "A Day with the Parent at the Office" was organized, where employees' children had the opportunity to see their parents' workplace and participate in age-appropriate interactive activities. In the same vein, employees' children took part in competitions of creativity and talent in making the most beautiful Easter decorations and compositions dedicated to the 30th Christmas of the Moldovan Leu and had a meeting with Santa Claus at the NBM.

At the same time, the civic spirit and social responsibility was promoted by the NBM employees by carrying out actions of responsibility towards the environment, in particular the sanitation of the bed of the Bâc River and the Orhei's forests, as well as greening the plain.

The NBM employees have joined the national campaigns: of blood donation, "The Joy in a Bag", "The Gift in a Shoebox", "Santa Claus Letter". At the same time, they initiated and organized charitable actions for children with special needs, for people hospitalized in the Republican Asylum for the Disabled and Pensioners, as well as brought the joy of the winter holidays to several families in distress. During the year 2023, 3 Charity Fairs were organized, where participants showed their creativity and generosity and were very actively involved. The funds raised were directed to colleagues suffering from incurable diseases.

Among the initiatives that aimed to promote healthy lifestyle and social responsibility were: participation in the Chişinău International Charity Marathon and Gladiator Mud Race, where participants showed interest, involvement, community membership and team spirit.

In this vein, the NBM's actions have been aligned and oriented to create an efficient working environment that inspires and determines conditions for promoting and sharing the values of the NBM, enhancing the productivity of the activity and the spirit of institutional ownership.

Recruitment

The recruitment and selection process within the National Bank of Moldova is characterized by a continuous effort to attract, select and hire the best specialists to contribute to the fulfillment of the Bank's mission and objectives (Chart 9.11).

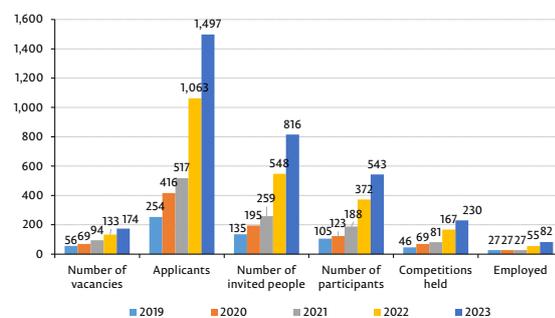
Considering the specific nature of the Bank's vacancies, which is distinguished by increased requirements in terms of educational level, complexity and expertise, as well as the shortage of qualified labour on the Moldovan labour market, The NBM is increasingly focusing on developing and strengthening its image as an employer. In particular, the bank uses various tools to be as close as possible to its target group.

Thus, to this end, several recruitment platforms have been contracted and attractive profile pages have been developed for the publication and dissemination of announcements on the NBM vacancies. The use of social networks and profile pages specialized in informing and attracting potential candidates about the opportunities offered by the NBM as an employer and about the team activities was also increased.

Throughout 2023, the NBM had an active presence at career fairs, organized both at the national level and at the level of the relevant educational institutions. During these events, specialists in the field informed, in particular, young people concerned about their professional development in banking about the priorities, duties and activities of the NBM.

In 2023, the "Discover the NBM as an Employer" event was organized to promote interest in a career in the banking and finance sector. In addition, a panel discussion on "Discover the world of data at the NBM" was organized with the aim of increasing the participants' interest in joining the NBM's Reporting and Statistics Department. Also, at the Academy of Economic

Chart 9.11: Evolution of the recruitment process in the NBM



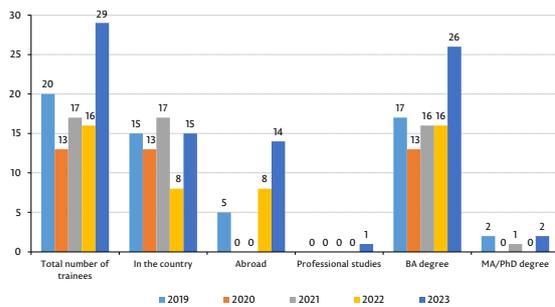
Source: NBM

Studies of Moldova, colleagues from the Monetary Policy Department, the Financial Stability Department and the Budget, Finance and Accounting Department organized open lessons with students.

As a result of the efforts undertaken to promote the employer image, the year 2023 was characterized by the upward trend of indicators related to the recruitment process. Thus, the number of persons hired in 2023 compared to 2022 is 49% higher. It should be noted that the National Bank of Moldova ensures the integration and continuous professional development of new employees through induction and orientation programs, internal and external trainings, trainings conducted on the job, with the support of NBM colleagues.

Internships

Chart 9.12: Student internships at the NBM



Source: NBM

In order to contribute to the professional development of banking specialists, and not only, the NBM encourages students studying in educational institutions in the country and abroad to carry out their internship at the NBM. In the reference year, the number of interns increased significantly, by 81.25% compared to 2022 (Chart 9.12).

At the same time, building on the previous experience, the NBM organized the "Career Week at the NBM", during which NBM specialists visited universities and centers of excellence in the country and interacted with students, informing them about the internship opportunities offered by the NBM. The NBM encourages and supports young professionals, creating the right conditions for a successful career at home.

9.5 Internal audit

The overall purpose of the activity of the Internal Audit Department (IAD) is to provide independent and objective assurance and advisory services designed to add value and contribute to the optimization of the NBM's activities. The mission of the internal audit is to enhance and protect the values of the NBM by providing objective risk-based assurance, advice and a forward-looking approach. Internal audit assists the NBM in achieving its objectives through a systematic and disciplined approach in assessing and improving the effectiveness of governance, risk management and control processes.

The IAD is guided in its activity by the mandatory elements of the International Professional Practices Framework (IPPF), developed by the Institute of Internal Auditors (IIA), including the Institute of Internal Auditors' fundamentals of professional practice in internal auditing, the Institute of Internal Auditors' Code of Ethics (hereinafter the Code of Ethics), the International Standards for the professional practice of internal auditing and the Definition of internal auditing (hereinafter the IIA Standards). The IAD operates under the normative framework⁹² aligned with the Supplemental Guidance "Model Internal Audit Activity Charter" of the Institute of Internal Auditors (IIA)⁹³. According to the Qualification Standards, the quality assurance and improvement program is intended to provide an assessment of the internal audit activity's compliance with the IIA Standards as well as an assessment of the application of the Code of Ethics. Compliance with those Standards and the Code of Ethics was confirmed by the March 17, 2021 Report on the External Quality Assessment of Internal Audit. Based on best practice in the field, the independence of internal audit is achieved through functional subordination to the NBM Supervisory Board/ Audit Committee and administrative subordination to the Governor of the National Bank of Moldova.

During the year 2023, the actions on the implementation of the recommendations submitted by the external assessor⁹⁴ set out in the Plan⁹⁵ respectively continued. Thus, in 2023, the Internal Audit Strategy of the NBM 2023-2025 was approved, aligned with the Strategic Plan of the NBM, in which the following strategic objectives were set:

1. Strengthening the capacity of the IAD to support the NBM in achieving its strategic objectives and improving the effectiveness of processes.
2. Developing professional skills.

⁹²Regulation on the functioning of the Internal Audit Department of the National Bank of Moldova, approved by the DSB of the NBM No. 32 of 12.12.2019.

⁹³Supplemental Guidance "Model Internal Audit Activity Charter" Institute of Internal Auditors, March 2017.

⁹⁴External quality assessment report of 17.03.2021 (the external assessment was carried out by a representative of the National Bank of Belgium certified in the field)

⁹⁵Plan on the implementation of recommendations approved on 12.11.2021

3. Promotion of a risk-based and client-oriented approach and adherence to the allocated time budget.

In 2023, the audit work was carried out in accordance with the approved audit plan, which was developed applying the risk-based approach, and the priorities set. The IAD in its work did not encounter any limitations in expressing the independent opinion. The Director of the IAD regularly reported the results of the audit activity to the governing bodies of the NBM: the Audit Committee, the Executive Board and the Supervisory Board.

During 2023, the IAD completed audit assignments related to the 2022 Audit Plan and completed the 2023 Annual Internal Audit Plan at 100%⁹⁶. The IAD performed assurance assignments, endorsements of the financial statements and execution of the cost estimates, investment allocations and the NBM budget, and carried out monitoring and evaluation activities in high-risk areas.

Several types of audits were performed – financial/ compliance/ operational (69%), IT audit (23%), integrated (8%). In addition, two monitoring and assessment activities were carried out⁹⁷. Through the audit activities⁹⁸, 50% of the processes assessed by the IAD as high residual risk, 30% medium risk and 7% low risk were covered. In 2023, the IAD officers participated as monitors in seven major NBM projects.

9.6 Information Technology

In 2023, the NBM has come a significant way in strengthening its technological and operational capabilities, with notable achievements that have contributed to the efficiency and adaptability of the institution in facing complex challenges.

A major turning point in the evolution of the NBM in 2023 was the extension of the NBM's mandate by taking over certain duties from the National Commission for Financial Markets (NCFM). In this context, the contribution of the ICT function was crucial, playing an important role in the inventory and capture of data and IT systems, as well as their integration and operationalization in the NBM environment. At the same time, this extension of the mandate led not only to a restructuring of responsibilities and processes, but also to a significant increase in the number of staff. In this respect, it was necessary to organize the workspaces in an ancillary office, thus generating an additional need to adapt the IT system capabilities to cope with these changes. This integration and adaptation was made possible thanks to complex planning and close collaboration between the NBM implementation teams. The ability to manage this takeover in an efficient and professional manner has played a crucial role in strengthening the position of the NBM as a trusted financial authority.

⁹⁶14% of the time budget available for 2024 has been used.

⁹⁷An assessment mission was also carried out with the support of other subdivisions of the NBM.

⁹⁸Calculated from the total number of NBM business processes with the respective residual risk.

With regard to the implementation of the project portfolio at the NBM level, notable progress was made during the reporting year. A particular highlight was the launch in the operational environment of the system for monitoring shareholder transparency and remote analysis in the area of anti-money laundering and combating the financing of terrorism. This achievement was made possible with the involvement of the United States Agency for International Development (USAID), which financed this project, and of the partner responsible for the implementation part FSTA (Moldova Financial Sector Transparency Activity program). The implementation of this system will contribute to strengthening the NBM's capacity to effectively and promptly respond to threats in the financial sector, providing a robust framework for identifying and managing systemic risks related to possible illicit activities. With the assistance of its funding partners, through the Moldova Institutional and Structural Reforms Activity (MISRA), the NBM together with Cambridge SuptechLab has launched an initiative to develop a strategic roadmap on Suptech development within the NBM. This initiative is crucial for the NBM as it will guide the institution's strategy in the adoption and implementation of Suptech technologies, helping to improve operational efficiency and strengthen supervisory capacity in line with the latest international standards and practices. Significant progress has also been made in the implementation of other key projects, including the introduction of a new system for instant payments. Another priority has been the improvement of the MTPL Data Information System, taken over from the NCFM. This initiative involved extensive actions both at the functional level, to digitize and automate the MTPL policy issuance processes, and at the technological level, with a focus on key improvements in security and service exposure through APIs. These improvements have been highly appreciated by insurance market participants, contributing to the increased efficiency and security of MTPL insurance processes. A detailed description of other major projects can be found in annex A.21 "Developments in the NBM's major projects through 2023".

Other notable achievements include the modernization of the technological platforms of some systems of major importance that provide support in the performance of key functions of the NBM, such as oversight, authorization, licensing, etc. In this regard, in 2023, the modernization of the technological platform related to the NBM reporting information system (NBMRIS) was completed, with the objectives of increasing performance and strengthening cyber protection capabilities. This upgrade included improvements to the user experience, the addition of new functionalities and the integration of the system with the government services MPass and MoldSign. This integration will enable more efficient management of reporting entities' access to the platform, as well as an optimized mechanism for electronic signature of submitted data. Another important upgrade was also initiated during the year, concerning the system platform for licensing and authorization. This upgrade involved migrating to an improved version of the platform, both functionally and technologically. These modernization efforts reflect the NBM's continued commitment to use technology to improve efficiency and operational capabilities, while ensuring a robust and secure infrastructure for the exercise of its key financial responsibilities.

In order to effectively respond to new cyber threats and to continuously build trust in the ICT services it provides, the NBM

has initiated a major infrastructure project aimed at fundamentally changing the paradigm in the organization of its network architecture by adopting an innovative concept – Zero Trust Network Access (ZTNA). This concept is based on a set of technologies that operate on a model, where trust is never implicit, but which can provide enhanced security, a much smaller attack surface, the possibility to implement granular access control policies, etc. This proactive approach to cybersecurity will ensure that the NBM is adequately prepared for future challenges and that its data and operations will be effectively protected and secured. The implementation of the ZTNA represents a firm commitment by the NBM to promote cybersecurity and to protect the integrity of its data and systems, thereby strengthening the confidence of both institutional partners and the general public in the institution. Also, on this dimension, the NBM has engaged reputable specialized companies to conduct an extensive security audit of the modernized interbank payment system – AIPS, thus confirming the high standards of protection of this system, which is considered critical infrastructure at the national level. At the same time, extensive penetration tests were carried out on various network segments and critical systems to assess their cyber resilience to possible attacks. These measures demonstrate the NBM's commitment to ensuring a secure and protected cyber environment for all its users.

In parallel with the progress achieved in terms of projects and development of technological infrastructure, the NBM has initiated an innovative pilot project with the application of emerging technologies, which allowed the realization of the functionality of unstructured data ingestion, combined with the application of artificial intelligence and machine learning algorithms (AI/ML⁹⁹), as well as generative language models (LLM¹⁰⁰). This approach will serve as a foundation for automating and streamlining the processes of analyzing and processing large and complex information, marking an important step towards the optimization of surveillance processes. The functionalities developed under this pilot project are expected to play a key role in future initiatives, contributing significantly to enhancing the NBM's ability to respond to technological and operational challenges.

In conclusion, the year 2023 was characterized by significant progress in strengthening the technological and operational capabilities of the NBM. By implementing modern solutions tailored to its specific needs, the NBM remains committed to ensuring security, efficiency and transparency in all aspects of its activity. These achievements confirm the NBM's continued commitment to efficiency, excellence and innovation in the financial sector of the Republic of Moldova.

⁹⁹AI/ML – Artificial intelligence refers to the ability of an algorithm/ system to simulate certain characteristics of human intelligence, such as voice recognition, problem solving, decision making, or learning. ML refers to the ability of a machine learning system/ program based on algorithms and models that can learn to perform specific tasks without being explicitly programmed.

¹⁰⁰Large Language Model – is a class of artificial intelligence (AI) models that are trained to understand and generate human language in a complex way and in various contexts. These models are capable of processing and generating long texts while preserving coherence and context in the discourse. A notable example is the GPT model (Generative Pre-trained Transformer).

Chapter 10

Research activity

A central bank's research serves as the conceptual and empirical basis for formulating proposals for central bank policies and decisions. The role of research is to ensure that the central bank has at its fingertips the information needed to effectively manage the challenges arising in its areas of activity. To this end, the Department of Economic and Applied Research produces original research, analysis and other analytical material on topics related to the tasks and functions of the National Bank and carries out the coordination of research activity within the National Bank.

The research activity in the National Bank is coordinated between two working groups: economic research and applied research, each focusing on different topical areas. In 2022, research activity was focused on theoretical and practical support to the subdivisions of the National Bank in areas relevant to its tasks, functions and policies, which included work on financial market infrastructures, development of financial technologies and their supervision, deepen the analysis of the economic consequences of the geopolitical situation in the region, including on central bank policies. At the same time, the Department is continuing its efforts to optimize the analytical process with regard to monetary policy.

The economic structural changes at global, regional and national level caused by the effects of the health and energy crisis on the economy, and the geopolitical situation in the region on the economy and the financial sector require a review of central bank policies and instruments. In this context, the role of analysis, studies and research is increasing in order to create theoretical and practical foundations adapted to the new conditions.

In order to achieve the expected level of efficiency in terms of academic excellence and practical usefulness, but also to bring the National Bank's scientific research to a level of international recognition by ensuring quality at the level of high standards of research excellence, it is necessary to continuously invest in staff development in order to enhance its expertise, knowledge of current situations and developments in financial markets. Thus, during 2022 the Department of Economic and Applied Research has attended training events and continuously monitored the evolution of the national and international economic environment in order to have the capacity to deliver an informed opinion and to be ready to participate in the continuous development of the analytical and research tools that underpin policy decisions.

The Department of Economic and Applied Research actively participates in thematic working groups organised at the initiative of other subdivisions or third-party organisations, and supports research cooperation within and outside the Bank. The Department acknowledges the importance of information exchange, discussion and debate in the research process as vital to the research process and the development of the field.

Chapter 11

External communication

The external communication of the National Bank of Moldova is centered on the criteria set out in the Communication Strategy and is carried out with the aim of promoting a financial system based on market principles and supporting the economic development of the country. The institution has adapted to new global, regional and national developments, communicating its decisions in an efficient and transparent manner. The promotion of the institutional image was aimed at both internal and external audiences.

The pandemic crisis has generated the migration towards a hybrid model of communication with the public, which is characterized by communication processes oriented both to a public with physical presence and to the online public, keeping as a basis the principles of accessibility, clarity, timeliness, predictability and transparency.

The NBM's communication continued to focus on achieving the main objective: anchoring inflationary expectations close to the target set by the National Bank and increasing credibility in the financial-banking sector of the Republic of Moldova. At the same time, the shocks related to the continuation of the war in Ukraine forced the central bank to adopt a pro-active communication aimed at stabilizing the financial-banking sector and maintaining calm in society.

For the purpose of wider information coverage, the NBM used several channels to inform the general public. Traditionally, the official website of the NBM was used as the first source of information. Thus, during the year 2023, on the website www.bnm.md were published and updated, in Romanian, English and Russian 2,260 information materials (press releases, media interviews, publications, analytical materials, normative acts, drafts proposed for public consultation, announcements, explanatory articles) and 2,976 statistical reports. In addition, 72 messages addressed to the National Bank of Moldova were answered/ clarified through the online messaging mechanism of the website.

The relationship with the media was characterized by openness, responsiveness and collaboration.

During the year, around 20 interviews (Table A.22) and interventions in TV, radio, print and online media were given and realized. There were also 15 live broadcasts from various events such as: presentation of inflation reports (4) and presentation of monetary policy decisions (4), the first National Forum on Financial Education; presentation of the Software Solution for monitoring the risk of money laundering and terrorist financing; Signing of the Memorandum of Understanding between the National Bank of Moldova and the Bank of Lithuania; conference

"Aligning with EU standards for payment security in the digital era"; opening of the Global Money Week, visits to the NBM Museum; career day at the National Bank of Moldova, etc.

Since 2023, the National Bank of Moldova has launched a new media product – the financial education podcast "Make Sense of Money". During the year, 12 editions of the podcast (Table A.23) were produced and broadcasted on the platforms of the NBM and its partners with the participation of officials from the NBM, the International Monetary Fund, the European Union Delegation, financial education experts and representatives of the central bank's partners who provided support to the implementation of ongoing projects.

The podcasts were broadcast not only on the NBM's communication platforms, but also on Privesc.eu and Rlive.md.

During 2023, the National Bank processed over 420 requests for information. The requests were received both via electronic mail and telephone calls and messages.

Social media communication

Qualitative analysis of the use of the website (through Google Analytics service) and of the messages received through social networks highlights a steady increase in public interest in the information on the NBM website and the concentration of this interest on topics such as monetary policy, banking supervision, normative acts developed by the NBM, events dedicated to financial education.

Two changes imposed by Google in the concepts for collecting and managing information on the web page activity partly contributed to the reduction in the quantitative indices recorded in 2023 compared to the previous year.

The first change occurred in May, when the WDL profile on Google Analytics migrated from GA to GA4. The new model uses a different data collection concept: whereas in GA the focus was on page views, in GA4 the focus is on user actions. The service perceives any interaction with the web page as an event.

Also, on the www.bnm.md page, it has been introduced the mechanism to inform the public about the Cookies Policy of the website. Thus some users have the possibility to block the collection of cookies. When the user blocks cookies, their browsing is no longer captured and tracked by Google Analytics. As a result, some of the browsing sessions on the website are not reflected in the statistics.

Both changes have partially reduced the possibility to collect complete information on website activity. The partial reflection of browsing sessions on the website has led to a decrease in the quantitative indices, generating a return of the statistics to the levels recorded in 2021 (Table A.24).

