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TECHNICAL ASSISTANCE REPORT—FINANCIAL SECTOR STABILITY REVIEW

February 2022

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TECHNICAL ASSISTANCE REPORT

REPUBLIC OF MOLDOVA

Financial Sector Stability Review

October 2021

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Stability Review

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GLOSSARY

ADR	Alternative Dispute Resolution
AML/CFT	Anti-Money Laundering/Combating the Financing of Terrorism
BCP	Basel Core Principles
BPM	Balance of Payments and International Investment Position Manual
BRD	Banking Resolution Department
BRRL	Bank Recovery and Resolution Law
BSA	Balance Sheet Approach
BSD	Banking Supervision Department
CCyB	Countercyclical Capital Buffer
CIS	Collective Investment Scheme
CPA	Consumer Protection and Market Supervision Agency
CPSS	Committee on Payments and Settlement Systems
CRD	Capital Requirements Directive
CRR	Capital Requirements Regulation
CSD	Central Securities Depository
DGF	Deposit Guarantee Fund
DGL	Deposit Guarantee Law
DGS	Deposit Guarantee Scheme
DSTI	Debt-Service-to-Income
DT	Deposit Takers
ECL	Expected Credit Loss
ELA	Emergency Liquidity Assistance
ESRB	European Systemic Risk Board
EWS	Early Warning System
EU	European Union
FATF	Financial Action Task Force
FCP	Financial Consumer Protection
FI	Financial Inclusion
FMD	Financial Markets Department
FSB	Financial Stability Board
FSD	Financial Stability Department
FSI	Financial Soundness Indicator
FSR	Financial Stability Report
FSSR	Financial Sector Stability Review
FTE	Full-time Equivalent
IADI	International Association of Deposit Insurers
GFS	Government Finance Statistics
IAIS	International Association of Insurance Supervisors
ICAAP	Internal Capital Adequacy Assessment Process
ICP	Insurance Core Principles
IFAD	International Fund for Agricultural Development
IFRS	International Financial Reporting Standards

IIP	International Investment Position
INFE	International Gateway for Financial Education
IOSCO	International Organization of Securities Commissions
IRB	Internal Ratings Based
KA	FSB's Key Attributes of Effective Resolution Regimes
LCR	Liquidity Coverage Ratio
LGD	Loss given default
LTV	Loan-to-Value
MCM	Monetary and Capital Markets Department (of the IMF)
MDL	Moldovan Lei
MFI	Microfinance Institution
MFS	Monetary and Financial Statistics
MMoU	IOSCO Multilateral Memorandum of Understanding
MoF	Ministry of Finance
MoU	Memorandum of Understanding
MPD	Monetary Policy Department
MREL	Minimum Requirement for Own Funds and Eligible Liabilities
MSE	Moldova Stock Exchange
MTPL	Motor Third Party Liability
NBCO	Non-Bank Credit Organization
NBFI	Non-Bank Financial Institution
NBM	National Bank of Moldova
NCFM	National Commission for Financial Markets
NCFS	National Committee for Financial Stability
NFC	Nonfinancial Corporation
NFIS	National Financial Inclusion Strategy
NPL	Non-performing Loan
ODC	Other Depository Corporation
OFC	Other Financial Corporation
ORSA	Own Risk and Solvency Assessment
PD	Probabilities of Default
PFMI	CPSS/IOSCO Principles for Financial Market Infrastructures
POS	Point of Sale
PSD2	Payment Services Directive Two
RF	Resolution Fund
SCA	Savings and Credit Association
SCV	Single Customer View
SME	Small and Medium Enterprise
SREP	Supervisory Review and Evaluation Process
SRF	Standardized Reporting Form
STA	Statistics Department (of the IMF)
TA	Technical Assistance
TARM	Technical Assistance Road Map

PREFACE

At the request of the National Bank of Moldova (NBM), an IMF Financial Sector Stability Review (FSSR) mission held meetings with the Moldovan authorities during June 1-22, 2021. Due to travel restrictions induced by the COVID-19 pandemic, meetings were conducted remotely, via videoconferencing. The mission was led by Mr. Torsten Wezel of the Monetary and Capital Markets Department (MCM) and included Mr. Joseph Crowley (Statistics Department, STA); as well as Ms. Cristina Pailhé and Messrs. Adam Gersl, Joao Marques, Ian Tower and Greg Tanzer (all MCM short-term experts).

Mr. Dong He, Deputy Director (MCM), and Mr. Vassili Prokopenko (MCM TA Country Manager) joined the mission for the closing meeting.

The scope of the mission, which was agreed with the NBM during the discussions that were held remotely in January 2021, comprised financial sector oversight, financial stability issues (macroprudential framework, systemic risk assessment, and stress testing), financial crisis management, financial inclusion, capital markets development, and financial sector statistics.

The mission met with Mr. Octavian Armaşu (Governor of the NBM), Mr. Valeriu Chitan (Chairman of the National Commission on Financial Markets (NCFM)) and Ms. Tatiana Ivanicichina (State Secretary, Ministry of Finance (MoF)). It also met with NBM and NCFM technical staff and other government officials from the Ministries of Finance, of Economy and Infrastructure, and of Education; the Deposit Guarantee Fund (DGF); the Consumer Protection and Market Supervision Agency (CPA); the Moldova Stock Exchange (MSE); and the Central Securities Depository (CSD); as well as with senior executives from public and private sector financial institutions; and it liaised with the World Bank.

The mission wishes to thank the staff of the NBM and NCFM for their excellent collaboration, productive discussions, and their flexibility to be available for the virtual meetings despite large time zone differences.

EXECUTIVE SUMMARY

The mission conducted a diagnostic review of the financial system and proposes a Technical Assistance Roadmap (TARM) to support the authorities' efforts to strengthen their detection of risks and vulnerabilities and to enhance capacity in financial sector oversight and development. Two modules were undertaken during this FSSR mission. The financial stability module focused on areas agreed with the NBM and NCFM during the scoping stage: financial sector oversight, financial stability (macroprudential framework, systemic risk assessment, and stress testing), financial crisis management, financial inclusion and capital markets development. The financial sector statistics module focused on key data gaps hampering financial stability analysis as well as statistical reporting to the IMF's Statistics Department.

Financial oversight has been strengthened by recent reforms, although more remains to be done, especially in insurance, and a planned reorganization of agency responsibilities poses challenges. The NBM is close to completing the banking sector prudential regulatory and supervisory framework based on EU standards, which also addresses local vulnerabilities. There is scope to develop supervision further, for which additional resources are being made available. Much has been achieved by the NCFM to stabilize and develop the regulation of the insurance sector, but further progress on insurance regulation depends on enactment of outstanding legislation, effective implementation and enforcement and an increase in resources. In both banking and insurance, cross-border supervision should be strengthened. The regulation of the Savings and Credit Associations (SCAs) and particularly Non-Bank Credit Organizations (NBCOs) has also been developed, although again more resources are required and increased emphasis on business conduct. Preparations for the transfer of regulatory responsibilities to the NBM in mid-2023 need to be accelerated based on tight cooperation between NBM and NCFM.

The institutional arrangements for financial stability and regular monitoring of systemic risk are broadly appropriate, but solvency and liquidity stress tests need to be revised. There are a few remaining gaps in the macroprudential framework to be closed, such as amending the Law on NBM to provide for an explicit legal mandate for financial stability and macroprudential policy, increasing resources for and visibility of financial stability surveillance, and implementing properly calibrated borrower-based macroprudential tools, especially the debt-service-to-income (DSTI) cap covering both bank and non-bank credit for households. Systemic risk monitoring tools should be further developed, and the availability of micro-level data strengthened, especially at non-bank credit providers for them to properly assess household indebtedness. The stress testing framework needs improvements to be in line with best practices.

The crisis management and financial safety net frameworks have also been strengthened, although gaps remain in bank resolution and some other areas. The general framework has been substantially improved over the last five years, and the authorities have made efforts to increase their capacity to deal with future threats. The remaining gaps relate to bank resolution and other parts of the safety net, such as increasing authorities' crisis preparedness and inter-agency cooperation, both on depositor protection and resolution/liquidation of banks. Parts of the legal framework pertaining to crisis management should be reviewed, especially the institutional

arrangements for bank liquidation and its legal framework. Amendments to the law on resolution and/or secondary legislation are also needed to adapt it to the particularities of the Moldovan banking system, such as the minimum requirement for own funds and eligible liabilities (MREL) requirement, and conditions for access to the Resolution Fund.

The authorities have worked on initiatives to promote different dimensions of financial inclusion (FI), such as financial literacy and payments, but more remains to be done. FI has not been addressed by an overarching national strategy, nor is there an inter-agency coordination mechanism. Digital and electronic finance could be further developed, as many transactions are still settled in cash. With Moldova being most remittance-reliant country in Europe, there is still potential to leverage remittances for provision of other financial products. FI in Moldova would benefit from the development of inclusive financial products, such as standard "basic deposit accounts" and microinsurance. The legal and regulatory framework for financial consumer protection is fragmented, and it needs material reforms to guarantee effective protection. Efficient, internal complaint-handling procedures should be in place within financial institutions, and the framework will benefit from the implementation of an independent, out-of-the-court alternative dispute resolution scheme. In addition, the competent authorities should collaborate in the development and implementation of an overarching national financial inclusion strategy (NFIS), which should include financial education as one of the key elements.

The capital market in Moldova is underdeveloped and not making a sufficient contribution to the financing, risk management and investment needs of the economy. Complementing an NFIS, a capital markets development strategy supported across government and implemented by the NCFM is needed to bolster the capital markets. Efforts should be concentrated initially on: strengthening the institutional framework by developing the detailed legal framework for the operation of facultative pension funds and the NCFM's information gathering and sharing powers in line with international standards; improving regulatory capacity at the NCFM with respect to off-site supervision and on-site inspections of market intermediaries and facultative pension fund administrators; and encouraging trading of more financial instruments both directly (such as enabling trading of government securities and municipal bonds on the MSE) and by encouraging collective investment schemes (CIS) to enter the domestic market.

Financial sector statistics in Moldova are timely and comprehensive. Coverage of monetary and financial statistics (MFS) data includes all depository corporations. Data are comprehensive, compiled in line with the latest IMF methodology, and allowing for the production of a mostly complete matrix for the Balance Sheet Approach (BSA), with published BSA matrices for 2015-20 due out in 2022. The International Investment Position (IIP) statistics are based on the IMF's corresponding manual (BPM6). Remaining data gaps include FSIs for non-financial corporations, households, and market liquidity, but efforts to address them are underway. Many of the missing statistics are available, but their collection from various institutions needs to be coordinated and their quality/methodology checked while navigating resource constraints.

The mission's diagnostic review supports a TA plan. The key recommendations are summarized in Table 1, and the comprehensive TARM is provided in Section III.

Table 1. Moldova: Table of Main Recommendations[1]

Recommendation	Time Frame*
Financial Sector Oversight	
Intensify insurance regulatory reform, focusing on enactment of the new legislation, and effective implementation and enforcement, supported by TA and increased resourcing	LT
Enhance preparations for the transfer of regulatory responsibilities to the NBM, based on increased cooperation with the NCFM and capacity building at the NBM	MT
Complete the outstanding banking sector regulatory reforms and enhance supervision further, including of systemically important banks, making use of increased resources	MT
Develop cross-border supervision in both banking and insurance supervision to reflect the importance (and possible risks from) foreign ownership	MT
Strengthen the supervision the NBCO sector in respect to business conduct supervision	MT
Macroprudential Framework, Systemic Risk Assessment, and Stress Testing	
Upgrade resources for monitoring financial stability risks by increasing staff in the NBM Financial Stability Department	ST
Implement borrower-based macroprudential tools, especially the DSTI cap for bank and NBCO/SCA loans, with calibration based on collected borrower-level data on total household indebtedness	MT
Revise and improve the existing bank solvency and liquidity stress tests	MT
Financial Crisis Management and Safety Net	
Strengthen the resolution preparedness of the NBM for the implementation of the Sale of Business, Bridge Bank and Bail-in tools, including the preparation or improvement of operational plans	MT
Assess the adequacy of the current legal framework and to adopt a draft revised Bank Liquidation law with a forced liquidation procedure that achieves its public policy goals without hindering the discharge of other functions of the NBM	MT
Adopt a targeted review of the BRRL and/or secondary legislation to adapt current legal solution to the particularities of the Moldovan banking system	MT
Develop tools for advance monitoring and estimation of liquidity needs of banks for ELA and other supervisory purposes	MT
Financial Inclusion	
Develop and implement an overarching National Financial Inclusion Strategy (NFIS), including a workstream on financial education, and set up an inter-agency coordination mechanism for FI	LT
Implement targeted strategies to develop inclusive financial products, such as basic deposit accounts, micro-insurance, digital payments, and electronic remittances	MT
Conduct a comprehensive reform to the legal and regulatory framework for financial consumer protection	LT
Capital Markets Development	
Settle a capital markets development strategy and strengthen the institutional framework by establishing the normative framework for facultative pension funds and enabling the NCFM to become a signatory to the IOSCO MMoU on information sharing	MT
Build regulatory capacity by updating the off-site supervision and on-site inspection framework and practices for investment companies and CIS to be more risk-targeted, developing risk assessment framework for facultative pension fund administrators and custodians, and developing a supervisory manual for off-site and on-site supervision	MT
Enable more trading of more tradable instruments by introducing secondary trading of government and municipal bonds and implementing a strategy for encouraging CIS	LT

[1]This table summarizes recommendations from the Technical Assistance Roadmap (Section III) which were assigned a high priority, among others. Within each area, recommendations are further ordered by priority of implementation.

* **Time frame: ST,** short-term, less than six months; **MT,** medium-term, with results around 18 months; **LT,** long-term, with results around 30 months.

I. INTRODUCTION

A. Scope of Work

1. This report was prepared as part of the FSSR mission which held virtual meetings with the Moldovan authorities during June 1-22, 2021. Due to travel restrictions induced by the COVID-19 pandemic, meetings were conducted remotely, via videoconferencing. The mission held scoping discussions with the NBM and NCFM remotely in January 2021. Based on this agreed scope of work, the FSSR mission conducted a broad diagnostic of some key segments of the financial system and proposed a TARM to support the efforts of the authorities to address key gaps and vulnerabilities in the Moldovan financial system. The topics covered in the diagnostic review are financial sector oversight, financial stability issues (macroprudential policy, systemic risk assessment, and stress testing), financial crisis management, financial inclusion, capital markets development, and financial sector statistics (see Annex I).

2. The diagnostic review is based on existing standards and methodologies and was targeted to specific circumstances in Moldova. The evaluation of bank supervision was guided by the Basel Core Principles (BCP) for banks and by the Insurance Core Principles (ICPs) developed by the International Association of Insurance Supervisors (IAIS) for insurance companies. The authorities' stress testing capacity was evaluated against best international practices and Basel Stress Testing Principles, while the Key Attributes of Effective Resolution Regimes and the Revised Core Principles for Effective Deposit Insurance formed the basis for the evaluation of the financial crisis management frameworks. The NCFM's information sharing powers and capacity were considered against the International Organization of Securities Commissions (IOSCO) Multilateral Memorandum of Understanding concerning consultation and cooperation and the exchange of information (MMoU). The review of financial inclusion was guided by the Basel Committee Guidance on the Application of the BCP to the Regulation and Supervision of Institutions Relevant to Financial Inclusion, the G20 Principles for Innovative Financial Inclusion, the OECD-G20 High-Level Principles on Financial Consumer Protection, and the OECD High-Level Principles on National Strategies for Financial Education.

B. Overview of the Financial System

3. Commercial banks remain the dominant financial institution in Moldova. At end-2020, they represented 90 percent of total financial system assets (excluding the central bank). Deposit-taking institutions also comprise savings and credit associations (SCAs) of Category B, with total assets equal to less than one percent of total bank assets. In the non-depository financial sector, non-bank credit organizations (NBCOs) and non-deposit taking SCAs of Category A have assets equal to about 10 percent of total bank assets. The relatively underdeveloped insurance sector is equivalent, by total assets, to about 2 percent of total financial system assets. There is also a small number of licensed non-bank investment companies.

4. **The banking sector is dominated by large institutions.** While the Herfindahl-Hirschman Index indicates moderate concentration (HHI of 0.183), the largest two of the 11 banks hold over half of assets and of deposits, while the bottom four hold less than one tenth in either category.

5. **Foreign banks represent a growing share of the Moldovan banking system.** The foreign shareholders, both banks and non-banks, come from a diverse group of European countries, many from the Central and Southeastern region (e.g., Bulgaria, Romania and Hungary). Owing mainly to issues with unsuitable and/or untransparent ownership at domestic banks and the resulting transfer of ownership, they have represented a growing share of total bank assets, from just over one quarter in 2009 to almost 90 percent at end-2020.

