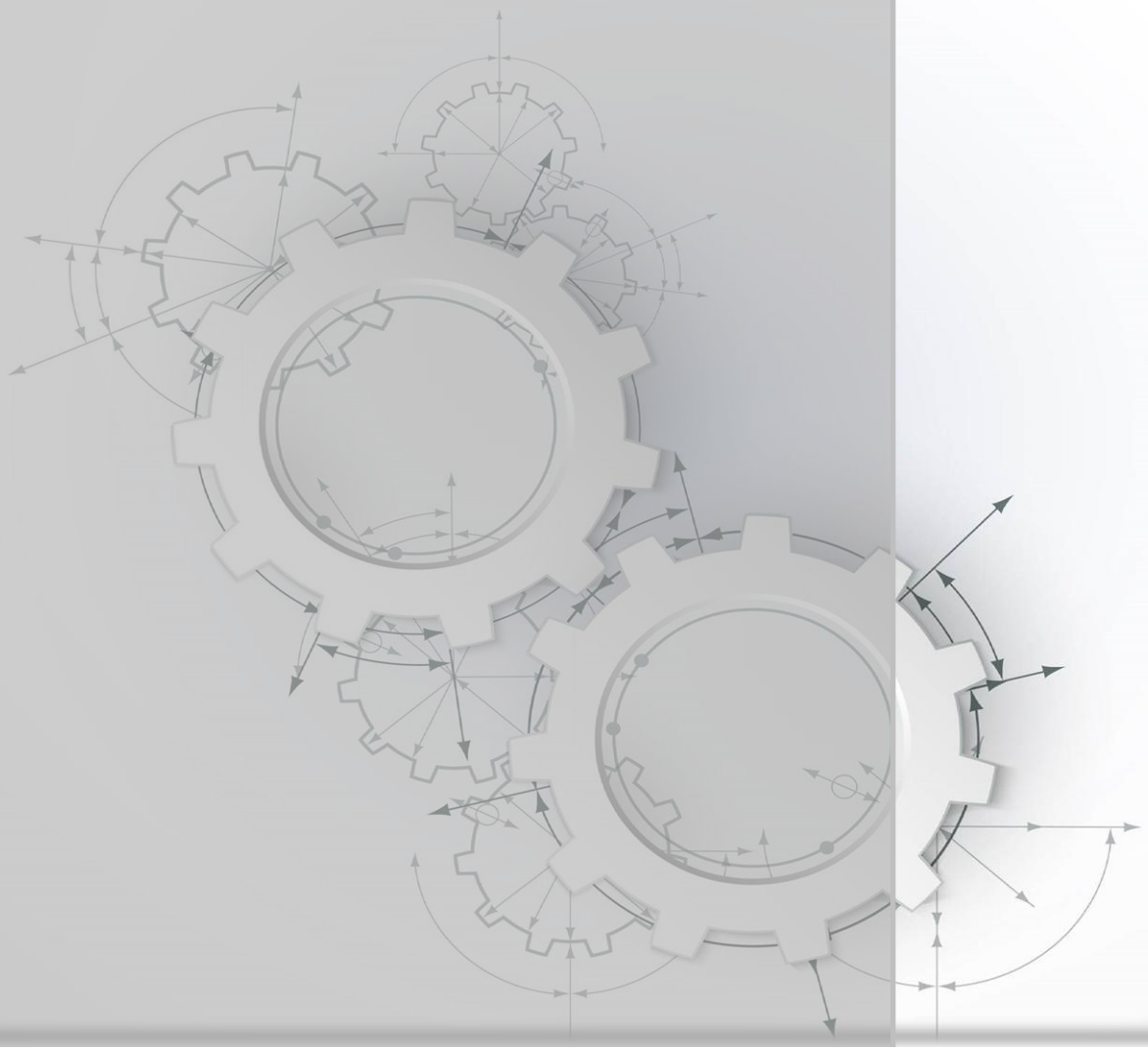
National Bank of Moldova

FINANCIAL STABILITY REPORT 2024



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LIST OF ABBREVIATIONS

AMP	Average maturity period
BSTDB	Black Sea Trade and Development Bank
CcyB	Countercyclical capital buffer
CEB	Council of Europe Development Bank
CIS	Commonwealth of Independent States
DGFBS	Deposit Guarantee Fund in the Banking System
DSTI	Debt service-to-income ratio
EBRD	European Bank for Reconstruction and Development
EIB	European Investment Bank
EU	European Union
EUR	The single European currency (euro)
GB	Government bonds
GDP	Gross domestic product
ICT	Information and communication technologies
IFC	International Finance Corporation
IFRS	International Financial Reporting Standard
IMF	International Monetary Fund
HHI	The Herfindahl-Hirschman index
FAO	Food and Agriculture Organization of the United Nations
FSAP	Financial Sector Assessment Program
LCR	Liquidity coverage ratio
LTV	Loan-to-value
MEDD	Ministry of Economic Development and Digitalization
MDL	Moldovan Leu
NBCO	Non-bank credit organisations
NBM	National Bank of Moldova
NBS	National Bureau of Statistics of the Republic of Moldova
NCFM	National Commission for Financial Markets
NCFS	National Committee on Financial Stability
NPL	Non-performing loans
NSFR	Net stable funding ratio
OFEP	Open foreign exchange position
PSP	Payment service providers
r.h.s.	Right-hand side
ROA	Return on assets
ROE	Return on equity
RPPI	Residential real estate price index
RM	Republic of Moldova
SBFN	Sustainable Banking and Finance Network
SBR	State budget revenue
SMEs	Small and medium-sized enterprises
sq.m.	Square meter
SREP	Supervisory Review and Evaluation Process
SS	State securities
USD	US dollar

SUMMARY

The year 2024 was marked by a series of systemic challenges, generated both by persistent international economic uncertainties and by the structural vulnerabilities of the domestic economy. In this context, the economy of the Republic of Moldova recorded an economic growth of 0.1 percent, significantly influenced by the contraction of the agricultural sector. Average annual inflation was 4.7 percent, initially remaining within the target range, but temporarily exceeding it in the second half of the year, driven by pressures from food prices and energy tariffs.

Despite these evolutions, the national financial system has demonstrated solid resilience. The banking sector continued to function efficiently, supporting financial intermediation and monetary policy transmission. Fundamental stability indicators remained at comfortable levels: banks maintained robust capitalization, with own funds levels above minimum requirements; liquidity was consistently above regulatory thresholds, including during periods of seasonal pressure; asset quality remained high, with a low share of non-performing loans; the aggregate financial stress index was at a historically low level, and systemic banking vulnerability continued to be low. All this confirms the robustness of the financial system in the face of external shocks and its capacity to support the real economy.

The systemic risk assessment highlighted the persistence of vulnerabilities in the non-banking sector, as well as potential risks associated with the real estate market, climate change and digitalization. At the same time, exposure to external shocks – including those of geopolitical, energy or trade nature – remained a relevant source of uncertainty, although cross-border contagion risks were moderate.

At the macroprudential level, the authorities maintained a cautious and balanced approach. Law on the National Bank of Moldova no. 548/1995 was amended to explicitly establish the macroprudential mandate of the National Bank, and the range of macroprudential instruments at its disposal. During the year, macroprudential tools were applied proportionally to the level of identified risks, and the regulatory framework was further strengthened. The National Committee on Financial Stability (NCFS) actively exercised its inter-institutional coordination mandate, contributing to preventing the accumulation of systemic imbalances and strengthening decision-making coherence among authorities responsible for financial stability.

For 2025, a moderate acceleration of economic activity is anticipated (GDP: +2.0 percent) as well as a gradual return of inflation to the NBM target corridor. The National Bank will continue its efforts to increase the resilience of the financial system, monitor systemic risks and react, if necessary, if these risks materialize.

1. ECONOMIC AND REAL CONTEXT

1.1. Economic developments

In 2024, the global economy remained resilient and grew by 3.3 percent, despite weak performance in several regions.

In the European Union, due to unfavourable investment activity, reflected in a compression of gross fixed capital formation by 1.8 percent and the modest evolution of goods exports, which decreased by 0.1 percent, economic growth was moderate, and GDP increased by only 1.0 percent. In some EU member states, such as Germany, Austria or Finland, GDP declines have been recorded. In the United States, economic momentum was supported by robust consumption, and as a result, the GDP grew by 2.7 percent. Emerging and developing economies advanced by 4.2 percent and contributed significantly to the dynamics of the global economy. In China, net exports offset a slowdown in domestic consumption caused by falling consumer confidence, allowing the economy to grow by 4.7 percent. Despite the continuation of the war launched by the Russian Federation, Ukraine managed, for the second consecutive year, to record economic growth, and the GDP grew by 3.0 percent in 2024. Even in the context of high inflation, Turkey's economy demonstrated some resilience and had grown by 3.0 percent.

The deepening of tariff disputes and the escalation of the security crisis in the Middle East will lead to a slowdown in the dynamics of the global economy.

In 2025, global GDP could increase by 2.8 percent, which represents a reduction of 0.5 percentage points compared to the rate recorded in 2024 (Table 1.1.1). The European Union economy will grow slowly, by approximately 1.1 percent. Large economies in the EU will register modest progress: thus, GDP growth will be marginal in Italy (0.4 percent) and France (0.6 percent), and in Germany there will be almost stagnation (0.05 percent). The United States economy could expand by 1.8 percent, after growing by 2.8 percent in 2024.

The slowdown will also characterize emerging economies. Thus, in 2025 compared to 2024, the GDP growth rate is estimated to decrease: from 5.0 to 4.0 percent in China, from 3.2 percent to 2.7 percent in Turkey and from 3.5 percent to 2.0 percent in Ukraine.

Table 1.1.1. Change in GDP of the main economic partners of the Republic of Moldova, %

	2023	2024	2025 e.	2026 f.
World	3.49	3.29	2.79	2.96
EU	0.60	1.12	1.16	1.48
CZE	0.06	1.11	1.62	1.79
DEU	0.26	0.23	0.05	0.92
FR	1.12	1.07	0.64	1.02
IT	0.72	0.73	0.44	0.84
POL	0.14	2.85	3.24	3.10
ROU	2.40	0.86	1.60	2.76
CHN	5.38	5.00	3.95	3.96
TUR	5.11	3.18	2.71	3.19
UKR	5.32	3.51	2.00	4.50
USA	2.89	2.80	1.83	1.74

Note: e – estimated; f – forecasted
Source: IMF

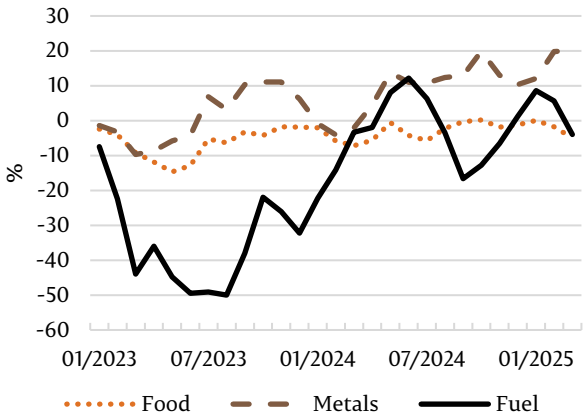
Despite persistent risks, the disinflationary trend continued. As a result, in 2024, compared to 2023, global inflation decreased from 6.7 to 5.8 percent.

Despite fluctuations, the dynamics of prices on the global goods market supported the disinflationary process (Figure 1.1.1). In 2024, international fuel prices had a tortuous evolution, but overall, the annual change translated into a decrease of 5.0 percent: oil became cheaper by 1.3 percent, natural gas by 13.4 percent, and coal by 16.7 percent. Food prices decreased by 3.1 percent, while metal prices increased by 8.2 percent.

In the European Union, in 2024, the inflation rate was 2.6 percent, which represented a decrease of 3.7 percentage points compared to the level recorded in 2023. Among the member states, the highest inflation was recorded in Romania (5.6 percent), and the lowest in Lithuania (0.9 percent). In the United States, the inflation rate decreased from 4.1 percent

in 2023 to 3.0 percent in 2024. In emerging and developing economies, the disinflationary dynamics was slow: in 2024, compared to 2023, the inflation rate decreased slightly, from 8.0 percent to 7.8 percent. In China, price growth was insignificant, with a rate of 0.23 percent in 2023 and 0.21 percent in 2024. In Ukraine, inflation has decreased considerably, from 12.9 percent in 2023 to 6.5 percent in 2024. In contrast, in Turkey, inflationary imbalances increased, and the inflation rate rose from 53.9 percent to 58.5 percent.

Figure 1.1.1. International prices of primary goods, changes compared to the same period of the previous year



Source: prepared by the NBM based on IMF data

Although there are risks caused by the escalation of geopolitical risks in the Middle East, the forecasts point to a downward trend in energy prices. Expectations regarding cheaper energy, as well as the postponement of investment decisions in the context of uncertainty generated by trade disputes, will lead to the attenuation of inflationary dynamics at the global level, although, from a geographical point of view, the evolution of prices will be uneven.

According to IMF estimates, in 2025, a decrease in energy prices by 7.9 percent is expected, driven by the 15.5 percent decrease in oil prices and 15.8 percent decrease in coal prices. This price reduction trend will, however, be tempered by the increase in the price of natural gas, which could increase by 22.8 percent.

In the European Union, the inflation rate is expected to decrease slightly in 2025, from 2.6 to 2.4 percent. However, evolutions in the Member States will be asymmetric. Thus, in Germany, France and Romania a decrease in inflation is anticipated, while in Italy and Poland the rate of price growth could accelerate. (Table 1.1.2). In the United States, the inflation rate is estimated at 3.0 percent in 2025, a level close to that of 2024. In China, amid accelerating consumption, inflation will remain almost unchanged, at a level of 0.03 percent. In contrast, in Ukraine, the inflation rate could rise to 12.6 percent in 2025, which is almost twice as much as in the previous year. In Turkey, a significant disinflationary development is expected: the inflation rate could decrease by 22.58 percentage points compared to 2024. However, inflation will remain at a high level, estimated at 35.9 percent.

Table 1.1.2. Inflation rate in the main trading partners of the Republic of Moldova, %

	2023	2024	2025 e.	2026 f.
World	6.63	5.67	4.29	3.65
EU	6.28	2.56	2.37	2.12
CZE	10.66	2.44	2.48	2.00
DEU	6.03	2.49	2.09	1.95
FR	5.66	2.32	1.30	1.64
IT	5.90	1.09	1.71	1.96
POL	11.47	3.72	4.29	3.38
ROU	10.40	5.58	4.61	3.10
CHN	0.23	0.21	0.03	0.63
TUR	53.86	58.51	35.93	22.80
UKR	12.85	6.50	12.58	7.74
SUA	4.13	2.95	2.99	2.47

Note: e – estimated; f – forecasted
Source: IMF

The economic results of 2023 and 2024 did not allow the economy of the Republic of Moldova to overcome the effects of the decline of 2022, when a contraction of 4.6 percent was recorded. Thus, if in 2023, the GDP grew by 1.2 percent, in 2024 the economy was close to stagnation, and the increase was only 0.1 percent.

During 2024, GDP decreased for two consecutive quarters: by 1.9 percent in the third quarter and by 1.3 percent in the fourth quarter. The positive result in annual terms was achieved due to the growth recorded in the first half of the year: an increase by 2.0 percent in the first quarter and by 2.5 percent in the second quarter. The main reason of the

decrease in GDP in the second half of 2024 was the decrease in agricultural production, in turn determined by unfavourable weather conditions.

In 2024, gross value added increased by 0.2 percent. The compression of the agricultural sector was the main factor that strongly tempered the increase in gross value added.

Gross value added in agriculture decreased by 18.9 percent. Also, gross value added in transportation and storage decreased by 4.9 percent. However, the increases in value added were recorded in most economic sectors (Table 1.1.3). The best results were recorded in financial and insurance activities (+6.7 percent) and in information and communications activities (+5.5 percent).

Table 1.1.3. Gross value added by economic activities, change, %

	2022	2023	2024
Total	-4.10	2.40	0.19
Agriculture, forestry and fishing	-23.47	26.73	-18.88
Manufacturing industry	-4.10	-10.80	1.19
Constructions	-9.70	-8.45	3.38
Wholesale and retail trade; maintenance and repair of motor vehicles and motorcycles	-3.34	-5.83	0.43
Transportation and storage	-7.52	-4.84	-4.92
Information and communications	5.69	10.49	5.49
Financial and insurance activities	21.90	9.63	6.71
Real estate transactions	8.00	2.94	1.17
Professional, scientific and technical activities	-7.30	-4.20	0.23
Public administration and defense; compulsory social insurance	-2.44	9.14	2.68
Education	9.57	8.20	-2.26
Health and social assistance	3.67	11.70	-0.90
Other	-12.81	3.26	9.48

Source: prepared by the NBM based on NBS data

In terms of usage, the largest contributions to GDP growth came from household consumption and gross fixed capital formation. At the same time, the export of goods and services decreased and negatively influenced economic growth.

Household consumption increased by 2.4 percent and was stimulated by the increase in population incomes. Gross fixed capital formation increased by 8.0 percent. The two main factors that determined the expansion of investment activity were: the increase in financing from economic agents' own sources, which increased by 14.8 percent, and the increase in financing from domestic credits and loans, which increased by 32.2 percent. The export of goods and services decreased by 5.0 percent (Table 1.1.4). The main causes of the export decline are the contraction of agriculture and the reduction in the re-export of energy products to Ukraine.

Table 1.1.4. GDP by expenditure components, change, %

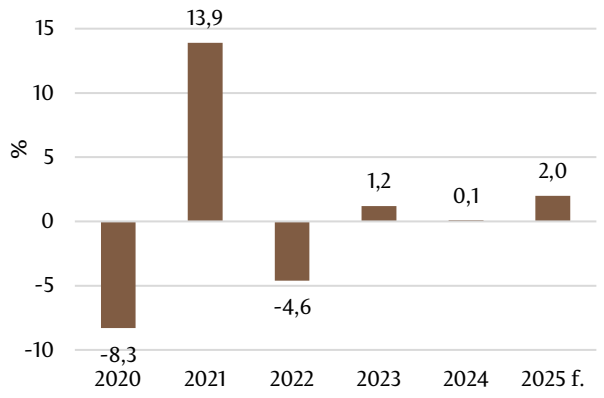
	2020	2021	2022	2023	2024
Final household consumption	-7.90	17.32	-4.78	-1.65	2.37
Gross fixed capital formation	5.59	1.87	-10.53	-0.04	7.96
Export of goods and services	-14.87	17.53	29.68	4.83	-5.02
Import of goods and services	-9.55	21.23	18.20	-5.12	5.23

Source: prepared by the NBM based on NBS data

In 2025, it is anticipated that the economy of the Republic of Moldova could register a GDP growth of 2.0 percent (Figure 1.1.2), but this acceleration will not allow for a full recovery after the decline in 2022. If this scenario is realized, GDP in 2025 will represent 98.1 percent of the level recorded in 2021.

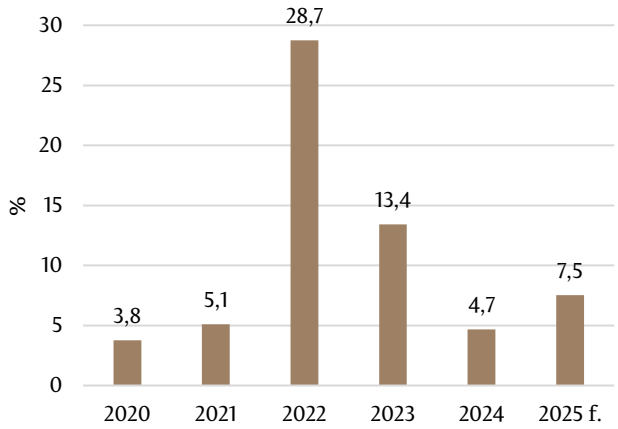
Consumption and investment will stimulate economic growth. The salary, which is forecast to increase by 5.1 percent, will increase household consumption. Investments in fixed assets will be supported by increased financing from economic agents' own sources, as well as the contribution of domestic credits and loans. At the same time, export growth will be favoured by the recovery of the agricultural sector. Thus, it is anticipated that agricultural production would increase by 14.0 percent, after having decreased by 14.6 percent in 2024.

Figure 1.1.2. Change in GDP



Note: f – forecast
Source: prepared by the NBM based on NBS data, MEDD

Figure 1.1.3. Average annual inflation



Note: f – forecast
Source: prepared by the NBM based on NBS data, NBM

In the first 11 months of the year, inflation had a moderate dynamic and remained within the corridor targeted by the NBM, but in December it exceeded the maximum value of the corridor.

In 2024, the average annual inflation was 4.7 percent (Figure 1.1.3). In the first half of the year, inflation had a downward trend, and in the third and fourth quarters the rate of price growth accelerated and reached 7.0 percent in December. The increase in inflation in the second half of the year was determined by the increase in food prices, amid adverse developments in agriculture, as well as by the increase in the natural gas tariff in December. Regarding the Consumer Price Index components, the following annual price increases were recorded: food products – 5.1 percent, non-food goods – 5.8 percent, and services – 1.9 percent.

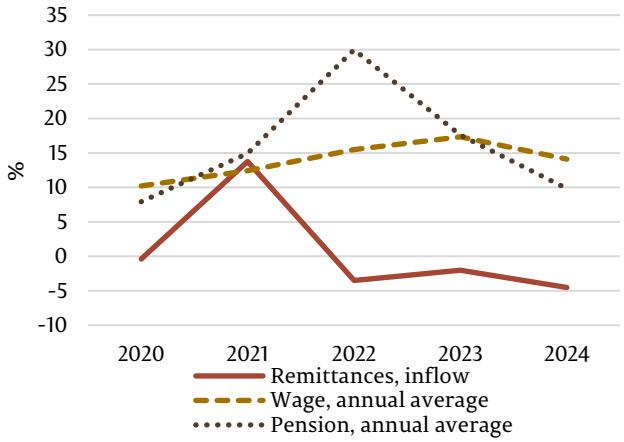
The year 2025 will be marked by an annual inflation of 7.5 percent. However, during the year, the rate of price growth will gradually decrease, and in the fourth quarter the inflation rate will return to the NBM target range.

After the inflation increase by 8.8 percent in the first quarter of 2025, the rate of price increases will moderate, so that in the fourth quarter the inflation rate would drop to 6.5 percent. Among the factors that will determine this evolution are the reduction in fuel prices and the effects generated by the recovery of the agricultural sector, after the contraction recorded in 2024.

The disposable income of the population increased in 2024. The increase in salaries and pensions supported this evolution.

The average salary increased by 14.1 percent in current prices and by 9.0 percent in real terms. The average pension increased by 9.8 percent in nominal terms and by 4.9 percent in real terms. In contrast, the inflow of remittances continued the downward trend observed in 2022 and 2023 and recorded a decrease by 4.5 percent in 2024 (Figure 1.1.4).

Figure 1.1.4. Nominal change in remittance inflow, average annual salary and average annual pension



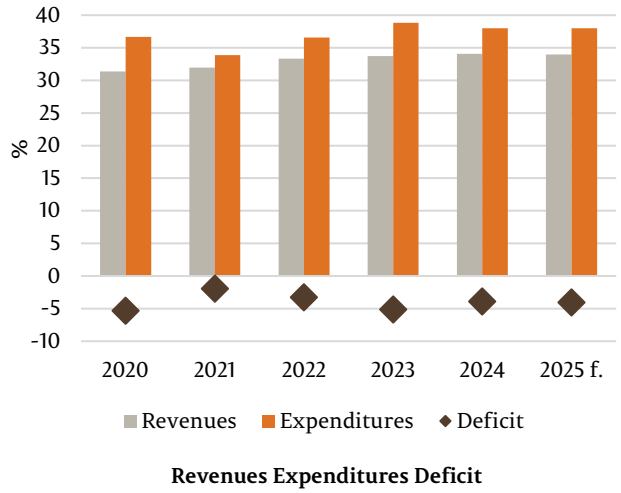
Source: NBM, prepared by the NBM based on NBS data

In 2024, the public finances improved by reducing the budget deficit. Despite this progress, public finances continue to be in the area of relatively high deficits, exceeding the level of 2.5 percent of GDP.

In 2024, the national public budget revenues amounted to about 110.34 billion MDL, which represents 34.1 percent of GDP. Non-financial

expenditures and assets amounted to 122.96 billion MDL, or 38.0 percent of GDP. Consequently, the budget deficit amounted to 12.62 billion MDL, equivalent to 3.9 percent of GDP. Thus, compared to 2023, when the budget deficit stood at 5.1 percent of GDP (15.57 billion MDL), in 2024 a reduction was recorded. However, starting from 2022, the budget deficit remained above the threshold of 3.0 percent of GDP (Figure 1.1.5). Also, in the budget projections for 2025, it is estimated that the budget deficit could reach 4.0 percent of GDP (14.09 billion MDL). However, evolutions in the first four months of 2025 indicate a faster growth in budget revenues compared to expenditures and non-financial assets – an increase of 14.7 percent compared to an increase of 10.7 percent. If this trend continues until the end of the year, the budget deficit level in relation to GDP could approach the 2.5 percent threshold set out in Law on Public Finances and Budgetary-Fiscal Responsibility no. 181/2014.

Figure 1.1.5. Revenues, expenditures and deficit of the national public budget in relation to GDP



Note: f – forecast
Source: prepared by the NBM based on the Ministry of Finance, NBS and MEDD data

1.2. State debt

As of December 31, 2024, there were minor deviations from the annual limits established for some state debt risk indicators.

As of December 31, 2024, the values of the risk and sustainability indicators of the state debt fall within the established limits, with the exception of the indicators: SS in circulation on the primary market with a maturity of one year and the share of state debt with variable interest rate, recording minor deviations compared to the value established according to the "Medium-term State Debt Management (2024-2026)" Program (Table 1.2.1).

Table 1.2.1. Risk and sustainability parameters related to the state debt

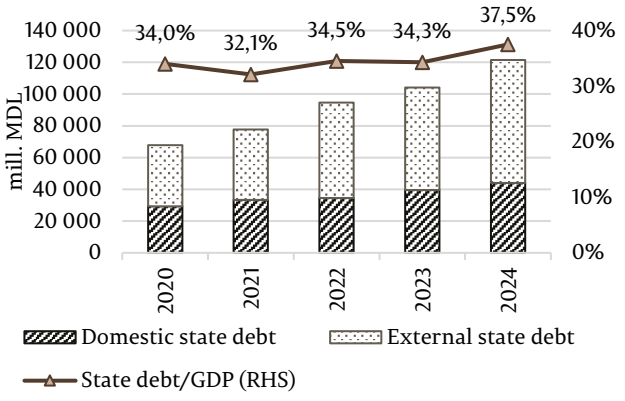
	Values set for 2024	Value registered as of December 31, 2024
Risk parameters		
Currency risk		
Share of domestic state debt (% of total)	min. 30	36.2
Share of state debt in a specific currency (% of total)	max. 60	40.1
Refinancing risk		
Share of state debt falling due within 1 year (% of total)	max. 35	32.3
AMP for total state debt (years)	min. 6 years	6.3
SS issued on the primary market maturing within 1 year (% of total)	max. 90	94.7
Interest rate risk		
Share of floating rate state debt (% of total)	max. 50	53.5
Sustainability parameters		
State debt service in relation to state budget revenue excluding grants (%)	max. 10	6.7
Share of state debt in GDP (%)	max 43	37.5

Source: prepared by NBM based on data from the Ministry of Finance

In 2024, the share of state debt in GDP increased compared to the previous year, mainly due to the sharper increase in external state debt.

As of December 31, 2024, the share of state debt in GDP at nominal value was 37.5 percent, 3.2 percentage points higher than in 2023 (Figure 1.2.1).

Figure 1.2.1. State debt

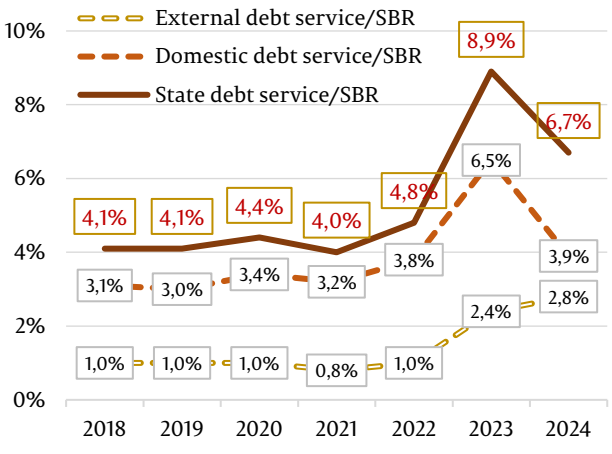


Source: prepared by NBM based on data from the Ministry of Finance

At the same time, the share of state debt service in state budget revenues decreased, registering a value of 6.7 percent (Figure 1.2.2).

The state debt balance as of 31 December 2024 amounted to 121,394.0 million MDL, increasing by 17,390.9 million MDL or by 16.7 percent compared to the end of the previous year. The increase was influenced by the increase in the balance of domestic state debt in nominal terms by 4,295.1 million MDL and the increase in the balance of external state debt by 13,095.8 million MDL. The increase in domestic state debt was mainly driven by the positive net domestic financing of SS issued on the primary market during the reference period. At the same time, the change in the balance of external state debt is due to positive net external financing and the negative fluctuation of the USD exchange rate against other currencies.

Figure 1.2.2. State debt service in relation to the total state budget revenue



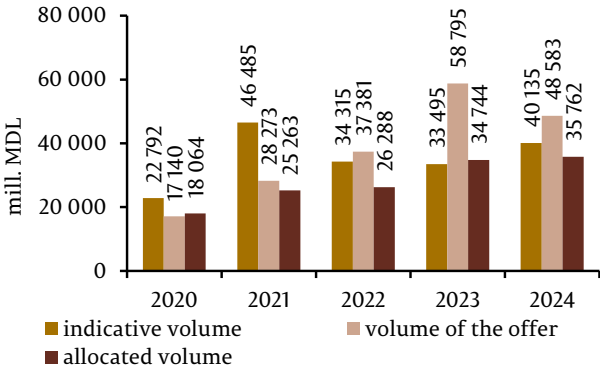
Source: prepared by NBM based on data from the Ministry of Finance

SS issues

The total volume of SS put into circulation in 2024 was the highest in historical perspective (35,762.4 million MDL), and the value of net issues increased by about four times compared to the previous year (Figure 1.2.3).

In 2024, the Ministry of Finance kept the usual maturities of securities offered for sale unchanged, reducing the number of auctions held from 111 to 92. The ratio between the volume requested by investors and the volume announced by the issuer authority during the auctions decreased, but continued to be above unity (1.21, from 1.76 in 2023). However, in an attempt to resist rising interest rates, the Ministry of Finance rejected some of the bids submitted in the auctions and placed a volume of SS below the announced one. The ratio between the volume accepted and the volume announced by the Ministry of Finance reached 0.89 (from 1.04 in 2023).

Figure 1.2.3. Volume of SS issued through auctions



Source: NBM

As for the structure of SS by maturity terms traded on the secondary market, the most traded securities still remain those with a maturity of up to one year.

Investors, still expressing their aversion to risk, opted for SS with a circulation term of up to one year, which accounted for the largest share of total SS issuance. The value of the share of government bonds in total SS, while insignificant, continued to decrease in 2024 and halved compared to that recorded in 2023. However, the average maturity of issued securities even managed to register a slight increase due to the decrease in the share of 91 and 182-day bills and the increase in 364-day ones, representing 306 days (Table 1.2.2).

Table 1.2.2. SS structure by maturity, %

SS	2023	2024
TB-91	9,10	2,43
TB -182	44,34	41,07
TB -364	42,88	54,81
GB -2 years	1,72	0,55
GB -3 years	0,59	0,35
GB -5 years	0,20	0,35

Source: prepared by NBM based on data from the Ministry of Finance

The amount of SS purchased by non-banking financial institutions has increased to the highest levels in recent years, but banks remained the main investors in SS.

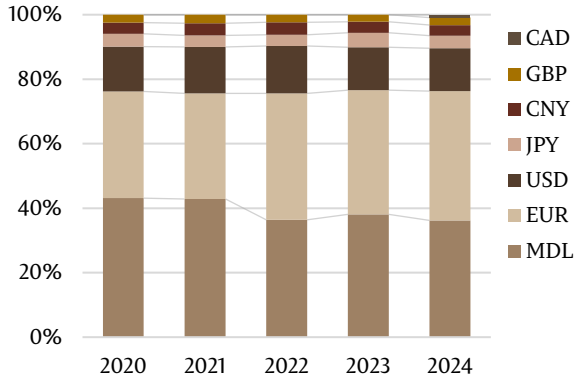
The marked expression of interest of non-bank investors for investments in SS was also illustrated by the increase, to the maximum values of recent years, of the volumes purchased by them during 2024 - 7,790.8 million MDL (7,537.2 million MDL in 2023) or 21.8 percent of SS placed (21.7 percent in 2023).

Risks related to state debt

Currency risk is one of the main categories of risks related to the state debt portfolio, affecting both the cost and volume of state debt.

As of December 31, 2024, 63.8 percent of the state debt portfolio is foreign state debt, entirely denominated in foreign currency. The structure of state debt by currency, with the decomposition of the SDR foreign exchange basket, highlights the vulnerability of the state debt portfolio to EUR and USD, implying the need to continuously monitor the exchange rates of these currencies. Thus, the share of state debt in EUR and USD together makes up 53,4 percent of the state debt portfolio (Figure 1.2.4).

Figure 1.2.4. Structural evolution of state debt in foreign currency

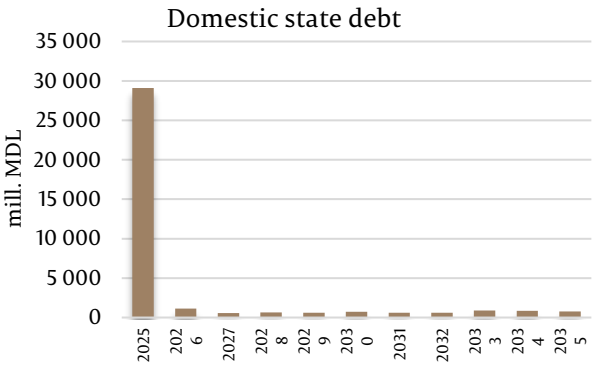


Source: prepared by NBM based on data from the Ministry of Finance

The forecast for the repayment of domestic state debt shows the highest repayment in 2025, consisting mainly of instruments with a short maturity (Figure 1.2.5).

According to data from the Ministry of Finance, the segment of short-term domestic government debt, to be refinanced each year through new issues of SS, represents a significant risk for the state budget in the context of possible increases in interest rates on the domestic market.

Figure 1.2.5. Domestic state debt repayment forecast

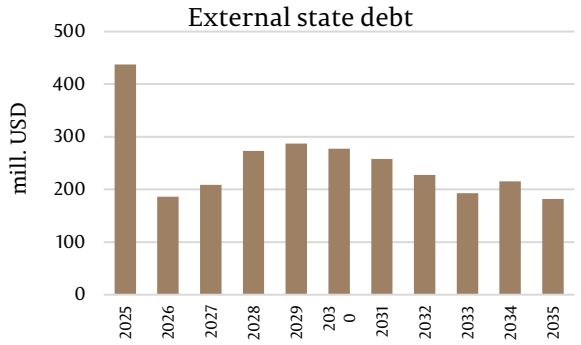


Source: Ministry of Finance

The refinancing risk on external debt is within safe limits and total public debt has a moderate refinancing risk.

The analysis of the repayment profile of the external state debt shows a relatively even distribution of payments starting from 2026 onwards, which indicates a low refinancing risk. This situation is favoured by the repayment structure of external loans, which includes grace periods and long maturities. At the same time, 2025 marks the peak of debt repayment obligations (Figure 1.2.6).

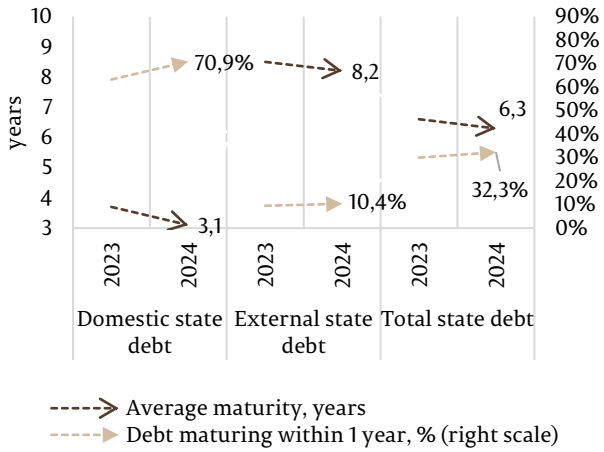
Figure 1.2.6. External state debt repayment forecast



Source: Ministry of Finance

The domestic state debt maturing within one year increased in 2024 by 7.7 percentage points, compared to the previous year, because of the increase in the volume of short-term SS issued. As of December 31, 2024, 70.9 percent of the domestic state debt is expected to mature within one year mature within one year. The external state debt, due to long-term instruments, falls within the safe limits established according to the "Medium-Term State Debt Management (2024-2026)" Program, and only 10.4 percent of it is due to mature within a year (Figure 1.2.7).

Figure 1.2.7. Average maturity of state debt and debt maturing in one year



Source: prepared by NBM based on data from the Ministry of Finance

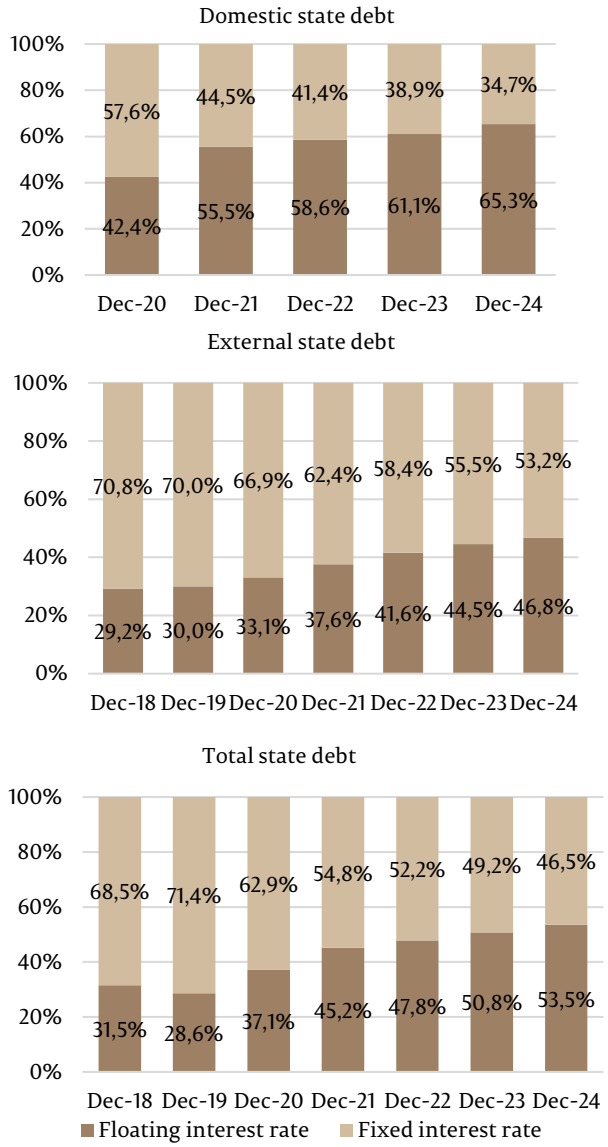
More than half of the total volume of state deb is exposed to interest rate fluctuations.

As of December 31, 2024, there is an upward trend in domestic state debt with a floating interest rate, constituting 65.3 percent of total domestic state debt, up by 4.2 percentage points compared to the end of 2023. This evolution is explained by the majority share of treasury bills in circulation, which, although issued at a fixed interest rate, present a significant exposure to interest rate fluctuations due to the short maturity at which they are issued.

There is also an increase in the share of floating-rate debt in the case of external state debt. Thus, as of December 31, 2024, external state debt at a floating interest rate accounted for 46.8 percent of total external state debt, 2.3 percentage points more compared to the end of 2023 and 4.2 percentage points more compared to the end of 2022.

In terms of total state debt, the share of floating-rate debt is 53,5 percent and reflects an increase of 2,7 percentage points compared to end of 2023 (Figure 1.2.8).

Figure 1.2.8. State debt structure by types of interest rate



Source: prepared by NBM based on data from the Ministry of Finance

Domestic state debt is highly exposed to the risk of rising interest rates, as 70.9 percent of domestic state debt is to be re-fixed at new interest rates within 1 year.

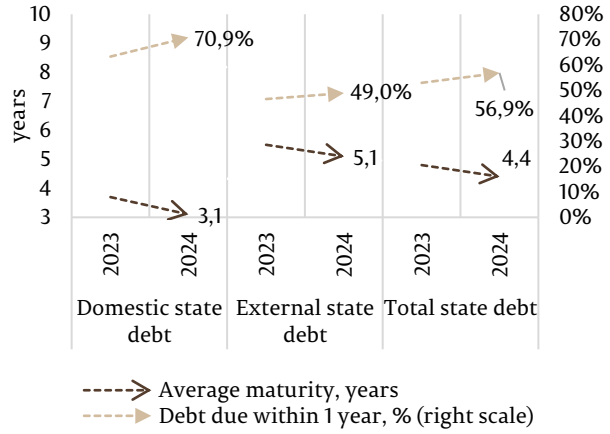
During 2024, the share of interest-bearing domestic state deb to be re-fixed within one year registered an increase of 7.5 percentage points compared to the value recorded at the end of 2023.

Thus, an increase in interest rates on the domestic market will directly affect domestic state debt costs.
Interest rates on domestic state debt are reset, on average, over 3.1 years.

At the same time, 49.0 percent of the external state debt is to be re-fixed within one year, and interest rates on external state debt are refixed, on average, within 5.1 years, 0.4 years less than at the end of 2023.

Regarding the total state debt, the average re-fixing period of the entire portfolio is 4.4 years (down by 0.4 years compared to 2023), and 56.9 percent of it is to be re-fixed at new interest rates within 1 year, thus highlighting the exposure of the state debt to interest rate risk (Figure 1.2.9).

Figure 1.2.9. The average period of reset of the state debt and the debt to be reset within 1 year



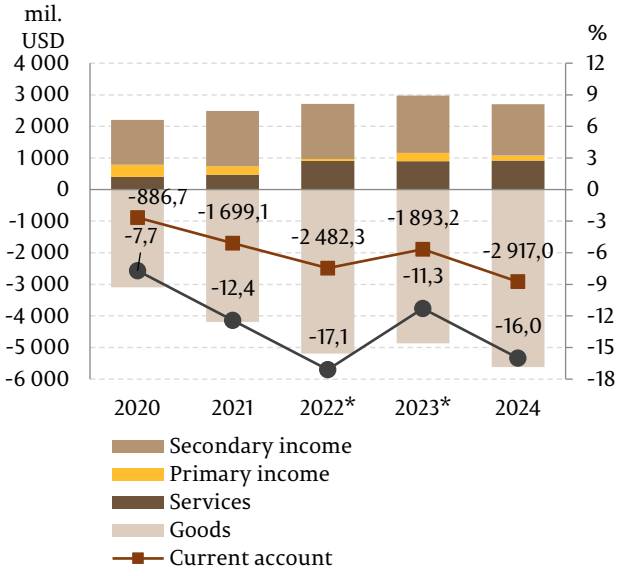
Source: prepared by NBM based on data from the Ministry of Finance

1.3. The evolution of the external sector [1]

According to preliminary data, in 2024, the current account deficit of the balance of payments of the Republic of Moldova increased because of the increase in the foreign trade deficit in goods and the decrease in the surpluses of primary and secondary incomes, while the surplus of the balance of services increased.