On social media, the NBM has seen a significant increase in the number of subscribers and an increase in the impact of posts on the NBM profiles.

The increases are due to factors such as: improving the quality of the messages published on social media profiles, diversifying them, dividing the thematic topic according to the social media profile on which the information is published and maintaining a constant periodicity (Table A.25 and table A.26).

More than 450 requests for information and questions from citizens were received through the social network Facebook, which were redirected to the competent subdivisions or solved, within the limits of the service's competence.

On the NBM profile on Youtube channel, 45 videos were posted, 15 live broadcasts of events organized by the Bank and 12 editions of the financial education podcast "Make Sense of Money".

Thus, the National Bank realizes an effective external communication, based on the principles of modern institutional communication and target group orientation. Through its external communication, the NBM continues to demonstrate its openness towards the public, in order to inform it transparently and efficiently in the performance of its central banking activity.

Chapter 12

Financial education

Increasing the level of financial education among citizens is an institutional priority, aimed at achieving financial inclusion as part of the country's economic development.

Thus, the National Bank of Moldova keeps on coming to the public with a professional response to the modern consumer's need and tendency to understand the opportunities offered by the financial market. Respectively, throughout 2023, children and young people had the opportunity to visit the NBM's exhibition hall, with the central bank's employees giving them presentations on topics related to the financial sector. At the same time, on-site financial education sessions were conducted (e.g., for students from ASEM, USM, high school students from Stauceni commune, etc.), with the achievement of an effective and open backlinking.

In the same vein, during the "Global Money Week" about 550 students crossed the threshold of the National Bank. Thus, children and young people represent the key target group in the financial education process carried out by the central bank, from the perspective of assimilation, promotion of acquired knowledge and high receptiveness to changes in the financial environment.

At the same time, the central bank, as the national coordinator of the financial education process, emphasizes the importance of uniting the efforts of authorities and civil society in this regard, organizing in the first quarter of 2023 the first National Forum for Financial Education. The event highlighted the commitment of the National Bank on the elaboration, with the assistance of USAID under the project "Institutional and Structural Reforms in Moldova", of the Strategic Development Program on Financial Education. The event also emphasized the importance of involving both institutions and civil society in financial education. Thus, towards the end of 2023, the concept of this program was developed and coordinated between 15 institutions and representatives of civil society, which were part of the working group.

In the same spirit, in order to more effectively adapt its educational sources and messages addressed to young people, the National Bank has expanded its partnerships, concluding in 2023 a cooperation agreement with the Republican Theoretical High School "Aristotle" in the field of financial education. The document provides for mutual cooperation in projects and activities aimed at raising awareness of the importance of responsible financial behaviour and strengthening citizens' financial education.

In June, the National Bank of Moldova launched a new communication tool – the financial education podcast "Make Sense of Money", in which the protagonists – representatives of

the NBM management and other personalities from the financial-banking sector explain various aspects of the central bank's activity and decisions, market developments and the factors that determine them, etc.

The National Bank came to the public with information and financial education messages also during the activities dedicated to Europe Day and America Days in Chisinau.

The central bank continued its traditional "Open Doors Day" and "In the World of Bănuț" projects, aimed at the general public and children aged 5-7 respectively, by creating an animated infographic with text in verse on the topic of money for children.

In the same series of projects already traditionally developed by the central bank are "A Holiday at the NBM" for children, young people, their parents and grandparents, as well as "Financial Education Camp" for the 18+ target group, organized in partnership with the Independent Analytical Centre "Expert-Grup", and "Money Trail" – a dynamic activity, carried out together with commercial banks, in different banking locations and with different approaches.

A unique financial education program started by the National Bank in 2023 is the "School of Modern Finance". The specialized project is run with the full support of the National Bank of Romania and in collaboration with the Bucharest Academy of Economic Studies (ASE). The two editions, summer and autumn, took place in Romania and were aimed at master students from the Academy of Economic Studies of Moldova (ASEM). The program offered young people a unique opportunity to combine a new study experience in the Romanian capital with cultural and historical activities in Bucharest and other representative cities in Romania, such as Iasi, Brasov, Suceava and Sinaia.

Also, in October 2023, within the framework of the USAID-supported Moldova Institutional and Structural Reforms Program (MISRA), a survey was conducted to evaluate the level of financial education of the population of the Republic of Moldova.

The sociological survey was carried out on a representative sample of the population aged between 18 and 75, excluding the Transnistrian region of the Republic of Moldova. The survey showed that citizens need financial education and access to truthful information in order to effectively manage their personal income and make full use of the advantages of financial instruments and services. According to the survey, two thirds of respondents rated their financial knowledge as average, saying that they obtain their financial information from family or friends rather than from specialists.

The survey warns that a lack of financial literacy leads to multiple issues such as over-indebted citizens, an increase in financial scams and low trust in financial institutions.

Thus, the survey once again proved the need to step up efforts to promote financial education, an opportunity that the central bank offers to citizens, regardless of age and profession, to support them in financial inclusion.

Chapter 13

Analysis of the financial situation and position of the NBM at the individual and consolidated level for the year 2023

The fundamental objective of the NBM is to ensure and maintain price stability. Making a profit is not an objective, but guaranteeing price stability, given that the market is influenced by internal and external factors, also implies assuming possible losses, precisely in order to bring balance to the market, which benefits both the business environment and the population.

13.1 Key indicators

Consolidated assets

The consolidated assets of the Bank as at December 31, 2023 constitute **MDL 113,387 million** and continued the upward trend of the previous years, increasing by **MDL 8,521 million (+8.13%) in 2023**. Financial assistance from Moldova's development partners, interventions of the NBM to purchase foreign exchange, net inflows related to foreign exchange required reserves of licensed banks, as well as profits from foreign exchange asset management are some of the main factors behind the increase in the level of assets, partially mitigated by the decisions to gradually lower monetary policy rates adopted against the background of sound assumptions associated with the emergence of a disinflationary macroeconomic framework.

Foreign exchange assets, equivalent in MDL¹⁰¹

Including cash, monetary gold, Moldova's IMF quota, placements and investment securities in foreign currency, other financial assets in foreign currency. Foreign exchange assets at December 31, 2023 constitute **MDL 98,985 million** and represent 87% of total consolidated assets. Profits realized from the management of foreign exchange assets during 2023 amounted to **MDL 3,059 million**, double the level of the result reported in 2022.

The level of foreign exchange assets, equivalent in MDL, increased by **MDL 8,843 million (+9.81%)**, mainly as a result of the inflow of significant financial assistance flows from Moldova's

¹⁰¹The level of foreign exchange assets is reported according to the financial statements, their value may differ from the value of official reserve assets reported by the Bank, as a result of the conversion of official reserve assets into US dollars and the exclusion of those assets that do not meet the definition of the international reserves of the state according to the Balance of Payments Manual.

main development partners, net foreign exchange procurement interventions and income from foreign exchange asset management in 2023.

State securities

State securities (SS) held in the Bank's portfolio comprise government bonds issued pursuant to Law No. 235/2016¹⁰², state securities obtained from the conversion of loans previously contracted by the Ministry of Finance and state securities held in the portfolio of the Single Central Securities Depository (CSD). The value of the portfolio of state securities as at December 31, 2023 constitutes **MDL 14,252 million** and decreased mainly as a result of the redemption at maturity of the government bond issued pursuant to *Law No. 235/2016* in the amount of MDL 310 million. The interest income on the SS recorded during 2023 amounted to **MDL 832 million**.

Monetary bonds

All bonds reflected in the balance sheet of the National Bank (individual level), with the exception of bonds vis-à-vis the Government and those vis-à-vis the International Monetary Fund, are monetary bonds. Monetary bonds increased by **MDL 12,466 million (+15.25%)** reaching, on December 31, 2023, **MDL 94,184 million** as a result of the increase in the liquidity level on the money market, the increase in monetary bonds being tempered by the reduction of the reserve requirement ratio by the NBM during 2023 amid the increase in disinflationary pressures. The level of currency in circulation and banks' holdings increased in the context of the receipts of inflation developments in the countries – main trading partners of the Republic of Moldova, the injection of liquidity by the NBM through foreign exchange interventions and remuneration of monetary policy instruments, money transfers to individuals and the use of development partners' assistance in the budgetary support of the Republic of Moldova.

Statutory capital

As of December 31, 2023, the statutory capital constitutes **MDL 3,147 million**. As at December 31, 2023, the level of statutory capital (after allocation of profit available for distribution) in relation to NBM monetary bonds was **3.34%**, down from December 31, 2022, from **3.52%**, remaining below the statutory minimum level of **4.00%**, mainly as a result of the accelerated increase in the level of monetary bonds in 2023.

The level of the statutory capital below the legal limit of 4.00% determines the need for recapitalization of the NBM by the Ministry of Finance according to the situation as of December 31, 2023 with state securities in the amount of **MDL 620 million**, including the capital requirements established as of December 31, 2022.

During 2023, the Government, in the person of the Ministry of Finance, did not issue state securities in the established amount of MDL 396 million requested by the

¹⁰²Regarding the issuance of government bonds in order to execute by the Ministry of Finance the payment obligations derived from the government guarantees No. 807 of November 17, 2014 and No. 101 of April 1, 2015.

NBM and necessary to increase the statutory capital to 4.00% of the total monetary bonds of the Bank registered as of December 31, 2022. The level of capital below the limit of 4.00% of monetary bonds does not affect the Bank's ability to operate efficiently or adequately implement its policies or perform its duties. However, it is imperative that the capital level be restored to the minimum legal level over time through the injection of capital from the Government in the form of state securities.

Profit to be distributed to the state budget revenues

The profit available for distribution, after the coverage of unrealized exchange rate losses and the breakdown of price income on precious metals, amounted to **MDL 274 million**, a level which was recorded after the partial coverage of unrealized exchange rate and price losses.

Until the breakdown of the unrealized results to reserves, the net (accounting) loss from the Bank's activity amounted to **MDL 5,216 million**. It is important to note that, as at December 31, 2023, the level of reserves accumulated under the law from exchange rate gains was not sufficient to fully cover the unrealized losses from the appreciation of the national currency against the reserve currencies in 2023, thus MDL 294 million losses were covered from the general reserve fund, in accordance with Article 20, paragraph (4) of Law No. 548/1995, which increased the level of capital required from the Ministry of Finance as at December 31, 2023 from 326 million to **MDL 620 million**.

The profit available for distribution was mainly generated by the increase in income from the management of official reserve assets in the context of the successive increase by the international monetary authorities of the remuneration interest rates, combined with the strategic and tactical investment decisions of the NBM on the transition to the new benchmark and, consequently, the change in the instrument structure of the portfolio of financial assets, with the reinvestment of financial means in instruments at more advantageous rates, partially reduced by the recording of monetary policy expenses used for remuneration and sterilization of liquidity.

For the year 2023, the NBM will not distribute profit to the state budget revenues, similar to the previous year.

13.2 General considerations in financial analysis

The core duties of the National Bank of Moldova are laid down in the Law No. 548/1995 on the National Bank of Moldova. In accordance with the legal provisions, the operations of the National Bank of Moldova are carried out in order to promote and support the monetary and foreign exchange policy in the state, ensure the stability of the banking and non-banking financial system, issue national currency, manage the official reserve assets of the state, act as the agent and banker of the state, provide payment and electronic money services, etc.

Since the activities and operations of the National Bank of Moldova are carried out in support of the implementation of its policies and the execution of its core tasks, the financial position and financial result achieved should be analyzed together with the actions taken in implementing its policies and the IFRS accounting treatment applied to recognize and assess these activities and policies.

Implementing monetary policy

Permanent facilities granted by the NBM to banks aim to sterilize and provide very short-term liquidity (with overnight maturity) and to reduce fluctuations in short-term interest rates on the interbank money market, respectively, through the corridor established by the NBM on the interest rates related to the two facilities.

Licensed banks may use the two standing facilities offered by the NBM on their own initiative:

Overnight deposits (with overnight maturity), with a predetermined interest rate (the interest rate on the deposit facility is usually the threshold overnight interest rate on the interbank money market);

Overnight deposits represent the Bank's bonds, in the balance sheet they are reflected at **Banks' holdings**, being valued at amortized cost.

Overnight loans granted by the NBM (with overnight maturity), to cover overdrafts outstanding at the end of the operational day, as well as to supplement liquidity, based on pledging of securities pledged with the NBM, at a pre-specified interest rate (this interest rate is usually a ceiling for the overnight interest rate on the interbank money market).

Overnight loans are assets of the Bank and are valued at amortized cost less allowances for expected credit losses. They are reflected in the Bank's balance sheet at **Loans granted to banks and other persons**.

Money market operations (open market operations) are the most important monetary policy instrument of the NBM. They are carried out at the initiative of the NBM and have the function of managing liquidity conditions in the money market and influencing

short-term interest rates in the interbank money market. Money market operations can be carried out through pre-announced auctions or direct negotiations. According to the regulations in force, the main categories of money market operations available to the NBM are:

Reverse repo/ repo operations – reversible operations, aimed at injecting/ absorbing liquidity, where the NBM buys/ sells state securities from banks/ to banks, with the commitment of the banks/ NBM to repurchase the respective SS at a later date and at a price set at the transaction date.

Securities purchased (repo) with a simultaneous commitment to sell on a specific date are recognized on the settlement date, but considering the need for mandatory resale they are not recognized in the Bank's portfolio of state securities, but are recognized as **Loans granted to banks and other persons**.

The difference between the sale price and the repurchase price represents interest expense and the difference between the purchase price and the resale price represents interest income calculated using the effective interest rate method.

Emission of certificates of the National Bank of Moldova (CNB) – liquidity-absorbing operations where the NBM sells negotiable debt instruments of the NBM to banks. In the current structural excess of liquidity, the NBM weekly conducts CNB placement auctions with a 14-day maturity and with the announcement of the maximum interest rate equivalent to the NBM base rate.

Certificates issued by the National Bank represent monetary bonds of the Bank issued in the form of discount securities and are reflected in the balance sheet on the settlement date at **Certificates issued by the NBM**. Certificates are valued at amortized cost, using the effective interest rate method, with the amortization of the discount reflected at **Interest expense on securities and repo operations**.

Attracting deposits – liquidity-absorbing operations under which the NBM attracts deposits with a predetermined maturity from banks.

Sales/ purchases of SSs – operations aimed at liquidity absorption/ injection, where the NBM sells/ purchases SSs, the transfer of ownership from the seller to the buyer being realized through the "delivery against payment" mechanism.

Required reserves are banks' holdings in Moldovan lei and foreign currency held in accounts with the NBM. Required reserves (RRs) are an auxiliary instrument of monetary policy, aimed at restricting excess liquidity and mitigating its impact on interbank interest rates. The main role of the foreign currency RRs is to prevent excessive foreign currency credit growth. **RRs in Moldovan lei** are maintained in the "Loro" accounts with the NBM, being constituted as the average balance of banks' holdings over the application period. **RRs in foreign currency** are maintained only in US dollars and in euro on the "Nostro" accounts of the NBM opened with foreign banks. According to the *Regulation on Required Reserves Regime* (DEB No. 302/2019)

during the period of application, part of the established level of required reserves in USD and EUR is variable – maintained by banks on average, and another part is maintained in an unchanged volume.

The NBM shall pay banks interest on the share of required reserves exceeding 5% of the liabilities on the basis of which they are established. RRs in MDL and in foreign currency shall be remunerated at separate rates, applying for reserves in MDL the NBM overnight deposit rate, and for required reserves in foreign currency – until December 1, 2023, a remuneration rate of 0.01% applied on the basis of the DEB No. 139 of 07.05.2019, and thereafter, according to the DEB No. 221 of 07.11.2023 – separate rates calculated on the basis of the SOFR and €STR rates, each reduced by 2 percentage points.

Required reserves represent monetary bonds of the Bank and are reflected in the balance sheet at **Banks' holdings**. Required reserves in MDL are presented in the "LORO" accounts category. Required reserves in foreign currency are presented in separate accounts from required reserves. Remuneration of required reserves (interest calculated and paid) are expenses of the Bank and are reflected in **Interest expenses related to cash holdings**.

Foreign exchange interventions

The National Bank shall use foreign exchange interventions in order to achieve monetary and foreign exchange policy objectives. These can be carried out both through **direct operations** (sight purchases or sales of foreign exchange against Moldovan lei), which influence the money supply, and through **adjustment operations (foreign exchange swaps)**, which are reversible instruments and do not influence the money supply in the long run.

The NBM intervenes on the foreign exchange market (managed floating exchange rate regime) in order to alleviate imbalances on the domestic foreign exchange market or to adjust the level of foreign exchange reserves.

Interventions for direct sales of foreign exchange decreases the level of foreign exchange reserves and generates realized exchange rate differences, reflected in the statement of comprehensive income at **Trading gains/ (losses) and exchange rate differences**. The corresponding impact of the sales intervention is the decrease in money supply (banks' holdings in lei) and the sterilization of structural liquidity in the system, the sterilization effect on the Bank's performance being consequently the decrease in interest costs on banks' holdings and securities operations.

Interventions to purchase foreign exchange directly contribute to increasing the level of foreign exchange reserves. Procurement interventions do not generate **Gains/ (losses) realized on exchange rate differences**, being only interest generating from the investment. The corresponding impact of the intervention is an increase in the money supply.

Credit to licensed banks and other entities

The National Bank may grant credit to banks under conditions established from time to time by the National Bank. In order to maintain the stability of the financial system, the National Bank may, at its full discretion and under conditions established by it, grant emergency liquidity assistance, secured by eligible assets, to solvent and viable banks facing temporary liquidity problems.

Liquidity assistance shall be provided in national currency at an interest rate determined on the basis of the overnight lending facility rate plus 2 percentage points for a term of up to 3 months, with the possibility of extension up to 12 months. The liquidity assistance is provided on the condition that the licensed bank has exhausted all other sources of liquidity.

Loans in the form of liquidity assistance shall be granted on condition of collateralization with eligible assets comprising state securities issued by the Government of the Republic of Moldova; certificates of the National Bank; deposits and other accounts with the National Bank or deposits and other accounts with a bank accepted by the National Bank, pecuniary claims, except claims on persons affiliated to the bank; corporate securities admitted to trading on a regulated market and/ or a multilateral trading facility (MTF), and other eligible assets. The adjusted value of the assets pledged as collateral must cover at least 100% of the assistance granted and the related interest.

The NBM may also grant loans to the Deposit Guarantee Fund in the banking sector, under the conditions and within the terms and conditions set by the Executive Board of the NBM.

Lending or any form of financial assistance granted by the NBM to the Government of the Republic of Moldova is prohibited.

Loans granted to licensed banks are assets of the Bank and are reflected in the balance sheet under the heading ***Loans granted to banks and other persons***. Lending is valued at amortized cost less allowances for expected credit losses estimated in accordance with IFRS 9. Interest income on loans is presented in ***Interest income on loans granted and repo*** and recognized using the effective interest method.

Setting the Moldovan leu exchange rate

The National Bank of Moldova quotes the Moldovan leu against foreign currencies. The official exchange rate of the Moldovan leu against the US dollar is determined for each working day by the National Bank on the basis of the information on the volumes of spot purchase/ sale transactions of US dollars against Moldovan leu and the exchange rates applied by the licensed banks and the National Bank.

The official exchange rate of the Moldovan leu against foreign currencies other than the US dollar is determined on the basis of the official exchange rate of the Moldovan leu against the US dollar multiplied by the cross-currency exchange rate of the respective currency against the US dollar established on the international market.

Foreign currency transactions performed by the National Bank shall be recorded in the financial statements at the exchange rate on the day of the transaction and shall be revalued daily using the official exchange rate of the Moldovan leu. On the reporting date, monetary assets and liabilities denominated in foreign currency are translated at the official exchange rate of the Moldovan leu on the reporting date established and published by the National Bank. As the NBM has a long currency position, the appreciation of the leu generates unrealized losses and the depreciation of the leu – unrealized gains from exchange rate differences.

International reserves management

The NBM holds and manages the foreign exchange reserves of the state (also referred to as "international reserves"), conducts foreign exchange operations using foreign reserve assets and maintains them at a level adequate for the conduct of monetary and foreign exchange policy. The foreign exchange reserves shall be managed for the purpose of direct financing of the balance of payments imbalance, for the indirect adjustment of the balance of payments imbalance through foreign exchange market interventions in order to realize the monetary and foreign exchange policy of the National Bank of Moldova, and for other purposes.

