# Annual Report

# 2014

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# Note

***The report*** *was compiled using the latest statistical data held by the National Bank of Moldova, the National Bureau of Statistics, the Ministry of Economy and the Ministry of Finance.*

*Also, were used data provided by international organizations and central banks of neighboring countries.*

*Computation of some statisitcal data was conducted by the National Bank of Moldova.*



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# Foreword

The world economy has developed unevenly in 2014. The US economic growth has accelerated, lower unemployment rate and inflation recovery have created conditions for monetary policy normalization. In 2014, the monetary stimulus program of the Federal Reserve System has ended and the main monetary policy rates are expected to increase as from 2015. The European Central Bank and Bank of Japan have promoted ultra-stimulative monetary policy to counter deflationary pressures and support economic growth. Divergent monetary policies in the major economies of the world have caused increased volatility on global exchange markets. The U.S. dollar appreciated significantly against major international currencies. The decrease in global demand, fuelled by a slowdown in economic growth of emerging economies, caused a reduction in international prices of raw materials. The sharp drop in oil prices caused major financial losses for energy resources exporting countries.

Economic activity in the region was severely affected by the consequences of the conflict in Ukraine. The Russian Federation entered into recession mainly due to lower oil prices, but also due to mutual economic sanctions between Russia and developed countries. The deterioration in external trade conditions, reduced remittances from abroad, capital outflows, and the depreciation of the Russian rouble created depreciation pressures for the national currencies of the CIS.

In 2014, gross domestic product growth of the Republic of Moldova was 4.6 percent versus 9.4 percent in 2013. The slowdown in economic growth was caused in particular by reduced contribution from the agricultural sector. Unfavourable regional conjuncture, driven by weak external demand and embargoes imposed by the Russian Federation, have affected domestic exports. At the same time, the depreciation of the national currency, avoiding contracting household final consumption, good agricultural production and export facilities offered by the European Union have fostered economic growth in 2014.

Over the last five years, the annual rate of inflation was on the level of a single digit. Since February 2012, inflation has fallen within the variation range of $\pm$ 1.5 percentage points from the inflation target of 5.0 percent. Average annual inflation was 5.1 percent versus 4.6 percent recorded in 2013.

Since 2013, the monetary policy was affected by persistent disinflationary pressures. In 2014, the disinflation climate has strengthened based on the depreciation of the national currencies of the main trading partners, decrease in oil and food prices on international markets and lower domestic aggregate demand.

Until November 2014, the NBM has promoted a stimulative monetary policy, maintaining the base rate applied on the main short-term monetary policy operations at the historical minimum level of 3.5 percent annually.

In December 2014, the intensification risks of inflationary pressures have started to materialize. The reduction of income in foreign currency of households and domestic exporters has created strong expectations of depreciation of the national currency of both individuals and economic agents. The sudden depreciation of the Russian ruble in late 2014 and the establishment of special administration over Banca de Economii S.A., B.C. ”BANCA SOCIALĂ” S.A. and B.C. „UNIBANK” S.A. have intensified more these expectations. Accelerating currency depreciation emphasized the risk of increased tariffs for regulated services in 2015.

All these have fuelled significantly inflationary expectations, which imposed a preventive reaction from the NBM. In these circumstances, it was necessary to tighten monetary policy to combat inflationary pressures from regulated prices and national currency depreciation. The Council of Administration decided in December, in two sessions, to increase the base rate to the level of 6.5 percent. In January and February 2015, the base rate was increased to 13.5 percent, and the required reserves attracted in MDL and non-convertible currencies was increased from 14.0 percent to 18.0 percent.

In 2014, the official exchange rate of the national currency against the U.S. dollar depreciated by 19.6 percent compared to the end of 2013. The dynamics of the foreign exchange rate of the national currency against major currencies was driven by an unfavourable external environment to which the economy of the Republic of Moldova was exposed, the national currency depreciation being also exacerbated by domestic developments. In order to mitigate excessive fluctuations of the exchange rate of the national currency against the U.S. dollar in the context of the monetary policy promoted, National Bank intervened on the foreign exchange market mainly as a seller of foreign currency in the net amount of USD 418.1 million. Official reserve assets amounted to USD 2156.6 million at the end of 2014, covering about 3.8 months of import of goods and services.

During 2014, the NBM continued to exercise control over liquidity in the banking system, given the gradual restriction of excess liquidity. The net debtor position of the National Bank to the banking system has reduced significantly during this period. Following the rise of money market liquidity deficit, the NBM has already acted as a net creditor through Repo operations.

Besides the deterioration of macroeconomic conditions, at the end of 2014, the Republic of Moldova had to cope with a systemic financial crisis. Given the precarious financial situation of Banca de Economii S.A., B.C. „BANCA SOCIALĂ" S.A. și B.C. „UNIBANK" S.A., and the non-compliance of these banks with the prudential indicators established by the normative acts of the NBM, it was established special administration regime to these three banks. In December 2014, the National Bank granted emergency loans to these banks in the amount of MDL 6450.0 million to ensure the stability of the entire domestic financial system and protect deposits of non-affiliated individuals and legal entities.

In January 2015, the National Bank of Moldova has selected a renowned international company to conduct preliminary investigations on alleged financial irregularities at Banca de Economii S.A., B.C. "BANCA SOCIALĂ" S.A. and B.C. „UNIBANK" S.A.

Preliminary investigation results indicate that in 2012-2014, there was a coordinated and hidden effort to take control over the three banks and then to mask the true nature of transactions it was maximized the volume of loans granted. Consequently, there was a sudden deterioration of the financial situation of these three banks, being recorded receivables and doubtful loans.

National Bank with the support of international companies will continue the investigations, collecting the necessary evidence to recover the misappropriated funds.

Thank you for your support!

**Dorin Drăguțanu**

**Governor**

# Contents

# List of abbreviations

| | |
|---|---|
| **AIPS** | Automated Interbank Payment System |
| **BES** | Book-Entry System of Securities |
| **BSCEE** | Group of Banking Supervisors from Central and Eastern Europe |
| **CHIBID** | Average interest rate at which the contributing banks are available to borrow in the interbank money market financial means in Moldovan Lei from other banks |
| **CHIBOR** | Average interest rate at which the contributing banks are available to lend in the interbank money market financial means in Moldovan Lei to other banks |
| **CIS** | Commonwealth of Independent States |
| **CPI** | Consumer Prices Index |
| **EU** | European Union |
| **EUR** | European Union Currency |
| **GBP** | British pound |
| **GDP** | Gross Domestic Product |
| **IMF** | International Monetary Fund |
| **IPPI** | Industrial production price index |
| **IT** | Information Technology |
| **MDL** | Moldovan leu |
| **NBM** | National Bank of Moldova |
| **NBR** | National Bank of Romania |
| **NBS** | National Bureau of Statistics of the Republic of Moldova |
| **RTGS** | Real-Time Gross Settlement System |
| **SIRBNM** | NBM Electronic Reporting System |
| **SDR** | Special Drawing Rights (XDR) |
| **SS** | State Securities |
| **USD** | U.S. dollar |

# Summary

## External environment

Many important events recorded in 2014 have transformed the trajectory of the world economy. The decrease in oil prices in the second half of the year was placed at the forefront, which has turned the economies of petroleum exporting countries upside down. The year of 2014 was also characterized by excessive volatility on foreign exchange markets, it should be noted the significant movements of monetary policy, such as the end of the quantitative easing programme (QE3) by the Federal Reserve System and the interest rates decrease to zero lower bound by the European Central Bank. The decrease in global demand, fed by reduced activity of the emerging countries, had a contracting impact on raw materials prices. In 2014, the harvest of agricultural products worldwide, especially that of wheat and other cereals, reached the maximum level in the recent years, which generated the decrease in food prices and increased the trade, in an attempt to supply the depleted stocks in recent years.

The economic activity in the region was jeopardised by the development of Russian economy, given the gradual application of economic sanctions by the EU and other developed economies. In the first half of the year, the region has faced persistent disinflationary pressures, while by the end of the year, the depreciation of currencies in the region has triggered the intensification of inflationary pressures with major impact in the first months of 2015. The regional crisis has been also deepened by the embargoes imposed by the Russian Federation to some economies, including the Republic of Moldova, which led to losses in food industry sector and partial reorganisation of external regional trade. However, monetary authorities in the region adopted restrictive monetary policies against the background of increased inflationary pressures and an excessive volatility on foreign exchange markets, which are currently to the detriment of economic growth stimulation.

## Economic developments

In 2014, the economy of the Republic of Moldova recorded a positive development, but lower than in 2013, GDP increasing by 4.6 percent. In the first half of the year, the economic growth was sustained in most part, by the significant increase in exports. In the second half of the year, domestic demand was the primary factor of the positive dynamics of economic activity. However, this was mitigated considerably by contracting exports following the imposition of restrictions by the Russian Federation for domestic products. Overall, in 2014, household final consumption increased by 2.9 percent against the background of increasing disposable income. Investments registered a more pronounced dynamic, thus, gross fixed capital formation increased by 10.1 percent compared with 2013. Government consumption recorded a contraction of 0.6 percent. Despite the increase in domestic demand, imports have increased slightly only by 0.4 percent. The annual growth rate of exports was also modest, increasing by 1.1 percent. Similarly to 2013, agriculture had a substantial impact on GDP growth in 2014, achieving an increase by 8.2 percent and fostering industry growth by 7.2 percent. In 2014, the economically active population increased, while unemployment decreased.

## Inflation

In 2014, the National Bank of Moldova has created the necessary conditions for the inflation to fall within the range of $\pm$ 1.5 percentage points from the target of 5.0 percent. Thus, during the last 35 months, inflation has fallen within the range of variation. In early 2014, the annual inflation rate continued the upward dynamics since the second half of 2013, increasing from 5.1 percent in January to 5.8 percent in April. This dynamics was determined mainly by the developments in food prices and core inflation under the pressure of depreciation of the national currency against the U.S. dollar observed in autumn 2013. Later, under the influence of reducing the annual growth rate of food prices in the context of a good agricultural year, the CPI annual rate experienced a modest dynamics. Thus, following a significant fall in inflation to lower band of the range in May 2014, reaching a level of 4.7 percent, in the summer months, it recorded an average annual rate of 5.1 percent. In late 2014, along with more pronounced materialization of the consequences of a rich harvest of fruits and vegetables, and the embargo on some local products, the annual average rate has returned to the lower band of the range from the inflation target, registering a value of 4.8 percent.

## Monetary policy

Quantifying the macroeconomic situation, trends and projections of macroeconomic indicators in the medium term, inflation outlook in the short and medium term, with possible uncertainties and challenges during the reference period, as well as to anchor disinflationary pressures, the National Bank of Moldova has promoted during 2014 an incentive monetary policy under a reduced aggregate demand.

In December 2014, the monetary policy was affected by the complexity of risk balance, both internal and external, with a gradual accentuation of inflationary risks. In this context, the National Bank of Moldova had to adopt gradual monetary policy tightening measures to reduce inflationary pressures from regulated prices and national currency depreciation. Against this background, within the meetings held on December 11 and December 29, 2014, the members of the Council of Administration of the NBM decided by unanimous vote to increase the base rate by 1.0 and 2.0 percentage points respectively, from 3.5 to 6.5 percent.

Subsequently, within the meetings of the Council of Administration of the NBM of January 29 and February 17, 2015, the process of policy rate growth continued as the depreciation trend of the national currency has intensified, adopting two decisions of increasing the base rate by 2.0 and 5.0 percentage points, respectively, from 6.5 to 13.5 percent. In order to sterilize the excess liquidity formed in the last months of 2014 and improve the transmission mechanism of monetary policy decisions, the Council of Administration decided within the meeting of January 29, 2015 to raise the required reserves ratio attracted in MDL and non-convertible currency from the level of 14.0 to 18.0 percent of the base.

These decisions were aimed at anchoring inflation expectations in the context of maintaining the inflation close to the target of 5.0 percent, with a possible deviation of $\pm$ 1.5 percentage points.

Monetary conditions have been adjusted through the base rate policy, given the monetary policy objective, supported by a sound management of liquidity by the central bank. In the latter, market operations, standing facilities and required reserve mechanism continued to play the main role.

The set of monetary policy instruments used by the NBM in accordance with the operational framework has proved to be appropriate to the monetary policy implementation requirements. During 2014, the NBM continued to exercise control over liquidity in the banking system, given the gradual restriction of excess liquidity.

The operating regime of standing facilities (overnight deposits and credits) set for 2014 allowed banks to manage their liquidity efficiently and offered the NBM more flexibility in implementing the monetary policy.

In 2014, the required reserves mechanism exercised the function of monetary control which is closely correlated with the liquidity management by the NBM and remained at the level of 14.0 percent of the base. Towards the end of 2014, required reserves had a specific development, following the imposition of a special regime of required reserves during the moratorium to banks under special administration.

The NBM intervened on the domestic foreign exchange market during 2014, mainly as a seller of foreign currency, in the light of the monetary policy promoted by the National Bank and to mitigate excessive fluctuations of the exchange rate of the national currency against the U.S. dollar. Coverage of net foreign currency sales to legal entities by the net supply of foreign currency from individuals was negative throughout the year. It is noted that in 2014, in general, the foreign exchange market experienced a liquidity shortage in foreign currency, reaching a deep gap between demand and supply on the foreign exchange market compared to previous years. In the context of these developments and within the limits of the monetary policy pursued during 2014, the shortage of foreign currency on the domestic market was partly covered by net selling interventions of USD 418.1 million.

At the end of 2014, official reserve assets amounted to USD 2156.6 million, decreasing by 23.5 percent compared to the end of 2013 and covering about 3.8 months of imports (in 2013 covering 4.8 months of imports).

## Banking system

As at December 31, 2014, the banking sector of the Republic of Moldova included 14 banks licensed by the National Bank of Moldova, of which 4 are branches of foreign banks and financial groups.

The evolution of aggregate indicators for 2014 was strongly distorted by several particularly large transactions performed at B.C. Banca de Economii S.A., ”BANCA SOCIALĂ” S.A. and B.C. ”UNIBANK” S.A., which determined the National Bank of Moldova to establish special administration over B.C. Banca de Economii S.A. and ”BANCA SOCIALĂ” S.A. by the Decision of the Council of Administration no.248 of November 27, 2014 and no.253 of November 30, 2014, respectively. Later on, National Bank has established special supervision over B.C. “UNIBANK” S.A. by the Decision no.275 of December 12, 2014 and subsequently special administration by the Decision no.296 of December 30, 2014.

Tier I capital on the banking system reached the level of MDL 8707.3 million, increasing by MDL 781.0 million compared to the end of 2013 (9.9 percent). As at December 31, 2014, the size of Tier I capital of banks corresponded to the established minimum standard ($\geq$ MDL 200.0 million).

The Tier I capital increase in 2014 was due to the profit obtained in the amount of MDL 778.2 million and issues of shares by 4 banks in the amount of MDL 398.2 million. At the same time, BCR Chișinău S.A. issued shares on the account of subordinated debts with their subsequent transfer in the share capital of the bank in the amount of MDL 35.6 million. Simultaneously, the calculated amount but unreserved of the allowances for impairment losses on assets and conditional commitments increased by MDL 168.9 million (6.0 percent) and net intangible assets increased by MDL 41.6 million (15.7 percent). During the reporting year, five banks have paid dividends in total amount of MDL 254.4 million.

As at December 31, 2014, the average risk-weighted capital adequacy was 13.2 percent, decreasing by 9.8 percentage points compared to the end of 2013 and is below minimum allowable level of 16.0 percent. Two of the banks under special administration failed to comply with this indicator as at December 31, 2014, representing 2.6 and 3.2 percent respectively, while the average on sector, except banks under special administration, amounted to 21.7 percent.

The total assets of the sector were MDL 97584.4 million, increasing by MDL 21394.3 million (28.1 percent) compared with the end of 2013. Assets growth of the 11 banks (except those under special administration) was 4032.0 million (7.2 percent), but lower than the assets growth of the 3 banks under special administration, whose assets increased by MDL 17362.3 million (85.9 percent).

The share of net non-performing loans in total regulatory capital decreased by 2.3 percentage points, amounting to 14.2 percent as at December 31, 2014.

Return on assets and return on equity of licensed banks in 2014 recorded a level of 0.9 percent and 6.4 percent respectively, decreasing by 0.6 percentage points and 3.0 percentage points compared to the end of 2013.

Net interest margin was 3.8 percent as at December 31, 2014, remaining almost at the level of 2013.

Long-term liquidity in the banking sector was 1.5, which is over the maximum allowable level. As at December 31, 2014, this indicator was respected by all banks, except one of the banks under special administration. Current liquidity in the banking sector was 21.6 percent, the limit of which being respected by all banks, except the 3 banks under special administration.

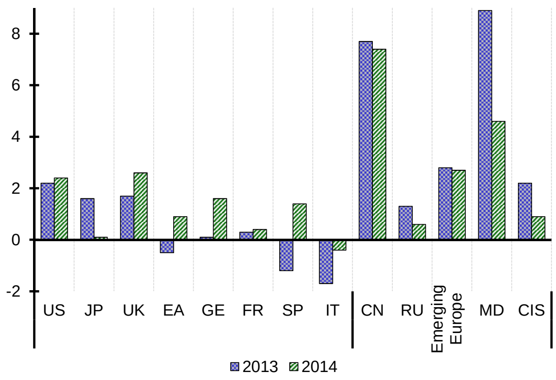
# Chapter 1

# World economy in 2014

Many important events recorded in 2014 have transformed the trajectory of the world economy. The decrease in oil prices in the second half of the year was placed at the forefront, which has turned the economies of petroleum exporting countries upside down. The year 2014 was also characterized by excessive volatility in currency markets, it should be noted the significant movements of monetary policy, such as the end of the quantitative easing programme (QE3) by the Federal Reserve System and the interest rates decrease to zero lower by the European Central Bank. The decrease in global demand, fed by reduced activity of the emerging countries, had a contracting impact on raw materials prices. In 2014, the harvest of agricultural products worldwide, especially that of wheat and other cereals, reached the maximum in the recent years that generated the decrease in food prices and increased the trade, in an attempt to supply the depleted stocks in recent years.

The IMF estimates that the ***world economy*** grew in 2014 on average by 3.3 percent, exactly as in 2013. The ***advanced economies*** growth rate was 1.8 percent compared to 1.3 percent in 2013, of which the U.S. economy grew from 2.2 to 2.4 percent, the economy of the United Kingdom from 1.7 to 2.6 percent and the euro area overcame the recession, recording in 2014 an average increase in GDP of 0.9 percent. Within the euro area, the gap between the economies continues to persist, however, the results of 2014 are significantly higher than in previous years. Thus, the German economy recorded in 2014 an increase of 1.6 percent, which practically stagnated in 2013. The Spain's economy grew by 1.4 percent in 2014, while in 2013 it recorded a contraction of 1.2 percent and the Italy's economy decreased in 2014 on average by 0.4 percent compared to 1.7 percent in 2013. The economy of France recorded less satisfactory results, which has practically stagnated for the second consecutive year. At the same time, among the advanced economies, the Japan's economy recorded a significant decline, which stagnated in 2014, while in 2013 it recorded an increase of 1.6 percent (Chart 1.1).

Chart 1.1: Comparative evolution of GDP in the selected economies in 2013 and 2014 (%)

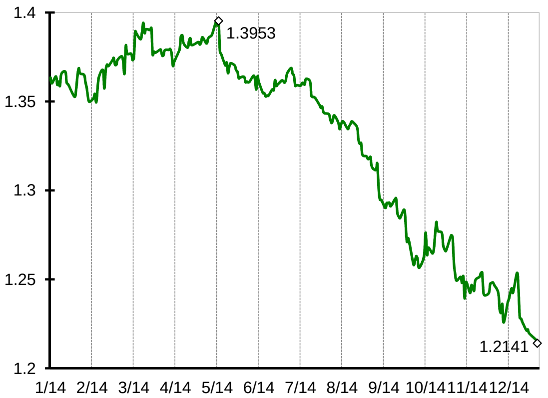



Source: IMF, World Economic Outlook Update – January 2015, Statistical offices of the countries concerned

The performances of advanced economies were offset by the situation in ***emerging economies***, where the growth rate in

2014 has mitigated to 4.4 percent compared to 4.7 percent recorded in 2013. The economy of China has mitigated, recording an average increase in GDP of 7.4 percent. The economic activity in the region was jeopardized by the consequences of the conflict in Ukraine and the deepening of the economic crisis in the Russian Federation. Thus, according to the IMF estimates, the economic growth in CIS decreased from 2.2 percent in 2013 to 0.9 percent in 2014, after that the Russian Federation's economy recorded the lowest growth of only 0.6 percent, following the crisis of 2008-2009. In addition to the foreign trade worsening between some CIS countries and the Russian Federation, there was registered a significant decrease in remittances from the Russian Federation to emigrants' countries: Ukraine, Armenia, Tajikistan and Moldova. At the same time, the instability in the region has much affected the investment activity and the capital outflows generated the depreciation of currencies in the region. It should be mentioned that, the depreciation shock of the Russian ruble in December 2014 was mostly absorbed in the first months of 2015 by the CIS countries. At the same time, the European emerging and developing economies, an alternative for the foreign trade of the Republic of Moldova, have advanced in 2014 on average by 2.7 percent, maintaining the growth at the same level of 2013 (Chart 1.1).

Chart 1.2: Daily evolution of USD/EUR in 2014




Source: European Central Bank

The foreign exchange markets recorded an excessive volatility in 2014. It should be mentioned the ***appreciation of the U.S. dollar*** compared to the main reference currencies, generated by the gradual reduction of asset purchases by the Federal Reserve System (QE3 program) amid the improving macroeconomic situation in USA and mainly the decrease in unemployment rate from 6.7 percent in December 2013 to 5.6 percent in December 2014. At the same time, QE3 program was completed in October 2014 and a possible increase in interest rates is expected in the second half of 2015. Contrary, the Bank of Japan and the European Central Bank adopted ultra-incentive monetary policies to set off the deflationary pressures. Thus, the European Central Bank during 2014 decreased two times the base rate, from 0.25 to 0.15 percent in June and from 0.15 to 0.05 percent in September. The ECB's actions preceded in January 2015 the initiation of a quantitative easing program, which involves until September 2016 the purchase of assets in an amount of EUR 60 milliard per month and determined the significant depreciation of the European single currency, which at the end of 2014 depreciated by 10.0 percent against the U.S. dollar compared to the end of 2013 (Chart 1.2). At the same time, the Japanese yen depreciated in 2014 on average by 8.3 percent against EUR and by 8.4 percent against the U.S. dollar (Table 1.1).

In the region, the ***Ukrainian hryvnia*** depreciated in 2014 on average by 48.1 and 48.7 percent against the European single currency and the U.S. dollar, respectively. The evolution of the Ukrainian hryvnia was determined by the economic and political crisis in the country and the decrease of international reserves. At the same time, the Ukrainian hryvnia depreciated in December 2014 on average by 76.1 and 95.4 percent, respectively, against EUR and U.S. dollar compared to December 2013. During 2014, the ***Russian ruble*** had a slow evolution, excluding December, when in a very short period of time it has significantly depreciated at the exchange. The decrease in oil prices, the consequences of the western countries sanctions on the financial sector and the precarious situation in the real sector of the Russian economy were the factors that generated the depreciation of the Russian ruble. Thus, in December 2014, the Russian ruble depreciated on average by 51.7 and 68.5 percent against EUR and USD compared to December 2013. Overall, the Russian ruble depreciated in 2014 on average by 20.0 and 20.5 percent against the European single currency and the U.S. dollar, respectively. It should be mentioned that, during 2014, the Central Bank of the Russian Federation increased the base rate, from 5.5 up to 17.0 percent, of which only in December, from 9.5 to 17.0 percent. At the same time, in order to stabilize the foreign exchange market, the Central Bank of the Russian Federation has used the foreign exchange interventions and in December 2014, the Ministry of Finance of the Russian Federation has also conducted interventions on the foreign exchange market (Table 1.1).

At the same time, the ***Romanian leu*** had a stable evolution in 2014 and depreciated insignificantly against EUR and USD, on average by 0.6 and 0.9 percent, respectively. Although, the Romanian economy in 2014 registered a slowdown in exports and industrial production, these continued being the motor of the economy and the depreciation of the Romanian leu reflected the significant correlation between the Romanian leu and the European single currency, as well as the monetary policy impact of the NBR. During 2014, in order to set off the disinflationary pressures, the NBR decreased 5 times the monetary policy rate, from 4.0 to 2.75 percent, as used in the first months of 2015. Thus, at the end of 2014, in consequence of the international foreign exchange market conjuncture, the Romanian leu appreciated by 0.1 percent against EUR and depreciated by 11.1 percent against USD compared to December 2013 (Table 1.1). Table 1.1 shows the evolution in 2014 of other currencies in the region and the currencies of the main trading partners.

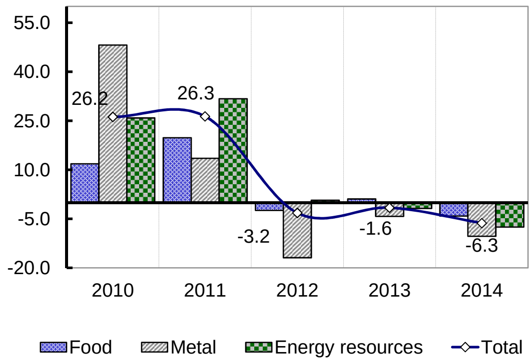
The reduced demand worldwide and the USD appreciation in 2014 determined the decrease in the average ***world prices*** by 6.3 percent compared to 2013. This was the third consecutive

Table 1.1: Average appreciation (-) / depreciation (+) of foreign currencies in 2014

| | EUR | | USD | |
|---|---|---|---|---|
| | 2014/ 2013 | Dec14/ Dec13 | 2014/ 2013 | Dec14/ Dec13 |
| **Advanced economies** | | | | |
| USD | 0.1 | -10.0 | x | x |
| CHF | -1.3 | -1.8 | -1.3 | 9.1 |
| GBP | -5.1 | -5.8 | -5.1 | 4.7 |
| JPY | 8.3 | 3.8 | 8.4 | 15.3 |
| **Emerging and developing economies** | | | | |
| MDL | 11.4 | 6.6 | 11.5 | 18.3 |
| RUB | 20.0 | 51.7 | 20.5 | 68.5 |
| UAH | 48.1 | 76.1 | 48.7 | 95.4 |
| RON | 0.6 | -0.1 | 0.9 | 11.1 |
| PLN | -0.3 | 1.1 | -0.2 | 12.5 |
| BYR | 15.1 | 4.6 | 15.1 | 16.1 |
| AMD | 1.5 | 2.7 | 1.6 | 14.4 |
| TRY | 14.8 | -0.6 | 14.9 | 11.2 |
| CNY | 0.3 | -8.3 | 0.2 | 1.9 |

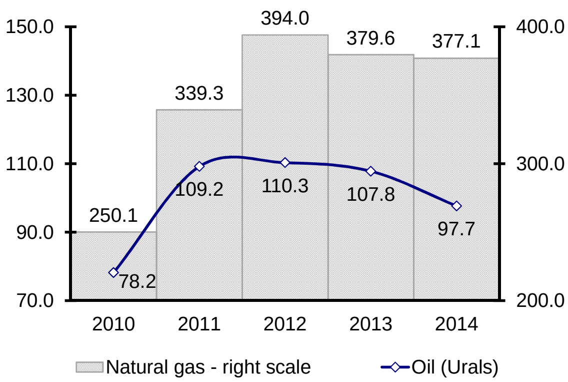
Source: web pages of Central Banks, NBM calculus

Chart 1.3: Average annual growth rate of world price index (%)




Source: IMF

Chart 1.4: Evolution of prices of the natural gas (USD/1000 m$^3$) and oil (USD/barrel)



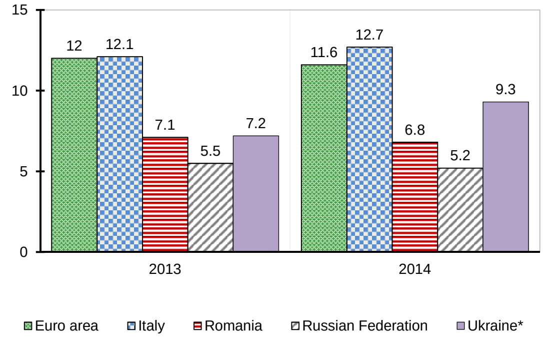

Source: Ministry of Economic Development of the Russian Federation, Moldovagaz

year of the decrease in average prices and there was recorded in 2014 the decrease in prices of all groups of goods. Thus, the average international prices of food products have decreased by 4.2 percent as a result of a rich worldwide harvest. Grain harvest in 2014 reached the highest level in recent years, especially that of wheat, whose price decreased on average by 8.8 percent compared to 2013. Meat prices increased due to the introduction of ban on pork imports by several countries. Prices for dairy products decreased in the second half of 2014, as a result of the significantly decrease of the import in China and the Russian Federation, which created a global oversupply. Otherwise, the embargoes introduced in the region by the Russian Federation caused the decrease in prices of more categories of food products (Chart 1.3).

The global oil oversupply was the main factor that caused ***in 2014 the decline in oil prices***. Since December 2013, the global oil supply exceeded the consumption and apparently only in May 2014 it became a major concern for market participants, and as of mid-June the price of Brent brand oil decreased from the maximum of USD 115.1 per barrel to USD 56.4 per barrel in late December, or approximately by 50.9 percent. Compared to early 2014, the price of Brent brand oil decreased by approximately 47.6 percent. The resumption of oil production by Libya and the increase of exports by Iran led to the increase in the OPEC production, while the other OPEC member countries have maintained their production quotas. However, the increased exploitation of oil shale in the United States of America determined the decrease of oil imports from other countries and the decrease of external demand, respectively. At the same time, the more than expected slowdown in economic growth also had an important role, especially in emerging economies. Thus, the oil supply exceeded in 2014 the demand by an average of 0.5 million barrels per day. In the region, the average price of Urals brand oil was USD 97.7 per barrel, by 9.4 percent lower compared to the average price of 2013. At the same time, the Republic of Moldova imported natural gas from the Russian Federation at an annual average price of USD 377.1 per 1000m$^3$, which represents a decrease of 0.7 percent compared to the average price of 2013 (Chart 1.4).

***Labor markets in neighboring economies and in the countries preferred by the Republic of Moldova immigrants for working purposes*** recorded a relatively passive improvement in 2014. Thus, the average unemployment rate in the euro area was 11.6 percent, by 0.4 percentage points less compared to 2013. In the European Union, the average unemployment rate was 10.2 percent. Practically in all European countries, the unemployment rate has declined, exception being Italy, where the unemployment rate increased in November 2014 up to 13.2 percent, so the average unemployment rate in 2014 recorded the value of 12.7 percent. In Romania, the unemployment rate in 2014 had a relatively constant evolution, the average value of 6.8 percent being only by 0.3 percentage points lower than the average value of 2013. In the Russian Federation, the unemployment rate decreased mainly in the first half of the year, recording an annual average value of 5.2 percent, by 0.3 percentage points less compared to 2013. In Ukraine, the unemployment rate increased to 9.3 percent, by 2.1 percentage points more than the average value recorded in 2013, due to the amplification of the economic and geopolitical crisis and the changes in sample raw data (Chart 1.5).