In 2024, the current account deficit of the balance of payments of the Republic of Moldova increased by 54.1 percent compared to 2023 and amounted to 2,917.0 million USD. As a percentage of GDP, the current account amounted to -16.0 percent (compared to -11.3 percent in 2023) (Figure 1.3.1).

Figure 1.3.1. Current account-main components



** revised data*
Source: NBM

The *foreign trade deficit in goods*[2] recorded in the balance of payments amounted to 5,619.9 million USD and increased by 15.4 percent, because of the decrease in exports (-12.0 percent or -412.0 million USD) simultaneously with the increase in imports of goods (+4.1 percent or +338.9 million USD).

In 2024, the evolution of foreign trade in goods was marked by the geopolitical situation in the region.

[1] Full analytical commentary on developments in international accounts can be found at: [https://www.bnm.md/ro/content/conturile-internationale-ale-republicii-moldova-trimestrul-iv-2024-date-provizorii].

[2] Foreign trade in goods data compiled according to the balance of payments methodology (BPM6) contain several adjustments compared to the data on Foreign Trade in Goods Statistics, compiled by the NBS, for more details on the adjustments we recommend consulting the methodology [https://bnm.md/ro/content/conturile-internationale-metodologia-de-compilare-si-baza-informationala].

The decrease in the export of goods to 3,013.5 million USD was caused by the export of mineral products, which decreased by 49.6 percent (-262.7 million USD), as well as agri-food products, which decreased by 5.1 percent (-88.4 million USD), due to the decrease in the export of animal or vegetable fats and oils by 50.5 percent (-125.8 million USD). Positive contributions to total exports were made by base metals, which increased by 27.2 percent (+20.3 million USD) and chemical industry products, which increased by 7.5 percent (+6.4 million USD). In the reference year, 62.4 percent of the export of goods was directed to the EU, 29.3 percent - to other countries, and the remaining 8.3 percent were intended for the CIS states. The decrease in the export of goods was caused by the decrease by 9.9 percent (-207.2 million USD) in exports to the EU, by 14.5 percent (-149.7 million USD) in exports to other countries and by 18.1 percent (-55.1 million USD) in exports to the CIS.

The increase *in the import of goods* as recorded in the balance of payments to 8,633.4 million USD was driven by the import of machinery, appliances and equipment, increasing by 15.2 percent, to 1,456.1 million USD, of agri-food products – by 14.3 percent, to 1,400.1 million USD, of vehicles and transport equipment – by 15.1 percent, to 1,183.4 million USD and of base metals – by 32.8 percent, to 490.2 million USD. At the same time, the import of mineral products decreased by 25.7 percent and totalled 1,454.8 million USD. In 2024, imports from the EU constituted 63.6 percent of the total value, imports from other countries – 32.7 percent, and imports from the CIS – 3.7 percent. The increase in imports in 2024 was driven by imports from the EU, which increased by 4.8 percent (+249.2 million USD), as well as imports from other countries – by 3.8 percent (+103.0 million USD), while imports from the CIS decreased by 4.0 percent (-13.3 million USD).

The increase in the surplus of the balance of service was driven by a more pronounced increase in services exports than imports.

The foreign trade surplus in services increased by 2.7 percent compared to 2023, to 918.8 million USD, due to the more pronounced increase in the export of services (+263.2 million USD) than in the import (+239.3 million USD). The ratio of the balance of services to GDP was 5.0 percent, decreasing by 0.4 percentage points compared to the level of 2023.

The export of services amounted to 2,703.7 million USD and increased by 10.8 percent compared to the previous year due to increases in travel services (+15.4 percent) to 763.3 million USD, accounting for 28.2 percent of total exports, and in IT services (+13.1 percent compared to 2023) to 656.7 million USD or 24.3 percent of the total.

Imports of services totalled 1,784.9 million USD, increased by 15.5 percent, driven by transport services, which increased by 16.9 percent to 694.6 million USD and accounted for the major share of 38.9 percent of the total, as well as travel services, whose imports increased by 12.9 percent to 590.6 million USD, accounting for 33.1 percent of the total.

In 2024, the positive balances of primary and secondary income balances decreased.

The *primary income* surplus decreased by 40.8 percent compared to 2023, to USD 157.9 million, constituting 0.9 percent of GDP. This dynamic was driven by the increase in primary income outflows (+18.1 percent or +149.7 million USD) higher than the increase in inflows (+3.7 percent or +40.9 million USD). The increase in outflows was driven by reinvested profits from direct investments, which increased by 15.7 percent, amounting to USD 392.8 million, and by dividends paid to direct investors, which increased by 36.2 percent, to 294.3 million USD. The increase in primary income inflows was driven by an 18.8 percent increase, up to 213.1 million USD in income from the management of reserve assets. Inflows from employee remuneration for work performed for non-resident employers decreased by 0.2 percent and totaling 887.9 million USD.

The decrease in the *secondary income* surplus by 10.4 percent compared to 2023 up to 1,626.2 million USD (8.9 percent of GDP) was caused by the decrease in secondary income inflows (-124.2 million USD) while outflows increased (+63.8 million USD). Personal transfers received from abroad by residents decreased

by 8.3 percent and amounted to 1,029.8 million USD, while outflows increased by 18.8 percent, up to 397.3 million USD.

Inflows from technical assistance, humanitarian aid, and grants within international cooperation for all institutional sectors decreased by 25.1 percent and amounted to 428.5 million USD.

Personal remittances[3] received by residents of the Republic of Moldova in 2024 decreased by 4.5 percent compared to 2023 and amounted to 1,858.2 million USD, which represents 10.2 percent of GDP. The decrease in remittance inflows was driven by the decrease inflows from the CIS and the EU (-43.8 percent and -1.7 percent, respectively). At the same time, remittances from other countries increased by 7.4 percent compared to 2023. Remittances to non-residents (debit) amounted to 529.1 million USD, increased by 12.8 percent.

The capital account maintained its surplus balance, and the value of the net external financing need constituted 15.6 percent of GDP.

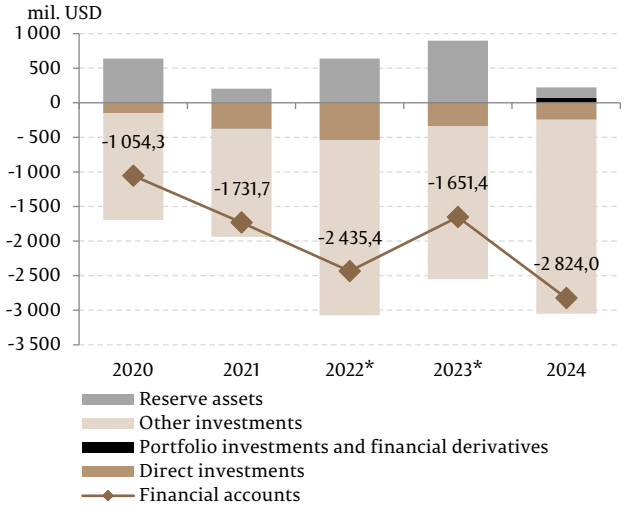
The capital account, in 2024, changed very little compared to the previous year and recorded a surplus of 81.8 million USD. Net capital inflows recorded in the private sector amounted to 69.5 million USD, and outflows to 28.7 million USD, while technical assistance received from abroad by the public administration for financing investment projects amounted to 41.0 million USD.

As a result of current and capital transactions of residents of the Republic of Moldova with non-residents, the net external financing need amounted to USD 2,835.2 million (+56.5 percent), which represents 15.6 percent of GDP.

The financial account showed significant net inflows.

In 2024, the financial account resulted in net capital inflows of -2,824.0 million USD (Figure 1.3.2), because of net decreases in residents' external financial assets by 1,992.8 million USD and net increases in residents' liabilities to non-residents by 831.3 million USD.

Figure 1.3.2. Evolution of financial account, by functional categories, net flows



Note: (+) net outflows, (-) net capital inflows
** revised data*
Source: NBM

The net decrease in *external financial assets*, which represent net inflows of financial means, during 2024, was driven by net inflows of 2,523.1 million USD of assets in the form of cash and deposits, while assets in the form of trade credits and advances recorded net outflows of 159.8 million USD, reserve assets – 155.6 million USD, direct investments – 89.6 million USD, portfolio investments – 67.8 million USD, and assets in the form of loans – 57.7 million USD.

The net increase in *external financial liabilities* reflects the predominance of financial inflows from non-residents. During 2024, external commitments in the form of loans recorded net inflows of 676.0 million USD, commitments in the form of direct investments resulted in net inflows of 333.3 million USD, largely due to the reinvestment of profits, amounting to 392.8 million USD, and the increase in equity and shares owned by non-residents, by 1.1 million USD, while debt instruments reflected net outflows of 60.5 million USD. During 2024, external commitments in the form of loans recorded net inflows of 676.0 million USD, commitments in the form of direct investments resulted in net inflows of 333.3 million USD, largely due to the reinvestment

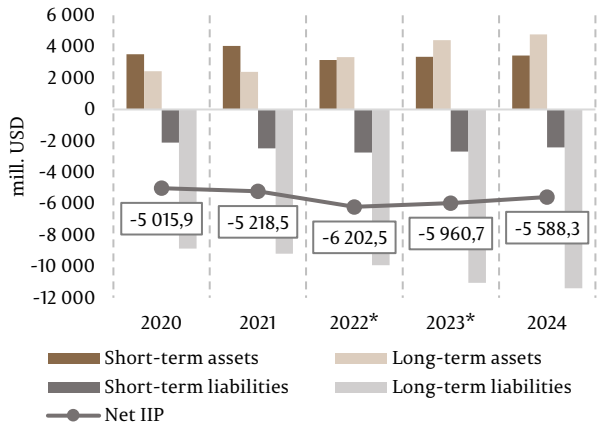
[3] Personal remittances are a supplementary item in the balance of payments and reflect the sum of net compensation of employees (excluding compensation of employees incurred in the host country and some taxes paid by residents abroad), personal and capital transfers between households.

of profits, amounting to 392.8 million USD, and the increase in equity and shares owned by non-residents, by 1.1 million USD, while debt instruments reflected net outflows of 60.5 million USD. External commitments in the form of trade credits and advances showed net outflows of USD 164.2 million, and those in the form of cash and deposits - of 9.9 million USD.

The net debit balance of the international investment position of the Republic of Moldova was decreasing in 2024.

The international investment position of the Republic of Moldova, as of December 31, 2024, amounted to -5,588.3 million USD, the net debit balance decreasing by 6.2 percent compared to the end of 2023 (Figure 1.3.3).

Figure 1.3.3. International investment position, at the end of the period



** revised data*
Source: NBM

The position of *external financial assets* amounted to 8,226.9 million USD, up by 5.9 percent since the beginning of the year, while *liabilities* amounted to 13,815.2 million USD, increasing by 0.6 percent.

The increase in the position of *external financial assets* as of December 31, 2024 was influenced by the increase in the position in the form of commercial loans and advances - by 19.5 percent (+139.1 million USD), those in the form of direct investments - by 21.7 percent (+89.0 million USD), in the form of cash and deposits - by 7.4 percent (+73.4 million USD), portfolio investments - by 3.9 times (+67.9 million USD), in the form of loans by 33.1 percent (+57.7 million USD) as well as reserve assets - by 0.6 percent (+30.4 million USD). The mentioned increase in portfolio investments reflects the evolution of the position of non-resident securities in the portfolio of banks licensed in the Republic of Moldova.

The official reserve assets position as of December 31, 2024, amounted to 5,483.6 million USD, which meets all sufficiency criteria:

- covering at least 3 months of imports of goods and services (covered 6.3 months of actual imports);
- full reserve coverage of short-term external debt, according to the residual maturity (covered 148.8 percent);
- coverage of 20.0 percent of M2 money supply (covered 80.3 percent);
- coverage of 100-150 percent of the amount: 30 percent of short-term external debt according to residual maturity + 15.0 percent of other external liabilities + 5.0 percent of M2 + 5.0 percent of exports of goods and services (covered 208,5 percent).

The increase in the *financial liabilities* position, compared to December 31, 2023, was driven by an increase of 2.0 percent in commitments in the form of other investments, which hold a share of 60.8 percent in the country's external liabilities. Other investments consisted of: loans – 70.1 percent, trade credits and advances – 22.6 percent, special drawing rights – 4.4 percent, cash and deposits – 2.3 percent and other liabilities – 0.6 percent.

Liabilities in the form of direct investments decreased by 1.4 percent and held 39.0 percent of the country's external commitments. Direct investments consisted of 66.4 percent of equity and 33.6 percent of debt instruments. Direct investments in the form of equity and shares accumulated from EU countries increased by 1.7 percent and amounted to 3,066.6 million USD, while those from other countries decreased by 8.6 percent, amounting to USD 534.2 million.

The gross external debt of the Republic of Moldova amounted to 56.1 percent of GDP, with private debt accounting for the largest share.

The gross external debt of the Republic of Moldova increased during 2024 by 0.9 percent, amounting to 10,213.3 million USD as of December 31, 2024, which constitutes 56.1 percent of GDP (-4.4 percentage points compared to December 31, 2023).

In terms of maturity structure (according to original maturity), the increase in external debt during 2024 was driven by the increase in long-term debt by 4.8 percent, compared to the situation as of December 31, 2023, to the level of 7,792.9 million USD. *Short-term* external debt decreased by 9.8 percent and amounted to USD 2,420.4 million as of December 31, 2023.

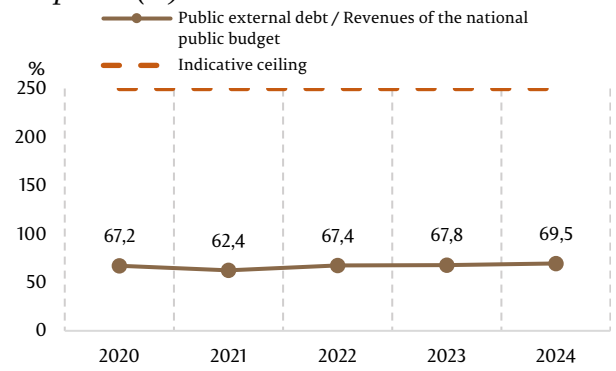
Public external debt accounted for 42.2 percent of total external debt, totalling 4,310.3 million USD (+12.8 percent since the beginning of the year). *Private external debt* amounted to 5,903.1 million USD, down by 6.3 percent compared to December 31, 2023.

In the currency structure of external borrowings within the public debt, 54.5 percent of external borrowings were denominated in euro, and commitments in SDR had a share of 39.9 percent.

External borrowings within *private debt* were contracted mainly in euros, 57.4 percent, and in USD, 40.7 percent.

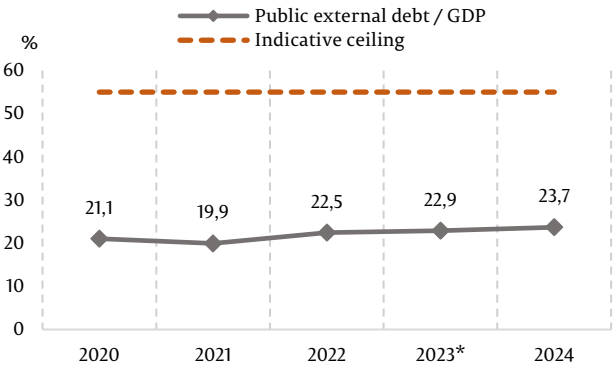
Public external debt remained sustainable, with all external debt indicators within the limits set by the World Bank and the IMF[4]: Public external debt compared to national public budget revenues amounted to 69.5 percent (Figure 1.3.4), and compared to GDP – 23.7 percent (Figure 1.3.5).

Figure 1.3.4. Ratio between the public external debt and national public budget revenues, at the end of the period (%)



Source: NBM, Ministry of Finance

Figure 1.3.5. Ratio between the public external debt and GDP (%)

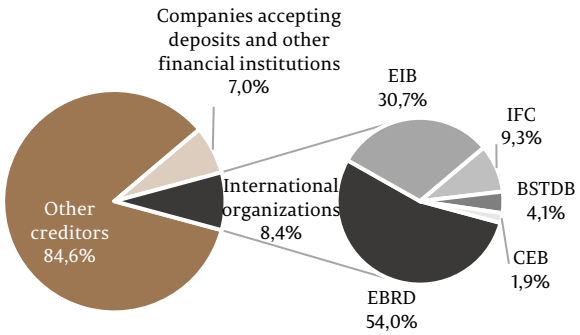


** revised data for GDP*

Source: NBM, NBS

The structure of the main creditors of the private sector is presented in Figure 1.3.6. According to the situation as of 31.12.2024, among international organizations (8.4 percent of the total), the EBRD stood out, with 54.0 percent, followed by the EIB with 30.7 percent. The major share, of 84.6 percent of the total, went to other creditors.

Figure 1.3.6. Private debt creditor structure, as of December 31, 2024 (%)



Source: NBM

[4] Indicative ceilings based on CPIA score (Country Policy and Institutional Assessment) developed by the World Bank. In 2019, the IDA resource allocation index of the Republic of Moldova was 3.7, thus the ceilings were set at the following levels: 55 percent for the ratio of public external debt to GDP, 250 percent for the ratio of public external debt to national public budget revenues.

The analysis of the main external debt indicators shows a constant quality of advantageous external financing indirectly expressed by the annual average implicit interest rate on external debt in the form of loans and SDR allocations, estimated at 2.5 percent (+0.2 percentage points compared to 2023).

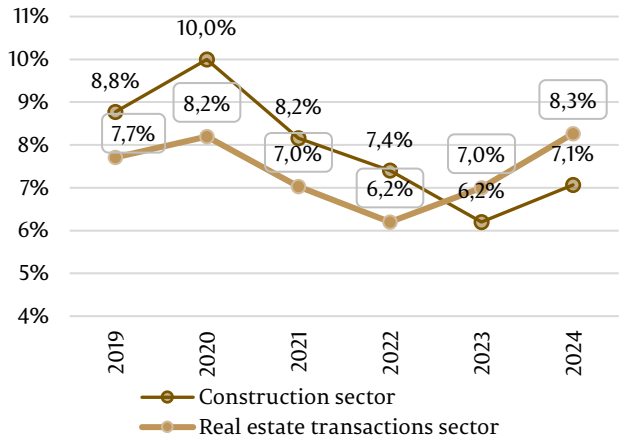
The average implied maturity[5] of long-term external debt in the form of loans is increasing, reaching 6.5 years in 2024 compared to 5.3 years in 2023. This indicator is correlated with the evolution of the financing renewal rate[6] which in 2024 increased to 144.9 percent (126.1 percent in 2023), because of the continuation of the process of attracting external financing.

1.4. Real estate sector

The year 2024 was characterized by an increase in the number of real estate transactions. This phenomenon kept developing in the second half of the year, especially in the residential segment.

Both the construction sector (+0.2 percent) and the real estate sector (+0.1 percent) had a positive contribution to GDP formation. At the same time, the year 2024 was characterized by an increase in the share of the "Real Estate Transactions" sector (+1.3 percentage points) and an increase in the share of the "Construction" sector (+0.9 percentage points) in GDP compared to 2023 (Figure 1.4.1).

Figure 1.4.1. Evolution of the share of „Construction" and „Real Estate Transactions" sectors in GDP

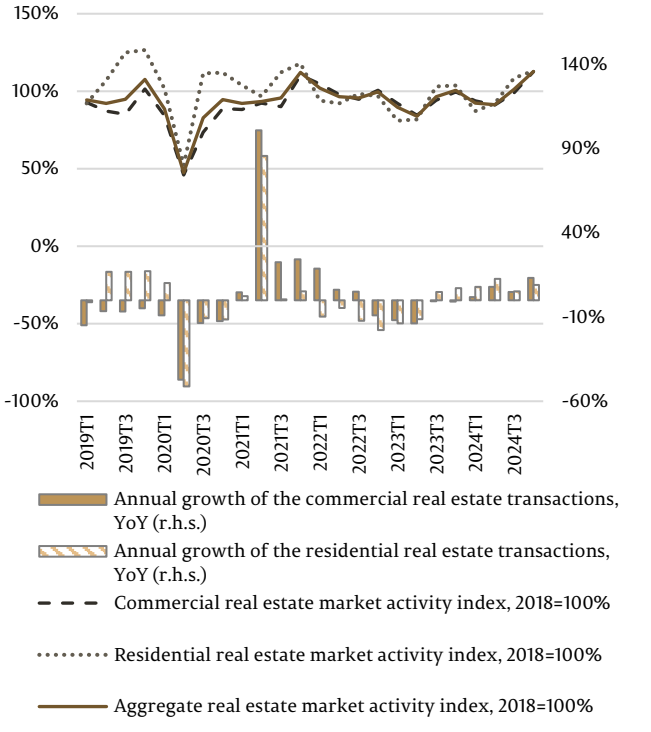


Source: prepared by NBM based on NBS data

Trading activity on the real estate market in 2024 was characterized by the trend of increasing activity, both within the residential and non-residential segments. This phenomenon intensified during the last 2 quarters of 2024, with the aggregate index of real estate market activity reaching 112.8 percent at the end of the year[7] (Figure 1.4.2).

According to data from the Cadastre Department of the Public Services Agency, during 2024, 339.8 thousand real estate transactions were recorded, an increase of 7.4 percent compared to the previous year. The given change occurred largely due to the increase in the number of transactions in the residential segment by 8.5 percent, with most transactions recorded in the fourth quarter of 2024, as well as due to the 7.0 percent increase in the number of transactions in the non-residential segment. For this segment, most transactions were also recorded in the fourth quarter of 2024.

Figure 1.4.2. Dynamics of trading activity in the real estate market



Source: prepared by NBM based on PSA, the IP Real Estate Cadastre data

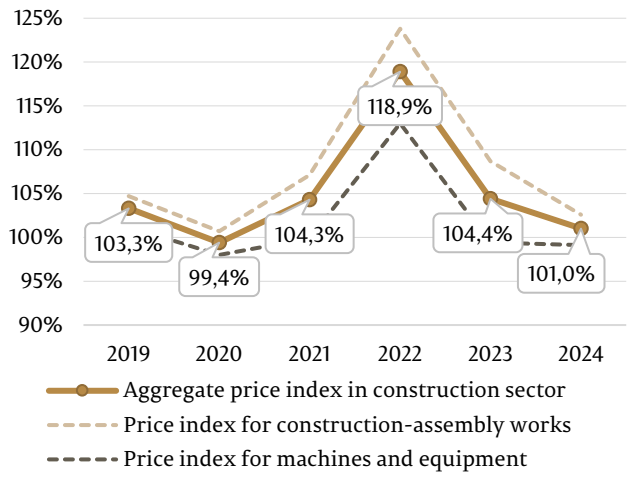
[5] In how many years will the debt be paid off, if current repayments are maintained and there are no new withdrawals?
[6] Ratio of new disbursements to repayments on long-term loans.

[7] The real estate market activity index is a chain index, calculated based on quarterly data on the number of real estate transactions recorded by the Cadastre Department of the Public Services Agency.

Costs in the construction sector continued to increase in 2024, but at a more moderate rate, mainly driven by increases in the cost of materials and construction and assembly works.

After the galloping upward trend recorded in 2020-2022, the construction price index recorded a tempering of the growth rate during 2024, the phenomenon being due to the tempering of the growth rate of prices for construction and assembly works, while the prices of machinery and equipment recorded a slight decrease, especially in the first and third quarters of the analysed year. Thus, the construction cost index during the analysed year increased by 1.0 percent compared to the previous year (Figure 1.4.3).

Figure 1.4.3. Evolution of construction cost index (100%=compared to previous year)



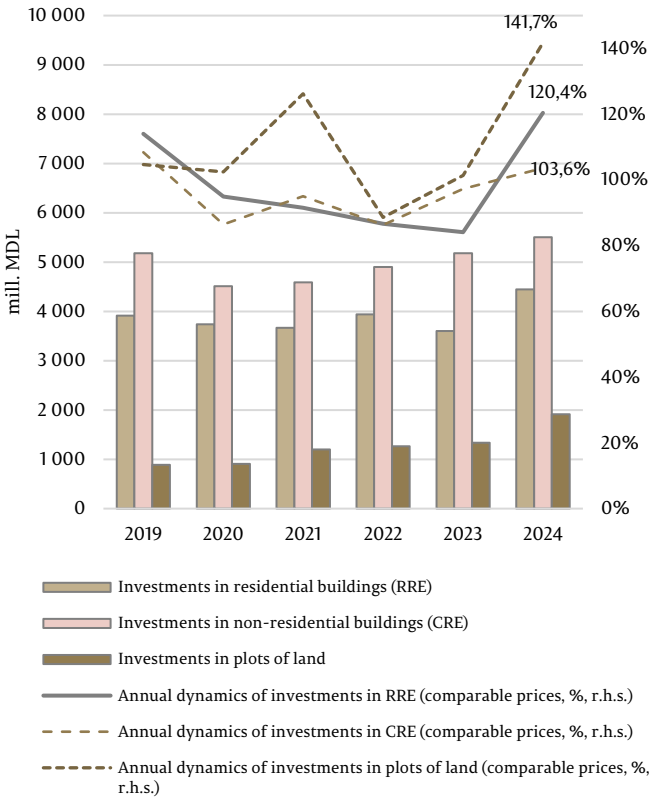
Source: prepared by NBM based on NBS data

In 2024, there is an increase in investments (in comparable prices) in fixed assets, which could positively affect the supply of newly constructed buildings.

According to NBS data, in annual terms, investments in real estate increased.

Thus, investments in residential buildings recorded a value of 4,449.1 million MDL, an increase of 20.4 percent compared to 2023, in the case of non-residential buildings they recorded 5,504.1 million MDL, an increase of 3.6 percent. They also increased strongly, by 41.7 percent in the case of land, registering 1,915.9 million MDL (Figure 1.4.4).

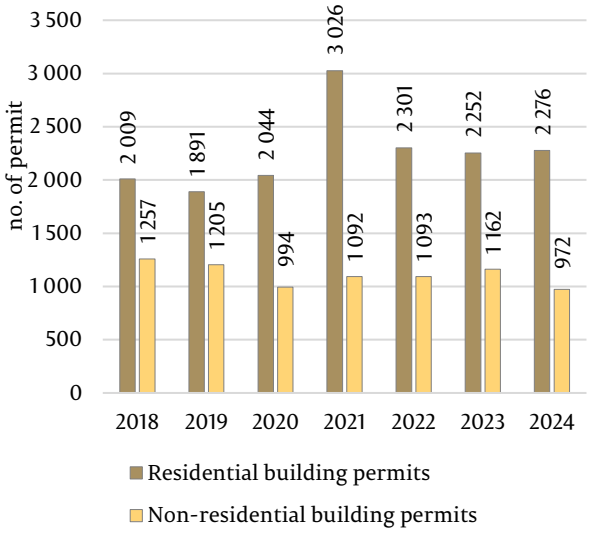
Figure 1.4.4. Investments in types of fixed assets



Source: prepared by NBM based on NBS data

The number of buildings permits issued during the reporting year is decreasing compared to 2023 due to the non-residential segment. Thus, in 2024, for residential buildings were issued 2,276 building permits (up 1.1 percent in annual terms) and 972 building permits for non-residential buildings, down 16.4 percent compared to the previous year (Figure 1.4.5).

Figure 1.4.5. Number of issued residential and non-residential building permits



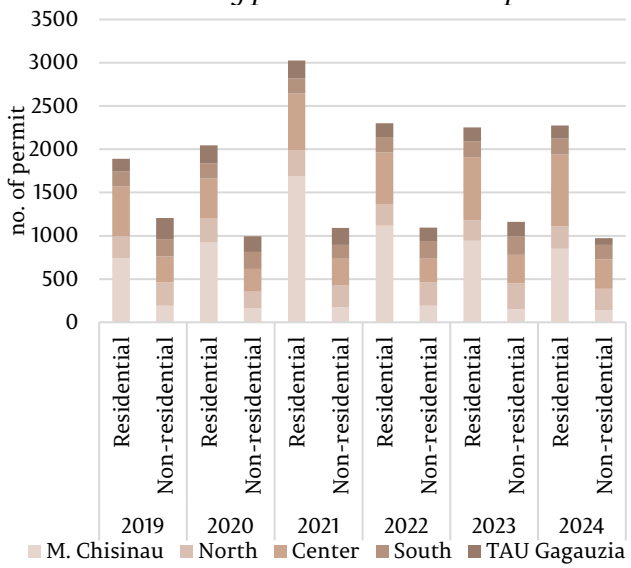
Source: prepared by NBM based on NBS data

In territorial profile, the distribution of building permits shows the concentration of future activity in the municipality of Chisinau and the central region of the Republic of Moldova.

At the end of 2024, about 37.4 percent of residential building permits were issued in the municipality of Chisinau, down by 4.5 percentage points compared to the previous year. Against the background of that evolution, the share of building permits for residential buildings in other regions registered an increase of 4.2 percent in the central region, and the remaining regions did not register any essential changes (between 0.8 and -0.3 percent depending on the region).

At the same time, at the end of the reporting year, the highest share of building permits for non-residential buildings was recorded in the Central region, at the level of 35.0 percent, up by 6.5 percentage points compared to the previous year (Figure 1.4.6).

Figure 1.4.6. Number of residential and non-residential building permits in territorial profile

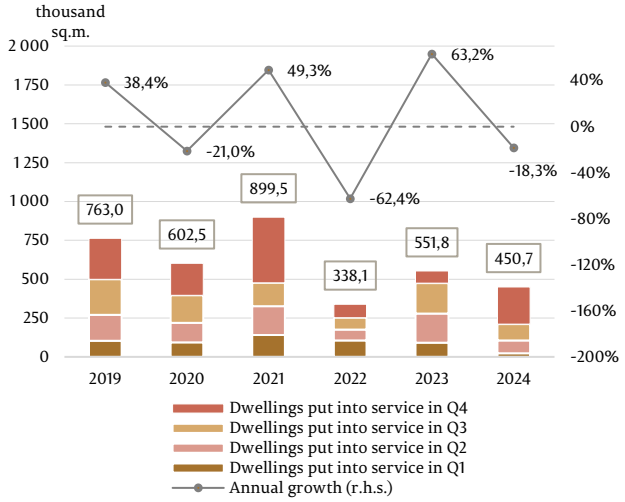


Source: prepared by NBM based on NBS data

It should be noted that during the fourth quarter of 2024 there was a significant increase in the volume of permits issued.

During the reported year, 5.2 thousand housing units were put into operation, down by 24.7 percent compared to the previous year. The total area of housing put into operation was 450.7 thousand sq.m., 18.3 percent less than in 2023 (Figure 1.4.7).

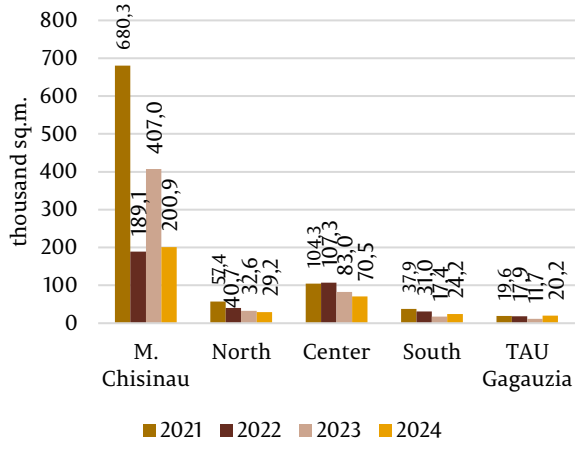
Figure 1.4.7. Dwellings put into service



Source: prepared by NBM based on NBS data

Both the quantity of residential buildings and their total residential area built in 2024 decreased, remaining nevertheless above the levels of 2022 when the lowest values in the last 10 years were observed. At the end of 2024, new dwellings were still concentrated in the municipality of Chisinau, their share scored 58.2 percent of the total number of dwellings put into service in the analysed period (Figure 1.4.8).

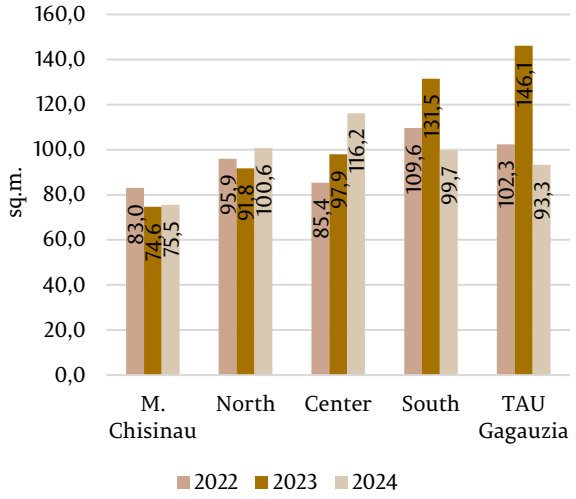
Figure 1.4.8. Dwellings put into service in territorial profile



Source: prepared by NBM based on NBS data
Note: data available from 2021 onwards

It should be noted that in 2024 there was a sharp decrease in the average surface area for a dwelling put into service in the South region and Autonomous Territorial Unit of Gagauzia. In the case of Chisinau municipality, the area of a new dwelling increased in annual terms by 1.1 percent, up to 75.5 sq.m. (Figure 1.4.9).

Figure 1.4.9. Average surface area of a dwelling put into service by territorial profile



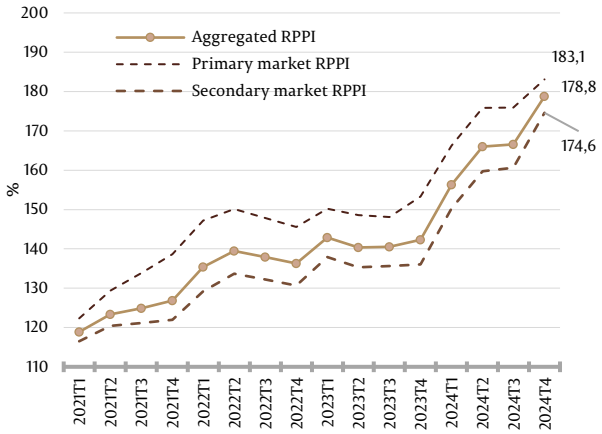
Source: prepared by NBM based on NBS data

Against the backdrop of favourable developments that influenced the demand for residential real estate, supply prices increased, with a more pronounced rise visible in the second half of the year.

Supply prices for residential real estate during 2024 continued the strong upward trend recorded since 2020, the increase especially visible in the first and fourth quarters. During the reporting year, the RPPI index recorded an increase of 25.6 percent (5.6 times stronger than during 2023), stabilizing at the level of 178.8 percent at the end of the year, with the maximum value recorded since the beginning of observations (Figure 1.4.10).

The appreciation in the residential real estate market was characterized by developments in both the primary market, for which an increase in the RPPI of about 19.4 percent was recorded, and in the secondary market, with an impressive increase by 28.2 percent in the RPPI index compared to the end of 2023.

Figure 1.4.10. RPPI index related to the Republic of Moldova



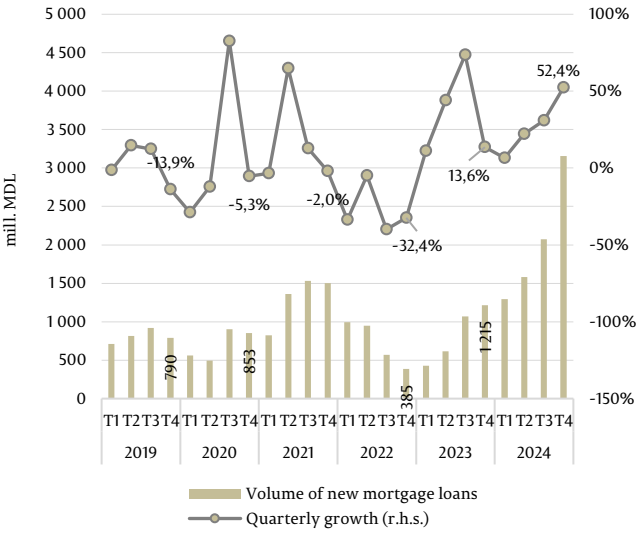
Source: NBM

The main factor stimulating demand in the residential real estate market remains the opportunity for real estate lending.

During the reported year, there was a continuous increase in the flow of new mortgage loans.

Thus, during 2024, new mortgage loans granted amounted to 8,102.4 million MDL, increasing by 143.3 percent in annual terms. The largest volume of mortgage loans was granted in the fourth quarter of 2024 (Figure 1.4.11).

Figure 1.4.11. Volume of new mortgage loans granted



Source: NBM

The evolutions established in the real estate sector indicate, on the one hand, the maintenance of the supply in the short term, prospects for its growth in the medium and long term and, on the other hand, the continuous increase in supply prices due to strong demand, supported by a significant volume of mortgage loans granted.

Therefore, the increase in the volume of investments, the increase in building permits in the most active and concentrated region of the Republic of Moldova (Chisinau municipality) manifested towards the end of the year, as well as the slowdown in the growth of construction costs could generate a medium-term encouragement of the supply of real estate on the primary market and, therefore, a moderation in the increase in prices for newly built areas.

At the same time, the increased expenses caused by the effects of inflation and more restricted access to financing against the backdrop of geopolitical uncertainty could negatively affect demand on the real estate market compared to previous years.

1.5. Private sector indebtedness

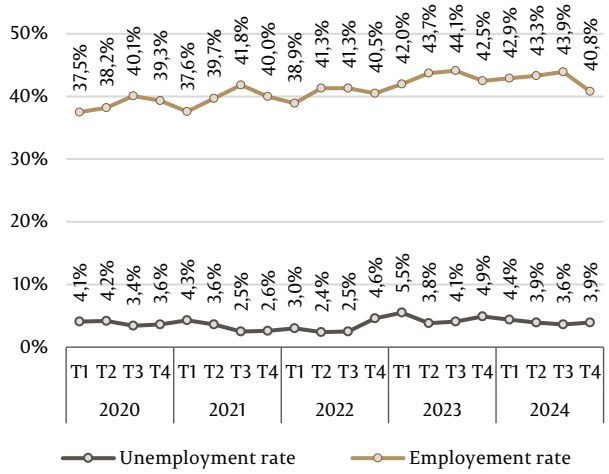
Households' indebtedness

During 2024, the low base rate, consumer confidence and the government support program for the purchase of the first home had a positive impact on lending activity. As a result, following the acceleration of the volume of new loans granted to the population, the share of loans granted to individuals in GDP reached a historical maximum.

Labor market indicators show a reduction in the share of job seekers and the employment rate in the Republic of Moldova towards the end of the reporting year.

According to NBS data, at the end of 2024, the employment rate[8] stood at 40.8 percent, down by 1.7 percentage points compared to the previous year. At the same time, the unemployment rate[9] recorded a 3.9 percent decrease, down by 1.0 percentage points compared to the previous year (Figure 1.5.1).

Figure 1.5.1. Employment indicators in the Republic of Moldova



Source: NBS

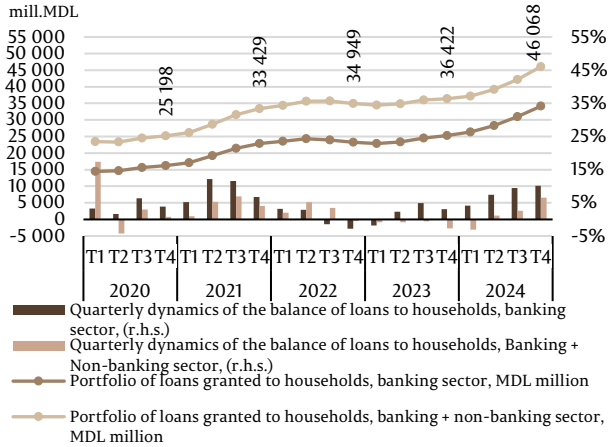
The decrease in both the number of job seekers and the unemployment rate denotes a process of reducing vulnerabilities among the population, which could have positive repercussions on banks through the credit risk channel of propagation related to the loan portfolio.

Bank and non-bank lending continued to strengthen throughout the year, supported by positive quarterly dynamics, reflecting favourable financial conditions and robust demand for financing.

At the end of the fourth quarter of 2024, the amount of loans granted to individuals by the financial sector amounted to 46,068.5 million MDL (+26.5 percent compared to the previous year). Of these, about 74.1 percent were granted by the banking sector (+4.6 percentage points compared to the previous year). Thus, the balance of loans granted by banks recorded the value of 34,143.4 million MDL (Figure 1.5.2).

[8] Share of employed persons aged 15 and over in the total Population
[9] Share of job seekers according to criteria used by NBS

Figure 1.5.2. Evolution of the balance of loans granted to households

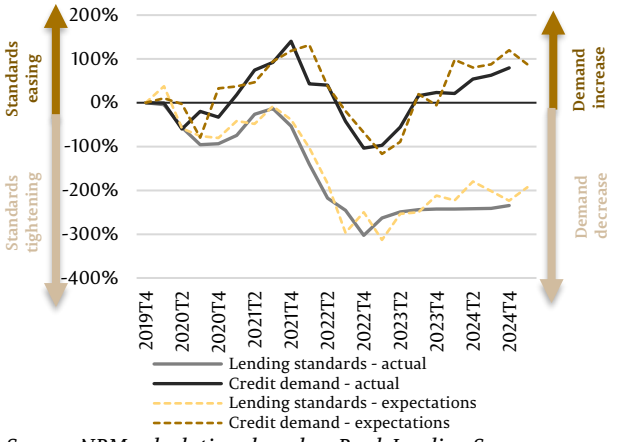


Source: NBM, NCFM

The rise in household lending in 2024 was largely conditioned[10], by the increase in aggregate demand from the households against the background of the easing of the lending conditions. According to the perception of commercial banks during the reporting year, the demand for loans from households was determined by the increase in consumer confidence, the outlook for the housing market, including the anticipated evolution of prices and the general level of interest rates.

At the same time, the trend to relax the lending standards applied by banks was determined by the perception of diminishing risks, reduced financing costs and competitive pressure (Figure 1.5.3).

Figure 1.5.3. Quarterly cumulative evolution of standards and demand for loans from households on the National Banking Market, 2019T4=0%



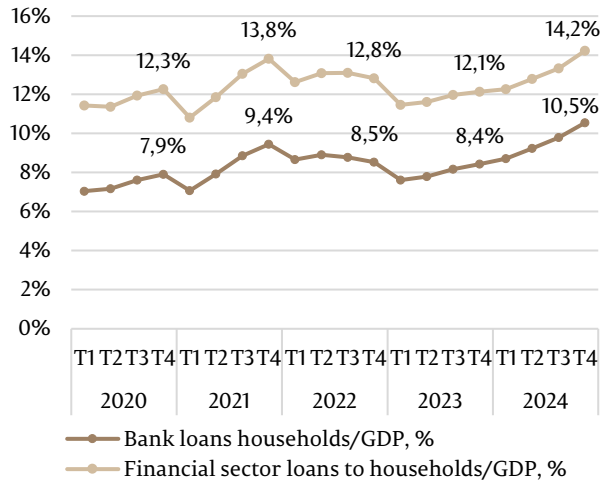
Source: NBM calculations based on Bank Lending Survey

[10] According to the results of the Bank Lending Survey

Although the share of total debt of the households in GDP continues to be lower in the case of the Republic of Moldova compared to most of the countries in the region, the year 2024 stood out with the highest historical level of the indicator.

At the level of the financial system, the share of loans to households in GDP at the end of the reporting year was 14.2 percent. Bank lending to households relative to GDP increased by 2.1 percentage points compared to the previous year, being at the level of 10.5 percent (Figure 1.5.4).