In managing foreign exchange reserves, the NBM ensures a high degree of safety and a necessary level of investment liquidity. The NBM's investment policy is prudent, favoring sustainable investments (ESG: environmental, social, governance) and optimizing profitability as secondary objectives, with safety and liquidity of reserves as the primary objectives.

Within the framework of foreign reserves management, the NBM invests in safe instruments, also used by other central banks: placements on correspondent accounts (with other central banks or international financial organizations), term placements and securities issued by the Governments and government agencies of the United States of America, the European Union and other countries and those issued by supranational institutions, with the implicit guarantee of the governments.

The management of foreign reserves is carried out through strategic asset allocation (SAA). Strategic asset allocation implies a long-term view of foreign exchange asset management, geared towards achieving the optimal level of return and risk.

The main sources of foreign exchange reserves formation in the balance sheet of the National Bank of Moldova:

- Recording of loans and grants in favor of the Ministry of Finance;
- Procurement interventions of the National Bank of Moldova on the interbank foreign exchange market;
- Inflows related to foreign exchange required reserves of licensed banks;
- Income from foreign exchange reserve management;
- Gains from the re-evaluation of securities held in the investment portfolio.

Main sources of the decrease in foreign exchange reserves on the Bank's balance sheet:

- Payments related to the servicing of the external public debt and payments to the Ministry of Finance;
- Selling interventions of the National Bank of Moldova on the interbank foreign exchange market;
- Outflows related to foreign exchange required reserves of licensed banks;
- Expenditure on foreign exchange reserve management (negative interest on foreign exchange reserves);
- Losses from the re-evaluation of securities held in the investment portfolio.

Foreign exchange reserves are disclosed in the balance sheet under the heading "**Cash and short-term investments**", "**Investment securities**", "**Holdings of SDRs**", "**Monetary gold**", "**Contribution of the RM to the IMF quota**" and "**Other assets**". These are measured at amortized cost (those held in corresponding business models) or at fair value through other comprehensive income (foreign currency investment securities).

Transactions for the sale/purchase of foreign exchange stocks are recognized on the trade date and reflected in off-balance sheet accounts until the settlement date.

Net interest income is calculated using the effective interest method, including coupon calculations and amortized premiums and discounts are included in the statement of comprehensive income under the heading **Interest income on short-term placements** and **Interest income on securities**.

Negative interest expense on foreign exchange reserves is disclosed under the heading **Negative interest expense on short-term placements**.

Expected credit losses on foreign exchange reserves under the 3-stage method (described in the accounting policies in the financial statements) and the income from their reversal are reflected in the statement of comprehensive income under **(Expense)/ Income on depreciation of financial assets**.

Re-evaluation of foreign exchange reserves

Foreign exchange reserves are re-evaluated daily at the official exchange rate of the National Bank. Subsequent to the formation of the net result:

- Unrealized losses on exchange rate differences and re-evaluation of precious metals shall be excluded from the profit available for distribution/ (total loss) and shall be offset against the reserve account of unrealized gains from exchange rate differences on the re-evaluation of foreign exchange stocks and on the re-evaluation of precious metals. If the balance of these reserves is insufficient, the loss is covered from the General Reserve Fund account.

- Unrealized gains on exchange rate differences and re-evaluation of precious metals shall not be included in profit available for distribution/ (total loss) and shall be allocated to the increase in the reserve of unrealized gains from exchange rate differences on the re-evaluation of foreign exchange stocks and on the re-evaluation of precious metals.

*Daily re-evaluation differences represent unrealized differences, which are reflected in the statement of comprehensive income in **Gains/ (losses) from transactions, foreign exchange and precious metals re-evaluation differences.***

Exchange rate differences realized on foreign exchange transactions

Realized income and losses shall be calculated from foreign exchange transactions by applying the weighted average cost method, on each business day, on each currency, for both transactions for the sale and for the purchase of foreign exchange. Where foreign exchange transactions (daily level) do not affect the foreign currency stock, realized gains and/ or losses shall be calculated as the difference between the average cost of selling transactions and the average cost of buying transactions.

The weighted average cost of foreign exchange reserves on each currency at the end of each year shall be equal to the official exchange rate set by the NBM on January 1.

*Realized gains and losses are disclosed in the statement of comprehensive income under the heading **Gains/ (losses) from transactions, foreign exchange and precious metals re-evaluation.** Realized gains and losses are distributable and included in the profit available for distribution/ (total loss).*

Issuance of national currency

The National Bank of Moldova shall have the exclusive right to issue banknotes and coins on the territory of the Republic of Moldova as means of payment. The NBM shall circulate banknotes and coins through the banking system. The objective of the NBM in the field of stability of the national currency circulation is to promote, following the principles of continuity and credibility, the policy of providing the economy with national currency, in strict accordance with the real needs of monetary circulation.

The withdrawal from circulation of unfit banknotes and coins shall be carried out only by the National Bank of Moldova, through the banking system, in order to exchange them for fit banknotes and coins or to replace them.

*Fees charged by the Bank on the issuance of national currency to licensed banks represent income of the National Bank and are recognized when the issuance is carried out under the heading **Other income.***

***The national currency** represents monetary bonds of the Bank, is recognized at nominal value when put into circulation and is shown in the balance sheet under the heading **National currency in circulation.** The national currency in circulation is*

valued at amortized cost. For the purpose of presentation in the balance sheet, national currency in circulation is decreased by the national currency on the Bank's premises.

*Until put into circulation, national currency (banknotes and coins) is recorded off-balance sheet. The costs of producing the national currency are reflected in the statement of comprehensive income under heading **Costs related to the production of national currency** to the extent incurred (the provision of services for the production of national currency) and include costs for banknotes, metal coins, divisional coins and commemorative coins.*

On the occasion of commemoration of events and distinguished personalities of national history and literature, promotion of literary works, national traditions, representation of architectural monuments of historical value of the Republic of Moldova, flora and fauna, the National Bank of Moldova has the right to issue commemorative and jubilee banknotes and coins as a means of payment and for numismatic purposes (CJBC). The National Bank of Moldova shall put into circulation the respective banknotes and coins through licensed banks.

***Commemorative and jubilee banknotes and coins** are recognized under bonds in the heading **National currency in circulation** on the date of issue with reflection in the accounting records at nominal value. Commemorative and jubilee banknotes and coins are marketed at the sale price and the difference between the sale price and the nominal value is reflected in the category **Other income**.*

Banker and state agent

The National Bank acts as banker and agent of the state and its bodies. As depositary, the National Bank receives and disburses money, keeps accounts, opens deposits and provides any other financial services.

In accordance with Law No. 548/1995 on the National Bank of Moldova and Law No. 181/2014 on public finance and budgetary-fiscal responsibility, the National Bank of Moldova shall open and service the Single Treasury Account of the Ministry of Finance. The Single Treasury Account shall be serviced through the participation of the Ministry of Finance in the Automated Interbank Payment System.

The National Bank shall open and service (make payments, collections, foreign exchange conversions) the foreign exchange accounts of the Ministry of Finance, including those opened for the purpose of implementing donor-funded projects.

All settlements on the accounts of the Ministry of Finance are carried out within the limits of the balance on the respective accounts (Single Treasury Account and foreign exchange accounts). The National Bank accepts deposits from the Ministry of Finance on market conditions, in accordance with the regulations of the National Bank.

Sight deposits of the Ministry of Finance bear variable interest, calculated monthly, based on the average interest rate on the banking system, available for the last three months, on interest-bearing deposits in MDL attracted on sight from legal entities.

For term deposits of the Ministry of Finance, the Bank pays an interest according to the term of the deposit, applying the weighted average interest rate constituted on state securities placed at the last auction for the respective term.

The National Bank of Moldova, as an agent of the Ministry of Finance, manages the primary market of state securities (SS) issued in book-entry form on the domestic market, being authorized to organize and conduct auctions for the sale of SS on the basis of the State Agent Agreement concluded with the Ministry of Finance.

*The balances of the Ministry of Finance accounts opened with the National Bank are presented under the heading **The RM Government holdings**. These include state budget means held in foreign currency, sight and term deposits of the Ministry of Finance, which are reflected in the balance sheet at amortized cost.*

*Interest expense paid on Government holdings is reflected in the statement of comprehensive income under the heading **Interest expense related to holdings**, and the commissions collected by the Bank from servicing the accounts of the Ministry of Finance (AIPS commissions, foreign exchange transfers, conversions, organization of auctions) are reflected under the heading **Other income**.*

The National Bank shall not grant loans and guarantees in any form whatsoever to the state or its bodies, including through the procurement on the primary market of state securities or by granting overnight loans.

The National Bank may purchase on the secondary market state securities that have been publicly issued, only through open market operations and in connection with the granting of loans to banks.

The National Bank holds in its portfolio state securities derived from government guarantees issued in accordance with *Law No. 235/2016 on the issuance of government bonds for the purpose of enforcement by the Ministry of Finance of payment obligations derived from the government guarantees No. 807 of November 17, 2014 and No. 101 of April 1, 2015* and submitted to the National Bank on October 4, 2016 in the form of government bonds and government securities issued as a result of conversion into state securities of loans contracted by the Ministry of Finance from the Bank in the previous years. The trading by the Bank on the secondary market of government bonds derived from government guarantees is limited to 40% of the volume of government bonds submitted to the Bank by the Ministry of Finance.

State securities as a result of the conversion into state securities of loans contracted by the Ministry of Finance from the Bank during the previous years were repurchased by the Government at maturity and reissued in the same volume new securities that are transmitted to the Bank.

The subsidiary of the National Bank, CSD holds in its portfolio securities issued by the Government of the Republic of Moldova, purchased for investment purposes and held for the collection of

cash flows from principal and interest, thus at consolidated level they are included in the consolidated assets of the Bank.

State securities, available in the Bank's portfolio, may be used in money market operations for monetary policy purposes.

Securities issued within auctions organized by the Bank are not reflected in the Bank's accounting records.

*The commission collected by the Bank from the exercise of its duties as agent of the state is recorded at the date of the auctions under the heading **Other income**.*

All portfolios of state securities held by the Bank and its subsidiary are valued at amortized cost, with the Bank's intention to collect the contractual flows.

Government bonds derived from government guarantees are issued with maturities of up to 25 years, with fixed interest rates (nominal rate of 1.4% and 5.3%), the effective interest rate of the bond portfolio being 5%, which was the fair value at the date of initial recognition.

*State securities in the portfolio of the National Bank of Moldova and its subsidiary represent the consolidated assets of the Bank and are reflected under the heading **Securities issued by the Government of the Republic of Moldova**.*

*Interest income on state securities is measured using the effective interest method (taking into account issuance costs) and is reflected in the statement of comprehensive income under **Interest income on state securities**.*

Transactions with the IMF

The National Bank acts as the agent of the state when conducting financial transactions with the IMF and as depository for maintaining IMF accounts. Membership in the IMF is distributed on a quota basis.

The National Bank, as the agent of the state, makes on behalf of the state, the payments related to the repayments of IMF loans, including those of the Ministry of Finance.

The National Bank of Moldova as depository of the IMF opens and maintains the IMF's accounts in Moldovan lei with the National Bank.

According to the Parliament Decision (PD) No. 1107/1997 on Moldova's accession to the IMF and the IMF Articles of Agreement, the Bank was empowered to be the agent of the Republic of Moldova to the IMF and the fiscal agent and depository of the IMF in the Republic of Moldova. The Parliament, on the basis of PD No. 1107/1997 and Law No. 548/1995 on the NBM, has empowered the Bank to carry out, on behalf of the Republic of Moldova, all operations and transactions authorized under the provisions of the IMF Articles of Agreement and to receive any sums that may be paid or transferred to the Republic of Moldova in operations and transactions authorized under the various provisions of the IMF Articles of Agreement.

The subscriptions to the IMF quota are carried out by the National Bank of Moldova, on the basis of Law No. 548/1995 and special laws, whereby it is mandated to assume all obligations for the subscription to the IMF in accordance with the Fund's requirements.

Republic of Moldova's quota in the IMF is a strategic investment and is recognized as an asset of the Bank, being reflected in the balance sheet under the chapter **Republic of Moldova's contribution in the IMF quota**.

The quota is valued at fair value, with monthly re-evaluation, on the last working day of the management month, at the XDR exchange rate against the Moldovan leu calculated by the IMF.

Considering that the Bank is empowered by law to represent the Republic of Moldova at the IMF, to undertake and conduct operations with the IMF, to make quota subscriptions to the IMF, to receive amounts on behalf of the Republic of Moldova from the IMF, to appoint its representatives to the IMF's governing body, and to act as fiscal agent and depository of the IMF, in relation to the Republic of Moldova's operations with the IMF, except those directly attributable to the Government of the Republic of Moldova, the Bank represents the principal and recognizes the assets and liabilities of these operations in its balance sheet.

The National Bank as the agent of the Republic of Moldova may assume bonds and execute transactions relating to the participation of the Republic of Moldova in international organizations, including the IMF.

Accounts 1 and 2 of the IMF opened at the Bank are Bank bonds reflected under the heading **Bonds to the IMF**, related to the RM's contribution to the IMF quota.

Credits received by the Republic of Moldova under arrangements with the IMF are reflected in the balance sheet under **Bonds to the IMF**, but only in the part of the volume collected by the National Bank (for the replenishment of foreign exchange reserves), the part received by the Ministry of Finance to cover the budget deficit is recorded by the Ministry of Finance.

Automated Interbank Payment System¹⁰³

The National Bank oversees the payment system in the Republic of Moldova and promotes the stable and efficient functioning of the Automated Interbank Payment System.

The Automated Interbank Payment System (AIPS) is a payment system owned and operated by the National Bank of Moldova, which allows the automatic and final settlement of payments in Moldovan lei by the AIPS participants on the territory of the Republic of Moldova in the scriptural currency of the National Bank of Moldova.

AIPS consists of the real-time gross settlement system for processing urgent and large-value payments and the net settlement clearing system for processing small-value payments in Moldovan lei.

¹⁰³From 08.02.2024 the Automated Domestic Payments System (DNB22 from 24.01.24 https://www.legis.md/cautare/getResults?doc_id=141741&lang=ro)

Payments through the AIPS are made by AIPS participants through payment accounts opened with the National Bank of Moldova.

The AIPS participants are: the NBM, banks, the State Treasury of the Ministry of Finance, SCD, the Deposit Guarantee Fund in the banking system, the Cash and Settlement Center of the city of Tiraspol, non-bank payment service providers.

Balances of AIPS participants' accounts opened with the NBM are reflected in the financial statements in the balance sheet headings: **"Banks' holdings", "RM Government holdings" and "Holdings of other customers"**. Commissions charged by the NBM on the execution of AIPS transactions are recognized under heading **Other income**.

Single Central Securities Depository

The National Bank of Moldova owns 480 shares with a nominal value of MDL 50 thousand, which represents 98.36% of the capital of the Joint Stock Company "Single Central Securities Depository" (hereinafter CSD or subsidiary), an entity founded and registered on April 4, 2018. The activity of the CSD is regulated by *Law No. 234/2016 on the Single Central Securities Depository*.

CSD operates as of July 31, 2018 the Single Central Securities Depository System, which is a securities settlement system, which ensures the provision by the Central Depository of securities registration, centralized administration, settlement, where appropriate, of ancillary, corporate services.

The CSD system is based on modern straight-through-processing technology, connected to AIPS and providing an efficient infrastructure and services for the settlement of securities transactions and registration of ownership rights on securities.

The CSD registers the financial instruments issued in the Republic of Moldova and allocates ISIN codes. The operation is performed by registering the securities in the CSD System and opening accounts for the issuer and first owners. The CSD settles the securities registered by the CSD. The CSD keeps records of the securities, rights and restrictions on the rights offered by the securities.

*At the individual level, the Bank's investment in its subsidiary – CSD, is disclosed under the heading **Investments in subsidiaries**, being valued at the historical cost of the investment (capital contribution) minus depreciation losses.*

At the consolidated level, the investment in the CSD subsidiary is consolidated, showing the position, performance and cash flows of the Bank and the CSD, with the elimination of the related transactions and balances from the balances and transactions between the NBM and the CSD.

Consolidated transactions and balances including positions related to the Central Depository on consolidation include Cash and placements, State securities issued by the Government of the Republic of Moldova, Other assets, Fixed assets, Other liabilities, Non-controlling interests; Other income, Operating expenses, etc.

Banking, payment systems and foreign exchange supervision

In order to protect the interests of depositors, as well as to ensure the stability and viability of the banking system, the National Bank of Moldova conducts prudential supervision of banks in the Republic of Moldova, ensuring compliance with the legal requirements for the prevention and limitation of risks specific to the banking activity.

According to the Law No. 114/2012 on payment services and electronic money, the NBM licenses, regulates and supervises the activity of payment service providers and electronic money issuers.

According to the Law No. 62/2008 on foreign exchange regulation, the NBM licenses, regulates and supervises the activity of foreign exchange entities.

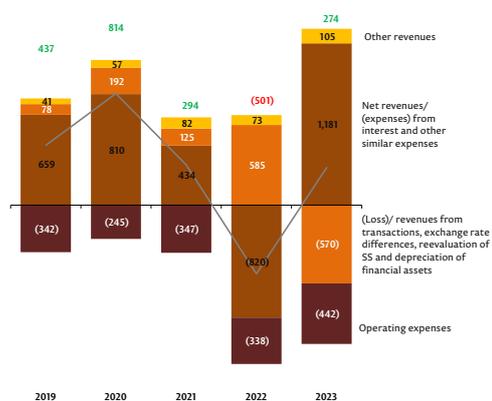
Licensing fees and fines imposed in the process of supervision of entities are paid to the state budget.

The National Bank does not apply regulatory supervisory payments similar to other European or Moldovan supervisory authorities.

Payments collected from licensing and fines applied in the supervision process are not reflected in the NBM's financial statements, they are revenues of and transferred directly to the state budget of the Republic of Moldova by the payers.

13.3 Analysis of the financial result at individual level

Chart 13.1: Evolution of the financial result over the years 2019-2023 (MDL million)



Source: NBM

The financial result of the National Bank of Moldova is directly dependent on the need to carry out monetary and foreign exchange operations in order to achieve the fundamental objective and fulfill the basic tasks of the bank. The evolution of the financial result during the years 2019-2023 is reflected in the chart 13.1.

According to the financial statement as of December 31, 2023, the Bank recorded a profit available for distribution in the amount of MDL 274.41 million, compared to the situation as of December 31, 2022 when it incurred a total loss in the amount of MDL 500.53 million (Table A.27).

Achieving a higher result for the comparative period derives mainly from the recording of higher net income from the management of foreign exchange reserves by about MDL 1,559.53 million, mainly due to the increase in the return on foreign exchange reserves from 1.18% in 2022 to 3.72% in 2023, the average balance of foreign exchange reserves during 2023 recording an increase of about 26% compared to the average balance recorded during the previous year.

The impact of the factors that led to a higher result for the comparative period was tempered by the recording of expenses

on remuneration of monetary policy instruments, higher by about MDL 395.84 million. Sterilization expenses through the CNB in 2023 were higher by about MDL 768.93 million compared to 2022, with expenses on remuneration of required reserves during 2023 decreasing by MDL 627.25 million, as a result of successive decreases in average remuneration rates, partly offset by an increase in the balance of attracted funds subject to reserve.

In addition, the profit available for distribution of 2023 includes the unrealized loss on exchange rate differences from the re-evaluation of foreign exchange stocks in the amount of MDL 293.72 million which represents the excess of unrealized losses that could not be covered from the reserves of unrealized foreign exchange gains as at December 31, 2023, the balance of reserves being insufficient to fully cover the unrealized losses accumulated during 2023 in the amount of MDL 5,787.28 million.

Impact of the implementation of the monetary policy and of the activities related to the relations with the Government of the Republic of Moldova on the financial statement of the National Bank of Moldova

In 2023, disinflationary pressures, which started to take shape at the end of 2022, have continued amid subdued demand, falling electricity tariffs, amplified by the dynamics of the foreign exchange rate. The tense situation in the region and the risks of its escalation, the increased volatility of energy prices and the way in which tariffs are adjusted have maintained uncertainty about the inflation trajectory.

In this context, the Bank continued to promote a monetary and foreign exchange policy aimed at mitigating the effects of the crisis on the national economy, ensuring the stability of the banking sector and sufficient liquidity to boost the economic recovery.