Chart 1.5: Average unemployment rate in the selected economies (%)




Source: Eurostat, State Statistics Service of Ukraine, Federal State Statistics State of the Russian Federation
*data for 2014 do not include the Crimean peninsula and Sevastopol city

The ***euro area*** economy grew in 2014 on average by 0.9 percent, overcoming the crisis of 2012-2013. Although, the differences between the economies were maintained, the peripheral economies recorded in 2014 a significant improvement, accelerating the economic activity and slightly decreasing the unemployment rate. The decrease in energy prices and ultra-incentive monetary policies of the ECB favoured the increase in the economic activity and the industrial production grew an average by 0.7 percent compared to 2013. At the same time, the depreciation of the European single currency determined the increase in competitiveness of the European products on the international markets and the exports increased during 2014 on average by 2.0 percent. On the other hand, the low household consumption and the own production surplus caused by the embargoes imposed by the Russian Federation caused the stagnation in imports of goods. A deeper consequence of the low consumption and embargoes was the decrease in prices, which along with the decrease in global oil prices led to the decrease of the annual average inflation rate up to 0.4 percent, recording in December a deflation in annual basis of 0.2 percent. The European Union countries have satisfactorily evolved in 2014, GDP increasing by 1.3 percent compared to 2013 and the growth of the European emerging and developing countries constituted an average 2.7 percent, maintaining the growth at the level of 2013 (Table 1.2).

Table 1.2: Evolution of the selected indicators in neighboring economies and major trading partners in 2014, %

| | Euro area | Romania | Russian Federation | Ukraine* |
|---|---|---|---|---|
| GDP | 09 | 2.9 | 0.6 | -6.8 |
| CPI, annual average | 0.4 | 1.1 | 7.8 | 12.1 |
| CPI, 12/14/ 12/13 | -0.2 | 0.8 | 11.4 | 24.9 |
| Industrial production | 0.6 | 6.1 | 1.7 | -10.7 |
| Construction output | 2.0 | -6.7 | -4.5 | -21.7 |
| Exports** | 2.0 | 6.4 | -3.1 | -11.3 |
| Imports** | 0.0 | 6.4 | -8.3 | -27.6 |
| Unemploiment rate | 11.6 | 6.7 | 5.2 | 9.3 |

Source: Eurostat, NIS of Romania, Federal State Statistics State of the Russian Federation, State Statistics Service of Ukraine
* data for 2014 do not include the Crimean peninsula, Sevastopol city and the Donbass region
**data on goods foreign trade

***Romania's*** economic activity slowed slightly in 2014, GDP recording an increase of 2.9 percent compared to 3.4 percent in 2013. As in 2013, the engine of the Romanian economy was the increased external demand, which determined the increase in industrial production on average by 6.1 percent and exports by 6.4 percent. At the same time, imports increased on average by 6.4 percent, while the average level of consumption prices increased amid the stability of the Romanian leu in the region, on average by 1.1 percent, or by 0.8 percent in December 2014 compared to December 2013, a significantly lower level to the NBR target of 2.5 percent $\pm$ 1.0 percentage points. It should be mentioned that, the growth in agriculture was lower than the average value of the previous years and the construction activity decreased an average by 6.7 percent (Table 1.2).

In 2014, the economic activity in the ***Russian Federation*** slowed gradually, so that in the fourth quarter of 2014, GDP decreased on average by 0.2 percent compared to the fourth quarter of 2013. Overall, GDP of the Russian Federation has increased in 2014 by 0.6 percent. The embargoes had a contracting effect on imports, which decreased on average by 8.3 percent but favoured the domestic production, the industrial production increased on average by 1.7 percent in 2014. At the same time, the embargoes, the decrease in oil prices and weak global demand led to the decrease in exports on average by 3.1 percent. The reconfiguration of products and services on the Russian Federation market and the depreciation of the Russian ruble, especially in the second half of 2014 determined the increase of the annual inflation rate up to 11.4 percent in December 2014, overall consumer prices in 2014 increased on average by 7.8 percent. It should be mentioned that, the construction production in the Russian Federation decreased in 2014 by 4.5 percent and although this was not the most affected sector of the Russian economy, the consequences for the Republic of Moldova were noticeable by decreased remittances from this country (Table 1.2).

The economic and political crisis in ***Ukraine*** caused the decline in gross domestic product by 6.8 percent compared to 2013. It should be mentioned that, the years 2012-2013 may be characterized as a period of stagnation, while in some sectors were already attested premises of recession. Statistical data of Table 1.2 show that the main indicators of the real sector evolution of Ukraine recorded in 2014 considerable setbacks, such as reducing the industrial production by 10.7 percent and the construction activity by 21.7 percent. At the same time, imports decreased on average by 27.6 percent due to the depreciation of the Ukrainian hryvnia and the low household purchasing power, and the embargoes imposed by the Russian Federation caused the decline in exports by 11.3 percent compared to 2013. The depreciation of the Ukrainian hryvnia and the cancellation of subventions for utilities determined the acceleration of the annual inflation rate up to 24.9 percent in December 2014 and the average annual inflation was 12.1 percent. It should be mentioned that, in the first quarter of 2015, the situation in Ukraine, mainly related to inflation and exchange rate has worsened, anticipating the extension of the economic crisis in 2015 (Table 1.2).

# Chapter 2

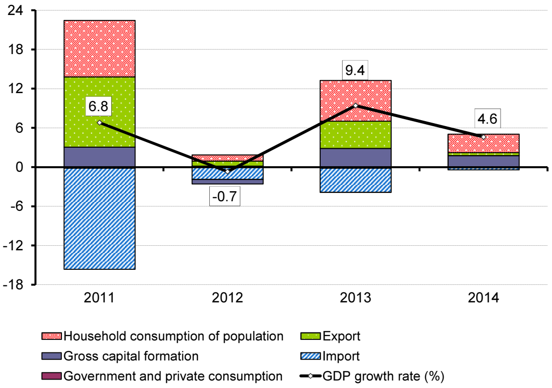
# The economic situation of the Republic of Moldova in 2014

## 2.1 Real sector

***Gross Domestic Product***

In 2014, GDP growth rate was 4.6 percent, by 4.8 percentage points lower than in 2013, mainly due to a lower contribution from the increased agricultural production and an unfavourable external climate, which has resulted in the economic activity deterioration of the major trading partners and the embargoes imposed by the Russian Federation. Although modest, the positive evolution of the economic activity was favoured by the depreciation trend of the national currency against the currencies of the countries – major trading partners of the Republic of Moldova, a good agricultural production and the first facilities offered by the EU for exporting the domestic products, which offset to some extent the embargoes imposed by the Russian Federation.

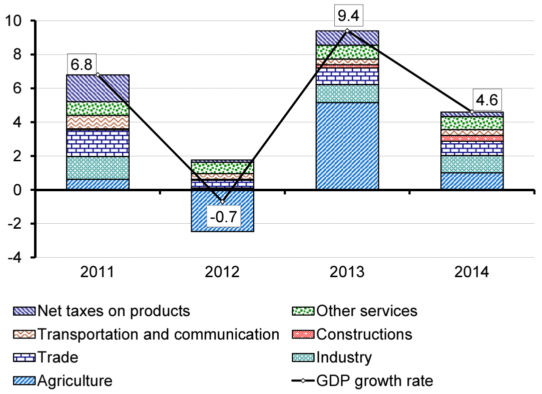
Chart 2.1: Contribution of demand components to the GDP growth (p.p.)




Source: NBS, NBM calculus

In terms of uses (Chart 2.1), the slowdown of the economic growth rate in the fourth quarter of 2014 was determined by the mediocre increase in exports (by 1.1 percent) due to the embargoes imposed by the Russian Federation for domestic products since the second half of the year. At the same time, although the household consumption played the primary role in the GDP dynamics, it had a more modest evolution in 2014, recording a growth rate of only 2.9 percent. However, the moderate dynamics of the household consumption and exports had a significant impact on imports. Thus, imports recorded a negligible increase (of only 0.4 percent), contributing insignificantly to the economic activity dynamics in 2014. Investments have had a significant contribution to GDP growth, so the gross fixed capital formation in 2014 increased by 10.1 percent compared to 2013. Government consumption, similar to the previous years, did not have a significant impact on the economic activity dynamics, recording a decrease of 0.6 percent.

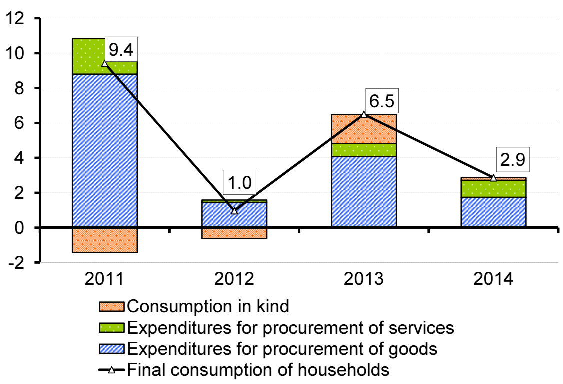
Chart 2.2: Contribution of economic sectors to the GDP growth (p.p.)




Source: NBS, NBM calculus

By categories of resources (Chart 2.2), the slowdown of the GDP growth was determined by a lower growth rate of agriculture compared to 2013. Thus, gross value added in agriculture increased by 8.2 percent, by 38.4 percentage points lower than in 2013. The positive dynamics of agriculture has also contributed to the creation of favourable conditions for the industry development. In this regard, the gross value added of industry increased by 7.2 percent, contributing to GDP growth in the reporting period by 1.0 percentage points. Gross value added growth in the industry was mainly driven by the increase in volume of manufacturing and energy production, which increased in the reporting period by 7.8 and 4.7 percent, respectively. At the same time, the extracting industry recorded an increase of 2.2 percent. The results obtained in agriculture and industry determined the increase of the value added in the goods sector of 7.7 percent, generating a contribution to the GDP growth of 2.0 percentage points. At the same time, the gross value added of services recorded a lower increase. Thus, this increased by 4.2 percent, mostly due to the evolution of the trade and “other services” component, whose growth rate was 6.1 and 3.0 percent, respectively. Constructions, transport and communications also had positive contributions to the GDP growth. Thus, in 2014, the gross value added in constructions increased by 10.6 percent, while transport and communications increased by 3.4 percent. At the same time, net taxes on products increased in the reporting period by 1.6 percent, generating an impact of 0.3 percentage points to the dynamics of the economic activity.

Chart 2.3: Contribution of components (p.p.) to the household final consumption growth (%)



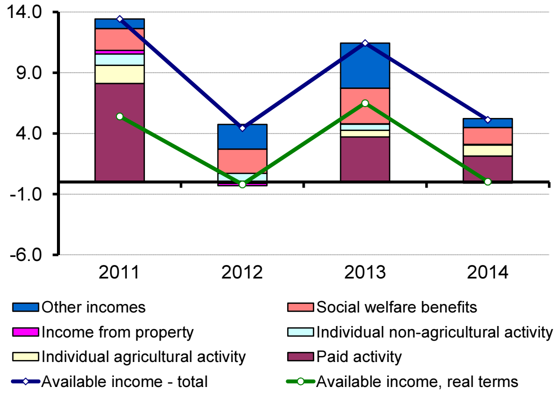

Source: NBS, NBM calculus

### *Household consumption*

In 2014, household final consumption increased by 2.9 percent, thus recording an increase of 3.6 percentage points lower than in 2013. The positive dynamics of the household consumption was mainly determined by the increased costs for goods purchase. These increased by 3.0 percent, contributing to the formation of the annual growth rate of the household final consumption by 1.8 percentage points (Chart 2.3). At the same time, expenditures for the purchase of services recorded an annual growth higher than in 2013, increasing by 3.8 percent, while in the context of a minor share, the contribution was of 1.0 percentage points. It should be mentioned that, the annual growth rate of the consumption in kind increased (0.9 percent), generating an insignificant contribution (0.1 percentage points) to the annual growth rate formation of the household final consumption.

The slowdown of the household annual growth rate in 2014 was mainly determined by the modest evolution of the household disposable income. Thus, its annual growth rate recorded a pronounced slowdown, amounting to 5.1 percent, or by 6.3 percentage points lower than in 2013 (Chart 2.4). This evolution was mainly determined by the decrease of contributions of the groups „other income" (remittances represent about 80 percent of this component), „paid employment" and „social benefits". It should be mentioned that, in 2014, the annual growth rate of the household disposable income in real terms recorded zero level, while in 2013, it recorded a growth rate of 6.5 percent.

Chart 2.4: Evolution of the household disposable income (%, versus the same period of the previous year) and contribution of components (p.p.)



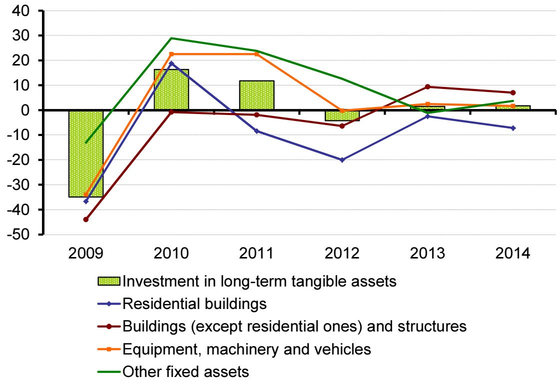

Source: NBS

*Investments*

In 2014, the gross fixed capital formation increased by 10.1 percent compared to 2013, as a result of the increase of costs for constructions, by 11.5 percent, as well as spending on machinery and equipment by 10.8 percent while the component "others" contracted by 5.1 percent.

The volume of investments in long-term tangible assets increased by 1.8 percent compared to 2013 (Chart 2.5). By types of fixed assets, investments in non-residential buildings increased by 7.0 percent, while the investments in other fixed assets and the component "equipment, machinery and transport means" recorded modest increases of 3.7 and 1.7 percent respectively. Investments in residential buildings turned negative, recording a value of minus 7.2 percent.

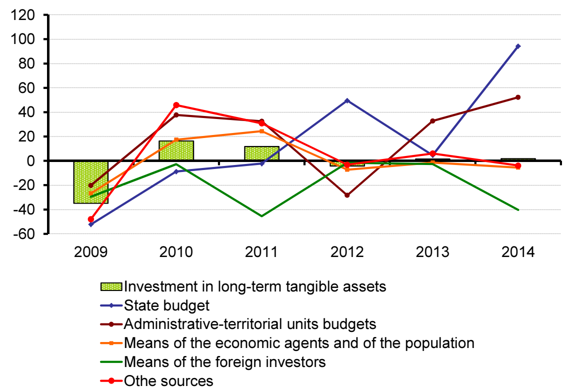
Chart 2.5: Investments in long-term tangible assets by types of fixed assets (%, versus the same period of the previous year)




Source: NBS

In terms of funding sources to ensure investment needs (Chart 2.6), expenditures on the account of state budget and administrative-territorial units budgets increased significantly by 94.2 and 52.2 percent, respectively, compared to 2013. However, the most important financing source of investments (55.0 and 20.6 percent) is the means of economic agents and population and other sources, which registered a restriction of 5.5 and 3.9 percent, respectively. The largest contraction occurred in the segment of foreign financing sources, which accentuated its downward trend, recording a negative growth of 40.3 percent.

Chart 2.6: Investments in long-term tangible assets by funding sources (%, versus the same period of the previous year)

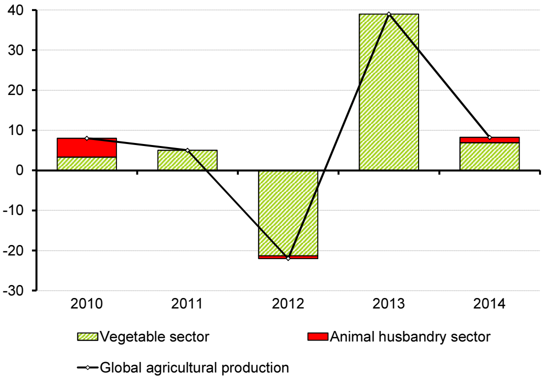



Source: NBS

## Agricultural production

In 2014, the volume of global agricultural production increased by 8.2 percent compared to 2013. This development was mainly driven by the increase of vegetable production volume by 10.4 percent, which generated a contribution of 6.9 percentage points to annual rate formation. At the same time, the livestock sector recorded an increase in the production volume much lower than vegetable sector (4.0 percent), thus the generated contribution was a modest one (1.3 percentage points) (Chart 2.7).

Chart 2.7: Global agricultural production (%) and contribution of sectors (p.p.)



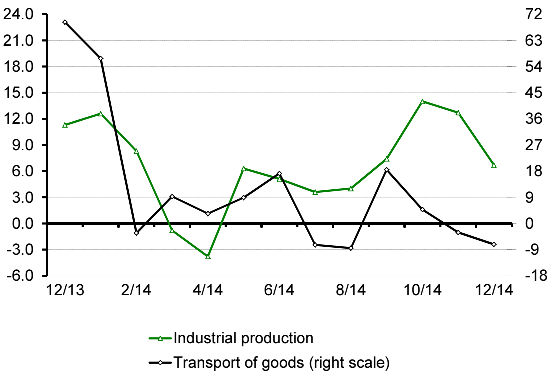

Source: NBS

The increase of vegetable production volume in the reporting period was mainly influenced by the increase in harvest of "soybean" (70.2 percent), "fruits, nuts and berries" (17.2 percent) "vegetables" (10.2 percent), "sunflower" (10.1 percent), "cereals and grain legumes" (8.9 percent) and "corn for grains" (7.8 percent). At the same time, the increase in the volume of livestock production was determined by the increase in production of "cattle and poultry" (7.3 percent) and "eggs" (3.4 percent). The volume of milk production recorded a downward trend, decreasing by 0.9 percent compared to 2013.

## Industrial production

In 2014, industrial production volume increased in real terms by 7.3 percent compared to 2013, due to the increase of the production volume in the following sectors: manufacturing (8.5 percent), "production and supply of electricity, gas, hot water and air conditioning" (4.4 percent) and extractive industry (0.2 percent). At the same time, the sector "water supply; sanitation, waste management, remediation activity" recorded a decrease of the industrial production volume by 11.6 percent. The most significant increases in manufacturing were recorded in the following industrial activities: "manufacture of vegetable and animal oils and fats" (2.1 times), "manufacture of electrical equipment" (54.3 percent), "manufacture of chemical substances and products" (42.4 percent), "production, processing and preserving of meat and meat products" (21.6 percent) and "manufacture of textile products" (20.4 percent).

Chart 2.8: Evolution of industrial production and transport of goods in real terms (%, versus the same period of the previous year)




Source: NBS

## Transport of goods

In 2014, the enterprises of railway, road, river and air transport have transported by 4.0 percent more goods compared to 2013, due to increased volume of goods transported by river transport (39.7 percent) and road transport (11.1 percent). At the same time, the volume of goods transported by air and rail transport decreased by 36.7 and 7.8 percent, respectively (Chart 2.8). It should be mentioned that, in the fourth quarter of 2014, the annual growth rate of goods transport recorded a slowdown, constituting minus 2.9 percent, by 3.9 percentage points lower compared to the third quarter of 2014.

## Internal trade

In 2014, the turnover of enterprises, whose main activity is retail trade, increased by 7.5 percent compared to 2013. At the same time, trade in services recorded an increase in annual terms by 7.4 percent. It should be mentioned that in the first half of 2014, the turnover of the retail trade recorded a more pronounced dynamics (Chart 2.9), recording in July-December 2014 an average value of 11.0 percent, by 7.3 percentage points higher than in the first half of 2014. At the same time, the annual growth trade volume in services registered a particular development compared to that of trade in goods. Thus, the annual growth rate of trade in services in the first half of 2014 constituted on average 8.2 percent, by 1.7 percentage points higher compared to July-December 2014.

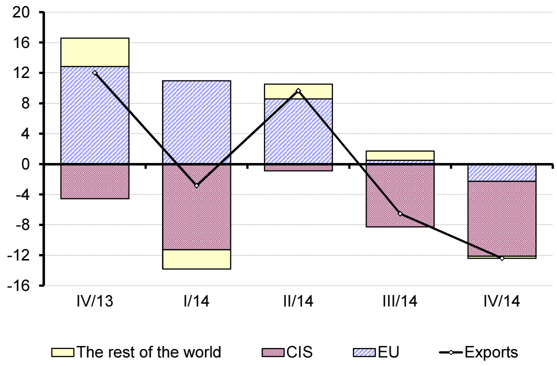
Chart 2.9: Evolution of internal trade (%, versus the same period of the previous year)


Source: NBS

### External trade[1]

During 2014, external trade of the Republic of Moldova recorded a deterioration compared to 2013[2]. Thus, exports decreased by 3.7 percent and imports by 3.2 percent, being mainly influnced by the decrease in trade with the CIS countries, mainly with the Russian Federation and Ukraine. It should be mentioned that, if the trade with Ukraine was mainly affected by the military conflict in the East of the country, that with the Russian Federation worsened due to the embargo imposed on imports of food products from the Republic of Moldova. Consequently, in 2014, exports to the Russian Federation decreased by 32.9 percent, generating a negative contribution of 8.6 percentage points to the evolution of the annual rate of total exports.

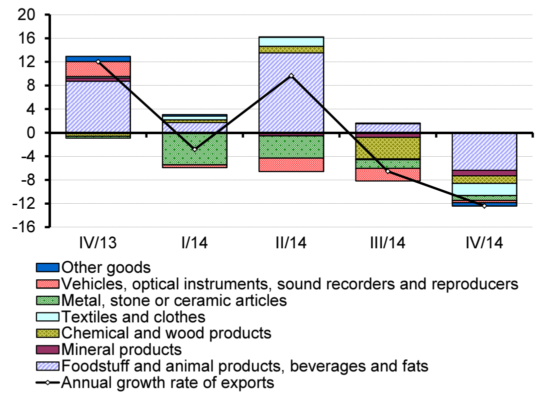
Chart 2.10: Evolution of exports annual rate (%) and contribution by categories of countries (p.p.)




Source: NBS, NBM calculus

Following the analysis of the evolution of exports by category of countries (Chart 2.10), it is noted that, maintaining a positive growth rate in the first quarter of 2014 was mainly due to the evolution of trade with the EU, which increased by about 25.4 percent compared to the same period of 2013, while the trade with the CIS countries decreased by about 16.0 percent. At the same time, in the second half of 2014, the situation became more worrisome. In the third quarter, exports decreased in annual terms by 6.5 percent and in the fourth quarter recorded a more pronounced decrease of 12.4 percent. These significant decreases of the volumes of exported goods were influenced by the decrease in exports both to the CIS (minus 25.8 percent) and to the EU (minus 2.1 percent).

Chart 2.11: Evolution of exports annual rate (%) and subcomponents contribution by groups of goods (p.p.)



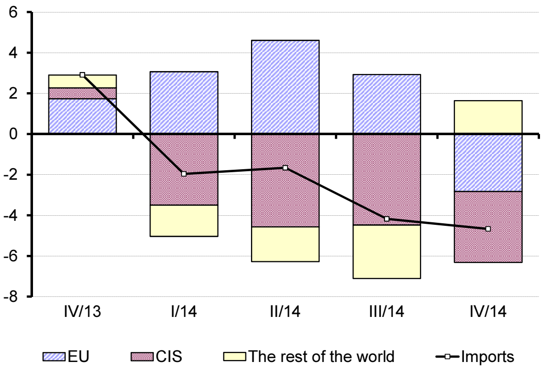

Source: NBS, NBM calculus

Following the analysis of exports by groups of commodities (Chart 2.11), it is noted that the positive annual growth rate of exports in the first half of 2014, was mainly driven by the increase in exports of "food products, animal kingdom

[1]There were used the quarterly data on the external trade evolution of the Republic of Moldova, expressed in thousands of U.S. dollars.

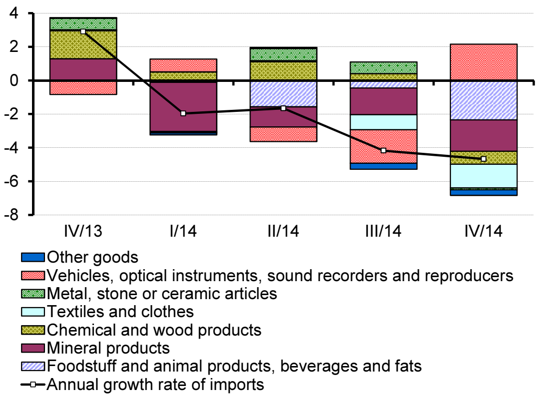
[2]A more detailed analysis of the external trade may be found in Chapter 2.4.

Chart 2.12: Evolution of imports annual rate (%) and contribution by categories of countries (p.p.)



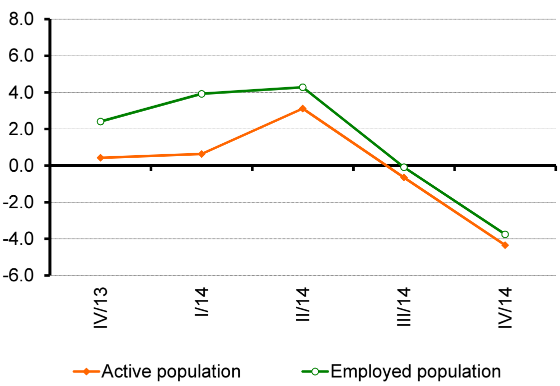

Source: NBS, NBM calculus

Chart 2.13: Evolution of imports annual rate (%) and subcomponents contribution by groups of goods (p.p)




Source: NBS, NBM calculus

Chart 2.14: Economically active population and employment (%, versus the same period of the previous year)




Source: NBS, NBM calculus

products, beverages and fats", due to a good agricultural year in 2013. It should be mentioned that, in the second half of 2014, most groups of exported commodities generated negative contributions (excluding the group "food products, animal kingdom products, beverages and fats" in the third quarter of 2014), signalling clearly about the decrease in external demand for domestic goods.

During 2014, the annual growth rate of exports turned positive at least a quarter and that of imports was negative throughout the year. Thus, in the first two quarters of 2014, it was close to the level of minus 1.8 percent, as later in the third and fourth quarters declined to the level of minus 4.2 and 4.7 percent, respectively. The dynamics of the imports growth rate was influenced by the decrease in imports form the CIS countries and those from the "Rest of the World" group (Chart 2.12). At the same time, in the first nine months of 2014, imports from the EU recorded positive growth rates and in the fourth quarter, these recorded a pronounced negative dynamics (minus 7.6 percent, or by 15.4 percentage points lower than in the third quarter of 2014).

By groups of commodities (Chart 2.13), the contraction of the volume of imported commodities was mainly determined by the decrease in imports of "mineral products" (minus 8.2 percent), "food products, animal kingdom products, beverages and fats" (minus 8.2 percent) and "textiles and clothing" (minus 8.0 percent). The decrease in imports of food products was mainly driven by rich harvest in 2013 and 2014 and by the embargo imposed by the Russian Federation on imports of food products from the Republic of Moldova, which contributed to the creation of an oversupply of domestic food products, thus diminishing the demand for those of import. At the same time, the decrease in the volume of "textiles and clothing" imported in the second half of 2014, was driven by lower demand for these goods, as a result of a lower disposable income of the population.

## Labour market

*Work force*

In 2014, labour market conditions showed mixt developments. The first half of the year was characterised by an annual positive dynamics of the number of employed persons and beginning with the third quarter of 2014, the trend was reversed, so by the end of this quarter the number of employed persons decreased significantly. Thus, the annual growth rate of the number of employed persons fluctuated from 3.9 percent in the first quarter of 2014 up to 4.3 percent in the second quarter of 2014 and in the fourth quarter of 2014 the growth rate was minus 3.8 percent. However, in 2014, the employed rate constituted on average 1184.9 thousand persons, increasing by 12 thousand compared to 2013. At the same time, the number of unemployed persons followed a downward trend during 2014, decreasing from 57.5 thousand persons in the first quarter of 2014 to 40.3 thousand persons in the fourth quarter of 2014, decreasing by 18.3 percent compared to the same period of 2013. During the year the number of unemployed persons constituted 47.5 thousand, by 15.6 thousand less than in 2013. As a result, during 2014, the unemployment rate recorded lower values compared to 2013. The unemployment rate decreased from 5.1 percent in the first quarter of 2014 to 3.5 percent in the fourth quarter of 2014, by 0.6 percentage points lower compared to the same period of 2013 (Chart 2.15). On average, for 2014, the unemployment rate recorded the value of 3.9 percent, by 1.2 percentage points lower than in 2013. The decrease in the number of employed persons by the end of 2014 and the number of unemployed persons led in the fourth quarter of 2014 to the contraction of the economically active population by 4.3 percent compared to the same period of 2013 and by 0.3 percent (3.5 thousand persons) than in 2013.

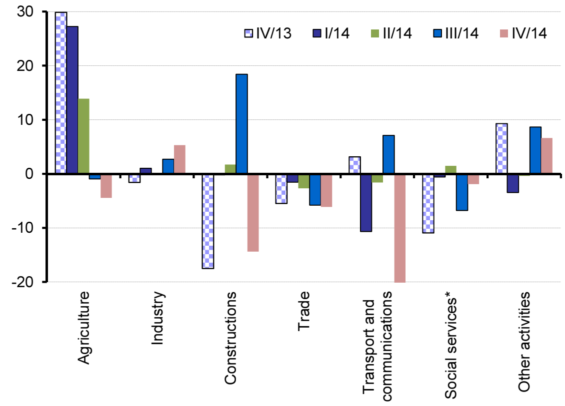
Chart 2.15: Evolution of unemployment and employment (%)


Source: NBS, NBM calculus

According to the data provided by the NAE[3], during 2014, the number of persons laid off decreased by 21.4 percent compared to the average of 2013, while the number of identified vacancies increased by 12.0 percent.

During 2014, the seasonally adjusted unemployment rate shows a similar trend with that of the unadjusted value. Thus, the seasonally adjusted unemployment rate decreased from 4.1 in the first quarter of 2014 to 3.5 percent in the fourth quarter of 2014, however the employment rate also recorded a decrease from 40.1 percent in the first quarter of 2014 to 38.6 percent in the fourth quarter of 2014.

Chart 2.16: Distribution of persons employed by the activities of the national economy (%, versus the same period of the previous year)



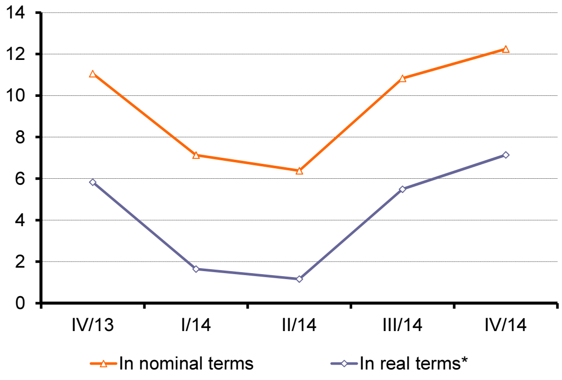

Source: NBS, NBM calculus
*except „other activities with collective, social and personal services"

In 2014, according to the distribution by activity in the national economy, the largest concentration of employment is found in the agricultural sector, whose share was 30.5 percent. However, it should be mentioned that, in the last quarter of 2014, the number of employees in the agricultural sector decreased by about 4.5 percent compared to the same period of 2013 (Chart 2.16).