6. **Savings and credit associations represent a small, though rapidly expanding share of credit institutions.** The assets of deposit-taking Category B SCAs were equal to about one percent of total credit institutions' assets (including the NBM) at end-December 2020, up from about 0.4 percent a decade earlier. Category A SCAs, which are not permitted to take deposits, have also grown rapidly, doubling their share over the past decade to 5 percent.

7. **The sector of other financial corporations (OFCs) is relatively small in Moldova.** Apart from the Category A SCAs, the largest element is the NBCOs, including microfinance and leasing companies, whose previously strong growth until 2019 has recently been halted, partly because of stronger regulation. They have a diverse range of business models, and many are foreign-owned. The largest 15 institutions account for some 80 percent of total NBCO assets, and the largest has assets exceeding those of the two smallest banks. Most insurance companies are domestic, although two, including the largest (which is also the only life insurance provider), are parts of Austrian groups. Product range and penetration rates are low by European standards. The companies licensed for investment business have relatively limited business, reflecting the underdevelopment of capital markets and investment services.

Table 2. The Moldovan Financial Sector

Financial Corporation Sector	As of end-December 2020			
	Number of Institutions	Asset Size (millions of lei)	Percent of Total	Percent of Total Excluding Central Bank
TOTAL FINANCIAL SECTOR	**419**	**198,893**	**100**	
National Bank of Moldova	**1**	**80,585**	**41**	
Other deposit taking institutions	**75**	**104,781**	**53**	**89**
Commercial Banks	11	103,795	52	88
Domestic banks	3	37,046	19	31
Foreign-owned banks	8	66,749	34	56
Category B SCAs	64	986	0.5	0.8
Non-deposit taking institutions	**344**	**13,527**	**7**	**11**
Insurance 1/	11	3,219	2	-
Investment companies (end-June 2021) 1/	15	n/a	n/a	-
Category A SCAs	164	129	<0.1	<0.1
NBCOs	154	10,179	5	9

1/ Assets are as of end-March 2021.

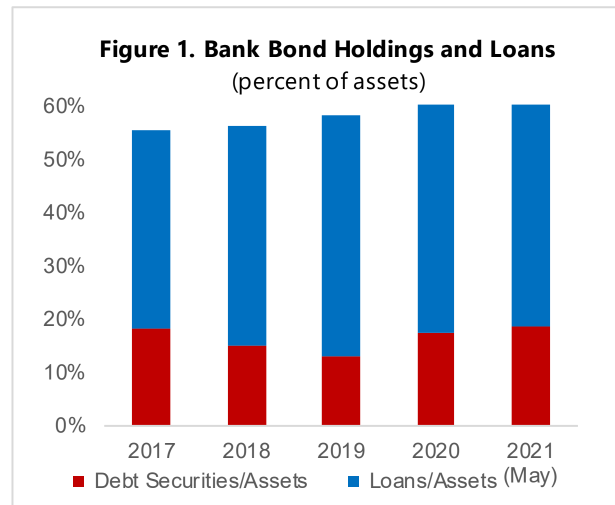
Source: National authorities

C. Macrofinancial Vulnerabilities

8. **The Moldovan financial sector is exposed to a number of macrofinancial vulnerabilities.** These consist in real-financial, fiscal-financial, external-financial and intra-financial sector linkages and expose the financial sector to credit and, hence, solvency risk notwithstanding the credit institutions' generally strong capitalization.

9. **The real-financial linkages in various parts of the financial sector.** There is a high loan concentration in commercial banks' lending to only a few relatively large borrowers (albeit within the prudential limit), exposing banks to significant name concentration risk. The NBCO/SCA sector saw a strong pick-up in credit growth before the pandemic, raising questions about loan origination standards and, consequently, rising credit risk from overleveraged borrowers (especially in relation to depressed income during the pandemic).

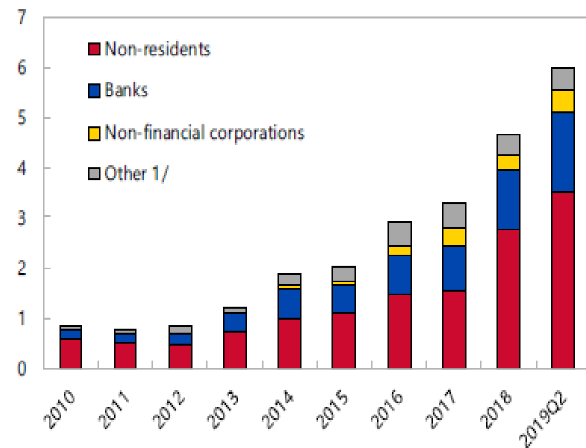
10. **In addition, there are fiscal-financial linkages.** Commercial banks hold significant amounts of government bonds, creating a strong sovereign-bank nexus. During end-2019 and May 2021, bond holdings to total assets grew by 5½ percentage points, while the loan-to-assets ratio fell by 1¼ percentage point, reflecting limited lending opportunities. Although the government has recently taken a number of steps to bolster debt sustainability, a high take-up of government paper may create undue reliance on such investment at the expense of commercial lending (maybe implying crowding out), and the safe but comparatively low return may squeeze bank profits.



Source: NBM

11. **External risks add to the set of vulnerabilities.** As mentioned, the largest Moldovan banks were recently acquired by international bank and non-bank investors, largely from the region. While high foreign ownership may bring certain benefits, it also exposes the banking sector to potential adverse developments in the countries of origin. Moldova is also strongly dependent on remittances, implying both credit risk from borrowers heavily reliant on such flows and lower fee income, should remittances falter.

Figure 2. NBCO Funding Sources (MDL million)



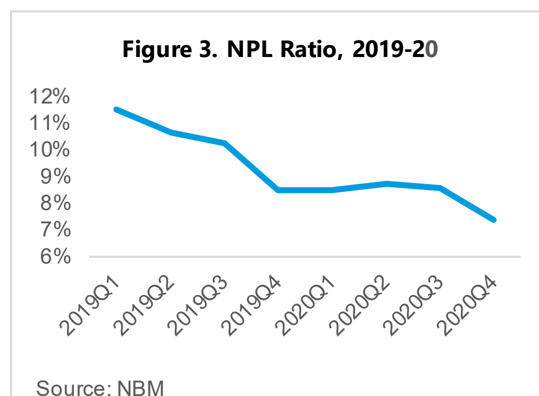
Source: National Authorities.

12. NBCO funding in foreign currency is a potential risk. Debt with non-residents accounts for two-thirds of the NBCO's funding, whereas loans to clients with cash flow in Lei dominate. The NBCOs hedge part of the FX risk, but they also grant loans denominated in Moldovan Lei indexed to foreign currency, implying that the currency mismatch is transferred to their borrowers who may not fully understand the risk. In practice, foreign exchange risk is not eliminated.

13. Finally, there are potentially adverse linkages within the Moldovan financial sector. After a large-scale fraud-related banking crisis in 2014-15, non-bank lenders snatched lending opportunities from struggling banks, more than doubling their credit volume since. The NBCOs are financed not only by non-residents but also by commercial banks, creating both a reliance of NBCOs on such wholesale funding and an exposure of banks to credit risk from NBCOs, including loan concentration risk (loans to NBCOs of one bank reportedly account for 15 percent of its equity capital).[1]

14. The financial sector has so far proven resilient against pressures emanating from the COVID-19 pandemic. The authorities took early action in response to pandemic risks. For example, the NBM discouraged dividend payments and share buybacks and allowed banks temporarily to make use of capital previously held to meet the capital conservation buffer requirement. The NCFM recommended voluntary reductions in interest rates and payment deferrals on loans by NBCOs, while extending reporting deadlines (amongst other measures) for insurance companies and capital markets issuers. Some requirements had been lifted at the time of the main FSSR mission, including the NBM's dividend restriction (although a limit of 25 percent of annual profits is still recommended). The impact of the pandemic on the financial sector has been mitigated by effective risk management and high levels of capital, for banks and NBCOs in particular. Having risen slightly early into the pandemic, the banking system's NPL ratio has resumed its declining trend (against growing loans), while insurers benefited in 2020 from reduced vehicle usage (motor insurance is the predominant business line). Financial institutions and customers appear to have adapted to increased reliance on the online business environment.

Figure 3. NPL Ratio, 2019-20



Source: NBM

D. Stocktaking of Past Technical Assistance

15. The Moldovan authorities have received considerable technical assistance from the IMF (notably MCM). Following the 2014-15 banking crisis, the focus of TA missions was on

[1] As with credit concentration risk generally, the NBM is equipped to address high exposures of this nature through its supervisory review methodology.

strengthening the bank resolution framework, bank governance (including ownership structure), deposit insurance, and emergency liquidity assistance (ELA). Recommendations covered the concrete actions needed to address the immediate crisis and to prevent (or to help the authorities to manage) future problems. In recent years, the focus has shifted somewhat towards monetary policy (with TA missions on the inflation targeting framework and monetary policy operations) as well as on foreign exchange matters and central bank capital adequacy (table 3 summarizes the TA missions during the last five years).

16. **From the stocktaking exercise (self-assessment) of past TA conducted as part of the FSSR it emerges that the authorities consider that they have fully implemented most of the TA recommendations.** Among the implemented recommendations, the area of bank regulation and resolution stands out: since 2015, the authorities have successfully adopted measures (laws, regulations, decisions) to suspend the rights of illicit shareholders, identify and unwind unlawful related-party exposures, resolve several non-compliant banks aided by an upgraded resolution framework, and improve organizational arrangements in favor of crisis management and financial stability more generally. The main exceptions to this good implementation record are the 2018-19 TA on inflation targeting with several workstreams still in progress and the most recent (second) mission on ELA that was carried out only in late 2020.

17. **This said, there are also other providers of TA that are already active in several areas of legal and regulatory reform.** First and foremost, the World Bank has been providing TA, *inter alia*, on legal changes to the deposit insurance framework, bank resolution/resolution planning, strengthening oversight of the insurance sector, aspects of banking supervision, the transfer of non-bank supervisory responsibilities from the NCFM to the NBM, and on options for the national payment systems infrastructure. Apart from the World Bank, other TA providers include national central banks under EU twinning projects, foreign development organizations (such as USAID) as well as private sector consultancy firms.

18. **The FSSR takes account of the authorities' experience with implementing past TA, while also reflecting the broad assessment of future needs undertaken by the mission.** Recommendations cover outstanding issues from previous IMF TA on financial sector stability issues such as ELA and the experience of bank resolution and related measures, shifting the focus to the challenges of effective implementation of measures taken in response to TA. In these and other areas, including financial regulation, financial inclusion and capital markets development, the recommendations reflect a stock-take of progress on a wide range of issues in recent years and identify priority areas for further development.

Table 3. IMF MCM Technical Assistance Since 2016

Lead MCM Division	Start Date	End Date	Title
MCMCO	11/23/2020	12/04/2020	Emergency Liquidity Assistance
MCMCO	2/1/2020	2/12/2020	Monetary Policy Implementation & Operations
MCMCO	4/24/2019	5/7/2019	Central Bank Capital Adequacy
MCMTA	7/9/2018	2/7/2019	Enhancing the Inflation Targeting Framework (2 missions)
MCMCO	8/6/2018	8/17/2018	Foreign Exchange
MCMCO	9/5/2017	9/19/2017	Emergency Liquidity Assistance
MCMFC	6/28/2017	11/20/2017	Related Party Diagnostic and Review (3 missions)
MCMTA	6/19/2017	6/30/2017	Strengthening the Forecast and Policy Analysis System
MCMFC	4/3/2017	4/14/2017	Deposit Insurance
MCMFC	2/13/2017	2/24/2017	Ultimate Beneficial Owner and Related Party Identification
MCMFC	10/3/2016	2/16/2017	Bank Resolution (3 missions)
MCMFC	8/8/2016	8/19/2016	Resolution Framework

II. DIAGNOSTIC REVIEW AND MAIN RECOMMENDATIONS

A. Financial Sector Oversight

Banking Sector

Baseline Diagnostics

19. Extensive regulatory reforms and transition to foreign ownership for many banks have underpinned banking sector soundness. The NBM is close to completing a prudential regulatory and supervisory framework based on EU standards, which also addresses local vulnerabilities. NBM's interventions have addressed most bank shareholder suitability and transparency issues, while foreign owners, including five EU banks, now account for nearly 90 percent of share capital, also contributing to stronger governance, including significant numbers of independent board members, and risk management. Capital ratios exceed the minimum, including the substantial (average 4 percent) buffers imposed after supervisory review. Non-performing loans (NPLs) have continued a downward trend and banks are highly liquid on all measures, including the newly effective Liquidity Coverage Ratio (LCR)[2].

20. There remain vulnerabilities and challenges for the NBM in implementing its framework. Interventions on shareholder transparency are outstanding at two banks, one of which (a non-systemic bank) has been under temporary administration for over two years. Five of the 11 are subject to (non-statutory) intensive supervision, reflecting risks including litigation. All remain vulnerable to uncertainties due to the political and judicial system. While further changes to legislation in line with past TA have been proposed, they have not been enacted and the NBM's decisions continue to be challenged in the courts. Foreign ownership brings risks as well as rewards through exposure to financial, operational and reputational risks in case of problems at the foreign bank (or in some cases, non-bank) parent.

21. Further strengthening measures are required and most are already planned. From the EU framework, remaining measures will enhance existing regulation and supervision of capital and liquidity adequacy, also aligning with Basel requirements, if not the latest Basel III standards starting to take effective in 2023. They will also add an internal ratings-based (IRB) approach to credit risk that will complete their transposition of EU legislation, but which will not be implemented in practice because of lack of demand from banks and perceived capacity constraints at both the banks and the NBM[3]. The NBM has yet to decide on whether to move from conservative regulatory provisioning requirements to reliance on (generally lower) International Financial Reporting Standard (IFRS) 9 impairment numbers.

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[2] Banks have to meet only 70 percent of the requirement in 2021, rising to 100 percent from the start of 2023.

[3] The NBM requirements will not reflect the December 2017 final Basel III requirements which materially amended key aspects of the IRB approach, although the revised Basel requirements have yet to be implemented in the EU.

22. Supervision processes and resourcing are also being enhanced, although there is scope to do more. Off-site supervision centers on analysis of extensive reporting by banks to an NBM central risk register, which is being extended with shareholder and Anti Money Laundering/Combating the Financial of Terrorism (AML/CFT) information. Shareholder suitability as well as fitness of board member is a continuing focus. Supervisory review follows the EU Supervisory Review and Evaluation Process (SREP) but is not yet fully risk-based (including allocation of additional resources for the four systemically important banks). On-site inspection appears focused on key areas of risk and to be carried out thoroughly. Supervisory judgment is applied, and intervention actions are taken in line with the SREP framework. A planned reorganization of the supervision unit will increase resources there by close to 20 percent and enable enhanced SREP and other processes.

Main Recommendations (p. 49)

23. In addition to completing planned measures, it is recommended that the NBM focus on:

- **Enhancement of supervisory practices:** Given the progress on the regulatory framework, the NBM should continue to focus on supervision, covering risk assessment, supervisory planning/supervisory stance and allocation of resources, including to systemically important banks, evaluation of governance (including the "independence of mind" test where TA is required) and risk management frameworks. Specialist supervisory resources, including on governance issues, should be increased to support the further development of risk-based supervision.

- **Development of cross-border supervision and readiness for consolidated supervision:** While supervisors cooperate with home authorities on shareholder suitability etc., the network of cooperation agreements is incomplete, the NBM participates in only one supervisory college and an approach to assessment and mitigation of risk in foreign (including non-bank) owners should be developed and reflected in recovery planning, assessment of governance, among others; the NBM has requirements on consolidated supervision, but needs to apply them, including supervisory review, to the one banking group and, more importantly, to ensure readiness for its application to other groups in the future.

- **Alignment of regulatory provisioning with accounting treatment (IFRS 9):** The NBM should continue to consider alignment, taking into account the need for increased capacity to assess banks' methods for determining expected credit losses (supervisors have had training but lack experience of assessing banks' approaches). The Banking Supervision Department (BSD) could undertake more intensive dialogue with banks and auditors on their differing approaches and with the Financial Stability Department (FSD) as it develops its risk monitoring. The objective should be to ensure that the reported

accounting provisions are reasonable and appropriately capture the risk profile of loans and that banks' processes and internal controls are adequate.

Non-Bank Credit Organizations and Savings and Credit Associations

Baseline Diagnostics

24. The NCFM has made progress in implementing an essentially new regulatory regime for NBCOs. The 2018 legislation, with 2020 amendments that were still taking effect at the time of the FSSR mission, has led to the exit or consolidation of many NBCOs as minimum (MDL 1 million) capital requirements and a bar on deposit-taking took effect alongside the supervisory response to unsuitable/untransparent shareholders. NBCOs are now required to make provisions for loan losses, participate in a credit bureau and make extensive reports to the NCFM; compliance of all or most NBCOs is expected soon, although enforcement of minimum capital to asset requirements may still be necessary in the case of some smaller NBCOs. A system of off-site supervision appropriate to the large number of NBCOs has been developed, with enhancements planned. The development of on-site supervision has been delayed by the pandemic. Tighter regulation has apparently contributed to ending the formerly rapid growth of the sector.