During 2023, amid growing disinflationary pressures, the Bank successively lowered the base rate applied to the main monetary policy operations from 20.00% to 4.75%, and the interest rates on overnight loans and deposits were lowered to 6.75% and 2.75%, respectively, annually, by 15.25 percentage points in total. Under these circumstances, the Bank continued to use instruments to absorb excess liquidity. Expenditure on sterilization operations through the issuance of CNB increased by MDL 768.93 million, which was largely driven by the evolution of the average daily balance of the CNB to MDL 10,923.63 million during the reporting period, compared to 2022 when the average daily balance of the CNB was MDL 2,576.39 million. The average interest rate on the CNB during 2023 amounted to 10.89% (2022: 16.04%).

At the same time, during 2023, the Bank lowered by 4 percentage points the required reserve ratio of funds attracted in MDL and non-convertible currencies (MDL), and the required reserve ratio of funds attracted in freely convertible currencies (FCC) was lowered by 2 percentage points. The remuneration rate on required reserves in MDL was reduced from 18.00% in January 2023 to 2.75% in December 2023. The remuneration rate on required reserves in foreign currency was maintained at the level of 0.01% until the issuance of the Executive Board Decision No. 221 of November 7, 2023, when the rates of remuneration of required reserves in US dollars and euro were changed from the fixed rate of 0.01% to separate variable rates calculated from the

SOFR and €STR rates, decreased by 2 percentage points each. The new remuneration rates on required reserves in foreign currency entered into force starting with the interest payment for November, when the remuneration rates amounted to 3.32% for USD and 1.90% for EUR.

Thus, the expenses related to the remuneration of required reserves for 2023 decreased by MDL 627.25 million, the average annual rate of remuneration of required reserves in MDL decreased to 8.04% (2022: 14.63%), and the rate of remuneration of required reserves in FCC increased to 0.39% annually (2022: 0.01%). The required reserve ratio in MDL attracted funds averaged 33.9% per annum (2022: 33.3%).

The net expenses related to the Ministry of Finance's accounts and deposits in 2023 increased by MDL 80.89 million compared to the previous year, mostly due to recording higher interest expenses on sight deposits by MDL 57.74 million, with the average remuneration rate on the balance of the single treasury account constituting 3.71% (2022: 2.92%). The average daily balance of the single treasury account during 2023 amounted to MDL 5,798.02 million (2022: MDL 5,381.92 million).

The decrease by MDL 26.65 million of the interest expenses on overnight deposits attracted from resident banks was determined both by the evolution of the average interest rate, which amounted to 9.64% during the reporting period (2022: 15.06%), and by the average balance of deposits, which was MDL 34.46 million lower than in 2022.

During 2023 interest income on repo operations amounted to MDL 0.59 million, during 2022 interest income on repo operations amounted to MDL 260.71 million. The average balance of repo operations during 2023 amounted to MDL 4.80 million (average balance 2022: MDL 1,588.30 million).

The set of monetary policy instruments applied by the National Bank of Moldova during 2023 and the activities related to the relations with the Government generated a net loss in the amount of MDL 2,107.10 million, compared to the loss of MDL 1,704.33 million recorded in 2022 (Table A.28).

Impact of the operations of management of the official reserve assets of the state on the financial statement of the National Bank of Moldova

The official foreign reserve assets of the state, held by the National Bank of Moldova, increased as at December 31, 2023 compared to December 31, 2022 by 21.88% or by about USD 979 million (from USD 4,474.17 million to USD 5,453.14 million), being invested mainly in US dollar and euro instruments.

At the same time, during 2023, the average annual volume of international reserves increased by USD 1,003.89 million (from USD 3,862.96 million to USD 4,866.85 million).

The net income related to the management of official reserve assets amounted to MDL 3,058.56 million, increasing by MDL 1,559.53 million compared to the previous year, when it amounted to MDL 1,499.03 million. This result was largely determined by

the increase in the return on official reserve assets from 1.18% in 2022 to 3.72% in 2023.

The increase in the return is explained by the increase in remuneration interest rates on financial assets related to foreign exchange reserves as a result of the measures implemented by the monetary authorities, the transactions carried out during 2023 in the context of the transition to the new benchmark for the US dollar securities portfolio and, consequently, the change in the instrument structure of the US dollar securities portfolios, but also as a result of the supplementation and rebalancing of the EUR securities portfolio.

Thus, the US Federal Reserve’s benchmark rate rose successively from 4.25% to 4.5%, positioning itself at the end of the reporting period in the range of 5.25% to 5.50%, the Bank of England’s rate moved from 3.5% to 5.25%, and the European Central Bank’s rate – from 2.5% to 4.50% on December 31, 2023 in the context of persistent inflationary pressures. These evolutions have had an impact on the remuneration rates of USD, GBP and EUR term deposits.

At the same time, the increase in the result from the management of official reserve assets was partially mitigated by incurring net realized expenses on sales of foreign exchange in the amount of MDL 152.36 million, compared to 2022 when net realized income of MDL 655.31 million was recorded. The realized losses were generated by the negative difference between the selling rate and the cost of the stock of foreign exchange (or the average rate of the currency purchased) multiplied by the volume of sales. During the analyzed period, the NBM recorded foreign exchange sales interventions in the amount of USD 203.60 million, as well as foreign exchange conversions against MDL totaling USD 535.82 million (in 2022, foreign exchange sales in the amount of USD 835.79 million were realized, of which sales interventions totaled USD 816.56 million).

Additional information on the management of official reserve assets is provided in Chapter 3 Monetary policy. Official reserve assets.

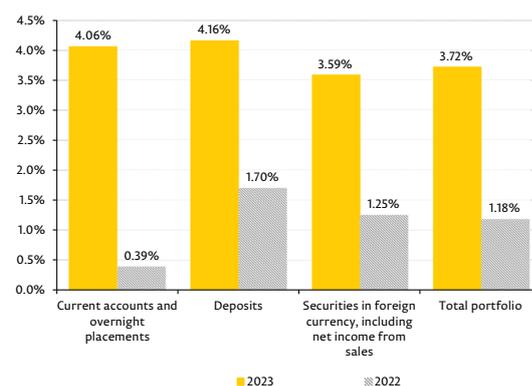
The impact of the official reserve assets management operations on the financial situation of the National Bank of Moldova is presented in table A.29.

In accordance with international best practices, as well as with the provisions of the Law on the National Bank of Moldova, the main criteria for the selection of reserve assets are the safety of the base amounts and liquidity. Thus, only after these two criteria are ensured, the profitability of the instruments in which the official reserve assets of the state are invested is taken into account.

The evolution of the official exchange rate of the Moldovan leu against the currencies in which the official reserve assets are held had a significant impact on the financial situation of the National Bank of Moldova, in 2023 being recorded the appreciation of the USD/MDL exchange rate by 9.1%, compared to the depreciation of 8.0% in 2022 (Table A.30).

Thus, at the end of 2023, as a result of the appreciation of the Moldovan leu against some component currencies of foreign

Chart 13.2: Evolution of the profitability of official reserve assets in 2023 compared to 2022 (%)

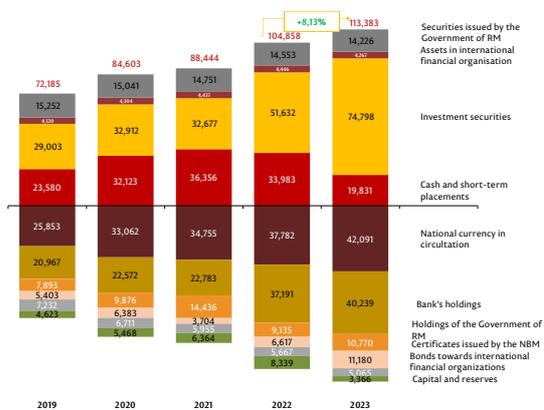


Source: NBM

exchange stocks, net unrealized losses from exchange rate differences on re-evaluation of foreign exchange stocks in the amount of MDL 5,787.27 million were recorded. At the end of 2022, unrealized gains from exchange rate differences on the re-evaluation of foreign exchange stocks in the amount of MDL 2,686.55 million were recorded.

13.4 Analysis of the financial position at individual level

Chart 13.3: Evolution of the balance sheet over the years 2019-2023 (MDL million)



Source: NBM

The activities carried out by the National Bank of Moldova during 2023, in order to fulfill its core duties, have an impact on the balance sheet structure of the National Bank of Moldova, which is reflected in the chart 13.3 and table A.31.

The subsidiary's financial result

The CSD manages, as of July 31, 2018, the Single Central Securities Depository System, which is a securities settlement system, providing securities registration, centralized administration, settlement, where appropriate, of ancillary and corporate services. The CSD operates with state securities and claims of the National Bank of Moldova, with corporate financial instruments and fully provides the settlement functions of stock exchange transactions. The operations are performed by registering securities in the CSD System and opening accounts for the issuer and first owners. The CSD settles the registered securities and also keeps records of the securities, rights and restrictions on the rights offered by the securities.

The analysis of the financial result by CSD's main activities is presented in table A.32.

Analysis of the financial position of the subsidiary

The activities carried out by the CSD during 2023, in order to fulfill its core duties, have an impact on the structure of the subsidiary's balance sheet, which is reflected in table A.33.

13.5 Comparative analysis of the financial position and consolidated financial result

Following the consolidation of the financial result of the National Bank of Moldova's subsidiary, the consolidated and individual financial position of the National Bank of Moldova is presented in table A.34.

As a result of the consolidation of the financial result of the subsidiary, the consolidated financial position of the National Bank of Moldova increased by MDL 3.22 million as at December 31, 2023, as a result of the investment of the reserve assets accumulated

by the CSD in state securities and partly in holdings held with the National Bank of Moldova.

Following the consolidation of the financial result of the subsidiary of the National Bank of Moldova, the consolidated and individual financial result of the National Bank of Moldova is presented in table A.35.

13.6 Capital and reserves

In accordance with Article 19 of the Law No. 548/1995 on the National Bank of Moldova, the bank's capital includes the statutory capital, reserve accounts created in accordance with the provisions of Article 66 and reserve accounts of unrealized income. The statutory capital includes the authorized capital and the general reserve fund, it is dynamic and is formed from the profit of the year available for distribution, from the income obtained in accordance with Article 64 paragraph (3) and/ or from the contributions of the Government of the Republic of Moldova, until its size reaches 10% of the total monetary bonds of the National Bank of Moldova. The General Reserve Fund may be used exclusively to cover losses realized in accordance with the result for the financial year at the end of the financial year, in the event of a negative result.

According to the profit allocation mechanism, if the amount of the statutory capital of the National Bank of Moldova at the end of the financial year is between 4.00% and 10.00% of the total monetary bonds of the National Bank of Moldova, only 50% of the profit available for distribution shall be allocated to increase the statutory capital, in the manner provided for in Article 19 paragraph (3).

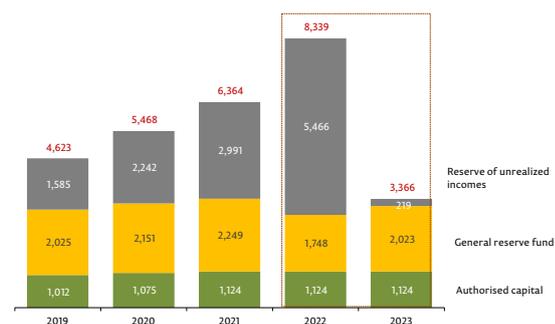
If at the end of the financial year the level of the statutory capital, after the distribution of the financial result for the current year, falls below 4.00% of the total monetary bonds of the National Bank, the Government, in the person of the Ministry of Finance, within 60 days after receiving the external auditor's report on the financial statements of the National Bank shall transfer to the National Bank, in a single installment, a capital contribution in state securities at a market interest rate, in the amount necessary to increase the statutory capital up to 4.00% of the total monetary bonds of the National Bank, in the manner provided for in Article 19 paragraph (6).

The capital and reserves situation is shown in table A.36.

Thus, as at December 31, 2023, the general reserve fund was increased by MDL 568,130 thousand and used to cover unrealized losses in the amount of MDL 293,718 thousand, in total being increased by MDL 274,412 thousand to MDL 2,022,626 thousand, and the authorized capital remained at the same level of MDL 1,124,372 thousand.

Over the past few years, the NBM has contributed to continuous economic development, aiming to keep inflation within the target range of 5.0%. At the same time, systemic and far-reaching

Chart 13.4: Capital and reserves structure in 2019-2023 (MDL million)



Source: NBM

reforms in the banking sector over the past few years have contributed to a high level of resilience and stability. Thus, banks have not only overcome the crises of recent years without significant difficulties, but have also been part of the support mechanisms for the population and the economy, ready to support economic growth through lending.

Considering the unprecedented situation recorded in 2022 associated with the post-pandemic recovery, the global energy crisis, the inflationary pressures generated by the effects of rising food and energy prices at the international and regional level, amplified by the escalation of the armed conflict between Ukraine and the Russian Federation, and the social and economic impact at the global and national level, the NBM adopted a series of restrictive monetary policy measures.

Against the backdrop of simultaneous crises amplified during 2022, the National Bank has made efforts to mitigate the consequences of the shocks on prices, to maintain an equilibrium that would simultaneously meet restrictive monetary policy conditions and stimulative conditions for economic growth, as well as to ensure financial and currency stability.

The correctness and appropriateness of the restrictive monetary policy measures adopted was confirmed and validated by the slowdown in annual inflation recorded in the fourth quarter of 2022, when the NBM decided to resume monetary policy easing measures, joining the first countries in the world to adopt similar measures. In 2023, the disinflationary pressures outlined at the end of 2022 continued amid subdued demand, falling electricity tariffs, amplified by the exchange rate dynamics. However, the tense situation in the region and the risks of its escalation, the increased volatility of energy prices and the way in which tariffs are adjusted, however, have maintained uncertainty about the inflation trajectory.

Accordingly, the monetary policy measures adopted during 2022-2023 had a negative impact on the NBM's profitability and, respectively, on the level of capital, which on December 31, 2022, after covering the total loss, constituted 3.52% of the total monetary bonds, and on December 31, 2023, after distribution of the profit available for distribution, constituted 3.34%, which is below the minimum permissible level of 4.00%.

Under these circumstances, considering the size of the statutory capital below the minimum legal limit of 4.00% of the monetary bonds, it was necessary for the Government, in the person of the Ministry of Finance, within 60 days after receiving the external auditor's report on the financial statements of the National Bank, to transfer to the National Bank a capital contribution in the amount of MDL 396,149 thousand in the form of state securities at a market interest rate, in the amount necessary to increase the statutory capital to 4.00% of the total monetary bonds of the National Bank. During 2023, the Government, in the person of the Ministry of Finance, did not issue state securities in the established volume of MDL 396,149 thousand necessary to increase the statutory capital up to 4.00% of the total monetary bonds of the National Bank recorded as at December 31, 2022.

At the same time, considering that the level of the statutory capital as of December 31, 2023 is still below 4.00%, it is necessary

that the Government, in the person of the Ministry of Finance, within 60 days after receiving the external auditor's report on the financial statements of the National Bank, transfer to the National Bank an additional capital contribution in the amount of MDL 224,223 thousand in the form of state securities at a market interest rate, in total the capital required to increase the statutory capital as of December 31, 2023 to 4.00% amounting to MDL 620,372 thousand.

According to the NBM, the level of capital below the 4.00% limit of monetary bonds does not affect the Bank's ability to efficiently operate or to adequately implement its policies or perform its duties. It is recognized that by virtue of its unique nature, central banks may operate for a period of time with the capital below the appropriate level set by law. Unlike other entities, where a capital below the legal limits would affect or raise business continuity concerns, the capital level below the 4.00% limit does not affect the NBM's ability to continue its operations.

At the same time, according to the forecasts made by the Bank's management in the framework of capital risk management, the financial results for 2024 are projected to be sufficient to record a profit available for distribution that will cover the capital requirements until the 4.00% level of monetary bonds is reached on December 31, 2024. These forecasts are based on a number of base indicators that derive the Bank's revenues, expenses, and monetary bonds. The assumptions, mainly, focus on gradually declining monetary policy rates starting from 2023, the level of reserve requirement ratio, the inflation rate and the level of banking sector liquidity, income from state securities portfolios, the level of foreign exchange reserves (foreign exchange interventions, foreign exchange payments and foreign exchange reserve inflows), the level of foreign exchange reserve profitability and forecasts of the stages of the decline in the reference rates by monetary authorities (USD, EUR) in 2024, the normative currency structure, and the official exchange rate.

At the same time, these forecasts are subject to risks and uncertainties that may influence the forecasted monetary-currency income and expenditure and monetary bonds, such as: the intensification of geopolitical tensions in the Middle East, increased uncertainties regarding the monetary policy of the Federal Reserve System (appreciation of the US dollar), the evolution of excessive liquidity in the banking sector and the effect of external financing (increased liquidity in the banking system, impact on the foreign exchange rate), dollarization of deposits.

However, it is imperative that the level of capital be restored in time to the minimum level through the Government's capital contribution within the legal terms and conditions, for which the Bank is in continuous dialogue with the Ministry of Finance on the actions to be taken by the participants in the capitalization process of the Bank.

List of Figures

1.1	GDP comparative evolution in selected economies in 2022 and 2023 (%)*	21
1.2	USDX evolution in the context of FRS monetary policy	21
1.3	Evolution EUR/USD and interest rates for the euro area	22
1.4	The annual average growth rate of world prices (%)	23
1.5	The prices of natural gas (USD/1,000 cubic metres)	23
1.6	The prices of Brent oil (USD/ barrel)	23
1.7	World supply and by country/groups vs. world oil consumption (million barrels per day)	24
2.1	Contribution of demand components to GDP growth (percentage points)	26
2.2	Contribution of economic sectors to GDP growth (percentage points)	26
2.3	The evolution in real terms of the household final consumption growth (% , compared to the previous year)	27
2.4	The evolution of the funding sources of household consumption (% , compared to the previous year) and contribution of components (percentage points)	27
2.5	Annual investment rate by financing sources (%) and components contribution (percentage points)	28
2.6	Annual investment rate by type of fixed assets (%) and components contribution (percentage points)	28
2.7	Annual rate of global agricultural production (%) and contribution by sectors (percentage points)	28
2.8	Industrial production development (% , compared to the previous year) and components contribution (percentage points)	29
2.9	Development in real terms of freight transport (% , compared to the previous year) and components contribution (percentage points)	29
2.10	Development in real terms of passenger transport (% , compared to the previous year) and sub-components contribution (percentage points)	29
2.11	Internal trade (based on VAT declarations), (% , compared to the previous year)	30
2.12	Development of the annual rate of exports (%) and contribution by country categories (percentage points)	30
2.13	Development of the annual rate of exports (%) and contributions by commodity groups (percentage points)	30
2.14	Development of the annual rate of exports (%) and contribution by origin (percentage points)	31

2.15	Development of the annual rate of imports (%) and contribution by country categories (percentage points)	31
2.16	Development of the annual rate of imports (%) and contribution by commodity groups (percentage points)	31
2.17	Economically active population and employed population	31
2.18	Development in the population's activity and employment rates (%)	31
2.19	Development in the number of unemployed and unemployment rate (%)	31
2.20	Wage fund in the economy and average number of employees (% , compared to the previous year)	32
2.21	Average real wage (% , compared to the previous year)	32
2.22	Annual CPI rate (%)	33
2.23	Annual rate of inflation subcomponents (%)	33
2.24	Annual inflation evolutions and contribution of subcomponents (percentage points)	33
2.25	Contribution of subcomponents (percentage points) to the annual core inflation dynamics (%)	34
2.26	Contribution of components to the annual food prices dynamics (percentage points)	35
2.27	Evolution of the international food price index, FAO index	35
2.28	Contribution of components to the annual regulated prices dynamics (percentage points) . .	35
2.29	Contribution of components (percentage points) to the annual increase in fuel and lubricants prices (%)	37
2.30	Annual rate of prices in industry (%)	38
2.31	Annual rate of prices in industry (%) and its components contribution classified by main branches (percentage points)	38
2.32	Evolution of the annual rate of prices in construction (%)	38
2.33	Annual rate of producer's prices for agricultural products (%)	39
2.34	State budget revenue structure (%)	40
2.35	National public budget indicators	41
2.36	Structure of national public budget revenues (%)	41
2.37	Current account – main components	42
2.38	Exports of goods, by geographical area (USD million)	42
2.39	The import of goods, by geographical areas, prices CIF (USD million)	42
2.40	Imports of energy products and electricity (million USD, CIF prices)	43
2.41	Exports and imports of services	43
2.42	Primary income, by components	43