The number of employed persons in 2014 had also decreased in the following sectors: "transport and communications" by 7.5 percent, "trade" by 4.1 percent and "social services (excluding other activities of collective, social and personal services)" by 2.0 percent. The most noticeable increases compared to 2013 were recorded in the following sectors: „constructions",

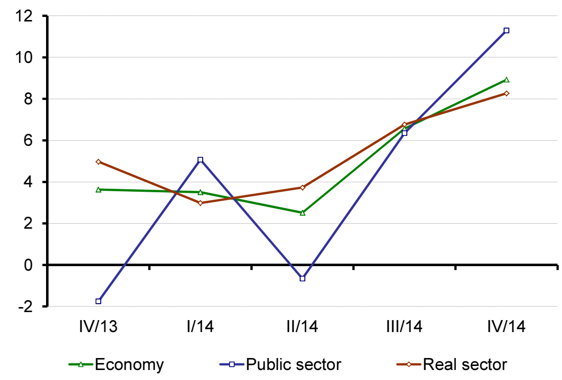
[3]National Agency for Employment

Chart 2.17: Wage bill in economy (%, versus the same period of the previous year)



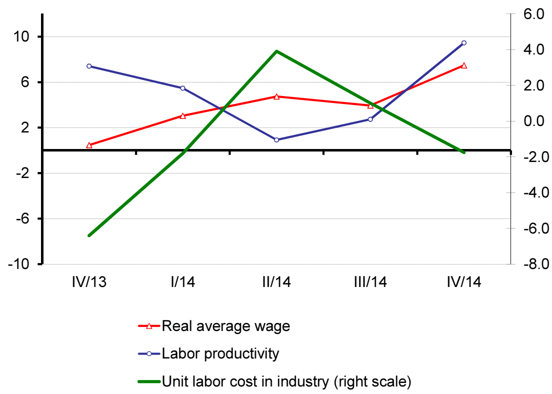

Source: NBS, NBM calculus
*deflated by CPI

Chart 2.18: Real average wage* (%, versus the same period of the previous year)




Source: NBS, NBM calculus
*deflated by CPI

Chart 2.19: Real average wage* and productivity in industry (%, versus the same period of the previous year)




Source: NBS, NBM calculus
*deflated by CPI

„agriculture", „industry" and „other activities". At the same time, the „construction" sector attests the lowest concentration of employed population (5.6 percent).

*Wages*

In 2014, the wage bill increased by 12.2 percent compared to 2013 and deflated by the CPI increased by 7.1 percent. Its annual dynamics was more modest in the first half of the year, the growth rate accelerated in the second half of the year (Chart 2.17). During 2014, the dynamics of the average wage of a worker in the national economy has a similar trend as the wage bill. In the first semester, the annual growth rate of the average wage in the national economy amounted to about 8.5 percent, in the second half of the year it accelerated pronouncedly, so that in the fourth quarter constituted 14.1 percent compared to the same period of 2013. There were recorded increases of the average wage both in the public sector and real sector by 16.6 and 13.4 percent, respectively, compared to the fourth quarter of 2013[4].

In the fourth quarter of 2014, the annual growth rate of the real average wage in economy was 8.9 percent (Chart 2.18), as a result of the positive increases of the real average wage both in public sector (11.3 percent) and real sector (8.3 percent).

In 2014, the annual growth rate of the real average wage in industry recorded similarly an upward trend, in the fourth quarter it was 7.5 percent, by 3.5 percentage points higher than in the third quarter of 2014. The annual growth rate of the labour productivity in industry constituted at the end of the year 9.5 percent (Chart 2.19). As a result, the annual growth rate of the unit labour cost in industry decreased in the fourth quarter of 2014 up to the value of minus 1.8 percent.

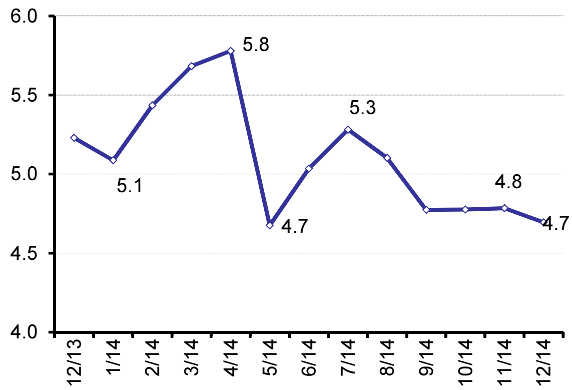
[4]Given that, the National Bureau of Statistics implemented since January 2014 a new version of the Classification of Economic Activities in the Republic of Moldova (CEAM, 2nd review), which fully harmonizes with the Nomenclature of Economic Activities in the European Community (NEAEC, 2nd review) and provides a ratio of 1:1, data on the wage bill, average wage and other indicators derived on subcomponents within the real and public sector are not perfectly comparable with the corresponding components until January 1, 2014. Thus, the interpretation of their annual growths shall be carefully made, it creates impediments in determining the contribution of the aggregated indicators growth.

## 2.2 Inflation

### Consumer price index

In 2014, the average annual inflation rate was 5.1 percent, by 0.5 percentage points higher to that of 2013. In this period, the depreciation trend of the national currency against the U.S. dollar managed to offset the disinflationary pressures, determined by a still modest aggregate demand and an oversupply of food products on the market, as a result of a rich agricultural harvest and the embargoes of the Russian Federation, which represented the risk of a significantly reduction of the annual inflation rate below the target set. At the same time, the disinflationary pressures on prices in the Republic of Moldova were exercised to some extent by the decrease in prices of food products and oil at international level. During 2014, the annual inflation rate oscillated around the target and similar to the previous years, was within the range of $\pm$ 1.5 percentage points from the target of 5.0 percent, target established in accordance with the Medium-term monetary policy strategy, approved by the Decision of the Council of Administration of the National Bank of Moldova no. 303 of December 27, 2012.

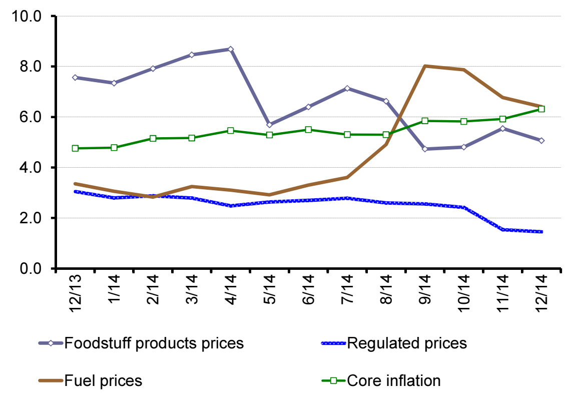
Chart 2.20: Annual rate of CPI (%)




Source: NBS, NBM calculus

In this regard, at the beginning of 2014, the annual inflation rate continued the upward trend of the second half of 2013, increasing from 5.1 percent in January to 5.8 percent in April. This dynamics was largely driven by the evolution of food prices and core inflation under the depreciation tendency of the national currency against the U.S. dollar, noted in autumn of 2013. Subsequently, the annual growth rate of CPI had a lower dynamics, due to the decrease in annual growth rate of food prices in the context of a good agricultural year. Thus, after the episodic inflation turning in May to the lower band of the above - mentioned range, registering the level of 4.7 percent, the annual rate recorded in summer the average value of 5.1 percent. Towards the end of 2014, along with the materialization of the results of rich harvest of fruits and vegetables and the embargo on some domestic products, the annual average rate returned to the lower band of the inflation target range, recording the value of 4.8 percent.

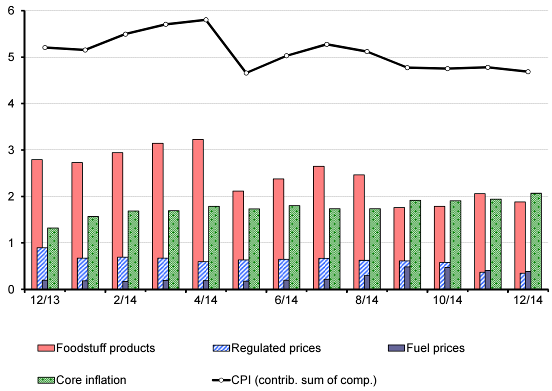
Chart 2.21: Annual rate of inflation subcomponents (%)




Source: NBS, NBM calculus

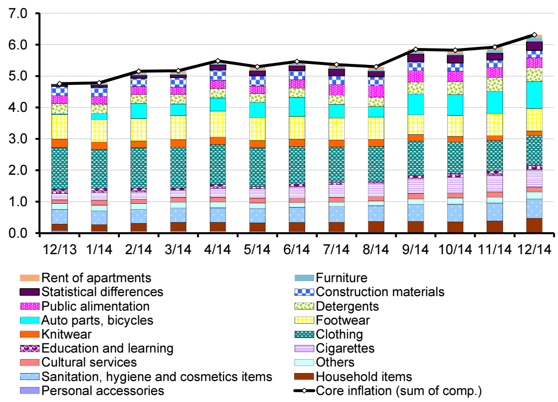
In 2014, core inflation continued its upward trajectory started in the first quarter of 2013. Its annual rate increased from 4.8 percent in January 2014 to 6.3 percent in December 2014, under the pressure exerted by the depreciation of the national currency against the U.S. dollar. In the absence of some major

Chart 2.22: Evolution of annual inflation and subcomponents contribution (p.p.)




Source: NBS, NBM calculus

Chart 2.23: Components contribution to the annual growth rate of core inflation (p.p.)




Source: NBS, NBM calculus

adjustments of tariffs, the prices for goods and regulated services recorded a relatively stable dynamics, being on average by 2.5 percent higher than in 2013, mostly due to the increase in prices for medicines. The annual dynamics of fuel prices recorded moderate values in the first half of 2014, constituting 3.4 percent for the first seven months of the year. Subsequently, the annual growth rate of fuel prices accelerated to 7.0 percent in the fourth quarter of 2014, due to the increase in coal prices amid the events in Eastern Ukraine. The food prices (on average 2.4 percentage points) had the highest contribution to the average annual inflation rate formation in 2014 (Chart 2.22). Prices for goods and services related to core inflation contributed to about 1.8 percentage points, while prices for regulated services had a contribution of 0.6 percentage points. Fuel prices have generated the lowest contribution (0.3 percent) to the average annual inflation dynamics in 2014.

### Core inflation index

During 2014, the annual rate of core inflation has seen an upward trajectory, increasing from 4.8 percent in January to 6.3 percent in December, mostly due to increased positive contributions of the components, such as means of transport, auto parts, articles of sanitary, hygiene and cosmetics, footwear, detergents. The annual rate of core inflation has increased, mostly under the pressure of the national currency depreciation against the currencies of major trading partners, which was more pronounced by the end of 2014. Thus, in December 2014, compared to December 2013, the official exchange rate of the Moldovan Leu depreciated against the U.S. dollar – by 18.3 percent and against the European single currency – by 6.6 percent. By the end of 2014 (December), the annual rate of core inflation was mostly determined by increased prices for “clothing”, ”means of transport, auto parts” and “footwear” by 5.6, 8.8 and 6.2 percent, respectively (Chart 2.23). Significant contributions, but of lower impact, generated the increase in prices of the components “articles of sanitary, hygiene and cosmetics”, “cigarettes” and “detergents” by 6.9, 13.6 and 8.3 percent, respectively.

The increase in tobacco prices was the consequence of the changes in excise duties on tobacco (January), whose effect was dispersed throughout the year. The increase in prices of other groups of goods and services was due to the increased costs, as effect of the national currency depreciation against the currencies of major trading partners of the Republic of Moldova.

#### *Food prices*

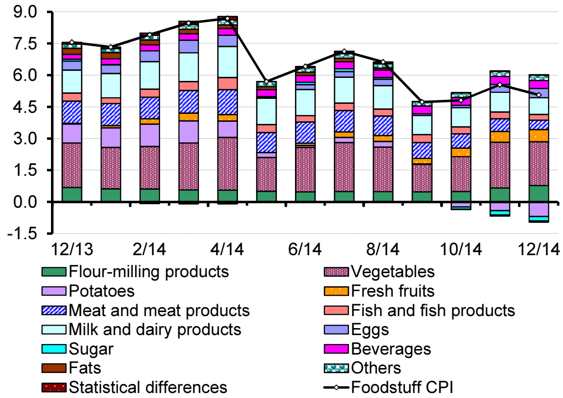
The evolution of the annual rate of food prices during 2014 was mainly influenced by the persistence of disinflationary factors.

Thus, a good agricultural year interfering with the embargo imposed by the Russian Federation on food products import from the Republic of Moldova contributed to the record of an oversupply of these products on the market and respectively, to create disinflationary conditions.

Global food prices decreased by 3.8 percent in 2014 compared to 2013, which determined, on the one hand, the decrease in food prices on the domestic market, on the other hand, the disinflationary pressures generated by the dynamics of international food prices, were mitigated by the official exchange rate depreciation of the Moldovan Leu against the U.S. dollar by 11.5 percent compared to 2013.

In the first four months of 2014, the annual growth rate of food prices recorded a slightly upward trajectory, which decreased in May by 3.0 percentage points, up to the level of 5.7 percent (Chart 2.24). It should be mentioned that, in the spring of 2014, the plants vegetative process begun with 1-2 weeks earlier than in 2013, due to higher thermal regime, thus contributing to faster development (in calendar terms) of some vegetables and fruits. Therefore, their release on the market and respectively, the decrease in prices started earlier than in 2013. At the same time, the movement of the seasonally effect typically to Easter from May (2013) in April (2014), has also contributed to the gap between the monthly rate recorded in May 2014 and that of May 2013. Thus, these factors contributed significantly to the annual rate mitigation in May 2014 (the base effect).

Chart 2.24: Components contribution to the annual growth of food prices (p.p.)




Source: NBS, NBM calculus

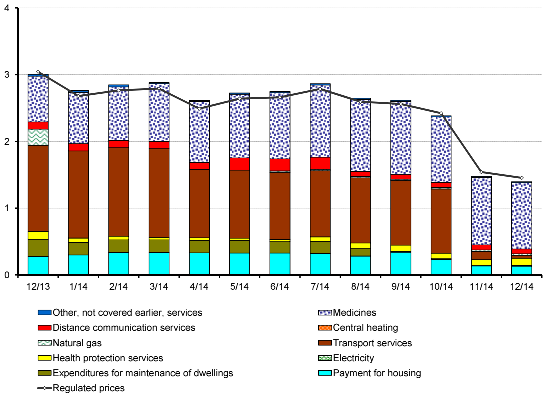
The annual rate recorded during the summer months a slight increase, after a pronounced reduction in May 2014, registering an average of 6.6 percent. In September 2014, the annual growth rate of food prices decreased by 1.9 percentage points compared to the previous month, being mainly influenced by the favourable base effect, as a result of a much lower monthly growth in September 2014 compared to that of 2013, driven by an oversupply of vegetables, potatoes, sugar and fresh fruits and as a result of the embargo of the Russian Federation on food products import from the Republic of Moldova and the entry into force on September 1, 2014 of the new customs duties imposed on the products imported from the Republic of Moldova (food products, meat, wheat, sugar, vegetables and alcoholic beverages), which have affected the agri-food export.

During the fourth quarter of 2014, the annual growth rate of food prices recorded a relatively stable evolution, accounting for 5.1 percent in December. This increase was mainly determined by the increase in prices of “fresh fruits” (19.7 percent), eggs (13.6 percent), „fresh vegetables” (13.3 percent), „milk and dairy products” (6.2 percent) and „milling and bakery products” (3.7 percent).

## *Regulated prices*

The annual rate of regulated prices had a relatively stable dynamics in the first ten months of 2014, oscillating from 2.7 percent in January up to 2.4 percent in October. This evolution was mainly determined by the gap of significant adjustments to services and goods included in the component of regulated prices. Subsequently, in November and December, their annual rate recorded a sharp decrease, up to the value of 1.5 percent, as a result of the gradual disappearance of the effect of the annual increase in tariff of interurban transport of the autumn 2013. On the one hand, during the reporting period, the annual rate of regulated prices was determined by significantly positive contribution from the prices of medicines, which in December 2014 were by 5.6 percent higher compared to those of the similar period of 2013, as a result of the national currency depreciation against the U.S. dollar (Chart 2.25). At the same time, the depreciation of the national currency had a significant impact on the international rail transport tariffs, which increased in December 2014 by 12.5 percent compared to December 2013 but their contribution to regulated prices was a minor one.

Chart 2.25: Components contribution to the annual growth of regulated prices (p.p.)

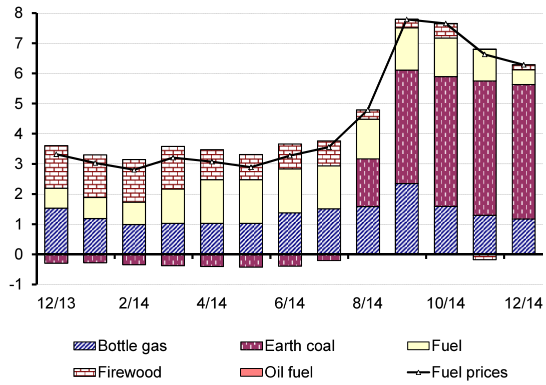



Source: NBS, NBM calculus

## *Fuel prices*

The evolution of the annual rate of fuel prices in the first half of 2014 was characterized by a relatively stable evolution, as consequently, in the second half of the year, it recorded a pronounced increase. It should be mentioned that, beginning with January, a new component "liquid fuel" was included within the fuel prices structure. In the first semester of 2014, the annual average rate of fuel prices oscillated around the value of 3.1 percent (Chart 2.26). During the first quarter of 2014, the increase in prices of subcomponents "firewood" and "fuels" mostly contributed to the annual growth rate formation of fuel prices. The evolution of "fuel" prices was influenced by the tax policy adjustment for 2014 (the change in excise rate by about 9.0 percent). The major impact of "fuels" subcomponent to the annual growth rate formation of prices occurred as well in the second quarter of 2014.

Chart 2.26: Components contribution to the annual growth of fuel prices (p.p.)




Source: NBS, NBM calculus

The evolution of fuel prices in the second half of 2014 recorded an upward trend, thus recording in July-December an annual average rate of 6.3 percent, by 3.2 percentage points higher than in January-June. The acceleration of the annual growth rate of fuel prices was mainly determined by the significant increase in earth coal prices (starting with August), caused by the military conflict in Eastern Ukraine, which affected the coal extraction and supply. On the other hand, in the second half of 2014, the contribution from fuel prices decreased, due to the sharp decrease in international oil prices. Thus, in the second half of 2014, the price of Urals brand oil reached the average value of U.S. dollar 88.0 per barrel, which represented a decrease of 18.0 percent compared to the oil price in the first semester of the year. In July-December 2014, the impact associated with lower oil prices was mitigated, to some extent, by the depreciation of about 7.4 percent of the national currency against the U.S. dollar compared to January-June 2014.

**Industrial production prices**

The annual rate of industrial production price index recorded in the first six months of 2014 an upward trajectory, amounting to 7.8 percent in June, or by 3.2 percentage points higher than in January 2014. In the second half of 2014, it changed its trajectory, accounting for 4.0 percent in December, or by 3.8 percentage points lower than in June 2014 (Chart 2.27). This evolution was influenced by decreasing prices of products delivered both on the external and domestic market. During the reporting period, the annual growth rate of prices of the delivered products on external market decreased by 8.1 percentage points and that of products delivered on domestic market – by 2.2 percentage points.

In December 2014, within the structure, the largest increases in annual terms were recorded in manufacturing and extractive industry prices, which recorded the same growth rate, of 4.4 percent. At the same time, the energy sector prices increased by 0.1 percent compared to December 2013.

**Construction prices**

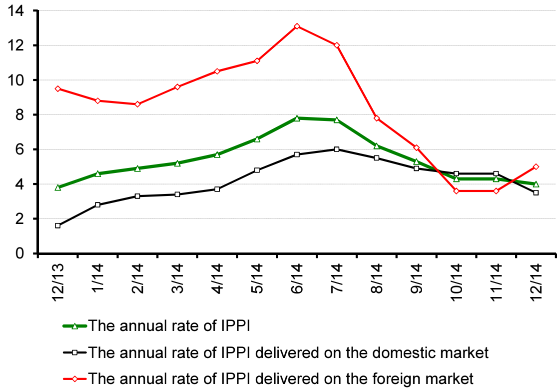
During 2014, the annual growth rate of prices in construction oscillated around the value of 8.0 percent. In the fourth quarter of 2014, it was 8.3 percent, increasing by 0.2 percentage points compared to the fourth quarter of 2013 (Chart 2.28).

Within the national economy structure in the fourth quarter of 2014, the largest increases compared to the fourth quarter of 2013 were recorded in the following sectors: “transport” (10.2 percent), “trade and catering” (9.8 percent), “construction of social and cultural objects” (9.3 percent) and “manufacturing” (8.8 percent).

**Producer prices of agricultural products**

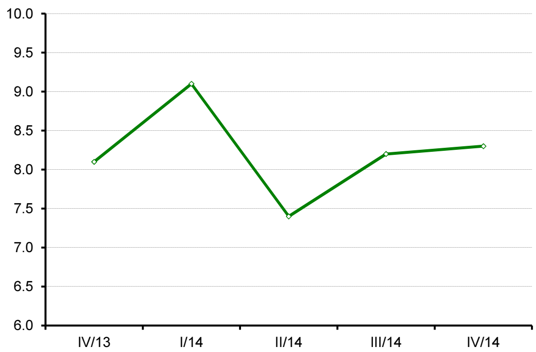
In 2014, producer prices of agricultural products increased by 6.6 percent compared to 2013, mainly due to the increase in prices of vegetable products (4.7 percent) and animal products (14.8 percent) (Chart 2.29).

Chart 2.27: Annual rate of IPPI (%)



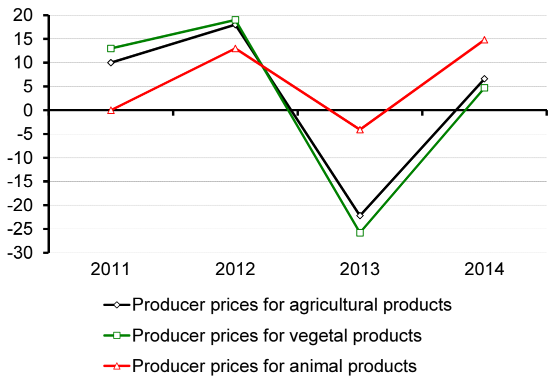

Source: NBS

Chart 2.28: Evolution of construction price index (%, compared to the similar period of the last year)




Source: NBS

Chart 2.29: Producer prices of agricultural products (%, versus the same period of the last year)

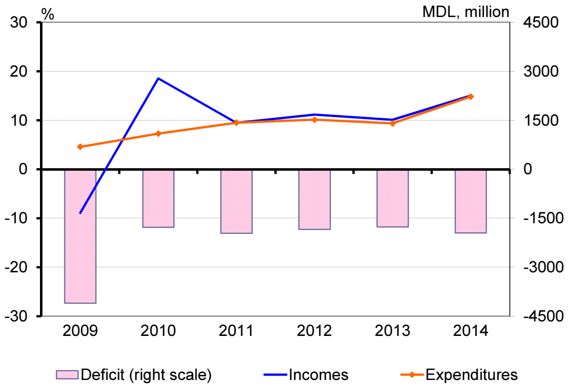



Source: NBS

The evolution of vegetable products prices was mainly driven by the increase in prices of „tobacco” (17.6 percent), „sunflower” (14.3 percent), „vegetables” (9.1 percent), and „cereal and grain crops” (8.6 percent). At the same time, during the reporting period, there was recorded the decrease in prices of „fruits and berries” (minus 23.8 percent) and „grapes” (minus 10.7 percent).

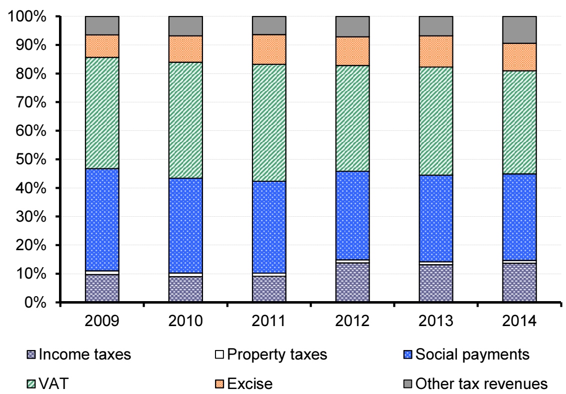
## 2.3 Public sector

Chart 2.30: Indicators of national public budget




Source: Ministry of Finance, NBM calculus

Chart 2.31: Dynamic of tax revenues structure




Source: Ministry of Finance, NBM calculus

In 2014, the national public budget indicators confirm the optimization of tax administration, as government revenue has increased and the budget deficit was within acceptable limits.

According to the information provided by the Ministry of Finance, in 2014, the dynamics of the national budget revenue collection recorded an increase in annual growth rates up to 15.0 percent (compared to 10.1 percent in 2013), constituting MDL 42455.8 million, (Chart 2.30).

The tax revenues ratio to GDP data increased in 2014 by 1.1 percentage points compared to 2013, accounting for 38.1 percent.

Similar to the previous periods, tax revenues have held major share of 83.9 percent in the public revenues, or by 3.3 percentage points less than in 2013. In 2014, the revenues from VAT increased by 5.6 percent and the revenues from excise duties decreased by 2.3 percent, compared to 2013. Although the components growth was higher, there has been recorded a further dependence of public budget revenues on households' consumption, the indirect taxes accounted for 55.1 percent of total tax revenues. The share of direct taxes increased by 0.4 percentage points in 2014, up to 44.9 percent, driven mainly by the increase in income taxes contribution by 0.5 percentage points (Chart 2.31). Social payments (mandatory social insurance contributions and the health insurance premiums) increased on average by 10.7 percent.

During the reporting year, the Republic of Moldova has received financial support for budget support in the form of external grants, totaling MDL 4046.7 million or by 98.6 percent more than in 2013 and internal grants, totaling MDL 87.4 million (by 142.8 percent more than in 2013). The assistance provided by international financial organizations and donor countries is an important contribution to the economic recovery and reforms needed to modernize and re-launch the economy of the Republic of Moldova.

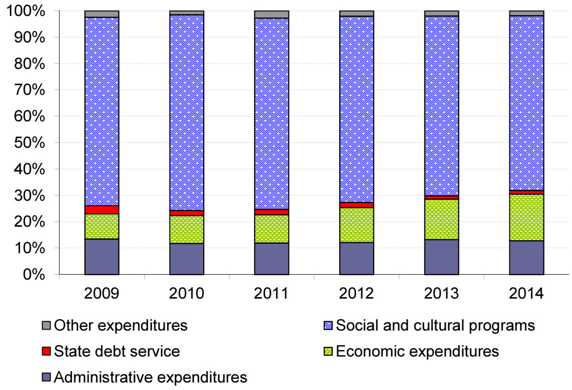
During the reporting period, the national public budget expenditure had an upward trend, recording an annual growth rate of 14.8 percent compared to 2013 (9.4 percent), reaching the value of MDL 44402.5 million. The increase in the expenditure volume was mainly driven by the increased spending on insurance and social assistance to MDL 1443.8 million compared to 2013 or by 11.4 percent, transport, road management, communications and informatics – by MDL 797.9 million or by 29.8 percent, education - by MDL 757.2 million or by 10.7 percent. Within the structure of expenditure, the social and cultural programs received the most resources - 65.4 percent of the total, although their share has decreased by 2.8 percentage points compared to 2013 (Chart 2.32). During the reporting period, the most significant increase was recorded in the expenditure related to the national economy - 17.2 percent, by 1.8 percentage points from 2013. Other significant expenses were related to national defense, public order and national security – 5.8 percent and state services with general purpose – 4.9 percent.

Public expenditure ratio to GDP was 39.8 percent or by 1.1 percentage points more than 2013. In 2014, the consolidated public budget execution resulted in a deficit of MDL 1946.7 million. This deficit reported to GDP was 1.7 percent or by 0.1 percentage points less than in 2013.

At the end of 2014, the debt of the Republic of Moldova was MDL 27470.6 million, increasing by MDL 3949.1 million or by 16.8 percent compared to the beginning of the year. The debt consisted of the external state debt - 74.2 percent and domestic state debt - 25.8 percent. The balance of external debt denominated in foreign currency increased by USD 15.9 million, representing at the end of the reporting period the amount of USD 1306.1 million. External state debt has also increased as value expressed in MDL by 21.1 percent compared to the beginning of the year, totaling MDL 20395.3 million at the end of December 2014. Domestic state debt recorded the value of MDL 7075.4 million and exceeded the value recorded at the beginning of the year by MDL 399.6 million, equivalent to an increase of 6.0 percent. This debt component was composed of SS issued on the primary market in the amount of MDL 4918.8 million, converted SS - MDL 2063.4 million and SS for ensuring financial stability - MDL 93.1 million. In 2014, for the state debt service was used from the national budget the amount of MDL 591.8 million (by 20.1 percent more than in 2013), out of which 63.8 percent were used for domestic debt and 36.2 percent of resources for external debt.

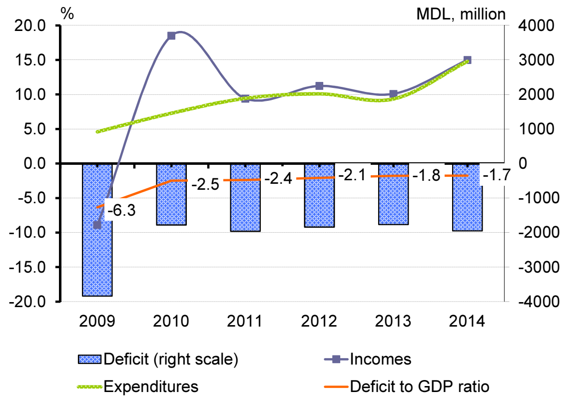
At the end of 2014, public debt as a share of GDP was 24.6 percent, by 1.0 percentage points higher than in 2013. This

Chart 2.32: Sectorial distribution of public expenditure



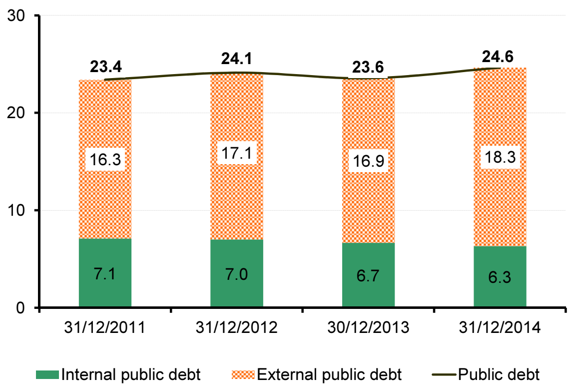

Source: Ministry of Finance, NBM calculus

Chart 2.33: The evolution of public budget deficit




Source: Ministry of Finance, NBM calculus

Chart 2.34: State debt as a share in GDP (%)




Source: NBM

increase was driven by increased external debt to GDP by 1.4 percentage points, up to 18.3 percent, while the share of domestic debt to GDP decreased by 0.4 percentage points, up to 6.3 percent (Chart 2.34).