25. The NCFM has also been working on consolidation in the SCA sector. Numbers of SCAs, where regulation is long-established, have fallen, and assets are now concentrated in the 64 deposit-taking associations. Reforms of the sector have also resulted in there being one, strengthened central organization (the Central National Association of SCAs) which all SCAs must now join and which usefully provides liquidity facilities. Proportionate regulation and supervision in line with World Council of Credit Union standards is undertaken, and SCAs appear financially stable.

26. There remain challenges, particularly in relation to NBCOs, mainly on business conduct. The 2018 legislation included a cap on the total cost of credit for lower value, shorter maturity loans[4], a significant share of the total, and related measures to prevent NBCOs from adding to the cost of credit. The NCFM has begun enforcement, requiring redress and using new sanctioning powers in the 2018 legislation. There is evidence of wider conduct issues, including in foreign currency-linked lending (driven by many NBCOs' funding profiles) and in the rising number and share of complaints to the NCFM from NBCOs as well as the many cases on abusive contract terms dealt with by the Consumer Protection and Market Supervision Agency (see the Financial Inclusion section). Responsibility for SCA and NBCO regulation will transfer to the NBM in July 2023 (see Box 1).

[4] For credit contracts (those entered from April 20, 2020 with a maturity less than two years and/or with the principal less than MDL 50,000), the law prohibits the application of any types of fees, penalties, interest rates and any other costs that would exceed the value of the principal.

Main Recommendations (p. 49)

27. As well as continuing to build on progress with consolidation in the SCA sector and addressing over-indebtedness concerns, it is recommended that the NCFM give priority to strengthening further their approach to business conduct supervision. This would include enhanced risk assessment, drawing on appropriate data (numbers and types of customers, and similar information), further enforcement, focusing on-site supervisory attention on conduct-related controls and governance, among others, especially at larger NBCOs, and using complaints to identify wider failings at NBCOs or across the sector. This may require rethinking the balance of effort between prudential regulation, where broadly proportionate regimes have been implemented, and business conduct. Some prudential requirements such as lower capital requirements for NBCOs which do not take bank loans could be reconsidered in due course. Supervision of larger NBCOs could include closer supervisory monitoring of their funding sources and liquidity positions as well as addressing the aforementioned foreign exchange risk exposure. The need for additional resources or different skills sets should also be considered.

Insurance

Baseline Diagnostics

28. The NCFM has made significant progress in addressing weak insurance companies, while developing extensive regulatory reforms. Many insurers have either withdrawn or had their licenses removed by the NCFM as it addresses not only concerns, as in other sectors, over unsuitable/untransparent shareholders but also financial weakness. It has initiated an industry-funded evaluation of the financial condition of all insurers issuing “Green Cards”[5] at end-2020 from an international audit firm. The NCFM has been raising standards in line with IAIS principles[6], strengthening its oversight of reserves adequacy, for example, although there are gaps in the areas of governance and risk management. It is preparing to implement transformative new legislation (assuming post-election parliamentary approval) to implement important parts of the EU Solvency II framework, including risk management requirements[7], and to reform motor third party liability (MTPL) insurance.

29. There remain major challenges. Seven insurers have exited the market or are about to, all being closed for new business run-off. Of the remaining 10, three will struggle to meet planned higher solvency requirements, requiring intensive supervision by an NCFM function much smaller than that covering the similar number of (clearly much larger) banks. Unlike in

[5] The international certificate of insurance proving motorists have minimum compulsory insurance cover required by the law of the country visited – the system is adopted by all EU and certain other countries.

[6] The NCFM is no longer a member of the IAIS, however.

[7] Insurers will be required to establish the four control functions mandated under the solvency II Directive: risk management, actuarial, compliance and internal audit.

banking, foreign capital is not currently entering the market, although two companies, including the largest, are part of Austrian groups. This could be a source of strength if also creating an exposure, as in banking, to problems at the parent. The product range is limited, with compulsory motor insurance dominating the market. There is only one company providing life insurance, which accounted for only 7 percent of the market in 2020. As in other developing markets, the numerous brokers extract high commissions from insurers, seeking to protect their share of limited total premiums. The prospect of future liberalization of MTPL tariff, while necessary, creates uncertainty.

30. Completing the reform program for insurance is likely to take several more years, falling to the NBM from 2023. Although they may be higher at the foreign companies where group policies and practices are applied, there is further to go to strengthen standards of governance, risk management and compliance across the sector, notwithstanding the NCFM's supervisory work to date. Like the NBM, the NCFM is exposed to and experiencing challenge to its decisions in the courts. Implementing the new legislation, although aspects are being anticipated by insurers (such as the preparation of Own Risk and Solvency Assessments (ORSAs) will take years. Responsibility for insurance regulation will also transfer to the NBM in July 2023.

Main Recommendations (p. 49)

31. The priority is building on recent progress and new legislation, once enacted, to further strengthen the sector, attracting increased foreign interest. The process entails further risk and will require extensive TA, some of which is already committed. It needs to be linked to wider initiatives on financial sector development (see Financial Inclusion section) addressing product range, availability of investments to reduce dependency on real estate etc. It is recommended that:

- **The NCFM establish workstreams for implementing the new legislation:** these could comprise: (a) implementation of requirements on governance, risk management etc., including associated on-site work; (b) overhaul of financial supervision to reflect new regulatory and accounting standards (IFRS 17, ORSA etc.) and impact of tariff liberalization; (c) stronger enforcement of the requirements and the revised approach to weak companies, resolution/liquidation/guarantee fund; and (d) intermediary supervision and outstanding aspects of business conduct supervision covered by IAIS principles. In all cases, revised supervisory processes need to be developed and documented in manuals.

- **Resources in insurance supervision are increased to support the program:** this process should take into account the planned transfer of responsibilities to the NBM.

- **The NCFM develop cooperation with the Austrian authorities.** As in banking, the NCFM should assess and mitigate group-related risks at the relevant insurers.

Payment Systems

Baseline Diagnostics

32. There is an extensive regulatory framework for payment services, supported by the supervision of bank and non-bank providers. The payments market is focused on banks, with only seven non-banks, of which the postal service accounts for most activity. Entry requirements, particularly in relation to shareholders, are necessarily high. Access of non-banks to (and planned enhanced functionality of) the payment system may stimulate more involvement. A 2012 law sets out key requirements based on EU standards and will soon be updated for Payment Services Directive Two (PSD2). A significant gap is in NBM's powers to enforce requirements on customer treatment (see also the Financial Inclusion section II.D). A dedicated NBM unit carries out supervision in line with an annual plan and in cooperation with bank supervisors for banks.

33. Although NBM is responsible for CSD supervision, the scope of NCFM's involvement is not agreed with the NCFM. In addition to its oversight role for all financial infrastructure, the NBM has responsibility in law for CSD supervision. The wide range of the CSD's functions, including as share register (involving it in settlement of transactions direct with investors), creates scope for uncertainty over NCFM's involvement as capital markets supervisor, while mechanisms provided for in law for NBM/NCFM cooperation are not currently operative (see also Section on Capital Markets Development). NBM is carrying out supervision, including on-site work. It needs also to develop enhanced regulations and internal procedures for CSD supervision, including risk assessment and other supervisory tools, in line with the CPSS/IOSCO Principles for Financial Market Infrastructures (PFMI).

Main Recommendations (*p. 50, see also the Financial Inclusion section*)

- **CSD supervision roles and responsibilities need to be settled, with TA support.** The scope of the CSD's functions and NCFM's role need to be aligned soon and, whatever the agreed approach, arrangements made for exchange of information etc. between the regulators, including the joint monitoring arrangements provided for in law. The TA should focus on the key considerations under Responsibility E of the PFMI, which addresses cooperation with other authorities.

- **The NBM framework for CSD supervision needs further development:** the approach is new and needs to be supported with regulations and internal processes compliant with the PFMI. TA is to be provided by the EU.

Transfer of Certain NCFM Responsibilities to the NBM

Baseline Diagnostics

34. Many of the NCFM's responsibilities are to transfer to the NBM in 2023, raising challenges as well as opportunities. A September 2020 law[8] provides for the transfer of responsibilities for the insurance sector (including intermediaries), SCAs/NBCOs and credit bureaus on July 1, 2023. The NCFM will remain responsible only for capital markets and pension fund regulation. Staff transfers will be made in conformity with labor laws and according to Art. VIII (4) of the pertinent Law No. 178 of 2020. The transfer is an as opportunity to strengthen regulation, taking advantage of NBM's new role as an integrated financial services regulator, but also entails risks and is viewed with some concern by the industry and NCFM (Box 1).

Box 1. Transfer of Certain NCFM Responsibilities to the NBM: Challenges and Opportunities

The transfer of responsibilities to NBM in 2023 will greatly widen the scope of the NBM's supervisory responsibilities, even if the banking sector will continue to be the largest and banking supervision, initially at least, the most highly resourced area. It will transform the NBM from a prudential-only banking regulator into an integrated authority with significant responsibilities for business conduct. The transfer will facilitate NBM's oversight of the financial sector, including its macroprudential function, given that it will regulate all activities except only capital markets and pension funds.

Supervision of both banking and insurance has become increasingly common in the EU jurisdictions, including in Hungary, Czech Republic, and Austria[1]. It will facilitate oversight of linkages between the sectors, although these are currently limited, as well as common approaches to issues such as corporate governance and supervisory risk assessment. Insights and lessons from experience in one sector can be transferred to the other. Supervision of banks, SCAs/NBCOs and credit bureaus will facilitate oversight of credit markets, enabling the NBM to identify and address potential regulatory arbitrage, for example. There will be scope for the NBM to review the allocation of resources across sectors, aligning it to risk.

The transfer also brings significant challenges. The NBM must develop expertise in insurance at all levels, for which it will need staff to transfer from the NCFM. It will need to balance the demands of supervising different sectors as well as the potential conflicts, between prudential and conduct supervision for example. The NCFM raised concerns with the mission over the risks from the transfer to the continuing insurance sector reforms, over outstanding enforcement cases and for its viability as a limited scope regulator (see also section on Capital Markets Development). Insurance companies and NBCOs, while acknowledging potential advantages of the transfer, were concerned that the transfer may put at risk existing expertise in, and relationships with the NCFM and may result in their being regulated like banks, which would be inappropriate given the differences in their business model and risks to financial stability. They noted there had been little communication yet from the NBM.

As set out in more detail in paragraphs 33 to 37, the mission noted the importance of the NBM making careful preparations for the transfer, as have already begun, including arrangements for cooperation with the NCFM, and giving high priority to communications to the affected staff and regulated entities.

[1]The integrated supervisor is not always part of the central bank, while for euro area countries, the European Central Bank/Single Supervisory Mechanism has responsibilities only for banks.

[8] Law amending certain normative acts No 178 of 2020, which comes into effect on July 1, 2023.

Main Recommendations (p. 50)

35. The transfer requires detailed planning and careful execution. A plan for the transfer preparations has been developed by the NBM, which expected to agree a revised version, also reflecting IMF/World Bank comments, with the NCFM soon. The mission notes that TA on the transfer is already being provided to the NBM but made some recommendations arising from its work.

36. It is important that NBM agrees a full plan and communicates key elements soon, especially to affected staff but also to the industry. The plan should involve NCFM staff in preparing for and executing all aspects of the transfer. A framework of joint working groups, as already suggested by the IMF and World Bank, with Governor/Chairman meetings at its apex, would promote engagement and ensure the involvement of all relevant expertise. Advice from other supervisory agencies in the region with experience of changes in regulatory architecture and/or the creation of an integrated regulator may add value to the planning.

37. There would also be value in the NBM establishing an internal structure, organization and leadership for the new functions at an early stage. They should select NBM, NCFM or external staff as appropriate for the leadership positions and identify all the staffing needs. The NBM in cooperation with the NCFM should also identify those initiatives, including regulatory changes and systems developments, which should be reformulated or deferred in the light of the transfer. It may also be necessary to reschedule other work plans to accommodate transfer preparations without jeopardizing core supervisory tasks.

38. The NBM should develop a vision and key principles for its new role as an integrated regulator. For example, it should decide how far (and over what timeframe) it would want to create common regulatory standards in areas such as corporate governance and risk management and common processes (including licensing, supervision – for example, a single risk assessment framework - and enforcement). TA could be sought. The authorities should ensure that statutory objectives are aligned with the NBM's approach, including whatever role it may have in business conduct/consumer protection (see also section on Financial Inclusion) and potentially also in market development, recognizing the need for extensive further development of the insurance sector in particular.

39. The NBM should and NCFM and other authorities should collectively identify and mitigate risks arising from the transfer. These include those related to uncertainty in the industry and the future viability of the NCFM as capital markets/pension funds only regulator. As discussed in section II.E, the mission also noted that the ongoing sustainability of capital markets supervision needs to be considered in the context of settling the overall capital markets development strategy.

B. Macroprudential Framework, Systemic Risk Assessment and Stress Testing

Macroprudential Framework

Baseline Diagnostics

40. Institutional arrangements for financial stability monitoring and policies in Moldova are broadly appropriate. The NBM serves as the main macroprudential authority, which is appropriate and in line with the European Systemic Risk Board's (ESRB) recommendation, but currently derives its function implicitly from its responsibility to regulate and supervise banks and to support general economic policies of government. An explicit legal mandate is still lacking in the law. The NCFM is the next most important authority in the institutional setting due to its responsibility for supervising non-bank financial institutions. It collaborates with the NBM by sharing data and participating in regular bilateral discussions on financial sector risks. At the national level, financial stability is coordinated by the National Committee for Financial Stability (NCFS) that is comprised of the high-level representatives of the NBM (as Chair), NCFM, DGF, Ministry of Finance, and Ministry of Economy and Infrastructure, with NBM providing administrative support. The Committee itself does not have a power to implement macroprudential policies but can issue recommendations to its member institutions to prevent or mitigate systemic risk by taking appropriate policy action.

41. The financial stability function at NBM is well operationalized, but resources as well as external visibility and communication are inadequate and internal discussions not properly organized. Financial stability surveillance is performed by the Financial Stability Department (FSD), which reports directly to the First Deputy Governor. It prepares regular monthly and quarterly reports on financial stability risks, recommendations for macroprudential policies, and an annual Financial Stability Report (FSR) for the public. It is also intended to serve as the main unit to aggregate daily indicators received from other departments on potential Emergency Liquidity Assistance (ELA) needs. However, the FSD is understaffed, with about six regular staff members (currently only four) and has thus limited capacity for further developing and improving the risk monitoring tools, supporting the growing macroprudential policy agenda, conducting analytical studies, and strengthening external communication. To discuss risks and policy options among NBM departments, an internal Working Group for Financial Stability is going to be established. Also, the visibility of the NBM's financial stability function is somewhat low and external communication rather weak. On the NBM website, the topic is included in the Supervision section rather than having its own, and apart from the annual FSR and short press releases on the various buffer rates there are no policy notes, research studies or links to presentations and articles by NBM staff on financial stability topics.

42. Both NBM and NCFM have sufficient powers to apply macroprudential policies, but so far only capital-based tools for banks have been implemented. The Law on the activity of banks No. 202/2017 (in force since 2018) brought about congruence with the EU's Capital Requirements Regulation and Directive (CRR/CRD IV) and provided the possibility to

calibrate capital buffers for macroprudential purposes. Apart from the capital conservation buffer, the NBM has at its disposal the countercyclical capital buffer (CCyB, currently set at 0 percent for Moldavan exposures), the systemic risk buffer (currently at 1 percent for all banks and an add-on of 2 percentage points for certain banks), and a buffer for systemically important banks (ranging between 0.5 and 1.5 percent for the four systemically important banks). The NBM and the NCFM have been discussing options to apply borrower-based tools, such as caps on DSTI and loan-to-value (LTV) ratios, to both banks and NBCOs in order to tackle the risk of excessive household indebtedness, particularly considering high pre-pandemic credit growth in both subsectors.

Main Recommendations (p.50)

43. To facilitate the conduct of macroprudential policy, NBM's macroprudential mandate needs to be codified, external visibility and communication of the financial stability function enhanced, and resources at NBM increased. The Law on the NBM should be amended to explicitly include a financial stability and macroprudential policy mandate. Staffing of the NBM's FSD needs to increase to at least 10 full-time equivalent (FTE) positions.[9] The internal NBM Working Group for Financial Stability should be made fully functional and start meeting regularly in the second half of 2021 to support information sharing and coordination of policies within the NBM. The visibility of this function could be strengthened by an appropriate external presentation (including on the NBM website) and targeted communication with the industry and the public to increase accountability.