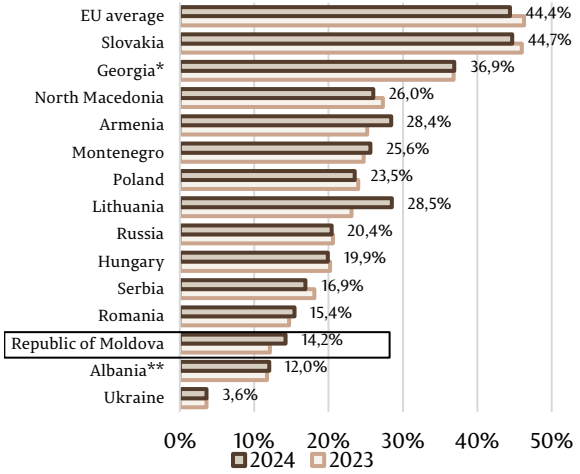
Figure 1.5.4. Share of loans portfolio granted to households in GDP



Source: NBM, NCFM

Compared with other countries in the region, as well as with the European average, lending to households in the Republic of Moldova continues to register lower values (Figure 1.5.5).

Figure 1.5.5. Share of total debt[11] of households in GDP by country and EU, T3 2024

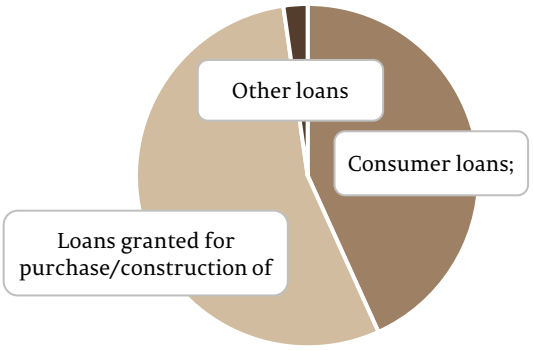


** Data as of March 30, 2024*
*** Data as of December 31, 2024*
Source: NBM, NBS, www.ceicdata.com

The low inflation rate and the maintenance of low interest rates until the end of the reporting year were essential factors in reducing the risk profile of loans granted to households.

At the end of the reporting year, the share of loans granted to households in the total portfolio of bank loans amounted to 42.2 percent, the similar indicator related to the non-banking market being at the level of 70.3 percent. At the same time, 54.5 percent of the total balance of bank loans granted to households was intended for the purchase and construction of real estate, 43.2 percent for consumption and 2.3 percent for other purposes (Figure 1.5.6).

Figure 1.5.6. Structure of the portfolio of bank loans granted to households by purpose of credit, at the end of 2024

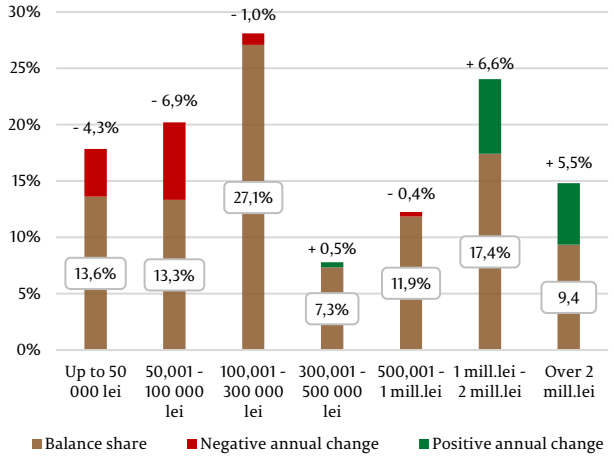


Source: NBM

[11] Includes the total balance of loans granted to the population by banks and NBCOs.

The share of loans with a balance below 300,000 MDL decreased, while the share of loans over 1 million MDL increased significantly (Figure 1.5.7).

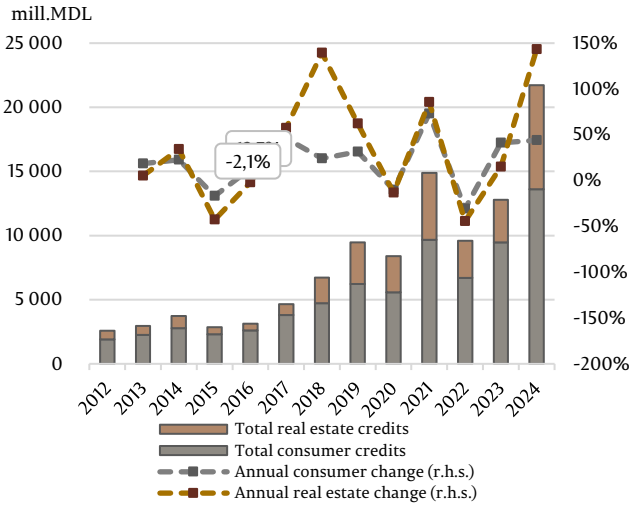
Figure 1.5.7. Distribution by balance of new household credits



Source: NBM

This trend was largely driven by the increase in loans for the construction or purchase of real estate (Figure 1.5.8).

Figure 1.5.8. Annual volume of new credits granted to households



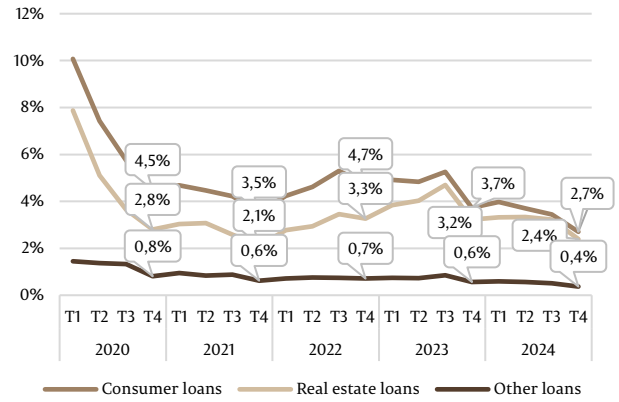
Source: NBM

Thus, the annual increase of 143.4 percent in the volume of housing loans, compared to the 43.9 percent increase in consumer loans, led to a more balanced distribution of the total volume of new loans granted to households, thus influencing their structure by balance.

Compared to the end of 2023, there is a trend of reduction in the rate of overdue loans (delay >1 day) for all categories of loans granted to individuals (Figure 1.5.9).

The highest rate of loans with delays of more than one day was recorded for consumer loans (2.7 percent), while for loans intended for the purchase or construction of real estate, a rate of 2.4 percent is observed. The lowest rate of delays was observed for the "other loans" category, where the value of only 0.4 percent is recorded.

Figure 1.5.9. Evolution of overdue households loans (>= 1 day)

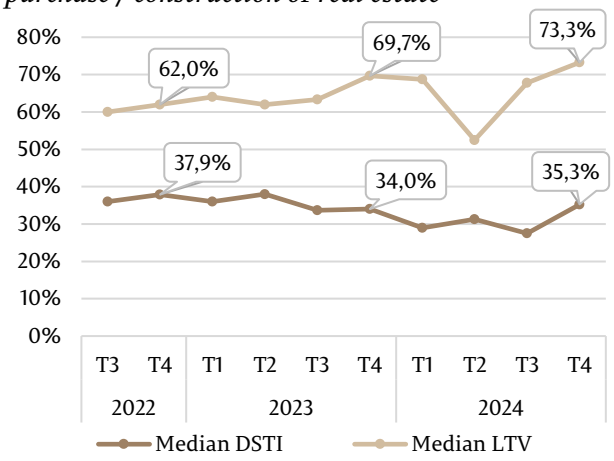


Source: NBM

According to Regulation No 101/2022 on responsible consumer lending by banks, the debt service to income ratio (DSIR) limit is set at 40 percent for loans granted in MDL and 30 percent for debtors who borrow in foreign currency, having income in MDL. At the same time, for borrowers whose income exceeds twice the average income in the economy, this limit can be increased by 15 percentage points. Loans granted through the government program "Prima Casă" can have an DSIR value of up to 70 percent.

Thus, since the approval of Regulation no. 101/2022 in the second quarter of 2022, the median DSIR has remained within the range of 27-38 percent. At the end of 2024, this indicator reached 35.3 percent. In the case of the loan-to-value ratio (LTV), an increase to 73.3 percent is observed. This evolution is due to the increase in the volume of mortgage loans granted through the government program "Prima Casă", which allows exceeding the standard limit of 80 to 100 percent and, thus, contributed to the increase in the median compared to the end of the previous year (Figure 1.5.10).

Figure 1.5.10. Median of new credits granted for the purchase / construction of real estate



Source: NBM

Survey on the financial behaviour of the households

At the end of 2024, the NBM conducted the fifth round of the survey on the financial behaviour of the households of the Republic of Moldova, the questionnaire included 45 questions intended to cover 4 dimensions - general aspects about the respondent, their income and its source, access and sources of financing, housing.

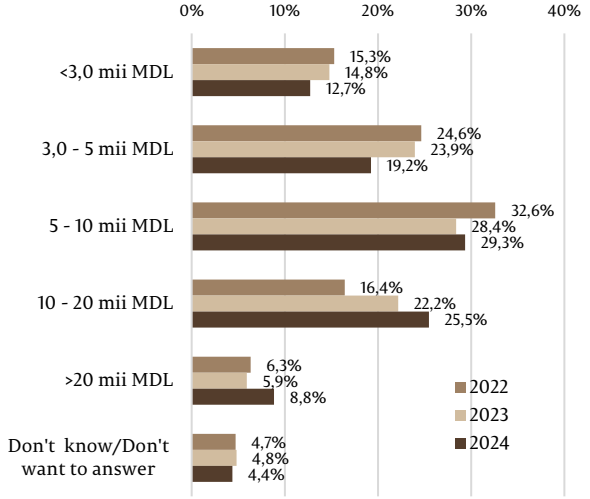
The survey was conducted on a sample of 1, 029 respondents, representing different age groups, living backgrounds, genders and income levels.

Similar to the previous survey, the main sources of income of a family remain to be the salary - 63.2 percent of respondents and the pension - 45.9 percent.

Other sources mentioned by respondents are transfers from abroad (13.4 percent), social payments (13.1 percent), income from individual activity (10.9 percent).

According to the survey data, the distribution of average monthly incomes within the sample of respondents is as follows: 12.7 percent receive a monthly income of less than 3 thousand MDL, 19.2 percent of respondents indicate an average monthly income between 3 and 5 thousand MDL, and 29.3 percent - between 5 and 10 thousand MDL. 25.5 percent of respondents have an income between 10 and 20 thousand MDL, while 8.8 percent receive incomes exceeding 20 thousand MDL (Figure 1.5.11).

Figure 1.5.11. Distribution of average monthly income, number of respondents



Source: Survey on the financial behaviour of the households

35.2 percent of respondents said they have moderate trust in the financial system of the Republic of Moldova, 33.1 percent - little or very little trust, 8.3 percent - a lot or a lot of trust, and 19.6 percent - no trust at all.

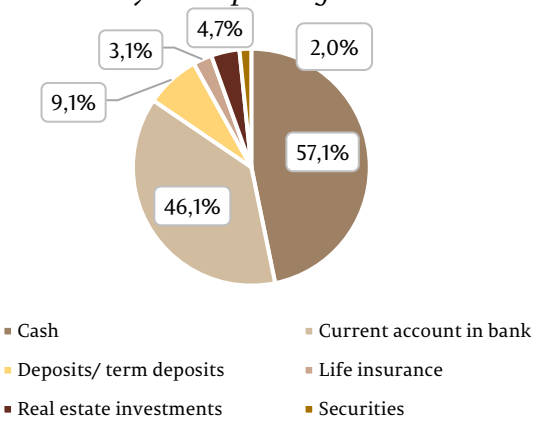
The degree of savings among respondents is very low, so 74.7 percent of respondents stated that they have not managed to make savings in the last 6 months.

Similar to the results of the previous survey, the majority of respondents who still manage to save keep their savings in cash (57.1 percent) or in a current bank account (46.1 percent).

Among other ways s to keep savings were listed: deposits/term deposits (9.1 percent), life insurance (3.1 percent), investments in real estate (4.7 percent), securities (2.0 percent) (Figure 1.5.12).

31.1 percent of respondents consider that keeping savings in banks in the Republic of Moldova is partially safe, 29.0 percent - safe or very safe, and 25.4 percent - unsafe or very unsafe.

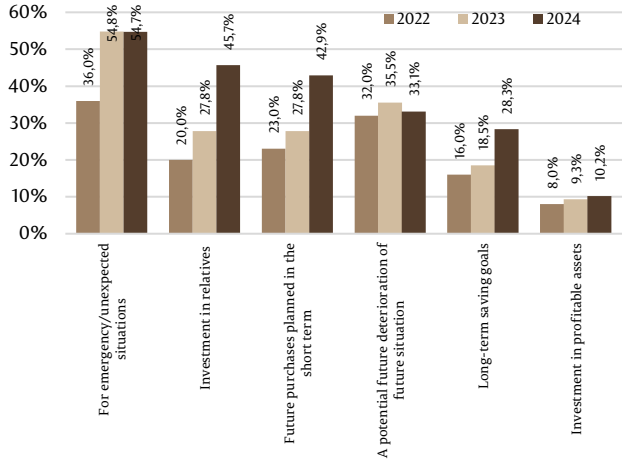
Figure 1.5.12. Ways to keep savings



Source: Survey on the financial behaviour of the population, NBM

The main purposes of savings remain for emergencies/unexpected situations (54.7 percent) and investing in children, grandchildren, relatives (45.7 percent). Other purposes mentioned by respondents are planned future purchases in the short term (42.9 percent), potential deterioration of financial situation (33.1 percent), long-term savings purposes (28.3 percent), investing in profitable assets (10.2 percent) (Figure 1.5.13).

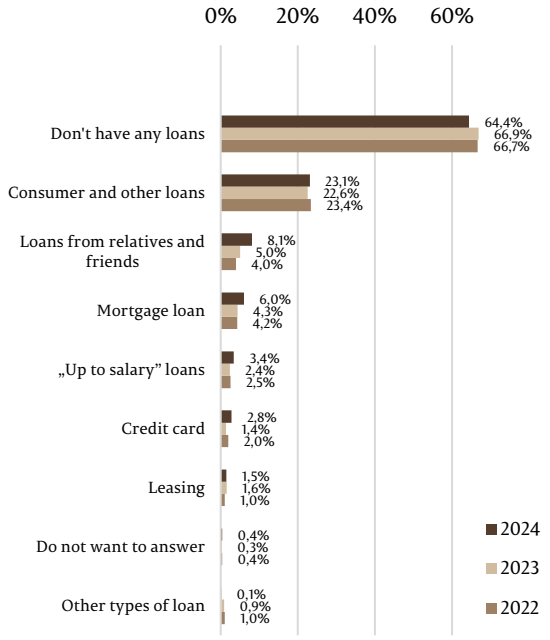
Figure 1.5.13. Purpose of respondents' savings



Source: Survey on the financial behaviour of the population

At the time of the survey, only 33.4 percent of respondents said they had turned to sources of financing from lending institutions (Figure 1.5.14). In the next period, only 9.5 percent of respondents say they are interested in turning to a credit institution for financing.

Figure 1.5.14. Distribution of respondents by type of credit taken



Source: Survey on the financial behaviour of the population

In the lending process, the most important aspects are considered the favourable lending conditions offered (51.6 percent), the promptness of making the lending decision (39.3 percent), low fees and commissions (36.6 percent), personal relationships with the institution (19.4 percent), and the experience of family or friends (16.7 percent).

For more than half of the respondents (59.0 percent), the credits/ loans contracted represent a bearable burden. At the same time, 22.7 percent of respondents declare that they have faced the situation when they failed to make their credit payments on time, the main causes being the increase in living expenses (53.0 percent), loss of job (28.9 percent), increased loan and interest costs (16.9 percent), loss of work capacity (15.7 percent) and others.

Indebtedness of non-financial companies

The lending activity of the non-financial companies during 2024 compared to the previous year was marked by a similar increase from both the banking sector and the non-bank lending organizations sector.

At the end of 2024, according to the financial statements of non-financial companies, it was stated that the majority (about 52.9 percent) of companies generated positive financial results from their core activity. Financial intermediation is characterized by loans granted by banks to non-financial corporations in the amount of 43,194.0 million MDL (or +20.5 percent compared to the end of 2023), and the balance of loans granted by the non-bank lending organizations sector represents 3,600.5 million MDL (or +19.8 percent compared to the previous year). Requests for financing were accessed to a greater extent by companies in the trade sector, and these were predominantly in foreign currency (EUR). The structure of loans granted to non-financial companies are still formed by a majority share of banking sector exposures (92.3 percent of the total balance of loans) and a lower proportion of the non-banking sector (8.7 percent).

The demand from non-financial companies has increased due to interest in fixed capital investments, as well as the general level of interest rates.

According to the bank lending survey data (Figure 1.5.15), bank lending standards for non-financial corporations during 2024 had a gradual easing trend, contrary to anticipated expectations. At the same time, in the first half of the year, banks were more oriented towards tightening lending standards, with a reversal of expectations towards the end of the year in the context of monetary policy easing and inflationary pressure. The main factors highlighted by respondents in relation to the relaxation of lending standards were competitive pressure and balance sheet constraints, tempered by existing risk management.

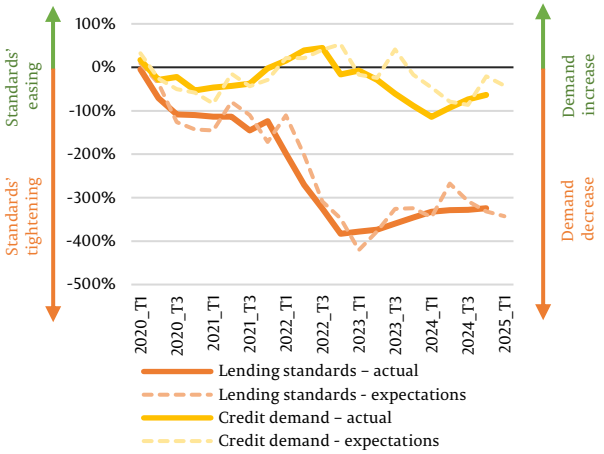
For the first quarter of 2025, respondents anticipate a continuation of the trend of easing lending standards, anticipating an increase in the pace of easing in the subsequent period.

In terms of the evolution of credit demand from non-financial companies, during 2024 respondents indicated a significant increase during the first quarter of the reporting year and a continued increase towards the end of the year. These results were at a similar level to the predicted one, indicating a slower economic recovery of non-financial

companies relative to the perception of experts within the banking sector.

Demand for loans from non-financial companies increased due to increased interest in fixed capital investments. On the other hand, working capital investment needs, as well as the general level of interest rates, have accelerated this increase in demand for bank loans.

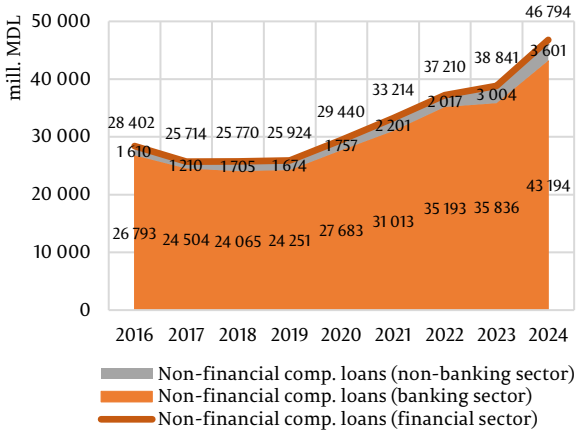
Figure 1.5.15. Quarterly evolution of lending conditions (Bank Lending Survey), 2019 T4=0%



Source: NBM calculations based on the bank lending survey

The 2024 trends highlighted above are reflected in the evolution of the balance of loans granted to non-financial companies by the financial sector. Thus, an increase in the portfolio of loans granted to non-financial companies is observed both by the banking sector, up to the value of 43,194.0 million MDL (or +20.5 percent in annual terms), and by the non-banking sector, where the total reaches the amount of 3,600.5 million MDL (or +19.8 percent in annual terms) (Figure 1.5.16).

Figure 1.5.16. Evolution in lending to nonfinancial companies

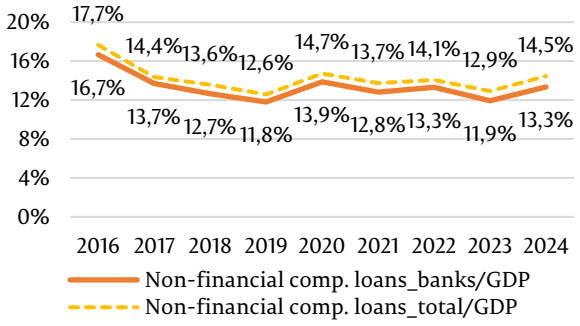


Source: NBM, NCFM

During 2024, the rate of economic growth was lower compared to the lending activity of non-financial companies.

The demand for credit, government programs to support SMEs through state-guaranteed loans and the accommodative monetary policy have determined this upward dynamic of lending to the non-financial sector. The share of loans granted to non-financial corporations in GDP reached 14.5 percent, up by 1.8 percentage points compared to the end of 2023. However, the non-financial sector debt to GDP ratio remains low compared to other emerging economies, at 97.7 percent (Figure 1.5.17).

Figure 1.5.17. Share in GDP of loans granted by the banking and non-banking sector

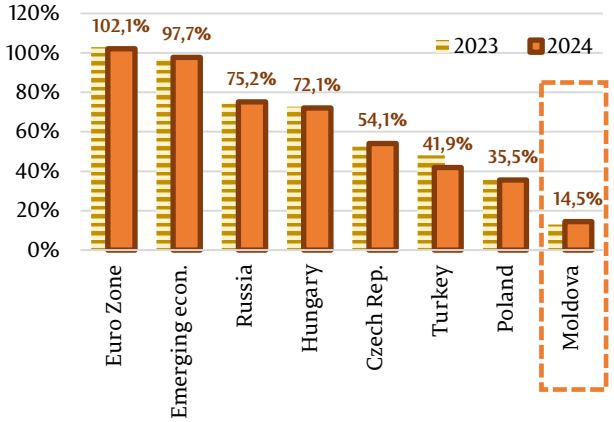


Source: NBM, NCFM, NBS

Despite the decrease in financing costs, the national economy reflects a lower financial intermediation than European states. At the same time, macroeconomic stability may be affected by some challenges to concentration risk through the increase in the banking sector's exposure to state securities.

At the international level, financial intermediation related to non-financial companies in the Republic of Moldova continues to rank lower, by 41.3 percentage points lower compared to other countries in the region and by 87.3 percentage points lower than the euro area (Figure 1.5.18).

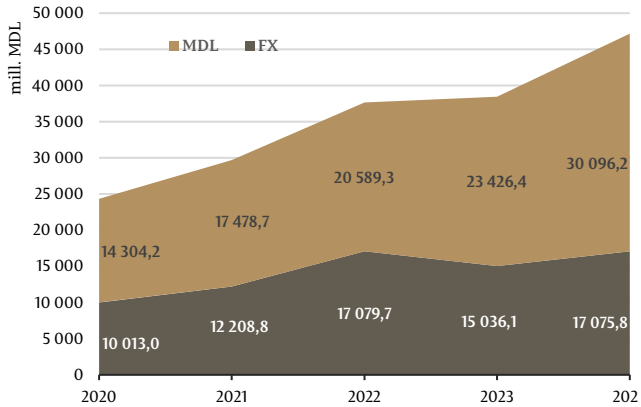
Figure 1.5.18. Balance of the financial sector loan portfolio granted to non-financial companies relative to GDP by country



Source: Bank for International Settlements, NBM calculations

The balance of new loans granted in foreign currency increased in 2024 compared to 2023 by 13.6 percent, against the backdrop of easing monetary conditions and economic recovery. At the same time, their share in the total portfolio remains low (36.1 percent), and lending is still carried out in national currency (63.8 percent) (Figure 1.5.19). It is worth noting that the non-performing loan rate for foreign currency exposures decreased by 2.9 percentage points, being lower than the rate of loans in MDL, which reduces the vulnerability of the foreign currency portfolio in the event of an external shock.

Figure 1.5.19. Quarterly evolution of new credits granted by banks to non-financial companies

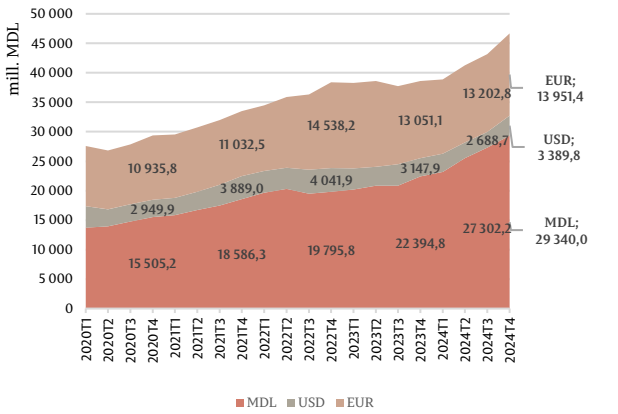


Source: NBM calculations

In quarterly division, the most modest lending activity of non-financial companies was observed during the first quarter of 2024, decreasing by 1.8 percent to the value of 9,489.7 million MDL, compared to the similar situation of the previous year. At the same time, at the end of the fourth quarter of 2024, the financing activity of non-financial companies experienced an increase of about 36.4 percent, the balance reaching the maximum value recorded in the analysed horizon of 14,811.2 million MDL.

The lending process in foreign currency to legal entities is characterized by maintaining the dominant position of the EUR currency, mainly due to exports oriented towards European countries and national commitments to join the EU. At the same time, it should be noted that the degree of dollarization of the loan portfolio granted to non-financial companies was decreasing during 2024. Thus, the share of loans granted in foreign currency in the total portfolio reached 37.2 percent at the end of 2024, decreasing by 4.8 percentage points in annual terms (Figure 1.5.20).

Figure 1.5.20. Quarterly evolution of the portfolio of credits granted to legal entities in currencies

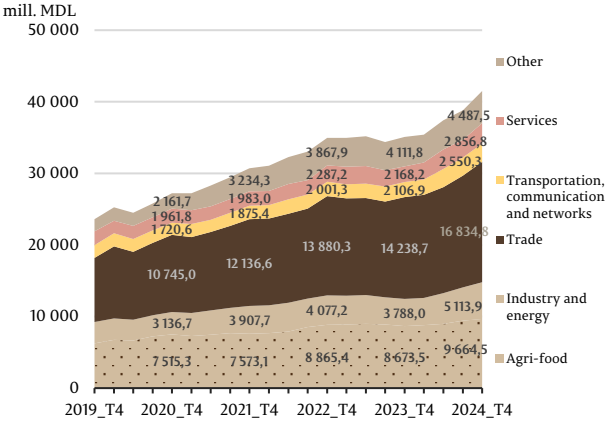


Source: NBM

At the level of economic sectors (Figure 1.5.21), the foreign currency loan portfolio is mainly focused on loans granted to non-financial companies in the trade sector (respectively 36.8 percent in EUR and 59.1 percent in USD). At the same time, the balance of loans in MDL granted to this sector represents 16,834.8 million MDL (or about 40.6 percent of the

total loan portfolio related to non-financial companies). The quality of loans granted to the respective branch is at a higher level than the average for the total portfolio, with the NPL ratio at the level of 2.5 percent at the end of the reporting period. However, the level of concentration of the sector indicates the possibility of an increase in the default rate in the event of a shock, as well as an increase in the banking sector's exposure to foreign exchange risk in the event of a devaluation of the national currency.

Figure 1.5.21. Quarterly evolution of the balance of the portfolio of credits granted to legal entities, by branches



Source: NBM

The second branch by the degree of indebtedness is the agri-food sector, which at the reporting date totalled a balance of 9,664.5 million MDL or about 23.3 percent of the portfolio of bank loans granted to non-financial companies. The quality of the respective sub-portfolio is lower compared to the entire loan portfolio, with the NPL rate at the end of the reporting period at the level of 12.7 percent. The situation points to some concerns, including some uncertainties regarding climatic conditions. It should be noted that, during 2024, several subsidy programs and stimulus instruments for the agri-food sector were implemented at the national level in order to strengthen the financial capacities of entities engaged in the respective activity, which could mitigate the deterioration of the portfolio quality in subsequent periods.

Survey on the financial behaviour of nonfinancial companies

At the end of 2024, the NBM conducted the fifth round of the survey on the financial behaviour of non-financial companies in the Republic of Moldova, the questionnaire included 36 questions from 3 dimensions: general aspects about the respondent, the financial performance of the company, access to and sources of financing.
The survey was conducted on a sample of 383 non-financial companies, with representation by size, types of activities, number of employees.

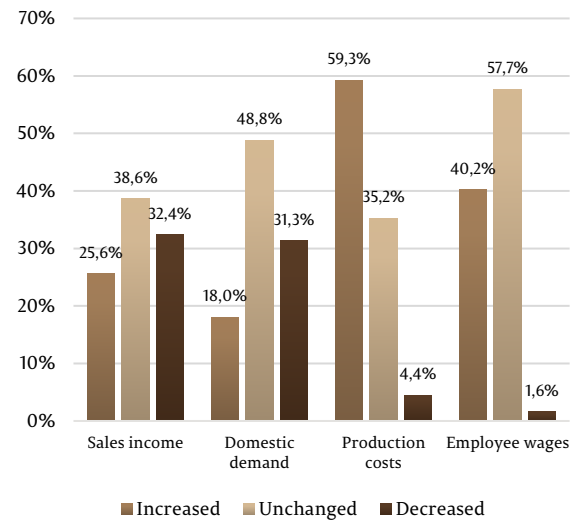
According to the survey results, the main challenges in the last 6 months are: increasing production costs (69.7 percent), lack of qualified staff (60.8 percent), decreasing purchasing power (56.7 percent), unstable political situation (52.5 percent), increasing competition (48.0 percent), decreasing number of customers (47.3 percent), decreasing financial sources (37.9 percent).

In the opinion of the respondents, a high level of pressure on the company's activity is exerted by such factors as: difficulties in attracting qualified staff (57.4 percent), production costs (46.5 percent), competition (42.3 percent), unpredictability of the tax environment (changes in the tax code that cannot be anticipated/forecasted) (40.2 percent). At the same time, the following factors were mentioned as less pressing: climate change (63.2 percent), the external environment (60.1 percent), access to financing (55.9 percent), legislation in the field of insolvency (55.6 percent), financial discipline in the economy (payment of financial debts on time and in the agreed amount) (52.7 percent), lack of demand (44.6 percent), legal and fiscal norms regulating the company's activity (40.2 percent).

73.1 percent of companies responding to the survey recorded a profit in the previous financial year.

During 2024, a large part of the respondents stated that sales revenues (38.6 percent), domestic demand for products/services (48.8 percent) and employee salaries (57.7 percent) did not change. At the same time, production costs increased in the opinion of 59.3 percent of companies (Figure 1.5.22).

Figure 1.5.22. Evolution of indicators in the last 6 months (first half of 2024)



Source: Survey on the financial behaviour of non-financial companies

The main source of financing for 93.0 percent of the responding companies is the company's internal sources; 22.7 percent of the companies resorted to bank credit, 17.0 percent - overdrafts and credit lines. At the same time, other sources of financing used by the responding companies in the last 6 months were: non-bank lending (9.4 percent), financial support from the state or districts (6.0 percent), leasing/factoring (5.2 percent).

The main reasons that determined respondents not to choose credit institutions to meet the needs of the company, similar to the previous iteration of the survey, are: sufficient internal resources and/or lack of need to borrow – 62.3 percent, unwillingness of owners to take on additional debt – 38.1 percent, too high costs of external resources – 32.8 percent, distrust in credit institutions – 21.9 percent.

At the same time, 24.0 percent of respondents expressed their intention to turn to a credit institution for financing in the next 6 months. Loan funds would be requested mainly in MDL (80.4 percent), followed by EUR (13.0 percent) and USD (6.5 percent). The purpose of financing, according to respondents' answers, would be to finance an investment project (62.0 percent) or to finance current needs (working capital) (37.0 percent).

When asked how much trust they have in the financial system in the Republic of Moldova, 55.4 percent of respondents said they had moderate trust, 20.1 percent - little or very little trust, 17.0 percent - a lot or a lot of trust, and 6.3 percent - no trust at all.

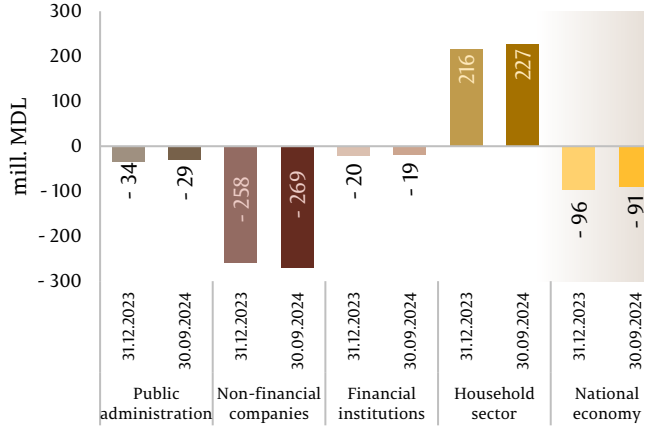
As for the respondents' expectations regarding the general price level in the next 12 months, 54.3 percent believe that it will increase slightly, 24.8 percent - will increase significantly, 14.1 percent - will remain at the same level, and 3.9 percent - will decrease slightly or significantly.

1.6. Sectoral balance sheets of the Republic of Moldova

The national economy remained a net debtor, mainly on the back of an increase in the net financial worth of the non-financial companies' sector, while the household sector[12] remained the main net creditor of the national economy.

The net financial value[13] of the national economy increased by 5.7 percent at the end of the third quarter of 2024 compared to the end of the fourth quarter of 2023, amounting to -90,921.7 million MDL. This evolution was largely driven by the +4.9 percent increase in the net financial value of the largest creditor of the national economy - the household sector (Figure 1.6.1).

Figure 1.6.1. Net financial value by sector

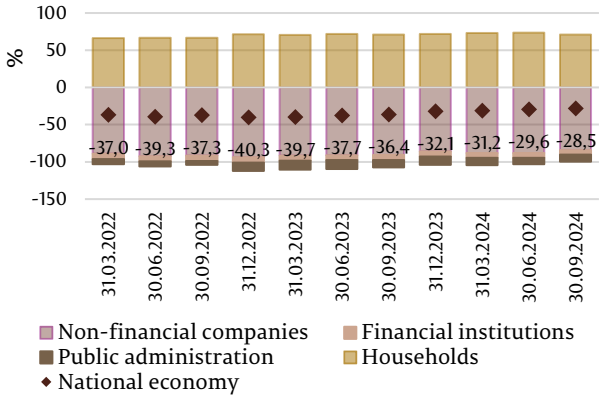


Source: NBM

The non-financial companies' sector was the largest net debtor of the national economy during the reporting period. Its net financial value decreased by 4.4 percent to the level of -269,351.8 million MDL. The public administration sector and the financial institutions sector also had a negative net financial value (debtor), but much lower compared to the non-financial companies' sector, of -29,292.4 million MDL (-15.0 percent) and -19,146.9 million MDL (-4.9 percent), respectively.

The ratio between the net financial value of the national economy and the gross domestic product (GDP), as of September 30, 2024, was -28.5 percent (compared to -32.1 percent as of December 31, 2023) (Figure 1.6.2).

Figure 1.6.2. Evolution of the ratio between net financial value and GDP

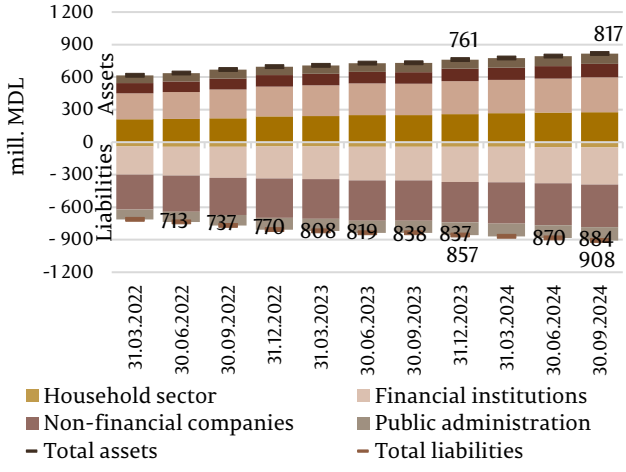


Source: NBM

The structure of financial assets and liabilities of the sectors of the national economy differs according to the type of the sector's specific core activities and its available resources.

The total financial assets and liabilities of the national economy recorded an upward trend throughout the analysed period, and at the end of the third quarter of 2024 they amounted to 816,852.8 million MDL and 907,774.5 million MDL, respectively (Figure 1.6.3).

Figure 1.6.3. Financial assets and liabilities of national economy sectors

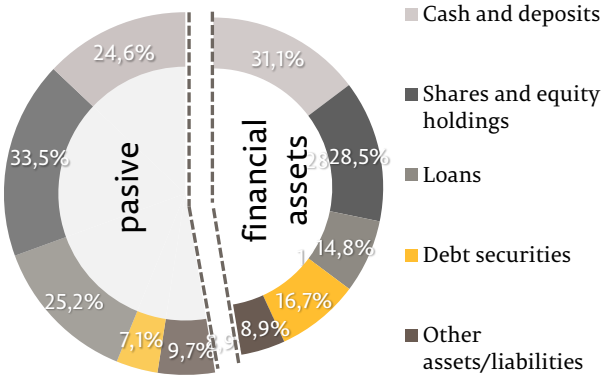


Source: NBM

[12] The households sector also includes non-profit institutions serving households.
[13] Net financial worth is the difference between total financial assets and total liabilities recorded by a sector of the national economy.

At the same time, the growth rate of financial assets compared to the end of the fourth quarter of 2023 (+7.3 percent) was higher than that of liabilities (+5.9 percent).
In the structure of financial assets of the national economy, cash and deposits (31.1 percent) account for the largest share, while in the structure of liabilities, shares and equity interests of legal entities registered in the Republic of Moldova predominate (33.5 percent) (Figure 1.6.4).

Figure 1.6.4. Structure of financial assets and liabilities of sectors of the national economy by instruments, 30.09.2024



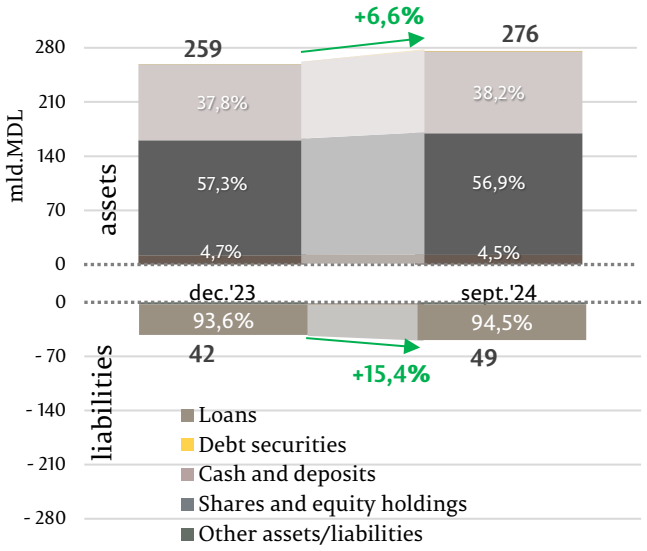
Sursa: BNM

Source: NBM

As of September 30, 2024, the household sector held financial assets in the amount of 275,802.4 million MDL (+6.6 percent compared to the end of the previous year). The increase in assets was due to the increase in the balance of shares and other forms of participation (+5.9 percent) which generated a contribution of +3.4 percentage points. At the same time, the balance of cash and deposits increased by 7.8 percent, constituting 38.2 percent of the financial assets of the given sector (Figure 1.6.5).

Liabilities of the household sector amounted to 48,932.9 million MDL (+15.4 percent), consisting mainly of contracted loans (94.5 percent of total liabilities).

Figure 1.6.5. Structure of financial assets and liabilities of the household sector

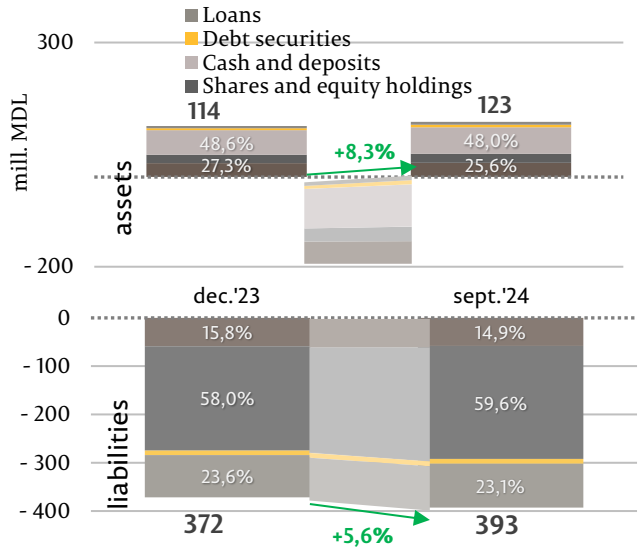


Source: NBM

The non-financial companies' sector is the largest sector of the national economy in terms of its commitments.

The non-financial companies' sector at the end of the third quarter of 2024 held financial assets worth 123,260.8 million MDL, 8.3 percent more compared to the end of the fourth quarter of 2023 (Figure 1.6.6).

Figure 1.6.6. Financial assets and liabilities of nonfinancial companies



Sursa: BNM

In their structure, the major share was held by cash and deposits (48.0 percent of total financial assets).

At the same time, the sector's liabilities amounted to 392,612.6 million MDL (+5.6 percent compared to the end of the fourth quarter of 2023). They were largely formed by

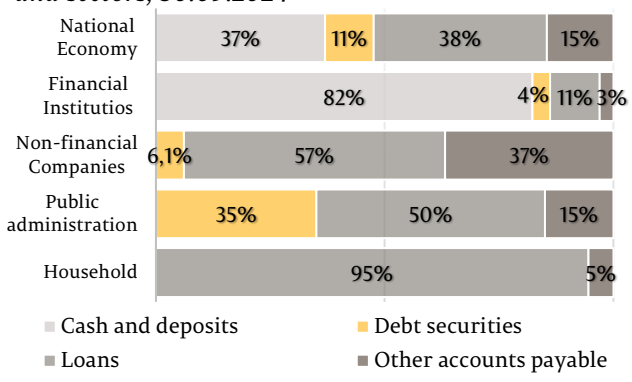
equity holdings (59.6 percent of the total liabilities of the sector) and contracted loans (23.1 percent).

Total debt[14]

Loans contracted and cash and deposits are major components of total debt, accounting for 37.9 and 37.0 percent, respectively (Figure 1.6.7).

The value of the total debt of the national economy at the end of the third quarter of 2024 amounted to 603,993.8 million MDL.

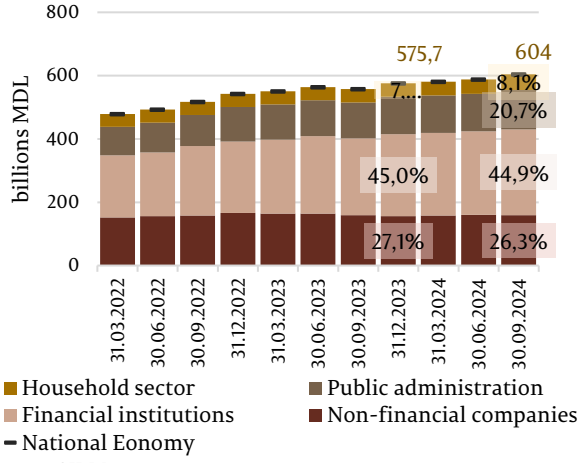
Figure 1.6.7. Total debt structure by instruments and sectors, 30.09.2024



Source: NBM

In absolute values the total debt of the sectors of the national economy has been continuously increasing during 2024 (Figure 1.6.8). At the end of the third quarter of 2024, this indicator recorded an increase of 4.9 percent compared to the end of the fourth quarter of 2023.