## 2.4 International accounts of the Republic of Moldova for 2014 (provisional data)

**Balance of payments (according to BPM6)**

The balance of payments of the Republic of Moldova for 2014 was developed in accordance with the new international methodological standard reflected in the sixth edition of the Balance of Payments and International Investment Position Manual of the IMF (BPM6), which replaced the fifth edition of the Balance of Payments and International Investment Position Manual of the IMF (BPM5) [5] (Table A.1).

The main changes made under the new methodology are listed below. Indicators of the statistics of ***international trade in goods*** compiled in accordance with BPM6 were influenced by excluding the value of *goods for processing* and *repairs of goods* and including *net exports of goods negotiated abroad*. At the same time, international trade in services included *manufacturing services on physical inputs owned by others* and *financial intermediation services indirectly measured (FISIM) and reclassified repair services*.

All items of **financial account** are presented in net values as the difference between *net acquisition of financial assets and net incurrence of liabilities*, the increase of financial assets and liabilities being recorded with the positive sign and the decrease with the minus sign.

***Direct investment***, presented based on financial assets and liabilities (unlike BPM5 where it was presented based on directional principle: in the Republic of Moldova and abroad) reflected the flows of debt for energy resources as arrears on intra-group loans servicing presented under *debt instruments*.

[5] Complete analytical comments on the developments of international accounts and international accounts indicators in dynamics can be accessed at the following addresses http://www.bnm.md/md/bpl_coments and respectively http://www.bnm.md/md/balance_of_payments /http://www.bnm.md/md/international_investment_position /http://www.bnm.md/md/external_debt

*Debt instruments* reflect all arrears on intra-group loan servicing.

***Loans*** are recorded based on the actual payments principle compared with BPM5, when payments were reflected as scheduled and arrears were included in other liabilities.

In 2014, the **current account** recorded a deficit of USD 639.15 million, increasing by 20.5 percent compared with 2013. The increase of deficit was determined by lower positive balances on services - by 16.8 percent, primary income - by 7.6 percent and secondary income - by 4.6 percent.

The ratio of current account deficit to GDP was 8.0 percent, increasing by 1.4 percentage points compared with 2013 (Chart 2.35). The trade deficit balance (USD 3097.35 million) in 2014 was covered for 79.4 percent of the surplus recorded in services, primary income and secondary income.

In 2014, the deficit in trade in goods and services reached USD 2975.54 million, representing 37.5 percent of GDP. The average propensity of the economy to the export of goods and services in 2014 was 36.5 percent while that to import - 73.9 percent annually. The coverage of imports by exports of goods and services amounted to 49.3 percent.

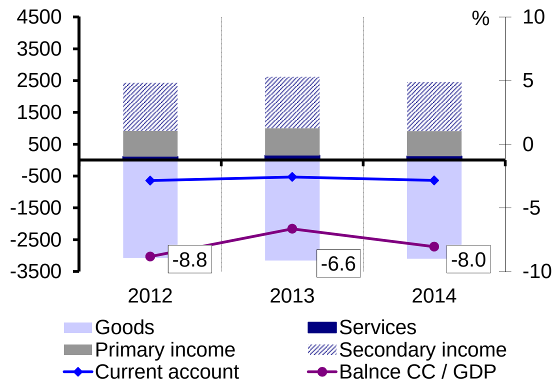
The volume of external trade in goods (FOB-FOB) totalled USD 6636.69 million, decreasing by 3.6 percent compared with 2013. This decrease occurred both on the account of the decrease of volume of exports of goods (USD 1769.67 million) by 5.1 percent and imports of goods (USD 4867.02 million) by 3.0 percent compared to 2013. The trade deficit balance fell by 1.7 percent, its ratio to GDP was 39.0 percent.

According to the NBS[6], the export of goods totalled USD 2339.53 million in 2014, decreasing by 3.7 percent compared to 2013, due to lower exports to CIS countries by 20.3 percent (with a share of 31.4 percent of total exports) and exports from the category other countries - by 2.7 percent. At the same time, exports to the European Union rose by 9.6 percent, representing 53.3 percent of total exports, Romania becoming Moldova's main trading partner (Chart 2.36).

Within the structure of exports by categories of goods, the *agri-food products* hold a significant share of 45.5 percent of

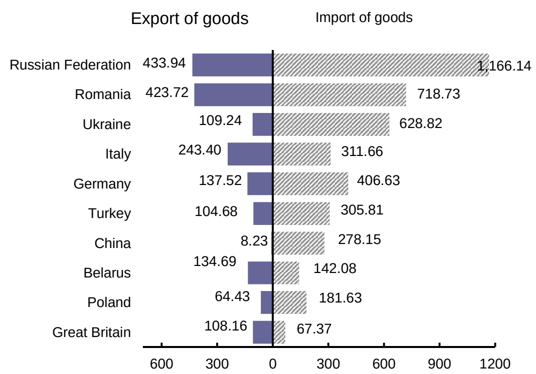
[6]NBS data are based on customs data and do not include methodological adjustments according to BPM6 and other adjustments to external trade in goods operated by the Direction of balance of payments of the National Bank of Moldova, such as exports/imports by individuals, repairs of goods, goods purchased in ports by carriers, etc. Imports are evaluated in CIF prices, their distribution by countries is based on the principle of the country of delivery. NBS presents imports based on the country of origin principle.

Chart 2.35: Current account – main components (million, USD)




Source: NBM

Chart 2.36: Main trading partners of the Republic of Moldova in 2014 (million, USD)



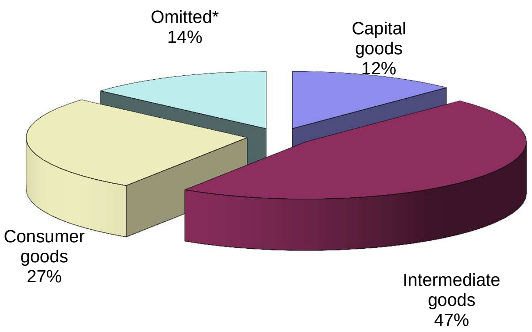

Source: Developed by the NBM based on NBS data (database of customs declarations, selections on imports (CIF prices), by country of delivery, no methodological changes and other adjustments according BPM6 operated by NBM are include

Note: NBS presents imports on country of origin principle total exports, totalling USD 1065.36 million, of which: *edible fruits and nuts* - USD 194.02 million, *alcoholic beverages* - USD 189.55 million (down by 23.4 percent), *cereals* - USD 181.23 million, *seeds and oleaginous fruits* - USD 154.22 million. There have also been provided: *textiles and articles thereof* - USD 330.14 million; *machinery and equipment* - USD 309.40 million, *chemical products* - USD 168.27 million (of which *medicines* - USD 124.44 million); *furniture* - USD 104.92 million; *base metals and articles thereof* - USD 55.15 million; *glass and glassware* - USD 54.57 million.

According to the NBS, the Republic of Moldova imported in 2014 goods totalling USD 5316.97 million, down by 3.2 percent compared with 2013. Imports from the EU rose by 3.4 percent (holding a share of 55.0 percent of total imports), and from the CIS and other countries have decreased by 12.8 percent and 5.0 percent respectively.

In the structure of imports, mineral products held 21.7 percent of the total, amounting to USD 1153.82 million.

Chart 2.37: Structure of imports of goods by Broad Economic Categories in 2014




Source: calculated based on NBS data
*cars for transport of passengers, car fuel, other goods not specified elsewhere

Other categories of imported goods were: *machinery and equipment* - USD 801.19 million; *agri-food products* - USD 719.34 million; *chemical products* - USD 624.47 million, *textiles and articles thereof* - USD 356.99 million; *base metals and articles thereof* - USD 345.89 million; *ground vehicles* - USD 305.28 million; *plastics and articles thereof* - USD 253.86 million.

According to the classification by Broad Economic Categories, intermediate goods used in the manufacture of other goods represent 46.9 percent of all imports (share in total decreasing by 0.2 percentage points compared to 2013); consumer goods held a share of 27.3 percent (down by 1.3 percentage points) and capital goods - 12.3 percent (up by 1.8 percentage points) (Chart 2.37).

In 2014, the **services account** recorded a surplus balance of USD 121.81 million, but reducing by 16.8 percent compared to 2013 (Table A.2). This decrease was mainly due to the reduction recorded in transportation services surplus (from USD 33.5 million to USD 1.17 million), other business services (by 51.9 percent) and on the account of the increase of travel services deficit (by 7.5 percent).

*Raw material processing services owned by others* registered in 2014 a surplus of USD 163.94 million, up by 13.5 percent compared to 2013, *services rendered to non-residents* holding a share of 14.7 percent of total services exports.

In 2014, the surplus balance on **primary income** was USD 794.60 million, decreasing by 7.6 percent compared to 2013, due to the decrease by 4.0 percent of total inflows of income, up to USD 1114.41 million and to increase by 6.1 percent of outflows of income up to USD 319.81 million (Table A.3).

The inflow of primary income as compensation of residents employed abroad reached USD 1064.19 million. Investment income during the year ended with net outflows of USD 195.01 million (including dividends distributed to non-residents amounted to USD 90.24 million).

**Secondary income** recorded a surplus of USD 1541.79 million, which was particularly influenced by personal transfers received (USD 1010.38 million), of which USD 776.36 million are transfers of resident employees working abroad for more than a year. Current personal transfer inflows amounted to 59.7 percent of total secondary income received, their value dropping by 5.9 percent in 2014 (Table A.4).

The aggregate compensation of the residents work and personal transfers received from abroad amounted to USD 2074.57 million, decreasing by 5.3 percent compared with 2013. Relative to GDP, compensation of employees and personal transfers received from abroad amounted to 26.1 percent, up by 1.3 percentage points compared to 2013.

**Capital account** recorded a surplus of USD 131.90 million in 2014. Capital transfers surplus was driven by grants related to investment projects, including budget support *(public administration sector)*, which reached a level of USD 156.52 million.

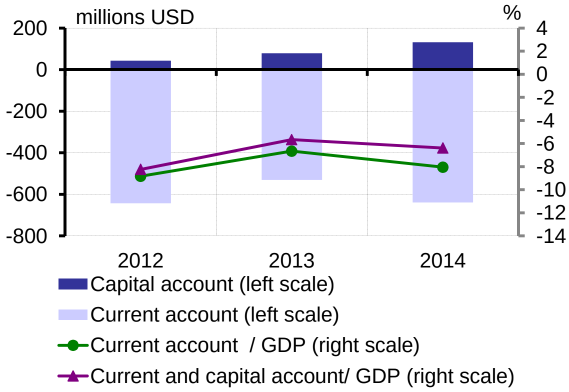
In 2014, **current and capital account balance** recorded a necessary level of finance of USD 507.25 million (Chart 2.38).

**Financial account balance** recorded a negative value of USD 581.27 million in 2014 (net inflows of funds from abroad in the economy), reflecting the effect of the increase of financial commitments with USD 336.26 million and decrease of financial assets by USD 245.01 million (Chart 2.39).

***Direct investment*** recorded in 2014 net inflows in the amount of USD 318.86 million, due to the increase of *net commitments* (by USD 353.10 million) and *net assets* (only by USD 34.24 million).

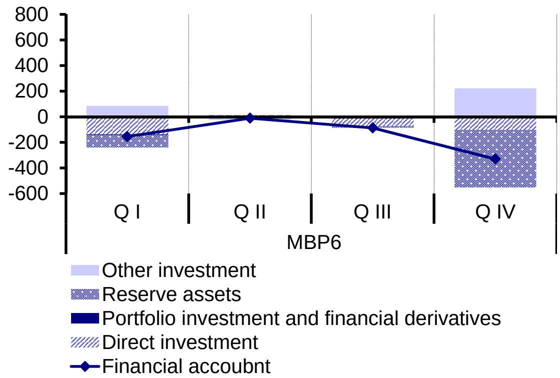
The increase of *shareholdings in capital (direct investor in the enterprise with direct investments)* by USD 39.19 million defined, in fact, the increase of net direct investment assets.

Chart 2.38: Current and capital accounts in annual dynamics (million, USD)



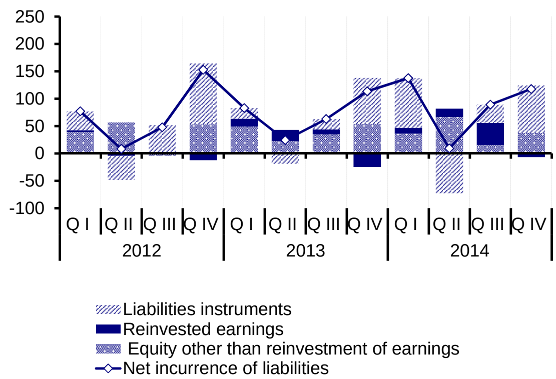

Source: NBM

Chart 2.39: Financial account in quarterly dynamics for 2014 (million, USD)




Source: NBM

Chart 2.40: Direct investment in quarterly dynamics for 2012-2014 (million, USD)




Source: NBM

The net increase of direct investment commitments (Chart 2.40) was driven by the increase of *shareholdings in capital* (by USD 215.47 million), *reinvestment of the income* (by USD 60.10 million) and by the increase of *debt* on loans and trade loans to direct investors (by USD 137.63 million).

***Portfolio investment*** recorded in 2014 net inflows of USD 13.18 million, resulting from the purchase of shares by non-residents in resident banks (USD 7.38 million) and shares of resident enterprises (USD 3.06 million).

***Financial derivatives*** recorded net inflows of USD 0.61 million as a result of foreign currency swaps trading by licensed banks.

In 2014, ***other investments*** recorded net outflows of funds in the amount of USD 289.83 million, due to the increase in assets by USD 261.96 million and decrease in commitments by USD 27.87 million.

Annual growth of financial assets of ***other investments*** was influenced by the increase in assets in the form of ***trade loans*** (USD 66.09 million), ***loans*** (USD 29.29 million) and ***currency and deposits*** of economic agents from other sectors (USD 382.91 million). At the same time, ***other investment assets*** decreased in the position ***currency and deposits*** of licensed banks (USD 179.65 million) and ***other receivables*** (USD 36.68 million).

In 2014, *net incurrence of liabilities* in the form of ***other investment*** (USD 27.87 million) decreased mainly due to the reduction in ***deposits*** of non-residents in resident deposit-taking corporations, except the central bank (USD 107.88 million) and the net decrease in other liabilities by USD 5.37 million. Liabilities in the form of loans increased by USD 25.39 million, trade loans by USD 59.99 million.

In 2014, there were contracted external ***loans*** in the amount of USD 544.65 million (of which: *long-term* -USD 499.40 million or 91.7 percent of total contracted *loans, short term* - USD 45.25 million); and there were made reimbursements in the amount of USD 519.26 million (Table A.6).

***Other liabilities*** *(net incurrence of liabilities)* recorded in 2014 decreases of USD 5.37 million.

In 2014, ***reserve assets*** of the State *(calculated at daily rate)* decreased by USD 538.45 million, mainly due to securities (by USD 455.97 million).

**International investment position of the Republic of Moldova**

***International investment position*** of the Republic of Moldova continued the trend recorded in the previous periods, its debit balance increasing to USD -5624.29 million (by 5.6 percent more compared to the end of 2013) (Table A.7).

This increase was determined by the net transactions with non-residents (USD -581.27 million) and price revaluations (USD -23.63 million), while the fluctuations of exchange rate of original currencies against USD had a contribution of USD 270.57 million (generated by a greater devaluation of financial liabilities stock - USD 462.33 million, compared to the devaluation of claims - USD 191.76 million).

At the end of 2014, ***financial assets*** (USD 3659.99 million) decreased by 9.7 percent and ***financial liabilities*** (USD 9284.28 million) increased by 1.0 percent compared to 2013, which resulted in worsening of the ratio between the stock of external assets and liabilities by 3.8 percentage points, from 43.2 percent at the end of 2013 to 39.4 percent as at December 31, 2014.

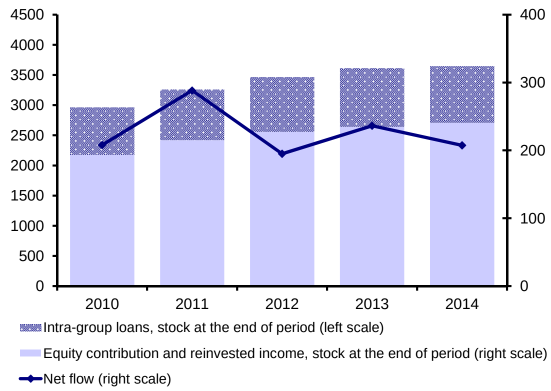
***Short-term receivables*** hold the largest share in total receivables - 93.0 percent, decreasing by 11.9 percent compared to the end of 2013, made up largely of reserve assets (63.4 percent) and other investment (36.3 percent). ***Long-term receivables*** hold a share of 7.0 percent in total receivables, increasing by 34.4 percent compared to the end of 2013. Direct investment abroad with a stock of USD 170.01 million hold a share of 66.4 percent of long-term assets, followed by other investment (31.8 percent) and portfolio investment (1.8 percent).

The major share in total external assets still is held by monetary authorities (58.9 percent), followed by other sectors (24.5 percent) and banking sector (16.6 percent).

The stock of ***financial liabilities*** exceeded by 2.5 times the stock of claims as of December 31, 2014 compared to 2.3 times as at the end of 2013.

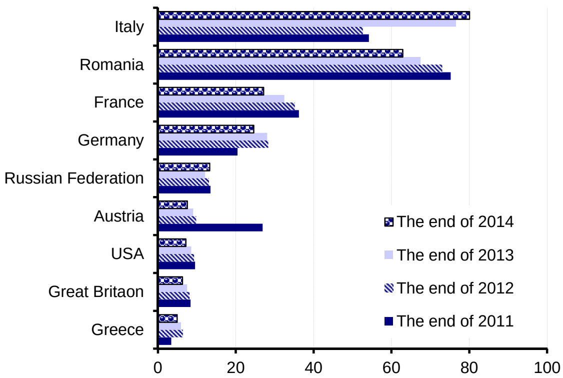
As within the external financial liabilities, those on ***long-term*** held the major share (64.3 percent), while those on ***short-term*** held a share of 35.7 percent. ***Short-term liabilities*** increased compared to the end of 2013 only by 0.6 percent, long-term ones decreased by 1.9 percent. Long-term liabilities are mainly represented by other investment (52.8 percent) and direct investment (45.3 percent), those on short-term - other investment (71.5 percent) and direct investment (28.3 percent).

Chart 2.41: Direct foreign investment in national economy* (million, USD)



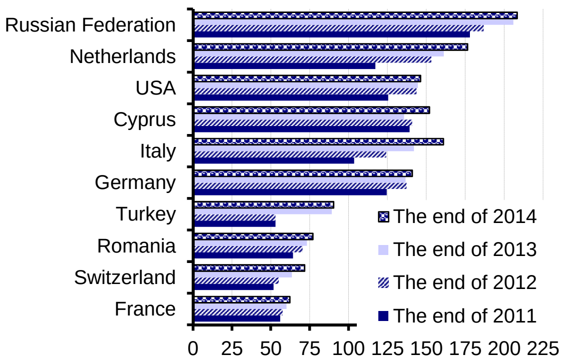

Source: NBM
*stocks calculated using historical cost principle

Chart 2.42: Stock of foreign direct investment* - accumulated share capital, by main countries (million, USD)
Banking sector




Source: NBM
*stocks calculated using historical cost principle, distributed by country of the respective investors

Chart 2.43: Other sectors




Source: NBM
*stocks calculated using historical cost principle, distributed by country of the respective investors

As within external liabilities, other sectors held the largest share of 70.5 percent, the government sector and the banking sector - 14.2 percent and 11.1 percent respectively, and monetary authorities - 4.2 percent. Accumulated foreign direct investment ***stock*** at the end of 2014 was valued at USD 3646.88 million as a result of net capital inflows in the amount of USD 207.39 million, variation of stock prices (USD 19.53 million), the influence of exchange rate of original currencies against the U.S. dollar (USD -204.83 million) and other changes related to the reclassification of shares from portfolio investment to direct investment (USD 10.26 million).

***Stock of foreign direct investment*** is made up of share capital and reinvested earnings (74.2 percent) and intra-group loans (other capital) (25.8 percent) as of December 31, 2014 (Chart 2.41).

Intra-group loans represent the stock of loans contracted from foreign investors (USD 957.75 million) and stock of loans granted to foreign investors (USD 36.22 million).

By geographical distribution of accumulated share capital, the EU's investors held the largest share of 53.0 percent. Investors from the CIS counties held a share of 11.2 percent of total accumulated share capital, while those from other countries - 35.8 percent. The distribution of stocks of FDI in share capital accumulated in the national economy, in dynamics, by main countries is reflected in the (Chart 2.42) and (Chart 2.43).

The main economic activity that benefited from foreign investment remains to be financial activity (25.9 percent), followed by manufacturing (22.4 percent). Other activities that have attracted foreign investors were trade, real estate transactions, transport and telecommunications, energy industry.

Stock of assets in the form of currency and deposits of licensed banks at the end of 2014 were mainly in EUR, with a share of 58.3 percent (increasing by 27.0 percentage points compared to the end of2013) and in U.S. dollar, with a share of 38.6 percent (decreasing by 25.6 percentage points compared to the end of 2013).

At the end of 2014, the stock of liabilities in the form of currency and deposits was largely in U.S. dollars, accounting for 50.6 percent, decreasing compared to the end of 2013 by 27.2 percentage points. Stock in Euro increased to 41.6 percent from 15.8 percent at the end of 2013. As at December 31, 2014, ***reserve assets*** totalled USD 2156.63 million. Compared to the end of 2013, the stock of official reserve assets decreased by

23.5 percent, mainly influenced by the net inflow of the balance of payments calculated at a daily rate (USD -538.45 million) and the fluctuations of exchange rate of original currencies against the U.S. dollar (USD -124.39 million), which resulted in diminishing of the stock of reserve assets and revaluation of securities (USD -1.16 million).

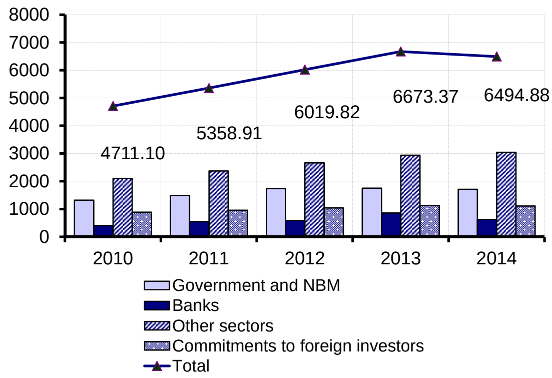
## 2.5 Evolution and structure of external debt

*Gross external debt of the Republic of Moldova* decreased during 2014 by USD 178.49 million (2.7 percent), amounting to USD 6494.88 million as on December 31, 2014 (Table A.8, Chart 2.44).

On December 31, 2014, *long-term* liabilities totalled USD 4115.80 million (-5.3 percent compared to December 31, 2013) and were made up of loans from foreign direct investors in proportion of 23.5 percent, other long-term loans - 72.4 percent and SDR allocations - 4.1 percent.

*Short-term* external debt amounted to USD 2379.08 million (+2.3 percent compared to December 31, 2013) and includes: commercial loans (consisting mostly of advances received and bills unpaid on time) - 45.0 percent, historical debt for imports of energy resources - 27.5 percent, arrears (outstanding liabilities on external loans servicing, both long-term and short-term) - 14.3 percent, accounts and bank deposits (term and sight) of non-residents in licensed banks of the Republic of Moldova - 9.8 percent, short-term loans - 3.0 percent and other liabilities - 0.4 percent.

Chart 2.44: External debt, at the end of the period, by sector (million, USD)




Source: NBM

# Chapter 3

# The activitity of the National Bank of Moldova in 2014

## 3.1 Achievements of the monetary and foreign exchange policy in 2014

In accordance with the *Law on the National Bank of Moldova no.548-XIII of July 21, 1995*, the NBM is the central bank of the Republic of Moldova, the autonomous public legal entity that establishes and promotes the monetary and foreign exchange policy. During 2014, the NBM acted in accordance with the Medium-term monetary policy strategy, approved by the Decision of the Council of Administration of the National Bank of Moldova on December 27, 2012.

According to this strategy, in order to ensure and maintain price stability, the NBM has set its inflation target, measured by the consumer price index published monthly by the National Bureau of Statistics (NBS) of 5.0 percent with a possible deviation of $\pm$ 1.5 percentage points.

Quantifying the macroeconomic situation, trends and projections of macroeconomic indicators in the medium term, inflation outlook in the short and medium term, with possible uncertainties and challenges during the reporting period, as well as to anchor disinflationary pressures, the National Bank of Moldova has promoted during 2014 an incentive monetary policy under a reduced aggregate demand. In December 2014, the monetary policy was affected by the complexity of risk balance, both internal and external, with a gradual accentuation of inflationary risks. In this context, the National Bank of Moldova had to adopt gradual monetary policy tightening measures to reduce inflationary pressures from regulated prices and national currency depreciation. In this context, within the meetings held on December 11 and December 29, 2014, the members of the Council of Administration of the NBM decided unanimously to increase the monetary policy interest rate by 1.0 and 2.0 percentage points respectively, from 3.5 to 6.5 percent.

As a result, the inflation fell within the range of ± 1.5 percentage points from the 5.0 percent target throughout the year of 2014.

Subsequently, within the meetings of the Council of Administration of the NBM of January 29 and February 17, 2015, the process of the base rate growth continued as the depreciation trend of the national currency has intensified, adopting two decisions of increasing the base rate by 2.0 and 5.0 percentage points, respectively, from 6.5 to 13.5 percent. In order to sterilize the excess liquidity formed in the last months of 2014 and improve the transmission mechanism of monetary policy decisions, the Council of Administration decided within the meeting of January 29, 2015 to raise the required reserves ratio attracted in MDL and non-convertible currency from the level of 14.0 to 18.0 percent of the base.

These decisions were aimed at anchoring inflation expectations in the context of maintaining the inflation close to the target of 5.0 percent, with a possible deviation of ± 1.5 percentage points.

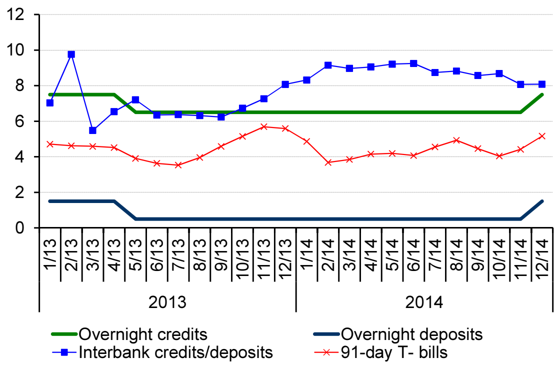
## Implementation and promotion of monetary and foreign exchange policy during 2014

Within the monetary policy meetings held during January – November 2014, the Council of Administration of the NBM decided to maintain the monetary policy base rate. In December 2014, the NBM decided to increase the base rate in two successive sessions, up to 6.50 percent annually, anticipating the possibility of a large upward correction in the annual rate of inflation under the influence of inflationary pressures in the next period.

Interest rates of state securities responded adequately to the money market conditions throughout the reporting year and, being the most sensitive to liquidity cost on the market reflected promptly the monetary policy decisions of the NBM. Monthly average interest rate of state securities with the maturity of 91 days ranged between 3.68 - 4.93 percent annually, increasing to 5.16 percent annually in the last month of the year under the impact of increasing the base rate by the NBM.

Interest rates of interbank loans/deposits were more rigid in terms of their role in monetary transmission mechanism, reflecting the specific situation created in the banking system.

Chart 3.1: Monthly evolution of interest rates corridor (%)

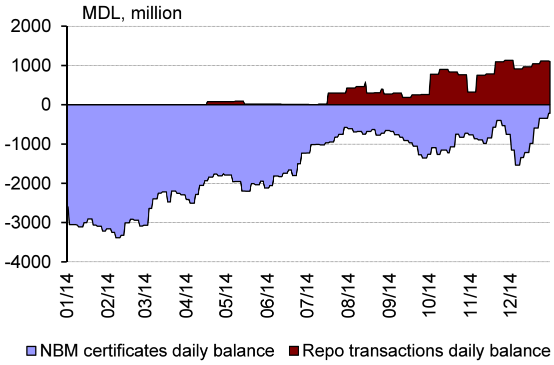



Source: NBM

Average monthly interest rate of interbank loans/deposits ranged between 8.08 - 9.25 percent annually in 2014, raising above the upper bound of the interest rates corridor, but returning within the limits by the end of the year.

## Monetary policy instruments

Chart 3.2: Evolution of daily balance of money market operations in 2014




Source: NBM

Monetary conditions have been adjusted through the interest rate policy, given the monetary policy objective, supported by a sound management of liquidity by the central bank. Market operations, standing facilities and required reserve mechanism continued to play the main role.

The set of monetary policy instruments used by the NBM in accordance with the operational framework has proved to be appropriate to the monetary policy implementation requirements, given the specific circumstances of 2014.

***Open market operations***

During 2014, the NBM continued to exercise control over liquidity in the banking system, given the gradual restriction of excess liquidity. The NBM Certificates have been used as an excess liquidity absorbing instrument from the money market, while Repo operations have been used to supply liquidity to banks. The net debtor position of the National Bank to the banking system declined significantly during and at the end of 2014, after the rise of money market liquidity deficit, the NBM has already acted from net creditor position through Repo operations.

*Issuance of NBM Certificates*

The National Bank of Moldova conducted twice a week NBM Certificates placement auctions, with the maturity of 14 days, announcing the maximum interest rate equivalent to the NBM base rate. Thus, the NBM absorbed fully the amounts offered by participants.

The average weighted rate of sterilization operations was 3.51 percent annually, compared to 3.89 percent in 2013.

As a result of significant interventions of the NBM on the foreign exchange market in the second half of the year, particularly in November and December, and the absorption of MDL excess on money market, both the stock of NBM Certificates placements and their annual average were below the level recorded in 2013 (MDL -2381.4 million and MDL -2089.9 million, respectively), accounting for MDL 219.7 million and MDL 1623.9 million, respectively.