44. The existing macroprudential policy toolkit should be enlarged by the borrower-based tools (LTV/DSTI caps) for banks and NBCOs. It is in line with best practice to apply a combination of capital-based and borrower-based tools to address a build-up in systemic risk, whereby the tools need to be implemented and calibrated so as to prevent arbitrage across subsectors. As the NBCOs represent a non-negligible part of lending to households, there needs to be an overall level of the DSTI cap introduced jointly by the NBM and NCFM and properly enforced. In particular, the calibration should be based on (i) a detailed analysis of the evolution of the distribution of household indebtedness, (ii) the link between the observed DSTI and loan delinquencies using micro-level data covering all sources of debt, and (iii) experience from implementing this instrument in other comparable countries.

Systemic Risk Assessment

Baseline Diagnostics

45. Considering its limited resources, systemic risk assessment by NBM's FSD is at a good level. Regular quarterly reports cover both the time and structural dimension of systemic

[9] A comparison with similarly sized peer countries in Eastern and South-Eastern Europe and the Caucasus shows that Financial Stability Department at central banks typically have between 10 and 20 staff, see the Supplementary Note on Macroprudential Framework, Systemic Risk Assessment, and Stress Testing, Table 2.

risk and include an array of monitoring tools such as differentiated sensitivity stress tests, an analysis of contagion risk, aggregate vulnerability indices, the credit-to-GDP gap evolution (used as the conditioning indicator for the CCyB), a financial cycle index, and various visual tools (such as cobwebs and color-coded heatmaps) to inform the decision maker (NBM Board) about the risks to financial stability, particularly build-up of systemic risk. The methodology to identify domestic systemically important banks is appropriate. The macroprudential policy decisions published on the NBM website include a reference to the analyses conducted to underpin those decisions, even if the analyses remain mostly internal, with only a part of them reproduced in the FSR. In general, the capacity to conduct analytical work to support macroprudential policies is high at FSD, also supported by the regular attendance at IMF-sponsored courses at the Joint Vienna Institute.

46. Data availability for systemic risk monitoring is good apart from micro-level data on NBCO and SCA loans to households. Sectoral and institution-level data are widely available and extensively used to assess trends in the financial sector, supported also by the qualitative data collected in various surveys (quarterly Bank Lending Survey, semi-annual Systemic Risk Survey, annual Survey of Financial Conditions and Perspectives of Households and Corporations). However, the current best practices for systemic risk assessment emphasize a larger use of micro-level data of borrowers to capture the evolving distributions of their performance and indebtedness that can serve as guidance for application of borrower-based tools. The NBM has been collecting loan-level data from banks for its Credit Risk Register since 2011 (in an improved format since 2016) and is using them in surveillance, but it lacks granular borrower-level data on NBCO loans, which are crucial for an effective assessment of total household indebtedness and calibration and enforcement of a DSTI cap. The NCFM shares with the NBM only the institution-specific and sectoral data on NBCOs and SCAs collected within the established reporting system and does not have any distributional or borrower-level data at its disposal. Some of those data are available at private credit bureaus, although with household income only reported from March 2021, but they are currently not shared with NBM or NCFM.

Main Recommendations (p. 51)

47. The existing systemic risk monitoring tools should be further developed and revised. This holds especially for the analysis of the financial cycle where a range of early warning indicators should be assessed beyond the credit-to-GDP gap to inform the decision makers about a need to adjust the countercyclical tools such as the CCyB. Generally, the analyses need to become more forward looking, and the FSD should develop models and approaches to project key indicators (such as bank and non-bank credit growth, house prices, and loan rates) over a horizon of 1-2 years. Such baseline projections should ideally be based on and be consistent with the NBM official macroeconomic forecast prepared by the NBM's Monetary Policy Department (MPD), which should offer support in this area. Also, given the growing importance of foreign ownership of banks in Moldova, the existing systemic risk monitoring tools focusing on the contagion risk through this channel should be strengthened in the medium term.

48. The NBM and NCFM should jointly explore options to regularly receive borrower-level data on NBCO and SCA loans to households. The analysis of the distribution of household indebtedness and credit conditions needs to be enhanced by including credit data from all sources before the DSTI cap is activated and calibrated. The options include (i) an ad-hoc collection of selected micro-level data or indicators based on distributions (such as percentiles or buckets of DSTI) from NBCOs/SCAs; (ii) regular reporting of such data to the NCFM; (iii) exchange of data with the private credit bureaus; and (iv) including the NBCOs/SCAs in the regular reporting to the NBM's Credit Risk Register in view of the forthcoming transfer of non-bank oversight to the NBM.

Stress Testing

Baseline Diagnostics

49. The NBM conducts regular macro solvency and liquidity stress tests, but the methodology for both is not up to date and hence not in line with best practices. The solvency stress testing uses a "what if" sensitivity approach, with shocks directly impacting capital and risk-weighted assets without a specific time horizon. The baseline scenario is based on the Ministry of Economy's forecast, while adverse scenarios are calibrated in a simplified way without input from the MPD, which prepares the baseline and occasionally alternative scenarios for monetary policy purposes and would thus be best suited to support the FSD in scenario calibration. The transmission of macro shocks to credit risk is based on pre-defined elasticities taken from a Basel II Quantitative Impact Study and thus not estimated for the Moldovan banking sector. The liquidity stress tests are using a relatively short (30 days) horizon and do not take sufficiently into account contractual cash flows. The data structure and the calibration of shocks is rather simple compared to the detailed granularity of the recently adopted LCR requirement.

50. Bottom-up solvency stress tests are conducted every two years, but the results are not extensively used in the supervisory process. The FSD is the main organizer of the bottom-up stress tests conducted by banks and uses the results as additional information on the sector as well as a cross-check of its own macro top-down stress test. The results of both bottom-up and top-down exercises are shared with the Banking Supervision Department (BSD), but are not used to calibrate Pillar 2 add-ons. The BSD shares with the FSD the individual banks' internal stress tests submitted to the NBM within the SREP/ICAAP exercise, whereby the FSD checks the quality of such internal stress tests.

51. Currently, there are no macro stress tests either at the NBM or the NCFM for non-bank financial institutions. The authorities reported that the main reason for a lack of macro stress tests of NBCOs and SCAs so far is their very high capital to assets ratio (over 30 percent of assets in both subsectors) compared to the required minimum (5 percent capital to assets ratio or 10 percent for those who borrow from banks), suggesting that even a large shock to the credit quality would typically not bring these institutions down. Macro stress tests of insurance

companies in Moldova have not yet been conducted, but the institutions conduct their own stress tests focused mainly on insurance-specific risks.

52. Despite the availability of corporate and household micro-level data, micro stress tests of households and corporations have not yet been performed. The NBM has comprehensive loan-level data on individual household and corporate borrowers in its Credit Risk Register and has already used them to construct indicators for financial stability surveillance (such as concentration, distribution of LTV/DSTI of newly originated loans, and restructuring of loans). It could also match these loan-level data with other micro databases, such as on corporate key balance sheet indicators and financial ratios received from the Statistical Office, to expand their analyses and conduct micro stress tests of borrowers.[10]

Main Recommendations (p. 51)

53. The NBM top-down solvency and liquidity stress tests for banks need to be revised. A state-of-the-art solvency framework based on alternative macroeconomic scenarios, credit risk satellite models projecting loan transitions of borrowers across credit risk classes, and consistent projection of banks' balance sheet and profit & loss items over a longer (2-3 years) horizon should be built to capture lagged cumulative effects of adverse macro-financial developments on banks' profitability and solvency. The MPD should be involved in the calibration of the macroeconomic scenarios in cooperation with the FSD, with the official forecast. Even if the macroeconomic projection model used at the MPD is designed to support inflation targeting and is thus performing best in "normal times", the built-in elasticities for the Moldovan economy capturing economic relationships between key variables and the overall consistency of the projection makes it the best starting point for the adverse scenarios, which can be further adjusted by expert judgment. The approach should also be made consistent with the existing rules for regulatory capital, risk-weighted assets, and the treatment of the difference between IFRS 9 and prudential provisions, in order to increase the projections' plausibility and reliability. The bank liquidity stress test needs to be replaced with a cash-flow based approach using LCR-reported data to allow for a more granular assessment, including for ELA purposes, and the horizon extended beyond 30 days.

54. The BSD should use the macro and bottom-up stress test results as input to the supervisory process and to analyze IFRS 9 practices. Even though the stress testing expertise is mostly in the FSD, the BSD should be more involved in the stress test exercise, especially in the bottom-up one. While the FSD does check the internal stress test of banks for the SREP/ICAAP, the BSD itself should develop capacity to understand the methodologies and results and be able to use them in supervisory policy. Also, the bottom-up stress tests should require banks to report both prudential and IFRS 9 Expected Credit Loss (ECL) provisions (including the IFRS 9 underlying parameters, i.e., probabilities of default (PD), loss given default

[10] Micro stress tests of borrowers, using borrower-level data, assume a drop of income (revenue) and calculate the share of borrowers that would reach a pre-defined critical value of selected financial ratios (such as Interest Coverage Ratio for corporations), making them prone to default.

(LGD), discount factor, repayment schedules, maturity, and macroeconomic model elasticities[11] for all three IFRS 9 stages) so that the NBM learns more about the ECL calculation approaches used at commercial banks.

55. Capacity should be developed over time at both NBM and NCFM to perform stress tests of non-bank financial institutions. Even if NBCOs and SCAs are well capitalized, a regular (and methodologically somewhat simpler) stress test of this subsector could provide more insight into the resilience of these institutions against shocks, potential amplification mechanisms due to their interconnectedness with banks on the funding side, and the role of various balance sheet mismatches (liquidity, currency). Stress tests of insurance companies are typically conducted by the supervisors and/or macroprudential authorities to both assess their resilience to a combination of insurance-specific and financial market shocks, complementing a view on possible developments of the whole financial sector in case of adverse macrofinancial developments.

56. Available borrower-level data should be used to conduct micro stress tests of corporate and household sectors. Such stress tests have become a useful complement to the traditional top-down macro stress tests, as they can better capture the effect of various shocks on individual borrowers and thus better predict the evolution of credit risk across borrowers compared to the simpler satellite models using aggregated sectoral data. Also, once the borrower-level data on NBCO and SCA loans become available, these tests would enable analyzing the impact of shocks on borrowers with links to both banks and NBCOs/SCAs.

C. Financial Crisis Management and Safety Net

Depositor Protection

Baseline Diagnostics

57. Moldova has a long-established deposit guarantee scheme. Since 2004, the Deposit Guarantee Law (DGL) provides for the Deposit Guarantee Fund (DGF), an ex-ante funded scheme[12] with a narrow mandate ("paybox plus") to make prompt payments to guaranteed depositors in the event of a bank failure; it may facilitate an assisted transfer of assets and liabilities to an acquirer by financing a shortfall of available assets. In 2018, the DGL was amended to extend protection to deposits of private legal persons, increase coverage to MDL 50,000 effective January 2020, introduce risk-based contributions, and allow the DGF to take loans (with no cap) also from the Ministry of Finance.

[11] When calculating the IFRS 9 ECL, banks need to project ECLs for at least three scenarios (central, pessimistic, optimistic). Typically, such scenarios are defined in key macroeconomic factors (e.g., GDP, interest rates), and banks have macroeconomic models linking these factors and PDs/LGDs, producing scenario-specific ECLs, which are then weighted by the assigned probabilities of each scenario to project overall ECLs.

[12] As at end-March 2021, the DGF had 728 million MDL of available resources, which corresponds to 4.8 percent of total guaranteed deposits in the system.

58. While the legal framework is broadly compliant with international standards, there are implementation shortcomings and challenges. Despite recent updates to bylaws and internal regulations, among other measures, the DGF's capacity, including its readiness to discharge its functions in a crisis, is limited. It is understaffed compared to peer countries and focused on collecting and managing contributions. A current challenge arises from the project, supported by the World Bank, to create a dedicated fund within the DGF for the protection of deposits of Category B SCAs. This would increase DGF membership sixfold, adding to the importance of increasing its operational capacity.

Main recommendations (p. 51)

59. Additional preparations for the reimbursement of deposits should be made by the DGF. These should include crisis simulations to test both the capacity of the DGF to perform its functions and of the banks to provide the information needed. The new provisions of the DGL allowing the DGF to take loans from the Ministry of Finance should be operationalized and tested in simulation exercises. It is also recommended that a revision to the DGL be adopted to: (i) clarify certain reimbursement procedures, mainly the criteria for assessing the unavailability of deposits and the reimbursement timeline; (ii) provide the DGF access to depositors' records at all times and to prescribe specific formats in which information should be provided (Single Costumer View files); and (iii) provide the DGF with powers to assess the quality of the information provided and request banks to correct it and to improve their management information systems if needed

60. An appropriate transition period is needed for the inclusion of deposit-taking SCAs within the DGF. Engagement between the DGF and SCAs (potentially through the Central National Association of SCAs) should be promoted to test the SCAs' capacity to file reports and comply with DGF requirements.

61. The DGF should be provided additional staff. Currently, the DGF has only 6 staff members (excluding the executive director). According to information shared by the International Association of Deposit Insurers (IADI), based on a recent 2020 survey, IADI members with a "paybox plus" mandate have an average of 43 staff (with a median of 17). Considering the challenges that the DGF will face in the coming years, including the need to better prepare in terms of crisis readiness and the increase in membership with the inclusion of the SCAs, an increase in the headcount of the DGF is suggested.

Bank Recovery and Resolution

Baseline Diagnostics

62. A 2016 special recovery and resolution regime, the Bank Recovery and Resolution Law (BRRL), is based on EU law. The BRRL created a modern, comprehensive set of tools

and powers to deal with failing banks, aiming to protect depositors and preserving financial stability while limiting use of taxpayer money. Although the mission did not formally assess compliance using the approved assessment methodology, the framework appears broadly compliant with the Financial Stability Board's (FSB) Key Attributes of Effective Resolution Regimes (KA), see also the Supplementary Note on Financial Crisis Management. The BRRL also provides for an ex-ante Resolution Fund (RF), set up in 2020 and managed by the DGF, as the default resolution financing mechanism. Its funding began in 2020, with the target level of 3 percent of guaranteed deposits (around MDL 475 million, updated annually) to be reached at the end of 2024.

63. Noteworthy efforts have been made by the NBM to render the legal framework operational, including through banks' recovery plans and its own resolution planning. Most secondary legislation (issued by NBM) has been approved or is expected to be finalized by end-2021. Banks have submitted recovery plans in recent years, and the NBM has been assessing these plans and engaging with banks on the credibility of recovery measures. The World Bank has provided an assessment of the plans, which the NBM is using to update its guidance on effective recovery plans, which is expected by end-2021, as well as internal guidance. Resolution plans have also been prepared for all banks. According to a thorough assessment provided by the World Bank, and even though a considerable effort was put by the NBM's Banking Resolution Department (BRD) in the drafting of initial resolution plans, there is still room for improvement, especially in elements regarding the identification of critical functions, internal and external interconnectedness and in the separability assessment.

64. The resolution preparedness of the NBM has improved steadily since the BRRL was published, but gaps remain. There is a lack of sufficiently detailed operational plans for implementation of resolution. Beyond the Sale of Business tool, the Bridge Bank and Bail-In tools may need to be applied if no interested acquirer is found in the application of the Sale of Business tool. The Bail-In tool could facilitate use of the other resolution tools[13]. No resolution simulation exercise has been undertaken to test authorities' preparedness and inter-agency cooperation.

65. The mission discussed areas for improvement, considering the particularities of the financial sector. The MREL requirement needs reform, considering that the banks are mainly funded by deposits and lack access to developed capital markets on which to issue and trade MREL-eligible instruments[14]. In addition, the conditions for access to the RF may be too restrictive given banks' limited internal loss absorption capacity. According to the BRRL, using

[13] This would be the case when the sale of business is carried out under a share deal and there is a need to wipe out shares or debt instruments in order to absorb losses prior to the transfer of shares. In the case of the bridge bank, the bail-in tool is necessary for the conversion of creditor claims of the bank under resolution into shareholders of the bridge bank.

[14] According to a 2019 World Bank estimate, the total MREL shortfall of banks, if calculated under the SRB MREL policy, could amount to 22 percent of the total capital of the banks affected (or MDL 1.5 billion).

the RF to absorb losses is conditional on an initial mandatory minimum bail-in by shareholders and creditors of 8 percent of total liabilities and own funds. Even when meeting this condition, the total financial support of the RF is limited to 5 percent of total liabilities and own funds. This would entail bailing in a substantial share of depositors, including eligible deposits, with potential unintended consequences for financial stability and the economy at large. The authorities should have the flexibility to avoid this.