Figure 1.6.8. Evolution of total debt by sectors



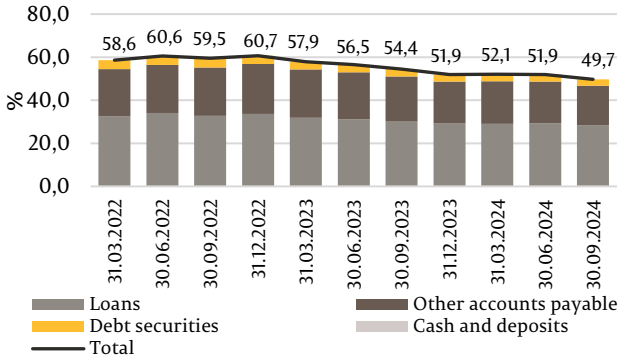
Source: NBM

The highest level of total debt, as of September 30, 2024, caused by the specific nature of its financial intermediary activities, was recorded in the financial institutions' sector.

This sector had a debt of 271,281.5 million MDL, or 44.9 percent of the total debt of the national economy. In terms of instruments, cash and deposits (82.3 percent) accounted for the largest share of the sector's total debt.

The non-financial companies sector accounted for 26.3 percent of the total debt of the national economy. The total debt of this sector at the end of the third quarter of 2024 registered a value of 158,672.5 million MDL. The value of this indicator in relation to GDP decreased by 2.2 percentage points compared to the previous year to the level of 49.7 percent (Figure 1.6.9).

Figure 1.6.9. Total debt of the non-financial companies' sector to GDP, %



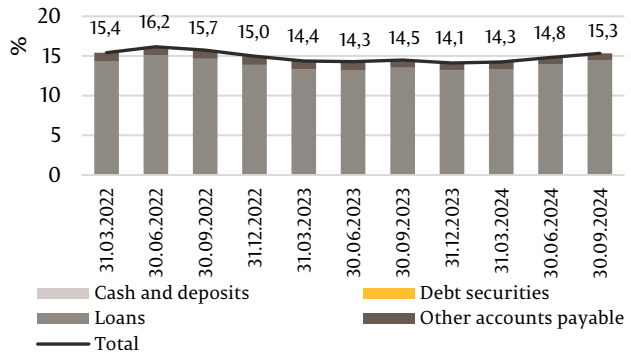
Source: NBM

In the total debt structure of this sector, the major share (57.1 percent) is accounted for by contracted loans.

The lowest level of total debt is in the household sector, which accounts for 8.1 percent (48,932.9 million MDL) of the total debt of the national economy. Total debt of the household sector as a share of GDP increased by 1.2 percentage points compared to the previous year (Figure 1.6.10).

[14] The total debt of a sector is defined as the sum of all liabilities of a sector owed to other sectors of the national economy and the "Rest of the World" sector, excluding shares and participations in investment funds and derivative financial instruments.

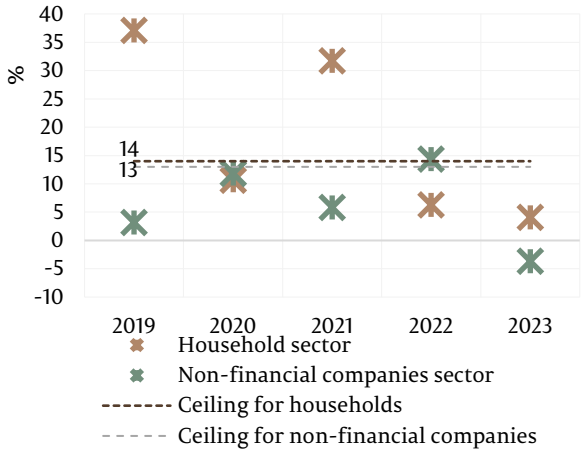
Figure 1.6.10. Total household sector debt to GDP



Source: NBM

The degree of indebtedness[15] of the non-financial corporation's sector remained within the indicative limits[16], except for 2022 (Figure 1.6.11). In 2023, this indicator was -3.6 percent. The stock of debt securities issued by this sector decreased by 9.2 percent, while the contracted loans have decreased by 5.2 percent compared to the previous year.

Figure 1.6.11. Degree of indebtedness



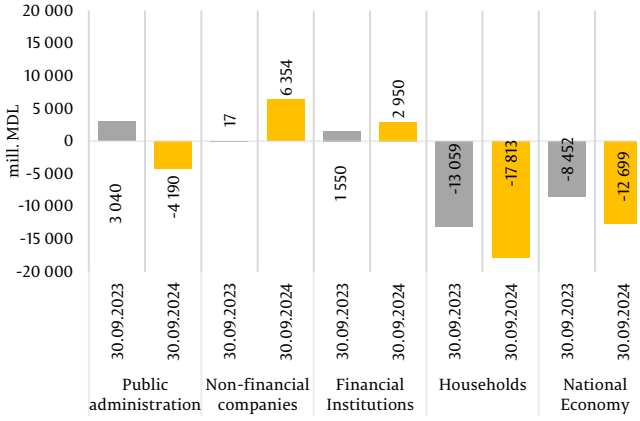
Source: NBM

For the households sector, the decrease in the degree of indebtedness from 31.7 percent in 2021 to 6.3 percent in 2022 was mainly driven by the increase in interest rates on new loans in the last months of 2022. At the same time, the last two years have been relatively stable, with the indicator returning within the indicative limits and in 2023 there was a further decrease of 2.2 percent compared to 2022, mainly caused by a slower growth rate of contracted loans.

Financial accounts of the Republic of Moldova (experimental data)

The net financing need[17] in the third quarter of 2024 amounted to -12,698.7 million MDL, increasing by 4,246.2 million MDL compared to the value of the given indicator recorded in the third quarter of 2023 (Figure 1.6.12).

Figure 1.6.12. Net capacity (+)/ net need (-) of financing



Source: NBM

The net financing need of the national economy compared to GDP amounted to 4.0 percent, increasing by 1.1 percentage points compared to the same period of the previous year. This evolution was mainly driven by the increase in the net financing need of the household sector, which increased from 4.5 percent in the third quarter of 2023 to 5.6 percent in the third quarter of 2024 (Figure 1.6.13).

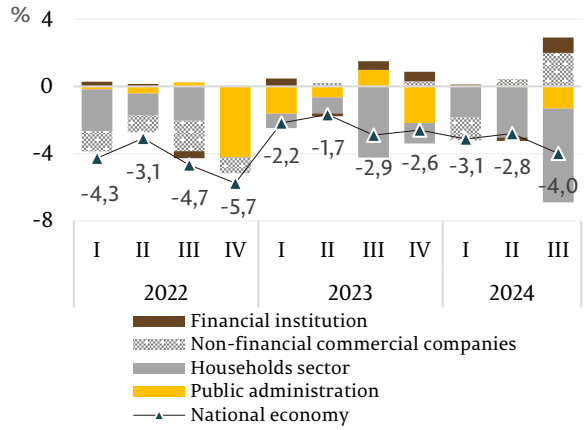
At the same time, the non-financial companies' sector contributed to reducing the net financing needs of the national economy, generating a net financing capacity of 2.0 percent of GDP. The financial companies sector also had a positive contribution towards reducing the net financing needs of the national economy, as it generated a net financing capacity of 0.9 percent of GDP (compared to the value of 0.5 percent in the third quarter of 2023).

[15] It is calculated as the net flow related to issued debt securities and contracted loans generated by a sector during the analysed period and reported to the stock of the respective financial instruments at the end of the previous period. For the non-financial companies' sector, the amounts contracted as foreign direct investments are excluded from the calculation of this indicator.

[16] According to „The Macroeconomic Imbalance Procedure (MIP) introduced - Statistics Explained"

[17] Net financing capacity / net financing need is an indicator that reflects the state of an economy because of net transactions with financial assets and liabilities. Thus, net capacity represents the positive difference between the net value of transactions with financial assets and liabilities, and the net financing need represents the opposite situation.

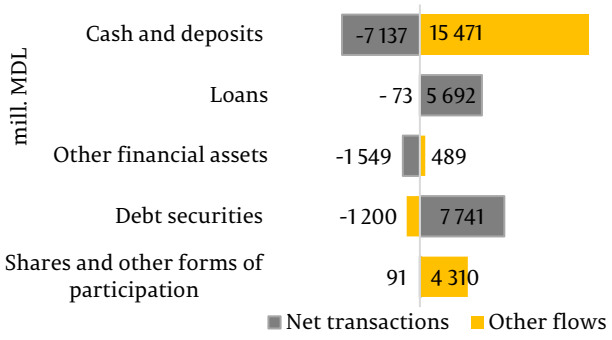
Figure 1.6.13. Net capacity (+) / net need (-) for financing of the sectors of the national economy relative to GDP, %



Source: NBM

During the third quarter of 2024, in the national economy, net transactions[18] related to financial assets amounted to 4,839.4 million MDL, while other flows amounted to 18,996.1 million MDL. The largest volume of net transactions was recorded with debt securities, the net purchases of which amounted to 7,741.3 million MDL (Figure 1.6.14).

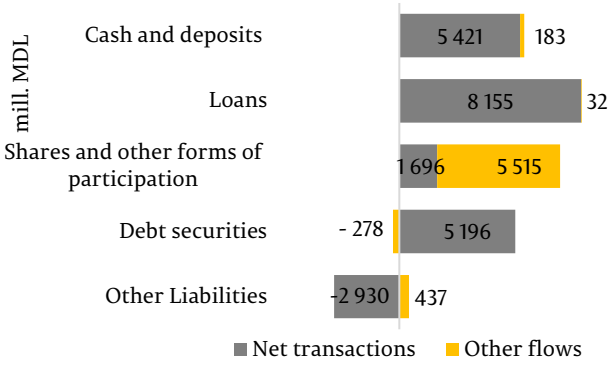
Figure 1.6.14. Structure of flows related to total financial assets on the national economy in the third quarter of 2024



Source: NBM

Net transactions related to liabilities, within the national economy, during the third quarter of 2024 amounted to 17,538.0 million MDL, and the volume of other flows amounted to 5,888.2 million MDL (Figure 1.6.15).

Figure 1.6.15. Structure of flows related to total liabilities of the national economy in the third quarter of 2024



Source: NBM

Household sector

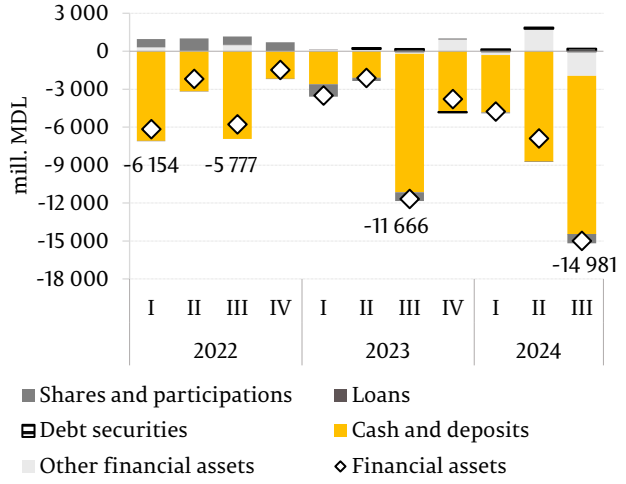
The volume of net transactions of the household sector, in the third quarter of 2024, amounted to -14,980.8 million MDL (Figure 1.6.16), which indicates the prevalence of transactions in the direction of reducing the stocks of assets held by this sector.

The largest volume of net transactions was carried out with cash and deposits, amounting to -12,482.4 million MDL. Net transactions related to shares and other forms of participation amounted to -728.3 million MDL. This evolution is largely due to the decrease in the volume held by the respective sector of shares or other forms of equity issued by the non-financial corporation's sector.

At the same time, net transactions for the purchase of banks' corporate bonds contributed to the formation of the net volume of debt securities worth 193.3 million MDL.

[18] Financial flows represent changes in balances related to financial instruments over a period and include net financial transactions and other flows. Net transactions represent net purchases (purchases minus sales) of financial assets and net contracting (contracting minus repayment) of liabilities. Other flows represent changes in assets and liabilities that are not due to net financial transactions (revaluations, reclassifications, other flow elements).

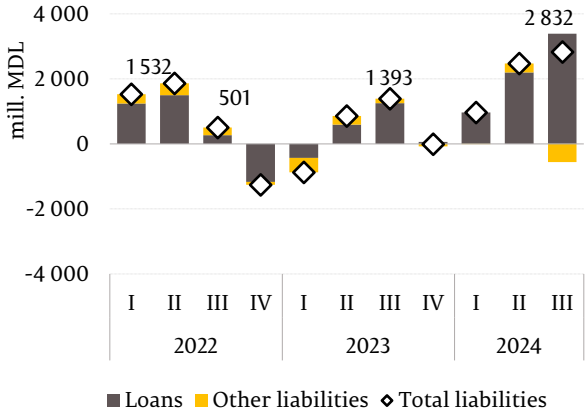
Figure 1.6.16. Net transactions related to financial assets of the household sector, million MDL



Source: NBM

In the structure of liabilities, the household sector recorded net financial transactions of 2,832 million MDL (Figure 1.6.17), with the major share of net transactions for contracting loans, the value of which amounted to 3,386.5 million MDL.

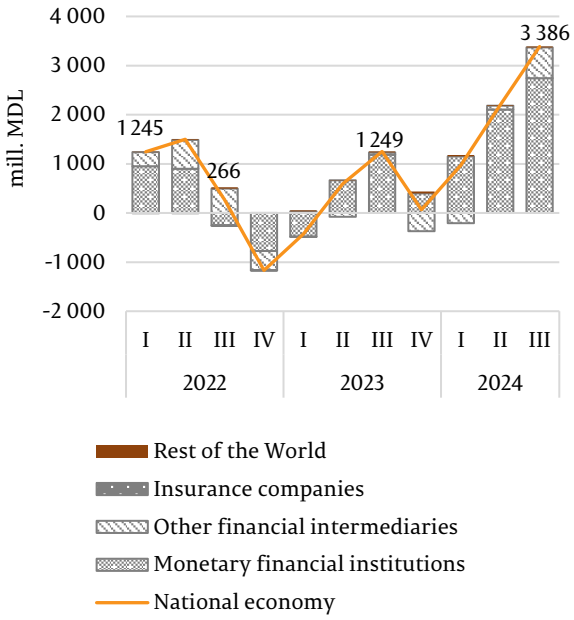
Figure 1.6.17. Net transactions related to household sector liabilities



Source: NBM

Of the total volume of net borrowings, 81.1 percent were accounted for by transactions with monetary financial institutions (resident licensed banks and savings and loan associations of category "B" license), and 18.3 percent were accounted for by other financial intermediaries - non-bank credit organizations and savings and loan associations of category "A" license (Figure 1.6.18).

Figure 1.6.18. Dynamics of household sector loans and their counterparts, MDL million



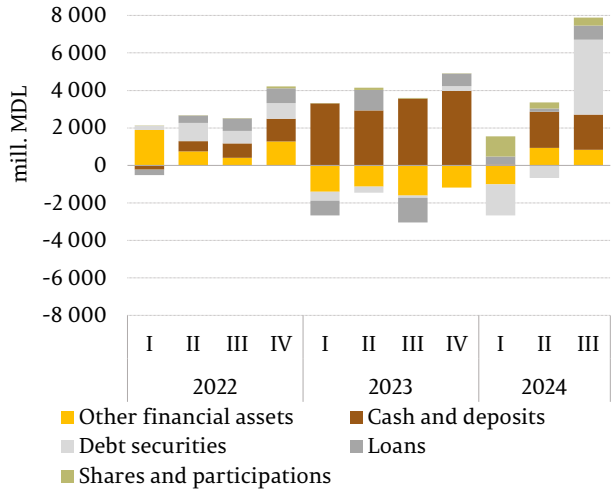
Source: NBM

Non-financial commercial companies' sector

In the third quarter of 2024, the non-financial commercial companies' sector recorded a volume of net transactions with financial assets of 7,878.6 million MDL (Figure 1.6.19). The largest share (50.7 percent) of net purchases of financial assets was recorded in debt securities, which amounted to 3,993.6 million MDL. The major share of their volume is attributable to state securities.

Net transactions related to cash and deposits amounted to 1,881.0 million MDL in the third quarter of 2024 because of net replenishments of current accounts (932.1 million MDL) and net placements of deposits with resident banks (1,266.9 million MDL).

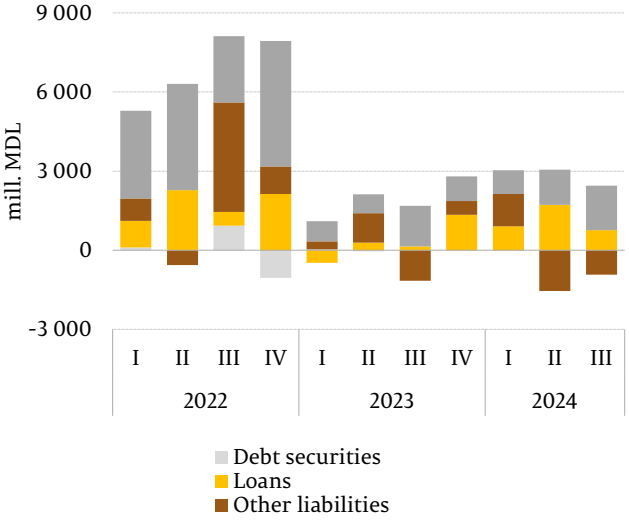
Figure 1.6.19. Net transactions related to the financial assets of the non-financial commercial companies' sector



Source: NBM

Non-financial commercial companies recorded, during the third quarter of 2024, net transactions related to its liabilities worth 1,525.0 million MDL (Figure 1.6.20). Net transactions with shares and other forms of participations amounted to 1,695.8 million MDL, the major share being reinvested income from direct investments of the external sector.

Figure 1.6.20. Net transactions in non-financial commercial companies' sector liabilities



Source: NBM

At the same time, the volume of net transactions related to loans amounted to 755.8 million MDL and was driven mainly by the net contracting of loans from the financial sector in the amount of 1,548.3 million MDL, as well as by net repayments to the external sector in the amount of 266.4 million MDL.

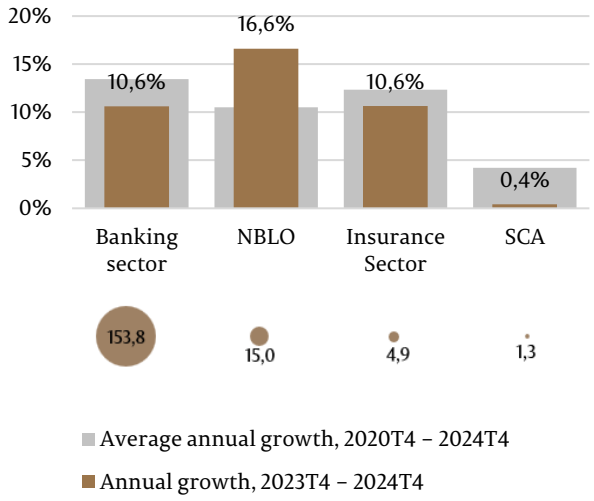
1.7. Financial system structure

The financial system of the Republic of Moldova is constantly growing, being mainly dominated by the banking sector, both in terms of the volume of financial transactions and the share of assets held by entities within the sector.

According to the situation as of December 31, 2024, the total value of assets held by financial sector entities (banks, non-bank lending organizations, insurance companies, savings and loan associations) amounted to 194.5 billion MDL (60.1 percent of GDP), increasing by 11.1 percent compared to 2023.

The banking sector, which holds the largest share (87.5 percent) of the total financial sector assets, recorded an increase of 10.6 percent in 2024, compared to the previous year, the growth rate recorded a decrease of 2.8 percentage points compared to the average annual growth rate of the last five years (Figure 1.7.1).

Figure 1.7.1. Growth rates of financial system segments



Note: The sizes of the circles proportionately show the value of the segments' assets in MDL billions as of December 31, 2023.
Source: NBM

The insurance sector grew by10.6 percent over the reporting period, 1.7 percentage points less than the average growth rate in the volume of assets held by insurance companies over the last five years.

In 2024, the growth rate of the volume of assets held by non-bank lending organizations accelerated and reached 16.6 percent, standing 6.1 percentage points above the annual

average of the last five years.

Likewise, savings and loan associations also positioned themselves below the average growth rate of the last five years, recording an increase of 0.4 percent in 2024, down 3.8 percentage points from the average annual growth rate of the last five years.

According to data from national registers, as of December 31, 2024, 342 licensed entities were active in the national financial system (22 fewer than in 2023), including11 commercial banks, 116 active non-bank lending organizations, 206 savings and loan associations and 9 insurance companies (Table 1.7.1).

Table 1.7.1. Number of entities within the financial system of the Republic of Moldova

Active licensed entities	**December 31, 2022**	**December 31, 2023**	**December 31, 2024**
Banks	11	11	11
Non-bank lending organization	127	128	116
Savings and loan associations	221	216	206
Insurance companies	10	9	9
TOTAL	369	364	342

Source: NBM

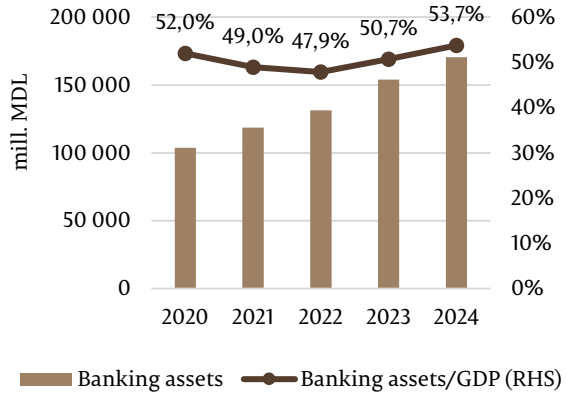
2. BANKING SECTOR RISKS

2.1. Banking sector[19]

During 2024, the banking sector demonstrated solid financial performance, maintaining high levels of profitability and solvency.

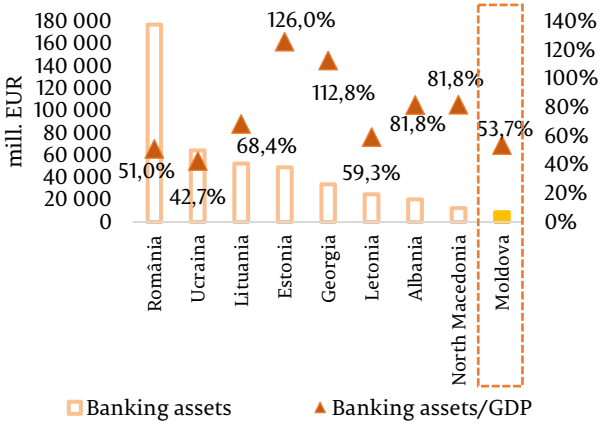
At the end of 2024, the volume of total assets of the banking sector amounted to 170,356.3 million MDL, up by 10.7 percent compared to the situation at the end of 2023. Relative to GDP, however, the volume of banking assets recorded an increase of 3.1 percentage points compared to the previous year (2023: 50.7 percent) (Figure 2.1.1, Figure 2.1.2).

Figure 2.1.1. Ratio between bank assets and GDP



Source: NBM

Figure 2.1.2. The ratio between bank assets and GDP in comparison with other states in the region



Source: Eurostat, central bank official pages[20]

To limit the systemic impact, the National Bank of Moldova, on an annual basis, identifies banks that are systemically important companies and applies additional capital requirements to them (details in sub-chapter 4.1). The four largest banks continue to be classified as systemically important companies (Table 2.1.1). From the perspective of the volume of assets, these banks hold 83.2 percent of total banking assets.

Table 2.1.1. Ranking of banks that are systemically important companies

Place based on the score	Bank name
1	CB „MAIB" JSC
2	CB „Moldindconbank" JSC
3	CB „VICTORIABANK" JSC
4	„OTP Bank" JSC

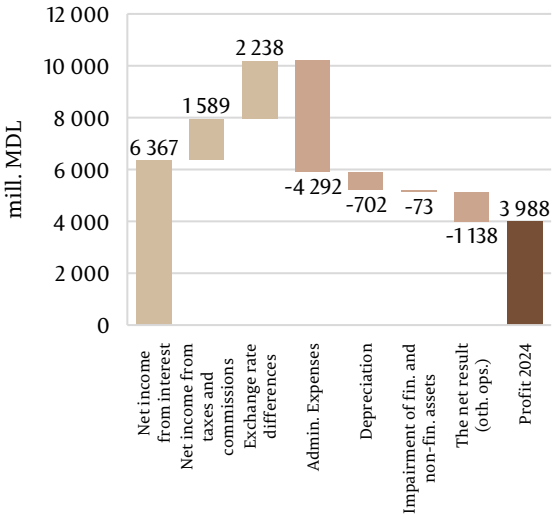
Source: NBM

In 2024, the concentration index (HHI) of the banking market by volume of assets recorded a value of 2,090.4, increasing by 84 reference points compared to 2023, thus, the banking market being moderately concentrated[21].

The decline in bank profits in 2024 was largely driven by the monetary market conditions.

The banking sector ended 2024 with an aggregate profit of 3,987.9 million MDL, down 2.5 percent compared to 2023 (Figure 2.1.3).

Figure 2.1.3. Profitability of the banking sector



Source: NBM

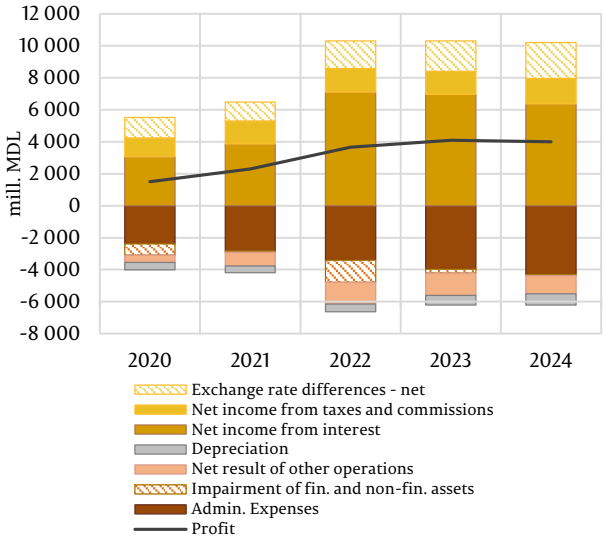
[19]Since the time of drafting the report, some bank data related to 2024 have been or are to be changed because of the external audit. Data for previous years represent the final data because of the external audit.

[20] Data on bank assets were collected from the official pages of central banks in the listed countries. At the same time, the data related to bank assets (Romania, Georgia) and GDP (Georgia) were converted into EUR according to the official rate established by the central banks as of December 31, 2024.

[21] The level of concentration is determined according to the scale: HHI<100-perfect competition, 100<HHI<1 500 – a non – concentrated market, 1 500<HHI<2 500-a moderate concentration, HHI > 2 500 – a high concentration.

The decrease in profit was driven by a decrease by 35.8 million MDL in interest income obtained from loans up to 6,663.4 million MDL (74.8 percent of total interest income) (Figure 2.1.4).

Figure 2.1.4. Bank profit structure



Source: NBM

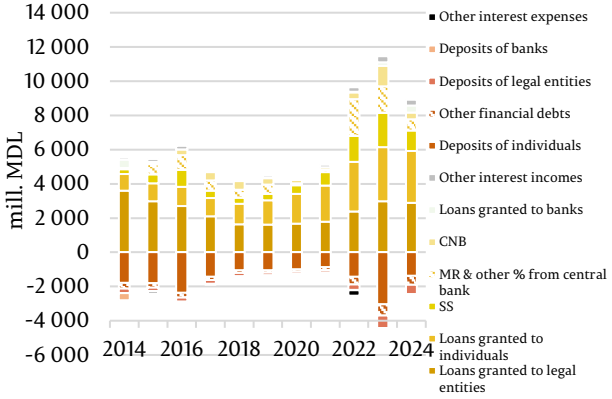
The main components of interest income were interest income from loans granted to households (33.9 percent), followed by interest income from non-financial companies (32.4 percent).

In 2024, interest income amounted to 8,911.8 million MDL, registering a decrease of 22.3 percent (-2,551.4 million MDL) compared to 2023, while the result recorded in net interest income decreased by 8.4 percent compared to 2023 (-587.1 million MDL). This dynamic was driven by the increase in interest expenses related to central bank deposits (+3 536.6 million MDL). At the same time, it is worth noting that interest expenses related to deposits of households (-1 668.3 million MDL) and deposits of legal entities[22] (-356.1 million MDL) decreased (Figure 2.1.5).

The structure of interest income reflects the fact that banks' business strategies continue to focus on both lending and investment activities that simultaneously provide liquidity, as well as a sufficient degree of safety, capable to mitigate negative shocks.

[22] Companies, non-financial companies, SMEs, non-SMEs

Figure 2.1.5. Structure of income and expenditure in the banking sector

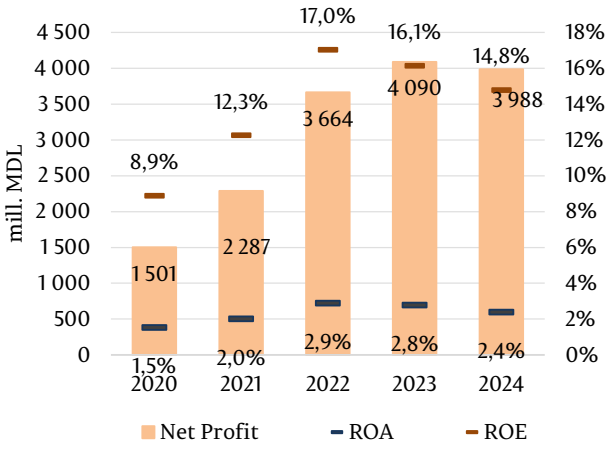


Source: NBM

In terms of expenses related to operating activity in 2024, the main factor mitigating the increase in profit for the year was the increase in administrative expenses by 8.0 percent (or +317.9 million MDL). Also, in the structure of non-interest expenses, the most significant increases were marked by expenses related to fees and commissions (9.4 percent or 174.3 million MDL) and depreciation expenses (18.1 percent or 107.8 million MDL) compared to 2023.

Profitability indicators of the banking sector were largely above the values of the indicators recorded in emerging countries in the region and the EU.

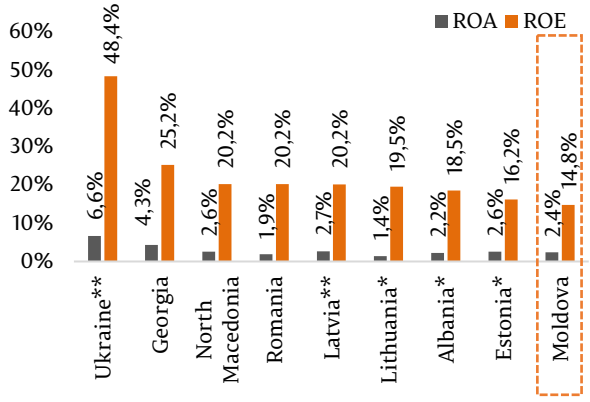
Figure 2.1.6. Return on equity and assets



Source: NBM

During 2024, the values of the main profitability indicators of the banking sector ROA and ROE decreased, constituting 2.4 percent and 14.8 percent, accordingly (Figure 2.1.6), lower levels compared to most countries in the region (Figure 2.1.7).

Figure 2.1.7. Return on equity and assets compared to other countries in the region

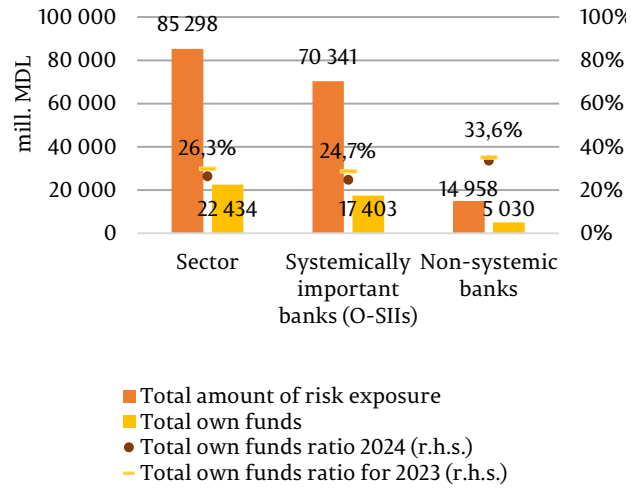


**data for Q3, 2024*
*** data for Q2, 2024*
Source: Financial Soundness Indicators (FSIs), IMF

The banking sector is characterized by a consistent level of solvency, which significantly exceeds the regulated minimum level, and the liquidity coverage ratio remained well above the minimum level applicable in EU countries.

At the end of 2024, total own funds of the banking sector amounted to 22,433.5 million MDL (Figure 2.1.8), up by 7.3 percent compared to the previous year due to the capitalization of profits earned by banks. The total own funds ratio of the banking sector at the end of the reference year was 26.3 percent, recording a decrease compared to 2023 (-3.6 percentage points), against the background of a more pronounced increase in the total amount of risk exposure attributed by banks in relation to own funds.

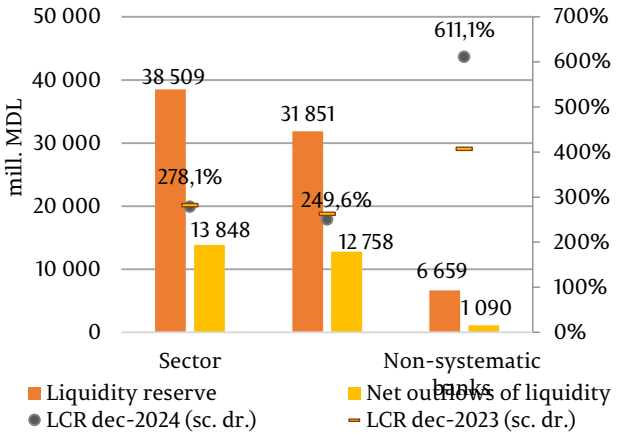
Figure 2.1.8. Banking sector capitalization ratio by sector and bank groups



Source: NBM

For 2024, the liquidity coverage ratio (LCR) of the banking sector recorded a value of 278.1 percent, down by 4.0 percentage points compared to the previous year (Figure 2.1.9). The individual values of the liquidity ratio fell within a range between 165.5 and 1,671.4 percent, indicating significant differences between banks.

Figure 2.1.9. LCR ratio by sector and bank groups



Source: NBM

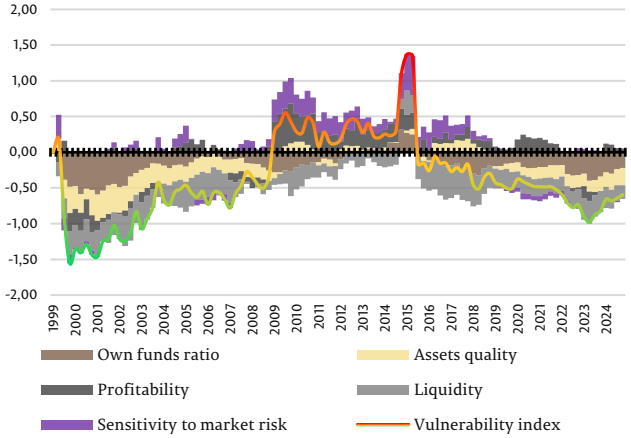
The overall level of vulnerability of the banking sector, determined based on the evolution of the main economic and financial indicators of banks, remained below the vulnerability threshold[23].

During 2024, the banking sector recorded slight upward trends in the general vulnerability index[24].

At the end of the year, the banking sector accumulated an overall vulnerability index of (-0.60), a higher level than in 2023 (Figure 2.1.10). The general vulnerability index was determined by the negative evolution of the own funds adequacy ratio, high sensitivity to market risk and the decrease in the liquidity level. It is important to note that the deterioration of this index is mainly due to the increase in exposure secured by mortgages on real estate, because of the expansion of the loan portfolio.

[23] The value of the overall vulnerability index equal to 0, so negative values denote a reduced level of financial vulnerability, while a positive value of the index denotes a higher financial vulnerability.
[24] Aggregate Indicator, calculated as the weighted amount based on the financial soundness indicators scores.

Figure 2.1.10. Dynamics of the overall vulnerability index



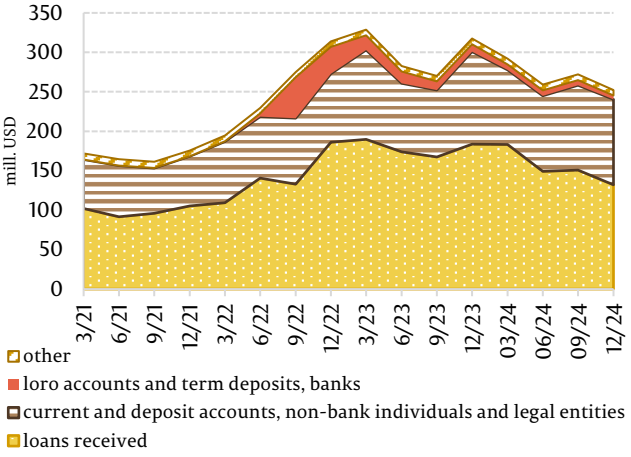
Source: NBM

Vulnerabilities of the banking sector to non-residents

In 2024, banks' foreign currency liabilities to non-residents declined[25] in balance, decreasing both the funds attracted from foreign financial institutions, as well as the external loans received by the banking sector.

Thus, banks' drawings of external loans increased slightly by 4.6 percent compared to 2023, while banks' payments to service external debt decreased by 13.3 percent. Consequently, the balance of loans received by banks decreased by 23.7 percent[26] to 132.2 million USD (Figure 2.1.11).

Figure 2.1.11. Foreign exchange assets attracted from non-residents by item breakdown



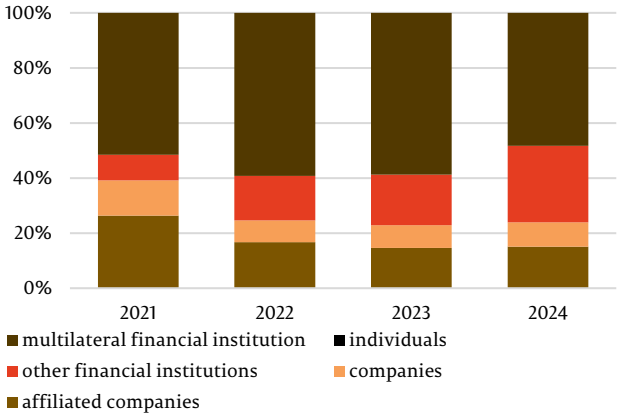
Source: NBM

As for evolutions by type of creditor, an increase in lending from investment funds was observed, the balance of credits received by banks from them also consolidating as a share in the structure of external loans. The balance of loans received from multilateral financial institutions continued to decrease but maintained its largest share in the structure of external loans (Figure 2.1.12).

At the same time, the interbank funding (mainly intra-group in the form of deposits) from which local banks benefited has decreased. Thus, at the end of 2024, the balance of interbank funding amounted to 4.9 million USD compared to 9.4 million USD at the end of 2023.

The balance of current and deposit accounts in foreign currency of non-resident non-banking customers decreased by 5.9 million USD or 5.2 percent[27], to 108.2 million USD, because of the decrease in those of legal entities.

Figure 2.1.12. Structure of loans received by banks, by type of creditors



Source: NBM, The Debt Management and Financial Analysis System

Other types of liabilities to non-residents continued to be negligible both in level and in evolution.

Under these conditions, the exposure of local banks through foreign currency funds attracted from non-residents has narrowed compared to 2023, standing at low levels (Figure 2.1.13).

[25] By 16,9 percent excluding exchange rate influence. At effective exchange rate, the balance of banks ' foreign exchange liabilities in relation to non-residents, being mainly denominated in EUR, increased by 20,6 percent.

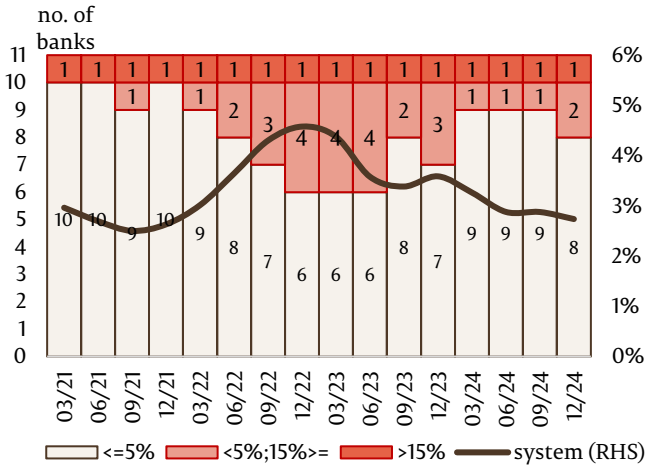
[26] By excluding the influence of the exchange rate. At effective rate, the balance of foreign credits received decreased by 28,0 percent.

[27] By excluding the influence of the exchange rate. At effective rate, the balance of current and deposit accounts of non-resident non-bank clients decreased by 7,6 percent.

At the end of the reference year, the exposure amounted to 2.7 percent in relation to total capital and liabilities (compared to 2023: 3.6 percent, 2022: 4.6 percent; 2021: 2.6 percent).

According to the situation at the end of the reporting year, 10 of the banks remain exposed to foreign currency funds attracted from non-residents in total capital and liabilities in reasonable proportions of up to 15 percent (minimum – 0.1 percent, maximum – 6.7 percent). Between 15 percent and 35 percent ranks only one bank founded by foreign investors.

Figure 2.1.13. Exposure to non-residents through foreign exchange in relation to total capital and liabilities, by groups of banks



Source: NBM

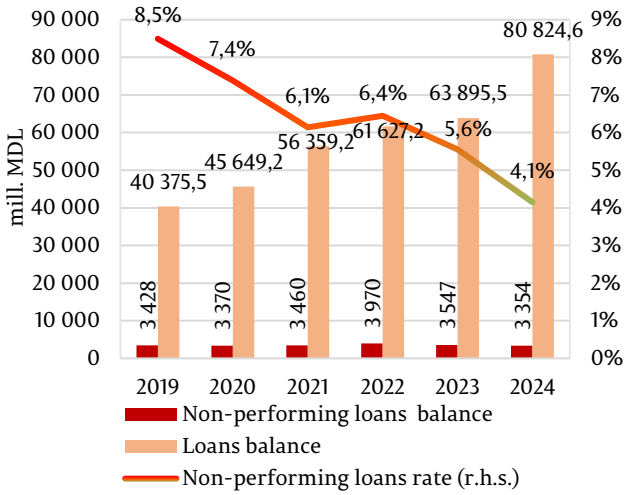
2.2. Credit risk

The credit risk decreased in 2024, mainly due to the recovery of macroeconomic conditions.

The loan portfolio in the banking sector recorded an increase in growth rate. In 2024, banks increased their loan portfolios by 16,929.1 million MDL (+26.5 percent; 2023: +3.7 percent), at the end of the period the total balance amounted to 80,824.6 million MDL.

At the same time, the quality of bank loans marked a favourable dynamic, reaching the lowest level in the last 12 years. According to prudential requirements, the stock of non-performing loans decreased by 5.5 percent compared to 2023, which determined the decrease in the non-performing loan ratio by 1.4 percentage points to the level of 4.1 percent aggregated in the banking sector (Figure 2.2.1).

Figure 2.2.1. Evolution of credit balance and non performing credits ratio in total credits



Source: NBM

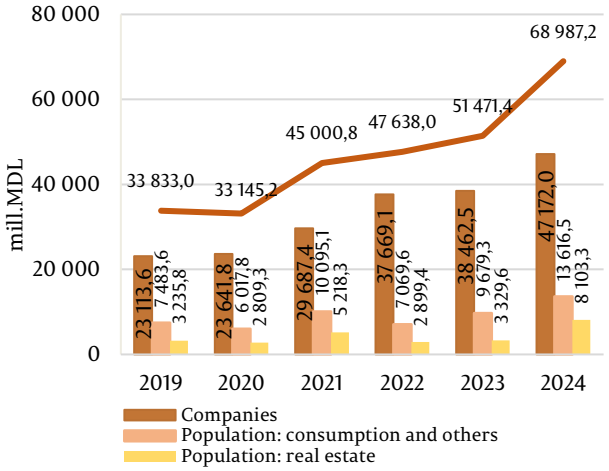
The decrease in the rates on credits has led to an increase in lending, especially for the purchase of real estate, as well as an increased orientation of companies towards financing in national currency.