*State securities Repo-buying operations*

NBM conducted weekly Repo operations via auctions without a ceiling, at a fixed rate equivalent to the NBM base rate plus a margin of 0.25 percentage points. The term of operations was 28 days. Banks' liquidity demand was fully satisfied, gradually increasing in the second half of the reporting year.

The balance of Repo operations by the end of the reporting year and their annual average was MDL 1097.0 million and MDL 292.4 million, respectively.

***Lending activity***

As of December 31, 2014, the credit indebtedness of the licensed banks to National Bank of Moldova constituted MDL 6548.6 million, being represented by the loans granted to banks for the protection of the integrity of the banking system (MDL 93.1 million), loans granted for the construction of housing cooperatives (MDL 5.5 million) and emergency loans (MDL 6450.0 million) (Table A.9).

***Standing facilities***

In 2014, standing facilities regime (overnight deposits and credits) set by the NBM, allowed banks to manage their liquidity efficiently and with more flexibility. During the reporting year, banks have resorted to both standing facilities, indicating a lack of confidence of the banking system in banks that experienced liquidity shortage.

The interest rates of overnight deposits and credits have been constant almost until the end of the year, accounting for 0.5 percent and 6.5 percent, respectively. In December 2014, along with the base rate, the interest rates of overnight deposits and credits increased twice: by 1.0 percentage points each since December 12 and by 2.0 percentage points each since December 30, 2014. Thus, at the end of the year, the interest rate on overnight deposit facility was 3.5 percent annually and on the overnight credit facility was 9.5 percent annually.

During the reporting year, interest rates on standing facilities continued to form a symmetrical corridor around the base rate of the National Bank, its width is maintained at the level of 6.0 percentage points.

*Overnight deposit facility*

During 2014, most of banks placed overnight deposits at the National Bank of Moldova.

The monthly average amounts of the overnight placements of banks were uneven, ranging from minimum of MDL 65.4 million in February and maximum of MDL 784.0 million lei in December, according to excessive liquidity recorded in the system.

Frequency of deposit facility resort was broadly similar during all periods of maintaining the required reserves in MDL. Thus, the deposit facility was used by banks with preference at the end of required reserves maintenance periods.

The volume of overnight deposits at the NBM during the reporting year totalled MDL 55251.0 million, which indicates an average daily balance of MDL 227.2 million, decreasing by MDL 1.9 million compared to 2013. As of December 31, 2014, the balance of overnight deposits placed by banks at the NBM was MDL 1947.0 million.

*Overnight credit facility*

Unlike in 2013, when banks resorted to overnight credits only in December, the overnight credit facility in 2014 was sought more often, especially at the end of the reserve maintenance periods, by the banks that failed to comply with the requirements set to the required reserves regime.

The amount of overnight loans granted by the NBM in 2014 was MDL 19345.6 million, which indicates a daily average balance of MDL 73.6 million.

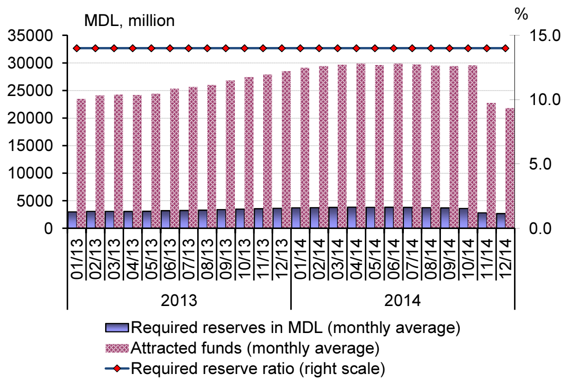
***Required reserves***

The required reserves mechanism continued to exercise the monetary control function, which is correlated closely with that of liquidity management.

During 2014, the characteristics of the required reserves remained unchanged, the required reserves ratio is maintained at the level of 14.0 percent of the base.

Both required reserves in MDL and in foreign currency (USD and EUR) over the whole year had a specific evolution, following the establishment of a special regime of required reserves during the moratorium to banks under special administration.

Chart 3.3: Evolution of attracted funds in MDL, required reserves in MDL and required reserves ratio in 2013-2014

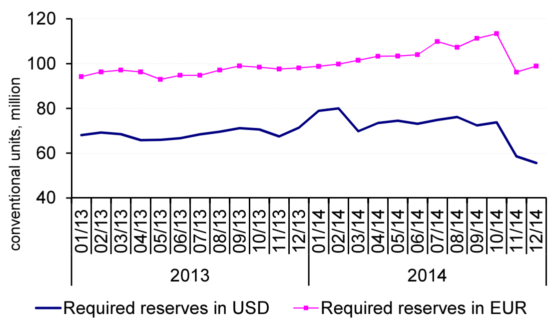



Source: NBM

Required reserves in MDL in the first ten months of 2014 were positioned on a relatively constant curve, varying slightly from month to month.

The required reserves maintained by banks in MDL in the period of October 8, 2014 - November 7, 2014 amounted to MDL 3623.5 million compared to MDL 3650.1 million in the period December 8, 2014 - January 7, 2015.

Chart 3.4: Evolution of required reserves in USD and EUR during 2013-2014 (million)




Source: NBM

The substantial decrease in the reserve as from the maintenance period of November 8, 2014 - December 7, 2014 is explained by establishing a special reserves regime to banks under special administration.

As a result, required reserves in MDL amounted to MDL 2693.3 million at the end of 2014, decreasing by 25.7 percent compared to the beginning of the year.

Required reserves in foreign currency, both in USD and EUR, had a positive development during the first ten months of 2014 and the sharp decrease in the last two months has the same explanation as the evolution of the required reserves in MDL.

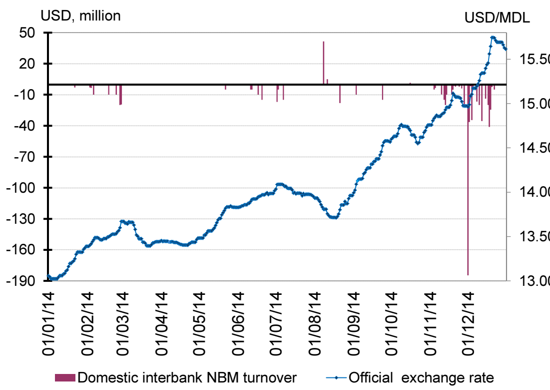
As at December 31, 2014, the amount of banks required reserves in foreign currency amounted to about USD 55.6 million and EUR 98.9 million, or by 22.8 and 0.8 percent less compared to December 31, 2013.

Based on Article 17 of the Law on the National Bank of Moldova no. 548-XIII of July 21, 1995, in order to reduce the cost of bank assets, National Bank, in order to increase the amount of required reserves exceeding 5.0 percent of the funds attracted, paid an interest, the amount of which in 2014 was MDL 24.0 million, almost at the level of 2013 (MDL 24.6 million).

### *Intervention on the domestic foreign exchange market*

In 2014, NBM intervened on the domestic foreign exchange market, mainly as a seller of foreign currency, in the light of the monetary policy promoted by the National Bank and to mitigate excessive fluctuations of the exchange rate of the national currency against the U.S. dollar and EUR.

Chart 3.5: Evolution of the official exchange rate of MDL/USD and the volume of daily transactions of the NBM (USD, million)




Source: NBM

During the reporting period, the National Bank of Moldova performed net sales on interbank foreign exchange market against MDL on value date in the amount of USD 697.97 million[7], including special interventions in the form of currency sales to Banca de Economii S.A. and B.C. "BANCA SOCIALĂ" S.A. in the amount of USD 284.66 million (Chart 3.5).

[7]including currency conversions in the form of purchases with World Bank institutions in the amount of USD 4.77 million

## Monetary policy communication and transparency

Communication activity of the National Bank of Moldova during 2014 continued to be targeted to the objective of the central bank, that is to ensure and maintain price stability, in the light of direct inflation targeting regime, being aimed at keeping the public informed and raising the transparency of the central bank.

In order to ensure the transparency of monetary policy decisions, the NBM has published monthly press releases, on the day of the meetings of the Council of Administration of the NBM on monetary policy, which were related to the base rate and required reserves, as well as to the factors and premises that were the basis of the respective decisions.

At the same time, the NBM has published monthly press releases on inflation, containing information about inflation and its components, inflation forecasts and the challenges that might affect the inflationary process in the context of maintaining price stability.

In order to assess the effectiveness of monetary policy during 2014, the NBM published quarterly an Inflation Report, containing analyses of the macroeconomic situation, inflation medium-term forecasts (2 years), main macroeconomic indicators and the risk analyses for achieving the quantitative target.

In order to ensure a greater understanding of the value of projected inflation, the NBM has organized on the day of publication of the inflation reports, press conferences with the participation of the Governor of the NBM and the media, where the external economic situation and the domestic economic development had been explained, which substantiated the medium-term forecast.

NBM representatives have participated in various TV and radio broadcasts, as well as published articles in newspapers / Internet on topics related to monetary policy.

In 2014, NBM experts have published articles, studies and monographs. The monograph "Monetary policy within the central bank in contemporary conditions" was published, Chişinău, CEP USM, 2014 -191 pages.; ISBN 978-9975-71-589-8, a paperwork designated for specialists in finance and economics for a deeper understanding of monetary policy; and a support course "Monetary Policy", USM, Faculty of

Economics, Department "Finance and Banks", Chişinău, CEP USM, 2014 -128 pages; ISBN 978-9975-71-590-4. The course is intended for undergraduate, postgraduate and doctoral students of the Faculty of Economics of the State University of Moldova.

In 2014, the National Bank of Moldova has further responded to all requests and petitions received from the public. Main topics of public interest were related to the base rate dynamics during certain periods and the similarity of base rate and refinancing rate phrases.

During the subsequent period, NBM will pursue the development of an effective communication system in the context of improving communication tools and channels, capable of ensuring a predictable, full and clear communication in order to anchor inflation expectations to the inflation target announced in the Medium-term monetary policy strategy.

## Research, analysis and forecast

In 2014, the identification and analysis of relevant factors for the inflation process in the Republic of Moldova continued. In this regard, the degree of influence of internal and external macroeconomic variables on the growth of certain subcomponents of the CPI has been re-estimated by means of statistical and econometric methods. Subsequently, this information was used in the four rounds of forecasting for achieving short-term inflation projections, key constituent of the framework for the analysis and forecast of the inflation-targeting regime. The Inflation Reports included assessments of short-term forecast deviation from actual data, pointing out the main underlying objective factors.

In order to improve the accuracy of CPI short-term forecast, during the reporting year, NBM continued to monitor the prices of a basket of food products and non-food products in the CPI in some commercial units in Chișinău, obtaining important operational data in time on price dynamics and its possible causes.

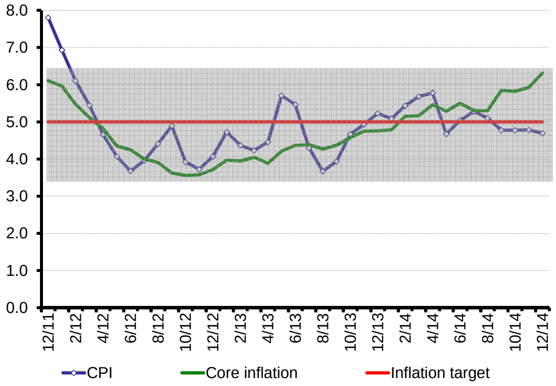
In 2014, the procedure of short-term forecasting of aggregate demand was completed. In this respect, the econometric equations for its main subcomponents were re-estimated, based on a number of external and internal assumptions, such as economic activity in the EU and the Russian Federation or household disposable income. The aggregate demand forecast and its upward trend in medium-term was an important indicator of possible inflationary pressures that typically must be considered to ensure inflation rate falls within the target.

Following the application of sanctions by the Russian Federation for Moldovan products in the second half of 2014 and the tightening of legislation on Russian labour market, it has emerged the need to estimate the impact of these events on important indicators of the domestic economy, such as exports and remittances. Some results and conclusions of these studies were set out in the boxes published in the Inflation Reports.

Calculation and analysis of alternative indicators of core inflation, such as trimmed mean or weighted geometric mean were further carried out in order to have a more complete picture of inflationary pressures in the economy during 2014. These indicators derived by statistical methods address the problem of transitional effects on price increases and the identification of inflation generated by monetary factors. These are an alternative to measures of core inflation calculated by the method of excluding certain pre-set components, determined by external factors, the decisions of certain central authorities or that had a very volatile behaviour in the past and that have some disadvantages and can sometimes provide an incomplete vision about inflationary pressures caused by monetary factors. In the statistical methods for calculating core inflation, the excluded components differ in each period, and their exclusion criterion is determined by certain statistical properties, in this case how far is the respective component from the central tendency in a certain period, this criterion contains no economic substrate.

## 3.2 The Results of monetary and foreign exchange policy in 2014

Chart 3.6: Annual rate of CPI and core inflation (%)




Source: NBS, NBM calculus

*Among the many achievements over the past few years, it should be noted the gradual reduction of the annual inflation rate, which stood on a single digit level for 5 consecutive years, and during 35 months fell within the range of variation of ± 1.5 percentage points from the target of 5.0 percent.*

The conduct of monetary policy during eleven months of 2014 was affected by the complexity of the balance of risks with the prevalence of disinflationary ones. The consolidation of disinflation climate was based on the depreciation of the national currencies of the main trading partners, decrease in oil and food prices on international markets and lower domestic aggregate demand.

Thus, in January-November 2014, the NBM has maintained the base rate applied on the main short-term monetary policy operations at a level of 3.5 percent annually and the interest rate on overnight loans and deposits at the level of 6.5 percent annually and 0.5 percent annually, respectively.

In December 2014, it was recorded a gradual accentuation of inflationary risks. The higher likelihood of a recession in the economies of the euro area countries and in the Russian Federation - the main trading partners of the Republic of Moldova, induced risks of lower income in foreign currency of the population and of domestic exporters in short-term through external trade channel and remittances of the population, which could further impact the dynamics of the national currency exchange rate and subsequently inflation development.

Thus, the Council of Administration of the NBM decided within the meeting of December 11, 2014 to increase the base rate applied on main monetary policy operations on short-term by 1.0 percentage points, from 3.5 to 4.5 percent annually, as well as the interest rates of overnight loans and deposits by 1.0 percentage points, from 6.5 to 7.5 percent annually and from 0.5 to 1.5 percent annually, respectively.

The Council of Administration of the NBM decided within the meeting of December 29, 2014 to increase the base rate applied on main monetary policy operations on short-term by 2.0 percentage points, from 4.5 to 6.5 percent annually, as well as the interest rates of overnight loans and deposits by 2.0 percentage points, from 7.5 to 9.5 percent annually and from 1.5 to 3.5 percent annually, respectively.

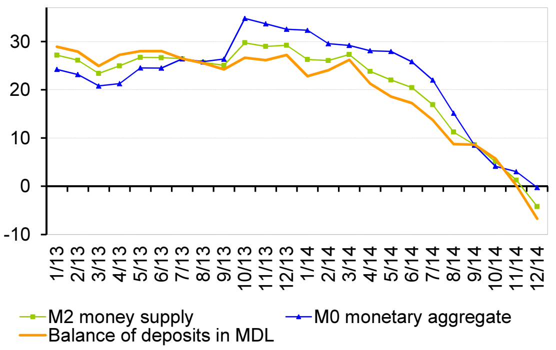
In order to ensure an appropriate set of monetary conditions aimed at achieving convergence of inflation rate to the target in the medium term, in the light of boosting domestic demand through the support of real economy lending, the National Bank of Moldova maintained the minim reserves requirements rates from funds attracted in MDL and foreign currency at the level of 14.0 percent throughout 2014.

This decision was aimed at anchoring inflation expectations in the context of maintaining the inflation close to the target of 5.0 percent, with a possible deviation of $\pm$ 1.5 percentage points.

## Dynamics of monetary indicators

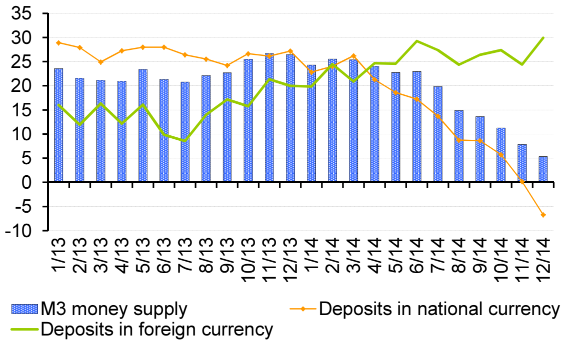
In 2014, the monetary indicators recorded a downward trend. It should be mentioned that in January – June 2014, the growth

Chart 3.7: Evolution of main components of M2 money supply (%, increase versus the same month of the previous year)




Source: NBM

Chart 3.8: Evolution of main components of M3 money supply (%, increase versus the same month of the previous year)




Source: NBM

rate of money supply averaged 24.2 percent in annual terms, while in the second half of the year, the growth rate started to decrease, recording in July - December an average growth of 12.1 percent. The behaviour of all monetary aggregates was similar during 2014.

***Money supply***

In 2014, ***money supply (M2)***[8] decreased by 4.2 percent, compared to 29.2 percent growth in 2013 (Chart 3.7). From early 2014, money supply M2 recorded high growth rates, the maximum level being reached in March, when the annual growth accounted for 27.3 percent. The money supply M2 components recorded negative developments, deposits in national currency decreasing by 6.7 percent compared to 2013 or by MDL 1855.4 million and money in circulation –by 0.2 percent or by MDL 41.8 million.

As from the beginning of the year, deposits in MDL have also recorded high growth rates. The highest level was reached in March, when the balance of deposits in national currency recorded an annual growth of 26.2 percent. Although recording a downward trend during the entire year, money in circulation recorded growth rates in the first 7 months of the year (over 20.0 percent annually), and during August - December, the average growth rate of M0 aggregate was 6.1 percent annually.

At the same time, ***money supply (M3)***[9] increased by 5.3 percent, below the level of 26.5 percent recorded in 2013 (Chart 3.8).

The depreciation of the national currency in 2014 contributed to the increase of deposits in foreign currency by 29.9 percent. Term deposits in foreign currency, recalculated in MDL, increased by MDL 3630.5 million or by 26.7 percent annually, while sight deposits grew by MDL 1608.2 million or by 41.1 percent.

By the end of 2014, the share of deposits in MDL was 53.1 percent, while the share of deposits in foreign currency - 46.9 percent.

Term deposits held the largest share in the structure of deposits in MDL as at the end of December 2014, accounting for 65.0 percent, by 0.3 percentage points less compared to the end of December 2013.

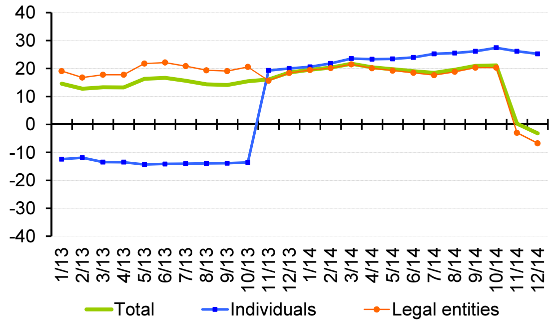
[8] Money supply M2 includes money in circulation (M0), deposits in MDL and money market instruments.

[9] Money supply M3 includes money supply M2 and deposits in foreign currency of residents expressed in MDL.

Total volume of new term deposits in national currency attracted by banks in 2014 increased by MDL 2193.1 million or by 11.0 percent, as a result of the increase in the volume of new term deposits in national currency attracted from legal entities by MDL 2481.8 million or by 36.2 percent compared to 2013. At the same time, the volume of new term deposits attracted from individuals decreased by MDL 288.7 million compared to 2013 (-2.2 percent).

The volume of term deposits in foreign currency recalculated in MDL increased in 2014 by MDL 3283.1 million or by 23.3 percent compared to 2013, on the account of the increase of the volume of new deposits in foreign currency attracted from individuals by MDL 3133.5 million (+30.0 percent). The increase in the volume of new deposits in foreign currency from legal entities was more modest, accounting for 4.1 percent annually (MDL +149.6 million).

Chart 3.9: Balance of credits granted to the economy (%, increase versus the same month of the previous year)

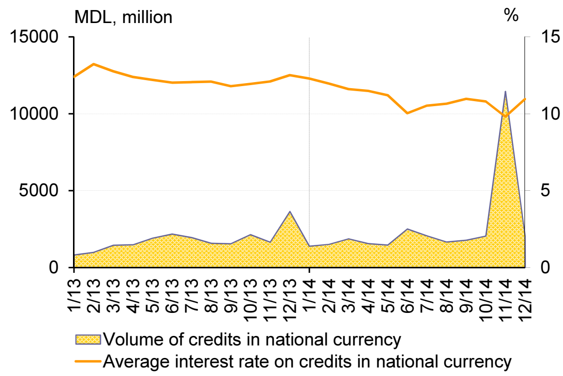



Source: NBM

### *Lending market*[10]

In 2014, ***the total balance of loans granted to economy*** decreased by 3.2 percent compared to 2013, when the annual growth accounted for 18.6 percent. This decrease was mainly determined by the evolution of the component in foreign currency (-7.2 percent). At the same time, the decrease pace of the component in national currency was more moderate (-0.5 percent) (Chart 3.9). Dynamics of the balance of loans was influenced by various factors, including the favourable conditions of new loans with decreasing interest rates both for the private sector and for the population. It should be mentioned that the new costs related to loans increased the demand for loans during the reporting period.

Chart 3.10: Dynamics of the volume and average rates of new loans granted in the national currency




Source: NBM

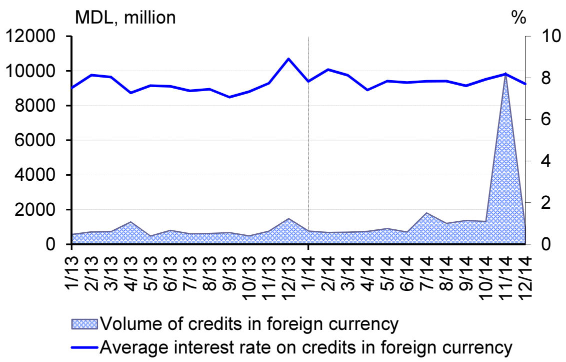
At the end of 2014, the balance of loans granted to legal entities recorded a negative growth rate of -6.7 percent, which is due to the sharp decrease of the component in foreign currency (-7.3 percent), the component in national currency recording a more modest rate (-6.3 percent). Dynamics of the balance of loans granted to population (Chart 3.9) recorded an increase of 25.2 percent at the end of 2014, due to the increase of the component in national currency by 25.7 percent annually.

### *Evolution of new garnted loans*

In 2014, new loans recorded a positive dynamics, accounting for MDL 52444.9 million, increasing by 71.9 percent. The

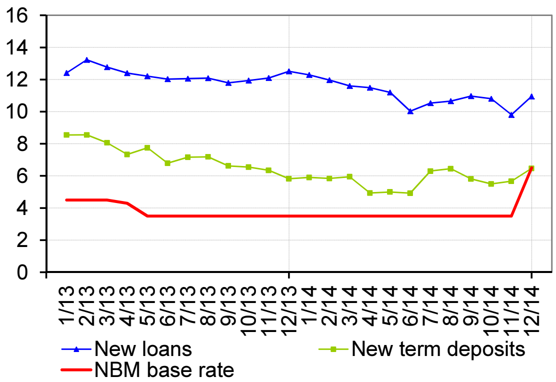
[10]The evolution of lending market indicators of the banking system in November 2014 was strongly distorted by several particularly large transactions performed at Banca de Economii S.A., B.C. "BANCA SOCIALĂ" S.A. and B.C. "UNIBANK" S.A.

Chart 3.11: Dynamics of the volume and average rates of new loans granted in the foreign currency



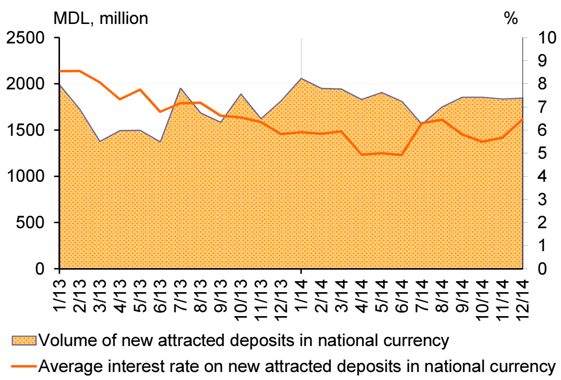

Source: NBM

Chart 3.12: Average interest rates in MDL (%)




Source: NBM

Chart 3.13: Dynamics of the volume and average rates of term deposits in the national currency




Source: NBM

demand for loans was positively influenced by the interest rates, which decreased compared to 2013, and by a more intense economic activity. At the same time, both components recorded positive evolutions, the volume of that in national currency (MDL 31340.5 million) increased by 47.1 percent compared to 2013 and in foreign currency (MDL 21104.4 million) increased by 2.3 times (Chart 3.10).

In 2014, the volume of loans granted to legal entities increased by 54.7 percent, up to MDL 26272.9 million, accounting for 83.8 percent of total loans in MDL. Although holding a smaller share in total loans, the loans granted to population increased by 17.4 percent compared to 2013, up to the level of MDL 5067.6 million.

Loans in foreign currency granted to legal entities increased by 2.4 times, up to the level of MDL 21024.4 million (Chart 3.11), accounting for 99.6 percent of granted loans, while those granted to individuals held a share of only 0.4 percent of total loans granted in foreign currency, recording a negative annual growth rate of 70.1 percent, up to the level of MDL 80.0 million.

***Interest rates and monetary policy transmission mechanism***

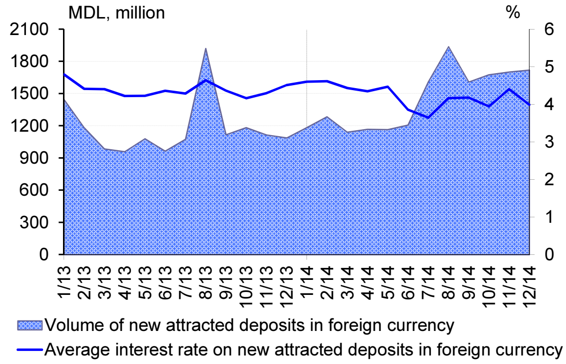
As the base rate was maintained stable by the Council of Administration of the NBM during 11 months of 2014, the interest rates applied by banks on loans granted to their clients recorded a downward trend, decreasing since 2010, while the interest rate of deposits was lower compared to 2013 (Chart 3.12).

The weighted average rate of new loans granted in national currency in 2014 was by 1.67 percentage points less compared to 2013, accounting for 10.59 percent. This trend was recorded by both categories of clients. Thus, the interest rate of loans granted to individuals recorded a level of 12.37 percent, decreasing by 1.25 percentage points, while the interest rate of loans granted to legal entities recorded the level of 10.25 percent, decreasing by 1.67 percentage points. At the same time, the interest rate of loans granted in national currency reached in December 2014 the level of 10.95 percent and the interest rate of loans granted in foreign currency constituted 7.71 percent.

The average rate of term placements in national currency decreased in 2014 by 1.50 percentage points, reaching the level of 5.72 percent (Chart 3.13). The interest rate of deposits of legal entities decreased by 1.55 percentage points, accounting for 3.00 percent, while the interest rate of deposits of individuals decreased by 0.93 percentage points, up to the level of 7.70 percent.

In 2014, the average interest rate of deposits in national currency recorded an uneven dynamics, recording in January a level of 5.91 percent, reaching a minimum level of 4.92 percent in June, while the highest value being recorded in December - 6.47 percent. The interest rate of deposits in foreign currency recorded a similar evolution, but reached the level of 3.98 by the end of the year.

Chart 3.14: Dynamics of the volume and average rates of new term deposits in the foreign currency




Source: NBM

As the development of deposits, the interest rates of new granted loans recorded a downward trend throughout the year. Thus, the maximum interest rate of loans in national currency was 12.29 percent in January 2014, while reaching in November the lowest level of 9.81 percent. The interest rates of new loans granted in foreign currency evolved more stably, falling within the corridor of 7.40 - 8.40 percent. Thus, the highest interest rate of 8.39 percent was recorded in February 2014 and the lowest interest rate of 7.41 percent was recorded in April, oscillating between these values eight months afterwards, reaching in December 2014 the level of 7.71 percent (Chart 3.14).

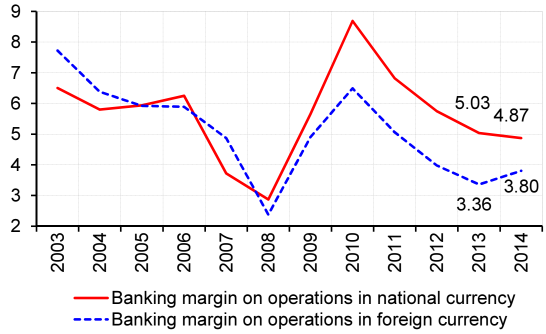
The average annual interest rate of term deposits in foreign currency decreased by 0.22 percentage points compared to 2013, accounting for 4.19 percent. This downward trend was characteristic for both client segments, the average interest rate of deposits of legal entities was 3.07 percent and the interest rate of deposits of individuals was 4.51 percent, by 0.87 percentage points and 0.07 percentage points, respectively, less compared to 2013.

Weighted average annual interest rate of new loans granted in foreign currency was 7.99 percent, compared to 7.77 percent in 2013, being determined by both client segments, but the loans granted to legal entities held the largest share.

Favourable conditions, liquidity and different risks of lending in MDL and in foreign currency allowed banks in 2014 to contribute to the decrease of banking margin of operations in national currency and the increase of banking margin of operations in foreign currency.

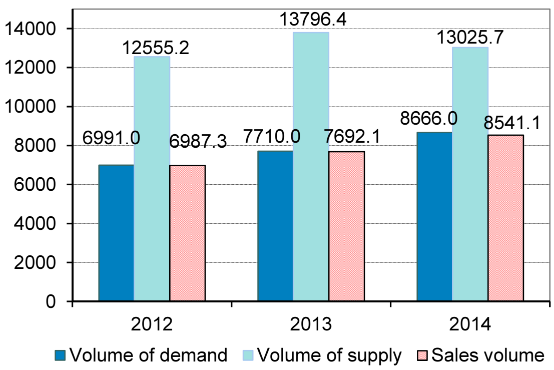
The decrease of banking margin in national currency (the difference between the average interest rates on loans and deposits) occurred mainly at the expense of the evolution of the annual interest rates of both new deposits and new loans. Attractive lending conditions in the real sector and the initiative of licensed banks to attract more new deposits marked 2014

Chart 3.15: Evolution of banking margin on operation in national currency and foreign currency (p.p.)