2.43	Secondary income, by components	44
2.44	Geographical distribution of personal remittances	44
2.45	Financial account by functional categories	44
2.46	Direct investments: net accumulation of liabilities, disaggregated by instruments (USD million)	45
2.47	International investment position in dynamics, at the end of the period (USD million)	46
2.48	Indicators of the sufficiency of official reserve assets of the Republic of Moldova (USD million)	46
2.49	Direct investments, liabilities, basic components, position* at the end of the period (USD million)	46
2.50	Direct investments, accumulated equity capital at 31.12.2023, by economic activities (according to CEAM 2), %	47
2.51	Public debt as a share of GDP (% , end of year)	47
2.52	Gross external public debt in dynamics	48
2.53	External public debt structure - sectoral overview (USD million)	48
2.54	Creditor structure of private debt (%)	49
3.1	Development of monetary policy instruments	52
3.2	Evolution of the daily balance of open market operations (MDL million)	53
3.3	Evolution of average monthly balance of overnight deposits/credits in 2020-2023 (MDL million)	54
3.4	Evolution of the required reserves norm in MDL and in foreign currency in 2020-2023 (%) . . .	54
3.5	Evolution of the attracted means subject to reservation in the years 2020-2023 (averages per observation period)	55
3.6	Evolution of the official MDL/USD exchange rate and the volume of NBM interventions in 2020-2023	55
3.7	Evolution of M2 money supply components (% , increase compared to the same month last year)	56
3.8	Dynamics of the main components of M3 money supply (% , increase compared to the same month last year)	56
3.9	Average annual balance of credits granted in economy (% , annual growth)	56
3.10	Dynamics of the components of the average annual balance of loans granted in economy (% , annual growth)	57
3.11	Dynamics of the volume and weighted average rates to new loans granted in MDL	57
3.12	Dynamics of volume of new loans granted in MDL (% , annual growth)	57
3.13	Dynamics of volume and weighted average rates on new loans granted in foreign currency and linked to the exchange rate	58
3.14	Dynamics of the components of the average annual balance of attracted deposits (% , annual growth)	58

3.15 Dynamics of the average annual balance of attracted sight and term deposits (% annual growth)	58
3.16 Dynamics of volume and weighted average rates on new term deposits attracted in MDL . . .	59
3.17 Dynamics of volume and weighted average rates on new term deposits attracted in foreign currency recalculated in MDL	59
3.18 Average interest rates in MDL (% annually)	59
3.19 Average interest rates on credit and deposit balances, end-of-year (% annually)	60
3.20 Money velocity of circulation (percentage points)	60
3.21 Money multiplier indicators (percentage points)	60
3.22 Monetization coefficient of the economy (percentage points)	61
3.23 Economy lending coefficient and the degree of indebtedness (%)	61
3.24 Degree of dollarization in the economy (%)	61
3.25 Quantitative indicators of the primary market of SS (MDL million)	62
3.26 Monthly dynamics of primary market indicators of SS	62
3.27 Structure of SS issues by maturity in 2022	62
3.28 Structure of SS issues by maturity in 2023	63
3.29 Dynamic of nominal interest rates on SS with the maturity up to one year (%)	63
3.30 Dynamic of interest rates on the financial market (%)	65
3.31 Dynamic of SS volume in circulation at the end of the period (MDL million)	65
3.32 Dynamic of SS indicators (T-bills) traded on the secondary market in the period 2020-2023 .	65
3.33 Structure of SS traded on the secondary market by maturity split in 2022	65
3.34 Structure of SS traded on the secondary market by maturity split in 2023	65
3.35 Evolution of reference rates on the interbank market and the NBM base rate (%)	65
3.36 The turnover of foreign exchange transactions against MDL realized on the domestic foreign exchange market, in structure by settlement modality (transfer or cash), years 2020-2023 (%)	66
3.37 Currency structure of the total turnover of foreign exchange transactions against MDL carried out on the domestic foreign exchange market in 2022 (%)	66
3.38 Currency structure of the total turnover of foreign exchange transactions against MDL carried out on the domestic foreign exchange market in 2023 (%)	66
3.39 Total number of foreign exchange transactions with legal entities, by currencies	67
3.40 Number of transactions in euro and US dollars on the intra-bank foreign exchange market by transfer, broken down by amount traded (with the equivalent from USD 10,000 to USD 100,000)	67
3.41 Number of transactions in euro and US dollars on the intra-bank foreign exchange market by transfer, broken down by amount traded (greater than the equivalent of USD 100,000) .	67

3.42	Currency structure of balance sheet foreign exchange assets, effective exchange rate (%) . . .	68
3.43	Balance sheet foreign exchange assets, at effective exchange rates, broken down by type of asset (USD million)	68
3.44	Currency structure of balance sheet foreign exchange liabilities, effective exchange rate (%)	68
3.45	Balance sheet foreign exchange liabilities, at effective exchange rates, in structure by liability type (USD million)	69
3.46	Official exchange rate fluctuations of the national currency against the US dollar and the euro (MDL)	69
3.47	Evolution of the currencies of some major trading partners of the Republic of Moldova and countries in the region against the US dollar, 2023/2022 (%)	69
3.48	Contribution of the main trading partners of the Republic of Moldova to the change in the real effective exchange rate in 2023 (percentage points)	70
3.49	The dynamics of the real effective exchange rate of the national currency calculated on the basis of the weights of the main trading partners over the period 1/2020 – 12/2023 (%)	70
3.50	Coverage of net demand by net supply and exchange rate dynamics	70
3.51	Currency structure of the net supply of foreign exchange from individuals (recalculated at a constant exchange rate) (%)	71
3.52	Official reserve assets (ORA), by flow type (USD million)	71
3.53	Monetary policy rates in the US and EU (%)	73
3.54	Structure of foreign exchange reserves by investment instruments at the end of 2020-2023 (USD million)	73
3.55	Currency structure of foreign exchange reserves as at 31.12.2023 (%)	74
4.1	Dynamics of the main financial indicators for the banking sector of the Republic of Moldova for the period 31.12.2022* – 31.12.2023	75
4.2	The dynamics of own funds (MDL million) and the total own funds ratio (%) on the banking sector of the Republic of Moldova for the period 31.12.2022* – 31.12.2023	77
4.3	The dynamics of the concentration of total own funds of the banking sector of the Republic of Moldova by groups of banks for the period 31.12.2022* – 31.12.2023 (%)	77
4.4	Share capital structure of the banking sector in the Republic of Moldova, according to the source of investments for the period 31.12.2022* – 31.12.2023 (%)	77
4.5	Dynamics of the concentration of assets by groups of banks for the period 31.12.2022* – 31.12.2023 (%)	78
4.6	Concentration of the banking sector's assets as of December 31, 2023 (%)	78
4.7	The dynamics of the banking sector's asset structure for the period 31.12.2022* – 31.12.2023 (%)	79
4.8	The dynamics of assets, loans and deposits relative to GDP (%)*	79
4.9	Breakdown of loans by branch as of December 31, 2023 (%)	79

4.10 Breakdown of non-performing loans by branch as of December 31, 2023 (%)	80
4.11 Dynamics of the loan portfolio structure according to the classification categories as of December 31, 2022* (%)	80
4.12 Dynamics of the loan portfolio structure according to the classification categories as of December 31, 2023 (%)	80
4.13 The dynamics of banking sector's income and expenses for the years 2022* – 2023 (MDL million)	82
4.14 Structure of the banking sector's income in 2023 (%)	83
4.15 Structure of the banking sector's expenses in 2023 (%)	83
4.16 The dynamics of the banking sector's net interest margin, return on assets and return on capital for the period 31.12.2022* – 31.12.2023 (%)	83
4.17 Dynamics of debt concentration of the banking sector, by groups of banks, for the period 31.12.2022* – 31.12.2023 (%)	84
4.18 Indicator on liquidity coverage ratio (LCR) by components (MDL million) and LCR (%)	85
4.19 Number and value of payments made via non-bank payment service providers, 2019-2023	92
4.20 Share of loans and credits granted by banks, NLOs and SLAs (%)	94
4.21 Development of assets and number of SLAs	95
4.22 The dynamics of SLAs's non-performing loans	95
4.23 Ratio between the deposits attracted and loans granted by the SLAs	95
4.24 Development of assets and number of NLOs	96
4.25 Dynamics of NLOs's non-performing loans	96
4.26 The financing sources of the NLOs	97
4.27 Loans granted or pegged at foreign exchange rates	97
4.28 Development of the average solvency ratio in the insurance sector during the period 2019-2023 (%)	99
4.29 Development of the average liquidity ratio in the insurance sector during the period 2019-2023	99
4.30 Structure of technical reserves constituted for the general insurance activity (%)	99
4.31 Structure of technical reserves constituted for the life insurance activity (%)	100
4.32 Structure of the assets covering the technical reserves as of December 31, 2023 (MDL million, %)	100
4.33 Development of gross premiums underwritten by the insurance companies during the period 2021-2023	100
4.34 The structure of gross underwritten premiums by the insurance companies during 2023, by classes of general insurance (MDL million, %)	101
4.35 Structure of gross underwritten premiums during 2023, by insurance companies (%)	101

4.36	Development of claims paid by the insurance companies during the period 2021-2023	102
4.37	Structure of the claims paid for general insurance classes during 2023, by insurance company (%)	102
4.38	Transfer of risks in reinsurance	103
4.39	Share of intermediated premiums by intermediaries (%)	105
4.40	Degree of intermediation	106
4.41	Integrating the insurance sector into the economy in the period 2021-2023	106
5.1	The number and value of payments processed in the AIPS, 2022-2023	118
5.2	Number of payment cards in circulation, years 2019-2023 (million units)	123
5.3	Number of transactions carried out with payment cards issued in the Republic of Moldova, years 2019-2023 (million transactions)	123
5.4	Structure of domestic operations, year 2023	123
5.5	Percentage of transactions carried out abroad with cards issued in the Republic of Moldova, year 2023	124
5.6	Development indicators of the payment cards market in the Republic of Moldova, years 2019-2023	124
5.7	Number of ARSS users by type of systems, end 2019-2023	125
5.8	The number and value of ARSS transactions, 2019-2023	125
5.9	Number of credit transfer transactions carried out, 2019-2023 (million transactions)	125
6.1	Nominal value development of banknotes in monetary circulation in value terms (MDL million)	127
6.2	Nominal value development of banknotes in monetary circulation in quantitative terms (million banknotes)	127
6.3	Nominal value structure of banknotes in circulation at the end of 2023	127
6.4	Nominal value development of MDL coins in monetary circulation in terms of value (MDL million)	129
6.5	Nominal value development of MDL coins in monetary circulation in terms of quantity (MDL million)	129
6.6	Nominal value structure of MDL coins in circulation at the end of 2023	129
6.7	Nominal value development of divisible coins in monetary circulation in terms of value (MDL million)	129
6.8	Nominal value development of divisible coins in monetary circulation in terms of quantity (million coins)	129
6.9	Nominal values structure of divisible coins in circulation at the end of 2023	129
6.10	Banknotes issued in 2023 in quantitative terms	130
6.11	Banknotes issued in 2023 in value terms	130

6.12MDL coins issued in 2023 in terms of quantity	131
6.13MDL coins issued in 2023 in terms of value	131
6.14Divisible coins issued in 2023 in terms of quantity	132
6.15Banknotes withdrawn from circulation in 2023 in quantitative terms	132
6.16Structure by nominal values of counterfeit detected in 2023 in terms of quantity	132
6.17Divisible coins issued in 2023 in terms of value	132
6.18Banknotes withdrawn from circulation in 2023 in terms of value	132
6.19Structure by nominal values of counterfeit detected in 2022 in terms of quantity	132
9.1 Evolving structure (%)	180
9.2 Human resources management processes (number of persons)	180
9.3 Voluntary turnover of the NBM staff (%)	181
9.4 Number of persons employed in 2023 by gender	181
9.5 Number of resignations in 2023 by gender	182
9.6 General information on NBM employees (number of persons)	182
9.7 Average age and retention in the NBM (years)	182
9.8 Structure of staff professional development through internal training, by areas (%)	183
9.9 Participation of the NBM employees in trainings provided by external providers, by areas (number of persons)	183
9.10Evolution of the performance level of NBM employees (%)	183
9.11Evolution of the recruitment process in the NBM	185
9.12Student internships at the NBM	186
13.1Evolution of the financial result over the years 2019-2023 (MDL million)	212
13.2Evolution of the profitability of official reserve assets in 2023 compared to 2022 (%)	215
13.3Evolution of the balance sheet over the years 2019-2023 (MDL million)	216
13.4Capital and reserves structure in 2019-2023 (MDL million)	217

List of Tables

1.1	Appreciation (-)/depreciation (+) of currencies in 2023 (%)*	22
1.2	The evolution of selected indicators in neighbouring economies and main trading partners in 2023 (%)	25
2.1	Average annual rate of CPI	33
3.1	Annual weighted average nominal interest rates of the state securities by maturities (%)	63
9.1	Major achievements recorded during 2023	174
A.1	Balance of payments of the Republic of Moldova (according to BPM6) – main aggregates (USD million)	230
A.2	External loans (incurrence of liabilities), by institutional sectors, drawings and repayments (USD million)	231
A.3	International investment position (BPM6) of the Republic of Moldova (USD million)	231
A.4	Gross external debt (BPM6) of the Republic of Moldova by institutional sectors and by maturity (original) (USD million)	232
A.5	The main indicators related to external debt (BPM6) (%)	232
A.6	Operations on the domestic foreign exchange market against MDL (equivalent in USD million)	233
A.7	Structure of turnover of foreign exchange transactions against MDL on domestic foreign exchange market	233
A.8	Net balance (purchases minus sales) operations of foreign currency against MDL performed by licensed banks, according to the date of the transaction (equivalent in USD million)	234
A.9	Balance sheet assets in foreign currency of the licensed banks (equivalent in USD million)	234
A.10	Disposable funds in foreign currency of the licensed banks (equivalent in USD million)	235
A.11	Balance sheet liabilities in foreign currency of licensed banks (equivalent in USD million)	235
A.12	Currency structure of current accounts and deposits in foreign currency of bank's clients (equivalent in USD million)	235
A.13	Conditional assets and liabilities in foreign currency of licensed banks (equivalent in USD million)	236
A.14	Investment limits and constraints applied by the NBM in the investment risk management process	237
A.15	Debt structure dynamics of the banking sector of the Republic of Moldova for the period 31.12.2022* – 31.12.2023 (MDL million)	238
A.16	Dynamics of placements abroad by banks from the Republic of Moldova (MDL million)	238

A.17	Evolution of payments settled through the automated interbank payment system	239
A.18	Features of anniversary and commemorative coins – 2023 issuance	239
A.19	List of decisions of the Supervisory Board and Executive Board of the National Bank of Moldova issued for publication in the Monitorul Oficial of the Republic of Moldova in 2023	240
A.20	List of decisions of the Executive Board of the National Bank of Moldova issued for publication in the Monitorul Oficial of the Republic of Moldova in 2023 (continuation)	241
A.21	Development of the NBM's major projects during 2023	242
A.22	Interviews with representatives of the NBM in the media in 2023	251
A.23	"Make Sense of Money" financial education podcasts produced and broadcast in 2023	252
A.24	Information on www.bnm.md website activity	254
A.25	Number of subscribers/followers of NBM profiles on social media	254
A.26	The impact of profiles on social media:	254
A.27	Analysis of financial result by main activities of the National Bank of Moldova	255
A.28	Net result of monetary policy implementation and activities related to relations with the Government of Moldova	255
A.29	Net result from the management of official reserve assets held by the National Bank of Moldova	255
A.30	Evolution of the official exchange rate	255
A.31	Share of significant balance sheet positions (%) and average annual rates on financial instruments (%)	256
A.32	Analysis of the financial result by main activities of the Single Central Securities Depository	256
A.33	Share of significant balance sheet positions (%) and average annual rates on financial instruments (%)	257
A.34	Consolidated and individual financial position of the National Bank of Moldova as of 31 December 2023	257
A.35	Consolidated and individual financial result of the National Bank of Moldova for 2023	258
A.36	Capital and reserves	258

Table A.2: External loans (incurrence of liabilities), by institutional sectors, drawings and repayments (USD million)

	2022		2023		2023		2023		2023	
	IV		I*		II*		III*		IV	
	draw	rep.	draw	rep.	draw	rep.	draw	rep.	draw	rep.
Loans	449.3	99.5	263.8	98.3	250.0	161.9	287.1	404.1	490.4	153.7
Central bank	-	5.7	-	-	-	4.0	-	-	-	3.9
long-term	-	5.7	-	-	-	4.0	-	-	-	3.9
General government	315.0	31.9	184.4	26.4	186.2	71.8	200.3	340.4	390.4	56.0
long-term	315.0	31.9	184.4	26.4	186.2	71.8	200.3	340.4	390.4	56.0
Deposit-taking corporations except central bank	71.3	10.9	5.4	5.6	-	28.2	8.7	9.6	39.8	31.5
short-term	0.1	0.1	-	-	-	-	-	-	-	-
long-term	71.2	10.8	5.4	5.6	-	28.2	8.7	9.6	39.8	31.5
Nonfinancial corporations, Hs and NPISHs	21.3	22.3	31.3	18.8	27.2	30.9	52.5	31.6	38.6	33.0
short-term	1.0	0.7	2.4	2.4	3.1	1.9	2.3	0.4	1.3	1.4
long-term	20.3	21.6	28.9	16.4	24.1	29.0	50.2	31.3	37.3	31.7
Other financial corporations	41.7	28.8	42.7	47.5	36.6	27.0	25.6	22.5	21.7	29.3
short-term	-	-	0.1	-	-	0.1	0.1	-	0.6	-
long-term	41.7	28.8	42.6	47.5	36.6	27.0	25.5	22.5	21.1	29.3

Source: NBM

Note: Hs – households, NPISHs – non-profit institutions serving households

* revised data

Table A.3: International investment position (BPM6) of the Republic of Moldova (USD million)

	31.12.2021	31.12.2022	31.03.2023*	30.06.2023*	30.09.2023*	31.12.2023
Net international investment position	-5,236.4	-6,184.8	-6,512.2	-6,404.0	-6,386.7	-6,566.6
Assets	6,440.6	6,506.3	6,804.1	7,053.1	6,920.5	7,573.3
<i>Direct investment</i>	348.9	438.6	449.9	452.0	453.4	450.4
Equity and shares	279.1	332.9	344.1	350.5	352.5	354.5
Debt instruments	69.8	105.7	105.9	101.6	100.9	95.9
<i>Portfolio investment and financial derivative</i>	12.1	13.8	14.0	14.1	13.3	12.3
<i>Other investment</i>	2,177.7	1,579.7	1,660.9	1,684.3	1,571.9	1,657.5
Other equity	0.6	0.6	0.6	0.6	0.6	0.6
Currency and deposits	1,207.2	530.4	699.4	739.6	810.3	895.6
Loans	158.4	211.0	182.9	218.4	143.5	184.6
Trade credits and advances	802.6	828.6	769.0	716.8	608.5	567.7
Other accounts receivable	9.0	9.0	9.0	9.0	9.0	9.0
<i>Reserve assets</i>	3,901.9	4,474.2	4,679.4	4,902.7	4,881.9	5,453.2
Liabilities	11,677.1	12,691.1	13,316.4	13,457.1	13,307.2	14,139.9
<i>Direct investment</i>	4,795.1	4,946.7	5,242.6	5,285.5	5,367.6	5,533.9
Equity and shares	2,912.5	3,073.8	3,343.5	3,396.8	3,521.5	3,651.4
Debt instruments	1,882.6	1,872.9	1,899.2	1,888.7	1,846.1	1,882.5
<i>Portfolio investment and financial derivatives</i>	23.8	24.7	24.5	24.6	23.4	23.3
<i>Other investment</i>	6,858.2	7,719.7	8,049.3	8,147.0	7,916.2	8,582.7
Currency and deposits	140.8	203.6	206.0	181.2	176.5	211.4
Loans	4,224.8	4,865.4	5,103.6	5,185.7	4,958.0	5,476.7
Trade credits and advances	2,029.6	2,218.3	2,303.8	2,348.5	2,357.2	2,462.2
Other accounts payable	66.8	55.7	54.9	54.1	53.3	52.6
Special drawing rights	396.2	376.7	380.9	377.6	371.2	379.8