The value of new credit agreements concluded by banks (Figure 2.2.2) during the year registered an increase of 34.0 percent compared to 2023 (2023/2022: +8.0 percent), mainly as a result of the recovery of the growth rate of lending amid the decrease in rates.

This positive trend has mainly helped the significant increase in the volume of new credits granted to the population of 67.7 percent compared to 2023.

The currency structure of new loans granted was characterized by an increase in the volume of new loans in the national currency, which reached an annual growth rate of 43.6 percent, and by a decrease in demand for loans in foreign currency (and/or linked to the exchange rate) (11.6 percent). This evolution was driven by the reduction in rates, which led to an intensification of lending to households and the migration of companies' preferences from foreign currency to MDL lending.

Figure 2.2.2. Evolution of the total volume of new credits granted by bank



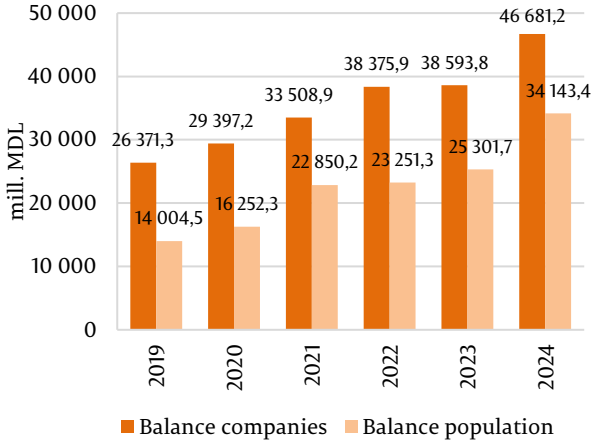
Source: NBM

In 2024, lending to individuals resumed its upward trajectory, driven in particular by the increase in demand for loans for the purchase of real estate. At the same time, there was a slight increase in lending to companies.

The annual growth rate of the balance of loans granted to companies registered a slight increase, with the total balance of 46,681.2 million MDL (+21.0 percent).

At the same time, the balance of loans granted by banks to households stabilized, and the annual growth rate marked an increase of 34.9 percent. Therefore, the share of loans granted to households in the total loan portfolio of banks increased to 42.2 percent (Dec-2023: 39.6 percent) (Figure 2.2.3).

Figure 2.2.3. Evolution of the balance of credits to companies and the population

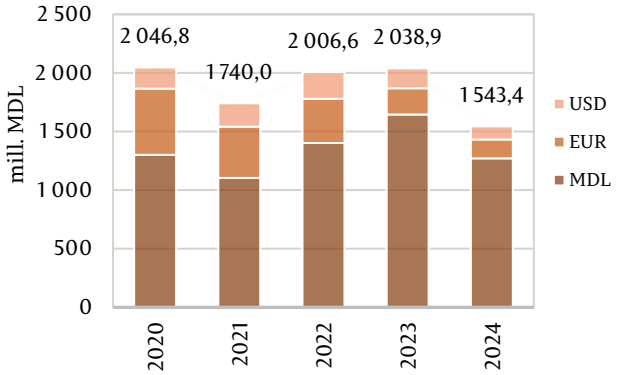


Source: NBM

The indicators characterizing credit quality had a favourable dynamic on the segments of the banking portfolio related to households and credits denominated in EUR.

During the analysed period, the balance of expired loans registered a significant decrease, thus the amount of loans with payment delays of more than 30 days was 29.8 percent lower than at the end of 2023, and they hold a share of 1.8 percent of the banking portfolio. In disaggregation on currencies, loans in EUR registered the lowest rate of expired loans – 1.1 percent, followed by loans in MDL – 2.0 percent (Figure 2.2.4).

Figure 2.2.4. Evolution of the balance of expired credits, by currency



Source: NBM

In 2024, lending standards, after the considerable tightening in 2022-2023, relaxed for both the household sector and non-financial companies.

According to the opinions expressed by respondents regarding bank lending[28], the favourable evolution of lending standards for the population was influenced by interest margins, general lending terms and conditions and a reduced perception of the risk associated with this segment of borrower. At the same time, demand for loans from the population has grown rapidly, which, in combination with the relaxation of lending standards, resulted in the acceleration of lending to households by banks, especially in the field of real estate loans.

[28] The National Bank of Moldova conducts the survey on bank lending quarterly, to determine the financing conditions and the risk profile of the financial-banking system of the Republic of Moldova, with the participation of 11 responding banks.

In 2024, lending standards applied to lending to non-financial companies recorded a general easing trend, influenced mainly by competitive pressure, as well as by risk perception and tolerance. According to respondents, the economic sectors most exposed to credit risk are: agriculture, manufacturing industry, and small and medium-sized enterprises. It is also noted that demand for loans from non-financial companies has returned to an upward trend after the sharp decline in 2022-2023.

The quality of bank loans improved in 2024, of both those granted to companies and those granted to the population.

In accordance with prudential requirements, the rate of non-performing loans granted to companies decreased to 5.5 percent (Dec-2023: 6.8 percent). At the same time, the most negative trend was in the loan portfolio granted to the agricultural sector, which in 2024 recorded an increase in the NPL rate by 3.8 percentage points, thus 19.2 percent of the loans granted to this sector were classified by banks into non-performing categories.

Also, loans granted to individuals engaged in entrepreneurial activity recorded a deterioration in quality, reaching an NPL rate of 14.4 percent. At the same time, favourable dynamics were recorded in the NPL rates of loans granted to the energy industry (-11.7 percentage points), the construction sector (-2.0 percentage points), the services sector (-3.1 percentage points), consumer loans (1.9 percentage points), other loans (-2.3 percentage points), as well as the non-banking financial sector (-0.3 percentage points). These six categories total 27,089.3 million MDL or 33.5 percent of the bank's loan portfolio (Table 2.2.1).

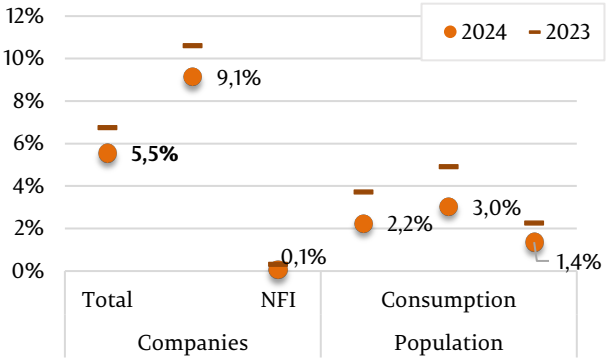
Table 2.2.1. Non-performing loans ratio by types of loans and branches of activity

Name of debtors' branch	Balance 2024, mil. MDL	NPL ratio, %		2023, p.p.
		2024	2023	
Agriculture	5 079,3	19,2	15,4	3,8
Food industry	4 585,2	5,5	5,1	0,4
Construction	2 054,1	3,5	5,5	-2,0
Consumer credits	14 760,9	3,0	4,9	-1,9
Energy industry	1 685,4	0,4	12,1	-11,7
Administative-territorial units/ institutions subordinated to the ATU	1 095,7	0,9	0,0	0,9
Productive industry	3 060,3	8,7	12,2	-3,5
Trade	16 834,3	2,5	3,9	-1,4
Non-banking financial sector	3 487,2	0,1	0,3	-0,3
Acquisition of real estate	18 607,0	1,4	2,3	-0,9
Individuals performing an entrepreneurial activity	1 917,3	14,4	12,3	2,1
Transport, telecommunication and network development	2 550,3	2,9	6,9	-4,0
Field of service provision	2 856,8	5,1	8,1	-3,1
Other credits granted	2 245,0	7,0	9,3	-2,3
Total	**80 824,6**	**4,1**	**5,6**	**-1,4**

Source: NBM

Loans granted to SMEs, which represent 28.3 percent of the total bank loan portfolio, recorded a slight improvement in quality compared to 2023. However, the rate of non-performing loans granted to SMEs remains more unfavourable compared to the average recorded at the companies' sector level (Figure 2.2.5).

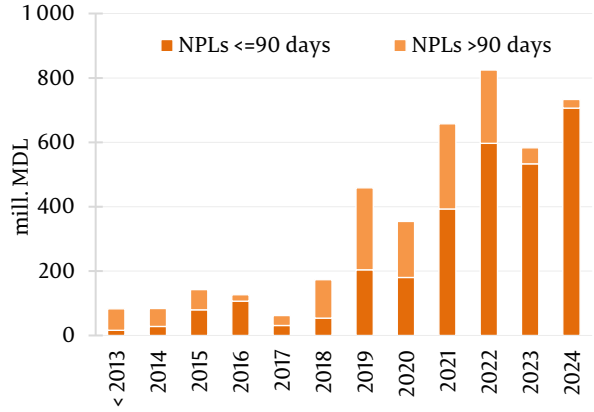
Figure 2.2.5. Rate of non-performing bank loans by type of debtors



Source: NBM

The breakdown of non-performing loans by date of granting shows that over 65.1 percent of the total balance of non-performing loans, existing in banks' balance sheets as of December 2024, represent loans granted in 2021-2024. It's worth noting that they were classified as non-performing by banks, largely on the basis of criteria other than the number of days overdue, which indicates a more cautious and forward-looking approach in the loans quality assessment process (Figure 2.2.6).

Figure 2.2.6. Breakdown of non-performing loans as of December 2024, by date of granting



Source: NBM

The average default rate followed a downward trend in 2024 compared to 2023, both for the portfolio of companies and for the population. At the same time, the highest levels of this indicator in 2024 were recorded in the first quarter, both for the population and for companies.

The share of companies (A-D) new entrants in the category of 90+ days overdue (E) in a period of 12 months was 1.7 percent[29] in 2024 (2023: 1,8 percent), and in the case of the population this indicator was 2.5 percent (2023: 3.5 percent) (Table 2.2.2).

Corporate loans with payment delays between 30 and 90 days (categories C and D) recorded a reduced default rate, migrating at a rate of 18.8 percent to category E in 2024, compared to 20.2 percent in 2023. In contrast, for the population, this rate deteriorated, reaching 20.5 percent in 2024, compared to 13.4 percent in the previous year.

At the same time, a positive evolution compared to 2023 was also recorded the rate of "recovery" of category E, which amounted to 7.8 percent for companies and 10.6 percent for the population.

Table 2.2.2. Debtor migration matrix[30] by the number of days of payment arrears (dec 2023–dec 2024)

Companies	A	B	C	D	E
A	97,2%	0,9%	0,9%	0,4%	0,6%
B	61,0%	14,0%	6,9%	8,5%	9,7%
C	46,7%	5,8%	11,3%	7,1%	29,1%
D	23,5%	4,8%	7,9%	9,3%	54,5%
E	6,8%	0,5%	0,7%	1,3%	90,8%

Population	A	B	C	D	E
A	97,5%	0,9%	0,7%	0,5%	0,4%
B	40,0%	29,7%	5,5%	7,9%	16,9%
C	32,6%	9,3%	13,0%	9,0%	36,1%
D	17,5%	5,1%	7,8%	8,3%	61,2%
E	3,7%	5,3%	1,0%	0,4%	89,6%

Source: NBM

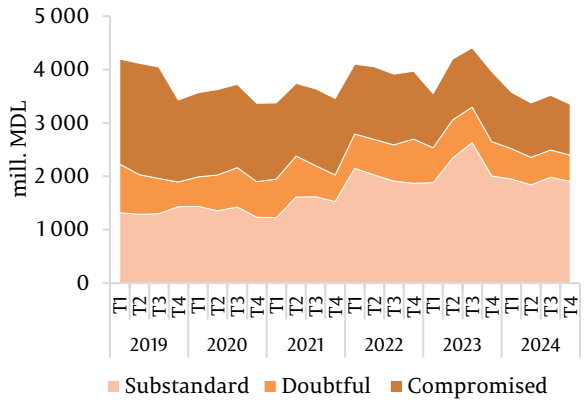
The structure of non-performing loans by risk category shows a decrease in the balance of loans classified in the "dubious" and "compromised" risk categories, which resulted in the total decrease in the stock of non-performing loans.

[29]Average quarterly migration rate of unique debtors between categories: A - delay up to and including 15 days, B - delay between 16 and 30 days, C – delay between 31 and 60 days, D - delay between 61 and 90 days, E - delay over 90 days

[30]Interpretation: the spaces to the right of the diagonal axis represent the migrations of debtors into more unfavourable categories (more days outstanding), the percentage of the diagonal axis reflects the share of loans remaining in the same category, and the spaces to the left - migrations into more favourable categories.

Thus, as of December 31, 2024, non-performing loans were still concentrated, mainly, in the "substandard" risk category (Figure 2.2.7), with a share of 56.8 percent of total non-performing loans by sector.

Figure 2.2.7. Structure of non-performing loans by risk category in dynamics



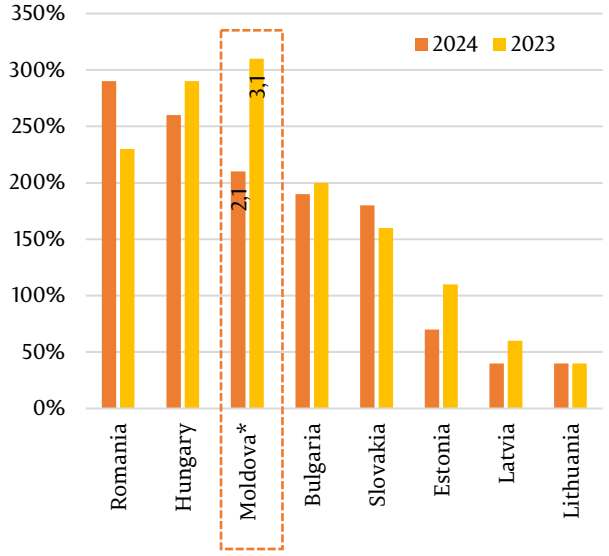
Source: NBM

It is worth noting that the way to determine and define "performing loans" differs between countries, as do the regulations regarding the write-off of non-performing loans from banks' balance sheets.

It should be noted that in the Republic of Moldova a more conservative approach is applied, when classifying non-performing loans, a number of qualitative factors[31] additional to the number of days overdue.

The rate of non-performing loans, according to IFRS standards, was at a higher level compared to most countries in the region (Figure 2.2.8), being surpassed only by Romania and Hungary.

Figure 2.2.8. The non-performing loans ratio in the Republic of Moldova compared to the rates of the countries of the region



Source: NBM, IMF

The degree of coverage of non-performing loans with provisions has decreased but remains sufficient to ensure the protection of banks' solvency from loan default losses.

At the end of the analysed year, 53.5 percent of non-performing loans were covered by prudential provisions, recording a decrease of 0.5 percentage points during 2024. This dynamic is mainly due to the reduction of loans classified in the "compromise" category and the related provisions. At the same time, the coverage rate of loans and advances classified as impaired assets (in Stage 3 according to IFRS 9) with accounting provisions increased during the year and remained above the prudential level of coverage of 64.2 percent at the end of the year (Figure 2.2.9), thus, almost 2/3 of the amount of loans and advances being covered by accumulated impairment, which allows to protect banks ' solvency from possible losses in case of non-repayment of these loans.

In order to identify structural vulnerabilities within the banks' loan portfolio, as well as sub-portfolios associated with economic sectors, a sensitivity analysis of the own funds to a deterioration in loan quality was performed. Thus, within the analysis the impact of a 1.0 percentage point increase in the non-performing loan rate on the own funds ratio was simulated.

[31] Banks in the Republic of Moldova classify loans in accordance with the Regulation No. 231/2011 on the classification of conditional assets and liabilities, approved by the Decision of the Board of Directors of the NBM no. 231/2011 (the provisions of which are considered to have a more conservative approach compared to the practices of other countries), which stipulates that when assessing conditional assets and, the bank shall take into account at least the ,following:
a) the counterparty's current financial situation assessed in terms of its ability to honour its commitments;;
b) compliance with the terms of the contract;
c) the counterparty's ability to pay based on historical financial performance and estimated future cash flows;
d) the current market value of the pledged item and its degree of liquidity on the Moldovan market;
e) the counterparties business environment, the state of the economic sector in which it operates and its position within this sector;
f) the credit history of the counterparties compliance with its obligations under the credit agreements;
g) compliance with the business plan or technical and economic rationale (including subsequent amendments and additions);
h) the financial situation and payment capacity of the person providing a personal guarantee (surety) or the insurer;
i) other factors which may affect the counterparty's compliance with the terms of the contract.

The branch that would have the greatest impact on the erosion of the own funds ratio, given the increase in non-performing loans, would be the branch related to loans granted for real estate/their procurement and construction.

In the breakdown by branches, the greatest individual impact of the simulated scenario on the own funds ratio is attested in the case of the following six branches, the limits of which are within the values indicated below:

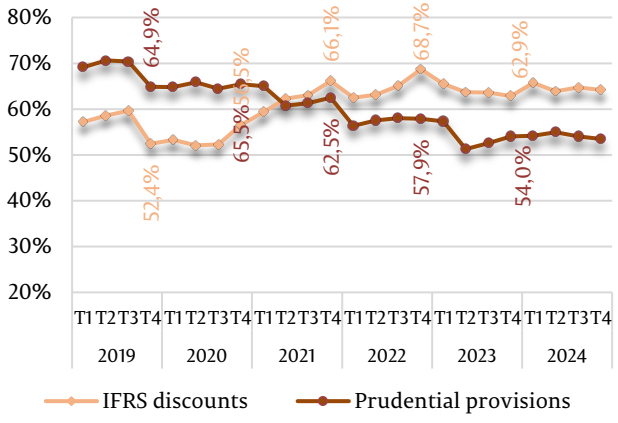
- agriculture: up to -0.08 percentage points;
- real estate/construction and development: from -0.01 percentage points to -0.18 percentage points;
- consumption: up to -0.10 percentage points;
- trade: from -0.01 to -0.12 percentage points;
- other loans: up to -0.09 percentage points.

In the case of the other six branches (energy, construction, industry, transport, services and loans granted to the non-banking financial sector) the severity of the impact falls between 0 and -0.04 percentage points.

The results of stress simulations show that the banking sector is resilient, with banks resisting stress tests in adverse macroeconomic scenarios.

The NBM regularly conducts stress tests to quantify the resilience of the banking sector.

Figure 2.2.9. Evolution of non-performing loan coverage ratio

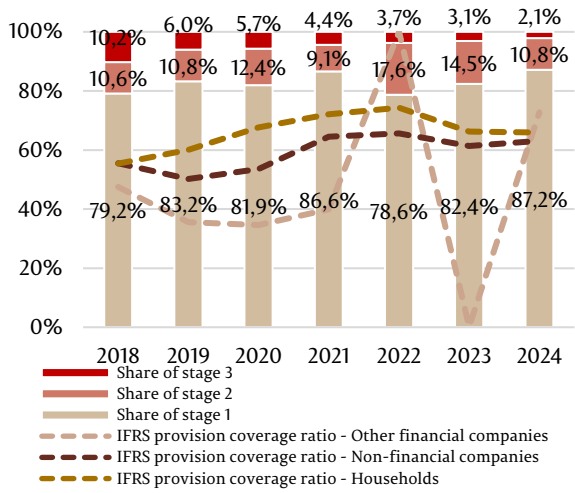


Source: NBM

The classification of loans and advances by stages of impairment according to IFRS 9, at the end of 2024, recorded a slight adjustment compared to the same period of the previous year (Figure 2.2.10). The share of loans and advances classified in *Stage 2* – considered an early indicator of possible deterioration in portfolio quality – amounted to 10.8 percent (2023: 14.5 percent). At the same time, *Stage 3* loans continued the downward trend that began in 2018, reaching 2.1 percent at the end of the year. The degree of coverage with provisioning reflects the estimated level of recoveries from bank exposures. In this context, the portfolio of loans granted to financial institutions other than banks have undergone a significant change compared to the same period of the previous year, reaching 72.8 percent (2023: 0.2 percent).

This is followed by loans to household, with a share of 65.9 percent, and by exposures to non-financial companies, which reached 63.1 percent.

Figure 2.2.10. Dynamics of classification by stages of impairment according to IFRS 9



Source: NBM

The results of stress simulations show that the banking sector, overall, in moderate-severity scenarios, shows solid resilience.

Bank solvency is assessed through macroeconomic crisis simulations, estimating the impact on the own funds adequacy ratio. Stress tests are not a forecast, but a hypothetical analysis designed to answer the question "what would happen if?".

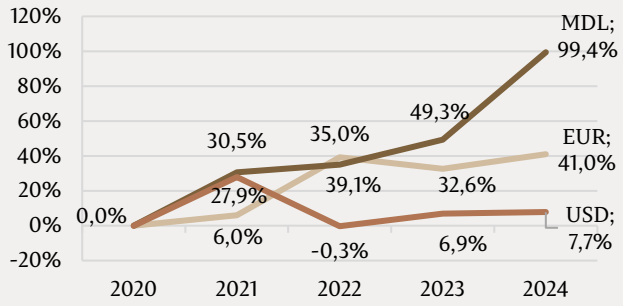
In the adverse stress scenario, which reflects a severe economic crisis marked by stagflation and declining GDP, all banks would continue to comply with the regulatory requirements regarding the own funds ratio.

Box 1. Lending in foreign currency

Foreign currency lending increased in 2024, and the increase in MDL loans was mainly driven by loans to households.

The portfolio balance in EUR increased by 6.3 percent compared to the same period in 2023, amounting to 733.5 million EUR in the banking sector or 17.5 percent of the total loan portfolio. At the same time, the share of USD loans granted to companies and households had a significantly lower share compared to loans in EUR, constituting 4.2 percent (2023: 5.0 percent) (Figure 2.2.11).

Figure 2.2.11. Cumulative growth rate of credit balance on currency (2020 = 0 percent)

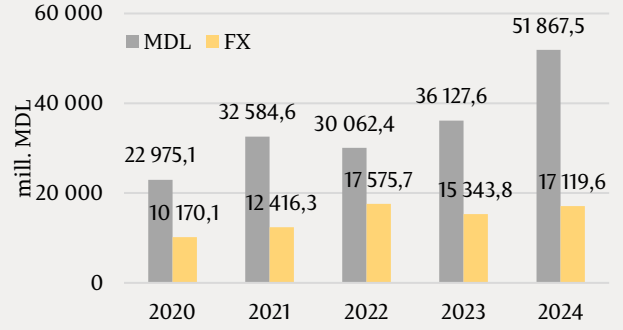


Source: NBM

In 2024, the downward trend in demand from companies for foreign currency loans continues.

In 2024, the volume of new loans granted in foreign currency and linked to the exchange rate constituted 25.0 percent of the total amount of new contracts concluded by banks or 17,119.6 million MDL (+11.6 percent compared to the previous year, equivalent in MDL) (Figure 2.2.12). This evolution is also driven by the increase in general demand for loans from companies.

Figure 2.2.13. Dynamics of the volume of new loans in MDL and foreign currency



Source: NBM

At the end of 2024, foreign currency loans accounted for 21.7 percent of the total portfolio (2023: 25.8 percent). Loans in MDL linked to the exchange rate amounted to 3.1 percent of the total gross loan portfolio (1,712.1 million MDL).

The risk profile of foreign currency lending has improved compared to previous periods, amid an overall decline in foreign currency lending in 2024, with the NPL rate falling below that of MDL lending.

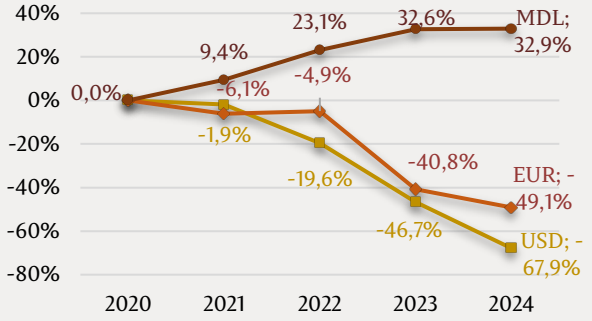
According to prudential requirements, the rate of non-performing loans denominated in foreign currency continued its favourable trend and decreased in 2023 to 3.7 percent, of which the rate of loans in EUR constituted 3.2 percent and the rate of loans in USD – 4.3 percent (Table 2.2.3). This favourable trend was due to the reduction in the balance of non-performing loans in both EUR and USD (Figure 2.2.13).

Table 2.2.3. Non-performance ratio by type of debtors and currencies

Debtor/ Currency	Companies		Population		TOTAL
	NPL ratio	Balance, mil.MDL	NPL ratio	Balance, mil.MDL	
MDL	6,8%	28 020,0	2,2%	33 553,1	4,3%
EUR	3,1%	13 951,4	5,6%	174,3	3,2%
USD	4,3%	3 389,8	8,6%	23,9	4,3%
Attached	7,5%	1 320,0	5,6%	392,1	7,1%
TOTAL	5,5%	46 681,2	2,2%	34 143,4	4,1%

Source: NBM

Figure 2.2.12. Cumulative rate of change in NPL balance by currency (2019 = 0 percent)



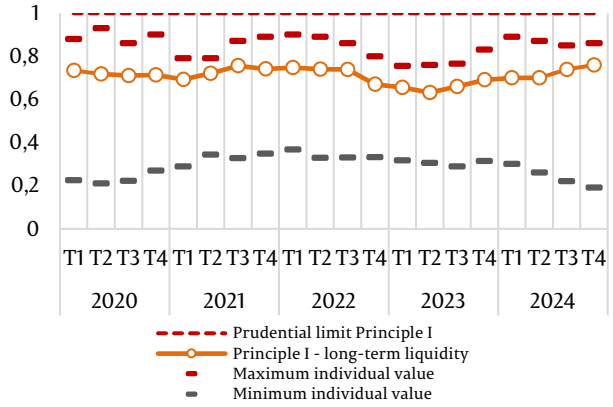
Source: NBM

2.3. Liquidity risk

During 2024, banks have recorded a favourable liquidity position, with liquidity indicators recording higher levels compared to regulatory requirements.

The long-term liquidity indicator (principle I)[32] calculated for the banking sector increased during the year from 0,70 to 0.76 (regulatory limit ≤1.0) (Figure 2.3.1), and at the individual level, no bank recorded a value above the established limit.

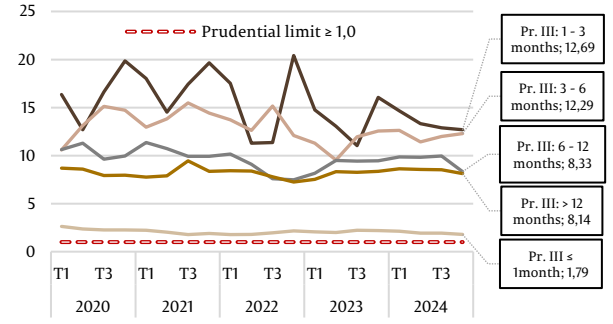
Figure 2.3.1. Evolution of the long-term liquidity indicator



Source: NBM

The values of the liquidity indicator by maturity bands (principle III) were placed above the minimum limit for each maturity band, decreasing compared to the previous year on all intervals (Figure 2.3.2). Aggregated over the banking sector, the narrowest liquidity corridor is ≤1 month (1.79), but still sufficiently above the regulated minimum limit.

Figure 2.3.2. Liquidity indicator dynamics by maturity bands



Source: NBM

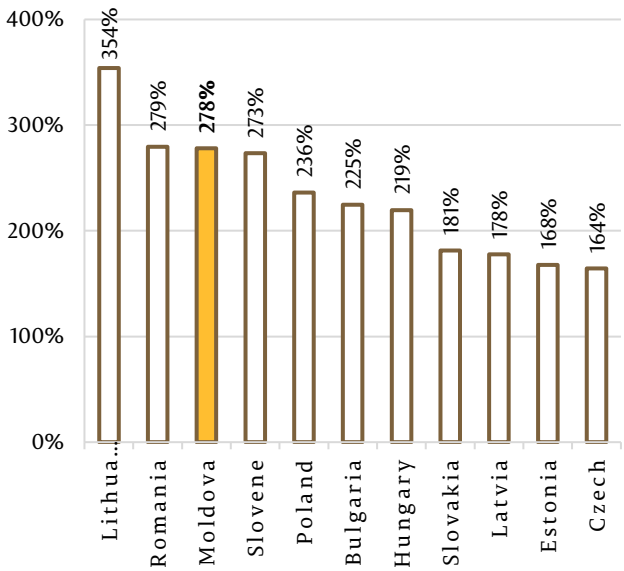
[32] Principle I of liquidity (Long-term Liquidity) is the ratio of long-term assets to long-term liabilities, its value must be ≤1.

Banks have sound liquidity reserves and inflows relative to liquidity outflows.

The aggregate value of the LCR for the domestic banking sector recorded 278.1 percent at the end of 2024 (-4.03 percentage points compared to the previous year). All banks maintain a level of the indicator above the minimum regulatory limit.

Compared to other countries, the aggregate level of the LCR in the domestic banking sector is above the average of EU countries in the region (Figure 2.3.3).

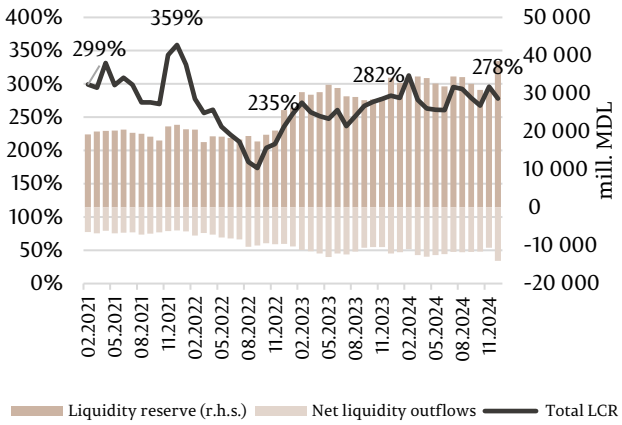
Figure 2.3.3. LCR indicator in relation to EU countries



Source: NBM

As of December 31, 2024, the LCR indicator recorded a value of 278 percent, down by 4 percentage points compared to the same period of the previous year due to the increase in the volume of net liquidity outflows by 14.4 percent (Figure 2.3.4).

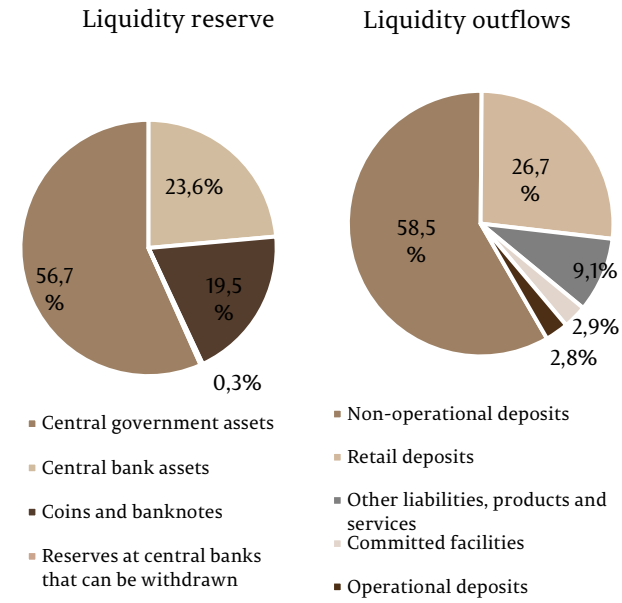
Figure 2.3.4. Evolution of the LCR indicator



Source: NBM

A significant share of the total liquidity reserve within the LCR is held by central government assets (56.7 percent), followed by central bank assets (23.6 percent) and coins and banknotes (19.5 percent), while liquidity outflows are generated by non-operational deposits (58.5 percent) and retail deposits (26.7 percent) (Figure 2.3.5).

Figure 2.3.5. Structure of the reserve and liquidity outflow from the LCR indicator as of December 31, 2024



Source: NBM

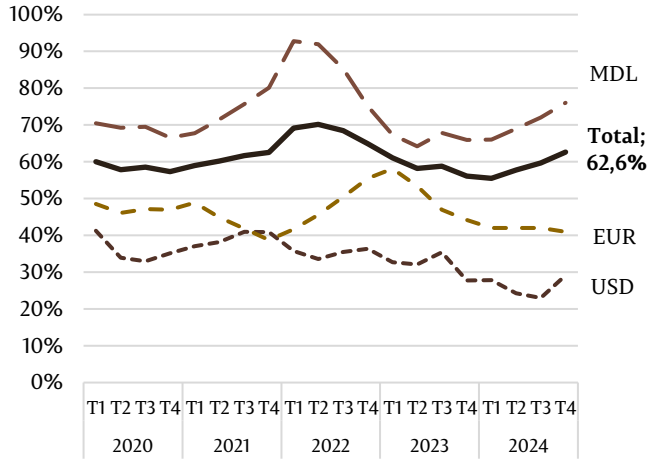
Deposits remain the main source of financing for the banking sector in the Republic of Moldova.

The balance of deposits increased compared to the previous year and amounted to 129,091.7 million MDL (+13.4 percent). At the same time, the share of deposits in total assets amounted to 75.9 percent, up by 1.9 percentage points compared to the previous year. From the point of view of the currency in which they are established, the share of deposits in MDL is 64.1 percent of total deposits, up by 1.0 percentage points compared to the previous year, and deposits in foreign currency – 35.9 percent, respectively. At the same time, at the end of 2024, demand deposits accounted for 62.3 percent of total deposits, and term deposits accounted for 37.7 percent. It should be noted that the growth rate of sight deposits (+18.8 percent) and time deposits (+5.4 percent) is faster compared to 2023.

The "loans/deposits" ratio increased by 6.5 percentage points compared to 2023, registering a value of 62.6 percent, which denotes an increase in financial intermediation against the background of slower growth in the rate of deposit attraction, compared to the more accelerated growth in lending.

In the breakdown by the main currencies present in the banks' balance sheets, the highest increase in the "loans/deposits" indicator was recorded for MDL (+10.6 percentage points compared to the previous year), given the faster growth rate of loans and slower growth of deposits in MDL. At the same time, the loans and deposit ratios in USD increased by 1.4 percentage points compared to the end of 2023, while the ratio in EUR decreased by 3.0 percentage points due to the more pronounced growth of financing in the single European currency compared to the growth rate of the balance of loans (Figure 2.3.6).

Figure 2.3.6. Evolution of the loans/deposits ratio



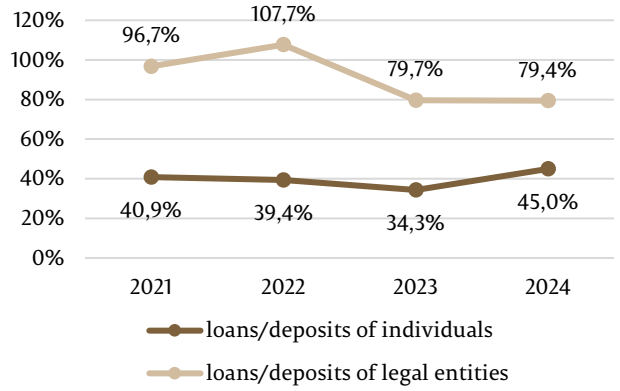
Source: NBM

The population continued to maintain its net lending position of the banking sector.

According to the separate analysis by customer category, the "loans/deposits" ratio in the retail segment recorded an increase from 34.3 percent to 45.0 percent during 2024, as a result of the faster acceleration of lending compared to the growth rate of deposits of individuals (Figure 2.3.7).

It should be noted that during 2024 the sector of non-financial companies remained a net creditor of the banks. Thus, the "loans/deposits" ratio in the non-financial companies segment decreased from 79.7 percent to 79.4 percent, given the decrease in the balance of loans granted to non-financial companies.

Figure 2.3.7. Evolution of the loan/deposit ratio by customer category



Source: NBM

The liquidity stress test exercises did not identify liquidity issues in banks. Banks remain resilient to liquidity risk, with solid reserves of liquid assets to withstand stress. Potential liquidity shortfalls are only evident in the most severe scenarios, with a lower probability of materialization.

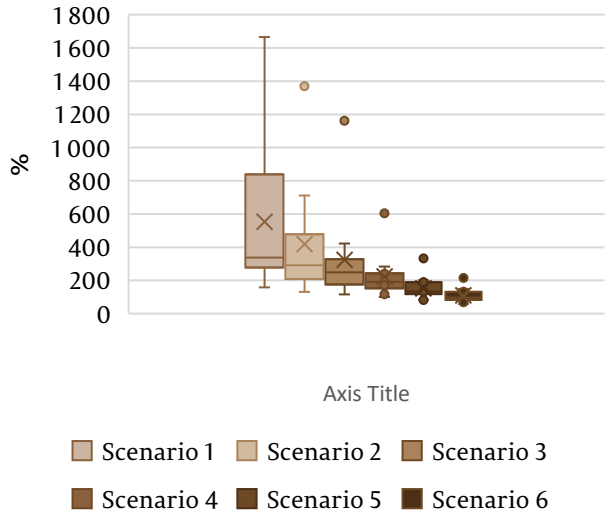
To identify risks and mitigate the negative impact of a potential crisis situation in the banking sector, liquidity stress test was performed based on the liquidity coverage indicator of banks. Within the LCR stress test, 6 stress scenarios were simulated (Figure 2.3.8).

For each scenario, individual stress parameters were used, relating to haircuts, liquidity outflows and liquidity inflows. The severity of the scenarios was calibrated based on a gradual increase in impact from the first scenario (the least severe) to the fifth scenario (the most severe). At the same time, in scenario 6, the stress parameters in the case of cash outflows were calibrated based on the most severe historical evolutions, related to the period 2014-2024.

The results obtained due to applying the first 4 stress scenarios on total liquidity demonstrate that no bank is facing liquidity problems.

The liquidity shortage only becomes evident starting with scenario 5. Most banks are vulnerable only in the most severe scenarios. The breakdown by currency demonstrates that the banking system has sufficient reserves of liquid assets in MDL, and reserves and net inflows in foreign currency (EUR and USD) would not cover potential liquidity risks in the case of the most severe scenarios (scenario 5 and scenario 6).

Figure 2.3.8. Breakdown of the stressed liquidity coverage ratio (LCR)



Source: NBM
The rectangle represents the range of data between quartile 1 (25%) and quartile 3 (75%), × is the mean, and — is the median. The ends of the lines, extending from the rectangle, show the variation of the data beyond the quartiles, to values that are not considered outliers. Points outside the rectangle are outliers, which are values that fall outside the range considered normal.

Overnight loans/deposits

During 2024, like in the previous year, the National Bank continued the easing of monetary measures, including by reducing monetary policy rates.

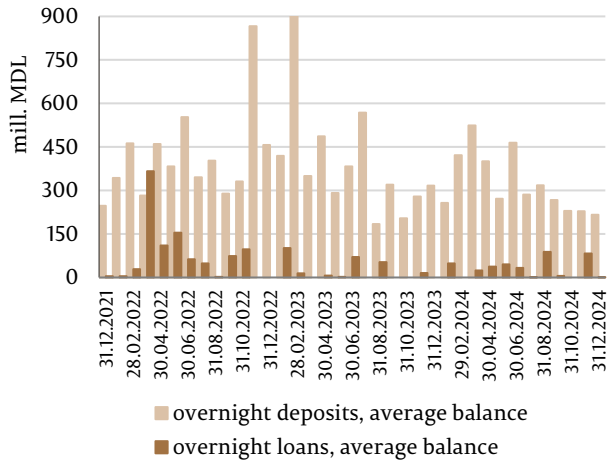
Interest rates on standing facilities continued

their downward trend, in the first half of 2024, the rate was reduced three times (by 0.50 and 0.15 percentage points each), while the symmetrical corridor around the base rate remained at ±2 percentage points.

The total volume of overnight deposits amounted to 83,909.5 million MDL (2023: 96,914.9 million MDL), with the average daily stock standing at 322.9 million MDL, below the level of 395.4 million MDL recorded in the previous year.

The average monthly balance of banks' overnight placements amounted to uneven values throughout the year, with the maximum (524.2 million MDL) in March and the minimum in December (216.4 million MDL) (Figure 2.3.9).

Figure 2.3.9. Evolution of the average monthly balance of overnight deposits/loans



Source: NBM

Regarding the overnight credit facility, in 2024, banks borrowed from the NBM through overnight credits slightly above the level of last year.
The total amount of overnight loans granted by the NBM in 2024 amounted to 7,332.0 million MDL, an increase of about 12.7 percent compared to the previous year (6,507.0 million MDL). The monthly maximum of overnight loans granted in 2024 was recorded in August, with a balance of 88.7 million MDL.

Money market operations of the NBM

The certification of a large liquidity surplus on the money market in the first quarter of the year determined the change in the direction of evolution of the CBN's daily balance, stopping its decline and positioning itself on an upward movement. Having recorded the annual maximum value of 14,092.3 million MDL in March, the daily balance of the CBN moved downward, with part of the liquidity migrating to the state securities market (the Ministry of Finance carried out the largest issuances in June and July) and the market for loans granted to the primary sector (materialized in the doubling of their volume) and reaching the annual minimum of 6,069.5 million MDL in November, when the NBM intervened the most as a seller on the foreign exchange market and investments in state securities increased considerably. By the end of December, the CBN's daily balance was corrected and amounted to 9,759.8 million MDL at the end of the year.

Issuance of NBM certificates

The NBM conducted the CBN placement auctions with a weekly frequency, a 14-day maturity and the announcement of the maximum interest rate (the NBM base rate). The gradual compression of the daily balance of the NBM certificates was less felt in the quantitative parameters (the volume of liquidity drained through issued certificates and the average annual stock of the CBN placements), which decreased slightly compared to the previous year. The average annual balance of NBM certificates amounted to 9,657.1 million MDL compared to 10,923.6 million MDL, the value recorded in 2023.

Repo operations

Repo operations were conducted weekly through the unlimited auction procedure, for a period of 14 days and at a fixed rate (the NBM base rate plus a margin of 0.25 percentage points). The decrease in liquidity surplus on the money market materialized in the insignificant recourse of banks to liquidity providing operations. Thus, the volume of the delivered liquidity (3,106.0 million MDL) was significantly higher than in the previous year (125.0 million MDL).

2.4. Market risk

Evolution of the base rate and interest rates applied by banks

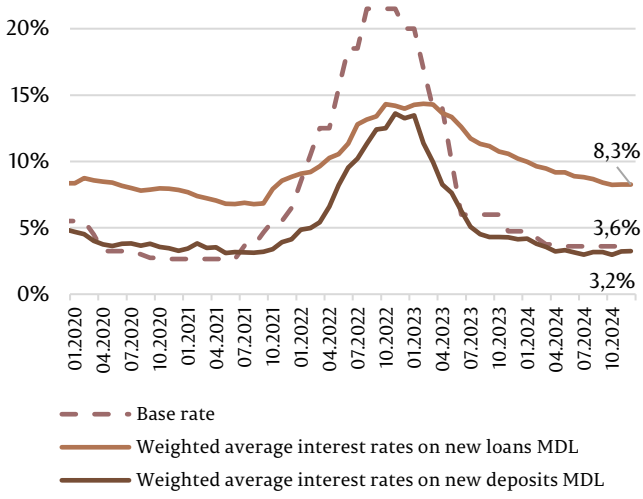
In 2024, the base rate applied to the main monetary policy operations of the NBM decreased in the first half of the year and then remained unchanged, in response to the stabilization of the inflationary trend.

The corridor system of interest rate on standing facilities used by the NBM during 2024 continued to signal the general stance of monetary policy, contributing to the easing of money market interest rates, as the close relationship between the monetary policy rate and market interest rates is an important factor for monetary transmission.