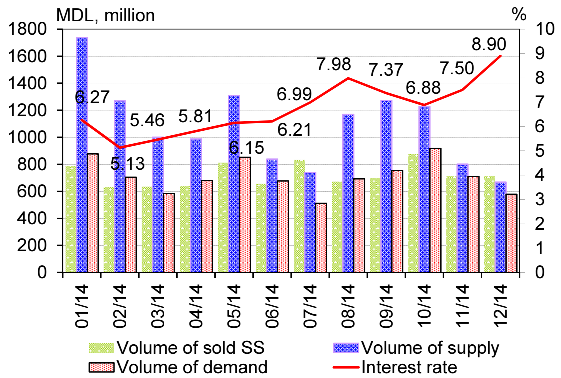

Source: NBM

Chart 3.16: Quantitative indicators of the primary market of SS (USD, million)




Source: NBM

Chart 3.17: Monthly dynamics of SS at auctions on the primary market in 2014




Source: NBM

and influenced directly the change in the margin. Banking margin of operations in foreign currency was associated with higher risks compared to 2013.

Thus, the banking margin of operations in national currency fell by 0.16 percentage points, down to the level of 4.87 percentage points and the banking margin of operations in foreign currency amounted to 3.80 percentage points or by 0.44 percentage points more compared to 2013 (Chart 3.15).

## 3.3 Money market

### Primary market of state securities

Acting as the fiscal agent of the state in organizing the placement and redemption of state securities (SS) in book-entry form, the National Bank of Moldova carried out 179 auctions of state securities placement during 2014.

Following the need to increase the budget deficit funding at the expense of domestic sources, the Ministry of Finance increased gradually the volume of Treasury bills (T-bills), announced weekly for placement through auctions, from MDL 155.0 million to MDL 170.0 million and that of government bonds (GB) with the maturity of 2 years remained at the level of 2013 – MDL 12.0 million.

The intention of the Ministry of Finance to increase the average maturity of SS issued on the primary market, determined the resumption in April 2014 of issuance of bonds with fixed rate and the maturity of 3 years, after a 9-yeras break. For this purpose, the structure of T-bills was modified, issued to increase the indicative volume of T-bills with the maturity of 182 and 364 days and to maintain the volume of T-bills with the maturity of 91 days.

The ratio of the volume of bids submitted and the volume announced for placement (1.5) recorded a decrease compared to the level recorded in 2013 (1.8), both due to the increase of the indicative volume of issuance and the reduction of investors' bids (Chart 3.16).

During the year, the Ministry of Finance put in circulation state securities in the amount of MDL 8541.1 million, representing 98.6 percent of announced volume with an average maturity of 233 days, higher than the 212 days recorded in 2013, due to changes made in the structure of issuance.

The evolution of interest rates of state securities reflected the combined influence exercised during 2014 by the change in liquidity conditions in the money market in the second half of the year, the situation on the local foreign exchange market and the monetary policy rate hike in two consecutive steps in December.

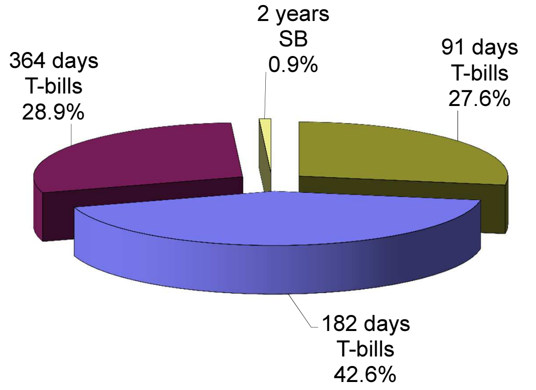
The consistent offer registered in early year has reduced the average interest rate on state securities (SS) with the maturity up to one year, followed by a slight upward correction in subsequent months. However, the operations performed by the NBM on the foreign exchange market in late June and early July to support the national currency have led to lower banks' bids at auctions of SS placement and interest rates have boosted the upward trend that has been followed until the end of August, then starting to reduce. In the last two months of the year, the interest rates on state securities have been rising as a result of monetary market conditions and the increase of base rate of the NBM in December 2014 (Chart 3.17).

Higher interest rates for SS compared to the interest rates offered by banks for deposits increased non-bank investors' interest for SS. Thus, the amount of SS purchased by non-bank investors increased compared with 2013 both in absolute terms and as a share of total awarded volume, registering MDL 909.2 million or 10.6 percent, compared to MDL 501.5 million or 6.5 percent in 2013. SS purchases by non-resident investors during 2014 were not recorded.

In the maturity structure of SS issues carried out in 2014 (Chart 3.18), treasury bills with a maturity of 6 months continue to be one of the placements with the largest share - 42.3 percent, followed by those with a maturity of 12 months with a share of 31.5 percent. The share of government bonds with floating interest rate and a maturity of 2 years in total issued SS increased slightly compared to 2013, and share of government bonds with the maturity of 3 years was 1.2 percent.

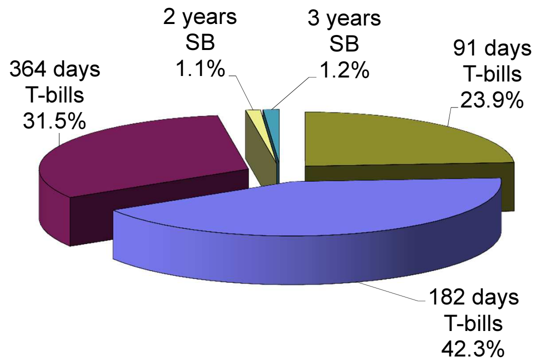
The analysis of interest rates on state securities in breakdown by maturity shows increased volatility and a major difference in interest rates on securities of 182 days and 364 days to those with a maturity of 91 days, which is explained by the increase by the Ministry of Finance of the indicative volume of SS issues with longer maturities during the reporting year and by the frequent award of these SS in volumes exceeding the volumes announced for auction (Chart 3.20). At the last auctions of SS in 2014, the average interest rates showed values of 6.00, 10.93 and 11.74 percent annually for SS with maturities of 91, 182 and 364 days respectively, significantly higher than the values recorded at the end of 2013, reflecting the expectations

Chart 3.18: Structure of SS issuances by types in 2013



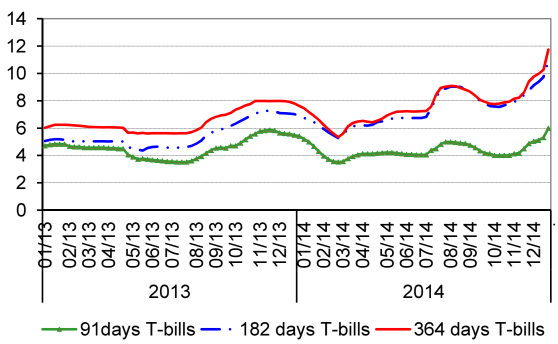

Source: NBM

Chart 3.19: Structure of SS issuances by types in 2014




Source: NBM

Chart 3.20: Dynamics of nominal interest rates on SS (%)



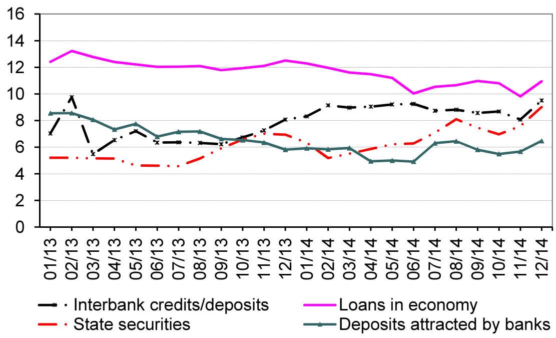

Source: NBM

Table 3.1: Weighted average annual nominal rates of interest on state securities by maturity (%)

| | 2013 | 2014 |
|---|---|---|
| QB 91 days | 4.54 | 4.35 |
| QB 182 days | 5.55 | 7.25 |
| QB 364 days | 6.60 | 7.66 |
| SB 2 years | 6.56 | 8.33 |
| SB 3 years | - | 8.73 |

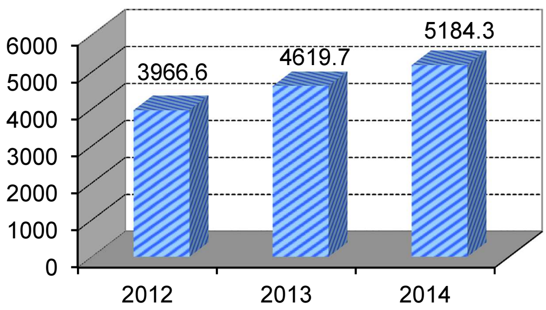
Source: NBM
Note: effective interest rates are presented for government bonds

Chart 3.21: Evolution of interest rates (%)




Source: NBM

Chart 3.22: Dynamics of the volume of SS in circulation at the end of the period (MDL, million)




Source: NBM

of a further hike cycle of monetary policy base rate in the near future.

The average annual interest rate of state securities with the maturity up to one year awarded in 2014 increased to the level of 6.68 percent annually compared to 5.54 percent annually in 2013.

Weighted average annual nominal rates of interest on state securities traded during the last two years on the primary market auctions, in breakdown by maturity, are shown in Table 3.1.

The interest rates of loans in the economy continued to be on top in the hierarchy of financial market yields. Income from investment in state securities was superior to those offered by bank deposits in January, after which was lower in February and March. However, the income from investment in state securities in April advanced the interest offered by banks on deposits and remained in this position until the end of the year, distancing significantly from them (Chart 3.21).

The volume of state securities placed on the primary market through auctions and subscriptions, those outstanding at December 31, 2014 amounted to MDL 5184.3 million at nominal value (Chart 3.22). At the sale - purchase price, these securities accounted for MDL 4918.8 million, increasing by MDL 492.7 million at the end of the reporting year compared to the end of 2013. As from SS in circulation at December 31, 2014, those with residual maturity up to three months constituted 37.6 percent, up to 6 months - 30.1 percent, up to 12 months - 28.3 percent, up to two years - 1.9 percent and up to three years - 2.1 percent.

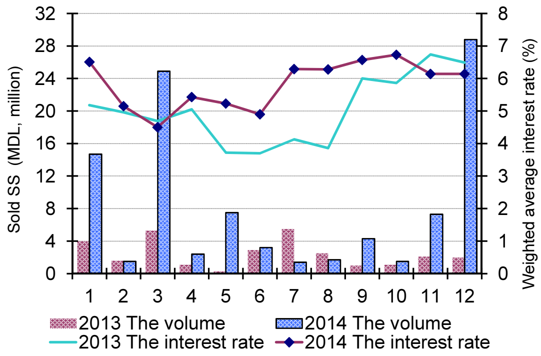
## Secondary market of state securities

The turnover of SS secondary market recorded a significant increase in 2014. Thus, the volume of transactions for the sale of SS evolved from MDL 29.4 million in 2013 to MDL 99.2 million during the reporting year. Unlike 2013, when interbank transactions held the largest share in the selling-buying transactions on the secondary market of state securities, in 2014, the share of operations carried out between banks and their client increased from 16.9 percent to 63.1 percent. The most traded SS continued to be those with a residual maturity below one year.

Annual average yield for the state securities with maturity up to one year traded on the secondary market reached the level of 5.67 percent, up by 0.81 percentage points compared to 2013. In the first half of the year, average interest rates had a decreasing trend with small fluctuations (with the lowest rate in March - 4.50 percent), changing its trend in the second half of the year, the highest rate being registered in October - 6.73 percent.

Chart 3.23 shows the dynamics of the volume and the average weighted interest rate changes compared to 2013.

Chart 3.23: Dynamics of indicators on the secondary market




Source: NBM

***Interbank money market***

The interbank market in 2014 was almost entirely composed of interbank loans / deposits, their amount constituting 99.7 percent of the total. Compared with 2013, the volume of interbank transactions increased by about 21.7 percent and totalled MDL 45642.0 million.

*Interbank loans/deposits market*

The total value of interbank loans/deposits in 2014 increased by MDL 8040.4 million compared to 2013, reaching the level of MDL 45507.8 million.

Similarly to 2013, the interbank loans/ deposits market remained active during 2014, due to a limited number of participants.

In the first ten months of 2014, the monthly volume of transactions recorded uniform sizes between maximum MDL 4538.7 million in January and minimum MDL 2813.2 million in August, followed by extreme values in the last two months of the year.

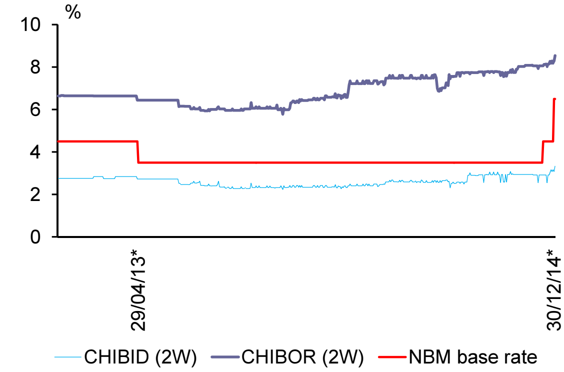
In November 2014, the volume of transactions increased significantly, due to the loans granted among three banks, up to MDL 10811.7 million, followed by a sharp decline in December, up to MDL 201.9 million, after the three banks exited the interbank market in connection with the special administration establishment.

Average monthly interest rates on interbank loans / deposits for the whole of 2014 showed a growth trend in the first half of the year, reaching a peak of 9.25 percent annually in June, after which changed the trend in the opposite direction, decreasing to the minimum of 8.08 percent annually in December. The average annual interest rate on interbank loans/deposits constituted 8.69 percent annually, which is superior to that recorded in 2013 by 1.81 percentage points.

Higher interest rates on interbank transactions in 2014 reflected the shortage of liquidity in some banks. This has also determined the monthly average interest rate on interbank loans / deposits to be above the upper limit of the monetary policy rate corridor of the NBM during the year (except December).

The average term of transactions in 2014 was 9 days, increasing by 2 days compared to 2013, due to the lower share of transactions with overnight maturities, which accounted for 43.0 percent compared to 61.0 percent of the total in 2013.

Chart 3.24: Evolution of reference rates on interbank market and the NBM base rate



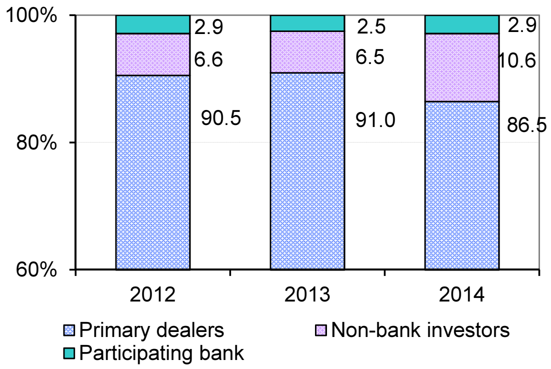

Source: NBM
*base rate change date

CHIBOR/CHIBID reference rate curve (indicative quotations of interest rates for the placement/attraction on the interbank market of funds in national currency) reflected the developments from interbank loans/deposits market.

The CHIBOR 2W interest rate, trying to follow the interbank loans / deposits market trends, performed on an upward trend, exceeding the upper limit of interest rate corridor at the end of January. By the end of December, this followed a slow upward trend, interrupted sporadically by downward movement. The changes on the NBM base rate in the second half of December were reflected by the CHIBOR 2W reference rate curve in the next period, the CHIBOR 2W marked a rise, but by the end of the year was below the upper limit of the corridor determined by the NBM.

As a result of this development, the CHIBOR 2W and CHIBID 2W reference rates were up by 2.11 percentage points and 0.99 percentage points, respectively, at the end of the year compared those recorded on the last day of 2013. As of December 31, 2014, the CHIBOR 2W recorded 8.54 percent and CHIBID 2W - 3.33 percent annually (Chart 3.24).

Chart 3.25: Structure of SS purchases at auctions on the primary market by categories of participants




Source: NBM

## Activity of primary dealers on the state securities market in 2014

As at December 31, 2014, there were 9 primary dealers on the state securities market (by 2 primary dealers less than in 2013).

In accordance with the agreements on the performance of the functions of primary dealer on SS market concluded with the NBM, primary dealers contributed to the placement of state securities on the primary market and to the provision of their liquidity on the secondary market.

Volume of requests submitted by primary dealers at the auctions of placement of state securities in 2014 amounted to MDL

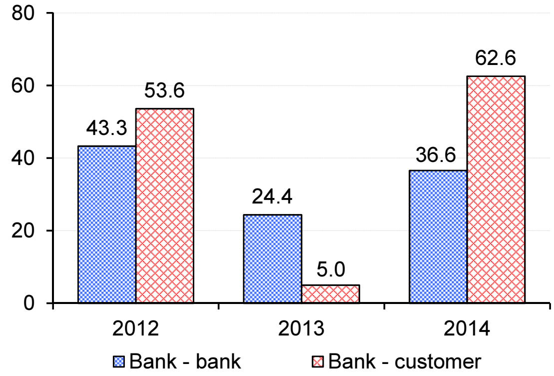
12399.0 million, decreasing by MDL 854.2 million (or by 6.4 percent) compared to 2013.

For 2014 as a whole, the primary dealers purchased state securities in the amount of MDL 8295.0 million, which represents 95.7 percent of the volume offered by the Ministry of Finance (in 2013 this indicator constituted 97.2 percent).

A share of 86.5 percent (MDL 7385.8 million) of the total volume of awarded state securities were purchased by primary dealers in own name and in own account, compared to 91.0 percent (MDL 6998.5 million) in 2013 (Chart 3.25).

In 2014, the activity of primary dealers on the secondary market of state securities increased considerably, particularly the transactions of bank-client type, which registered a volume of MDL 62.6 million (63.1 percent of the total volume of transactions with state securities) compared to MDL 5.0 million (17.0 percent) in 2013 (Chart 3.26).

Chart 3.26: Selling-buying transactions performed by the primary dealers on the secondary market (MDL, million)




Source: NBM

***Record-keeping of securities in the book-entry system of the NBM***

The securities book-entry system (BES), administrated by the National Bank of Moldova, is a storage and settlement system of securities issued by the Ministry of Finance and those issued by the National Bank of Moldova.

BES ensures timely and safe execution of open market operations of the National Bank, processing of operations performed by participants in relation to issuers, real-time processing of transfer orders sent by participants in BES, and the immediate settlement of transactions concluded on the secondary market.

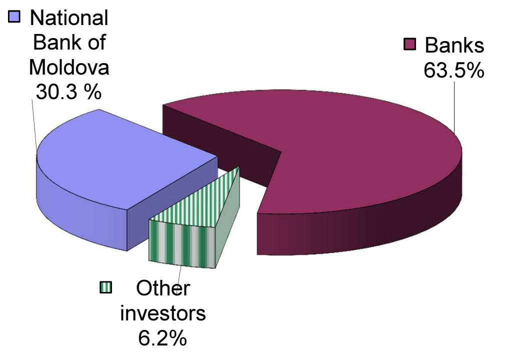
In addition, the book-entry system manages the collateral lodged by participants for lending standing facilities and collateral constituted in monetary operations of the National Bank.

On December 31, 2014, the total volume of securities registered in BES accounted for MDL 7584.3 million at nominal value, which by issuers are as follows:

I. Ministry of Finance – SS in the total amount of MDL 7364.2 million, including:

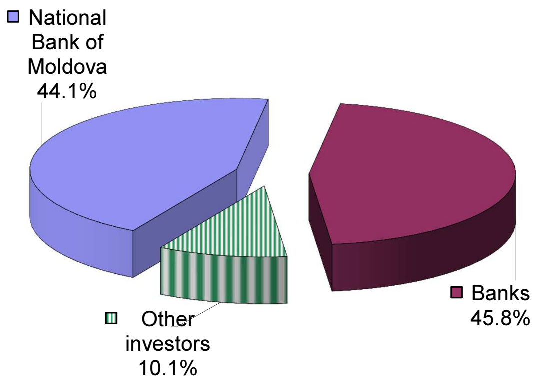
- MDL 5184.3 million or 70.4 percent are SS issued via auctions and underwriting on the primary market;

Chart 3.27: Structure of state securities in circulation in the holders' profile as of 31.12.2013




Source: NBM

Chart 3.28: Structure of state securities in circulation in the holders' profile as of 31.12.2014




Source: NBM

- MDL 93.1 million or 1.3 percent are SS issued for "Banca de Economii" S.A. according to the Law no.190 on additional measures to ensure financial stability;
- MDL 2086.8 million or 28.3 percent are SS issued and delivered to the National Bank.

II. National Bank - NBM Certificates (NBC) in total amount of MDL 220.1 million.

The total amount of SS recorded in the book-entry system at nominal value is divided by holders as follows:

Banks

- on 31.12.2014 - MDL 3376.1 million
- on 31.12.2013 - MDL 4381.4 million

Other investors (including the Deposit Guarantee Fund in the banking system)

- on 31.12.2014 - MDL 741.4 million
- on 31.12.2013 - MDL 424.6 million

National Bank of Moldova (SS delivered to the NBM as a result of the conversion of loans previously granted to the State and subsequently reissued)

- on 31.12.2014 - MDL 3246.7 million
- on 31.12.2013 - MDL 2091.4 million

On December 31, 2014, the following changes in the structure of SS holders could be seen compared to 2013:

- the share held by banks decreased as a result of the increase of the share held by the National Bank, which occurred as a result of NBM purchases of SS in its portfolio within Repo operations;
- the share held by non-bank investors increased (mainly represented by insurance companies).

The NBM Certificates in the total amount of MDL 220.1 million were recorded in licensed banks portfolios.

The average annual holding share of SS to maturity by non-bank investors increased from 2.3 percent in 2013 to 4.6 percent in the reporting year, due to the increase in the interest rate on state securities on the primary market.

During the reporting year, National Bank registered in BES 7672 operations in the amount of MDL 134168.8 million, of which:

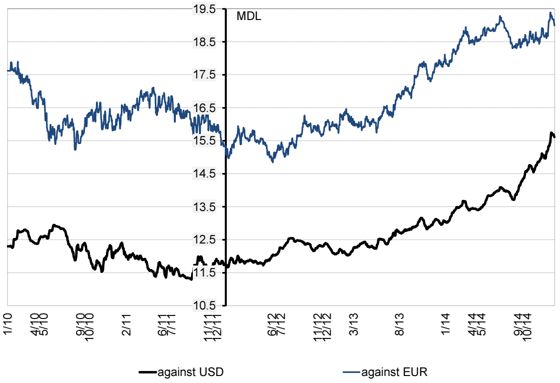
- Operations on primary market (new issues) - MDL 58051.5 million.
- Redemption and interest payment of SS at maturity by the Ministry of Finance - MDL 16432.4 million.
- Redemption of NBM Certificates at maturity by the National Bank - MDL 43551.4 million.
- Operations on OTC Secondary Market - MDL 140.2 million
  - Selling-buying operations - MDL 134.2 million, of which:
    - operations with SS - MDL 99.2 million;
    - operations with NBM Certificates - MDL 35.0 million;
  - transfer operations - MDL 6.0 million.
- Pledging operations - MDL 7668.6 million.
- NBM operations on money market - MDL 8324.7 million.

In 2014, DvP (delivery versus payment) held a share of 94.2 percent of total transfers, FoP (free of payment) transfers - 5.8 percent, the latter being made between banks and the NBM on operations of pledging and transfers operations between banks and their clients.

## 3.4 Foreign exchange market

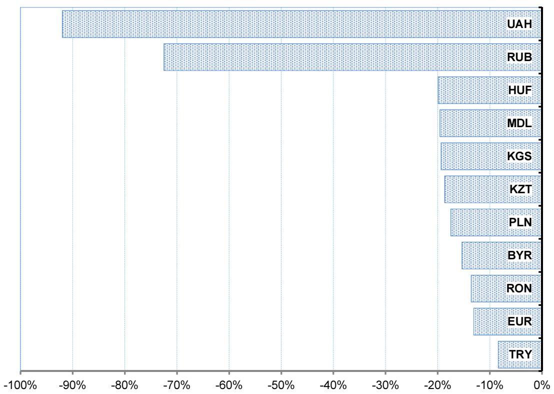
### The evolution of nominal and real effective exchange rate

Chart 3.29: Fluctuations of the official exchange rate of MDL



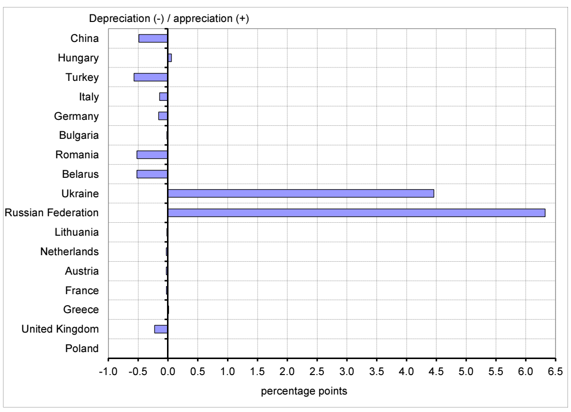

Source: NBM

Chart 3.30: Evolution of currencies of major trading partners of the Republic of Moldova and countries in the region against the USD (end of 2014), 31.12.13 = 100




Source: NBM

Chart 3.31: Contribution of the main trade partners of the Republic of Moldova to the real effective exchange rate modification during 2014




Source: NBM

During 2014, the ***official nominal exchange rate of the national currency*** depreciated *against the U.S. dollar* by 19.6 percent and *against the EUR* by 5.7 percent compared to the end of 2013 (Chart 3.29).

The ***average official exchange rate of national currency*** recorded the same tendency in 2014, depreciating against the USD and against the EUR by 11.5 and by 11.4 percent respectively, compared to the average official exchange rate of the national currency recorded in 2013.

In 2014, the trend of depreciation against the USD held a regional character, being also specific to currencies of major trading partners with notable shares in external trade of the Republic of Moldova. The RUB and UAH recorded a stronger depreciation against the USD than the MDL (Chart 3.30).

These developments creates prerequisites for the appreciation of the ***real effective exchange rate of the national currency (REER)***[11] by 8.1 percent. In this context, Russia contributed mainly to the appreciation of the real effective exchange rate by 6.32 percentage points and Ukraine - by 4.46 percentage points (Chart 3.31).

During 2014, the dynamics of the exchange rate of the national currency against major currencies was driven by an unfavourable external environment to which the economy of the Republic of Moldova was exposed, the MDL depreciation being exacerbated by domestic developments.

Among the external factors that acted negatively on the national currency through the foreign currency inflows, it should be mentioned the embargo on imports of Moldovan products imposed by the main Eastern partner of the Republic of Moldova, restrictions to employment introduced by Russia and the depreciation of the RUB - developments with negative implications for Moldovan emigrants remittances. Slow economic recovery in the EU has contributed to a decline in the

[11]Calculated based on trade partners and average exchange rates, December 2000 = 100.

net flow of external private loans and foreign direct investment in the Republic of Moldova, but also to a more modest growth rate of trade in this region compared to 2013. On the other hand, the U.S. recorded an economic recovery in 2014 higher than expected. This development created conditions for orientation of capital towards instruments issued by U.S. entities and respectively for strengthening the position of the U.S. dollar to the detriment of most foreign currencies, including the MDL.

Additional depreciation pressures on the MDL occurred also against a background of some trends recorded on the local market. Thus, during 2014, the deposits and savings of individuals migrated from MDL to foreign currency. Therefore, their foreign exchange funds placed in deposits increased by USD 159.1 million[12], and savings in MDL decreased by USD 51.2 million.

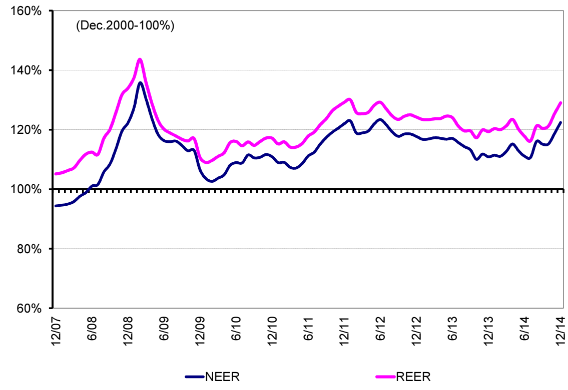
The national currency depreciation has occurred, to some extent, amid NBM decision to establish special administration over Banca de Economii S.A., BC „BANCA SOCIALĂ" S.A. and B.C. "UNIBANK" S.A. This created conditions for the anticipation and negative perceptions associated with future exchange rate dynamics of MDL.

Overall, these developments have contributed in 2014 to create a deep gap between demand and supply on the foreign exchange market compared to previous years. Gap deepening occurred under a low net supply of foreign currency from individuals, which amounted to USD 2048.0 million, by 30.2 percent less than in 2013. The supply growth rate of both EUR and USD turned negative in 2014 (Chart 3.33). The supply growth rate in RUB remained positive during the first three quarters of 2014 and turned negative in the fourth quarter, reflecting the decline in transfers from abroad to individuals in this period by 20.2 percent.

At the same time, in 2014, net foreign currency sales to legal entities fell negligibly - by 2.0 percent (USD 2617.7 million), mainly on the account of a lower demand for USD from local gas supplier (by USD 68.2 million) compared to 2013. During 2014, economic agents have generated demand for foreign currency for the import settlements, but also mostly to honour their commitments to foreign investors and creditors. Thus, in 2014, foreign exchange outflow of external private loans and foreign direct investment increased by 12.5 percent, while the inflow related to these funding sources decreased by 27.9 percent.

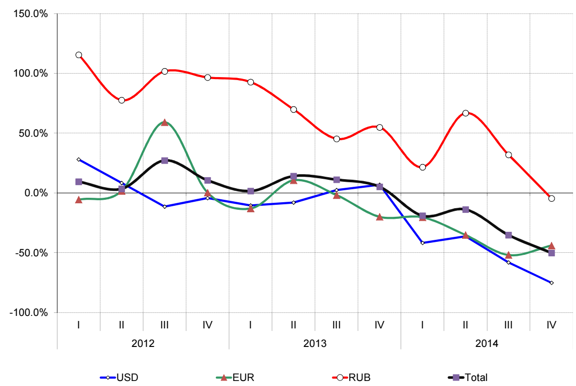
[12]Recalculated at the constant exchange rate of December 31, 2014.

Chart 3.32: Dynamics of the nominal and real effective exchange rate of the national currency calculated based on the weight of the main trade partners for Dec.2007 – Dec. 2014



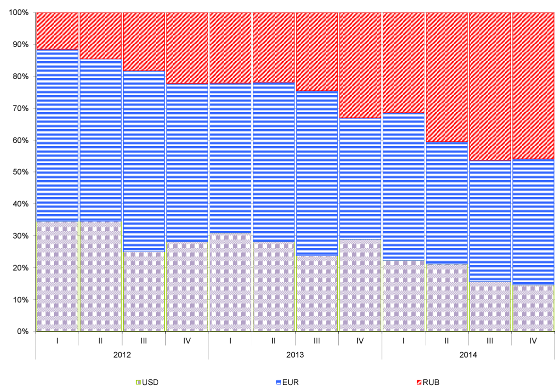

Source: NBM

Chart 3.33: Dynamics of net supply of foreign currency from individuals, by currencies (compared to the same period of the previous year)




Source: NBM

Chart 3.34: Currency structure of the net foreign currency supply (currencies are recalculated in USD at an average constant exchange rate)

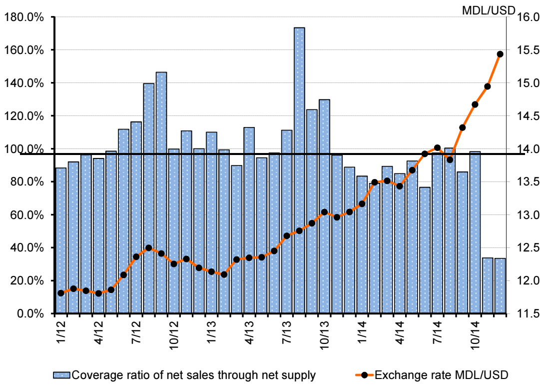



Source: NBM

In these circumstances, the coverage of demand by supply declined to 78.2 percent compared with 109.9 percent in 2013 and 107.8 percent in 2012.