66. The use of DGF resources to finance a resolution is not expressly provided for in the law. The BRRL is even more restrictive than the corresponding EU Directive. In accordance with the EU framework, Deposit Guarantee Schemes (DGSs) may provide funding in resolution even if limited to an amount that would not exceed the amount of losses that the DGS would have borne under a counterfactual insolvency (so-called least-cost test). Since in Moldova, as in the EU, there is a super-priority for guaranteed deposits (they benefit from the highest-ranking preferential treatment in insolvency and therefore are repaid before regular senior creditors), such limit is likely to impede in most cases the use of the DGF to finance a resolution if resources from the RF are not available or the conditions for its use are not met[15].

67. The NBM expressed concern about legal certainty regarding the BRRL criteria for a determination of whether a bank is "failing or likely to fail". The detailed criteria to assess the circumstances in which the NBM can take such a decision—the key step in placing a failing bank in resolution—are not expressly set out in law or regulations, and affected stakeholders may be able to contest a decision on the basis that the NBM intervened too early or without grounds.

Main recommendations (p. 52)

68. The NBM should continue to develop its resolution planning. For the four largest banks which were identified as systemically important, the resolvability assessment and potential identification of impediments to resolvability should be prioritized. If such impediments are identified, the NBM should swiftly enforce their removal by banks. The NBM should engage more with banks, including by sharing the main results of resolvability assessments and identifying substantive impediments to resolvability as per the applicable law[16] and the guidance provided by the KAs (Annex II, Section 3), as well as stressing the need for banks' resolution capabilities to be strengthened. Additionally, for banks whose parent companies are equally required to draft group resolution plans (e.g., EU banks), resolution plans of domestic banks should include an overview of how the Moldovan subsidiary is included in the group resolution plan and the outcome of discussions, if any, with group resolution authorities It is also

[15] G. Merc, "Chapter 22: Use of Deposit Guarantee Schemes under Resolution" in World Bank, Understanding Bank Recovery and Resolution in the EU: A Guidebook to BRRD (2016), pp. 153-158.

[16] Article 23(3) and 35 of the BRRL

recommended that a medium-term strategy to deal with the current mandatory MREL requirement be developed, given its material impact on the viability of some banks.

69. The NBM should also continue its resolution preparedness efforts, also focusing on operational plans for the implementation of all resolution tools and strengthening human resources. Priority should be given to the Bridge Bank and the Bail-In tools as ancillary to the other transfer tools. The NBM, MoF and DGF should together perform resolution simulation exercises to test their crisis preparedness and inter-agency cooperation mechanisms (including the viability of Memoranda of Understanding (MoUs)), both bilaterally and under the scope of the NCFS. Such simulation exercises should also test the articulation and cooperation mechanisms included in the MoUs signed between the NBM and potential foreign group resolution authorities to check for its appropriateness or need to draft more comprehensive MoUs. Staffing of the BRD should be strengthened, as bank resolution and liquidation are complex and, in some cases, new topics for the NBM and require highly qualified staff as does the increasingly challenging work on resolution planning and preparedness.

70. The BRRL should be revised to adapt it to the specificities of the Moldovan banking system. It is recommended that a change to the framework underpinning the MREL be prioritized to provide flexibility to banks to comply, for example, by providing for an adequate transition period and setting a calculation methodology that does not demand a high amount of additional subordinated or senior debt beyond the already high level of capital of banks. The conditions for access to the RF should also be amended to introduce some level of flexibility (e.g., lowering the minimum bail-in requirement or introducing a financial stability exception to its use). The possibility to use DGF funds in resolution should be provided in the law (perhaps allowing for indirect costs to be considered when calculating potential costs to the DGF). This way, the financial resources of the DGF could be used toward promoting financial stability in a more efficient way than would be the case if additional contributions had to be collected from the banking sector in case the RF exhausted its resources or eligible deposits had to be bailed in to make up that shortfall.

71. It is also recommended that a regulatory instrument be adopted for the determination of whether a bank is "failing or likely to fail". Considering that clear resolution triggers are needed, such an instrument could be based on the European Banking Authority's guidelines in this matter, taking into account the local legal and judicial system and aiming to strike a balance between legal certainty and authorities' discretion.

Bank Liquidation

Baseline Diagnostics

72. Non-systemic banks whose orderly resolution is considered not in the public interest may enter forced liquidation. This is an administrative procedure whereby the NBM triggers liquidation by withdrawing the banking license, chooses and appoints a liquidator and oversees

the procedure. It is under this framework that the authorities have been dealing with the failure of three banks since 2014 under continuing liquidation procedures.

73. An assisted transaction within the forced liquidation procedure is possible under the current law. This option, which complies with the FSB KA, provides flexibility to the authorities, allowing for a tool that is usually adequate for smaller banks. The liquidator has the power, under the NBM's direction, to execute a sale of assets and liabilities of a bank subject to a forced liquidation procedure. In accordance with a recent change to the law the DGF may now finance the shortfall of assets up to the amount of the bank's covered deposits.

74. The NBM perceives flaws in the liquidation framework and has proposed options for reform. It argues that the current framework presents a number of organizational and legal challenges and thus prefers that it be reformed (see Box 2). From the information provided by the NBM to the mission, the NBM intended, at least originally, to delegate the bank liquidation function to the DGF but later also seemed open to a solution featuring a court-led system.

Main recommendations (p. 52)

75. The mission recommends that a new model for bank liquidation be devised and the law be changed accordingly. The new model should strike a balance between the objectives of protecting creditors and promoting financial stability on the one hand and the need to safeguard the discharge of NBM's other functions on the other. A mere change of the institutional setup where the competencies of the NBM are transferred to another public entity (e.g., DGF) or the courts would perpetuate the existing concentration of functions in only one entity.

76. A potential new model might entail a more active role by the courts but should include an administrative pre-judicial phase. Under a new court-based procedure, it is recommended that an administrative pre-judicial phase be added, where the NBM has the option to execute a sale of assets and liabilities financed by the DGF as per the FSB's KAs (KA 3.2 (xii)). The NBM should also retain an active role in the judicial phase, including appointing/proposing the liquidator(s), appointing/proposing members of any other body (e.g., Committee of Creditors), being notified of all important decisions and requests made to the court, and being consulted on critical decisions or important transactions. Other changes could be considered such as appointing legal entities as professional liquidators (for example, audit firms). Finally, further bolstering the legal protection of the NBM and its staff[17] could be helpful for

[17] Beyond the final promulgation of a recently approved draft law on the subject, the NBM could improve its internal operational arrangements to make existing legal protection more effective (e.g., the choice and timing of payment of legal representation, protection against self-incrimination during internal investigations particularly while building a case to defend the agencies, and liability and legal aid insurance covering realistic monetary amounts in light of the high financial stakes in resolution/liquidation cases).

both the liquidation functions (in any model) and the resolution function where most of the legal risk will lie in the future.

Box 2. Reform of the Bank Liquidation Framework

One of the main topics of discussion during the mission concerned the current bank liquidation framework. The NBM considers the current framework a drag on resources that may entail liabilities and reputational costs. It may also limit its ability to discharge its core mandate as the supervisory authority. The liquidation of the banks that failed in 2014 has been a source of legal difficulties and diversion of resources for the NBM, as creditors and debtors have resorted to litigation, both in civil and criminal courts, that have impaired the regular discharge of functions by the NBM and its staff, despite legal protection.[1] Additionally, it was becoming harder to find liquidators that could be appointed to banks under forced liquidation.

Even though the FSB KAs recommend that resolution authorities should have powers to effect the closure and liquidation of banks allowing for a timely payout or transfer of deposits, the mission recognizes that such authorities may not be best placed to deal with all aspects of bank liquidation[2] and that the current approach has constrained the NBM without clear benefits in terms of speed and efficiency of the liquidation procedure. However, the solution of transferring the bank liquidation function to the DGF might not bring any net benefits for the system as a whole. In fact, a comprehensive financial crisis management system needs to include a well-functioning bank liquidation framework. Bank liquidation is critical to address the failure of banks that do not meet the public interest test in order to be resolved (or if for any reason it is not possible to apply a resolution measure). The DGF has much less institutional capacity or even expertise to deal with complex bank liquidation cases. Therefore, a transfer of the bank liquidation function from the NBM to the DGF would simply shift the burden to an entity that may lack capacity to deal with it. Furthermore, the scarcity of liquidators would not change just because the function is transferred to the DGF.

Thus, the preferred option for the system as a whole is a thorough change to the current legal framework, including the institutional setup. A change to a court-based procedure, which the NBM also views favorably in general, may provide for a well-functioning liquidation framework if the NBM retains substantial control over parts of the procedure[3]. A hybrid model where judicial and administrative authorities share the responsibility for different parts of the procedure might increase the efficiency of the liquidation framework without hindering the discharge of other relevant functions by the NBM or other authorities. Such option would also allow to comply with the FSB KA is this respect.

[1]There is currently a draft law providing for a reinforced legal protection of the NBM's decision-making bodies and staff and enhancing the degree of courts' deference to the NBM's technical expertise and competences. This draft law was approved in Parliament; however, the President of the Republic of Moldova subsequently sent it back to Parliament for reassessment.

[2]For example, the day-to-day management of assets, usually repossessed collateral (real estate or other), or the liquidation of assets by finding interested buyers, performing valuations and discussing potential business opportunities to increase the value of assets.

[3]Even though models vary substantially across jurisdictions, usually supervisory/resolution authorities have a role in bank liquidation even in cases where the procedure is court-led.

Emergency Liquidity Assistance

Baseline Diagnostics

77. The NBM has made substantial progress in its framework of Emergency Liquidity Assistance (ELA) and its practice, although gaps remain. The experience from the 2014 crisis prompted the NBM to establish a transparent ELA framework and operationalize the mobilization of credit claims as ELA collateral. However, as found by previous TA, there are gaps, notably: (i) moving from a point-in-time to a forward-looking assessment of solvency; (ii) distinguishing between the maximum maturity of each ELA loan (two weeks) and the maximum timeframe for a bank to receive consecutive loans (three months, extendable up to one year); (iii) the finalization and operationalization of the NBM's ELA collateral framework, including a more efficient and digitalized model of mobilization, the accounting treatment of ELA and the communication strategy; and (iv) refining its internal organization and improving staff preparedness for ELA.

Main Recommendations (p. 53)

78. A number of steps should be taken to strengthen ELA further. The mission recommends that analytical tools for advance monitoring and estimation of banks' potential liquidity needs for ELA as well as for the accounting consequences of ELA loans provided by the central bank be strengthened and advanced. The NBM mentioned, and the mission agrees, that in this area the capacity needs are as follows:

- Implementation, back testing, and performance evaluation of the Early Warning System (EWS) for ELA, with possible consequence for re-calibrating the EWS in terms of suitable indicators and their signaling thresholds,
- Development and implementation of liquidity stress testing for potential ELA needs, with a possibility to run such stress tests at a weekly or, if necessary, daily frequency,
- Estimation of PD of domestic banks and LGD of potential ELA loans for calculating the IFRS 9 ECL provisions on such loans.

79. These tools should be developed jointly by three NBM departments—FMD, FSD and BSD. For the EWS, each department would construct indicators in its own area of competence, but there would still need to be overall coordination to avoid possible overlaps. The FSD should be in charge of extending liquidity stress tests to allow for more frequent exercises aimed at estimating potential ELA needs. The FMD's risk management section should take the lead in the areas of PD and LGD estimation, relying—where relevant—also on inputs from BSD and FSD. Such an interdepartmental cooperation is best practice and facilitates a unified view of emerging risks while avoiding possible inconsistencies and duplications of departments' individual

analyses. Additionally, while the issue was not discussed in detail during the mission, the NBM should also review whether it would be able to offer ELA to banks in resolution, where liquidity constraints can also be significant, and if not, review their powers to do so or whether and how to establish a separate liquidity support facility for use in such cases

D. Financial Inclusion

Institutional Framework for Financial Inclusion

Baseline Diagnostics

80. Financial inclusion (FI) has not been addressed under a comprehensive strategy, nor is there a high-level institutional body accountable for its several dimensions. There is no National Financial Inclusion Strategy (NFIS) that considers all the dimensions relevant to the provision and use of affordable financial products. In addition, Moldova lacks an inter-agency institutional body, such as an FI Committee in which the key public institutions participate, with the specific mandate of developing, implementing and monitoring the NFIS. The NFIS typically includes policy objectives and quantitative targets for key indicators.

Main Recommendations (p. 53)

81. The institutional framework for FI would benefit from the development of a NFIS and the setup of a high-level coordination mechanism. The NFIS should be the centerpiece of the efforts for the development of a coordinated set of measures to boost FI. The authorities should consider establishing a high level FI committee where the key authorities are represented, such as the NBM, the NCFM, and the Ministries of Finance, Economy and Education. While private sector stakeholders typically are not members of such committee, they play a significant role in providing inputs into the NFIS. The committee should be accountable for the development, implementation and monitoring of the NFIS. Given the importance of this area, authorities will benefit from TA.

Financial Services, Providers, Market Practices and Related Risks

Baseline Diagnostics

82. A vibrant sector focuses on providing financial products to low-income and unbanked residents. While banks are mostly focused on the middle to high income segment, the SCAs and NBCOs play a critical role in providing access to finance to low-income individuals, micro-enterprises and small and medium enterprises (SMEs). These institutions deliver financial services (mainly credit) to more than 600,000 clients (nearly one fourth of the population).

83. The provision and use of digital products and payments is still incipient. The NBM has developed a regulatory framework for payment services providers, including banks and non-bank financial institutions (NBFIs), but no major players have entered the market, such as mobile network operators. There is ground for further use of digital finance (including not only payments but also savings and credit) as for instance, the number of mobile connections in Moldova is equivalent to 101 percent of the population.[18] Deficiencies in the financial literacy of potential users limit the appetite for digital finance. In rural areas and small towns, the SCAs and NBCOs are the key providers, and most of these institutions have not yet developed innovative digital products (e.g., savings, credit, and payments) and channels to reach out to their clients. Limited familiarity with new business models and cost-effective channels as well as lack of partnerships across different sectors are challenges that limit further development.

84. Remittances have not been sufficiently utilized for leveraging the use of other financial products. The remittance flows from Moldovans living abroad accounted for 13 percent of the country's GDP in 2020, making Moldova the most remittance-reliant country in Europe. While 80 percent of the remittances are paid through banks, there is still potential to offer more ancillary products to remittances receivers, such as deposit accounts, payments and credit. Moreover, remittances sent through financial institutions are still relatively expensive[19], which is affected by the fact that several intermediaries are involved in the process[20].

85. There are limited options for low-value deposit accounts targeted at low-income parts of the population. There is a lack of transaction accounts tailored to clients who usually need lower value transactions, quicker turnaround of applications and lower document requirements. Account opening requires the completion of much paperwork and in-person identification of the client in order to comply with due diligence requirements for AML/CFT purposes, irrespective of the risk profile of the client.

86. There is a lack of insurance products and capital market instruments targeted at addressing the needs of low-income individuals, retail investors, and SMEs. The insurance market focuses on traditional mandatory insurance, with life and agricultural insurance at an incipient stage, and there are no products targeted at providing risk coverage to the lower-income population, such as micro-insurance. On the capital markets, there are no initiatives aimed at providing investment opportunities for retail investors. For SMEs, most of their external funding

[18] Data as of January 2021, https://datareportal.com/reports/digital-2021-moldova

[19] According to the World Bank database, "Remittance Prices Worldwide" the average cost of sending remittances to Moldova is 5.6 percent, while the similar cost for other countries are as follows: Romania 4.3 percent, Uzbekistan 1.8 percent, and Georgia 1.1 percent. Data as of third quarter of 2020.

[20] Most remittance transactions in Moldova involve the physical cash-in and cash-out through the remittance service provider and the receiving bank. Electronic remittances conducted through mobile technology are not widely used, even though they can lower the cost by removing the need for physical points of access and ensure a timely and secure method of transaction.

comes from banks and NBFIs, and there are no initiatives yet to facilitate the financing of SMEs via the capital markets (see section II.E on Capital Markets Development).

Main Recommendations (p. 53)

87. The NBM and the NCFM should work on initiatives to pave the way for the development and use of inclusive financial products. As part of the key activities undertaken within the NFIS, the authorities should work with the industry to increase the access and use of deposit accounts and eventually consider the adoption of a standard "basic deposit account", which is focused on payment services and characterized by low-cost, simple features and simplified account opening requirements. In addition, digital accounts, including electronic wallets, should be developed as they are more efficient and cost-effective using digital technologies. Regarding clients' identification, as recommended by the Financial Action Task Force (FATF) Standards on AML/CFT and FI[21], simplified customer due diligence, including digital identification, can be implemented in groups of the population previously defined as "low risk" to facilitate FI and minimize obstacles to identity verification[22]. In addition, initiatives to develop micro-insurance should be adopted as this allows individuals and firms to better manage risks. On the capital markets, the development of investment opportunities for retail investors and simplified requirements for SMEs wishing to access the market should be considered (see section II.E on Capital Markets Development).