During 2024, there were three base rate changes were made to the base rate. At the end of 2024, the base rate was 3.6 percent, 1.15 percentage points lower than at the end of the previous year.

Interest rates applied to new loans and deposits have reacted appropriately, and the dynamics of their decline was comparable to the monetary policy instrument. Monthly weighted average interest rates on new deposits attracted and on new loans granted gradually decreased during 2024, with the more pronounced decline in the case of loans (Figure 2.4.1).

Figure 2.4.1. Evolution of base rate and weighted average interest rates of new loans and deposits in MDL (total by banking sector, total by terms)



Source: NBM

In general, the strategy of small banks to offer higher deposit rates while charging higher interest rates on loans compared to the banking market average is maintained.

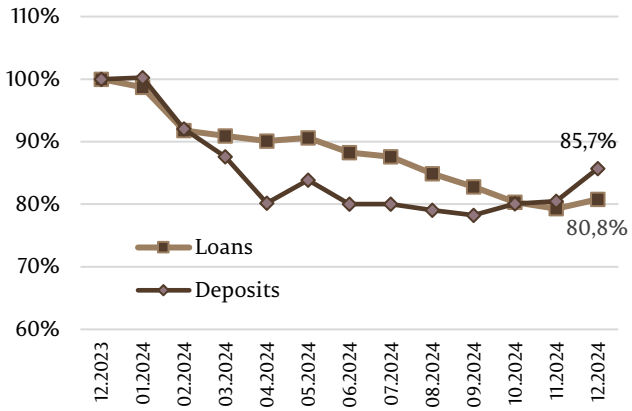
The weighted average interest rate charged during 2024 on new loans granted in the national currency at the banking sector level amounted to 9.5 percent for loans granted to households and 8.3 percent for loans granted to legal entities. At the level of individual banks, at the end of the year, the average effective rates charged on new loans in the national currency varied between 8.0 and 10.6 percent for loans granted to legal entities, and between 7.4 and 10.4 percent for loans granted to households.

At the same time, the weighted average interest rate charged during 2024 on new deposits attracted in MDL at the banking sector level amounted to 3.6 percent for deposits attracted from households, and 3.0 percent for deposits attracted from legal entities. The average effective rates charged by banks at the end of the year ranged between 2.0 and 4.5 percent for households, with the same range charged on legal entities.

The analysis in dynamics of rates on new loans and deposits granted by banks to households during 2024 indicated a generally downward trend for lending and deposit rates in MDL, rates for foreign currency deposits and rates on foreign currency loans, with the exception of foreign currency loans to households, the rates for which remained relatively stable.

The interest rate on new loans granted in MDL to households at the end of 2024 was 19.2 percent lower compared to the end of the previous year. The most pronounced decrease occurred in February, when the weighted average rate on new loans granted decreased by 6.9 percent compared to the previous month (Figure 2.4.2).

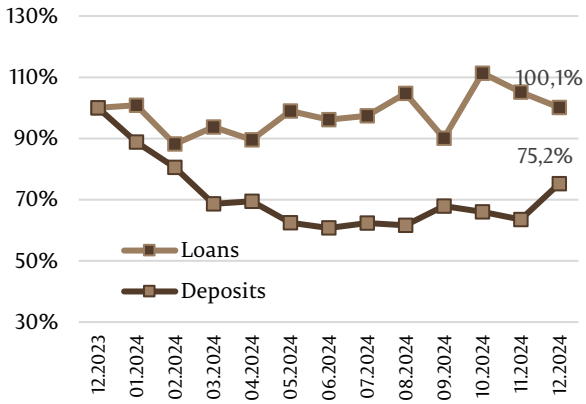
Figure 2.4.2. Evolution of average rates on new loans and deposits granted to households, in national currency (dec.2023 = 100%)



Source: NBM

In the case of new foreign currency loans to households, they remained relatively stable in 2024, recording an increase in the weighted average rate by 0.14 percent. The evolution of this rate reflected the reaction of other central banks in developed countries to global macroeconomic trends (Figure 2.4.3).

Figure 2.4.3. Evolution of average rates on new loans and deposits granted to households, in foreign currency (dec.2023 = 100%)



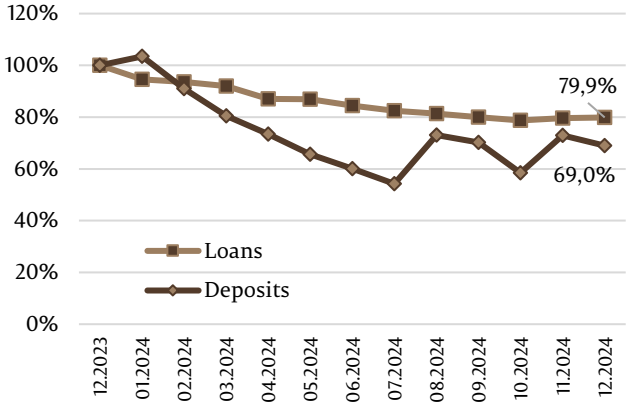
Source: NBM

In the case of new deposits in the national currency attracted from households during 2024, the weighted average interest rate decreased by 14.3 percent. The most pronounced decreases occurred in February and April, when the weighted average interest rate decreased by 8.2 and 7.4 percent, respectively, compared to the end of 2023. For those in foreign currency, the decrease was stronger, by 24.8 percent, with an upward trend recorded towards the end of the year.

Rates on new loans granted in national currency and those denominated in foreign currency showed a downward trend for the legal entities segment. As for deposits attracted in national currency, rates recorded a decrease for both households and legal entities. Rates on foreign currency deposits decreased sharply for households and to a lesser extent for legal entities.

The weighted average rate on new loans granted in the national currency to legal entities decreased compared to the end of 2023, its dynamics reaching a level of 79.9 percent, compared to the reference period (Figure 2.4.4).

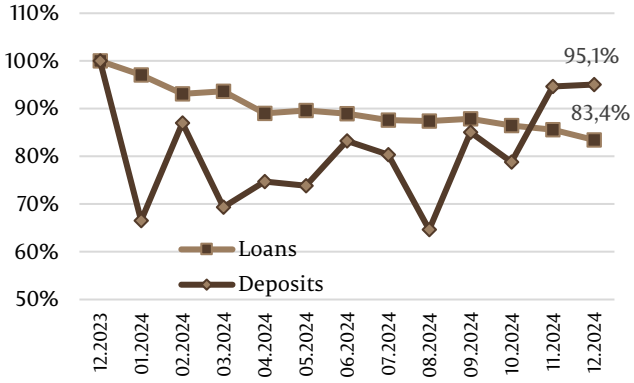
Figure 2.4.4. Evolution of average rates on new loans and deposits granted to legal entities, in national currency (dec.2023 = 100%)



Source: NBM

The weighted average rate on new loans in foreign currency to legal entities followed a similar trend. At the end of 2024, it reached 83.4 percent compared to 2023, being lower than the weighted average rate on new foreign currency loans to households (Figure 2.4.5).

Figure 2.4.5. Evolution of average rates on new loans and deposits granted to legal entities, in foreign currency (dec.2023 = 100%)



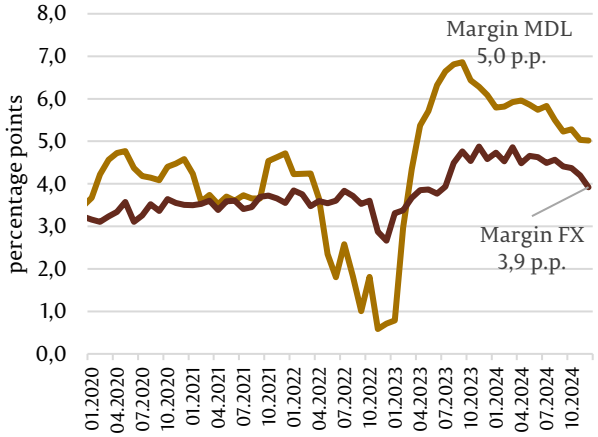
Source: NBM

The average rates of new foreign currency deposits attracted from legal entities decreased less. They amounted to 95.1 percent at the end of the reporting year compared to the end of 2023. It is worth noting that this dynamics was driven by a relatively strong growth in the last months of 2024.

During the reference period, the rates on new deposits granted to households in foreign currency and the rates on new deposits granted to legal entities in national currency had a sharper decrease than those on loans. At the same time, the rates on new deposits granted to legal entities in foreign currency and new deposits granted to households in national currency increased more compared to loans.

Thus, the interest margin on operations in the national currency decreased by 0.8 percentage points compared to December 2023, constituting 5.0 percentage points, and the interest margin on operations in foreign currency also decreased by 0.8 percentage points compared to December 2023, constituting 3.9 percentage points (Figure 2.4.6).

Figure 2.4.6. Evolution of interest margin on operations in national and foreign currency

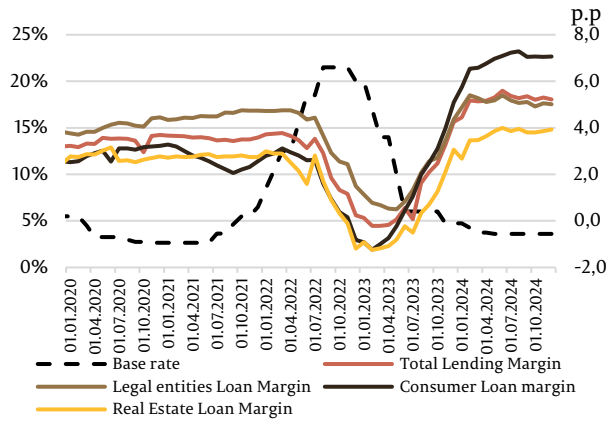


Source: NBM

Also, during 2024, a slight increase is observed, followed by a stabilization of the total credit margin, against the background of a similar deposit rate dynamics to that of loans. By type of loans, the margin for

consumer loans increased the most, which amounted to 7.1 percentage points at the end of the year, followed by the margin for loans granted to legal entities with a value of 5.0 percentage points, and real estate loans with a value of 3.9 percentage points (Figure 2.4.7).

Figure 2.4.7. Evolution of interest margin for different types of loans



Source: NBM

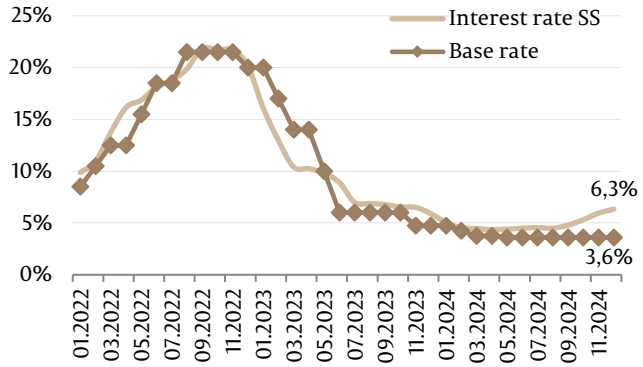
SS issues: interest rates

Interest rates on the SS market continued the gradual downward movement in the first four months of the year, after which they registered a relatively smooth evolution. In September, interest rates initiated an upward trend that they followed until the end of the year, reaching the annual maximum of 6.3 percent in December.

The evolution of interest rates on the primary state securities market reflected the combined influences exerted during 2024 by the persistence of excess liquidity in the banking sector and, implicitly, by the interest shown by investors for this type of investments, as well as by the reductions made on the NBM's monetary policy rate.

Interest rates on SS continued to decline relatively sharply in the first part of the year. The downward trend of these rates was interrupted in September and by the end of the year they experienced a continuous rise, driven by investors' expectations regarding future inflationary pressures (Figure 2.4.8).

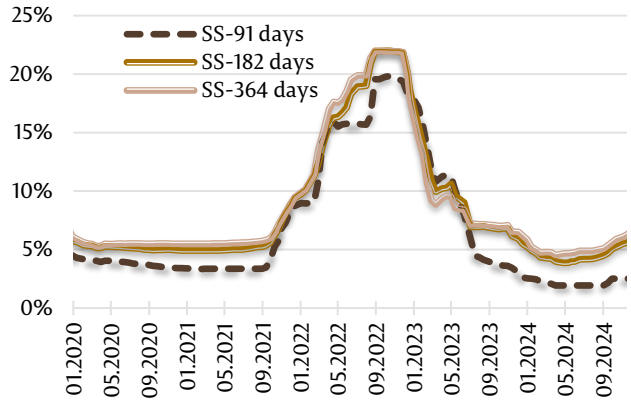
Figure 2.4.8. Dynamics of the SS interest rate compared to the evolution of the base rate



Source: NBM

These evolutions were also associated with a distancing of interest rates on 182-day and 364-day securities, which oscillated at the top of the rate corridor and exceeded its upper limit in the last quarter of the year, compared to those with a maturity of 91 days, which remained predominantly close to the deposit facility interest rate (Figure 2.4.9).

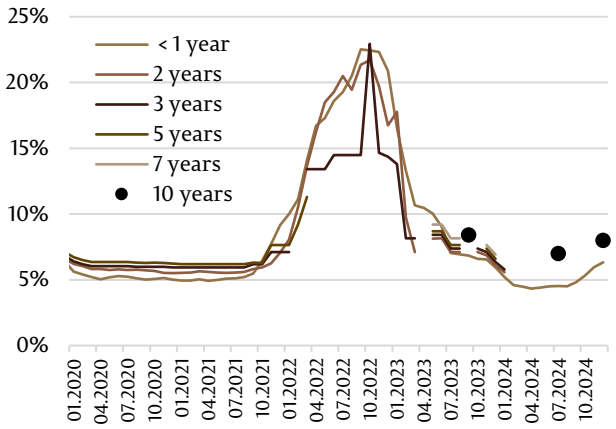
Figure 2.4.9. Dynamics of the SS interest rate with maturity up to one year



Source: NBM

Against this background, the total volume of SS put into circulation in 2024 was the highest in historical perspective (35,762.4 million MDL) (Figure 2.4.10).

Figure 2.4.10. Dynamics of interest rates on SS maturing in one year and beyond



Source: NBM

The yields of state securities with a maturity of up to one year traded on the secondary market followed the trend of the primary market of SS, reflecting the changes made to the monetary policy rates of the NBM. Thus, the maximum level of the average monthly interest rate, of 5.53 percent, was recorded in October, and the minimum of 3.83 percent in May.

The annual average also registered a notable decrease: from 8.62 percent, the value recorded in 2023, to 4.93 percent in 2024. However, the amplitude of the declines was heterogeneous from the perspective of the maturity of the securities, being more pronounced for 91-day securities (-7.00 percentage points). The annual weighted average nominal interest rates on SS traded during the last two years at auctions on the primary market, broken down by maturity, are shown in Table 2.4.1.

Table 2.4.1. Nominal annual weighted average weighted average nominal SS interest rates by maturity (%)

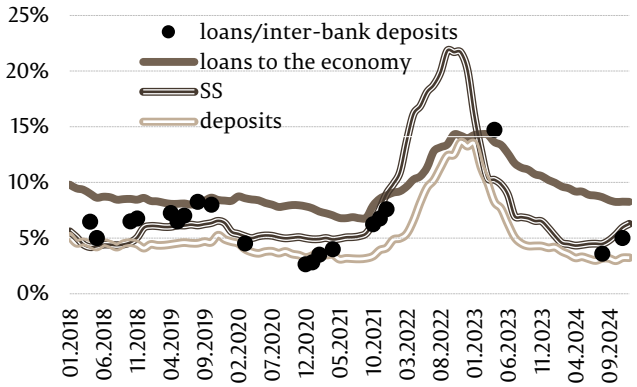
	TB 91 days	TB 182 days	TB 364 days	SS >1 year	GB 2 year	GB 3 year	GB 5 years	GB 7 years	GB 10 years
2023	9,21	8,80	8,15	8,62	9,31	8,56	7,36	8,60	8,42
2022	2,21	4,60	5,26	4,93	5,14	5,24	5,94	5,60	7,61

Note: actual interest rates are shown for GB
Source: NBM

In the hierarchy of yields on the financial market, the primacy was maintained for the second consecutive year by the interest rates on loans granted to the economy. However, the interest rates on SS resumed and then accelerated their growth in the last quarter of

the year, distancing themselves significantly from those on deposits. The margin between the interest rates on loans granted and deposits placed maintained the amplitude characteristic of the previous year (Figure 2.4.11).

Figure 2.4.11. Evolution of financial market interest rates



Source: NBM

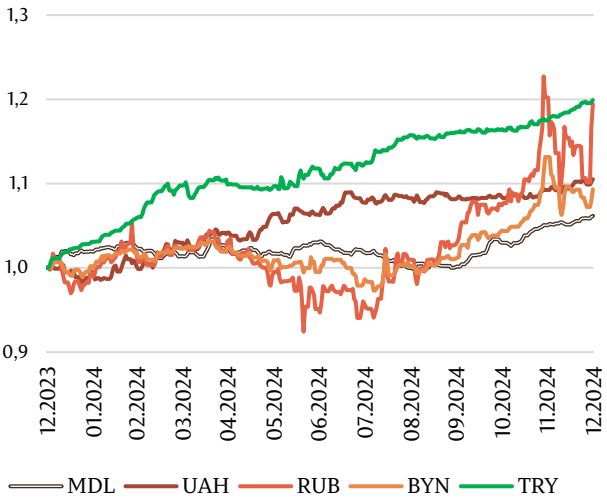
Currency risk: evolution of the MDL exchange rate

In 2024, the MDL appreciated on average against both the USD and the EUR by 2.0 percent.

According to the end of the year exchange rate, the MDL depreciated by 6.2 percent against the USD, while it appreciated slightly by 0.2 percent against the EUR.

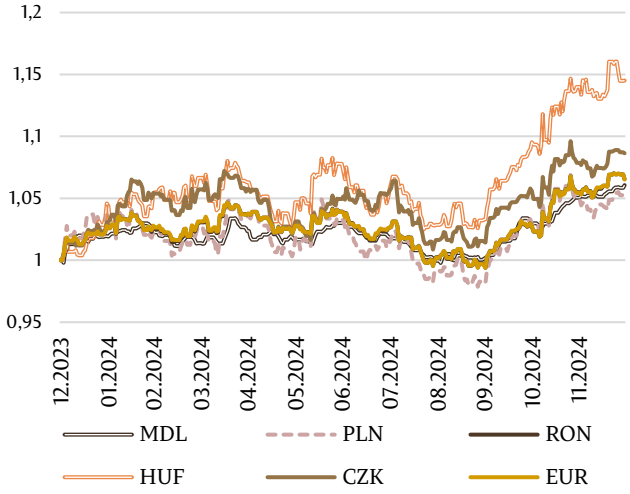
During the reference period, most of the currencies of the Republic of Moldova's trading partners depreciated against the USD, the Turkish lira, the Russian ruble and the Hungarian forint depreciated more against the USD. More accelerated depreciation trends against the USD were observed mainly in the fourth quarter of the year, when the US currency outperformed other currencies amid the results of the US elections and investors' expectations regarding the evolution of the main economies (Figure 2.4.12 and Figure 2.4.13).

Figure 2.4.12. Evolution of the currencies of the main partners of the CIS, Ukraine and Turkey against USD, December 31, 2023=1, (+) depreciation; (-) appreciation



Source: NBM

Figure 2.4.13. Evolution of some major EU trading partners' currencies against the USD, December 31, 2022=1, (+) depreciation; (-) appreciation



Source: NBM

Under these conditions, the effective exchange rate of the Moldovan leu strengthened on average by 7.4 percent in nominal terms and by 3.7 percent in real terms, against the basket of currencies of the main trading partners, weighted by their shares in the foreign trade of the Republic of Moldova.

In the first three quarters of 2024, the demand and the supply in the local foreign exchange market were close to equilibrium. However, there were periods when the demand for foreign exchange exceeded the supply, resulting in periods of short-term depreciation pressures.

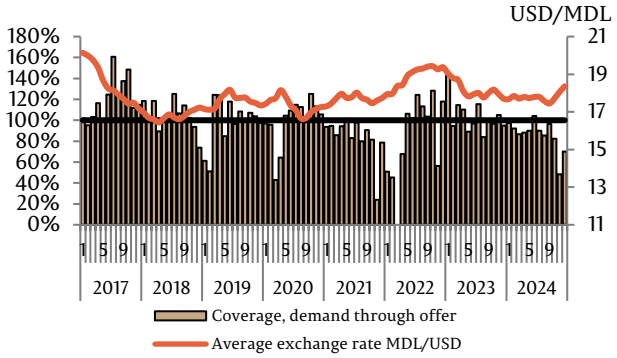
Depreciation pressures on the exchange rate intensified in the last quarter of the year, as the increase in demand for foreign exchange, coupled with the decrease in supply, led to a considerable deficit on the local foreign exchange market. Households reduced their foreign exchange supply during this period, opting to increase their savings in foreign exchange, resulting in a short-term increase in the dollarization of their deposits. The depreciation of the euro against the Moldovan leu, which came after its decline against the US dollar on international markets, further contributed to households' preference for saving in foreign currency.

Overall, the net supply of foreign exchange from households increased by 5.9 percent compared to the previous year, reaching USD 3,043.0 million, driven by the increase in foreign exchange cash purchases from households. Also, net transfers from abroad in favour of households slowed their downward trend in 2024, decreasing by 1.0 percent, after a more pronounced decline in the previous year.

The degree of coverage of net demand by the net supply foreign currency amounted to 85.0 percent compared to 101.7 percent in the previous year (Figure 2.4.14). Under these conditions, the NBM intervened in the foreign exchange market through net sales of foreign exchange in the amount of 216.3 million USD, most of it in the last quarter of the year.

Net demand for foreign exchange from economic agents increased more significantly, by 26.7 percent compared to the previous year, up to 3,580.0 million USD, amid 19.1 percent deterioration in the trade balance deficit in goods. On the demand side of foreign exchange, demand from importers of various consumer goods, machinery and automotive equipment, and energy resources increased, while on the supply side, demand from some exporters of agricultural production, seeds, and oilseeds decreased.

Figure 2.4.14. Degree of coverage of net demand for foreign exchange from economic agents by net supply of foreign exchange from households and evolution of the MDL exchange rate



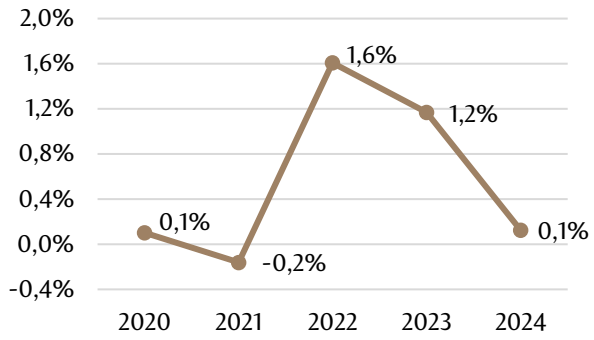
Source: NBM

Currency risk: Open foreign exchange position of the banking sector

The ratio of Open foreign exchange position to own funds of the banking sector in the Republic of Moldova was within prudential limits and the impact of the sector's direct exposure to exchange rate volatility was reduced.

At the end of 2024, the size of OFEP by sector for all currencies amounted to 0.1 percent of banks' total own funds (+27.3 million MDL), compared to 1.2 percent (+239.7 million MDL) in 2023 (Figure 2.4.15).

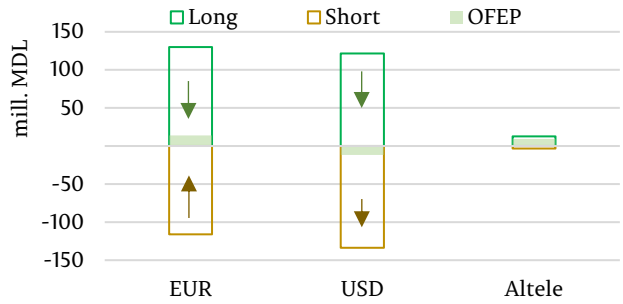
Figure 2.4.15. Evolution of the share of open foreign exchange position in own funds on the banking system



Source: NBM

This decrease was caused by the increase in the short position and the decrease in the long position related to USD and EUR, observed, in particular, in the case of large banks (Figure 2.4.16). It is also worth noting that one large bank liquidated all its long foreign currency positions at the end of 2024.

Figure 2.4.16. Open foreign exchange position as of December 31, 2023, by currencies



Note: This graph shows the OFEP for 2024, as well as the amount of the banks' long and short positions at the end of the current year. The arrows indicate the direction of evolution of the banks' positions compared to the previous year.
Source: NBM

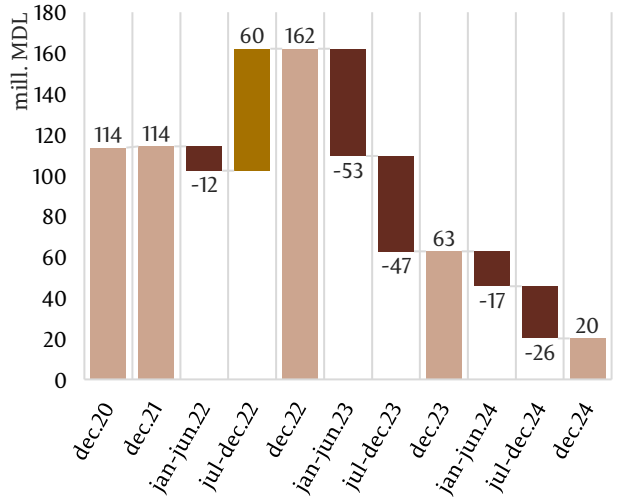
2.5. Risk of contagion

Interbank contagion

During 2024, the domestic banking sector was characterized by maintaining a low level of contagion risk regarding interbank placements and exposures to the non-banking financial sector.

Net interbank placements[33] of licensed banks from the Republic of Moldova in the domestic banking sector at the end of 2024 amounted to 20.1 million MDL (Figure 2.5.1). The stress testing results did not identify cases of direct contagion between banks, due to the low level of the respective placements.

Figure 2.5.1. Evolution of local banks' net placements in the domestic banking sector



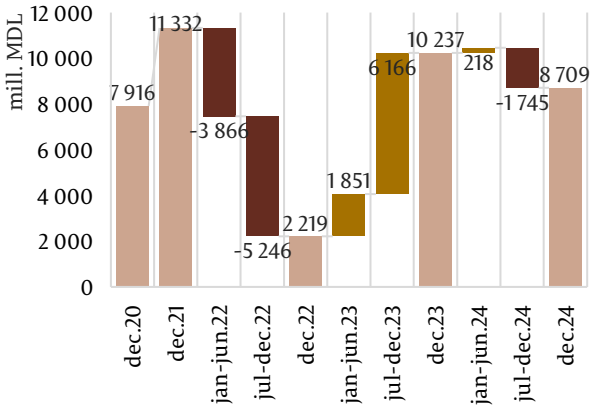
Source: prepared by NBM

Potential external contagion effects come from five countries where banks' placements are concentrated.

The volume of net placements of domestic banks in foreign banks decreased by 14.9 percent compared to the end of the previous year, up to the level of 8,708.8 million MDL (Figure 2.5.2).

The decrease in net placements was driven by local systemically important banks, which reduced their exposure to foreign banks through the Nostro account.

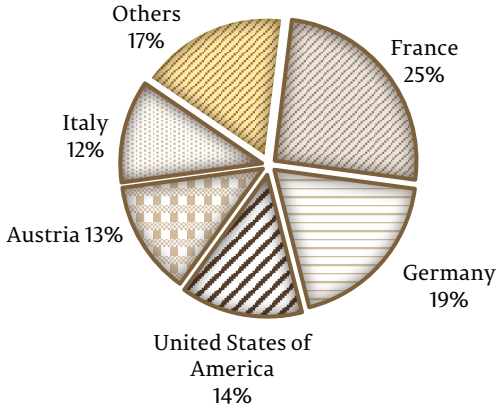
Figure 2.5.2. Evolution of the balance of net placements of local banks in foreign banks



Source: prepared by NBM

The gross interbank placements of domestic banks are concentrated in banks in the United States of America, France, Germany, Austria and Italy with a total share of 82.6 percent (Figure *2.5.3*).

Figure 2.5.3. Distribution of gross placements of domestic banks by country



Source: prepared by NBM

[33] Net interbank placements are the sum of funds placed by banks on an individual basis, with funds placed by a bank being offset by funds attracted by the bank from the same counterparty.

Banks in the Republic of Moldova remain in a

net creditor position in relation to foreign counterparties, which exposes them more to the risks of external contagion than their ability to influence counterparties in other countries.

Banks' interbank networks are mainly diversified.

The local interbank placement network is characterized by low-volume placements in two systemically important banks and one small-sized bank.

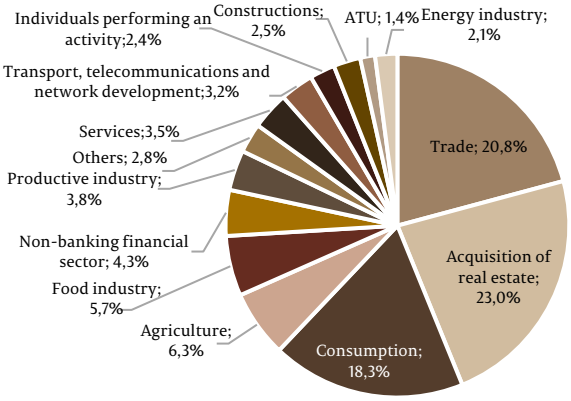
As for the placement of banks abroad, the number of foreign counterparties at the end of 2024 was reduced from 51 to 45 correspondent banks from 20 countries. Placements on demand represent a total of 7,982.4 million MDL, and term placements amount to 2,423.6 million MDL. It should be noted that the foreign banks that hold most of the placements of the domestic banks have a high investment rating (at least BBB[34]), which significantly reduces the potential risk of contagion through the respective placements.

Concentration of sectoral exposures

In 2024, the banking sector's exposures remain concentrated in the trade sector, real estate loans to households and consumer loans, accounting for almost 2/3 of the total bank loan portfolio.

The largest balance of loans in banks' portfolios was granted to companies active in the field of commerce (20.8 percent), followed by loans granted to households for the purchase and/or construction of real estate (23.0 percent) and consumer loans (18.3 percent). Exposures to the other branches are significantly lower and do not exceed a share of 10.0 percent of the banks' loan portfolio (Figure 2.5.4).

Figure 2.5.4. Distribution of bank loan portfolio by branches of debtors' activity, December 31, 2024



Source: prepared by NBM

The share of loans granted to individuals is increasing in the portfolios of banks because of the acceleration of lending to this segment of borrowers, including because of the decrease in interest rates, as well as the stimulation of real estate lending through government programs.

During 2024, most of the sub-portfolios recorded a decrease in their total share (Table 2.5.1), the most pronounced being the decrease in the share of loans granted to the trade sector (-1.5 percentage points). At the same time, there is an increase in the share of loans granted for the purchase/construction of real estate (+2.2 percentage points) and loans granted to the energy industry (+0.9 percentage points), as a share in the total bank loan portfolio.

[34] Rating according to Fitch rating agency

Table 2.5.1. Dynamics of the share of loans granted by banks by branches, compared to the previous year

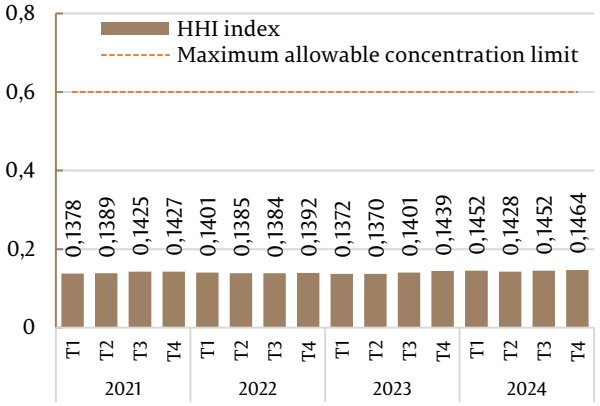
Branch name	31.12.2024	2020-2024
Agrigulture	▼	
Food Industry	▼	
Construction	▲	
Consumer loans	▲	
Energy industry	▲	
Administrative-territorial units/ institutions subordinated to the ATU	▼	
Productive industry	▼	
Trade	▼	
Non-banking financial sector	▼	
Real-estate	▲	
Individuals performing an activity	▼	
Transport, telecommunication and network development	▼	
Field of service provision	▲	
Other loans granted	▼	

Source: prepared by NBM

Bank portfolios are characterized by a low degree of exposure to concentration risk, according to the HHI index.

From the perspective of common exposures to economic sectors, the level of sectoral concentration of banks' portfolios was assessed, considering also the risks related to each sector by applying the risk amplifier[35] characteristic for each sector. Risk-adjusted IHH concentration index (Figure 2.5.5) accumulate low values. Higher concentration levels[36] have been identified at the individual level, but even the most concentrated portfolio is well below the estimated maximum allowable concentration limit[37].

Figure 2.5.5. Evolution of the risk-adjusted concentration indicator in relation to the maximum allowable concentration limit



Source: prepared by NBM

Intersectoral contagion

The interactions of the banking sector with the non-banking financial sector, although increasing, do not present a significant risk of contagion, considering the high performance of loans granted to this segment.

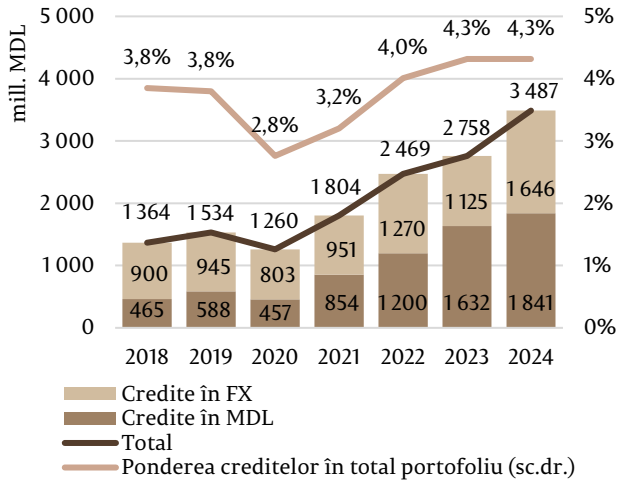
The direct exposure of the banking sector to the non-banking financial sector records a decrease in values compared to the previous year.

Loans granted by banks to the non-banking financial sector at the end of 2024 constituted only 4.3 percent of the loan portfolio (Figure 2.5.6), and their quality (non-performing loan rate of 0.1 percent) is significantly more favourable compared to the aggregate non-performing loan ratio of the total banking portfolio (4.1 percent).

The maximum share of individual bank holdings in IBFN capital presents low values, not exceeding 5.0 percent of the bank's own funds, not being a source of contagion for the banking sector.

[35] The risk amplifier does not assess the volatility of each sector in relation to the country's economy, but considers the existence of a risk considering the sectoral structure of the banks ' portfolios.
[36] The level of concentration was determined by amplifying the variable, which represents the level of concentration (Herfindahl-Hirschman index) in a sector, with the level of nonperforming loans corresponding to this sector.
[37] The maximum allowable concentration limit represents the maximum value of the bank's concentration level that did not result in recovery or resolution procedures.

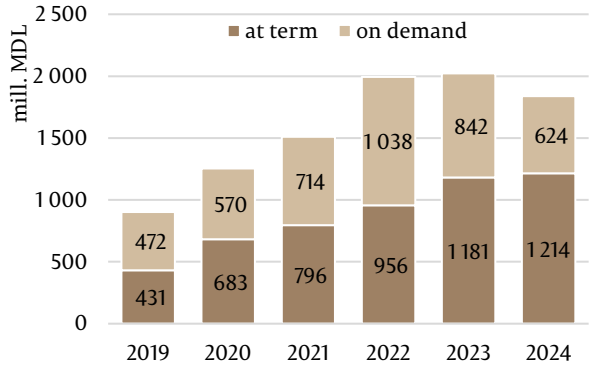
Figure 2.5.6. Share of loans granted by banks to NBFI



Source: prepared by NBM

According to the information reported by banks, the balance of IBFN deposits in banks at the end of 2024 amounted to 1,838.4 million MDL or 1.4 percent of the balance of deposits attracted by banks. Their distribution by maturity is not proportionally equal, with 34.0 percent of deposits being placed on demand (higher degree of volatility), and 66.0 percent – at term deposits (Figure 2.5.7). In the currency structure, 40.6 percent of IBFN deposits are denominated in MDL and 59.4 percent – in foreign currency.

Figure 2.5.7. Evolution of the balance of deposits attracted from NBFIs in the structure by maturity



Source: prepared by NBM

2.6. Climate risk

The Republic of Moldova faces significant challenges in the context of climate change and the transition to a more energy-sustainable economy.

In this context, the activities undertaken by central banks to mitigate the negative economic effects of climate change, including the effects on financial systems, are becoming increasingly important. The NBM has joined this trend to strengthen its tools for identifying, preventing and mitigating climate change risks.

Under the Program supported by the Financing Facility for Resilience and Sustainability, in the context of the Memorandum of Economic and Financial Policies with the International Monetary Fund, the NBM has committed to develop a sustainable financial framework based on international practices, to strengthen resilience to climate change.

Thus, as a reform measure under the abovementioned program, the NBM developed the Sustainable Finance Roadmap of the Republic of Moldova 2024-2028. This document is important for financial sector entities and other stakeholders in their efforts to integrate sustainability criteria into their decision-making processes and contribute to the achievement of the Sustainable Development Goals. The roadmap consists of four main pillars, within which actions and measures are planned regarding:

1. Raising the degree of awareness and strengthening institutional capacities;

2. Capital flows for sustainable finance;

3. Integrating ESG criteria and risk management;

4. Transparency and market discipline.

The activities set out will help to identify, quantify, monitor and properly manage climate risks and inform the financial sector actors regarding their risk exposure.

These risks are divided into two main categories: physical risks and transition risks.

Physical risks refer to the direct impact of extreme weather events and long-term climate change on the economy – such as frequent droughts, floods or late frosts.

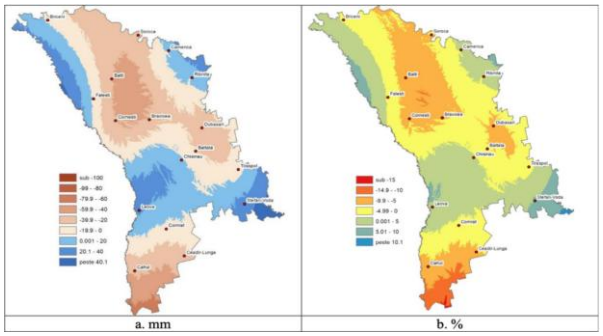
The main physical risks relevant to the Republic of Moldova relate to floods, drought and high temperatures.

The Republic of Moldova experiences droughts once every 3 to 10 years, depending on geographic location. The frequency of droughts is 1 to 2 events in the north, 2 to3 events in the center, and 5 to 6 events in 10 years in the south. From an economic point of view, the economic sector most affected by the drought is agriculture, which currently occupies 59.0 percent of the country's land area, of which 70.0-72.0 percent is arable territories.

According to data from the Food and Agriculture Organization of the United Nations (FAO), the most exposed to drought now are the southern regions of the country, where drought cases affecting over 30.0 percent of the regional harvest are the highest the period of analysis 1984 - 2023. These observations are confirmed and complemented by data from the State Hydrometeorological Service which shows a significant decrease in the average annual precipitation in the period 1991-2020 compared to the period 1961-1990, by about 10 mm or -2.0 percent (Figure 2.6.1).

It should be noted that the South and Center regions produce around 50.0 percent of the volume of cereals and wheat harvest in the Republic of Moldova.

Figure 2.6.1. Difference in average annual precipitation (a – mm, b - %), 1991-2020 compared to 1961-1990

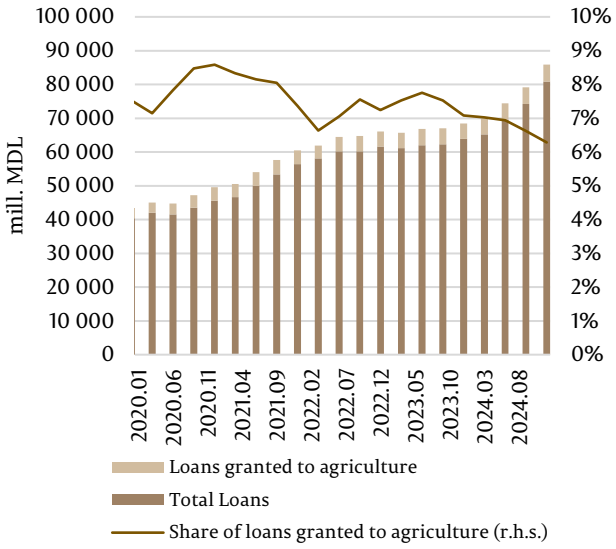


Source: State Hydrometeorological Service

In the long term, this trend represents a significant danger for the economy of the Republic of Moldova, in terms of potential damage to the agricultural sector. Thus, according to World Bank estimates[38], total losses caused by droughts in the last 25 years amounted to 1,898.5 million USD.

From a bank lending perspective, the percentage of loans granted to the agricultural sector fluctuated between 7.1 and 8.6 percent from 2016 to 2023, recording a decrease to 5.6 percent by the end of 2024, but growing steadily as a balance (Figure 2.6.2).

Figure 2.6.2. Evolution of the balance and share of loans granted to the agricultural sector



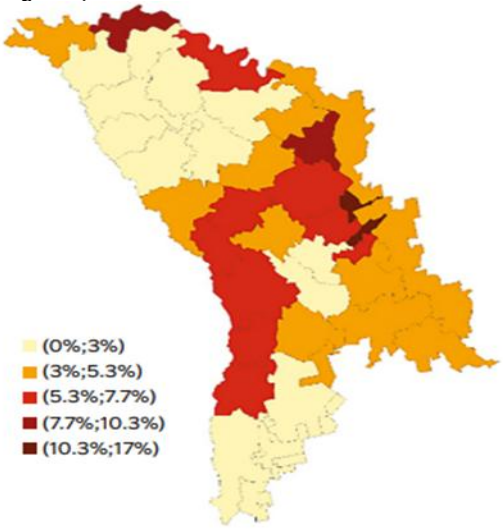
Source: prepared by NBM

From the perspective of flood risk, the entire territory of the Republic of Moldova is subject to flooding with varying degrees of intensity, at this the Central and Southern regions are most affected.

According to World Bank estimates, the annual economic impact of floods on the Republic of Moldova, in terms of destructive effect on infrastructure (roads, buildings and agricultural land) is about 0.8 percent of GDP, which at the administrative unit level can increase to 10.0 percent (Figure 2.6.3).

[38] World Bank, Moldova Country Climate and Development Report, November 2024

Figure 2.6.3. Distribution of estimated annual flood losses on roads, buildings and agricultural land (% of GDP of regions)



Source: World Bank

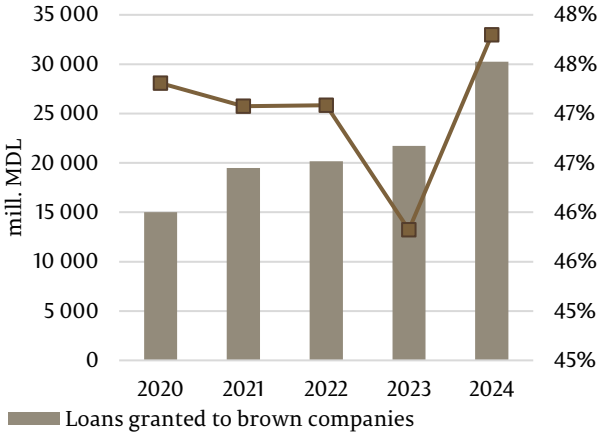
Transition risk is an important component of climate risk, which refers to the economic and financial impact generated by the transition process to a low-carbon economy. This risk arises from regulatory, technological, consumer preference changes and the need to adopt sustainable policies and practices to combat climate change.