Within the objectives of NBM monetary policy, the shortage of foreign currency (about USD 570 million) recorded on the local market was partly covered by net sales interventions of USD 418.1 million[13]. These currency sales have contributed to smoothing the excessive fluctuations of the exchange rate of the national currency and to mitigate foreign currency depreciation against the reference currency - the U.S. dollar.

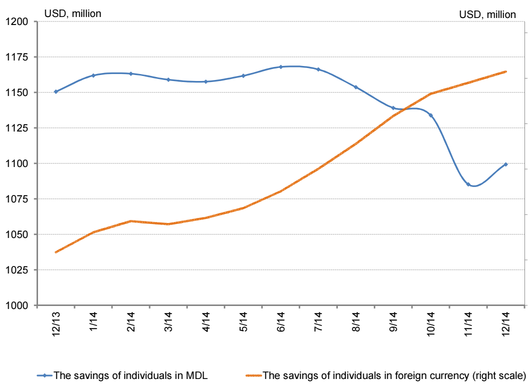
Chart 3.35: Coverage rate of net demand by net supply and the dynamics of the official exchange rate




Source: NBM

At the same time, the exchange rate of the national currency against U.S. dollar depreciated in 2 phases in 2014. During the first 8 months of the year, amid some high coverage of demand by supply (87.9 percent) compared to that recorded throughout the year, MDL recorded a moderate depreciation trend - 6.9 percent at the end of August compared to the end of 2013. In the last 4 months of 2014, the depreciation of MDL against USD has accelerated - by 11.8 percent compared to the end of August. This development was due to lower demand coverage by the supply with 28.7 percentage points, up to 59.2 percent amid the onset of remittances fall in favour of individuals[14], but also amid the intensification of the migration of savings of individuals from national currency to foreign currency (Chart 3.36).

Chart 3.36: Dynamics of sight and term deposits in MDL and in foreign currency of individuals during 2014 (recalculated to the constant exchange rate of 31.12.2014)




Source: NBM

During this period, the savings in MDL decreased by USD 54.4 million and those in foreign currency increased by USD 63.7 million. Therefore, in the last 4 months of the year, the net supply of foreign currency from individuals (USD 520.1 million) fell significantly compared to the same period of 2013 - by 47.1 percent. For comparison, in the first 8 months of 2014, the net supply decreased by 21.7 percent compared to January - August 2013.

The increased demand for foreign currency (USD 878.5 million) in September - December 2014 has also caused pressure on the exchange rate, being largely generated by importers of energy resources and other legal entities that made repayments for external loans during this period. Thus, in the last 4 months of 2014, external loans registered a negative net flow of USD -56.9 million compared with a positive net flow of USD 27.0 million in the same period of 2013.

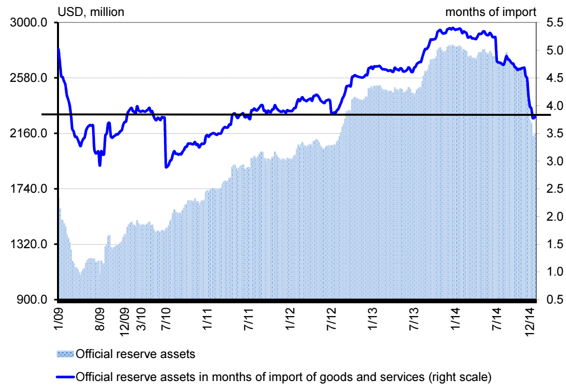
In these circumstances, to improve the situation on the domestic foreign exchange market, NBM intervened in higher proportions

[13]The respective amount does not include special interventions made in favour of Banca de Economii S.A., B.C. ”BANCA SOCIALĂ” S.A.
[14]By 20.2 percent in the fourth quarter of 2014.

in the last 4 months of the year, injecting USD 290.0 million compared with net sales of USD 128.1 million in the first 8 months of 2014.

At the end of 2014, official reserve assets amounted to USD 2156.6 million, decreasing by USD 664.0 million compared to the end of previous year, covering about 3.8 months of import of goods and services (Chart 3.37). The reduction of official reserve assets occurred as a result of net sale interventions made by the NBM to mitigate the excessive fluctuations in exchange rates and the depreciation against the U.S. dollar of the components of foreign exchange reserves.

Chart 3.37: Evolution of official reserve assets in months of import of goods and services during 2014 (recalculated to the constant exchange rate of December 31, 2014)




Source: NBM

At the same time, the grants and loans offered by the main development partners has also contributed to the strengthening of official reserve assets. In this context, the European Commission has allocated in 2014 the equivalent of about USD 70 million under the EU-Moldova Deep and Comprehensive Free Trade Area (DCFTA) and to support the legal reform projects, for health, water supply and sanitation, education reform and public finance management. Romanian Government, Ministry of Foreign Affairs and Ministry of Regional Development of Romania have offered grants in the amount equivalent to approximately USD 74.0 million. The World Bank has allocated USD 36.0 million, of which a loan of USD 30.3 million in the framework of the 2$^{nd}$ Development Policy Operations (DPOs).

Significant loans have been also granted by the European Investment Bank for the rehabilitation of roads (USD 19.8 million).

## Foreign exchange market of the Republic of Moldova

The foreign exchange market of the Republic of Moldova in 2014 shows an upward trend of transactions on the exchange market against MDL.

The total turnover of foreign currencies traded against MDL in this period totalled the equivalent of USD 32857.4 million[15], increasing by 44.2 percent compared to 2013 (Table A.10). In total turnover, purchases of foreign currency on the domestic foreign exchange market against MDL constituted USD 16572.0 million, while sales of foreign currency - USD 16285.4 million. Rise of transactions in 2014 was driven by transfer on foreign

[15]The amount does not include purchases/sales against MDL carried out between National Bank and Ministry of Finance.

exchange market, especially by reverse foreign currency swaps carried out on the interbank local market. These operations helped to increase the turnover of transactions carried out by the NBM by 3.4 times and by resident banks - by 1.7 times.

At the same time, legal entities had a dominant presence on the transfer market in 2014, whose transactions grew by 29.4 percent.

As on the cash foreign exchange market, the turnover of both foreign exchange bureaux of the licensed banks and foreign exchange offices decreased by 10.7 percent and 2.6 percent respectively.

In 2014, the USD maintained its dominant position in the total turnover of foreign exchange transactions on transfer foreign exchange market. The EUR held the largest share in the turnover structure of cash foreign exchange market (Table A.11).

Compared to 2013, purchases of foreign currency by licensed banks on the domestic foreign exchange market in 2014 increased significantly by USD 5168.4 million or by 47.5 percent (Table A.12). This increase was mainly due to increased purchases of foreign currency by resident banks - by USD 3161.9 million (by 73.3 percent) and by the NBM - by USD 1452.6 million (by 6.8 times), mainly due to swap purchase transactions. Purchases of foreign currency from legal entities have also increased - by USD 1113.0 million (by 47.2 percent), while purchases from individuals decreased by USD 604.1 million (by 17.4 percent).

In 2014, purchases of foreign currency by licensed banks on the domestic foreign exchange market were mainly carried out by resident banks (46.6 percent), legal entities (21.6 percent), individuals (17.9 percent) and National Bank (10.6 percent).

Compared to 2013, sales of foreign currency by licensed banks in the Republic of Moldova on the domestic foreign exchange market in 2014 increased by USD 4928.7 million or by 45.4 percent (Table A.13). This increase was due in particular to higher sales to resident banks - by USD 3148.5 million (by 72.8 percent) and to the NBM - by USD 445.3 million (by 80.4 percent), being driven mainly by swap sale transactions. Sales of foreign currency to legal entities have also increased - by USD 1060.8 million (by 21.1 percent) and to individuals - by USD 289.9 million (by 53.2 percent).

Sale of foreign currency by licensed banks on the domestic foreign exchange market in 2014 occurred mainly in favour of resident banks (47.4 percent), legal entities (38.6 percent), NBM (6.3 percent) and individuals (5.3 percent).

The deficit of foreign currency on the foreign exchange market, as related to the foreign exchange operations conducted by licensed banks, was USD 2695.4 million, being covered in the proportion of 75.4 percent by net purchases from individuals (USD 2031.0 million). The uncovered net supply by individuals was satisfied by net sales made by the National Bank of Moldova (USD 702.7 million) (Table A.14).

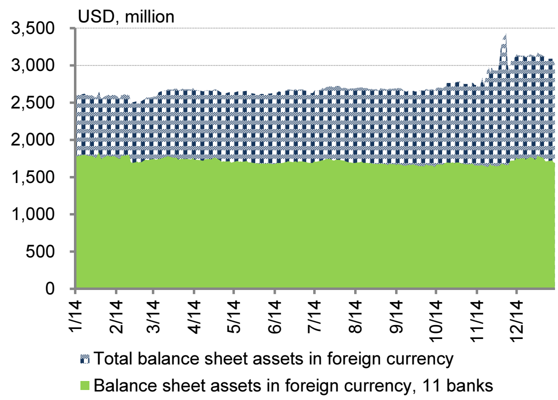
## Dynamics of banks' assets and liabilities in foreign currency

As of December 31, 2014, the ***balance sheet assets in foreign currency***[16] of licensed banks (loans granted, disposable funds, required reserves and other assets in foreign currency) increased by 15.2 percent as compared to December 31, 2013 (from USD 2610.2 million to USD 3008.1 million). At the same time, the ***balance sheet assets in foreign currency***, *excluding the 3 banks under special administration*, reduced by 5.2 percent[17] (from USD 1784.2 million to USD 1690.7 million). The *balance of loans granted in foreign currency* held the highest share in total balance sheet assets in foreign currency as at the end of 2014, accounting for a share of 34.0 percent, down by 21.9 percentage points less compared to December 31, 2013. This indicator has varied during 2014 from the minimum level of 32.8 percent to the maximum level of 51.9 percent. The balance of *loans granted in foreign currency, except the 3 banks under special administration*, recorded a share of 52.1 percent in total balance sheet assets in foreign currency at the end of 2014, down by 10.3 percentage points compared to the end of 2013.

As compared to December 31, 2013, the *balance of loans in foreign currency* recorded by all local banks decreased by the equivalent of USD 286.6 million (from USD 1308.9 million to USD 1022.3 million) or by 21.9 percent (Table A.15).

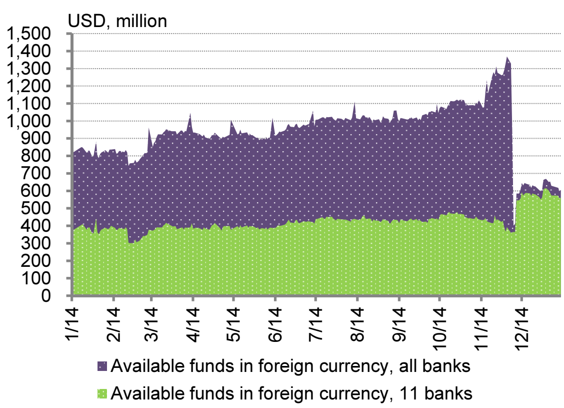
According to the data of December 31, 2014, the loans granted in EUR held the largest share in the foreign currency structure of the balance of loans granted by all domestic banks (60.7 percent), followed by those in USD (39.0 percent). In absolute values, the balance of loans in EUR decreased by the equivalent of USD 148.8 million[18] (from USD 769.8 million to USD 621.0 million) or by 19.3 percent. At the same time, the balance of

Chart 3.38: Evolution of balance sheet assets of the licensed banks (USD, million)




Source: NBM

Chart 3.39: Dynamics of disposable funds in foreign currency (equivalent in USD, million)




Source: NBM

[16] Excluding adjustment position of assets in foreign currency.
[17] Recalculated at the constant exchange rate of December 31, 2014, the balance sheet assets in foreign currency registered an opposite trend, increasing by USD 33.6 million.
[18] Of which USD 89.3 million were due to exchange rate differences, as a result of the depreciation of the EUR against the USD.

loans in USD decreased by USD 135.9 million (from USD 534.6 million to USD 398.7 million), or by 25.4 percent.

At the end of 2014, the share of *disposable funds in foreign currency* was 20.2 percent of total balance sheet assets in foreign currency of licensed banks. This indicator has varied during the year from the minimum level of 13.4 percent to the maximum level of 44.3 percent. As for the *balance of disposable funds in foreign currency, except the 3 banks under special administration* recorded a share of 33.2 percent in total balance sheet assets in foreign currency at the end of 2014, up by 11.1 percentage points compared to December 31, 2013.

As compared to the end of 2014, the *balance of disposable funds in foreign currency* recorded by all local banks decreased by the equivalent of USD 374.1 million (from USD 980.9 million to USD 606.8 million) or by 38.1 percent compared to December 31, 2013.

The balance of disposable funds in foreign currency of licensed banks as at the end of 2014, had the following structure: "Nostro" accounts opened abroad - 69.3 percent, cash in foreign currency - 17.3 percent, placements abroad of licensed banks - 7.9 percent, overnight deposits - 5.3 percent and securities in foreign currency - 0.2 percent (Table A.17).

On December 31, 2014, the balance of disposable funds in foreign currency recorded the following structure: EUR - 57.1 percent, USD - 39.8 percent, RUB - 2.2 percent and other currencies - 0.9 percent (Table A.18).

Thus, the share of disposable funds in EUR increased by 23.5 percentage points to the detriment of the share of disposable funds in USD, which declined by 22.7 percentage points. The foreign exchange structure of disposable funds in foreign currency has mainly changed as a result of the withdrawals of funds placed on term in USD by banks from abroad, predominantly in the 3 banks under special administration.

On December 31, 2014, the balance of *required reserves in foreign currency* increased by 8.6 percent, from USD 206.4 million to USD 224.2 million. Required reserves represented 7.4 percent of total balance sheet assets in foreign currency of licensed banks and ranged between 6.4 percent and 8.6 percent during the reporting period.

The *balance of other assets*, at the end of 2014, increased by the equivalent of USD 1063.7 million, up to USD 1083.3 million[19]

[19]On the account of the operations of the 3 banks under special administration (Banca de Economii S.A., B.C. ”BANCA SOCIALĂ” S.A. and B.C. „UNIBANK” S.A.).

compared to December 31, 2013. At the same time, the balance of other assets, excluding banks under special administration, amounted to USD 2.1 million at the end of 2014, decreasing by only USD 12.7 million.

*Balance of foreign currency-linked assets* constituted the equivalent of USD 71.5 million as of December 31, 2014, decreasing by USD 22.9 million or by 24.3 percent as compared to December 31, 2014, mainly as a result of granting less foreign currency-linked loans. Minimum balance of foreign currency-linked loans granted in 2014 was USD 73.9 million and the maximum balance - USD 96.8 million.

The ***balance of balance sheet liabilities in foreign currency*** of banks increased during the reporting period by the equivalent of USD 168.7 million[20] (from USD 2530.8 million as at December 31, 2013 to USD 2699.5 million as at December 31, 2014) or by 6.7 percent. At the same time, the *balance of balance sheet liabilities in foreign currency, except the 3 banks under special administration*, reduced by the equivalent of USD 86.7 million[21] or by 4.9 percent (Table A.19).

On December 31, 2014, the *balance of term deposits in foreign currency of clients, except banks*, held the largest share in the total balance sheet liabilities in foreign currency (38.1 percent). In this context, the balance of these deposits increased compared to the end of 2013 by the equivalent of USD 55.6 million[22] or by 5.7 percent, primarily due to higher balance of deposits of resident individuals. At the same time, non-residents, both legal entities and individuals, placed by 35.6 percent more term deposits (USD 71.3 million as at December 31, 2014 compared to USD 52.6 million as at December 31, 2013). During 2014, the share of term deposits of non-residents in total term deposits of clients ranged between 4.1 percent and 9.1 percent.

The *balance of current accounts in foreign currency* of clients accounted for USD 428.6 million as at December 31, 2014, increasing by 14.6 percent compared to the end of 2013. This increase was primarily determined by the increased funds in current accounts of resident legal entities. By the end of 2014, the *balance of current accounts in foreign currency of clients*

[20] Predominantly due to attracting term deposits from the interbank local market and the increase of balances of the current accounts of deposit accounts of resident individuals and legal entities. Recalculated at the constant exchange rate of December 31, 2014, the balance of liabilities in foreign currency balance sheet increased by USD 329.0 million.

[21] Recalculated at the constant exchange rate of December 31, 2014, the balance of balance sheet liabilities in foreign currency, except the 3 banks under special administration, registered an opposite trend, increasing by USD 31.9 million.

[22] At the constant exchange rate, the increase in term deposits is USD 133.7 million.

recorded a 15.9 percent share in the total balance sheet liabilities in foreign currency (which ranged from 11.7 percent to 17.2 percent over the reporting period). At the same time, the *balance of current accounts in foreign currency of non-residents* held a share of 23.6 percent in total current accounts in foreign currency of licensed banks' clients, compared to 27.0 percent at the end of 2013.

At the end of the reporting period, *sight deposits in foreign currency of clients* constituted 7.1 percent of total balance sheet liabilities in foreign currency and their balance has remained almost unchanged (USD 192.4 million as at December 31, 2014 compared to USD 186.4 million as at December 31, 2013). During 2014, the share of sight deposits of non-residents (mainly individuals) in total sight deposits of clients ranged between 1.4 and 2.6 percent, whose sold at the end of the year was USD 4.9 million.

The *basic balance sheet liabilities in foreign currency* of licensed banks (term deposits, various deposits and current accounts of clients, except those opened by other banks) increased by the equivalent of USD 116.1 million (from USD 1533.7 million on December 31, 2013 to USD 1649.8 million on December 31, 2014) or by 7.6 percent, as a result of increased funds attracted from resident individuals (by USD 75.6 million) and from resident legal entities (by USD 54.2 million). At the same time, non-residents held a share of 10.8 percent in total basic balance sheet liabilities in foreign currency, by 0.6 percentage points more than the end of 2013.

The share of deposits balance in EUR in total deposits in foreign currency of clients constituted 66.0 percent at the end of the reporting period, increasing by 3.0 percentage points as compared to December 31, 2013 (Table A.20). During the reporting period, the minimum share stood at 61.2 percent and the maximum share at 68.4 percent. The balance of deposits of clients in EUR as at December 31, 2014 was equivalent to USD 1088.9 million, increasing by the equivalent of USD 122.0 million[23], or by 12.6 percent compared to December 31, 2013.

On December 31, 2014, the share of deposits balance of clients in USD decreased by 2.5 percentage points compared with the end of 2013 (from 36.0 percent to 33.5 percent). During 2013, the maximum share of these deposits was 37.8 percent and the minimum 30.6 percent. The balance of deposits in USD at the end of the reporting period amounted to USD 553.2 million, registering a slight increase of USD 1.3 million, or by 0.2 percent compared with December 31, 2013.

[23] At the same time, recalculated at the constant exchange rate of December 31, 2014, the balance of deposits in EUR increased at higher rates - by USD 234.2 million.

Deposits in RUB and other currencies constituted an insignificant share in total deposits in foreign currency of clients held by the banking system. At the end of the reporting period, deposits in RUB constituted the equivalent of USD 4.5 million, largely being attracted from resident legal entities. The share of deposits in RUB in total deposits of clients decreased to 0.3 percent compared to 0.8 percent at the end of 2013.

On December 31, 2014, the share of loans received in foreign currency in the total balance sheet liabilities in foreign currency of licensed banks constituted 11.3 percent, decreasing in absolute values by the equivalent of USD 167.7 million (from USD 472.4 million to USD 304.7 million), or by 35.5 percent compared to the end of 2014.

The *balance of term deposits in foreign currency of foreign banks* decreased by the equivalent of USD 168.3 million as at December 31, 2014 compared to the end of 2013 (from USD 196.3 million to USD 28.0 million) or by 85.7 percent.

The *balance of conditional assets and liabilities* in foreign currency of the licensed banks at the end of 2014 decreased compared to December 31, 2013 by 28.3 percent and 31.0 percent, respectively (Table A.21). At the end of 2014, conditional liabilities in foreign currency exceeded the conditional assets in foreign currency by USD 23.4 million, or by 4.0 percent of total regulatory capital. This was due to increasing term sales of foreign currency, operations carried out under swap and forward transactions.

Compared to December 31, 2013, open (long) foreign currency position[24] of all currencies recorded on the banking system increased by 7.3 times (from USD 42.4 million to USD 308.3 million)[25] by the end of 2014.

However, *excluding the 3 banks under special administration, the open (long) currency position* of all currencies recorded on the banking system decreased by 83.6 percent (from USD 29.0 million to USD 4.8 million) and accounted for 1.0 percent in total regulatory capital.

***Management of foreign exchange reserves***

Pursuant to Article 5, 16, and 53 of the Law on the National Bank of Moldova, the NBM holds and manages the state foreign exchange reserves, performs foreign exchange operations, using foreign exchange reserves and maintains them at a level

[24]Including foreign currency-linked assets and liabilities.

[25]The increased being caused by the situation of Banca de Economii S.A., B.C. ”BANCA SOCIALĂ” S.A. and B.C. „UNIBANK” S.A.

appropriate for implementing the state monetary and foreign exchange policy. The role of foreign reserves is to ensure the financial credibility and stability of the country, honour payments related to the state external obligations and to cope with unforeseen exogenous shocks.

In the management of foreign reserves, the NBM ensures a high degree of safety and a necessary level of liquidity of investment. NBM investment policy is prudent, seeking to optimize the profitability, on condition that the liquidity and investment security is ensured. An essential element of the process of managing foreign exchange reserves is the management of investment risk, which is achieved by imposing constraints and limits related to investments.

Table A.22 shows the main risks related to the management of foreign reserves and the methods used to reduce them.

Since July 2013, in collaboration with the World Bank, Strategic Asset Allocation (SAA) has been implemented. Strategic asset allocation involves a vision of long-term asset management aimed at achieving the optimal level of return and risk. In the context of the SAA, international reserves are divided in three tranches, depending on the specific objectives and regulations, this approach ensuring the achievement of the objective more effectively.

The current tranche is part of international reserves used to cover funds needs for interventions on the domestic foreign exchange market for foreign currency sale purposes, external debt payments of the NBM and the Government of the Republic of Moldova and other payments in foreign currency during a month.

Liquidity tranche ensures the coverage of the average value of at least 3 months of imports of goods and services (calculated based on historical data for the last 4 years and based on imports forecast for next year) and of payments related to external debt of the NBM and the Government of the Republic of Moldova and of other payments in foreign currency during the year.

Investment tranche represents total international reserves, excluding assets that are part of the current tranche and the liquidity tranche. The investment tranche allows investment in longer-term instruments and portfolio optimization. The portfolio of securities held to maturity and investments in gold are part of the investment tranche. The tranches consist of portfolios in various currencies, a benchmark – market index was selected for each portfolio, which is recognized and used worldwide to measure the performance and risks of investment portfolios.

Strategic asset allocation is a complex and lasting process. When switching to the SAA, according to new the requirements, not all of the foreign exchange reserves of the NBM could be redistributed, thus there was created a transition tranche for such assets. The securities of this tranche are reinvested according to new benchmarks to their maturity.

In 2014, the world economy was strongly influenced by persistent geopolitical risks in Middle East, following a sharp decrease in oil price and tensions between Russia and Ukraine. The U.S. economy was influenced by the transition from a set of economic policies, characterized by monetary policy loosening and fiscal-budgetary constraints to a set of economic policies characterized by gradual normalization of monetary policy, fiscal-budgetary policy and revenues policy.

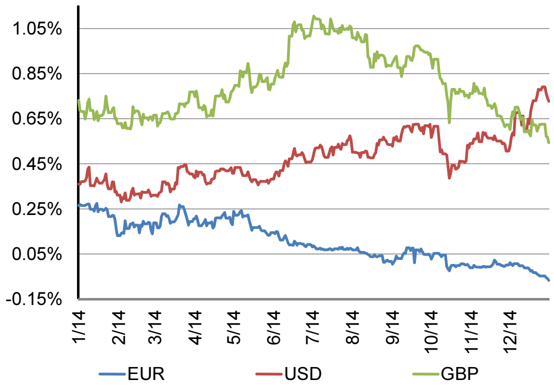
The process of normalization of monetary policy, initiated within the meeting of the Federal Open Market Committee from December 2013 began by gradually reducing the asset purchases until October 2014 when it decided to end the asset purchase program. As a result, there was an increase in economic indicators at a moderate pace and a substantial improvement in the outlook for the labour market has been noted since the beginning of asset purchases program. The unemployment rate declined from 7.0 percent in the fourth quarter of 2013 to 5.7 percent in the fourth quarter of 2014, at the same time, the inflation rate was lower than the long-term target of 2.0 percent.

U.S. economic satisfactory results at the end of 2014 determined the increase of U.S. Treasury bond yields, despite the negative influences of the external environment.

The euro area economic activity during 2014 has registered slow growth influenced by high geopolitical risks and by the negative impact of the recent evolution of energy prices and the low level of overall demand for European products. Thus, the euro area registered a slight increase in GDP from 0.83 percent in the fourth quarter of 2013 to 1.24 percent in the fourth quarter of 2014, while inflation rate declined from 1.03 percent to 0.37 percent during the same period, which is lower than the long-term target of 2.0 percent.

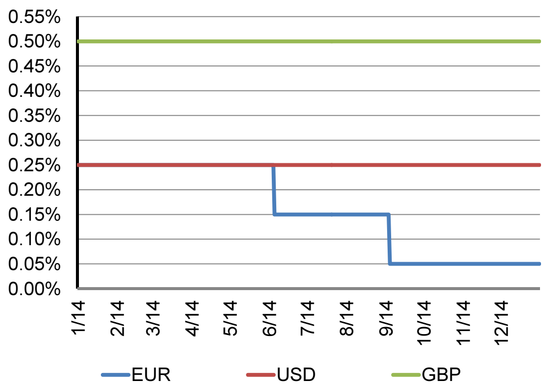
In the context of its mandate to maintain price stability, the European Central Bank has decided in 2014 to implement a series of measures to support monetary policy and stimulate credit lending to the real economy. Thus, within the monetary policy meetings in June and September 2014, it was decided to lower the benchmark interest rate by 10 basis points. The rate on overnight deposits was also reduced by 10 basis points, up

Chart 3.40: Profitability rates for state securities with maturities of 2 years (%)




Source: NBM

Chart 3.41: Base rates in the USA, EU and UK (%)




Source: NBM

to -0.10 percent in June and up to -0.20 percent in September 2014. At the same time, in order to support the lending to households and non-financial corporations, except for loans granted to households for house purchase, it was decided on a series of long-term refinancing operations (TLTROs- targeted longer-term refinancing operations) and on a covered bond purchase programme (CBPP3), and asset-backed securities purchase programme (ABSPP), whose purpose was to improve the transmission mechanism of monetary policy by lending to the real economy and promote stimulative monetary policies. Accordingly, in the second half of 2014, European bond yields continued to fall.

Global economic development trend is also reflected in profitability rates evolution (Chart 3.40). The base rates set by the monetary authorities (Chart 3.41) remained at the same level throughout 2014, except the base rate for EUR, which was declined from 0.25 percent to 0.15 percent on June 5, 2014 and from 0.15 percent to 0.05 percent on September 4, 2014.

Official reserve assets decreased by 23.54 percent on December 31, 2014 compared to December 31, 2013 or by about USD 664.00 million (from USD 2820.63 million to USD 2156.63 million). The interventions on the domestic foreign exchange interbank market in the form of foreign currency sales and the depreciation of the main component currencies of foreign exchange reserves are the main factors that influenced the decrease of official reserve assets.

As for the management of foreign exchange reserves, the NBM invests in safe instruments used by other central banks: placements on correspondent accounts (usually with other central banks), term placements in foreign currency and securities, which are classified into supranational securities (issued by supranational institutions), state securities (issued by the U.S. government, EU member governments, other governmental issuers with high credit rating) and non-government securities (issued by highly rated agencies).

Some of the foreign exchange reserves are managed externally by the World Bank. According to the Investment Consulting and Management Agreement, concluded on December 8, 2010 between the International Bank for Reconstruction and Development (IBRD) and the National Bank of Moldova (NBM), the IBRD became the consultant and the agent of the NBM for managing a part of the external assets, limited to 20.0 percent of official reserve assets (the share of externally managed assets was 9.53 percent of the official reserve assets as of December 31, 2014). Taking into account the importance and effectiveness of the collaboration with the World Bank in the management of foreign exchange reserves, the agreement was extended for a period of two years on January 24, 2014.

The portfolio of securities held to maturity was supplied during 2014 with new securities. The value of this portfolio at the end of 2014 amounted to USD 510 million, or 23.65 percent of official reserve assets.

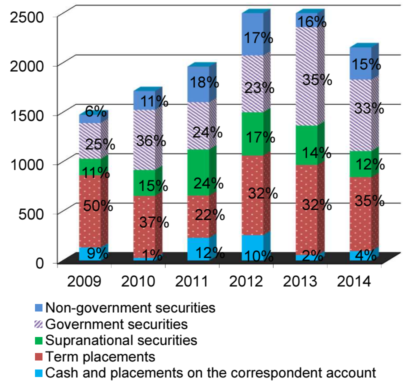
In accordance with the Decision of the Council of Administration of the NBM no.286 of December 23, 2014, effective as of January 1, 2015, the maximum limit of securities portfolio maintained to maturity was increased from 20 percent to 30 percent of official reserve assets. At the same time, the supply of securities portfolio held to maturity will be possible only if its share is below 20 percent of official reserve assets and the level of official reserve assets cover 4 months of import.

The evolution of foreign exchange reserves during 2009 - 2014, divided by investment instruments, is shown in the Chart no.3.42. It should be mentioned the downward tendency of term placements, which decreased from 49.65 percent at the end of 2009 to 34.71 percent at the end of 2014. Investment in securities followed a positive trend, their share increasing from 41.44 percent in 2009 to 60.88 percent in 2014.

Return on investment depends on market conditions, fluctuation in exchange rates and prices of investment instruments. The evolution of the global economic environment and prospects of development of financial markets have influenced investment decisions and the composition of foreign exchange reserves. Chart no.3.44 reflects the share of the currencies in which the foreign exchange reserves are denominated as at the end of 2014. The largest share was held by the USD – 53.83 percent, followed by the EUR with 34.72 percent. It should be mentioned that, de facto, the currency composition of foreign exchange reserves might deviate within the limit of +/- 10 percent from the normative currency composition (Chart 3.43).