88. The use of digital finance should be encouraged and initiatives to attract more participants to the market be promoted. A strategy for digital finance should be a key element of the NFIS, including initiatives for digital transfer of remittances, which would help to reduce costs. Moreover, provision of ancillary financial products for remittance receivers (such as credit and deposit accounts) would be a powerful instrument bringing more of such receivers into the formal financial sector. The authorities should also work on an initiative to boost the infrastructure for acceptance of cashless payments, especially to increase both physical access points (such as ATMs and POS) and digital access through mobile phones. Moreover, direct deposits of government subsidies and social transfers to bank accounts could also be considered for promoting active use of bank accounts.

89. The SCAs and NBCOs play a key role for FI, which calls for a proportionate approach to regulation and supervision. These institutions bring to the formal financial sector otherwise unbanked clients. It is important that the approach for supervision and regulation of these institutions remain proportional to the risks they face, any risks to financial stability and to their business model. Inappropriate requirements, such as excessive paperwork and identification requirements, could keep clients out of the formal market and foster a shadow banking system.

[21] FATF, Guidance, Anti-Money Laundering and Terrorist Financing Measures and Financial Inclusion with a Supplement on Customer Due Diligence, November 2017.

[22] The authorities noted that this initiative will probably require the support of the Moldovan 'Office for the Prevention and Fight against Money Laundering',

Financial Consumer Protection and Financial Literacy

Baseline Diagnostics

90. The legal and regulatory framework for financial consumer protection (FCP) is fragmented and ineffective to fulfil some key objectives (see Box 3). The legal framework assigns different responsibilities for FCP to the Ministry of Economy, the Consumer Protection Agency (CPA), the NBM and the NCFM. Different pieces of legislation cover FCP related to specific banking products, such as consumer credit, and payments. Such segmentation of responsibilities, mandates and tools entails material gaps (such as a lack of effective powers for the resolution of disputes) and overlaps (for instance between NCFM and CPA, when both may work at the same time on the same petitions, without effective inter-agency communication).

91. The framework for the disclosure and transparency of prices and conditions is also fragmented. There are disclosure requirements for consumer credit and payment systems, but not for other types of credit. For consumer credit, financial institutions are required to disclose, *inter alia*, the effective interest rate and the total amount of credit. A partial assessment conducted for this review revealed that, at least the largest banks disclose the required information, but some NBCOs advertise some "zero interest rate" loans, without ancillary information about other costs, as required by the legal framework. Anecdotal evidence as well as the number of complaints received by the CPA suggest that there are still opaque and potentially abusive clauses in many credit contracts, especially at NBCOs/SCAs that are key providers of financial services to low-income clients with typically weak financial literacy.

92. Abusive collection practices have been reported for some segments of the market, prompting initiatives to remedy the problem. For NBCOs, amendments to the legal framework were introduced in 2020 to limit the amount that third parties can collect from borrowers. Nevertheless, regulations do not consider other requirements to deter abusive practices, such as prohibition for financial service providers and third parties acting on their behalf from the use of false statements, practices akin to or constituting harassment, or the giving of false or unauthorized credit information to third parties.

93. Despite all efforts, material deficiencies still exist in the mechanisms for receiving and resolving disputes in the provision of financial services. Banks are required to disclose the mechanisms available to clients for submitting complaints and the staff of the bank authorized to receive and resolve them. Similar requirements are in place for payment providers (banks and non-banks alike) that also specify that institutions should respond to clients within 15 days. For NBCOs, investment firms and insurance companies, there are similar requirements but the legal framework does not require service providers to disclose key information (e.g., modalities available to clients for submitting petitions, the maximum number of days for financial institutions to respond, and the name of the complaints handler). Consumers can submit petitions to the NCFM which reviews the petitions and submits them to the institution involved, or to the CPA. The CPA has limited operational capacity in the area of FCP and to deal with

complaints. In addition, shortcomings have been reported in the exchange of information with the NBM and the NCFM (in particular, the CPA is not informed in a timely way about whether complaints have been settled between the financial institutions and their clients).

94. An out-of-court formal dispute resolution mechanism for financial consumers is absent. None of the authorities involved in FCP (the NBM, the NCFM and the CPA) has legal powers to resolve conflicts. For consumer credit, law No. 202/2013 establishes that conflicts can be resolved through a mediation procedure, but such mechanism has not been reported as being widely used in practice. Typically, the only option for consumers is to turn to the court system, implying an expensive and lengthy process. Many NBCO complaints referred to courts are settled out of court eventually, and the CPA is not informed about the terms of such settlements.

95. Several public institutions and market participants work on initiatives for financial literacy, but an overall strategy and a formal coordination mechanism for financial education is still missing. The NBM, the NCFM and the Ministries of Finance, Economy, and Education have been working on individual initiatives, but gaps and overlaps exist given that such initiatives are not coordinated under a common framework. Limited financial literacy has been referred as one of the main barriers to further FI.

Box 3. Issues in Financial Consumer Protection

The legal and regulatory framework for financial consumer protection (FCP) in Moldova is fragmented, with material deficiencies hindering effective protection (e.g., weak disclosure and transparency, abusive contractual clauses and debt collection practices, and poor complaints handling and redress mechanisms).

The requirements on disclosure and transparency of prices and conditions are not all-encompassing. Different pieces of regulations approved in different years established disclosure requirements for consumer credit and payments, but not for other products. Even for consumer credit, some of the institutions playing a key role in serving low-income populations (SCAs/NBCOs) do not disclose the effective total cost of credit. Moreover, opaque and abusive clauses have been reported in credit contracts.

Similarly, abusive debt collection practices are still observed, and the authorities have limited the amount of money that third parties can collect from borrowers. Still, the regulatory framework does not include comprehensive requirements on abusive practices, such as the prohibition of using false statements, of practices akin to or constituting harassment, or provision of false credit information to third parties.

Complaints handling and redress mechanisms in the financial industry suffer from material deficiencies. There are different regulations requiring financial institutions to implement internal handling complaint mechanisms, but the requirements are not comprehensive and not harmonized across financial providers and products (e.g., credit, deposits, insurance, payments). None of the public institutions involved in FCP (NBM, NCFM and CPA) have resolution powers, and there is not an out-of-court ADR mechanism.. Only the courts can resolve on FCP matters, which entails an expensive and lengthy process.

A comprehensive upgrade of the FCP framework is necessary in Moldova to protect consumers from abusive practices and enabling them to make well-informed decisions. The public institutions involved would benefit from a clear mandate on FCP, and consumers should have access to adequate complaints handling and redress mechanisms that are accessible, independent and efficient.

Main Recommendations (pp. 53-54)

96. A comprehensive reform of the legal framework is necessary to implement effective FCP. The current fragmentation of responsibilities across institutions should be amended and an overarching legal framework be established, with clear mandates and responsibilities for all stakeholders. Requirements for efficient internal complaint-handling procedures should be harmonized across financial institutions and for all market segments so that consumers possess effective tools to have complaints resolved timely and cheaply.

97. The framework for FCP would benefit from the implementation of an alternative dispute resolution (ADR) scheme. The ADR is an independent and impartial out-of-court mechanism for the resolution of conflicts. In order to avoid the creation of another public institutions, the ADR could be hosted as an independent unit within the NBM but with firewalls (e.g., direct reporting to the Board) to forestall conflicts of interest. The NBM would seem to be better positioned to deal with this task in terms of expertise, and such configuration would promote cooperation among financial supervisors. The authorities would benefit from TA to implement the reforms in the area of FCP.

98. The competent authorities should collaborate to develop a Strategy for Financial Education. Financial literacy should be one of the key workstreams within the NFIS, and the key public sector institutions should participate in such task, including the NBM, the NCFM, the Ministries of Finance, Economy and Education.

E. Capital Markets Development

99. The capital market in Moldova is underdeveloped. It is not making a sufficient contribution to the financing, risk management and investment needs of the real economy. Sustained efforts supported across government and implemented by the NCFM are urgently needed to develop the market.

100. While capital markets development can be encouraged in many ways, sustained development takes time. In Moldova, it will require efforts in three dimensions: (i) strengthening the institutional framework; (ii) improving regulatory capacity for the supervision of capital markets intermediaries; and (iii) expanding the range of and depth of trading in financial instruments.

Institutional Framework

Baseline Diagnostics

101. Responsibility for capital markets regulation in Moldova lies with the NCFM. This covers regulation of primary issues and secondary trading on the MSE of corporate securities,

mainly equities, and the licensing and supervision of investment companies (including the investment company activities of commercial banks) and collective investment schemes (CIS). Under the new law on facultative pension funds[23], it will also include the regulation of facultative pension fund administrators and depositories. After transfer of the non-capital markets functions to the NBM in 2023, the NCFM's responsibilities will be centered on capital markets and facultative pension funds supervision.

102. Overall, the trading and clearing market infrastructure is reported as being sound. The MSE has been in operation for over 20 years with the same trading system, and a single CSD was established much more recently as noted in section II.A on Financial Sector Oversight. The CSD has also taken on responsibility for maintaining joint stock company records including the shareholder register, commencing with listed companies, banks and insurance companies. In this regard there is a need to improve the law with respect to deregistration of inactive joint stock companies[24], so that their records can be archived rather than kept as part of the CSD's records of active companies.

103. The Moldovan capital market currently poses little risk to overall financial stability. Investment companies hold less than one percent of total financial sector assets. Trading volumes on the MSE are very small[25], and investors are required to prepay and deposit securities in advance of trading which reduces operational and market risk. Retail investors are not actively engaged in the market, so the possibility of a major investment scheme collapse (such as a Ponzi scheme) impacting on financial stability overall is remote in the near term.

Main Recommendations *(p. 54)*

104. It is critical that a whole-of-government approach is taken to capital markets development by crafting and publishing a coherent strategy (see Box 4). This strategy must encourage capital markets development to provide real investment opportunities and an alternative source of finance for business enterprises including SMEs, balancing the need to ensure a stable and safe financial system with the economic development needs of the country. This strategy will need to consider how to develop investment activity through the capital markets while protecting investors, especially vulnerable retail investors. As part of settling this strategy, the current statutory goals of the NCFM[26] should be amended to include a specific mandate to develop the capital markets, as is common in many emerging markets.

[23] Law on Facultative Pension Funds No 198 of 2020.

[24] Joint stock companies are registered on the State Register of Legal Entities, kept by the Public Services Agency under the Ministry of Economy.

[25] For example, in the calendar year 2020 there were fewer than 300 transactions on the MSE with a total value of around MDL 103 million (approximately US$ 5.7 million).

[26] See Article 3 of the Law on the NCFM No 192 of 1998 and Article 5 of the Law on Capital Markets No 171 of 2012.

105. The ongoing sustainability of capital markets supervision needs to be safeguarded in the context of settling the overall strategy. Following the transfer of regulatory responsibilities to the NBM in 2023, the NCFM is likely to be a much smaller agency[27] and, as the NCFM is an industry-funded body, the source of its income would be restricted to the capital markets and the new facultative pension industry. Therefore, it may be highly dependent on securities trading volumes which are low and have been quite volatile in recent years[28]. This raises the potential risk of undue influence over the regulator by the industry and/or the need for funding to be topped up from the State budget, both of which are undesirable from a sustainability and independence perspective.

Box 4. Towards a Strategy for Financial Markets Development

Moldova would benefit greatly from developing its financial markets, in particular by broadening the range of financial products to provide benefits to more of the population through financial inclusion, and by encouraging the capital markets to provide greater investment and financing options for investors and businesses alike. Financial products which cater for the needs of low-income residents and financial instruments which provide investment options are in very short supply, restricting economic growth.

The primary impediment is that financial markets development in Moldova suffers from a lack of cohesion and commitment. There are multiple agencies involved, in particular the NBM, NCFM and the MoF, which have distinct responsibilities and objectives. Mostly the public interest objectives of financial stability, capital markets development and consumer protection complement each other, but sometimes they conflict and one or other needs to take priority (for example, in the case of struggling financial firms, the normal disclosure requirements that promote market transparency may need to be relegated behind the financial stability imperative for confidentiality, and similarly, preferential tax treatments for certain financial products, while stimulating market activity, can have a budgetary impact that needs to be considered and balanced).

As a result, it is critical that the authorities come together to develop an over-arching strategy on financial markets development. In developing the strategy, the authorities can discuss different approaches and options, balance their objectives where they compete, and reach agreement on and commit to the way forward.

This overarching strategy should have two main components and a series of workstreams:

- The NFIS, as discussed in Section II.D, which would include the NBM, NCFM, CPA and the Ministries of Economy, Education, and Finance, and have workstreams including the development and use of inclusive financial products, financial literacy, and the consumer protection framework; and
- A strategy for capital markets development discussed in this section, which would include the NCFM, NBM and MoF, and have workstreams including development of the facultative pension and CIS industries, and measures encouraging bond issuance and trading.

[27] The Capital Markets Department accounted for 15 of the NCFM's total 59 staff in 2020.

[28] For example, the revenue raised from the capital market as a percentage of the NCFM's total income was 43.5 percent in 2018, 53.7 perfect in 2019 and 20.4 percent in 2020.

106. The NCFM's powers to obtain and exchange information with its foreign counterparts for enforcement purposes should be upgraded. This is needed, in particular to meet the international standard set by the IOSCO MMoU. While there are provisions enabling the NCFM to obtain information for the purposes of its functions[29], and there is a general power enabling the NCFM to cooperate and exchange information with foreign counterparts[30], these provisions fall well short of meeting the international standard. The NCFM currently has few MoUs in place with foreign regulators and therefore limited experience upon which to draw. Upgrading the laws and practices to meet the IOSCO standard should also improve the NCFM's investigation and surveillance capacity for its domestic supervision and enforcement activities.

107. Normative rules to support the establishment of facultative pension funds need to be developed as a high priority. As well as providing income in retirement, facultative pension funds, like life insurance companies offering long-term savings products, can play a major role in stimulating capital markets through their investment activity. The NCFM would benefit from assistance in the short term to develop the detailed rules and regulations under the new law on facultative pension funds, covering key aspects such as permitted investments and fees, and in the longer term to develop laws covering payments of voluntary pensions and a guarantee fund for contributions.

Regulatory Capacity

Baseline Diagnostics

108. The NCFM largely adopts a compliance-based regulatory approach to capital markets intermediaries. There are 15 investment companies licensed by the NCFM to conduct capital markets activity, of which seven are stand-alone non-bank entities and eight are part of commercial banking groups. The regulatory requirements for investment companies have been transposed from the relevant European directives and, with respect to capital, are being phased in up to 2024. The NCFM analyses daily, monthly and other periodic reports from investment companies to check compliance with ongoing capital requirements, contributions to the Investor Protection Fund, and related party transaction requirements. There are guidelines for staff in the conduct of on-site inspections, but the NCFM does not have a comprehensive supervisory manual to assist staff to conduct risk-based supervision consistently. Although the regulatory system for CIS is largely in place having been transposed from the European legislation, there are no current licensees and no funds operating in Moldova.

[29] Chapter VII of the Law on Capital Markets No 171 of 2012.

[30] Article 5 of the Law on the NCFM No 192 of 1998.

Main Recommendations (p. 54)

109. The off-site supervision framework for capital markets intermediaries needs to be improved to take a more risk-targeted approach and to be documented in a comprehensive supervisory manual. For example, a risk-scoring system which enables systematic identification of risk areas in individual licensees needs to be put in place. For facultative pension funds, the framework for supervision of the sector needs to be developed consistent with the development of the normative rules for the funds themselves, and the regulatory capacity to implement that supervisory framework needs to be built from the ground up.

110. In order to build investor confidence, development of the capital markets must be accompanied by improved supervision of capital markets intermediaries in practice. Efforts therefore need to be directed to ensuring that (i) off-site assessments are being prepared systematically and consistently with the methodology; (ii) on-site inspections are appropriately planned, risk-targeted and executed; and (iii) there is strong and continuous alignment of the off-site supervision, on-site inspection and enforcement process. The NCFM would particularly benefit from external expertise in the actual conduct of risk assessments and on-site inspections of investment companies and CIS managers to build a sustainable regulatory capacity.

Range and Depth of Trading in Financial Instruments

Baseline Diagnostics

111. There is insufficient trading volume and instruments available to support a viable investment environment. While there are around 40 listed companies on the MSE, including banks and insurance companies, trading is very thin. Potential institutional investors such as general and life insurance companies state that there is a lack of financial instruments available for investment, especially to assist in managing their long-term liabilities. Part of the reason for this may be a desire by major shareholders not to trade their shares and to resist new issues by companies, to ensure that they maintain control of the companies. However, there are also some longstanding taxation treatments which make shares and bonds less attractive to investors than deposits at banks.