In the case of the Republic of Moldova, the areas most subject to transition risk are:

- Agriculture, forestry, and fisheries;
- Food industry;
- Productive industry;
- Constructions;
- Real estate transactions;
- Transportation and storage;
- Health and social assistance;
- Energy industry;
- Public administration and defence.

Companies operating in these fields (hereinafter referred to as Brown Companies[39]) have contracted slightly less than half of the total bank loans granted in the period 2018-2024, and their dynamics in terms of balance is continuously increasing during the analysed period (Figure 2.6.4). The share of loans granted to this type of companies increased to 47.8 percent during 2024, after a period of relative stagnation between 2020 and 2022, and a decline recorded in 2023.

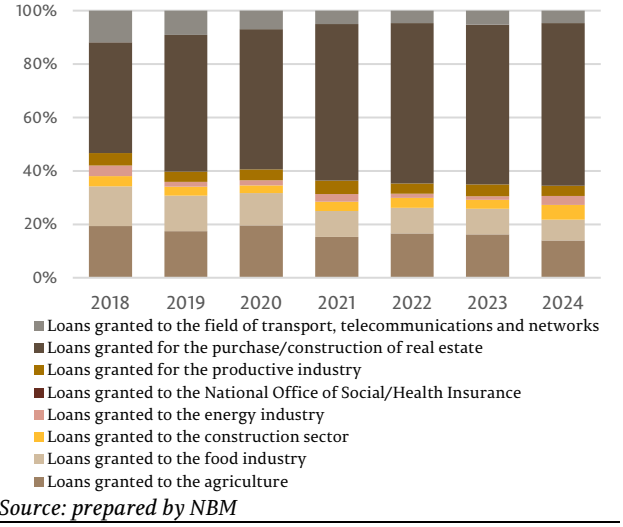
Figure 2.6.4. Banking exposure to brown companies



Source: prepared by NBM

The analysis of the structure of loans granted to brown companies indicates a predominant concentration in the real estate sector, with a share of loans granted for the purchase/construction of real estate increasing from 41.5 percent in 2018 to 60.9 percent in 2024. In the second position are the loans granted to agriculture, but those that registered a negative dynamic, from 19.4 percent in 2018 to 13.9 percent in 2024. In the third position in terms of importance are loans granted to the food industry, which at the end of 2024 had a share of 7.8 percent of the banks' portfolio of brown loans (Figure 2.6.5).

Figure 2.6.5. Share of brown economy sectors of the total portfolio of brown loans

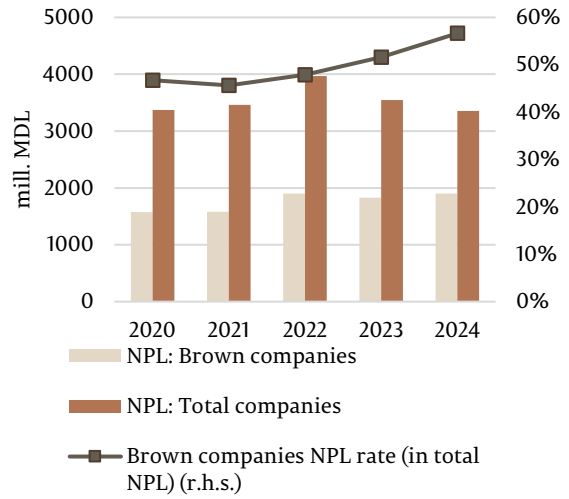


Source: prepared by NBM

[39] Brown companies were identified according to the Methodology for identifying climate-relevant economic sectors, used by the NBR in the 2019 Financial Stability Report and based on the level of CO2 emissions.

At the same time, the share of non-performing loans granted to brown companies of total non-performing loans increased from 40.2 percent in 2018 to 56.6 percent at the end of 2024 (Figure 2.6.6). In absolute terms, this type of loans shows a similar trend, but the dynamics are not as pronounced.

Figure 2.6.6. Evolution of non-performing loans granted to Brown Companies



Source: prepared by NBM

2.7. Risk related to information and communication technologies

Risks related to information and communication technologies (ICT) have become a major concern for the banking sector, especially in 2024, amid rapid technological progress and increasing dependence on information systems.

In an increasingly digitalized world, banks face complex challenges in ensuring data security, operational continuity, and protection against cyberattacks. According to the ENISA Threat Landscape 2024[40] report, cyber threats have diversified and intensified, with the most common being ransomware, phishing, and attacks aimed at blocking the availability of services.

The assessments conducted by the NBM on licensed banks revealed several critical vulnerabilities, including the use of outdated operating systems that no longer receive security updates from providers, increasing the risk of exploiting known vulnerabilities, the deficiency of staff specialized in information security, which hinders the ability of institutions to detect and promptly respond to complex cyber-attacks, the lack of effective mechanisms to ensure business continuity, jeopardizing the uninterrupted operation of banking services in the event of an attack or failure, and deficiencies in ICT risk management, limiting the ability of banks to anticipate and prevent emerging digital threats.

As a result of these assessments and controls carried out by the NBM, banks are required to improve their security infrastructure and take measures to reduce vulnerabilities.

These measures include updating operating systems and implementing state-of-the-art security solutions, such as adequate firewalls, intrusion detection systems and malware protection technologies. At the same time, there is increasing emphasis on the development and periodic testing of business continuity and disaster recovery plans to ensure rapid resumption of operations in the event of a major continuity incident.

Risks associated with information and communication technologies remain a significant challenge for the banking sector, requiring continuous attention and adaptation to new threats. The constant evolution of the tactics used by attackers requires banks not only to react to incidents, but to adopt a proactive approach, based on prevention, technological innovation and a security-oriented organizational culture.

[40] European Union Agency for Cybersecurity. (2024). ENISA Threat Landscape 2024 [https://www.enisa.europa.eu/publications/enisa-threat-landscape-2024]

3. RISKS OF THE NON-BANKING SECTOR

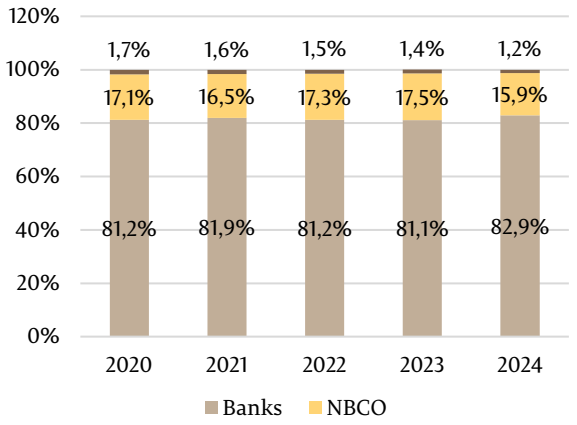
3.1. Non-bank lending sector

Non-bank lending activity is carried out through non-bank credit organizations (NBCOs) and savings and loan associations (SLAs).

During 2024, the non-bank lending sector continued the trend of asset portfolio growth, but at a slower pace compared to the banking sector.

By the amount of loans granted, the non-bank lending sector maintains a share of approximately 17.1 percent of total loans granted in the banking and non-banking financial sector, with a decrease of 1.8 percentage points compared to 2023 (Figure 3.1.1).

Figure 3.1.1. Share of loan portfolios and credits granted by banks, NBCO and SLA[41]



Source: prepared by NBM

During the period 2020-2024, the non-bank lending sector strengthened its position within the financial sector, recording a 60.5 percent increase in assets from 11,715.2 million MDL in 2020 to 18,802.2 million MDL in 2024, simultaneously with a reduction in the number of non-banking financial entities with the right of activity.

As of December 31, 2024, an increase in assets of 15.3 percent was recorded compared to the end of 2023.

[41] Share in total loans and loans granted by banks, SLAs and NBCOs

<u>Savings and loan associations</u>

The SLA sector remains relatively small by assets and the number of beneficiaries is also the most fragmented compared to the other components of the financial system.

In 2024, the SLA sector continued to strengthen, with a smaller number of associations accounting for a larger volume of assets. The market share of the 10 largest SLAs was 59.0 percent, and the market share held by the largest SLA was 22.5 percent.

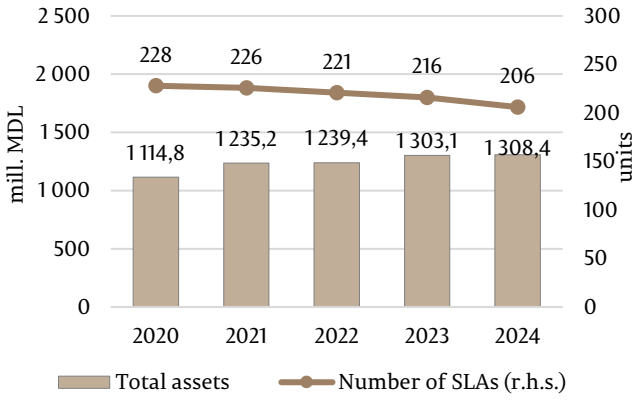
According to the situation as of December 31, 2024, 206 associations hold licenses for carrying out their activities. In the last 5 years, the number of associations has decreased by 33 units. In 2024, the NBM carried out six inspections to verify the activities of savings and loan associations.

During 2024, the number of loan beneficiaries (24,567) decreased by 17.9 percent, while the number of depositors (6,315) decreased by 8.8 percent compared to the end of 2023.

During 2024, the SLA sector recorded a 3.9 percent increase in the loan portfolio and a decrease in the non-performing loan rate of approximately 1.2 percentage points.

As of December 31, 2024, the total value of SLA assets amounted to 1,308.4 million MDL, registering an insignificant increase of 0.4 percent compared to the end of 2023 (Figure 3.1.2). In SLA's asset structure, 88.4 percent is accounted for by loans granted.

Figure 3.1.2. Evolution of the number of SLAs and their assets



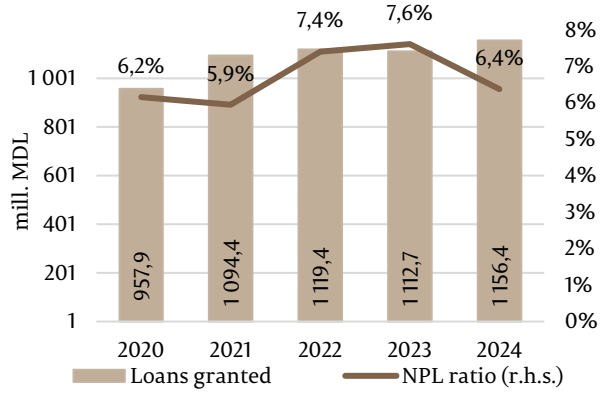
Source: prepared by NBM

The total amount of loans granted to members amounted to 1,156.4 million MDL, an increase of 3.9 percent compared to the previous year.

Credit and liquidity risk

The rate of non-performing loans at the end of the reporting period was 6.4 percent, down by 1.2 percentage points compared to the previous year (Figure 3.1.3).

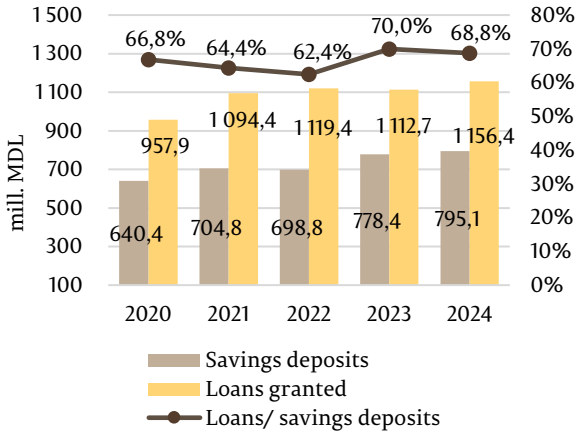
Figure 3.1.3. Loans granted to SLAs



Source: prepared by NBM

Short-term savings deposits account for over half of the deposits attracted, and their potentially more volatile nature creates risks in liquidity management (Figure 3.1.4).

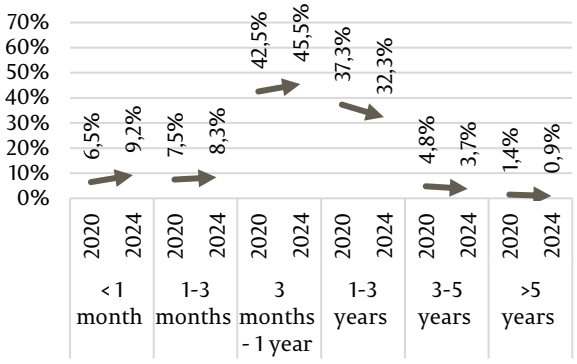
Figure 3.1.4. Ratio of loans granted by SLA to deposits attracted



Source: prepared by NBM

As of December 31, 2024, deposits up to one year registered an increase of 38.8 percent compared to the previous year, amounting to 63.0 percent of the total savings deposits attracted (Figure 3.1.5). This increase could create difficulties for SLAs in managing liquidity efficiently, considering the specifics of their activity.

Figure 3.1.5. Evolution of the share of savings deposits by maturity



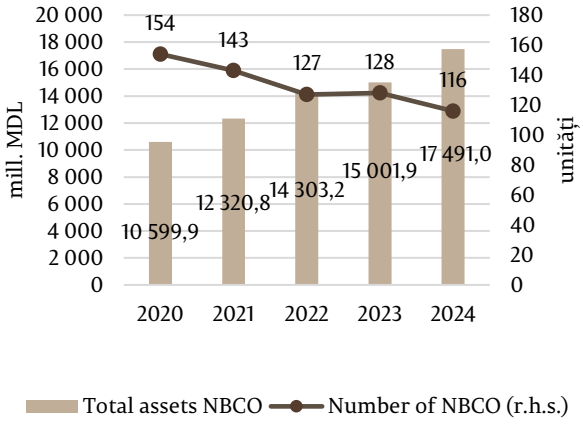
Source: prepared by NBM

Non-bank credit organizations

The high degree of concentration of the NBCO market persists, the 10 largest NBCO have consolidated their market position, with a share of 76.5 percent of the total NBCO sector, up by 2.2 percentage points compared to the previous year.

At the end of 2024, 135 NBCOs were registered in the Register of authorized non-bank credit organizations (Figure 3.1.6), including 19 organizations with suspended activity.

Figure 3.1.6. Evolution of assets and NBCO number

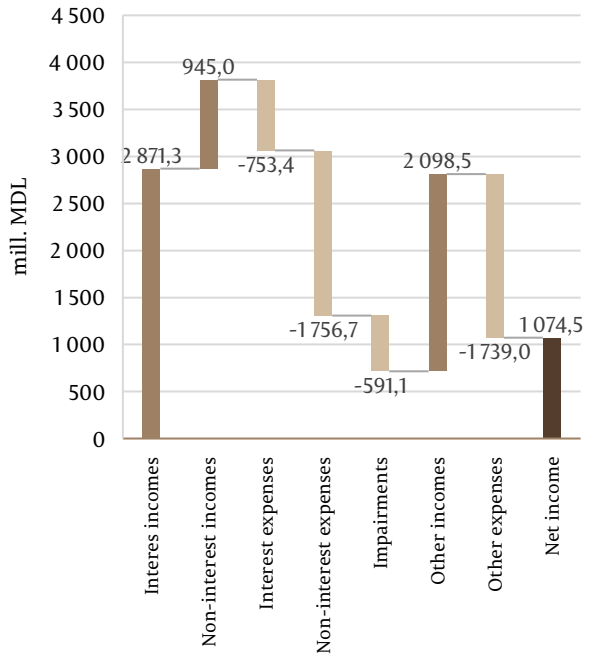


Source: prepared by NBM

After the slowdown in asset growth in 2023, it resumed its upward trajectory.

The NBCO sector reported a net profit of 1,077.0 million MDL in 2024 (Figure 3.1.7), down by 5.7 percent compared to 2023. The decrease in NBCO profits in 2024 was largely driven by the decrease in interest income and the increase in other operating expenses.

Figure 3.1.7. Profitability of the NBCO sector

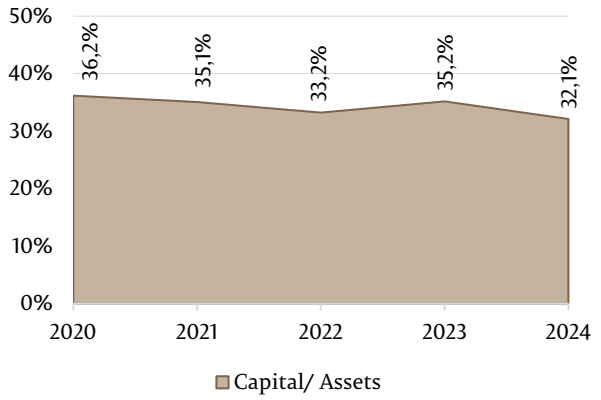


Source: prepared by NBM

During 2024, the return on assets (ROA) and return on equity (ROE) decreased. ROA reached 6.2 percent and ROE – 19.1 percent.

At the end of the fourth quarter of the reference year, the "Capital/Assets" ratio recorded a value of 32.1 percent, decreasing by 3.1 percentage points compared to the same period of the previous year (Figure 3.1.8).

Figure 3.1.8. Evolution of the aggregate capital/assets ratio of NBCO

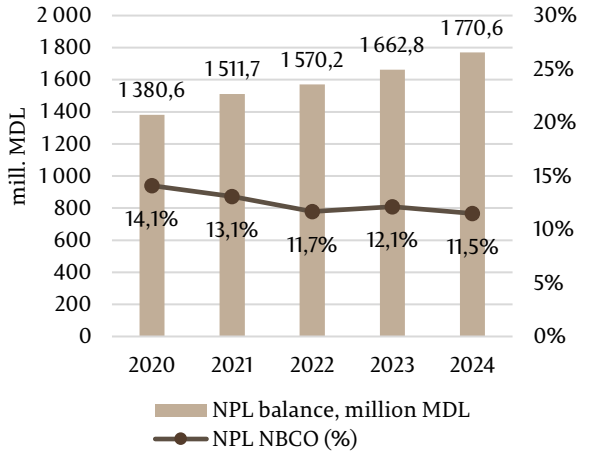


Source: prepared by NBM

Credit risk

Credit risk is an essential component of NBCO's activity. In 2024, the quality of loans granted by NBCOs marked a slight improvement, with non-performing loans constituting approximately 11.5 percent of the total portfolio, down by 0.6 percentage points compared to the previous year (Figure 3.1.9).

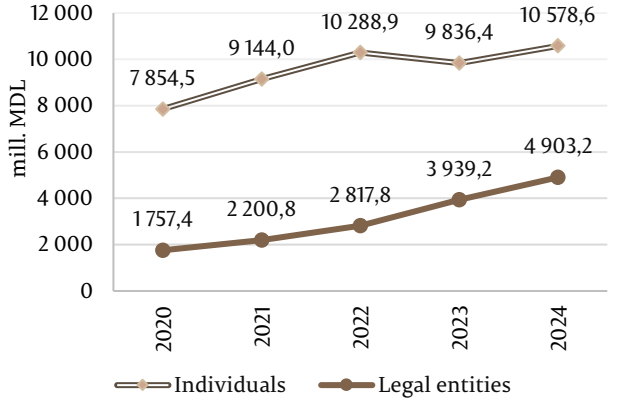
Figure 3.1.9. Dynamics of non-performing loans NBCO



Source: prepared by NBM

At the end of 2024, there was an increase in lending to legal entities by 24.5 percent compared to the end of 2023, and to individuals by 7.5 percent (Figure 3.1.10).

Figure 3.1.10. Dynamics of loans granted by NBCO by type of debtor



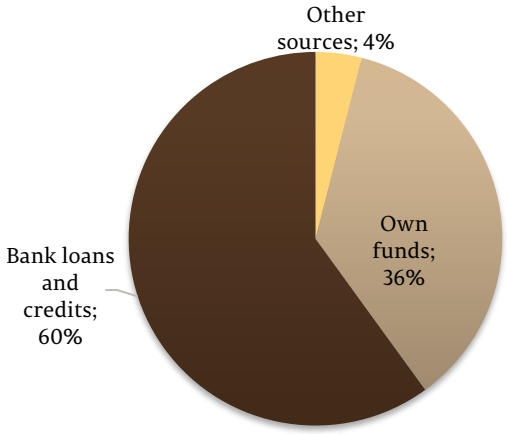
Source: prepared by NBM

Financing risk

The structure of the NBCO financing sources did not register significant changes during the year under review, being mainly composed of bank loans and loans from non-residents.

NBCOs are financed by 36.0 percent of its own funds, 60.0 percent of its credits and loans and 4.0 percent of its funds attracted from other sources (Figure 3.1.11).

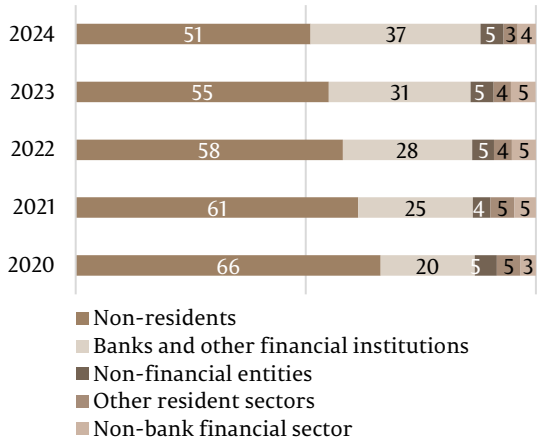
Figure 3.1.11. NBCO financing sources



Source: prepared by NBM

At the end of 2024, the share of financing attracted from non-residents constituted 51.1 percent of the total attracted credits and loans or 5,076.7 million MDL, of which in foreign currency – 84.4 percent or 4,287.4 million MDL. Also, NBCO actively borrows from banks, the balance of contracted credits registered an increase during 2024 (Figure 3.1.12).

Figure 3.1.12. Structure of loans / credits received by NBCO, %

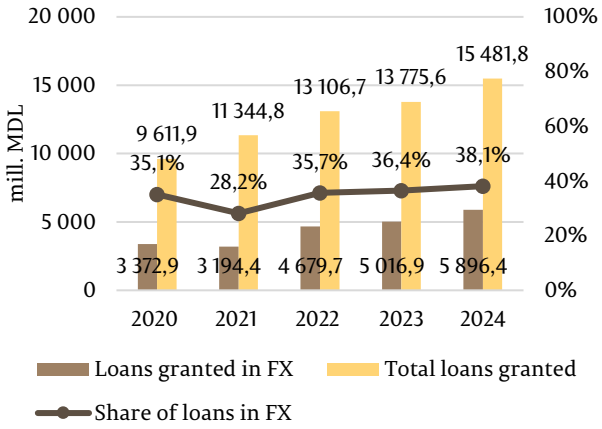


Source: prepared by NBM

Foreign exchange risk

At the end of 2024, loans granted by NBCO linked to the currency exchange rate amounted to 5,896.4 million MDL or 38.1 percent of total loans granted, having registered an increase of 1.7 percent compared to the same period of the previous year (Figure 3.1.13).

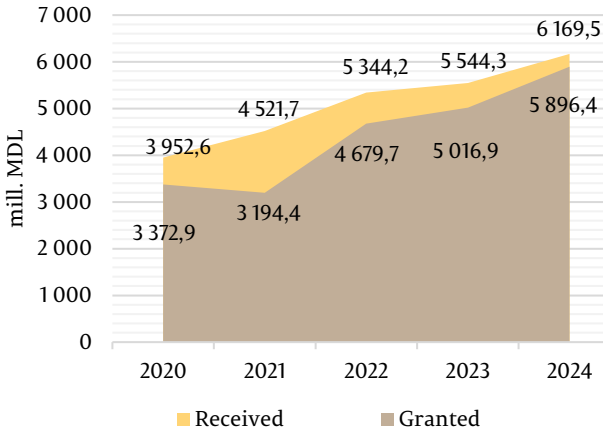
Figure 3.1.13. Loans granted linked to the currency exchange rate



Source: prepared by NBM

Foreign currency loans constitute 66.5 percent of NBCO's financing sources. The value of foreign currency loans amounts to 6,169.5 million MDL, an increase of 3.7 percent compared to the end of 2023 (Figure 3.1.14).

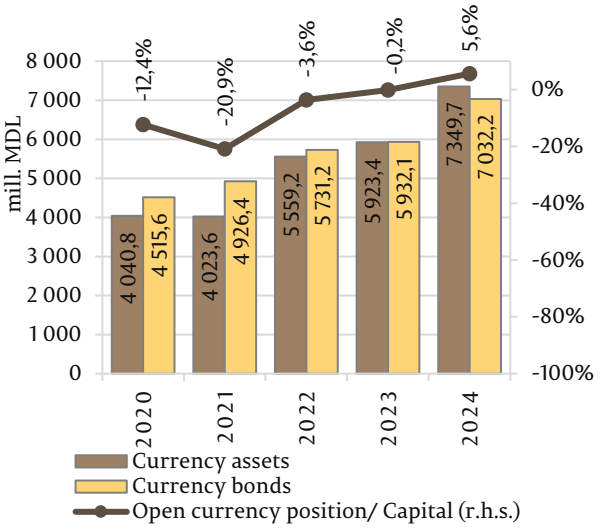
Figure 3.1.14. Loans in foreign currency and linked to the exchange rate: received vs. granted



Source: prepared by NBM

The excess of foreign currency assets over foreign currency bonds or bonds linked to the currency rate forms the long open foreign exchange position (Figure 3.1.15).

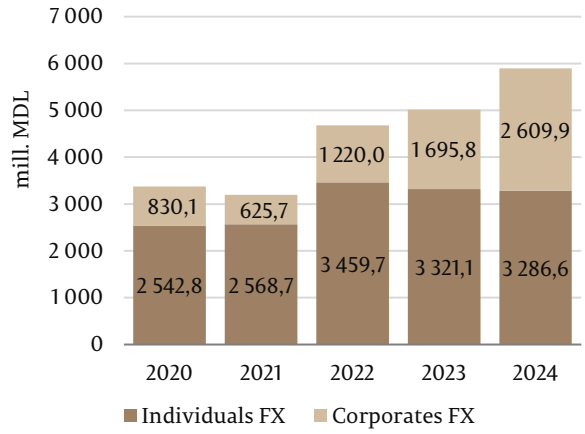
Figure 3.1.15. Evolution of aggregate currency position



Source: prepared by NBM

Foreign exchange rate loans to households (Figure 3.1.16), which are more sensitive to currency risk, accounted for 21.2 percent of NBCO's total portfolio or 3,286.6 million MDL (58.4 percent of aggregate equity).

Figure 3.1.16. Dynamics of the MDL equivalent of the loan portfolio of the NBCO linked to the exchange rate



Source: prepared by NBM

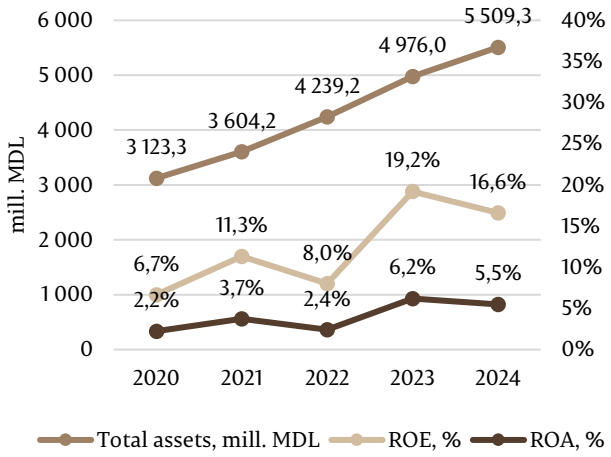
3.2. Insurance sector

During 2024, insurance companies increased their asset volume, recording operating profits.

At the end of 2024, 9 insurance companies were operating on the insurance market (of which 8 companies practiced only general insurance activity and one composite insurer practiced general insurance and life insurance activity).

The insurance market is a moderately concentrated market[42], the HHI Market Concentration Index in terms of assets as of December 31, 2024 being equal to 1,631.5. The first five companies by size of assets held 77.7 percent of total assets, the top five companies by claims paid - 78.9 percent of the volume of claims paid, and the top five companies by volume of premiums subscribed - 73.6 percent of total gross premiums subscribed. The assets of insurance companies increased by 533.4 million MDL during the analysed period (Figure 3.2.1) and amounted to 5,509.3 million MDL (+10.7 percent compared to 2023).

Figure 3.2.1. Evolution of insurance companies' assets



Source: prepared by NBM

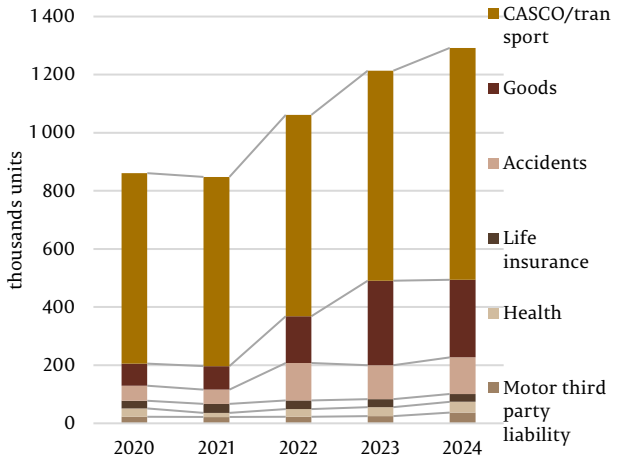
In 2024, insurers reported net profit of 293.8 million MDL, 14.3 million MDL or 4.8 percent less than in 2023. The return on equity indicators (ROE) recorded positive values between 1.3 percent and 69.1 percent at the end of the reporting period; all insurance companies reported positive values of the return on equity indicators, while the ROE per sector stood at 16.6 percent, 2.6 percentage points less than in 2023. At the same time, return on assets indicators (ROA) recorded positive values between 0.5 percent and 23.0 percent; all insurance companies reported positive values of the return on assets indicator, and ROA per sector was established at 5.5 percent, 0.7 percentage points less than in 2023.

[42] The Herfindahl-Hirschman Index (HHI) is calculated as the sum of the squares of the market shares of all market participants, and the level of concentration is determined according to the scale: HHI<100 - perfect competition, 100<HHI<1500 - an unconcentrated market, 1500<HHI<2500 - moderate concentration, HHI>2500 – high concentration.

The activity of insurance companies during 2024 recorded increases in the main volume components.

During 2024, insurance companies reported 2,004,945 insurance contracts, up 1.9 percent from the previous year. Of these, 1,326,847 policies remained in force at the end of the reporting period. The structural composition of the types of policies issued did not undergo significant changes during 2024, with the majority of policies (64.4 percent) at the end of the reporting year representing insurance contracts for motor civil liability (Figure 3.2.2).

Figure 3.2.2. Distribution of the number of policies by type of insurance in dynamics

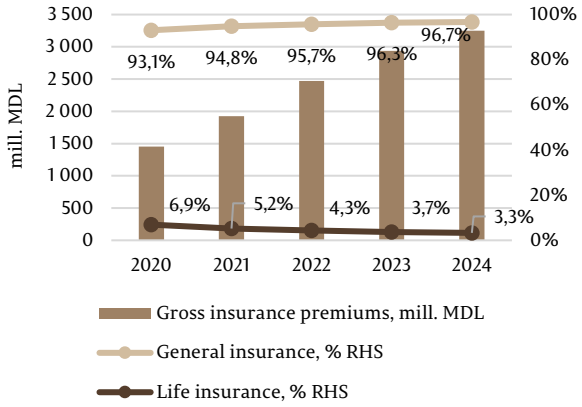


Source: prepared by NBM

As in previous years, in 2024 the insurance market in the Republic of Moldova was strongly oriented towards general insurance activity.

The volume related to gross insurance premiums subscribed (including those received in reinsurance) in 2024 increased by 10.8 percent compared to the previous year, reaching the level of 3,251.6 million MDL (Figure 3.2.3). General insurance held a share of 96.7 percent of the total gross premiums subscribed by insurance companies (3,143.9 million MDL), while the value of gross premiums subscribed for life insurance was 107.7 million MDL, equivalent to 3.3 percent of the total volume of gross premiums subscribed.

Figure 3.2.3. Evolution of premium volumes subscribed by insurance companies

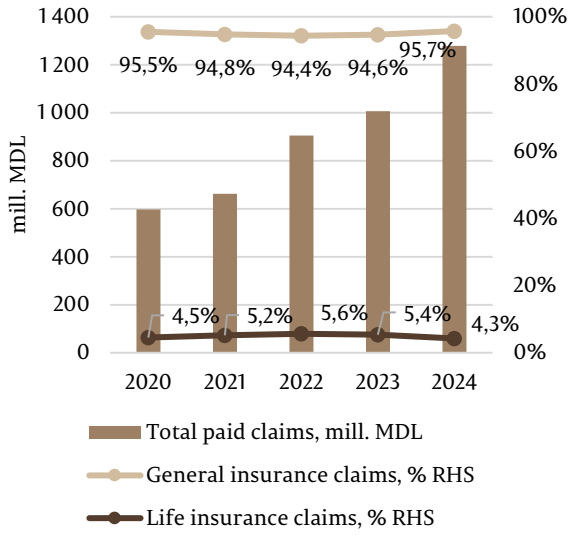


Source: prepared by NBM

The most significant increase was recorded in credit insurance (+274.8 percent), aircraft insurance (+78.0 percent) and fire and other natural disaster insurance (+26.2 percent).

Compared to the volume of gross premiums subscribed, the volume of gross claims paid by insurance companies during the analysed period increased relatively more in annual terms, increasing by 27.0 percent compared to the volume recorded at the end of 2023 (Figure 3.2.4).

Figure 3.2.4. Evolution of the amounts of claims paid by insurance companies



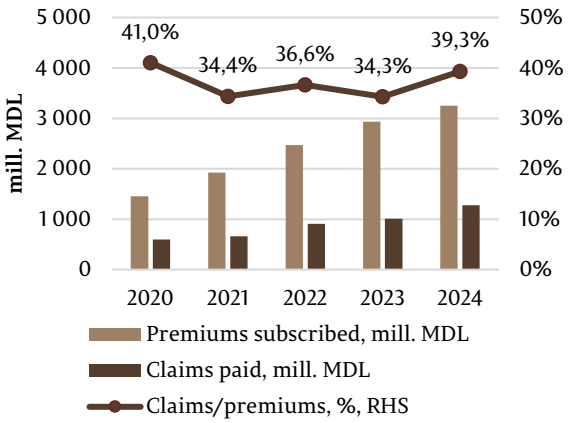
Source: prepared by NBM

Claims related to general insurance contracts amounted to 1,224.0 million MDL or 95.7 percent, registering an increase of 271.5 million MDL or 28.5 percent compared to the previous year, and the amounts paid for life insurance allowances (including annuities and payments for contracts that have reached

maturity) amounted to 54.4 million MDL or 4.3 percent, registering an increase of 0.3 million MDL or 0.5 percent compared to 2023.

The ratio between the annual volume of claims and gross premiums subscribed by insurance companies was 39.3 percent, up by 5.0 percentage points compared to the end of 2023 (Figure 3.2.5), against the background of a more pronounced increase in claims paid than in premiums subscribed.

Figure 3.2.5. Evolution of the ratio between claims paid and premiums subscribed by insurance companies



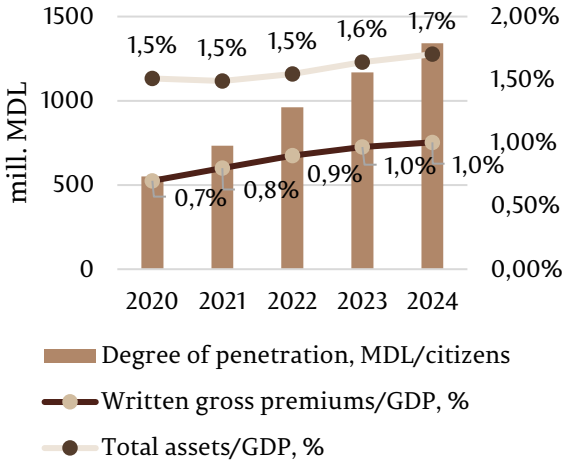
Source: prepared by NBM

Integration of the insurance sector into the economy

Insurance density, calculated as the ratio between the value of gross premiums subscribed on the territory of the Republic of Moldova and the number of its inhabitants, is an indicator that shows how much a country's resident spends on insurance products on average. In 2024, the insurance density in the Republic of Moldova was 1,341.8 MDL/per capita, an increase of about 173.4 MDL/per capita or 14.5 percent compared to the previous year.

The degree of penetration of insurance into GDP, an indicator calculated as the ratio between the value of gross premiums subscribed by insurance companies in the Republic of Moldova and the gross domestic product, registered a value of 1.0 percent in 2024, unchanged from the previous year. Total assets held by insurance companies reached a level equivalent to 1.7 percent of GDP at the end of 2024, up 0.1 percentage points compared to the previous year (Figure 3.2.6).

Figure 3.2.6. The degree of penetration of the insurance sector into the economy



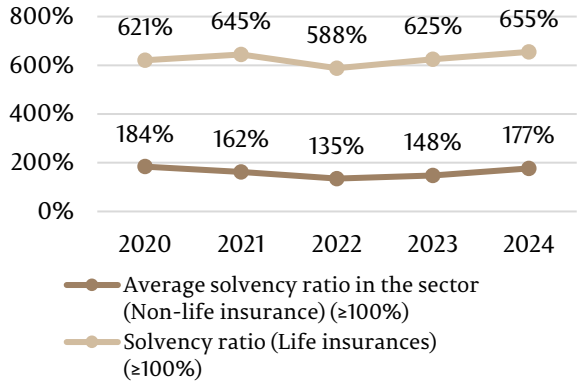
Source: prepared by NBM

The solvency ratio[43] of insurance companies denotes a sufficient level of solidity for most companies, and the liquidity ratio is positioned at a super unitary level.

All licensed insurance companies have solvency ratios above 100.0 percent. The average solvency ratio for non-life insurance activity at the end of 2024 increased by 27.5 percentage points compared to the end of the previous year and amounted to 175.4 percent, with insurance companies reporting solvency ratios between 139.0 percent and 234.0 percent. For life insurance business, a solvency ratio of 655.4 percent was recorded, a significant increase of 30.3 percentage points compared to the situation at the end of 2023 (Figure 3.2.7).

[43] With the approval of Decision of the Executive Board of the NBM No. 328/2024, changes were made to the formula for calculating the solvency ratio, which is determined as the ratio between the value of own funds eligible for solvency and the higher of the minimum capital requirement and the minimum solvency margin.

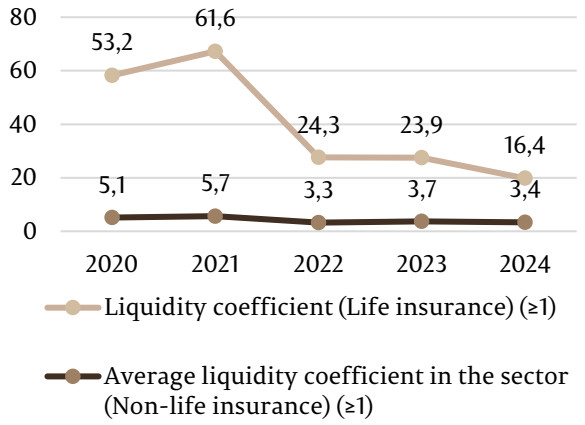
Figure 3.2.7. Evolution of the average solvency ratio in the insurance sector between 2020-2024



Source: prepared by NBM

As of December 31, 2024, all insurance companies recorded a liquidity coefficient[44] greater than 1 for each insurance category, ranging for non-life insurance between 2.0 and 5.3. Taking into account also the changes in the regulatory framework, on average, in the insurance sector, the liquidity ratio for non-life insurance activity decreased by 0.3 points compared to the end of the previous year (from 3.7 to 3.4), while for life insurance a significant decrease of 7.5 points (from 23.9 to 16.4) was reported (Figure 3.2.8).

Figure 3.2.8. The evolution of the average liquidity coefficient in the insurance sector during the period 2020-2024



Source: prepared by NBM

[44] By Decision of the Executive Board of the NBM No. 328/2024, changes were made to the formula of the liquidity ratio, which represents the ratio between the liquid assets and short-term liabilities of the insurance company.

The insurance and/or reinsurance intermediary market remains active throughout 2024.

As of December 31, 2024, 48 insurance and/or reinsurance brokers, 52 insurance agents and 33 bancassurance agents were operating on the insurance market. During 2024, insurance intermediaries concluded 1,068.6 thousand insurance contracts (which represents 53.3 percent of the number of policies issued by insurance companies); the degree of intermediation of contracts increased by 4.5 percentage points compared to 2023. At the same time, the volume of intermediate subscribed premiums amounted to 1,886.4 million MDL, up by 184.7 million MDL compared to the previous year, which represents 58.0 percent of the total volume of subscribed premiums.

3.3. Non-bank payment service providers

The National Bank supervises the activity of non-bank payment service providers by conducting controls and continuously monitoring their activity.

As of December 31, 2024, eight non-bank PSPs were operating in the Republic of Moldova, including two payment companies, one postal service provider and five electronic money issuing companies. In 2024, four inspections were carried out, within which the activity of licensed non-bank PSPs was subject to verification.

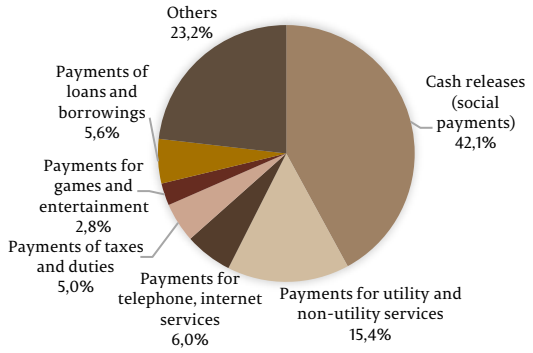
During the year, the activity of non-bank PSPs recorded an increase in the value of payment transactions, and their number decreased compared to 2023.

Through non-bank PSPs, in 2024, 59.4 million payment transactions were carried out, down by 5.7 percent compared to 2023, in the total value of 38,145.3 million MDL, 3.7 percent more than in 2023 (Table 3.3.1). In the last five years (2020 - 2024) there has been a continuous increase in the average value of payment transactions carried out, from 356.0 MDL in 2020 to 641.7 MDL in 2024.

Cash releases in the form of social payments constitute the largest share in the total value of operations carried out in 2024 by non-banking PSPs (42.1 percent).

They are followed by payments for municipal and non-municipal services (15.4 percent). Other types of payment transactions have small shares below 6.0 percent. (Figure 3.3.1).

Figure 3.3.1. Share of the value of payment transactions made by non-bank PSPs in 2024



Source: prepared by NBM

To minimize financial risks, non-bank PSPs are required to protect, on special bank accounts, the funds of payment service users, received in exchange for the electronic money issued and for performing payment operations.

Financial indicators of PSP activity in 2024 registered increases.

At an aggregate level, non-banking PSPs recorded a total profit of approximately 190.5 million MDL in 2024, an increase by 5.4 percent compared to 2023.

At the same time, in 2024, there is an increase in equity by 25.2 percent compared to 2023 and in assets held by non-banking PSPs by 25.3 (Table 3.3.1). As of December 31, 2024, the value of equity held by non-banking PSPs was in accordance with the provisions of Law no. 114/2012 on payment services and electronic money.

Table 3.3.1. Evolution of the main indicators of nonbanking PSP activity

N. of order	Financial indicators	2024	2023	Annual dynamics
1	Number of transactions, mill. of operations	59,4	63,0	-5,7%
2	Total transaction value, million MDL	38 145,3	36 793,6	3,7%
3	Total assets, million MDL	2 557,72	2 583,82	-1,0%
4	Equity, million MDL	862,1	688,3	25,2%
5	Net Profit (Loss), million MDL	190,5	180,7	5,4%

Source: prepared by NBM

4. MACROPRUDENTIAL INSTRUMENTS AND MEASURES

4.1. The macroprudential instruments of the NBM

The macroprudential instruments of the NBM are provided in the Macroprudential Policy Strategy, approved by the National Committee on Financial Stability in September 2023, and are applied to prevent, reduce or mitigate systemic risks, to achieve the objectives of macroprudential policy.

