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Annual Report 2019

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Foreword



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2019 was marked by many events, both externally and internally, all with an impact on economic activity, prices and national currency. Externally, 2019 was dominated by trade disputes between the US and China, preparations for Brexit and the slowdown in economic growth in several developed countries of the world, internally we had political instability and the change of two governments.

Although more modest than in previous years, the annual dynamics of economic activity was positive in 2019, the gross domestic product being by 3.6% higher than the previous year. The increase in disposable income of the population was less reflected in private consumption, but had a more pronounced impact on investment. Most sectors of the national economy registered positive dynamics. However, construction and internal trade continued to play a dominant role in economic growth. At the same time, adverse weather conditions for certain crops had a negative impact on the performance of the agricultural sector in 2019.

During 2019, the annual inflation rate outlined a sharp upward trajectory, supported, on the one hand, by a positive domestic demand and, on the other hand, by the incidence of distinct phenomena such as: fiscal policy adjustments, currency depreciation adverse weather conditions, as well as electricity tariff increases.

Despite these factors, we managed to keep the average annual inflation, which was 4.8%, very close to the inflation target. Although at the end of the year, inflation increased over the variation corridor targeted by the National Bank, we forecast in 2020 a rapid decrease of thereof.

The monetary policy measures adopted by the National Bank aimed at tempering the forecasted variations of the consumer price index. In June and July, monetary policy rates were raised in order to moderate price increases. At the end of the year, according to the forecast of rapid decrease of the price level, the interest rates and the size of the banks' required reserves for lei holdings were decreased. The National Bank will further relax monetary conditions and provide liquidity to the banking sector, depending on price developments and the needs of the economy.

The banking system has undergone a major transformation process in recent years, which we can consider achieved. The transformations focused on the aspects of banking activity – the legislative and normative framework, shareholding and corporate administration, client relationships and products offered. The Basel III principles have been implemented, which include a comprehensive set of provisions on the size of banks' capital and capital buffers, risk assessment and prevention, internal and external control of banks' operations. During the year, there were several large transactions with the shares of some of our banks, the market continuing to enter reputable foreign investors, with access to international financial markets, ensuring adequate governance. After the transformation period, the banking system resumed its full operation: and, respectively, the volume of the loan portfolio began to grow, banks offered new credit products, including in the field of mortgages and consumer loans, the economy began to assimilate the excessive liquidity accumulated in recent years.

The National Bank has maintained its institutional and decision-making independence, cooperating with state institutions and decision-makers in the areas of its statutory activities.

The diligent management of the state's foreign exchange reserves, the financing from external partners and the foreign exchange intervention policy promoted by the National Bank increased the value of the official reserve assets to over USD 3 billion. Foreign exchange reserves provide for the possibility of moderating the excessive volatility of the exchange rate, are the guarantee of meeting the external obligations of the state and, in the event of a significant slowdown in exports, would be necessary resources to support several months of imports.

Given the situation at the end of 2019, we can say that our banking system is in a pretty good condition, both organizationally and financially. Currently, given the epidemiological situation and the problems caused by the slowdown in economic activities, the health of the banking system is more important than ever. The high level of liquidity, the large volume of official reserve assets, the robust capitalization of banks will allow us to overcome the created situation, maintaining the confidence of our citizens in the national currency and in the financial-banking system of the Republic of Moldova.

Octavian Armașu
Governor

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