Source: NBM

Note: SDR – Special Drawing Right

*revised data

Table A.4: Gross external debt (BPM6) of the Republic of Moldova by institutional sectors and by maturity (original) (USD million)

	31.12.2021	31.12.2022	31.03.2023*	30.06.2023*	30.09.2023*	31.12.2023
General government	2,606.6	3,172.9	3,385.2	3,487.0	3,276.4	3,751.2
Short-term	0.1	0.7	0.8	1.0	1.2	1.3
Long-term	2,606.5	3,172.2	3,384.4	3,486.0	3,275.2	3,749.9
of which the debt of ATU**	20.4	31.6	31.7	32.7	52.2	54.6
Central bank	92.4	64.0	64.7	60.2	59.2	56.6
Long-term	92.4	64.0	64.7	60.2	59.2	56.6
Deposit-taking corporations, except central bank	342.7	505.0	522.4	463.7	456.7	512.7
Short-term	158.6	210.7	222.9	191.5	193.1	228.9
Long-term	184.1	294.3	299.5	272.2	263.6	283.9
Other sectors	3,816.7	3,978.6	4,077.6	4,136.7	4,124.5	4,262.6
Short-term	2,089.8	2,272.5	2,345.2	2,395.3	2,397.9	2,499.4
Long-term	1,726.9	1,706.1	1,732.4	1,741.4	1,726.7	1,763.3
<i>Other financial corporations</i>	284.5	322.1	306.9	322.8	319.3	310.8
Short-term	30.1	33.9	23.6	30.0	23.4	23.1
Long-term	254.4	288.2	283.2	292.9	295.9	287.7
<i>Nonfinancial corporations</i>	3,469.4	3,590.3	3,703.4	3,745.2	3,735.6	3,879.8
Short-term	2,058.1	2,236.0	2,318.7	2,362.1	2,371.0	2,472.6
Long-term	1,411.3	1,345.3	1,384.8	1,383.1	1,364.6	1,407.3
of which the debt of public corporations	32.0	26.8	27.1	26.8	12.0	12.7
<i>Households and NPISHs***</i>	62.9	66.2	67.3	68.7	69.7	72.0
Short-term	1.6	2.7	2.9	3.2	3.5	3.7
Long-term	61.2	63.6	64.4	65.4	66.2	68.3
Direct investment: intercompany lending	1,882.6	1,872.9	1,899.2	1,888.7	1,846.1	1,882.5
Short-term	248.7	278.0	287.5	293.5	294.8	306.5
Long-term	1,633.9	1,595.0	1,611.6	1,595.2	1,551.3	1,576.0
TOTAL	8,740.9	9,593.3	9,949.0	10,036.3	9,762.9	10,465.7

Source: NBM

*revised data

**ATU – administrative-territorial units

***NPISHs – non-profit institutions serving households

Table A.5: The main indicators related to external debt (BPM6) (%)

	31.12.2021	31.12.2022	31.03.2023*	30.06.2023*	30.09.2023*	31.12.2023
Share of public external debt in gross external debt	31.2	34.0	34.9	35.6	34.3	36.5
Share of long-term ED** in gross ED**	71.4	71.2	71.3	71.3	70.4	71.0
Share of international organizations and foreign governments in the ED** in the form of loans and SDR allocations	52.0	56.4	57.4	58.0	57.0	59.5
Implicit quarterly average interest rate in ED** loans and SDR allocation	0.4	0.4	0.5	0.6	0.6	0.7
Roll-over rate, long-term debt (loans)	186	301	195	112	62	236
				years		
Implicit average maturity of external long-term debt in form of loans (in how many years will the debt be paid off, if current reimbursements will be kept and there will be no new withdrawals)	6.3	8.0	9.7	6.3	3.1	6.7

Source: NBM

*revised data

**ED – external debt

Table A.6: Operations on the domestic foreign exchange market against MDL (equivalent in USD million)

	Transactions of licensed banks in the foreign exchange market against MDL, structured by sources (including operations with financial derivatives)									Foreign exchange offices (Cash)	Domestic foreign exchange market		
	NBM	Resident banks	Non-resident banks	Legal entities	Individuals and foreign exchange offices			Miscellaneous	Total		Transfer	Cash	Total
					Cash	Transfer	Total						
	1	2	3	4	5	6	7=5+6	8	9=1+2+3+4+7+8	10	11=9-5	12=5+10	13=11+12
Turnover													
2022	1,680.6	808.4	289.4	12,122.5	3,211.8	1,376.4	4,588.2	1,649.1	21,138.2	1,952.9	17,926.4	5,164.7	23,091.1
2023	585.7	852.0	188.7	11,472.1	3,130.7	1,485.5	4,616.2	1,921.0	19,635.7	2,072.6	16,505.0	5,203.3	21,708.3
2023/2022, %	-65.1	5.4	-34.8	-5.4	-2.5	7.9	0.6	16.5	-7.1	6.1	-7.9	0.7	-6.0
Purchases													
2022	962.8	404.2	79.8	4,522.7	2,648.4	778.0	3,426.4	1,166.0	10,561.9	1,079.3	7,913.5	3,727.7	11,641.2
2023	119.0	426.0	40.1	4,304.9	2,737.4	846.3	3,583.7	1,314.2	9,787.9	1,197.5	7,050.5	3,934.9	10,985.4
2023/2022, %	-87.6	5.4	-49.7	-4.8	3.4	8.8	4.6	12.7	-7.3	11.0	-10.9	5.6	-5.6
Sales													
2022	717.8	404.2	209.6	7,599.8	563.4	598.4	1,161.8	483.1	10,576.3	873.6	10,012.9	1,437.0	11,449.9
2023	466.7	426.0	148.6	7,167.2	393.3	639.2	1,032.5	606.8	9,847.8	875.1	9,454.5	1,268.4	10,722.9
2023/2022, %	-35.0	5.4	-29.1	-5.7	-30.2	6.8	-11.1	25.6	-6.9	0.2	-5.6	-11.7	-6.3

Source: Report on purchases and sales operations of foreign currency made by licensed banks and the NBM data; Report on foreign exchange operations carried out by foreign exchange offices; Report on foreign exchange operations carried out by hotels.

Table A.7: Structure of turnover of foreign exchange transactions against MDL on domestic foreign exchange market

	Domestic foreign exchange transfer market		Domestic foreign exchange cash market		Total foreign exchange market	
	purchases	sales	purchases	sales	purchases	sales
2022	<i>Share, %</i>					
USD	48.0	47.4	14.8	25.6	37.4	44.7
EUR	50.5	48.7	74.3	65.6	58.1	50.8
Other currencies	1.5	3.9	10.9	8.8	4.5	4.5
Total	100.0	100.0	100.0	100.0	100.0	100.0
2023	<i>Share, %</i>					
USD	43.9	43.7	16.4	21.7	34.0	41.1
EUR	54.7	53.3	72.4	69.0	61.1	55.1
Other currencies	1.4	3.0	11.2	9.3	4.9	3.8
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Report on purchases and sales operations of foreign currency made by licensed banks and the NBM data; Report on foreign exchange operations carried out by foreign exchange offices; Report on foreign exchange operations carried out by hotels.

Table A.8: Net balance (purchases minus sales) operations of foreign currency against MDL performed by licensed banks, according to the date of the transaction (equivalent in USD million)

	Net balance						TOTAL
	NBM	Resident banks	Non-resident banks	Legal entities	Individuals (including foreign exchange offices)	Miscellaneous	
Quarter I	436.2	0.0	4.2	-735.4	197.9	102.4	5.3
Quarter II	-24.1	0.0	-52.8	-641.2	539.6	171.6	-6.9
Quarter III	-202.3	0.0	-46.8	-777.4	802.9	220.3	-3.3
Quarter IV	35.2	0.0	-34.4	-923.1	724.2	188.6	-9.5
2022	245.0	0.0	-129.8	-3,077.1	2,264.6	682.9	-14.4
Quarter I	-199.4	0.0	-5.1	-516.2	509.1	169.1	-42.5
Quarter II	-78.0	0.0	-17.9	-755.7	657.9	157.0	-36.7
Quarter III	-52.5	0.0	-40.0	-890.9	784.9	226.8	28.3
Quarter IV	-17.8	0.0	-45.5	-699.5	599.3	154.5	-9.0
2023	-347.7	0.0	-108.5	-2,862.3	2,551.2	707.4	-59.9

Source: NBM

Table A.9: Balance sheet assets in foreign currency of the licensed banks (equivalent in USD million)

	Balance as of 31.12.2022*			Balance as of 31.12.2023		31.12.2023/31.12.2022, %	
	Fixed course 31.12.2023	Actual course	Share %	Actual course	Share %	Fixed course 31.12.2023	Actual course
Loans granted in foreign currency, including:	985.6	951.3	40.3	892.5	32.1	-9.4	-6.2
<i>EUR</i>	787.9	753.6	31.9	729.8	26.3	-7.4	-3.2
<i>USD</i>	197.7	197.7	8.4	162.7	5.8	-17.7	-17.7
Disposable funds in foreign currency, including:	406.5	397.3	16.8	741.4	26.7	82.4	86.6
<i>EUR</i>	220.6	211.0	8.9	463.0	16.7	109.9	119.4
<i>USD</i>	169.6	169.6	7.2	252.1	9.1	48.7	48.7
<i>Other currencies</i>	16.3	16.7	0.7	26.3	0.9	61.3	57.5
Required reserves in foreign currency	947.3	917.2	38.9	1,015.0	36.5	7.2	10.7
Other assets in foreign currency (1+2+3), including:	-32.1	-31.1	-1.3	-5.1	-0.2	-84.2	-83.7
1. "Nostró" accounts opened in banks of the Republic of Moldova	5.3	5.3	0.2	3.7	0.1	-30.8	-30.7
2. Other assets	32.8	31.6	1.4	39.0	1.4	18.9	23.4
3. Adjustments and allowance for impairment losses	-70.2	-68.0	-2.9	-47.8	-1.7	-32.0	-29.8
Assets attached to the foreign exchange rate	131.1	125.6	5.3	134.4	4.9	2.5	7.0
Total foreign exchange balance-sheet assets	2,438.4	2,360.3	100.0	2,778.3	100.0	13.9	17.7

Source: NBM

*updated data during 2023.

Table A.10: Disposable funds in foreign currency of the licensed banks (equivalent in USD million)

	Balance as of 31.12.2022*	Share %	Balance as of 31.12.2023	Share %	31.12.2023/ 31.12.2022, %
"Nostro" accounts opened abroad	91.6	23.1	305.9	41.3	233.9
Cash in foreign currency	162.2	40.8	173.7	23.4	7.1
Placements abroad	46.6	11.7	107.9	14.6	131.5
Overnight placements	85.4	21.5	133.6	18.0	56.6
Securities in foreign currency	11.5	2.9	20.3	2.7	76.2
Total	397.3	100.0	741.4	100.0	86.6

Source: NBM
*updated data during 2023.

Table A.11: Balance sheet liabilities in foreign currency of licensed banks (equivalent in USD million)

	Balance as of 31.12.2022*			Balance as of 31.12.2023		31.12.2023/ 31.12.2022, %	
	Fixed course from 31.12.2023	Actual course	Share, %	Actual course	Share, %	Fixed course from 31.12.2023	Actual course
Total current and deposit accounts of non-bank clients, including:	1,998.3	1,937.2	83.2	2,389.6	86.4	19.6	23.4
- residents	1,909.5	1,850.3	79.5	2,272.3	82.2	19.0	22.8
- non-residents	88.8	86.9	3.7	117.3	4.2	32.1	34.9
Term deposits	626.0	607.0	26.1	831.6	30.1	32.8	37.0
Current accounts	1,103.1	1,070.1	46.0	1,269.2	45.9	15.1	18.6
Sight deposits	269.2	260.1	11.1	288.8	10.4	7.3	11.0
Credits received	284.2	272.7	11.7	268.4	9.7	-5.6	-1.6
"Loro" accounts and term deposits of banks from abroad	35.3	34.0	1.5	9.4	0.4	-73.3	-72.3
Other liabilities in foreign currency	86.1	83.1	3.6	96.8	3.5	12.5	16.5
Total foreign exchange balance-sheet liabilities	2,403.9	2,327.0	100.0	2,764.2	100.0	15.0	18.8

Source: NBM
*updated data during 2023.

Table A.12: Currency structure of current accounts and deposits in foreign currency of bank's clients (equivalent in USD million)

	Balance as of 31.12.2022*			Balance as of 31.12.2023		31.12.2023/ 31.12.2022, %	
	Fixed course from 31.12.2023	Actual course	Share %	Actual course	Share %	Fixed course from 31.12.2023	Actual course
EUR	1,411.2	1,349.9	69.7	1,722.3	72.1	22.0	27.6
USD	575.5	575.5	29.7	649.9	27.2	12.9	12.9
RUB	1.1	1.3	0.1	0.6	0.0	-40.9	-52.6
Other currencies	10.5	10.5	0.5	16.8	0.7	59.9	59.9
Total	1,998.3	1,937.2	100.0	2,389.6	100.0	19.6	23.4

Source: NBM
*Current accounts and sight deposits.

Table A.13: Conditional assets and liabilities in foreign currency of licensed banks (equivalent in USD million)

	Balance as of 31.12.2022	Share %	Balance as of 31.12.2023	Share %	31.12.2023/ 31.12.2022, %
Conditional assets in foreign currency					
Current purchases	7.0	57.1	18.2	75.6	160.3
Purchases on term	5.2	42.9	5.9	24.4	11.9
Other conditional assets	0.0	0.0	0.0	0.0	0.0
Total conditional assets	12.2	100.0	24.0	100.0	96.7
Conditional liabilities in foreign currency					
Current sales	7.0	24.8	18.3	75.7	161.7
Sales on term	21.2	75.2	5.9	24.3	-72.4
Other conditional liabilities	0.0	0.0	0.0	0.0	0.0
Total conditional liabilities	28.2	100.0	24.1	100.0	-14.4
Conditional assets minus conditional liabilities	-16.0		-0.1		
(Conditional assets minus conditional liabilities)/ own funds (%)	-1.7		-0.0		

Source: NBM

Table A.14: Investment limits and constraints applied by the NBM in the investment risk management process

Risks	Decreasing methods
Credit risk	<ul style="list-style-type: none"> ▪ Investment in safe, highly rated counterparties as determined by the international rating agencies Standard & Poor's, Moody's and Fitch Ratings (the average rating of the three agencies' ratings, estimated based on at least two ratings, is applied). ▪ Establishing a minimum permissible rating of counterparties authorised to conduct transactions. ▪ Establishing limits on investment instruments, counterparties/ issuers, deviation from benchmark and daily monitoring of compliance. ▪ Quantifying credit risk, using the default probabilities estimated by the rating agency Standard & Poor's, for each rating type and according to the residual maturity of the financial instruments. ▪ Monthly calculation of expected credit losses according to IFRS 9.
Market risk	<ul style="list-style-type: none"> ▪ The daily monitoring of the market risk is performed through the evaluation at the market price of the unrealized income/ losses from the fluctuation of the exchange rates and from the modification of the securities prices. ▪ The market risk related to the investment securities portfolio is assessed based on risk value methodology (VaR and CvaR), which estimates the potential financial losses, based on set parameters and assumptions regarding adverse developments in market conditions. ▪ Monitoring interest rate risk and determining the price sensitivity of securities in investment portfolios to changes in interest rates is performed by applying the PV01 indicator. ▪ Setting by the Executive Board of the NBM of the normative foreign exchange composition of the investment portfolio aiming at hedging the foreign exchange risk and optimizing the portfolio through an adequate correlation of the foreign exchange composition of assets and liabilities, as well as through an acceptable investment horizon to ensure the continuity of servicing the current external obligations and implementing the monetary and foreign exchange policies of the state. The normative foreign exchange structure is determined based on a broad analysis of: the foreign exchange composition of trade in goods and services, external debt, the currency in which interventions are carried out, etc. The foreign exchange composition of reserves may deviate within ± 10 percentage points from the normative foreign exchange structure. ▪ The NBM Investment Committee establishes the foreign exchange structure of each sub-portfolio and the permissible deviations. ▪ Compliance with the normative foreign exchange composition and the foreign exchange structure of each sub-portfolio within the permissible deviation limits.
Liquidity risk	<ul style="list-style-type: none"> ▪ Ensuring liquidity through a substantial share of sight deposits and investments in highly liquid, low-risk securities. ▪ Setting duration limits per sub-portfolio and maximum maturity of investments depending on the instrument. ▪ In the case of index-linked investment sub-portfolios, daily monitoring of liquidity risk is also carried out by applying benchmarks depending on the type of instrument and currency. Benchmarks are market indices, recognised and used worldwide to benchmark the performance and risks of investment portfolios. ▪ The NBM's investment policy allows for active reserve management, with limited deviations of instruments and duration from the benchmark.

Source: NBM

Table A.15: Debt structure dynamics of the banking sector of the Republic of Moldova for the period 31.12.2022* – 31.12.2023 (MDL million)

Name	31.12.2023	31.12.2022	Dynamics	
	MDL million	MDL million	MDL million	%
Financial liabilities held for trading	0.1	-1.6	1.7	106.3
Financial liabilities designated as at fair value through profit or loss	27.90	27.8	0.1	0.4
Financial liabilities measured at amortized cost, including:	123,848.2	105,118.6	18,729.6	17.8
<i>deposits</i>	113,993.1	95,144.0	18,849.1	19.8
<i>debt securities issued</i>	254.7	0.0	254.7	100.0
<i>other financial liabilities</i>	9,600.4	9,974.6	-374.2	-3.8
Provisions	823.7	703.9	119.8	17.0
Tax liabilities	164.9	214.2	-49.3	-23.0
Other liabilities	2,414.4	1,989.3	425.1	21.4
Liabilities included in disposal groups classified as held for sale	0.0	0.0	0.0	0.0
Total liabilities	127,279.2	108,052.2	19,227.0	17.8

Source: NBM

*The data for the situation on 31.12.2022 are adjusted according to the results of the external audit.