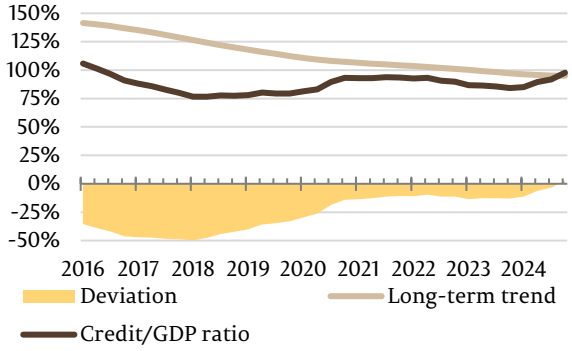
Currently, the macroprudential instrument implemented by the NBM consists of capital buffers for banks and requirements for limiting the indebtedness of individuals.

Requirements for banks on the levels of the capital conservation buffer and countercyclical capital buffer remained at levels like those at the end of 2022.

The capital conservation buffer ensures an adequate level of capital to absorb losses in difficult times. The capital conservation buffer rate, applied to all banks, was maintained at 2.5 percent total amount of risk exposure of the respective banks.

The NBM assesses quarterly the intensity of cyclical systemic risk and the adequacy of the countercyclical buffer rate for the Republic of Moldova. Towards the end of 2024, the countercyclical buffer rate is maintained at 0 percent of the total amount of risk exposure of banks, considering the negative values of the deviation of the Credit/GDP ratio from its long-term trend[45] (Figure 4.1.1), deviation based on which the buffer rate is calculated.

Figure 4.1.1. Evolution of the credit / GDP ratio in relation to its long-term trend

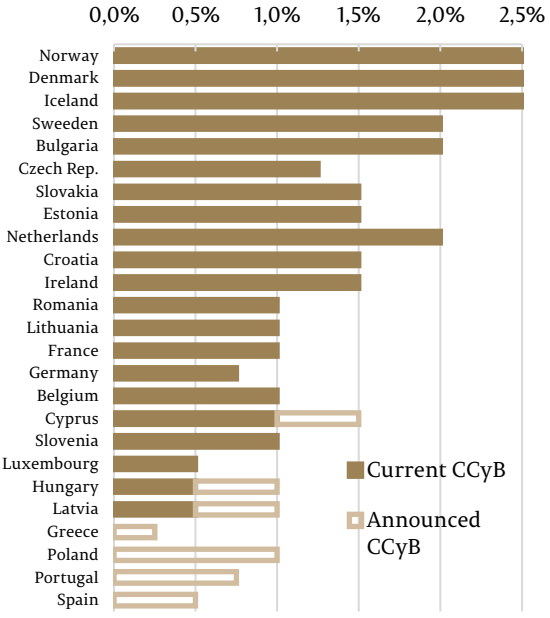


Source: prepared by NBM based on NBM and NBS data

The countercyclical buffer rate, expressed as a percentage of the total risk exposure amount, shall be set between 0 and 2.5 percent, calibrated in steps of 0.25 percentage points or multiples of 0.25 percentage points. In justified cases, the National Bank of Moldova may set a countercyclical buffer rate higher than 2.5 percent of the total risk exposure amount.

In some EU countries, increased countercyclical buffer rates have entered into force or are about to enter into force, set in the context of increased lending activity and uncertainties regarding macroeconomic developments (Figure 4.1.2).

Figure 4.1.2. Countercyclical capital buffer rates set by EU countries



Countercyclical capital buffer rates set by EU countries
Source: European Systemic Risk Board

[45] The trend represents the evolution of the series from which fluctuations generated by transitory shocks are removed and is calculated by applying a bidirectional HP filter with the value of the flattening $\lambda = 400\,000$, according to the Basel Committee on Banking Supervision guidelines.

Thus, Latvia, Hungary, Belgium, Cyprus, France, Croatia, Ireland, the Netherlands and Iceland have taken actions to increase the countercyclical capital buffer rate, with their application since 2024. Other states are to apply increased rates during 2025 or 2026.

The systemic risk buffer rate for exposures located in the Republic of Moldova was maintained at 1.0 percent of the banks' risk exposure amount.

The National Bank shall establish a systemic risk buffer to prevent and mitigate structural systemic risk manifested in the long term, meaning the risk of disruption of the financial system that may generate significant negative consequences for the financial system and the real economy of the Republic of Moldova. The NBM may impose the buffer to all exposures or a subset of exposures, on all banks and/or one or more sub-sets of those banks and sets the rate of this buffer in gradual or accelerated adjustment steps of 0.5 percentage points.

The capital buffer rates for banks that were identified as systemically important institutions (O-SII) varied, depending on the bank's accumulated score, between 1.0 and 1.5 percent of the banks' total risk exposure amount, during 2024.

The O-SII buffer is a mandatory capital reserve for systemically important institutions, given the importance, complexity and the interconnection level of these institutions within the financial system. The NBM may maintain an O-SII buffer of up to 3 percent of the total amount of risk exposure.

The national banking sector is marked by the presence of four banks that have exceeded the systemic importance threshold. At the end of 2024, these banks held 83.2 percent of the banking sector's assets, 83.4 percent of the loans granted by banks, and 85.1 percent of the deposits attracted by the banking sector from non-financial residents.

To reduce the likelihood of financial difficulties on the part of systemic banks and reduce their moral hazard, the NBM set O-SII buffer rates, on an individual basis, depending on the score[46] accumulated by each bank. (Table 4.1.1). The list of banks that are O-SII type companies in the Republic of Moldova is reviewed at least annually.

Table 4.1.1. O-SII buffer rates

Name of the bank	Buffer rate
CB „MAIB" JSC	1,5%
CB „Moldindconbank" JSC	1,0%
CB „VICTORIABANK" JSC	1,0%
„OTP Bank" JSC	1,0%

Source: NBM

During 2024, banks did not need additional capital to comply with macroprudential measures regarding additional capital requirements. The capitalization level of banks was above the level of capital requirements.

Macroprudential instruments aimed at limiting the indebtedness of individuals continued to be applied in 2024, within the established limits of the indicators, according to Regulation no. 101/2022 on responsible consumer lending by banks.

The applied indicators are the loan to value (up to 80 percent of the value of the pledged real estate), the debt service to income ratio (up to 40 percent of the consumer's confirmed income), as well as the maximum maturity limit of loan (5 years for consumer loans and 30 years for loans for real estate investments).

Certain exceptions to the respective provisions are indicated in Regulation no. 101/2022.

The requirements for the calculation of these indicators were introduced to ensure responsible lending, in which banks assess the creditworthiness of the consumer when granting loans. Similar measures have been adopted for the non-bank lending market. In 2024, the NBM initiated the review of the regulatory framework on responsible consumer lending, to harmonize the provisions applied to banks and non-bank lending organizations, to effectively limit

[46] It is calculated according to the Methodology for the identification of O-SII in the Republic of Moldova, approved by the Decision of the Executive Board of the NBM No. 71/2023.

excessive indebtedness and ensure continuous access to financing.

During 2024, the trend of granting new loans to households by banks within the established limits of the indicators, according to Regulation no. 101/2022, continues.

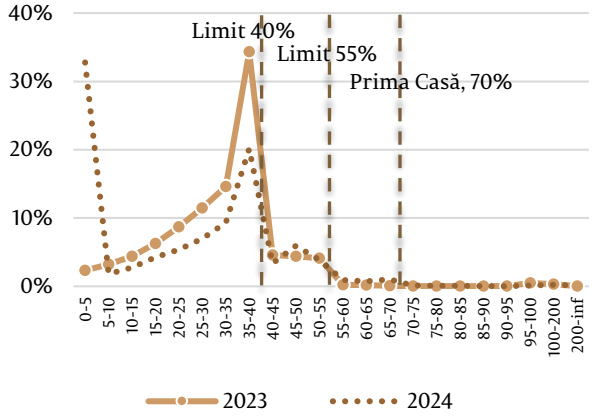
DSTI indicator

During 2024 compared to 2023, for the DSTI indicator, the distribution of the share of new loans granted to individuals (Figure 4.1.3) recorded a decreasing trend on most tranches, especially on the 35-40 percent tranche. At the same time, an increase in the share is observed in the range of 55-70 percent, which is above the DSTI limit established according to the responsible lending regulation, but it fits within the 70 percent limit established according to the government program „Prima Casă".

It should be noted that 45.1 percent of these loans were granted for the purchase/construction of real estate.

During 2024, 83.4 percent of the new loans of households were granted with DSTI below 40 percent and 96.5 percent with DSTI below the 55 percent limit. Of the new loans granted, those for the purchase/construction of real estate are 32.4 percent with DSTI below 40 percent and 42.4 percent with DSTI below 55 percent.

Figure 4.1.3. Evolution of the share of the volume of credits by tranches of the DSTI indicator



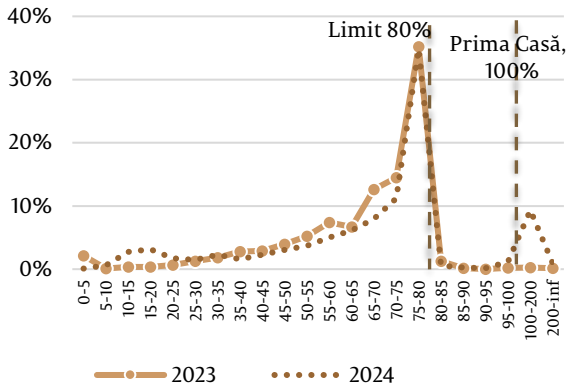
Source: NBM

LTV indicator

During 2024 compared to 2023, for the LTV indicator, the distribution of the share of new loans granted to households for the purchase/construction of real estate, guaranteed with real estate for residential, commercial and land use (Figure 4.1.4) recorded a decrease in the tranches between 35-85 percent. At the same time, a concentration is maintained on the 70-80 percent tranche.

During 2024, 87.7 percent of new loans granted to households recorded an LTV below 80 percent.

Figure 4.1.4. Evolution of the share of the volume of credits by tranches of the LTV indicator



Source: NBM

Box 2. The need to implement the positive neutral countercyclical buffer

The latest evolutions in the international practice of using macroprudential instruments, evolutions, in bank lending in the Republic of Moldova, as well as the general economic situation, highlight the need to implement the countercyclical capital buffer with a positive neutral rate for exposures located in the Republic of Moldova.

The countercyclical buffer is a macroprudential tool that contributes to increasing the resilience of the banking system to fluctuations in the financial cycle. Developed as part of the Basel III reforms, it was designed to adjust banks' capital requirements according to the evolution of the financial cycle and associated systemic risks. It was introduced following the 2008 global financial crisis to limit the procyclical effects of banking regulation. The buffer level can be increased during periods of economic expansion and reduced when accumulated risks materialize, so that banks can absorb losses and continue lending. In this way, excessive market reactions and sudden credit contraction are avoided.

More states have implemented the positive neutral countercyclical capital buffer. This maintains a buffer value greater than 0 percent even when risks are neither low nor high. Initially, the guidelines published by the Basel Committee emphasized the variable nature of the countercyclical buffer, which can have values between 0 and 2.5 percent, increasing during periods of excessive risk accumulation and returning to 0 percent when conditions normalize.

This approach aims to increase the resilience of the banking system by maintaining a constant additional level of capital that enables the banking sector to be better prepared for unforeseen shocks, thereby reducing the risk of a financial crisis. It also provides the authorities with flexibility to support the economy in times of stress, including in response to risks unrelated to the credit cycle, such as geopolitical or pandemic shocks.

Additionally, the positive neutral countercyclical buffer can be activated under conditions of apparently moderate risk, reducing vulnerability to unexpected shocks.

By the end of 2024, 17 countries in the European Economic Area (Denmark, Estonia, Cyprus, Czech Republic, Spain, Greece, Hungary, Ireland, Iceland, Lithuania, Latvia, the Netherlands, Norway, Poland, Portugal, Sweden and Slovenia), as well as 3 countries outside it (Australia, Hong Kong, South Africa) have implemented or plan to implement a countercyclical buffer with a constant positive level under "normal/standard" economic risk conditions. The levels set by the given countries for the positive neutral countercyclical buffer vary between 0.5 and 2.0 percent and reflect the diversity of approaches and economic contexts in the countries where it has been implemented:

- 2.0 percent level: Netherlands, Sweden, United Kingdom, Poland;
- 1.5 percent level: Ireland, Cyprus;
- 1.0 percent level: Australia, Cyprus, Hong Kong, Spain, Czech Republic, Estonia, Latvia, Lithuania, Hungary, Slovenia, Poland, South Africa;
- 0.5 percent level: Greece.

In 2022, the Basel Committee on Banking Supervision communicated that it supported and recognized the benefits of the ability of authorities to establish, on a voluntary basis, a positive neutral rate for the countercyclical capital buffer.

The Basel Committee on Banking Supervision has suggested that implementing a positive neutral countercyclical capital buffer can strengthen the resilience of the banking system, even in periods when risks are at a standard level.

Also, the IMF recommended, through its mission statement on the common policies of the euro area member countries (2024), to strengthen capital buffers, including the countercyclical capital buffer.

The IMF suggested that authorities encourage banks to use temporarily high profits amid low credit growth to strengthen capital reserves, including by increasing countercyclical capital buffer requirements. These reserves could later be released, if necessary, to ensure support for the credit supply if risks materialize in a severe recession.	The implementation of the countercyclical capital buffer with a positive neutral rate for exposures in the Republic of Moldova is necessary, based on the latest evolutions in bank lending in Moldova, as well as the general economic situation. This measure will strengthen the resilience of the banking sector, including under normal conditions of systemic risk build-up, by providing scope for capital release in periods of financial stress or materialization of systemic risks, and by supporting the further development of the macroprudential policy toolkit.

Box 3. Reconfiguring the NBM's approach to responsible lending

In 2022, the NBM approved Regulation No. 101/2022 on responsible consumer lending by banks. The purpose of the regulation is to ensure that loans are granted in a prudent manner, by correctly assessing the ability to repay loans, to protect borrowers (individuals) from excessive financial risks.

The experience of the first years of application of the regulation has highlighted various aspects that can be improved. In this regard, the NBM conducted a complex exercise to analyse the situation, which also involved organizing consultations with representatives of financial sector entities. As a result, the NBM came up with a series of proposals aimed at:

- revision of macroprudential policy instruments;
- recalibration of the DSTI indicator based on accumulated statistics;
- unification of regulations to exclude regulatory arbitrage between banks and non-bank lending organizations;
- ensuring the balance between limiting excessive indebtedness of the population and maintaining access to financing.

Among the main proposals presented by the NBM, the following can be mentioned:

- unification of regulations on responsible lending for banks and non-bank lending organizations, thus ensuring uniform treatment of financial entities;
- providing a more accurate assessment of the consumer's creditworthiness, by expanding the notion of "irregular income" with additional specification of the source of income: seasonal work, income from lease, rent, lease, copyrights, as well as other income that can be confirmed;
- establishing a separate maximum maturity for financial leasing up to 7 years;
- establishing reporting requirements for non-bank lending organizations regarding DSTI reporting.

The subject of the modification of the maximum limits of the DSTI values constituted an increased interest. In this regard, the NBM conducted an extensive analysis resulting in two major findings: (1) there is a weak relationship between DSTI and loans performance, and higher levels of DSTI contribute marginally to the deterioration of loan quality and (2) the relationship between DSTI and loan performance is nonlinear – a rate below 60.0 percent contributes to reducing the probability of it becoming non-performing, but after this threshold, the influence becomes inverse.

4.2. The National Committee on Financial Stability

The National Committee on Financial Stability continued to meet quarterly to monitor the evolution of the financial system and assess potential risks to financial stability at the system level.

During the four regular meetings of the Committee in an extended format held during 2024, risks in the banking sector, the non-banking lending sector, and the insurance sector were examined, in light of the intermediate objectives established in the Macroprudential Policy Strategy, approved at the meeting of September 15, 2023.

Also, the risks related to the capital market were examined, as well as the draft National Strategy for the Development of the Capital Market in the Republic of Moldova for the period 2025-2030. Other topics discussed during the meetings included the examination of the implementation of the NCFS recommendation regarding the establishment of a back-to-back mechanism in the insurance sector, and the amendment of Law no. 121/2007 on the administration and denationalization of public property for this purpose. At the same time, the preliminary draft of the International Monetary Fund 's report on capital account liberalization was examined, as well as the proposal of the Bucharest Stock Exchange regarding the development of the stock exchange in the Republic of Moldova.

5. RECENT DEVELOPMENTS AND PERSPECTIVES

5.1. Regulations to strengthen the financial stability framework

Prudential regulation of the financial system

During 2024, the NBM maintained the activities related to the development and updating of secondary normative acts to implement Law no. 202/2017 on the activity of banks and the promotion of Basel III requirements.

In this context, changes were made to *Regulation no. 292/2018 regarding the requirements towards the members of the management body of the bank, of the financial holding or mixed holding company, the managers of the branch of a bank from another state, the key function holders and towards the liquidator of the bank in the process of liquidation,* including differentiated requirements regarding the quality of persons appointed to the position of head of the bank's executive body.

Also, changes were made to the *Chart of Accounts of the bookkeeping in banks in the Republic of Moldova*, which aimed to update and improve accounting within banks, including in the context of the implementation of instant payments in the field of financial technologies. The changes made to the Chart of Accounts concerned adjustments developed based on changes in regulatory acts and requests received from banks.

At the same time, changes were made to the *Regulation on the bank's open foreign exchange position*, by Decision of the Executive Board of the NBM no. 36/2024, namely by supplementing with new accounts Annex no. 2 "Method of preparing the report "Bank's open foreign exchange position" related to the position that includes the equivalent in MDL of the balances of current accounts in foreign currency of resident legal entities, resident individuals practicing entrepreneurial activity or other type of activity and resident individuals.

The instruction on the submission of COREP reports by banks for supervisory purposes has been supplemented with provisions related to a new liquidity supervision tool (liquidity by maturity bands) which will allow the NBM to monitor banks' liquidity more effectively. The "Maturity Bands" form is a report on the basis of which banks will provide information on future contractual cash flows generated by all on-balance-sheet and off-balance-sheet items, such as the stock of unencumbered assets or other sources of funding legally and practically available to the bank, contingent outflows and memorandum items allocated to maturity bands. The information provided by the bank will serve as a basis for the NBM's additional liquidity monitoring to ensure, if necessary, through the tools available to the supervisor, the maintenance of an adequate level of liquid assets.

The changes made to the *Regulation on assets and conditional commitments classification* aimed to correlate the regulation with the terminology and requirements provided for in the current regulatory framework and to amend some provisions of the regulation following supervisory practice and proposals from the banking community, namely those related to the change of the list of assets and conditional commitments that fall under the scope of the regulation, reclassification of conditional assets/commitments according to new established criteria, as well as increasing the level of the amount of credits for their classification.

Also, through a single decision, the Executive Board approved, amended and repealed several regulatory acts related to liquidity requirements, such as:

1. *The Regulation on Liquidity Coverage Requirements for Banks*, approved by the Decision of the Executive Board of the NBM no. 44/2020, which will be repealed on July 01, 2025.

2. *The Regulation on Liquidity* approved in a new version, which shall enter into force on July 01, 2025 and through which:

- the provisions related to the liquidity coverage requirement (LCR) are adjusted, following the amendments introduced in Delegated Regulation (EU) no. 2015/61;

- the regulatory framework for the stable

funding requirement (NSFR) is established in accordance with the provisions of EU Regulation no. 575/2013;

- it is established that banks will report to the NBM, in addition to the LCR indicator, monthly, and the NSFR indicator reported quarterly;

- the requirement for banks to report liquidity by maturity bands to the NBM is introduced;

- a deadline of 60 working days is set for the NBM to complete the procedure for deciding on applications for prior approval, derogation, approval, authorization and the imposing of stricter conditions.

3. *The Regulation on Disclosure Requirements for Banks* has been amended. Thus, starting from July 1, 2025 banks shall display on bulletin boards in their offices, monthly, the information on the liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR), as well as the components of these ratios.

4. *Regulation No. 28/1997 on Bank Liquidity* has been repealed as of July 1, 2026. Over the course of a year, in addition to the NSFR indicator, banks will report in parallel the currently applicable indicators: long-term liquidity (Principle I) and liquidity by maturity bands (Principle III), which will ensure continuity and effective monitoring of banks' liquidity.

The amendments to the regulatory acts related to liquidity requirements also required the amendment of some regulatory acts of the NBM regarding the reporting of the liquidity coverage requirement and the stable funding requirement, namely:

1. The new reporting format for the liquidity coverage requirement (LCR) has been approved, which has been adjusted in line with Implementing Regulation (EU) 2021/451 and aligned with the provisions of the Liquidity Regulation. LCR reporting on an individual basis will be conducted monthly, as it is currently. Additionally, consolidated LCR reporting will be introduced on an annual basis.

2. The format and frequency of reporting on stable funding (NSFR) has been approved. NSFR reporting will be carried out quarterly on an individual basis and annually on a consolidated basis.

3. Editorial changes have been introduced related to the reporting of additional liquidity monitoring indicators (maturity bands).

4. It has been established that, as of July 13, 2026 the reporting of Principle I and Principle III will be repealed in accordance with the provisions of Instruction No. 279/2011 on the preparation and submission of reports by banks for prudential purposes. Thus, within one year, the currently applicable liquidity ratios will be reported in parallel with the NSFR.

Aligning the banking legislation of the Republic of Moldova with international standards, by improving the quantitative and qualitative mechanisms for bank management, will contribute to promoting a secure and stable banking sector, increasing transparency, trust and attractiveness of the domestic banking sector for potential investors and creditors of banks, as well as for depositors and customers, developing new financial products and services.

In order to fulfil the commitments assumed by the Republic of Moldova under Article 267 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 (ratified by Law No. 112/2014) and the provisions of the National Action Plan for the Accession of the Republic of Moldova to the European Union for the years 2024-2027, approved by Government Decision No. 829/2023 (action No. 1 Chapter 4. Free movement of capital), for the purpose of further liberalization of foreign exchange capital operations, the NBM has developed and submitted the draft Law amending Law No. 62/2008 on foreign exchange regulation (on the liberalization of certain capital foreign exchange operations) to the Ministry of Finance for promotion. This draft law provides for the liberalization of certain capital foreign exchange operations (such as the purchase of foreign financial instruments, the import/export of cash in the national

currency by banks), which were recommended by IMF experts for the first stage of liberalization, according to the conclusions presented by the IMF as part of the technical assistance provided in 2024.

During 2024, the NBM continued to strengthen the regulatory framework in the insurance sector in accordance with best practices in the field.

To this end, normative acts were developed to consolidate the primary legislative framework applicable to the insurance sector consisting of Law no. 92/2022 on the business of insurance and reinsurance and Law no. 106/2022 on compulsory motor third party liability insurance for damages caused by vehicles.

Among these, we specify the following documents:

- The Regulation on the audit of insurance or reinsurance undertakings (approved by the NBM Executive Order No. 71/2024), which establishes the regulatory framework for the audit of financial statements and audits for supervisory purposes at the insurance or reinsurance undertaking, the approval procedure, including the criteria for the audit entity and, the manner of withdrawal of approval of the audit entity. At the same time, the regulation establishes aspects to be detailed in the auditor's reports and the deadlines for their presentation (including the requirement to be accompanied by a letter addressed to management and an expertise signed by the actuary who was part of the audit team). The regulation also establishes provisions regarding the auditing of outsourced functions and activities, as well as communication with the audit entity, approved by the NBM.

- The Regulation on the system of governance of insurance or reinsurance undertakings (approved by the Decision of the Executive Board of the NBM no 241/2024), which establishes a series of fundamental requirements for the proper functioning of insurance or reinsurance companies, such as: general requirements regarding the system of governance; minimum requirements for systems, functions, and policies within the system of governance; requirements regarding the risk management system, activities related to the internal control system, the compliance function, the internal audit function and the actuarial function. Requirements are also established regarding the responsibilities of the company's management bodies and specialized committees of the company's board, the responsibilities of the company's board in order to develop the general principles of the remuneration policy and ensure professional and responsible behaviour at the company level. At the same time, the regulation also contains the procedure for reporting to the NBM the conditions under which the company's internal control is carried out, with distinct treatment of aspects related to the risk management function, the compliance function and the internal audit function.

- The Regulation on the outsourcing of functions and activities related to insurance or reinsurance activity by insurance or reinsurance undertakings (approved by the Decision of the Executive Board of the NBM no. 242/2024), which provides for the conditions under which the insurance or reinsurance undertaking has the right to outsource functions and activities related to insurance or reinsurance activity, after obtaining the prior approval of the supervisory authority and the minimum requirements regarding the assessment of the provider by the insurance or reinsurance undertaking; requirements for the content of the outsourcing contract; particularities of the outsourcing of insurance or reinsurance functions and activities; the method of managing risks associated with outsourcing; prior approval procedure, notification and reporting of outsourcing; outsourcing of information and communications technology.

At the same time, the regulatory act details the mechanisms to be used by insurance or reinsurance companies, depending on their nature, scale and complexity, when delegating certain functions and activities to third parties, in order to provide better services by them, as well as reduce costs, execution time, opportunities to focus resources on the companies' core activities.

- The Regulation on the internal assessment of

own risks and solvency by insurance or reinsurance companies and the requirements for carrying out tests for the assessment of the ability to maintain financial stability (approved by the Decision of the Executive Board of the NBM no. 243/2024) establishes the rules and content of the assessment by insurance companies of quantitative instruments, used to assess their ability to meet the solvency ratio requirements in the case of possible future events or changes in economic conditions that could have adverse effects on the financial situation. In this regard, the regulation provides for the role and powers of the company's management bodies within the internal assessment process, as well as the method of carrying out tests to assess the ability to maintain financial stability. The regulation stipulates the documentation of each assessment, in the sense that it establishes the requirements for organizing the internal assessment process of own risks and solvency, as well as the documentation that needs to be prepared and held by the company.

- *The amendments to the Regulation on the electronic processing of compulsory motor third party liability insurance documents, approved by Decision of the National Commission for Financial Markets no. 15/6 of April 15, 2019 (by the Decision of the Executive Board of the NBM 293/2024),* determined by the amendment to the Technical Concept of the Automated State Information System in the field of compulsory motor third party liability insurance for damages caused by motor vehicles, provide the possibility for insurance companies to issue the "Green Card" insurance certificate in digital format.

Thus, according to the changes made, the process of issuing the "Green Card" insurance certificate has been digitalized, by giving up the primary document forms with special regime on paper and ensuring the possibility of issuing them in electronic form.

- *The Regulation on own funds, the valuation of assets and liabilities, assets eligible to cover technical provisions and the minimum capital requirement, solvency and liquidity of the insurance or reinsurance undertaking (approved by Decision of the Executive Board of the National Bank of Moldova no. 328/2024)* establishes the methods and assumptions to be applied by insurance or reinsurance undertaking when valuing assets and liabilities, other than technical provisions (valuation using market prices), the categories of assets eligible to cover technical provisions and the minimum capital requirement, as well as general aspects regarding own funds, requirements and categories of own funds (basic and ancillary), elements, distribution of basic own funds by tiers (tier I, tier II and tier III), restricted own funds, including the eligibility of own funds for solvency. For the recognition of ancillary own funds, it is necessary to obtain prior approval from the NBM, thus the regulation establishes the procedure for obtaining that approval.

The regulation provides for the calculation methods and reporting of the minimum capital requirement, the methods of calculating and reporting prudential indicators - solvency ratio and liquidity coefficient (separately for insurance activities carried out in the categories "general insurance" and "life insurance"), the deadlines and form of presentation of reports, including in electronic form, through SIRBNM (the IT system for reporting to the NBM). In this regard, the forms of specialized reports and their completion method

are established.

Bank Recovery and Resolution Regulations

In 2024, several amendments were made to Law no. 232/2016 on bank recovery and resolution, with the aim of further aligning national legislation with European Union legislation.

By Law no. 314/2024 for the amendment of some normative acts (on aspects related to bank recovery and resolution), a number of changes were made, which refer to:
– updating the provisions related to the *"minimum requirement for own funds and eligible liabilities"* (MREL requirement), which aims to ensure that banks have a sufficient level of loss-absorption and recapitalization capacity and is relevant in the context of the use of the bail-in tool. At the same time, the applicability of this requirement was postponed until 2030;

– including new powers for the NBM, as resolution authority, such as the power to prohibit banks from distributing own funds, if they violate the combined buffer requirement when it is taken into account in addition to the minimum requirement for own funds and eligible liabilities, provided for in art. 164 of Law no. 232/2016, as well as the power to suspend any payment or delivery obligations pursuant to any contract to which the bank is a party, under certain specific conditions, at a stage preceding resolution actions, which would allow increasing the efficiency of the application of resolution tools;
- providing for the applicability of Law no. 139/2012 on State aid in the application of resolution tools and exercising the resolution powers provided for;
- amending the provisions related to the *"bridge bank"* resolution tool. In the new wording, the share capital of the bridge bank may be held not only by the Ministry of Finance, but also by other public authorities, including the Deposit Guarantee Fund in the banking system, as administrator of the bank resolution fund, except for the NBM;
- including rules that provide for the derogation, within the application of resolution tools, from the general rules aimed at registering the shares placed upon the establishment of the bridge bank/asset management vehicle and registering the changes related to the share capital and securities issued by the bank under resolution, a special deadline being established for the related processes (24 hours), resulting from the degree of urgency characteristic of resolution situations.

<u>Regulation of payment systems and the activity of providing payment services and issuing electronic money</u>

The National Bank continued to amend the framework regarding payment systems and the activity of providing payment services and issuing electronic money.

During 2024, several Decisions of the Executive Board of the NBM were approved, as follows:

1. Decision no. 9/2024 "For the approval of the Regulation on holdings in non-bank payment service providers";
2. Decision no. 10/2024 "For the approval of the Regulation about activities of non-bank payment service providers";
3. Decision no. 11/2024 "For the approval of the Regulation on the licensing and registration of payment institutions, electronic money institutions and postal service providers acting as payment service providers and/or electronic money issuers";
4. Decision no. 12/2024 "For the approval of the Regulation on strict customer authentication and open, common and secure standard of communication between payment service providers";
5. Decision no. 22/2024 "On amending the Decision of the Executive Board of the National Bank of Moldova no. 179/2019 on the approval of the Regulation on the automated interbank payment system, amending and repealing some normative acts of the National Bank of Moldova";
6. Decision no. 267/2024 "For the approval of the Regulation on the audit of non-bank payment service providers, amending and supplementing some normative acts of the National Bank of Moldova";
7. Decision no. 289/2024 "For the approval of the Regulation on the monitoring of financial market infrastructures, schemes, arrangements and payment instruments".

The approval of the above-mentioned decisions was dictated by the amendments made to Law no. 114/2012 on payment services and electronic money (through Law no. 209/2022 amending certain normative acts, which transposes Directive (EU) 2015/2366 on payment services in the internal market (PSD2), Law no. 292/2023 on amending certain normative acts (consolidating aspects regarding financial market infrastructures) and Law no. 95/2024 on amending certain normative acts).

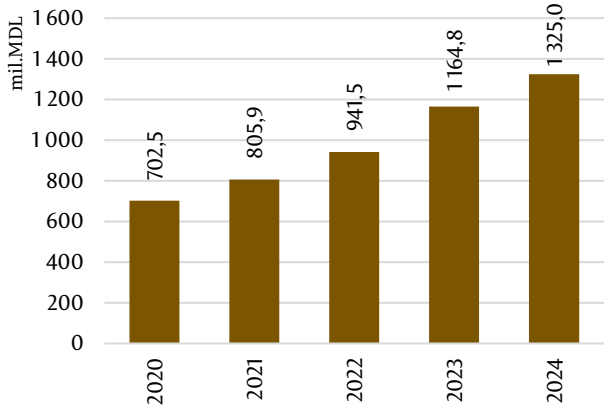
5.2. Deposit guarantee and Resolution fund in the banking sector

The coverage level of deposits of private individuals and legal entities, resident and non-resident, doubled to the level of 100,000 MDL. In 2024, the capitalization rate[47] of FGDSB resources reached 4.13 percent.

Since the establishment of the fund (January 01, 2004), financial means have been accumulated in the total amount of 1,325.0 million MDL, of which 755.1 million MDL - initial and quarterly contributions from banks and 629.0 million MDL - income obtained from the investment activity of DGFBS.

During the reporting year, the financial means for guaranteeing deposits increased by 160.3 million MDL or by 13.8 percent, as of December 31, 2024, the available means of the DGFBS were worth 1,325.0 million MDL (Figure 5.2.1) or 4.13 percent of the total guaranteed deposits registered in the banking sector.

Figure 5.2.1. Available means of DGFBS



Source: prepared by the NBM based on DGFBS data

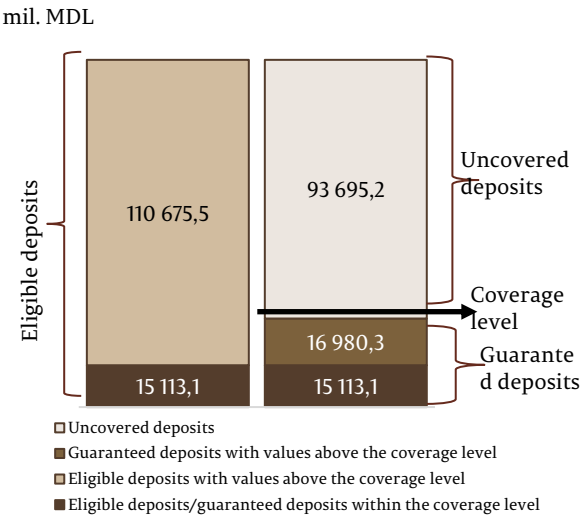
Considering the coverage level of 100,000 MDL, they are sufficient to cover deposits simultaneously guaranteed at 4 banks (3 small and one medium-sized) or of any bank, except for systemically important banks for which, according to the provisions of Law no. 232/2016 on bank recovery and resolution, the resolution procedure is applicable.

[47] The ratio between the calculated financial means of the fund and the total amount of guaranteed deposits

The level of full coverage of deposits of eligible individuals and legal entities reached 96.9 percent of the number of depositors and 25.1 percent of the amount of guaranteed deposits.

During the analysed period, the balance of guaranteed deposits increased by 8.8 percent to 32,093.4 million MDL (Figure 5.2.2) compared to 2023. In disaggregation by types of depositors, guaranteed deposits of private legal entities accounted for 10.4 percent of total guaranteed deposits, while guaranteed deposits of individuals accounted for, 89.6 percent of the amount of guaranteed deposits respectively.

Figure 5.2.2. Positioning of eligible deposits against the coverage level, December 31,.2023



Source: DGFBS, Activity Report for 2024

As administrator of the Bank Resolution Fund, the DGFBS continued to accumulate the financial resources of the Bank Resolution Fund, which stood at 2.4 percent in relation to the volume of guaranteed deposits.

During the reporting year, the Bank Resolution Fund received contributions from banks in the total amount of 211.5 million MDL. As the contributions were collected from banks, the DGFBS ensured the investment process from the available resources of the Bank Resolution Fund, recording at the end of 2024 investment income in the amount of 33.9 million MDL.

As of December 31, 2024, banks have fully paid the annual contributions calculated by the

NBM. Thus, at the end of 2024, the financial resources of the Bank Resolution Fund reached for the first time the target level of 3 percent of the amount of guaranteed deposits, set by Law no. 232/2016 on the recovery and resolution of banks, amounting to 767.0 million MDL.

Box 4. Financial Sector Assessment Program (FSAP)

Towards the end of 2024, the NBM and the Ministry of Finance of the Republic of Moldova received confirmation from the IMF and the World Bank regarding the initiation of the FSAP Financial Sector Assessment Program, which will be carried out, largely, during 2025.

The Republic of Moldova is one of the economies subject to an international financial sector assessment conducted jointly by the IMF and the World Bank. This assessment is carried out within the framework of the FSAP (Financial Sector Assessment Program). The FSAP is one of the most comprehensive tools for assessing the resilience and soundness of a country's financial sector internationally. It is an important component of the IMF's financial surveillance activities and contributes to preventing and mitigating the risk of financial crises.

The main purpose of the FSAP is to support national authorities in identifying vulnerabilities of the financial system, in strengthening macroprudential policy frameworks and in strengthening institutional capacity for crises prevention and management.

The evaluation pursues two strategic directions:
- financial stability, coordinated by the IMF, which focuses on systemic risks, testing the resilience of financial institutions (including through stress tests), the quality of the regulatory and supervisory framework, as well as the efficiency of intervention and resolution mechanisms in the event of a crisis.
- development of the financial sector, coordinated by the World Bank in the case of emerging and developing economies, focused on access to finance, financial infrastructure and financial inclusion.

The financial stability assessment carried out under the FSAP covers three essential dimensions. Thus, the aim is to identify sources of risk for macro financial stability, as well as to analyse the probability of their materialization and the potential impact. The policy framework for ensuring financial stability, including the supervisory and regulatory architecture is also assessed. At the same time, the capacity of the authorities to manage and resolve financial crises, in case the identified risks materialize, are analysed.

The FSAP 2025 segment conducted by the IMF will include 3 assessment pillars. Pillar I shall include systemic risk analysis and stress test of the domestic banking sector. Pillar II considers the assessment of banking sector regulation and supervision, macroprudential supervision, and the assessment of financial integrity. Pillar III shall include the assessment of the crisis management framework and the financial safety net. The FSAP 2025 segment conducted by the World Bank will include the assessment of access to finance, agricultural finance, and long-term finance.
For emerging economies, such as the Republic of Moldova, the FSAP assessment is of strategic importance, providing an independent and technical analysis of the soundness of the financial system, the institutional framework and macroprudential policies, especially in the context of accession to the European Union. Also, the FSAP results will constitute valuable support for prioritizing financial reforms, increasing the credibility of national institutions before international partners, and attracting technical and financial assistance to strengthen long-term financial stability.

The Republic of Moldova benefited from this program in 2004, 2007 and 2014. Also, towards the end of 2024, the NBM and the Ministry of Finance of the Republic of Moldova received confirmation from the IMF and the World Bank regarding the conduct of this assessment during 2025.

ANNEXES

Systemic Risk Survey[48]

Traditional key risks (macroeconomic, credit) as well as specific risks (geopolitical, sovereign) persist in the financial system.

Geopolitical risk continues to be the most important risk, with a high probability of materialization, a high potential impact and a very difficult management capacity. The second major risk is the macroeconomic risk, assessed as having a relatively high probability of materialization, relatively high potential impact and difficult management capacity. Sovereign risk ranks third in the risk hierarchy by importance, characterized by a relatively medium probability of occurrence, a relatively high potential impact and difficult management capacity (Table 1.1).

In dynamics, an increase in the importance of geopolitical, macroeconomic, sovereign, credit and cyber risk is observed, as well as a maintenance of reduced importance for Covid-19, real estate, environmental, regulatory and reputational risk (Figure 1.1).

Table 1.1. Rating of risks analysed in the survey by category

2024 T4	Importance	Likelihood	Potential impact	Management capacity
Geopolitical risk	3,97	4,00	4,00	4,09
Macroeconomic risk	3,46	3,64	3,73	3,27
Sovereign risk	3,24	2,82	3,64	3,73
Cyber risk	3,21	3,36	3,45	3,00
Credit risk	3,18	3,27	3,55	2,91
Reputational risk	2,66	2,27	3,27	3,00
Regulatory risk	2,55	2,55	2,91	2,45
Environmental risk	2,35	2,55	2,55	2,64
Real estate risk	2,14	2,27	2,27	2,09
Covid-19 risk	1,74	1,82	2,09	1,91
Energy risk [49]	-	3,00	2,00	2,00

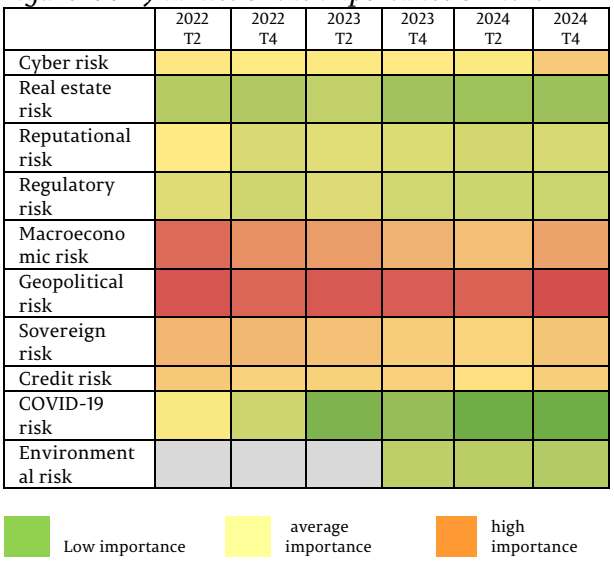
*Note: **Importance** was calculated as the geometric mean of the probability of occurrence, potential impact, and management capacity.*
***Likelihood:** 1 –not significant, 2 – low, 3 – medium, 4 – high, 5-certain.*
***Potential impact**: 1 – not significant, 2 – low, 3 – medium, 4 – high, 5- extremely high.*
***Management capacity**: 1 – very easy, 2 – relatively easy, 3 – relatively difficult, 4 – very difficult, 5 – not manageable.*
Source: NBM, Systemic Risk Survey

In the current iteration of the survey, a new potential systemic risk was put forward by one of the respondents – energy risk.

This was assessed as having a medium likelihood of materialization, with low potential impact and relatively easy management capacity.

Most respondents consider the real economy (91 percent) and an external event (91 percent) as potential sources of systemic risk, followed by the political field (73 percent). At the same time, respondents also mention other potential sources of systemic risk: the social framework (55 percent), the financial and banking field (36 percent), and the real estate market (27 percent).

Figure 1.1. Dynamics of the importance of risks



Source: NBM, Systemic Risk Survey

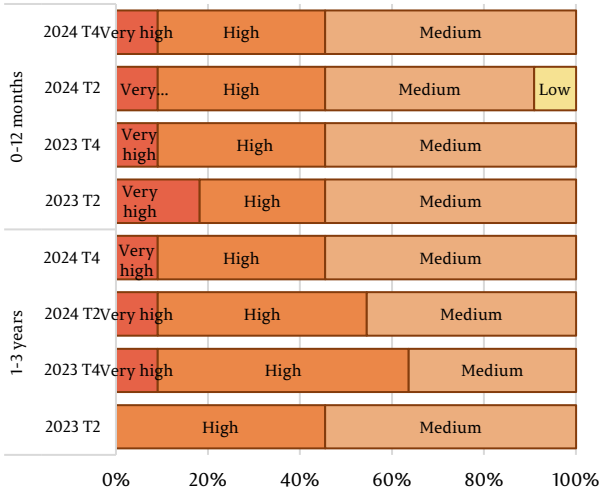
The likelihood of a high-impact event occurring in the next 0-12 months is expected to be medium to high, with a decrease in the number of those who rated this probability as "low". Medium-term (1-3 years) expectations regarding the occurrence of an adverse event have become more optimistic, because of the decrease in the number of banks rating this likelihood as "high" (Figure 1.2).

[48] NBM conducts the systemic risk survey on a semi-annual basis, to capture the opinion of the risk managers of the banks on the major risks of the financial system.

[49] Additional risk, proposed by one respondent, resulting from the unstable situation regarding energy resources. The importance was not calculated because it was not equally evaluated by all respondents in the current iteration of the survey.

The soundness of the financial system is assessed as moderately high (82 percent), expecting this level to be maintained in the future.

Figure 1.2. Evolution of perceptions on the likelihood of a high impact event in the short term (<1 year) and medium term (next 1-3 years)



Source: NBM, Systemic Risk Survey