112. The bond market is dominated by Government securities, of which over one-quarter are held by banks. At the end of 2019 there were MDL 23,168 million of Government securities in the market, of which the banks held MDL 6,290 million or 27 percent.[31] The government has an ongoing privatization program of selling some shares in public-owned assets, but both the NCFM and MSE noted that this has not led to much retail participation in those issues or active trading in those securities.

[31] From IMF standardized report form 2SR for monetary statistics.

113. Foreign investment is a less significant feature of the Moldovan market than other countries in the region. Foreign direct investment increased from US$290 million in 2010 to US$502 million in 2019, which in 2019 equated to around 4 percent of GDP. By comparison, foreign direct investment in countries such as Albania, Montenegro and Georgia stood at around 7 to 8 percent of GDP in 2019. In non-adjusted terms it grew by 73 percent between 2010 and 2019, significantly larger than the countries noted above, although Romania's foreign direct investment grew by 129 percent from 2010 to 2020.[32] While there do not appear to be any particular impediments to foreign investors accessing the Moldovan market, all instruments are traded in MDL and there are no derivatives available to manage currency risk.

Main Recommendations (p. 55)

114. There needs to be a coordinated approach to encourage a greater range of financial instruments to be available for trading. This is needed to provide opportunities for market-based finance for businesses and to facilitate better functioning of the capital markets. This approach should be consistent with the overall capital markets development strategy and should consider fiscal stimulants to ensure that, as far as possible, there is competitive neutrality between financial products. The plans to commence the secondary trading of both government securities of more than one year's maturity and municipal bonds on the MSE should be implemented, together with programs to help investors understand the benefits of investing in bonds and equities. With Moldova's longer-term government securities providing a positive real yield, both retail and foreign investors could be particularly interested in the secondary market. Some market participants suggested that the regulatory requirements for the issue of corporate bonds are too strict, especially as currently corporates can readily access bank loans. As the exchange trading in such bonds commences, the NCFM should consider whether there are any current disclosure requirements that could be relaxed for less complex bonds. The NCFM should also consider whether there are any regulatory impediments preventing innovative market-based finance for SMEs, such as crowdfunding.

115. Efforts need to be directed to encourage the development of CIS, both in alternative investments (e.g., real estate) and in more liquid investments (e.g., equities and bonds). In some emerging countries CIS have provided an opportunity for retail investors to access investment in equities and bonds, even where trading volumes are low. Development of alternative investment funds which permit investment in illiquid assets such as real estate should provide additional investment options for investors, especially for those with long-term liabilities.

[32] Data sourced from Country Profiles published by the World Bank, available at databank.worldbank.org.

III. TECHNICAL ASSISTANCE ROADMAP

116. A TA Roadmap (TARM) was developed in cooperation with the authorities and in consultation with IMF departments. Based on discussions with the authorities during the main FSSR mission and resulting conclusions, the mission team developed a comprehensive list of TA recommendations in the five topical areas. Ahead of the concluding meeting with the authorities, key recommendations were also shared with the principal collaborators in MCM and the area department team who agreed with the thrust of the recommendations overall.

117. The TARM proposes TA to build capacity in the authorities to address risks and vulnerabilities in the financial system. Based on the analysis of the risks and vulnerabilities and existing gaps, the TARM develops a prioritized set of actions that need to be taken by the authorities to address these vulnerabilities and to strengthen the financial system in the next three years. It presents, in one integrated table, the main strategic recommendations and the supporting TA to address the main risks and vulnerabilities identified in by the baseline diagnostic review. The comprehensive TARM presents the following:

- Key Vulnerability: Identified by the FSSR diagnostic review with high probability to affect the well-functioning of the financial system if left unaddressed, and which will benefit from targeted TA in most cases.

- Recommendation: Action by the authorities to address the vulnerability, in most cases to be supported by TA.

- TA Activity: Indication of whether for the implementation of an FSSR recommendation TA delivery is “needed” or “not needed” as well as instances where TA on a certain matter is already “in progress” or “planned”.

- Responsible Agency: Those institutions that are primarily responsible to implement a given recommendation for TA.

- Priority: an indication of the level of priority associated with the TA activity (high, medium, low).

- Timeframe: an indication of the timeline when the TA activity should take place (short-term (ST), medium-term (MT), long-term (LT)).

The TA Activities in the TARM are grouped by topical areas, with several individual activities in each group.

Table 4. Moldova FSSR TA Roadmap

Key Vulnerability	Recommendation	TA Activity	Responsible Agency	Priority	Completion Timeframe[1]
FINANCIAL SECTOR OVERSIGHT (Section II.A)					
Further strengthen the regulation and supervision frameworks for bank and insurance companies					
Risk of ineffective oversight if banking sector reforms are not completed and implementation consolidated	Complete implementation of remaining prudential standards from EU/Basel framework, enhance supervisory practices, including of systemically important banks, evaluation of governance, risk management etc.; and review possible alignment of regulatory provisioning with accounting standards (IRFS 9)	Needed	NBM	High	MT
Risk that the reform of insurance regulation and supervision is not completed or implemented in full, resulting in continued gaps in regulation and potentially more weak insurance companies	Adopt a detailed plan for implementing the new legislation: workstreams comprise: (a) implementation of requirements on governance, risk management etc., including associated on-site work; (b) overhaul of financial supervision to reflect new regulatory and accounting standards (IFRS 17, Own Risk and Solvency Assessment etc.) and impact of tariff liberalization; (c) increased enforcement efforts, including revised approach to weak companies, resolution/liquidation etc; and (d) intermediary and all aspects of business conduct supervision covered by the IAIS principles. Resources in insurance supervision should be increased.	Needed (planned in some areas - World Bank and proposed EU twinning project)	NCFM	High	LT
Exposure to risks arising from foreign ownership of banks and insurance companies	Further develop framework for banking cross-border supervision, agreeing cooperation agreements where outstanding, seeking to participate in supervisory colleges, developing an approach to assessment and mitigation of risk in foreign (including non-bank) owners Develop enhanced cooperation with Austrian supervisory agency in respect to insurance companies	Needed	NBM and NCFM	High	MT
Develop NCBO supervision to focus more on business conduct/consumer protection					
Risk that all the risks to NBCO customers (individuals, SMEs etc.) from NBCO conduct are not addressed, resulting in customer detriment	Strengthening further business conduct supervision, including enhanced risk assessment, enforcement, on-site supervisory attention on conduct-related controls, governance etc., especially at larger NBCOs	Needed	NCFM	High	MT
Complete regulatory framework for payment services and CSD supervision					

Key Vulnerability	Recommendation	TA Activity	Responsible Agency	Priority	Completion Timeframe[1]
Risk that payment services providers and key infrastructure are inadequately supervised leading to risks to users and to stability	Complete regulatory framework for payment services and enforcement framework for consumer protection	Needed	NBM	Medium	MT
	Clarify NBM/NCFM roles and responsibilities for CSD supervision and implement cooperation mechanisms. Develop regulations and internal processes for CSD supervision	In progress from IMF/EU	NBM	High	ST
Preparations for transfer of certain NCFM responsibilities to the NBM					
Preparations need to engage relevant staff, involve appropriate communications, and mitigate risks to avoid, for example, loss of key staff, industry uncertainty etc. and lack of readiness for July 2023	Agree transfer plan and communicate it to staff and the industry; joint working with NCFM on preparations. NBM to establish an internal stricture and organization for the functions and selecting staff for the key leadership positions as early as possible and identify initiatives for reconsideration in the light of the transfer. NBM to develop vision and principles to govern its role as an integrated financial services regulator	In progress some areas (IMF/Bank). Needed for others	NBM and NCFM	High	ST
MACROPRUDENTIAL FRAMEWORK, SYSTEMIC RISK ASSESSMENT AND STRESS TESTING (Section II.B)					
Strengthen the institutional framework for macroprudential policies					
Unfinished domestic institutional arrangements for financial stability	Amend the law on NBM to explicitly include a financial stability and macroprudential policy mandate, make the internal NBM Working Group on Financial Stability functional to support information sharing and coordination, and strengthen external visibility and communication of the NBM's macroprudential function	Not needed	NBM	Medium	MT
Insufficient resources for financial stability surveillance and policies	Upgrade resources for monitoring financial stability risks by increasing staff in the NBM Financial Stability Department to at least 10 full-time equivalent (FTE) positions	Not needed	NBM	High	ST
Limited macroprudential tools to tackle excessive credit growth	Extend the existing macroprudential policy toolkit to include borrower-based tools (LTV/DSTI caps) for bank and NBCO/SCA loans	Not needed	NBM, NCFM	High	MT
Expand existing data resources and systemic risk monitoring tools					
Lack of availability of micro-level data on NBCO/SCA loans to households to underpin the calibration of borrower-based macroprudential tools	Explore options to regularly receive borrower-level data on NBCO/SCA loans to households and enhance the analysis of household total indebtedness to underpin an appropriate calibration and enforcement of the planned DSTI cap for bank and non-bank loans	Not needed	NBM, NCFM	High	ST

Key Vulnerability	Recommendation	TA Activity	Responsible Agency	Priority	Completion Timeframe[1]
Only partial assessment of systemic risk evolution	Revise existing systemic risk monitoring tools and broaden the financial cycle analyses by assessing a larger range of early warning indicators beyond the credit-to-GDP gap	Needed	NBM	Medium	MT
Financial sector statistics					
Remaining FSI data gaps	Assess additional data collection and dissemination needs (e.g., NBFI sector) after completion of the transfer of non-bank oversight from the NCFM to the NBM	Not needed	NBM	Medium	LT
Enhance stress testing					
Inadequate bank solvency and liquidity stress testing	Build a state-of-the-art macro solvency and liquidity stress testing for banks, with solvency tests based on alternative macroeconomic scenarios, satellite models, and consistent projections over a longer horizon; and liquidity tests based on a cash-flow approach and higher granularity in line with LCR	Needed	NBM	High	MT
Lack of stress testing of other financial institutions	Develop capacity to perform stress tests of non-bank financial institutions (NBCOs, SCAs, insurance companies)	Needed	NBM, NCFM	Medium	LT
Only partial assessment of resilience of corporate and household sectors to shocks	Use available borrower-level data to conduct micro stress tests of corporate and household sectors	Needed	NBM	Medium	LT
Lack of use of stress test results for supervisory purposes and calibration of prudential policies	Strengthen the use of the macro and bottom-up stress test results of banks in on-site and off-site supervision	Not needed	NBM	Medium	MT
FINANCIAL CRISIS MANAGEMENT AND SAFETY NET (Section II.C)					
Strengthen the applicable legal and regulatory framework pertaining to crisis management (DGL, BRRL, Bank Liquidation).					
Lack of legal clarity of the deposit reimbursement procedures and DGS powers and competences in line with the EU Law	Amend the DG Law to provide: (i) more legal clarity regarding the criteria for assessing the unavailability of deposits and the reimbursement timeline; (ii) the DGF access to depositors' records at all times and to prescribe specific formats in which information should be provided (Single Costumer View files); and (iii) the DGF powers to assess the quality of the information provided and request banks to correct it and to improve their management information systems if needed.)	In Progress	DGF	Medium	MT
Current legal framework pertaining to bank resolution not	Adopt a targeted review of the BRRL and/or secondary legislation to adapt it to the particularities of the banking	Needed	NBM	High	MT

Key Vulnerability	Recommendation	TA Activity	Responsible Agency	Priority	Completion Timeframe[1]
adapted to the specific circumstances of the banking system in Moldova	system in Moldova, mainly regarding the MREL requirement, the conditions of access to the resolution fund the participation of the DGF in the financing of resolution measures				
Lack of legal clarity regarding the criteria for the determination of a bank as "failing or likely to fail"	Adopt a regulatory instrument (regulation or guidelines) with additional guidance on how to apply the general criteria provided for in the BRRL for the determination of a bank as "failing or likely to fail"	Needed	NBM	Medium	MT
Current forced bank liquidation procedure is a source of reputational, legal and financial risk for the NBM and is affecting the discharge of functions in other key areas of the Central Bank	Undertake an assessment of the adequacy of the current legal framework and adopt a revised Bank Liquidation Law with a forced liquidation procedure that achieves its public policy goals without hindering the discharge of other functions of the NBM	Needed	NBM	High	MT
Enhance the crisis and resolution preparedness competences of authorities and continuing implementation of the current legal framework.					
Lack of adequate advance preparation for the reimbursement of deposits, mainly regarding stress-testing/crisis simulation	Enhance the advance preparations for the reimbursement of deposits, including carrying out stress tests on both the capacity of the DGF to perform its functions and on the capacity of banks to provide the information needed (SCV files or other relevant data).	Needed	DGF, MoF	Medium	LT
Lack of adequate operational plans/procedure manuals for the implementation of the more relevant resolution tools	Strengthen the resolution preparedness of the NBM for the implementation of the Sale of Business, Bridge Bank and Bail-in tool, including the preparation or improvement of operational plans	Planned (Bail-In) Needed (Bridge Bank)	NBM	High	MT
Absence of crisis simulation exercises to test the resolution preparedness of authorities and inter-agency cooperation	Carry out resolution simulation exercises to test authorities' internal resolution preparedness and robustness of operational plans as well as inter-agency cooperation and communication	Needed	NBM, DGF, MoF	Medium	LT
Additional capacity building in advance monitoring and estimation of liquidity needs of banks for ELA and other supervisory purposes.					

Key Vulnerability	Recommendation	TA Activity	Responsible Agency	Priority	Completion Timeframe[1]
Lack of robust systems for advance monitoring and estimation of liquidity needs of banks for ELA and other supervisory purposes	Carry out: • Implementation, back testing, and performance evaluation of the Early Warning System (EWS) for ELA, with possible consequence for re-calibrating the EWS in terms of suitable indicators and their signaling thresholds; • Development and implementation of liquidity stress testing for potential ELA needs, with a possibility to run such stress tests at a daily or weekly frequency; • Estimation of Probabilities of Default (PD) of domestic banks and Loss Given Default (LGD) of potential ELA loans for calculating the IFRS 9 Expected Credit Loss (ECL) provisions on such loans	Needed	NBM	High	MT
FINANCIAL INCLUSION (Section II.D)					
Strengthen the institutional framework for financial inclusion					
Lack of a comprehensive National Financial Inclusion Strategy (NFIS) and a high-level coordination mechanism for FI	Develop and implement a comprehensive NFIS, including a mechanism for monitoring and evaluation. Set up a high-level institutional body accountable for the development, implementation, and monitoring of the NFIS	Needed	NBM, NCFM	High	LT
Enhance the access and use of inclusive financial products					
Lack of inclusive financial products targeted to low-income segments of the population	Revise the respective regulatory framework in to adopt a standard “basic deposit account”, and micro-insurance	Needed	NBM, NCFM	High	MT
Low degree of provision of ancillary financial products to remittance receivers and informal delivery channels	Develop and implement a targeted strategy for digitalization of remittances and the provisions of ancillary financial products such as payments, saving and credit	In progress (IFAD)	NBM, the NCFM	Medium	MT
Strengthen the legal and regulatory framework for financial consumer protection (FCP)					
Fragmented legal framework for FCP unable to fulfill its objective	Conduct a comprehensive reform to the legal framework on FCP, including the setup of an independent out-of-court mechanism for the resolution of conflicts. Review the regulatory framework and the enforcement	Needed	NBM, NCFM	High	LT

Key Vulnerability	Recommendation	TA Activity	Responsible Agency	Priority	Completion Timeframe[1]
	mechanisms related to i) the disclosure of the effective total cost of credit, and ii) eradication of abusive contractual clauses and debt collection practices				
Strengthen financial literacy					
Gaps and overlaps in individual initiatives to address weaknesses in financial education	Develop and implement a strategy for financial education, with financial literacy being one of the key workstreams within the NFIS	In progress (OECD-INFE, only NBM)	NBM, NCFM, MoF, Ministry of Economy, Ministry of Education	High	LT
CAPITAL MARKETS DEVELOPMENT (Section II.E)					
Strengthen the institutional framework for capital markets supervision and development					
Lack of an overarching strategy on capital market development to ensure a coordinated approach across Government	In conjunction with the NFIS, develop and publish a capital markets development strategy involving NCFM, NBM and MoF to ensure buy-in across government, including: developing a workable ongoing funding and operating model for capital market supervision; amending the NCFM Law to include an explicit capital market development mandate; and amending the Law to enable deregistration of inactive companies	Needed	NBM / NCFM	High	MT
Inability to share information with foreign counterparts for securities enforcement purposes in keeping with global standards	Develop amendments to the NCFM and Capital Markets Laws and upgrade internal processes to enable NCFM to obtain and share information as required by the IOSCO MMoU, and submit an application to become a signatory to the MMoU	Needed	NCFM	High	MT
Lack of normative rules to support development of facultative pension funds	Develop rules under the Law on Facultative Pension Funds to provide the normative regulatory framework, and financial education programs and resources for beneficiaries	Needed	NCFM	High	ST
Improve off-site supervision and on-site inspections of capital markets intermediaries					
Inadequate risk-based supervision framework and practices for capital market intermediaries	Review and update existing risk assessment framework for securities intermediaries and CIS managers, develop risk assessment framework for facultative pension funds administrators and custodians, develop a supervisory manual for off-site and on-site supervision, and implement improved and more consistent off-site assessments and on-site inspections of capital market intermediaries using a risk-targeted approach	Needed	NCFM	High	MT

Key Vulnerability	Recommendation	TA Activity	Responsible Agency	Priority	Completion Timeframe[1]
Expand capital markets activity by encouraging more trading of more financial instruments					
Lack of tradeable financial instruments for institutional and retail investors	Implement plans for trading government bonds of more than one year's maturity and municipal bonds on the Moldova Stock Exchange, develop market-based options for SME finance such as crowdfunding, and develop and implement a targeted strategy to encourage CIS including equity and bond funds and alternative investment funds	Needed	NCFM	High	LT

[1] Timeframe: **ST**, short-term, less than six months; **MT**, medium-term, with results around 18 months; **LT**, long-term, with results around 30 months.

