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Working paper No. 1/2024: Improving debt service to income ratio in the Republic of Moldova: a quantitative approach

Abstract

The Debt Service to Income Ratio (DSTI) has emerged as a critical macro-prudential tool, gaining prominence following the 2008–2009 financial crisis and becoming widely adopted across Central and Eastern Europe. Despite its extensive implementation, DSTI practices vary, with some countries applying single thresholds while others adopt differentiated caps based on borrower profiles. This study examines the application of DSTI in the Republic of Moldova, where its mandatory use was introduced in 2022. Using micro-data on consumer and mortgage loans, the authors apply logit regression models to analyze the relationship between DSTI levels and non-performing loans (NPLs).

The findings reveal a weak positive correlation between DSTI caps and credit non-performance. The analysis underscores the non-linear nature of this relationship, identifying a 60% DSTI threshold as optimal for Moldovan borrowers. Beyond this level, DSTI values adversely affect loan quality by increasing the likelihood of default. The study concludes that revising current DSTI thresholds in Moldova could enhance financial stability.

Keywords: Macro-prudential instruments, debtor-oriented tools, debt service to income ratio, LOGIT regression.

JEL Classification: C35, G21, G28

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NOTES

The views expressed in this paper are those of the authors and do not necessarily reflect the views of the National Bank of Moldova. NBM Working Papers describe research in progress by the authors and are published to elicit comments and to encourage debate.

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