Table A.16: Dynamics of placements abroad by banks from the Republic of Moldova (MDL million)

Name of country	31.12.2023		31.12.2022		Dynamics 31.12.2023/ 31.12.2022	
	MDL million	Share (%)	MDL million	Share (%)	MDL million	(%)
France	2,211.9	23.3	838.9	19.6	1,373.0	163.7
Germany	1,976.0	20.8	680.3	15.9	1,295.7	190.5
Austria	1,639.6	17.2	601.9	14.0	1,037.7	172.4
United States of America	1,267.7	13.3	1,167.6	27.3	100.1	8.6
Italy	1,043.9	11.0	422.8	9.9	621.1	146.9
Spain	638.5	6.7	0.0	0.0	638.5	100.0
United Kingdom	273.8	2.9	213.1	5.0	60.7	28.5
Singapore	226.9	2.4	192.2	4.5	34.7	18.1
Romania	134.4	1.4	71.0	1.7	63.4	100.0
People's Republic of China	46.4	0.5	27.7	0.6	18.7	67.6
Switzerland	27.9	0.3	14.8	0.3	13.1	88.4
Russian Federation	16.4	0.2	51.7	1.2	-35.3	-68.3
Azerbaijan	0.6	0.0	0.0	0.0	0.6	100.0
Ukraine	0.1	0.0	0.4	0.0	-0.3	100.0
Türkiye	0.1	0.0	0.7	0.0	-0.6	-88.8
Total	9,504.2	100.0	4,283.0	100.0	5,221.2	121.9

Source: NBM

Table A.17: Evolution of payments settled through the automated interbank payment system

System	Year	Number (thousands of payments)		Value (MDL million)		Average value per transaction (MDL thousands)
		Total	Daily average	Total	Daily average	
AIPS	2022	14,345.1	56.5	1,223,918.4	4,818.6	85.3
	2023	14,843.4	59.2	1,714,479.7	6,830.6	115.5
Including						
RTGSS	2022	1,187.9	4.7	1,031,919.8	4,062.7	868.7
	2023	970.5	3.9	1,461,458.6	5,822.5	1,505.8
DNSS	2022	13,157.1	51.8	191,998.6	755.9	14.6
	2023	13,872.9	55.3	253,021.1	1,008.1	18.2

Source: NBM

Table A.18: Features of anniversary and commemorative coins – 2023 issuance

Coin name	Nominal value	Metal	Weight (gr)	Diameter (mm)	Mintage (ex.)
Series "Personalities"					
Igor Vieru – 100 years since birth	MDL 50	Silver 999/1,000	16.5	30	250
Alexei Sciusev – 150 years since birth	MDL 50	Silver 999/1,000	16.5	30	250
Series "Others"					
Bees' world (color)	MDL 50	Silver 999/1,000	22.2	35	500
Anniversary of the national currency	MDL 50	Silver 999/1,000	31.1	37	500*
Anniversary of the national currency	MDL 100	Gold 999.9/1,000	7.8	24	300*

Source: NBM

*The initial mintage, with additional issue possibilities, in total mintage up to 5,000 coins

Table A.19: List of decisions of the Supervisory Board and Executive Board of the National Bank of Moldova issued for publication in the Monitorul Oficial of the Republic of Moldova in 2023

Decisions of the Supervisory Board					
No.	Decision No.	Date of approval	Decision of the SB	Published in the Monitorul Oficial of the Republic of Moldova	
				number/article	date
1	30	21.11.2023	On the introduction into circulation as means of payment and for numismatic purposes of commemorative coins, issue year 2023	445-447/1126	24.11.2023
2	34	20.12.2023	On putting into circulation as means of payment and for numismatic purposes the commemorative coin "European Moldova"	495-496/1234	22.12.2023
Decisions of the Executive Board					
No.	Decision No.	Date of approval	Decision of the EB	Published in the Monitorul Oficial of the Republic of Moldova	
				number/article	date
1	1	12.01.2023	On the determination of the countercyclical buffer rate for credit exposures situated in the Republic of Moldova	10-12/47	19.01.2023
2	2	12.01.2023	On maintaining the systemic risk buffer rate of 1% for banks	10-12/48	19.01.2023
3	25	07.02.2023	On the interest rates of the National Bank of Moldova	45-48/199	17.02.2023
4	61	20.03.2023	On the interest rates of the National Bank of Moldova and the required reserve ratio	93-96/325	21.03.2023
5	72	06.04.2023	On the establishment of banks which are systemically important companies in the Republic of Moldova and the O-SII buffer	122-125/393	12.04.2023
6	73	06.04.2023	On maintaining the countercyclical buffer rate for credit exposures situated in the Republic of Moldova	122-125/394	12.04.2023
7	90	11.05.2023	On the interest rates of the National Bank of Moldova and the required reserve ratio	168-169/508	18.05.2023
8	100	22.05.2023	For the amendment of Annex No. 1 of the Decision of the Executive Board of the National Bank of Moldova No. 180/2019 "On the fees charged for payment transactions carried out through a payment card or a similar device, the fees charged by payment service providers for payment transactions involving the use of the automated interbank payment system, the fees charged by the National Bank of Moldova for payments processed in the automated interbank payment system, as well as the maximum amount of the payment document accepted by the clearing system with net settlement from participants"	195-196/563	15.06.2023
9	108	08.06.2023	For the approval of the Regulation on credit transfer, direct debit and IBAN assignment	220-222/632	29.06.2023
10	117	20.06.2023	On the interest rates of the National Bank of Moldova and the required reserve ratio	208-209/603	22.06.2023
11	125	29.06.2023	For the amendment of the Regulation on the requirements for members of the management body of the bank, financial holding company or mixed holding company, managers of the branch of a bank in another state, persons holding key positions and the liquidator of the bank in liquidation, approved by Decision of the Executive Board of the National Bank of Moldova No. 292/2018	251-253/713	20.07.2023
12	127	06.07.2023	For the amendment of the Decision of the Council of Administration of the National Bank of Moldova No. 216/2015 on the approval of the Regulation on the accounts of residents abroad	277-281/748	01.08.2023
13	129	06.07.2023	On maintaining the countercyclical buffer rate for credit exposures situated in the Republic of Moldova	235-236/680	11.07.2023
14	146	20.07.2023	For abrogation of the Regulation on the granting of consortium loans by commercial banks of February 3, 1995, approved by the Board of Directors of the National Bank of Moldova, minutes No. 4 of February 3, 1995	267-270/732	26.07.2023
15	158	09.08.2023	On the interest rates of the National Bank of Moldova and the required reserve ratio	314-317/795	15.08.2023
16	161	10.08.2023	On the amendment of some normative acts of the National Bank of Moldova	328-331/823	25.08.2023
17	162	10.08.2023	For the amendment of the Decision of the Executive Board of the National Bank of Moldova No. 335/2016 on the approval of the Regulation on the activity of foreign exchange entities	328-331/824	25.08.2023
18	183	19.09.2023	On the interest rates of the National Bank of Moldova and the required reserve ratio	364-365/917	22.09.2023
19	187	28.09.2023	On the approval of the Regulation on carrying out controls and applying sanctions to foreign exchange entities	391-394/975	19.10.2023
20	195	05.10.2023	For the amendment of the Regulation on branches and sub-offices of banks, approved by the Decision of the Executive Board of the National Bank of Moldova No. 147/2019	404-407/999	31.10.2023
21	209	26.10.2023	On maintaining the countercyclical buffer rate for credit exposures situated in the Republic of Moldova	404-407/1000	31.10.2023
22	210	26.10.2023	On the revocation of the Executive Board Decision No. 98/2022 on the increase of the systemic risk buffer for banks' credit exposures to resident natural persons	404-407/1001	31.10.2023
23	211	26.10.2023	On the amendment of some normative acts of the National Bank of Moldova	430-432/1100	16.11.2023

Source: NBM

Table A.20: List of decisions of the Executive Board of the National Bank of Moldova issued for publication in the Monitorul Oficial of the Republic of Moldova in 2023 (continuation)

No.	Decision No.	Date of approval	Decision of the EB	Published in the Monitorul Oficial of the Republic of Moldova	
				number/article	date
24	215	02.11.2023	On the amendment of the Decision of the Executive Board of the National Bank of Moldova No. 29/2018 on the approval of the Regulation on the conditions and procedures for performing foreign exchange operations	442-444/1111	23.11.2023
25	216	02.11.2023	On the amendment of some normative acts of the National Bank of Moldova	442-444/1112	23.11.2023
26	217	02.11.2023	On the approval of the composition of the Commission for the attestation of insurance specialists	414-417/1070	08.11.2023
27	220	07.11.2023	On the interest rates of the National Bank of Moldova and the required reserve ratio	430-432/1101	16.11.2023
28	221	07.11.2023	For the amendment of paragraph 1 of the Decision of the Executive Board of the National Bank of Moldova No. 139/2019 "On interest rates for the remuneration of required reserves and fees related to the servicing and management of required reserves in USD and euro"	430-432/1102	16.11.2023
29	238	30.11.2023	For the amendment of the Regulation on some aspects related to the export and import of cash and traveller's cheques by banks, approved by Decision of the Executive Board of the National Bank of Moldova No. 165/2019	484-487/1218	20.12.2023
30	239	30.11.2023	For the amendment of the Decision of the Council of Administration of the National Bank of Moldova No. 51/2009 on the approval of the Regulation on the authorization of certain foreign exchange operations by the National Bank of Moldova	484-487/1219	20.12.2023
31	240	30.11.2023	For the amendment of the Decision of the Council of Administration of the National Bank of Moldova No. 14/2009 on the approval of the Regulation on the issuance by the National Bank of Moldova of authorizations to export funds from the Republic of Moldova	484-487/1220	20.12.2023
32	263	14.12.2023	On the interest rates of the National Bank of Moldova	484-487/1221	20.12.2023

Source: NBM

Table A.21: Development of the NBM's major projects during 2023

Ord. No.	Project name	Benchmark	Project objectives	Starting period	Achievements	Next steps for 2024
1.	Preparing the accession of the Republic of Moldova (RM) to the European Union (EU) in the areas under the NBM's competence	1. Alignment with European Union standards and international cooperation	Ensuring the preparation of the process of accession of the Republic of Moldova to the EU in the areas of competence of the NBM, by harmonizing the legal framework of the Republic of Moldova applicable to the areas of competence of the NBM with that of the EU and its effective implementation, as well as strengthening the governance and institutional capacities of the NBM and implementing an effective coordination mechanism for the fulfillment of the EU accession criteria. Ensuring the harmonization of activities arising from this project with national measures related to the European integration commitment.	Second quarter of 2023	In the context of the process of accession of the Republic of Moldova to the EU, in line with the cross-cutting objective set at the institutional level in the Strategic Plan "NBM 2025" on the alignment with EU standards, the NBM has initiated the project "Preparing the accession of the Republic of Moldova to the European Union in the areas of competence of the National Bank of Moldova". In the first stage, the project implementation concept was approved in May. At the same time, the following projects have been elaborated: Order on the implementation of the project; the detailed plan of actions in the context of the preparation and commencement of EU accession negotiations; the mechanism of coordination, at the institutional level, of the European integration process of the Republic of Moldova in the NBM's areas of competence. Respectively, the realization of all actions set at the national level, related to the process of accession of the Republic of Moldova to the EU, was ensured by providing the necessary information, participation in the meetings of the national working groups for European integration, including in the context of the preparation of the contributions of the Republic of Moldova to the 2023 Enlargement Package. Also, participation in trainings on the harmonization of national legislation with the EU acquis and on trade in services in the Republic of Moldova, as well as on communication and reporting in the framework of the European integration process.	Approval of the project team and detailed action plan. Approval and ensuring the implementation of the coordination mechanism, at institutional level, of the European integration process of the Republic of Moldova in the areas of competence of the NBM. Participation of the NBM representatives in the explanatory screening in the accession negotiation process. Implementation of actions on the harmonization of the legal framework of the Republic of Moldova applicable to the NBM's areas of competence with that of the EU. Participation of the NBM in the implementation of the economic criterion for accession to the EU. Participation of the NBM in the Economic and Financial Dialogue. Development and implementation of Economic Reform Programs. Ensuring the participation of the NBM in the national cooperation platforms in the field of European and EU integration.

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Ord. Project name No.	Benchmark	Project objectives	Starting period	Achievements	Next steps for 2024
				We participated in the self-assessment exercise on the conformity of the legislation of the Republic of Moldova with the EU acquis and answers were presented related to the attribution of EU acts for the chapters falling under the NBM's competence.	
2. Implementation of the solution to streamline the licensing, authorization and notification process	3. Strengthening the supervisory function at the level of the financial-banking and non-banking sector	Ensuring a centralized, efficient and transparent management of the NBM's relations with all counterparties with which interact in the licensing, authorization and notification processes, as well as providing the NBM users with a modern tool to facilitate the performance of core tasks by increasing the degree of process automation	Third quarter of 2015	During the year, changes were made to the secondary normative framework, following the approval of Law No. 363/2022 amending some normative acts (Law No. 62/2008 on foreign exchange regulation and Law No. 548/1995 on the NBM). As a result of the amendment of the legal framework, the module "Licensing/ Withdrawal of the license of foreign exchange offices and foreign exchange points of hotels", within the computer system for licensing, authorization and notification (CRM), was put into use for third parties. Respectively, the user guides for the use of the web portal of the information system, as well as the CRM, for the users of the system, with reference to the respective module, have been developed and approved. The launching of the last module of the IT system related to the licensing, authorization and notification "Licensing/ Withdrawal of the license of foreign exchange offices and foreign exchange points of hotels" marks the completion of the project.	Completed project At the same time, CRM will be developed in order to implement the new modules related to the insurance and non-banking credit activity processes, resulting from the tasks taken over from NCFM. Continuously, the normative framework is being strengthened and CRM modules are being developed in order to maximize the use of the IT solution's functionalities to increase the benefits.

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Ord. No.	Project name	Benchmark	Project objectives	Starting period	Achievements	Next steps for 2024
3.	Implementation of the solution to streamline the process of shareholder transparency monitoring and remote analysis in the area of preventing and combating money laundering and terrorist financing	3. Strengthening the supervisory function at the level of the financial-banking and non-banking sector	Effectiveness of the process of identifying and assessing the risk associated with shareholder transparency, and providing the supervisory authority with information and operational data related to potential suspicions of involvement of bank customers or banks as individual entities in money laundering and/or terrorist financing transactions and operations.	Third quarter of 2014	During the year, technical and functional testing continued on the test environment, with end-user acceptance testing of the solution being performed. Respectively, as a result, the acceptance of the deliverables related to the training and testing phase was ensured. Acceptance criteria for data uploaded on the production environment have been agreed and the process of uploading them has been ensured. The installation process has been completed and the IT solution has been launched on the production environment	Completion of data upload on the production environment. Final acceptance of the IT solution and finalization of the project respectively.
4.	Implementation of the IT solution for banking operations (CBS), corporate resource management (ERP) and cash operations management	6. Strengthening institutional resilience and agility	Transformation of the NBM's business processes related to banking operations, financial, material and human resources management, and modernization of the NBM's banking IT system, with the aim of streamlining the NBM's operational activity	Fourth quarter of 2013	In 2023, amendments to the internal normative act were approved, as a result of the inclusion of regulations on the limitation of liability of economic operators, thus eliminating the main delaying factor for this project. The market consultation procedure has been carried out in view of the preparation and further development of the procurement procedure for the IT solution.	Approval of the report on the market consultation procedure. Approval of changes to the project concept. Launching and running the tender procedure.
5.	Migration to new SWIFT – ISO 20022 standards	1. Strengthening the monetary policy framework and optimizing monetary policy implementation	Ensuring successful transition to ISO 20022 implementation and migration to new platforms and services working with MX messages, including ensuring business process continuity during the migration to new standards.	First quarter of 2022	In the framework of this project, during the year, the functionalities related to the tool for the visual rendering in readable format of SWIFT ISO 20022 messages were implemented in the NBM information system. At the same time, the works related to the automation of the loading of SWIFT messages in XML format into the NBM's information system were finalized.	Further implementation of the activities related to the partial automation of the import of SWIFT messages in MX format related to collection operations into the NBM's IT system. Initiation of the analysis and elaboration of the specifications for the automated generation of SWIFT messages in MX format.

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Ord. No.	Project name	Benchmark	Project objectives	Starting period	Achievements	Next steps for 2024
6.	Implementation of an instant payment scheme	4. Further development of financial market infrastructures and contributing to the increase of cashless payments	Increasing the level of use of electronic payments in relation to cash and creating alternative and innovative payment methods by implementing the instant (24/7/365 regime) payment solution (platform), which will lead to the creation of the premises for the development of innovative/mobile payments, with their immediate final settlement and the possibility of immediate re-use of the funds received by the beneficiaries. The creation of a liquidity limit management functionality, the use of a more advanced format of payment messages (ISO 20022) – will lead to the possibility of implementing STP (straight through processing) throughout the entire payment message processing chain. Facilitating the circuit of economic flows.	First quarter of 2020	During the year the detailed technical and functional specifications document and the solution configuration and setup document were approved. At the same time, the construction of the solution according to the requirements stipulated in the detailed technical and functional specifications document took place. Training of end-users, as well as technical and functional testing of the solution by the NBM end-users took place. Therefore, during the year, the analysis and design, construction, training, testing and go-live phases were carried out and finalized. The installation of the computer system on the production environment was also ensured.	Completion of testing of the computer system. Definitivation of functional and technical requirements for participants. Go-Live phase and preparation of the system for production launch. Final acceptance of the IT solution and project finalization.

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Ord. No.	Project name	Benchmark	Project objectives	Starting period	Achievements	Next steps for 2024
7.	Creation of the Cash Processing Center	5. Enhancing the quality of national currency and strengthening the national cash insurance function	Strengthening the institutional capacity and efficiency of the National Bank of Moldova by creating a modern cash processing center aligned with the best practices applied by European central banks, in particular those ensuring compliance with high security standards and requirements.	Third quarter of 2022	The need for the creation of a modern cash processing center is supported by the decision of the Executive Board of the NBM. During the year, preparatory actions related to the implementation of the project were carried out, with the establishment of the project management group and the project coordinating and decision-making group. At the same time, the action plan for the implementation of the project was elaborated and approved	Development of activities to identify and take over the land for the construction of the Processing Center under the management/administration of the NBM. Contracting and benefiting from consultancy services in the field.
8.	Digitization of the National Bank of Moldova archive	6. Strengthening institutional resilience and agility	Valorizing the National Bank of Moldova's electronic archiving service, covering the needs of the NBM in managing the entire life cycle of documents throughout their storage period.	First quarter of 2021	In the framework of this project, the activities of placing the documents in the electronic archive of the NBM, on the approval flow, were continued. At the same time, the activities of adjustment and consolidation of the internal normative framework related to the electronic archiving of documents continued, given the existence of the delaying factor related to the lack of a national normative framework that would regulate digital archiving.	Approval of the adjustments to the Regulation on the activity of the NBM archives, taking into account the national regulations in the field of digital archiving. Completion of the first phase of the project on electronic archiving and initiation of the second phase for the other activity processes within the NBM.

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Ord. Project name No.	Benchmark	Project objectives	Starting period	Achievements	Next steps for 2024
9.	<p>Twinning: Strengthening supervision, corporate governance and risk management in the financial sector</p> <p>2. Strengthening the financial stability function and macro-prudential supervision</p> <p>3. Strengthening the supervisory function at the level of the financial-banking and non-banking sector</p> <p>4. Further development of financial market infrastructures and contributing to increase cashless payments</p>	<p>Grant the necessary support to the Republic of Moldova in the implementation of reforms related to the Republic of Moldova (RM) – European Union (EU) Association Agreement and the RM-EU Association Agenda, on strengthening supervision, corporate governance and risk management in the financial sector.</p>	Fourth quarter of 2021	<p>Over the course of 2023, activities were carried out according to the project plan, as a result, technical assistance missions were carried out for the 5 project components. Some of the most important achievements as a result of the technical assistance missions are related to: Development and endorsement of the macro-prudential policy strategy; improvement of the quality of the annual financial stability reports; development of the draft stress testing model for macro-prudential purposes; endorsement of the methodology for stress testing for contagion risk in the interbank market; initiation of activities on the preparation of draft primary legislation to implement the provisions of the Solvency II Directive and the MTLP Directive; preparation of draft normative acts on strengthening the supervision of non-bank lending organizations, including on compliance and fit and proper criteria for managers of non-bank lending organizations; assessment and improvement to achieve compliance with the EU best practices and standards of the NBM's internal regulations on the supervision of financial market infrastructures and payment services; preparation of the application/file for the accession of the RM to the Single Euro Payments Area (SEPA).</p> <p>At the same time, the formalities were completed in order to extend the project implementation period until April 2024. Study visits were also carried out with the participation of the NBM experts. In addition, 2 meetings (8th and 9th) of the Twinning Project Oversight Committee were held. Within the framework of the project, the thematic conference "Alignment with the EU standards for payment security in the digital era" was organized.</p>	<p>Development of the missions of foreign experts, as planned, on component 2 of the project "Alignment of the legal framework on supervision of the insurance and motor third party liability insurance sector with the EU acquis".</p> <p>Organization of the quarterly Project Oversight Committee meeting.</p> <p>Closure of the project, with the organization and holding of an event to this effect.</p>

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Ord. No.	Project name	Benchmark	Project objectives	Starting period	Achievements	Next steps for 2024
10.	The taking over by the NBM of the regulatory function/ supervision of the non-bank financial sector	3. Strengthening the supervisory function at the level of the financial-banking and non-banking sector 6. Strengthening institutional resilience and agility	Ensuring an efficient process for the takeover of regulatory/ supervisory duties in the non-banking financial sector from the NCFM, as provided by Law No. 178/2020, starting July 1, 2023. Ensuring the continuity of the authorization, regulation, supervision and communication processes in the areas that will fall under the NBM's competence.	First quarter of 2022	<p>During the year, actions were carried out with regard to the taking over by the NBM of the regulatory/ supervisory attributions of the non-banking financial sector, according to the detailed action plan for the implementation of the project, mainly: analysis and institutionalization of the activity processes necessary to be taken over from the National Commission for Financial Markets (NCFM); approval by the NBM of the secondary normative acts elaborated by the NCFM, as well as their taking over according to the processes in the perimeter of the transfer; taking over of the information systems, taking over of the information/ files. Also, actions were carried out with reference to the consolidation of the legal framework, correlated with the transfer of powers, with the issuance of Law No. 214/2023 on the amendment of some normative acts (ensuring the transfer of powers according to Law No. 178/2020 on the amendment of some normative acts), which entered into force on August 3, 2023.</p> <p>Activities were carried out in order to increase the institutional capacity of the institution, in the context of the modification of the organizational structure of the NBM and the employment of staff through transfer.</p> <p>All the actions carried out have led to the successful completion of the project, ensuring the assumption by the NBM, as of July 1, 2023, of the regulatory/ supervisory tasks of the non-banking financial sector, with the continuity of the authorization, regulation, supervision processes in the areas that have passed to the NBM's duties.</p>	Completed project , with the NBM taking over, as of July 1, 2023, of the regulatory/ supervisory tasks of the non-banking financial sector.