ANNEX I. ASSESSMENT OF FINANCIAL SECTOR STATISTICS

A. Financial Soundness Indicators

1. **Reporting of financial soundness indicators (FSIs) in Moldova is comprehensive and timely.** The NBM reports and disseminates on the IMF's website (see Annex 1. Table 1) 11 of the 12 core and seven of the encouraged FSIs for deposit takers (DTs), as well as both indicators for other financial corporations, on a quarterly basis, all reported on a domestic consolidation basis.[1] The NBM has data for many of the missing indicators but needs to fully harmonize them with the FSI reporting methodology before publishing them.

2. **Moldova is moving its FSI methodology to that of the 2019 Guide**. In 2018 it implemented Basel III. The core indicators are calculated based on the 2019 methodology and they hope for all indicators to be fully in line with the 2019 Guide in the near future.

3. **Moldova received TA for FSIs in 2019.** During the mission it was found that Moldova could increase the number of indicators it reports (see recommendation on p. 51). In particular, it was found that source data were available for the sectoral distribution of loans and deposit-lending rate spread. In fact, Moldova reports the sectoral distribution of loans in the FS2 form, but not the FSD form. Some series have been left blank because the amounts were zero or insignificant and the authorities indicated that they can begin reporting zeros.

4. **No FSIs are produced for non-financial corporations, households, or market liquidity.** The NBM has plans to address each of these gaps. It is seeking to gain access to household income data collected by the MoF and is working with the Credit Registry to get granular household data on debt and debt service. It receives annual data for nonfinancial corporations from the NBS, but the coverage is incomplete, as shown by cross-checking with the national registry of non-financial corporations (NFCs). Recent increases in the penalties for nonreporting NFCs has improved compliance.

5. **Real estate data are available but are not yet reported in the FSIs.** Source data are available for real estate loans, but the quality and coverage are being reviewed and there are currently no resources for compilation of the data. With the benefit of TA, the authorities have produced a residential real estate price index and published it on their website, and they hope to report it to the IMF soon, but they have concerns about the accuracy of its historical values.

6. **The NBM does not disseminate metadata for FSIs on the National Summary Data Page for Moldova.** The NBM is encouraged to disseminate metadata to confirm that the definitions and methodology in its FSI reporting are generally in line with the guidelines set out

[1] The one missing indicator, sectoral distribution of loans, is reported in the FS2 form but not in the FSD form. Some of the missing encouraged indicators are not reported because they have zero or insignificant values.

in the IMF's *FSI Compilation Guide.* STA will follow up as needed with FSI compilers as part of its regular monitoring.

7. **Moldova reports FSI data with good timeliness and consistency.** The mission identified no asymmetries between FSIs and the related numerator and denominator or between the main FSD report form and the underlying sectoral financial statements (FS2 report form). As of the completion of the mission in early June 2021 the NBM had reported FSIs through the first quarter of 2021.

B. Monetary and Financial Statistics

8. **Monthly MFS data are compiled for the NBM and other depository corporations (ODCs).** MFS data are compiled in line with the methodology of the 2016 *Monetary and Financial Statistics Manual and Compilation Guide*. Coverage of ODCs includes all banks and SCAs; these also report quarterly MFS statistics to the NCFM, which passes them on to the NBM. Category A SCAs are not included in the ODC survey because they do not take deposits and are therefore classified as OFCs. Category B SCAs do take deposits and are therefore classified as ODCs, but their data are not included in the ODC Survey because they report with a lag of more than the three-month timeliness target for the reporting of MFS data. The authorities plan to include Category B SCA data in their MFS reporting as soon as they can agree on processes to interpolate monthly data and to estimate recent data. In 2005, the NBM adopted the Standardized Reporting Forms (SRFs) to report monetary data to the IMF.

9. **The NBM reports quarterly data for OFCs.** The MFS (4SR) reporting for OFCs fully covers insurance, microfinance, and Category A SCAs. No MFIs in Moldova take deposits and therefore all are classified as OFCs.

C. Balance Sheet Approach

10. **The NBM is in the process of preparing BSA matrices for 2015-2020 for publication in June 2022 using their own analysis as well as the BSA tool developed by STA (see Annex I Table 2).** The BSA compiles balance sheets of each sector of the economy: namely, the government; the financial sector, broken down where possible into the central bank, ODCs, and OFCs; the nonfinancial private sector, broken down where possible into non-financial corporations (NFCs) and households (HHs); and the external sector (rest of the world). These balance sheets can be represented in a single table in matrix form. The BSA matrix, adapting the traditional flow-of-funds matrix, goes beyond aggregating sectoral assets, liabilities and net positions, to estimate also intersectoral assets and liabilities—that is, each sector's position vis-à-vis that of other domestic sectors as well as nonresidents.

11. **Moldova is able to produce a mostly complete BSA matrix.** The main data sources for the BSA matrix are MFS statistics, followed by the IIP, and the government financial balance sheet. As is the case in most countries, nonfinancial corporation and household data by sector are

not available. Data coverage, consistency and interlinkages of these statistics are essential to produce a meaningful BSA matrix. A BSA matrix for Moldova can be produced as recently as 2020, though the 2019 matrix is presented because government finance statistics (GFS) data for 2020 were not yet available. It is of utmost importance to regularly assess intersectoral consistency and address any asymmetries, paying attention to the proper recording of most relevant transactions.

12. Moldova compiles quarterly IIP statistics based on the sixth edition of the *Balance of Payments and International Investment Position Manual (BPM6).* Data are available by functional categories, instruments, sectors, and original maturity.

13. The mission assisted in incorporating country specific assumptions for 2019 in consultation with the NBM. For MFS, the share of the government in NBM's capital and reserves is 100 percent. For ODCs, two thirds of the capital is owned by nonresidents, a quarter by households (HHs), and most of the rest by nonfinancial corporations (NFCs). For OFCs, most capital is held by HHs. Currency is held 55 percent by HHs, 34 percent by NFCs, and the rest by ODCs (plus a negligible amount by OFCs). Miscellaneous assets of the NBM were held mainly by NFCs, while more than half of miscellaneous liabilities were held by nonresidents with the rest distributed somewhat evenly among ODCs, OFCs, and NFCs. For ODC's all miscellaneous assets and liabilities were assigned to NFCs. For IIP, compilers indicated that almost all asset positions are in foreign currency (a figure of 100 percent was used in the analysis). However, 29 percent of the liability positions were in national currency, with the remaining 71 percent in foreign currency. Direct investment assets equity positions and direct investment equity liabilities corresponded to NFCs except for equity liabilities, which were held 23 percent by ODCs, 6 percent by OFCs, and the rest by NFCs. All reserve assets are held by the central bank.

D. Financial Access Survey

14. The NBM produces a Financial Access Survey (FAS). The survey includes most indicators for banks, credit cooperatives, and insurance companies. However, there is little coverage of the MFI or mobile money sectors, which are important for monitoring financial inclusion. Most gender-related indicators are included for the sectors that are covered.

Annex I. Table 1. Moldova Financial Soundness Indicators

(in percent)

CORE FSIs for Deposit Takers	2019Q1	2019Q2	2019Q3	2019Q4	2020Q1	2020Q2	2020Q3	2020Q4	2021Q1
Regulatory Capital to Risk-Weighted Assets	26.8	26.0	25.7	25.3	24.9	26.8	27.3	27.1	26.6
Regulatory Tier 1 Capital to Risk-Weighted Assets	26.5	25.7	25.4	25.0	24.7	26.5	27.0	26.8	26.3
Non-performing Loans Net of Provisions to Capital	11.8	10.5	10.5	10.5	10.7	9.8	9.9	8.6	8.8
Non-performing Loans to Total Gross Loans	11.5	10.6	10.2	8.5	8.5	8.7	8.6	7.4	7.2
Return on Assets	2.5	2.7	2.7	2.6	1.9	1.5	1.6	1.7	1.6
Return on Equity	14.4	15.5	15.6	14.6	10.4	8.4	9.0	9.6	9.3
Interest Margin to Gross Income	53.0	51.3	50.5	50.8	51.2	46.5	46.4	44.7	50.4
Non-interest Expenses to Gross Income	60.6	64.1	59.7	71.2	63.6	63.7	63.7	66.6	69.4
Liquid Assets to Total Assets (Liquid Asset Ratio)	52.3	51.5	50.4	50.6	50.3	51.4	49.6	50.6	50.4
Liquid Assets to Short Term Liabilities	174.3	174.9	194.0	207.4	215.7	213.3	221.1	241.8	245.8
Net Open Position in Foreign Exchange to Capital	-10.0	-8.0	-10.3	-12.6	-15.9	-12.4	-12.2	-14.2	-15.8

Encouraged FSIs for Deposit Takers	2019Q1	2019Q2	2019Q3	2019Q4	2020Q1	2020Q2	2020Q3	2020Q4	2021Q1
Capital to Assets	13.2	13.1	12.9	12.6	12.6	13.2	13.5	12.9	12.8
Large Exposures to Capital	22.0	26.4	16.0	20.2	19.8	10.9	12.9	10.1	11.5
Trading Income to Total Income	14.4	15.0	17.1	15.7	17.1	22.9	21.0	17.6	15.2
Personnel Expenses to Non-interest Expenses	41.9	43.1	37.9	40.0	40.5	47.4	39.3	39.1	42.7
Customer Deposits to Total (Non-interbank) Loans	170.0	167.9	165.3	168.7	165.7	171.7	169.5	172.8	167.9
Foreign-Currency-Denominated Loans to Total Loans	36.3	35.0	33.2	32.9	32.6	30.6	29.7	30.1	28.9
Foreign-Currency-Denominated Liabilities to Total Liabilities	43.2	43.7	42.6	41.8	45.3	45.0	43.9	42.9	42.5

Encouraged FSIs for Other Sectors	2019Q1	2019Q2	2019Q3	2019Q4	2020Q1	2020Q2	2020Q3	2020Q4	2021Q1
Other Financial Corporations									
Assets to Total Financial System Assets	12.8	13.1	13.5	13.4	13.2	12.6	12.2	11.8	11.8
Assets to Gross Domestic Product (GDP)	6.3	6.8	7.1	7.3	6.8	6.6	6.6	6.7	6.8

Source: NBM

Annex I. Table 2. Moldova Balance Sheet Matrix

Balance Sheet Approach Matrix
Moldova
2019 - Percent of GDP (17 Billions)

	Government		Central Bank		Other Depository Corporations		Other Financial Corporations		Nonfinancial Corporations		Households		External		Total	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Government			**Source: CB**		**Source: ODCs**		**Source: OFCs**		*(GFS/MFS estimation)*		*(GFS/MFS estimation)*		**Source: IIP**			
Total			7	5	3	7	0	0	2	13	-	-	13	0	25	25
In domestic currency			7	4	3	6	0	0	2	13	-	-	4	-	16	23
In foreign currency			-	1	-	0	-	-	-	-	-	-	9	0	9	1
Central Bank	***Source: CB***				***Source: CB***		***Source: CB***		***Source: CB***		***Source: CB***		***Source: CB***			
Total	5	7			14	0	0	0	4	0	7	0	2	25	32	32
In domestic currency	4	7			12	0	0	0	4	0	7	0	0	0	27	7
In foreign currency	1	-			2	-	-	-	-	-	-	-	2	25	6	25
Oth. Dep. Corporations	***Source: ODCs***		**Source: CB**		**Source: ODCs**		***Source: ODCs***		***Source: ODCs***		***Source: ODCs***		***Source: ODCs***			
Total	7	3	0	14	7	7	0	1	11	21	24	7	2	15	51	68
In domestic currency	6	3	0	12	3	3	0	0	7	13	15	7	1	4	32	42
In foreign currency	0	-	-	2	4	4	0	0	4	7	9	0	2	11	19	25
Oth. Fin Corporations	***Source: OFCs***		**Source: CB**		**Source: ODCs**		**Source: OFCs**		***Source: OFCs***		***Source: OFCs***		***Source: OFCs***			
Total	0	0	0	0	1	0	0	0	1	1	3	4	2	0	7	7
In domestic currency	0	0	0	0	0	0	0	0	1	1	2	3	0	0	4	5
In foreign currency	-	-	-	-	0	0	0	0	0	1	0	1	2	0	2	2
Nonfinancial Corporations	(GFS/MFS estimation)		**Source: CB**		**Source: ODCs**		**Source: OFCs**				(No HH sectoral data)		**Source: IIP**			
Total	13	2	0	4	21	11	1	1					57	12	92	30
In domestic currency	13	2	0	4	13	7	1	1					16	-	43	14
In foreign currency			-	-	7	4	1	0					41	12	49	16
Households	(GFS/MFS estimation)		**Source: CB**		**Source: ODCs**		**Source: OFCs**		(No NFC sectoral data)				**Source: IIP**			
Total	-	-	0	7	7	24	4	3					...	...	11	34
In domestic currency	-	-	0	7	7	15	3	2					...	...	10	24
In foreign currency			-	-	0	9	1	0					...	...	1	9
External	***Source: IIP***		**Source: CB**		**Source: ODCs**		**Source: OFCs**		***Source: IIP***		***Source: IIP***					
Total	0	13	25	2	15	2	0	2	12	57	...	...			52	77
In domestic currency	-	4	0	0	4	1	0	0	-	16	...	...			4	21
In foreign currency	0	9	25	2	11	2	0	2	12	41	...	...			49	56
Total	25	25	32	32	67	52	7	7	30	92	34	11	77	52	CHECK	CHECK
In domestic currency	23	16	7	27	42	33	5	4	14	43	24	10	21	4	136	136
In foreign currency	1	9	25	6	25	19	2	2	16	49	9	1	56	49	135	135

Source: National authorities

ANNEX II. ASSESSMENT OF TA NEEDS IN FINANCIAL SECTOR STATISTICS

1. **Moldova has no immediate needs for financial sector TA.** The NBM understands that statistical coverage of the financial sector is essential for surveillance and is focused on closing important data gaps. For the time being, it has a clear work program to improve its financial statistics reporting that, at least in the earlier stages, can be addressed without the benefit of TA.

2. **TA may be beneficial in the medium to long-term.** As the NBM works to generate source data for the nonfinancial corporation and household sectors and as the nonbank financial sector develops TA needs will become clearer.

3. **TA needs should be reassessed following the completion of the transfer of responsibilities from the NCFM to the NBM**. Following the transfer, responsibilities for remaining data gaps will be clearer, as will be the understanding of what the NBM may be able to accomplish without assistance. More source data will become available, which may require TA for mapping to report forms. There can also be further development of other financial sectors, including pensions and insurance funds, which are currently not active. These sectors would require statistical reporting for which TA needs could arise.

A. Financial Soundness Indicators

4. **The NBM received TA on FSIs in 2019.** The mission found that FSI reporting was strong overall, and the NBM is actively addressing the recommendations of the mission, including by fully reporting the data that are available on loans by sector and the deposit-lending rate spread. Once the recommendations of the report are addressed Moldova will focus on updating its FSI reporting methodology to that of the 2019 Guide. The authorities adopted Basel III reporting principles in 2018.

5. **The NBM is working to add nonfinancial corporation and household indicators to its FSI reporting.** It is putting together granular data from various sources and has a plan to make progress on its own. Once source data are ready TA could be useful to assist with mapping the source data for the additional indicators to the FSI reporting form.

B. Monetary and Financial Statistics

6. **Coverage of MFS statistics in Moldova is strong and no TA is envisioned.** The NBM reports MFS in line with the methodology of the 2016 *Monetary and Financial Statistics Manual and Compilation Guide*. Coverage of the banking sector is complete. The NBM performs validations and has regular interactions with banks to address any data issues that arise. The NBM is working to make better use of available data on SCAs, and to improve coverage of the other financial corporation sector but sees no need for TA to assist with this effort.