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Annual Report 2023

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Foreword by the Governor of the National Bank of Moldova



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

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

lending, made it possible to reduce inflation and return interest rates to an acceptable level.

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

The monetary policies of the NBM, geared towards ensuring sufficient liquidity in the banking system, have provided the necessary conditions for lending to the real sector. Investors' appetite for state securities (SS) continued to grow, with a historical peak in the total volume of circulating SS and a four times higher net issues value compared to the previous year. The Ministry of Finance issued 10-year maturity bonds for the first time, reflecting growing confidence of investors in state-issued instruments.

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

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

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

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

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

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

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

Anca-Dana Dragu
Governor

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