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Ord. Project name No.	Benchmark	Project objectives	Starting period	Achievements	Next steps for 2024
11. NBM LearnOrgLab – Institutional transformation into a learning-oriented organization	6. Strengthening institutional resilience and agility 7. Developing and capitalizing human capital	Transforming the NBM into a learning-oriented institution by developing internal management and professional development capacity and a conducive environment for cultivating a culture of learning and knowledge dissemination.	First quarter of 2023	<p>In 2023 the project was initiated by organizing an event with all bank employees, including the conduct of workshops by learning types. It is worth noting that the project is carried out in cooperation with the Center of Excellence in Finance in Ljubljana, Slovenia, with the financial support of the Ministry of Foreign Affairs of Slovenia and the Ministry of Finance of the Kingdom of the Netherlands.</p> <p>Subsequently, the order on the establishment of the coordinating and decision-making group and the management group for project implementation was approved. The training needs were defined through the application of the questionnaire, as well as the future internal trainers were determined, according to the strategic objectives and future challenges of the NBM.</p> <p>In addition, during the year, the following were organized: workshops on strengthening trainer skills, defining and developing organizational culture, change management and decision making; coaching and microlearning programmes; webinars and job shadowing activities; project promotion forums. The organizational culture assessment survey and workshops to define the future organizational culture were conducted.</p>	Further organization of webinars, microlearning products and workshops. Development of the organizational culture strategy.

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Ord. No.	Project name	Benchmark	Project objectives	Starting period	Achievements	Next steps for 2024
12.	Ensuring the necessary conditions for the banking sector to join the Single Euro Payments Area (SEPA)	4. Further development of financial market infrastructures and contributing to the increase of cashless payments	The realization of all necessary actions by the NBM as national coordinator in the Single Euro Payments Area (SEPA) accession process, in collaboration with the relevant national institutions and market actors, to ensure the prerequisites and the highest level of success in the process of accession of payment service providers from the Republic of Moldova to the Single Euro Payments Area (SEPA).	Third quarter of 2022	<p>The Action Plan for the implementation of the project was approved during the year. At the same time, the Regulation on Credit Transfer and Direct Debit, which is subject to the SEPA adherence criteria, was approved, following consideration of the comments received during the transparency process. At the same time, information was collected from the authorities for the SEPA accession file and the legal opinion and its annexes (containing information demonstrating compliance with the SEPA criteria) were also prepared.</p> <p>Thus, it was ensured the finalization of the accession file/ application of the Republic of Moldova to SEPA, including the related annexes.</p> <p>Part of the actions undertaken during the year focused on assessing the options for connecting to SEPA infrastructures, with support being provided to help payment service providers understand the technical requirements for joining SEPA.</p> <p>In this context, a study visit was carried out at the National Bank of Romania in order to address SEPA interconnection scenarios.</p> <p>In correlation with the Twinning project: "Strengthening supervision, corporate governance and risk management in the financial sector" the event on the "Alignment with the EU standards for payment security in the digital era" was organized.</p>	<p>Transmission of the SEPA accession file to the European Payments Council.</p> <p>Continuing actions on the assessment of options for connecting to SEPA infrastructures and on supporting payment service providers' understanding of the technical requirements for joining SEPA.</p>

Source: NBM

Table A.22: Interviews with representatives of the NBM in the media in 2023

Data	Event	Participant	Distribution channel
February	Tatiana Ivanicichina: Overcoming challenges and risks is one of the tasks for the Moldovan banking system in 2023	Deputy Governor of the NBM, Tatiana Ivanicichina	News Agency INFOTAG
April	NBM takes over supervision of non-bank lending. Deputy Governor: lending portfolios need to become more qualitative. IPN interview	Deputy Governor of the NBM, Constantin Schendra	Info Prim Neo News Agency (IPN)
July	Vladimir Munteanu: Our task is to contribute to the expansion of the range of digitalisation of banking services for bank customers and to minimise risks	First Deputy Governor of the NBM, Vladimir Munteanu	Экономическое обозрение Logos.press.md
August	TV Moldova1 "Discover the monuments on Moldovan lei banknotes"	Deputy Head of CFED, Ina Scerbaniuc	Moldova1 "Buna Dimineata"
November	Governor of the National Bank of Moldova, Octavian Armasu: We have overcome the inflationary wave; we target inflation of 5% on the medium term, interview for the news agency AGERPRESS	Octavian Armasu, Governor of the National Bank of Moldova	News agency Agerpres
December	The importance of financial education and the launch of the biggest national financial education campaign in Moldova "Let's create an attractive capital market internally". IPN interview with Alexandru Savva, NBM Advisor Interview for the Center of Excellence in Finance (CEF) of the Governor of the NBM, Octavian Armasu: "The Moldovan leu at 30 years – key milestones, challenges, achievements and other memorable episodes"	NBM Advisor, Natan Garstea Alexandru Savva, NBM Advisor Governor of the NBM, Octavian Armasu	TVR Moldova "Obiectiv Comun" Info Prim Neo News Agency (IPN) (Info Prim Neo) https://www.cef-see.org/interview-with-governor-octavian-arma%C8%99u

Sursa: NBM

Table A.23: "Make Sense of Money" financial education podcasts produced and broadcast in 2023

Date	Event	Distribution channel
June	"Make Sense of Money" financial education podcast. Guest: Governor of the NBM, Octavian Armasu	Privesc.eu Rlive.md www.bnm.md NBM social media profiles (Facebook, LinkedIn, Youtube)
	"Make Sense of Money" financial education podcast. Guest: Alexandru Savva, Advisor to the National Bank of Moldova	Privesc.eu Rlive.md www.bnm.md NBM social media profiles (Facebook, LinkedIn, Youtube)
July	"Make Sense of Money" financial education podcast. Guest: Bianca Isaincu, policy analyst in financial literacy and sustainable finance, Organization for Economic Co-operation and Development (OECD)	Privesc.eu Rlive.md www.bnm.md NBM social media profiles (Facebook, LinkedIn, Youtube)
	"Make Sense of Money" financial education podcast. Guest: Constantin Schendra, Deputy Governor of the NBM	Privesc.eu Rlive.md www.bnm.md NBM social media profiles (Facebook, LinkedIn, Youtube)
August	"Make Sense of Money" financial education podcast. Guest: Vadim Jeleascov, Head of Fintech Directorate of the National Bank of Moldova	Privesc.eu Rlive.md www.bnm.md NBM social media profiles (Facebook, LinkedIn, Youtube)
	"Make Sense of Money" financial education podcast. Guest: Inguna Dobraja, World Bank Group Country Director in Moldova	Privesc.eu Rlive.md www.bnm.md NBM social media profiles (Facebook, LinkedIn, Youtube)
September	"Make Sense of Money" financial education podcast. Guest: Nicolae Istudor, Rector of the Bucharest Academy of Economic Studies (ASE)	Privesc.eu Rlive.md www.bnm.md NBM social media profiles (Facebook, LinkedIn, Youtube)
	"Make Sense of Money" financial education podcast. Guest: Josip Juric, Project Manager at the European Union (EU) Delegation in Chisinau	Privesc.eu Rlive.md www.bnm.md NBM social media profiles (Facebook, LinkedIn, Youtube)
October	"Make Sense of Money" financial education podcast. Guest: Daniel Savin, Director of the Financial Markets Department, NBM	Privesc.eu Rlive.md www.bnm.md NBM social media profiles (Facebook, LinkedIn, Youtube)

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Date	Event	Distribution channel
	"Make Sense of Money" financial education podcast. Guest: Kent D. Logsdon, US Ambassador to the Republic of Moldova	Privesc.eu Rlive.md www.bnm.md NBM social media profiles (Facebook, LinkedIn, Youtube)
November	"Make Sense of Money" financial education podcast. Guest: British expert Shaun Mundy, author of Europe's first financial education strategy, Senior Vice President of The Financial Literacy Group	Privesc.eu Rlive.md www.bnm.md NBM social media profiles (Facebook, LinkedIn, Youtube)
December	"Make Sense of Money" financial education podcast. Guest: Mark Horton, Deputy Director of the IMF's European Department	Privesc.eu Rlive.md www.bnm.md NBM social media profiles (Facebook, LinkedIn, Youtube)

Source: NBM

Table A.24: Information on www.bnm.md website activity

	Year 2023	Year 2022	Year 2021	Year 2020	Year 2019
Number of page users https://www.bnm.md/	820,400 (-29,47 %)	1,163,274 (+44,6 %)	804,477	667,610	584,605
How many times has been accessed https://www.bnm.md/ (no. of sessions)	2,534,374 (-26.28 %)	3,438,062 (+35.7 %)	2,533,983	2,327,089	2,235,312
How many new users joined out of total users on the site	583,242 (-48.09 %)	1,123,541 (46.8 %)	765,203	630,342	547,329

Source: NBM

Table A.25: Number of subscribers/followers of NBM profiles on social media

	Year 2023	Year 2022
Facebook	4,619 followers	3,391 followers
LinkedIn	2,366 followers	1,215 followers
Twitter	489 followers	360 followers
Instagram	553 followers	336 followers
Youtube	1,530 subscribers	830 subscribers

Sursa: NBM

Table A.26: The impact of profiles on social media:

	2023	2022
Facebook	267,378 (+295.1 %)	67,678
LinkedIn	41,475 (+229.43 %)	12,590
Instagram	13,288 (+159.3 %)	5,124

Sursa: NBM

Table A.27: Analysis of financial result by main activities of the National Bank of Moldova

Activities managed by the bank:	2023	2022
	Financial result	Financial result
	MDL thousands	MDL thousands
Relations with the Government from monetary and foreign exchange activity	632,303	639,225
Applied monetary instruments	(2,739,396)	(2,343,552)
NBM's relationship with the IMF	(44,457)	(25,643)
Management of official reserve assets	3,058,559	1,499,028
National currency	12,141	6,592
Other operations, including operating costs	(351,020)	(276,181)
Unrealized losses on exchange rate differences not covered by reserves	(293,718)	-
Total financial result	274,412	(500,531)

Source: NBM

Table A.28: Net result of monetary policy implementation and activities related to relations with the Government of Moldova

	2023	2022
	MDL thousands	MDL thousands
Mandatory reserves	(1,508,600)	(2,135,852)
Money market operations	(1,184,423)	(415,492)
Accounts and deposits of the Ministry of Finance	(240,549)	(159,660)
Overnight deposits	(38,112)	(64,760)
SS portfolio ownership	866,780	793,942
Lending activity	3,944	272,881
Others	(6,133)	4,614
Net result	(2,107,093)	(1,704,327)

Source: NBM

Table A.29: Net result from the management of official reserve assets held by the National Bank of Moldova

	2023	2022
	MDL thousands	MDL thousands
Securities in foreign currency	2,363,257	521,642
Deposits	861,172	341,227
Realised exchange rate differences	(152,610)	648,365
Fees and charges, others	(13,260)	(12,206)
Net result	3,058,559	1,499,028

Source: NBM

Table A.30: Evolution of the official exchange rate

	2023		2022	
	average per period	at the end of the year	average per period	at the end of the year
MDL/USD	18.1607	17.4062	18.9032	19.1579
MDL/EUR	19.6431	19.3574	19.8982	20.3792
MDL/GBP	22.5714	22.2660	23.3620	23.0402
MDL/XDR	24.2302	23.3534	25.2842	25.4962
MDL/XAU	1,132.5963	1,153.7733	1,093.7311	1,110.3257

Source: NBM

Table A.31: Share of significant balance sheet positions (%) and average annual rates on financial instruments (%)

	2023		2022	
	Share, %	Average annual interest rate,%	Share, %	Average annual interest rate, %
	100.00	-	100.00	-
ASSETS				
External assets	87.30	3.72	85.97	1.18
State securities	12.55	13.28-5.00	13.88	10.41-5.00
Other assets	0.15	-	0.15	-
LIABILITIES	100.00	-	100.00	-
National currency in circulation	37.12	-	36.03	-
Government holdings, including:	9.50	-	8.71	-
- <i>at sight, MDL</i>	8.29	3.71	6.36	2.92
- <i>at term, MDL</i>	0.09	16.28	0.19	18.40
- <i>at sight, FCC</i>	1.12	-	2.16	-
Banks' holdings, including:	35.49	-	35.47	-
- <i>"Loro" accounts, including:</i>	19.74	-	18.28	-
- <i>required reserves in MDL remunerated</i>	-	8.04	-	14.63
- <i>required reserves in FCC remunerated</i>	15.58	0.39	16.76	0.01
- <i>overnight deposits</i>	0.11	9.64	0.16	15.06
NBM Certificates (placed)	9.86	10.89	6.31	16.04
Bonds towards international financial organizations, including:	4.47	-	5.41	-
- <i>IMF holdings</i>	3.58	-	4.22	-
- <i>IMF loans (EFF/ECF)</i>	0.88	4.82/0.00	1.18	2.21/0.00
Other bonds	0.59	-	0.12	-
Capital and reserves	2.97	-	7.95	-

Source: NBM

Table A.32: Analysis of the financial result by main activities of the Single Central Securities Depository

Activities managed by the CSD	2023	2022
	Financial result MDL thousands	Financial result MDL thousands
SS and NBC processing and settlement	6,029	8,019
Depositing securities	4,025	2,951
Interest income on SS	3,800	3,159
Services provided to the issuer	565	542
Settlement of transactions in corporate securities	199	963
Operating costs, including taxes	(13,331)	(12,386)
Total	1,287	3,248

Source: NBM

Table A.33: Share of significant balance sheet positions (%) and average annual rates on financial instruments (%)

	2023		2022	
	Share, %	Average annual interest rate, %	Share, %	Average annual interest rate, %
ASSETS	100.00	-	100.00	-
Cash and equivalents	21.31	0.00	8.54	0.00
State securities	73.32	6.75-12.00	84.14	17.50-21.94
Other assets	5.37	-	7.32	-
LIABILITIES	100.00	-	100.00	-
Other bonds	6.31	-	8.32	-
Capital and reserves	93.69	-	91.68	-

Source: NBM

Table A.34: Consolidated and individual financial position of the National Bank of Moldova as of 31 December 2023

	Consolidated	Bank	Consolidation effect
	MDL million	MDL million	MDL million
ASSETS			
Cash and short-term placements	19,831.36	19,831.32	0.04
Investment securities	74,798.34	74,798.34	-
Assets in international financial organisations	4,267.15	4,267.15	-
Securities issued by the Government of RM	14,252.04	14,226.12	25.92
Other assets	237.67	260.41	(22.74)
TOTAL ASSETS	113,386.56	113,383.34	3.22
BONDS			
National currency in circulation	42,090.75	42,090.75	-
Holdings of the Government of RM	10,769.56	10,769.56	-
Banks' holdings	40,239.05	40,239.05	-
Bonds towards international financial organizations	5,064.93	5,064.93	-
Certificates issued by the NBM	11,180.00	11,180.00	-
Other bonds	666.72	672.63	(5.91)
TOTAL BONDS	110,011.01	110,016.92	(5.91)

Source: NBM

Table A.35: Consolidated and individual financial result of the National Bank of Moldova for 2023

	Consolidated	Bank	Consolidation effect
	MDL million	MDL million	MDL million
Interest incomes on foreign exchange reserve	3,377.91	3,377.91	-
Interest incomes on SS	831.78	827.98	3.80
Transaction losses and exchange rate differences and price differences	(6,094.73)	(6,094.79)	0.06
Other incomes	116.26	110.51	5.75
Income reversed with depreciation of assets	34.82	34.82	-
Interest expenses	(3,027.74)	(3,030.34)	2.60
Operating expenses	(452.17)	(441.68)	(10.49)
Other expenses	(0.77)	(0.33)	(0.44)
(LOSS)/ NET PROFIT	5,214.64	5,215.92	1.28
<i>From the Bank's activity</i>	(5,215.92)	(5,215.92)	-
<i>From the branch's activity</i>	1.28	-	1.28
Allocation of unrealised results	5,490.33	5,490.33	-
PROFIT AVAILABLE FOR DISTRIBUTION	274.41	274.41	-

Source: NBM

Table A.36: Capital and reserves

	December 31, 2023	December 31, 2022
	MDL thousands	MDL thousands
Authorised capital	1,124,372	1,124,372
General reserve fund	2,022,626	1,748,214
Total statutory capital	3,146,998	2,872,586
Reserve for unrealized incomes		
- from exchange rate differences	-	5,493,557
- from re-evaluation of investment securities	178,427	178,427
- from re-evaluation of precious metals	39,970	36,749
Other reserves	1,025	(242,815)
Total capital and reserves	3,366,420	8,338,504
NBM monetary bonds	94,184,254	81,718,361
Capital level, %		
<i>(after the distribution of the financial result)</i>	3.34	3.52
Profit allocated to the state budget	-	-
Required capital contribution	620,372	396,149

Source: NBM

Annex A.37

Figure 1. Profile of residual operational risks classified by risk category at the 31.12.2023

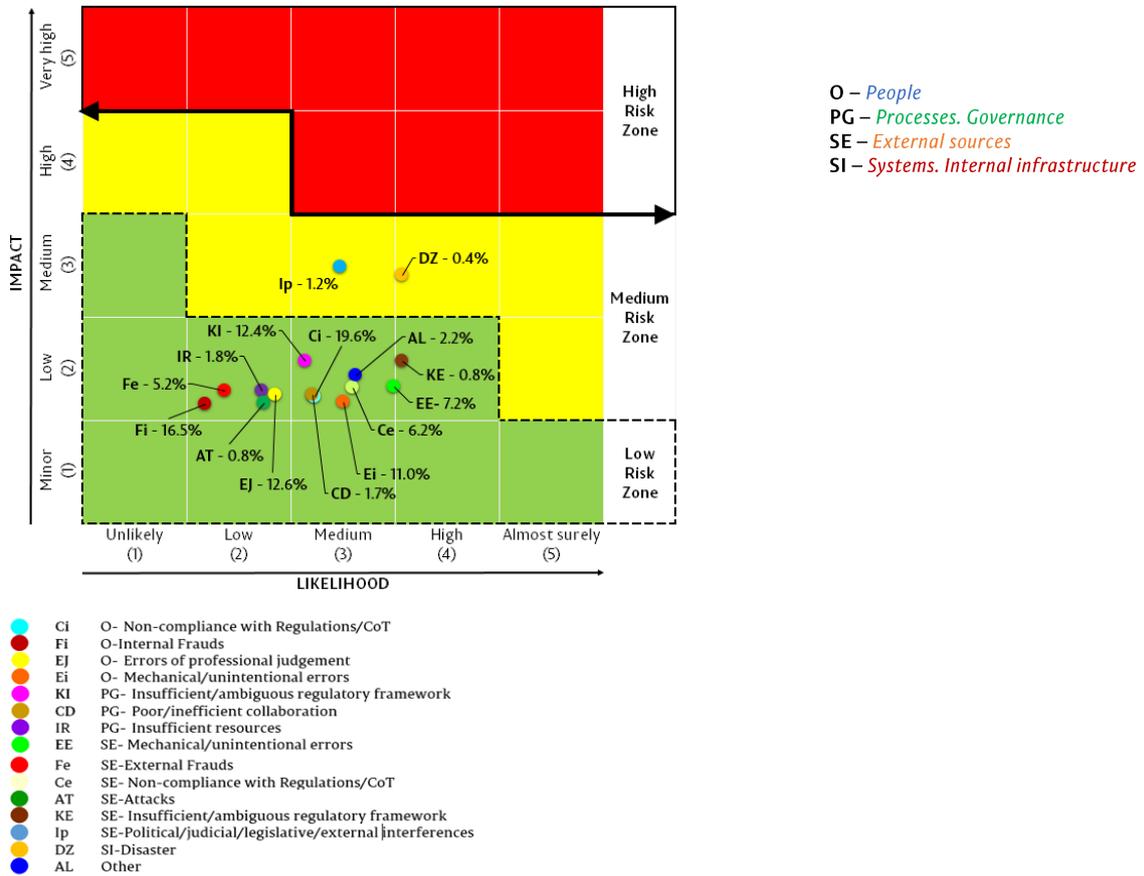


Figure 2. Profile of residual operational risks assessed at the 31.12.2023