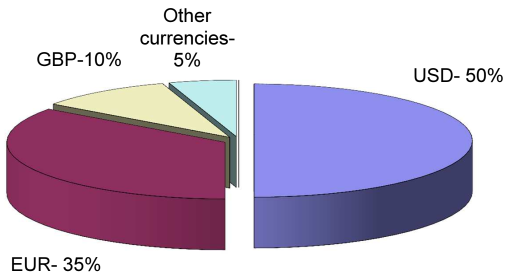
Despite unfavourable conjuncture of global economic environment and the negative developments of profitability rates of investment instruments, the decisions taken in the management of foreign exchange reserves led to a rate of profitability of 1.11 percent in 2014 or USD 29.99 million.

Chart 3.42: Foreign exchange reserves structure at the end of 2009 - 2014 (USD, million)



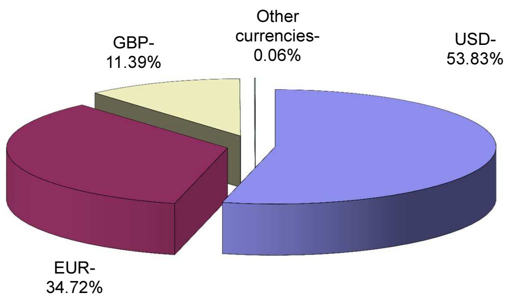

Source: NBM

Chart 3.43: Normative foreign currency composition




Source: NBM

Chart 3.44: Foreign exchange reserves as of 31.12.2014




Source: NBM

## 3.5 The activity of the National Bank of Moldova as the fiscal agent of the State

### Government's debt to the National Bank of Moldova

In 2014, the NBM conducted re-issuances of state securities (SS) to maturity from its portfolio and in accordance with the Agreement on the balance of State's debt previously contracted from the National Bank of Moldova for 2014, concluded between the Ministry of Finance and the National Bank of Moldova on December 18, 2013 totalled MDL 2063.4 million (purchase price) as at December 31, 2014, remaining at the level of 2013.

State securities had generally a maturity of 91 days and were obtained in the NBM portfolio at the average interest rates on state securities with the same maturity sold at recent auctions of state securities placement on the primary market, which were within the range of 3.52-6.00 percent annually.

On December 31, 2014, the average weighted interest rate on state securities held in portfolio recorded the level of 4.57 percent annually compared to 5.45 percent annually in 2013 and the average maturity of state securities in the portfolio was 42 days on the last day of the reporting period.

On December 31, 2014, the market value of state securities held in the NBM portfolio amounted to MDL 2075.1 million.

### State's deposits placed with the National Bank of Moldova

Under the Agreement of the National Bank of Moldova and the Ministry of Finance of December 5, 2007, the object of which is the rendering of services by the NBM to the Ministry of Finance, and based on the provisions of the Regulation on accepting deposits from the Ministry of Finance, approved by the Decision of the Council of Administration of the NBM no.358 of December 28, 2006, the Ministry of Finance placed in 2014 term deposits in MDL with the National Bank of Moldova, with the term from 14 days to 11 months in the total amount of MDL 370.5 million.

Compared to 2013, the amount of deposits placed with the National Bank decreased by MDL 426.5 million.

The deposits were placed at the base rate of the National Bank, variable during the period of deposit contract from 3.5 percent annually in January 2014 to 4.5 percent annually in December 2014.

As at December 31, 2014, the balance of term deposits of the Ministry of Finance was null.

## 3.6 Regulation and supervision of banks'activity

### General information

As at December 31, 2014, the banking sector of the Republic of Moldova included 14 banks licensed by the National Bank of Moldova, of which 4 are branches of foreign banks and financial groups. The total number of subdivisions of banks was 1338, of which 348 branches and 990 agencies.

In 2014, there were opened 12 branches, 69 agencies and there were closed 8 branches, 20 agencies and 2 foreign exchange offices.

The total number of staff employed in the banking sector as of December 31, 2014 amounted to 10218 employees. On average, each employee in the banking sector accounted for MDL 9.6 million assets as at December 31, 2014, increasing by MDL 2.6 million (37.1 percent) compared to the end of 2013.

Given the precarious financial situation of Banca de Economii S.A., BC „BANCA SOCIALĂ" S.A. and B.C. "UNIBANK" S.A. and the non-compliance of these banks with the prudential indicators established by the normative acts of the NBM on risk weighted capital adequacy, current liquidity coefficient, Tier I capital level, as well as the fact that these banks were regularly hindering the exercise of banking supervision function by non-submission of requested information to the NBM, pursuant to the Law on the Financial Institutions no.550-XIII of July 21, 1995, by the Decisions of the Council of Administration of the National Bank of Moldova no.248 of November 27, 2014, no.253 of November 30, 2014 and no.296 of December 30, 2014, the National Bank of Moldova established special administration over Banca de Economii S.A., BC „BANCA SOCIALĂ" S.A. and B.C. "UNIBANK" S.A.

***Financial situations of the banks under special administration***

*Financial situation of Banca de Economii S.A. as at December 31, 2014*

As at December 31, 2014, the bank's ***assets*** totalled MDL 13931.6 million, which represents 14.3 percent of total assets of the banking sector. "Cash and cash equivalents" held the largest share in the structure of assets - 87.06 percent, which accounted for MDL 12128.7 million, followed by "loans and receivables" - 8.63 percent, which accounted for MDL 1202.8 million.

The share of non-performing loans in total loans accounted for 72.6 percent (the average on sector - 11.7 percent). At the same time, the share of net non-performing loans in TRC accounted for 19.6 percent (the average on sector - 14.2 percent).

As at December 31, 2014, ***total liabilities*** accounted for MDL 13140.7 million. Financial liabilities measured at amortized cost held the largest share in the structure - 98.9 percent or MDL 12996.3 million. It should be mentioned that deposits accounted for MDL 7291.3 million, of which deposits of individuals - MDL 3915.9 million (or 11.3 percent of total deposits of individuals on the sector) and deposits of legal entities - MDL 1801.2 million (or 10.5 percent of total deposits of legal entities on the sector).

As at December 31, 2014, the long-term liquidity coefficient ***(principle I)*** was 0.3 (maximum limit $\leq$1), which is below the average per banking sector (1.5 percent).

As at December 31, 2014, the current liquidity coefficient ***(principle II)*** was minus 1.7 percent, which is below the minimum limit of 20 percent (average on banking sector - 21.6 percent).

As at December 31, 2014, the bank recorded losses in the amount of MDL 244.5 million, of which MDL 246.2 million in December 2014.

As at December 31, 2014, ***Tier I capital*** of the bank was MDL 258.0 million (required level - MDL 200.0 million).

***The average risk-weighted capital adequacy*** was 3.3 percent, which is below the required level of 16 percent (average on the banking sector - 13.2 percent).

It should be mentioned that Banca de Economii S.A. recorded mutual placements with BC „BANCA SOCIALĂ" S.A. as at December 31, 2014. Thus, the funds placed with BC „BANCA SOCIALĂ" S.A. accounted for MDL 11244.7 million, which is 80.7 percent of total bank's assets (the due date of placed funds - November 28, 2014). At the same time, the bank recorded placements with BC „BANCA SOCIALĂ" S.A. in the amount of MDL 22.1 million (funds registered in Loro account).

Banca de Economii S.A. contracted from the National Bank an emergency loan in the amount of MDL 5273.2 million. As at December 31, 2014, the unused amount of the loan contracted was MDL 473.2 million.

*Financial situation of BC „BANCA SOCIALĂ" S.A. as at December 31, 2014*

As at December 31, 2014, the bank's ***assets*** totalled MDL 20115.9 million, which represents 20.6 percent of total assets of the banking sector. In the structure of assets, the largest shares were held by "other assets" - 84.33 percent (MDL 16963.1 million), "loans and receivables" - 10.02 percent (MDL 2016.2 million) and "cash and cash equivalents" - 4.74 percent (MDL 953.3 million).

The share of non-performing loans in total loans accounted for 32.7 percent (the average on sector - 11.7 percent). At the same time, the share of net non-performing loans in TRC accounted for 52.4 percent (the average on sector - 14.2 percent).

As at 31 December 31, 2014, ***total liabilities*** accounted for MDL 14094.5 million. Financial liabilities measured at amortized cost held the largest share in the structure - 81.16 percent or MDL 15741.2 million. It should be mentioned that deposits accounted for MDL 13903.2 million, of which funds due to banks - MDL 11853.8 million, deposits of individuals - MDL 1528.1 million (or 4.4 percent of total deposits of individuals on the sector) and deposits of legal entities - MDL 521.3 million (or 3.0 percent of total deposits of legal entities on the sector).

As at December 31, 2014, the long-term liquidity coefficient ***(principle I)*** was 19.4 (maximum limit $\leq$1), which is below the average per banking sector (1.5 percent).

As at December 31, 2014, the current liquidity coefficient ***(principle II)*** was 5.8 percent, which is below the minimum limit of 20 percent (average on banking sector - 21.6 percent).

The bank recorded a profit of MDL 11.4 million as at December 31, 2014.

***Tier I capital*** accounted for MDL 479.5 million as at December 31, 2014 (required level - MDL 200.0 million).

***The average risk-weighted capital adequacy*** was 2.6 percent, which is below the required level of 16 percent (average on the banking sector - 13.2 percent).

It should be mentioned that BC „BANCA SOCIALĂ" S.A. recorded mutual placements with Banca de Economii S.A. as at December 31, 2014. Thus, the funds placed with Banca de Economii S.A. accounted for MDL 22.1 million. At the same time, Banca de Economii S.A. placed with BC „BANCA SOCIALĂ" S.A. funds in the amount of MDL 11244.7 million, including funds registered in Loro account (the due date of funds - November 28, 2014).

As of December 31, 2014, the receivables of BC „BANCA SOCIALĂ" S.A., resulting from the sale of loans to an economic agent, resident of Great Britain, totalled MDL 18358.2 million.

BC „BANCA SOCIALĂ" S.A. contracted from the National Bank an emergency loan in the amount of MDL 2807.8 million. As at December 31, 2014, the unused amount of the loan contracted was MDL 1307.8 million.

*Financial situation of B.C. "UNIBANK" S.A. as at December 31, 2014*

As at December 31, 2014, the bank's ***assets*** totalled MDL 3485.0 million, which represents 3.6 percent of total assets of the banking sector. In the structure of assets, the largest shares were held by "cash and cash equivalents" - 67.0 percent (MDL 2335.1 million), followed by "loans and receivables" - 29.5 percent, (MDL 1028.1 million).

The share of non-performing loans in total loans accounted for 11.2 percent (the average on sector - 11.7 percent). At the same time, the share of net non-performing loans in TRC accounted for 14.9 percent (the average on sector - 14.2 percent).

As at December 31, 2014, ***total liabilities*** accounted for MDL 2995.9 million. Financial liabilities measured at amortized cost held the largest share in the structure - 98.9 percent or MDL 2963.0 million. It should be mentioned that deposits accounted for MDL 2613.1 million, of which deposits of individuals - MDL 661.5 million (or 1.9 percent of total deposits of individuals on the sector) and deposits of legal entities - MDL 1701.0 million (or 9.9 percent of total deposits of legal entities on the sector).

As at December 31, 2014, the long-term liquidity coefficient ***(principle I)*** was 0.4 (maximum limit $\leq$1), which is below the average per banking sector (1.5 percent).

As at December 31, 2014, the current liquidity coefficient ***(principle II)*** was 11.5 percent, which is below the minimum limit of 20 percent (average on banking sector - 21.6 percent).

The bank recorded a profit of MDL 29.1 million as at December 31, 2014.

***Tier I capital*** accounted for MDL 351.3 million as at December 31, 2014 (required level - MDL 200.0 million).

***The average risk-weighted capital adequacy*** was 18.4 percent as at December 31, 2014, which is slightly over the required level of 16 percent (average on the banking sector - 13.2 percent).

As at December 31, 2014, B.C. "UNIBANK" S.A. recorded placements, including with Banca de Economii S.A. in the amount of MDL 1540.5 million (which is 44.2 percent of total assets of the bank) and with BC „BANCA SOCIALĂ" S.A. - MDL 544.7 million (which is 15.6 percent of total assets of the bank).

B.C. "UNIBANK" S.A. contracted from the National Bank an emergency loan in the amount of MDL 1353.5 million. As at December 31, 2014, the unused amount of the loan contracted was MDL 1203.5 million.

## Assets of banks

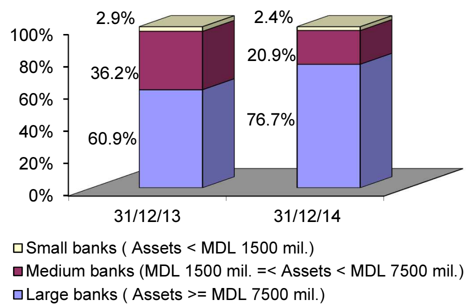
The total assets of the sector were MDL 97584.4 million, increasing by MDL 21394.3 million (28.1 percent) compared with the end of 2013. Their share in GDP has also increased from 72.8 percent to 87.5 percent (Chart 3.46). The asset growth was determined by the increase of liabilities by MDL 20399.8 million (31.5 percent) and by the capital increase (IFRS) by MDL 994.5 million (8.7 percent).

It should be mentioned that assets growth of the 11 banks (except those under special administration) was 4032.0 million (7.2 percent), but lower than the assets growth of the 3 banks under special administration, whose assets increased by MDL 17362.3 million (85.9 percent).

The limits of distribution by groups in terms of asset size have been changed as from March 31, 2014.

Chart 3.45 shows the assets concentration of the banking sector during the reporting period.

Chart 3.45: Dynamics of assets concentration of the banking system of the Republic of Moldova by groups of banks




Source: NBM

The banking sector assets are concentrated in the large banks group. At the end of 2014, the large banks group included 5 banks (BC "BANCA SOCIALĂ" S.A., BC "MOLDOVA - AGROINDBANK" S.A., Banca de Economii S.A., BC "Moldindconbank" S.A., B.C. "VICTORIABANK" S.A.). The share of assets of the banks of this group was 76.7 percent on December 31, 2014, increasing by 15.8 percentage points compared to the end of 2013. It should be mentioned that in November 2014, the composition of the groups has changed. Thus, BC „BANCA SOCIALA" S.A. moved from the medium banks group into the large banks group. „UNIBANK" S.A. moved from the large banks group into the medium banks group. Respectively, the medium banks group included 6 banks (BC „MOBIASBANCĂ – Groupe Societe Generale" S.A., B.C. „EXIMBANK-Gruppo Veneto Banca" S.A., B.C. „UNIBANK" S.A., B.C. „ProCredit Bank" S.A., B.C. "ENERGBANK" S.A., "FinComBank" S.A.) and the small banks group - 3 banks (BCR Chişinău S.A., BC "COMERŢBANK" S.A., BC "EuroCreditBank" S.A.).

BC "BANCA SOCIALĂ" S.A. holds the largest share of the total assets of the bank in relation to the total assets of the banking sector, representing 20.6 percent (required level $\leq$30%), followed by BC "MOLDOVA - AGROINDBANK" S.A. – 15.7 percent.

Table A. 23 shows the structure of banking sector assets by main components.

In 2014, within the structure of assets, there have been recorded the following increases (in descending order):

- other assets - by MDL 17071.2 million (2393.3 percent) - sale of some loans by a bank to a legal entity outside the Republic of Moldova;
- cash and cash equivalents[26] (mainly due to the increase of interbank placements) - by MDL 5341.5 million (21.9 percent).
- tangible assets - by MDL 239.0 million (12.2 percent);
- investments held to maturity - by MDL 173.1 million (4.5 percent);

[26]Cash and cash equivalents include cash, interbank loans granted for a period shorter than 3 months, funds due from banks, funds due from the National Bank of Moldova, placements and overnight loans and the corresponding part of increased interest, state securities and securities issued by the National Bank of Moldova purchased with a maturity of less than 3 months, including non-pledged and required reserves in MDL.

- intangible assets - by MDL 41.6 million (15.7 percent).

At the same time, the followings have decreased:

- loans and receivables - by MDL 1050.2 million (2.4 percent);
- fixed assets and disposal groups classified as held for sale - by MDL 327.2 million (52.4 percent);
- financial assets held for sale - by MDL 43.8 million (8.8 percent);
- claims on taxes - by MDL 34.4 million (46.0 percent);
- financial assets held for trading - by MDL 16.5 million (9.5 percent).

Loans and receivables held the largest share in total assets – 43.7 percent, by 13.7 percentage points less than at the end of 2013. Cash and cash equivalents amounted to 30.4 percent, decreasing by 1.6 percentage points. Other assets accounted for 18.2 percent, up by 17.3 percentage points, investment held to maturity recorded a share of 4.1 percent, down by 0.9 percentage points, and tangible assets – 2.3 percent, down by 0.3 percentage points compared to the same period of the previous year. Shares of other items in total assets were insignificant.

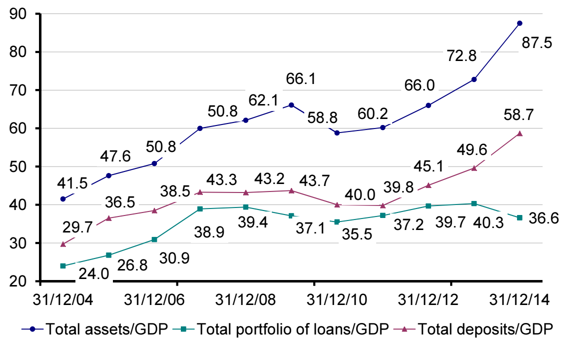
Gross loans portfolio (according to prudential reports) was MDL 40842.0 million as at December 31, 2014, decreased by MDL 1328.7 million (3.2 percent) in 2014. The reduction of loan portfolio was influenced by the lower level of loans granted by the 3 banks under special administration, which accounted for MDL 3475.8 million (45.1 percent), and the 11 banks recorded gross loan increase by MDL 2147.0 million (6.2 percent).

Gross loans as a share of GDP decreased from 40.3 percent as at December 31, 2013 to 36.6 percent as at December 31, 2014 (Chart 3.46).

The structure of the loan portfolio of licensed banks of the Republic of Moldova by industry is shown in Chart 3.47.

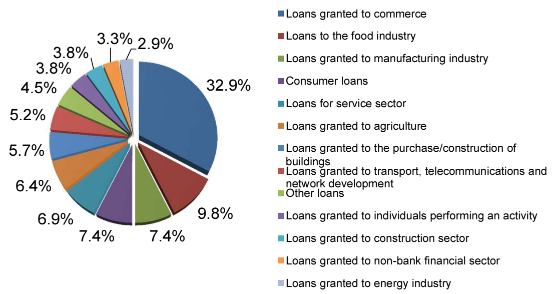
In the context of risk distribution, the trade loans held the largest share in total loans – 32.9 percent, followed by loans granted to food industry – 9.8 percent, consumer loans – 7.4 percent, loans granted to productive industry – 7.4 percent, loans granted to services sector - 6.9 percent, loans granted to agriculture – 6.4 percent, loans granted to the purchase/construction of building -

Chart 3.46: Dynamics of assets, credits and deposits to GDP (%)



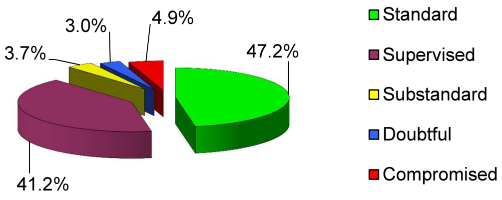

Source: NBM

Chart 3.47: Loan distribution by industry as at 31.12.2014 (%)



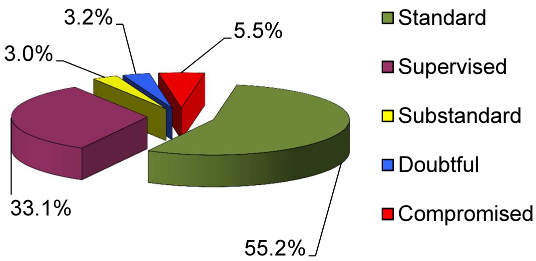

Source: NBM

Chart 3.48: Dynamics of the structure of loan portfolio of the banking sector of the Republic of Moldova according to the level of investment operations risk as of 31.12.2013




Source: NBM

Chart 3.49: Dynamics of the structure of loan portfolio of the banking sector of the Republic of Moldova according to the level of investment operations risk as of 31.12.2014




Source: NBM

5.7 percent, loans granted to transport, telecommunications and network development – 5.2 percent, other loans – 4.5 percent, loans granted to individuals performing an activity – 3.8 percent, loans granted to construction sector – 3.8 percent. In 2014, the non-performing loans decreased in absolute value by MDL 86.1 million (1.8 percent), amounting to MDL 4790.3 million (Chart 3.48; Chart 3.49), while the share of non-performing loans (substandard, doubtful, and compromised) in total loans increased by 0.1 percentage points compared to the end of 2013, accounting for 11.7 percent as at December 31, 2014. The share of net non-performing loans[27] in total regulatory capital decreased by 2.3 percentage points, amounting to 14.2 percent as at December 31, 2014.

It should be mentioned that the share of non-performing loans in total loans of the 11 banks that had no activity restrictions was 8.4 percent, which much more favourable than the share of non-performing loans in total loans of the 3 banks under special administration, whose share was 40.6 percent, higher by 22.6 percentage points compared to the end of 2013. Respectively, the indicator of the 3 banks under special administration has negatively influenced the indicator of the banking sector. At the same time, the ratio of net non-performing loans to total regulatory capital per sector, which accounted for 14.2 percent, was also influenced by the indicator of the 3 banks under special administration, which represented 31.4 percent.

The share of allowance for loan losses in total loans was 10.4 percent as at December 31, 2014, increasing by 0.7 percentage points compared to the end of 2013.

It should be mentioned that the allowance calculated for all conditional assets and liabilities per banking sector amounted to MDL 5957.1 million as at December 31, 2014, while the allowances for impairment losses amounted to MDL 2967.2 million, the difference recorded – MDL 2989.9 million.

Banks' exposures to affiliates recorded insignificant shares in total loans – 2.4 percent (average per sector). The ratio of exposures to affiliates and Tier I capital amounted to 11.3 percent as at December 31, 2014 (maximum limit – 20.0 percent).

The total amount of the bank's net exposures in MDL linked to foreign exchange rate to individuals, including those who practice entrepreneurial or other activity, constituted 4.2 percent (the limit $\leq$ 30 percent) of total regulatory capital. Total net

[27]Net non-performing loans = amount subject to classification of non-performing loans minus impairment costs.

exposures, other than mortgages to individuals, accounted for 1.5 percent (the limit ≤10 percent) of total regulatory capital.

Loans granted to banks' employees accounted for MDL 218.3 million or 0.5 percent of the total loan portfolio and 2.4 percent of total regulatory capital of the banking sector (maximum limit – 10.0 percent).

The ratio of the total investment in long-term tangible assets to total regulatory capital per sector was 23.2 percent (the limit ≤ 50 percent).

The ratio of the total investment in long-term tangible assets and equity interest in the capital of economic entities to total regulatory capital on sector accounted for 25.5 percent (maximum limit - 100 percent).

The share of balance sheet assets in foreign currency combined with foreign currency-linked assets in total assets was 48.1 percent. The share of balance sheet liabilities in foreign currency combined with foreign currency-linked liabilities in total assets was 43.2 percent. The difference of 4.9 percentage points between the afore mentioned shares shows that the exchange rate risk, although increased significantly, cannot considerably influence the financial stability of the banking sector.

## Capital of banks

Tier I Capital is a part of the total regulatory capital for which the minimum required amount for performing financial activities is established as in accordance with Article 26 of the Law on Financial Institutions.

Tier I Capital on the banking system reached the level of MDL 8707.3 million, increasing by MDL 781.0 million compared to the end of 2013 (9.9 percent).

The Tier I Capital increase in 2014 was due to the profit obtained in the amount of MDL 778.2 million and issues of shares performed by 4 banks in the amount of MDL 398.2 million (on the account of additional contributions of the underwriters of shares: B.C. ”EXIMBANK – Gruppo Veneto Banca” S.A – MDL 250.0 million, B.C. „ProCredit Bank” S.A. - MDL 17.7 million, BCR Chișinău S.A. - MDL 64.9 million and BC „EuroCreditBank” SA – MDL 30.0 million. At the same time, BCR Chișinău S.A. issued shares on the account of subordinated debts with their subsequent transfer in the share capital of the bank in the amount of MDL 35.6 million).

Simultaneously, the calculated amount but unreserved of the allowances for impairment losses on assets and conditional commitments increased by MDL 168.9 million (6.0 percent) and net intangible assets increased by MDL 41.6 million (15.7 percent).

During the reporting year, five banks have paid dividends in total amount of MDL 254.4 million.

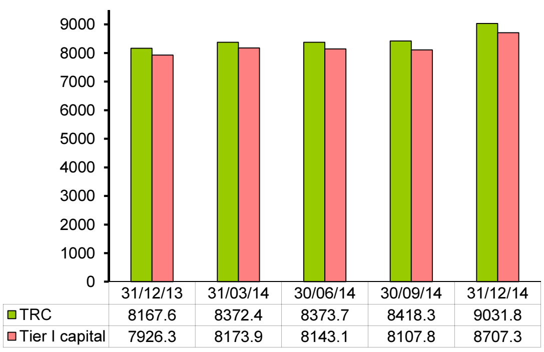
As at December 31, 2014, the size of Tier I capital of banks corresponded to the established minimum standard (MDL $\geq$ 200.0 million).

It should be mentioned that Tier I capital of the 11 banks in 2014 (except the 3 banks under special administration) increased by MDL 925.6 million or by 13.8 percent, while the Tier I capital of the 3 banks under special administration decreased by MDL 144.6 million or by 11.8 percent, which affected the dynamics of capital per sector.

Total regulatory capital includes Tier I and Tier II capital (Tier II capital is limited to maximum – 100.0 percent of Tier I capital) minus equity interest in the capital of other banks holding the license of the National Bank of Moldova.

Total regulatory capital compared to the end of 2013 increased by MDL 864.2 million (10.6 percent).

Chart 3.50: Dynamics of banking capital of the Republic of Moldova in 31.12.2013 – 31.12.2014 (MDL, million)




Source: NBM

Dynamics of Tier I capital and total regulatory capital in the analysed period is shown in the Chart 3.50.

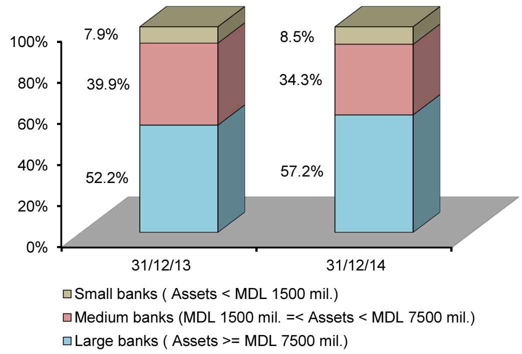
As at December 31, 2014, the average risk-weighted capital adequacy was 13.2 percent, decreasing by 9.8 percentage points compared to the end of 2013 and is below minimum allowable level of 16.0 percent. Two of the banks under special administration failed to comply with this indicator as at December 31, 2014, representing 2.6 and 3.2 percent respectively, while the average on sector, except banks under special administration, amounted to 21.7 percent.

It should be mentioned that the average risk weighted capital adequacy of the 11 banks that have no activity restrictions accounted for 21.7 percent, down by 1.9 percentage points compared to the end of 2013, while the average risk weighted capital adequacy of the 3 banks under special administration - 3.7 percent, down by 16.6 percent, which is below the minimum level of 16.0 percent. Thus, these 3 banks had a negative influence on the risk weighted capital adequacy per sector.

Chart 3.51 shows the changes in the capital structure of the banking system in terms of its concentration on groups of banks.

The share of Tier I capital of large and small banks in the Tier I capital per banking sector totalled 57.2 percent and 8.5 percent respectively, increasing by 5.0 percentage points and 0.6 percentage points compared to December 31, 2013. The share of Tier I capital of medium banks amounted to 34.3 percent, down by 5.6 percentage points compared to the end of 2013.

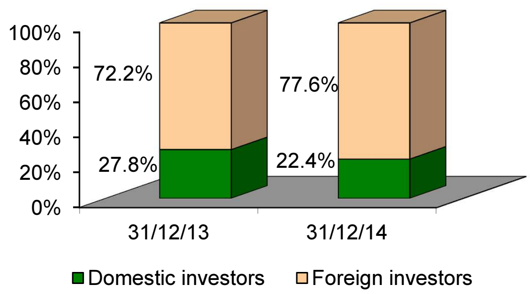
Chart 3.51: Concentration of Tier I capital of the banking sector of the Republic of Moldova by groups of banks




Source: NBM

In 2014, foreign investors maintained attracted by the banking sector, which is confirmed by the significant share of foreign investments in the banks' capital, which constituted 77.6 percent as at December 31, 2014, by 5.4 percentage points higher than at the end of 2013, as a result of share capital increase at the expense of non-resident shareholders investments. Thus, non-resident shareholders investments increased by MDL 528.9 million (17.7 percent), while domestic shareholders investments decreased by MDL 130.7 million (11.4 percent).

Chart 3.52: Share capital structure of the banking sector in the Republic of Moldova, by sources of investments (%)




Source: NBM

Among the foreign investors participating in the capital formation of banks from the Republic of Moldova are as follows: the European Bank for Reconstruction and Development, banks from Italy, France, Romania, as well as corporate investors from U.K., Austria, Germany, the USA, Ukraine, the Russian Federation, the Netherlands, Greece, Iraq, Czech Republic, Switzerland, Cyprus and other countries.

Out of total number of banks, 4 banks have their capital formed entirely from foreign investments (2 of them are subsidiaries of foreign banks: B.C. "EXIMBANK - Gruppo Veneto Banca" and BCR Chisinau S.A) and 10 banks have their capital formed from foreign and domestic investments.

***Liabilities of banks***

As at December 31, 2014, the liabilities of banks accounted for MDL 85153.0 million, increasing by MDL 20399.8 million (31.5 percent) as compared to December 31, 2013. Financial liabilities measured at amortized cost (clients' deposits, bonds issued by banks, other loans, subordinated debts, overnight loans, securities sold under REPO) held the largest share in total liabilities as at December 31, 2014 – 94.7 percent (MDL 80633.5 million), by MDL 16782.1 million (26.3 percent) more than at the end of 2013. Thus, the clients' deposits accounted for MDL 66895.4 million, increasing by MDL 11625.1 million (21.0 percent) as compared to December 31, 2013. At the same time, other liabilities (overdraft on "Nostro" accounts, overnight loans from the NBM, overnight loans from banks, loans from banks) increased by MDL 3554.0 million (829.9 percent), accounting for MDL 3982.2 million, the tax liabilities – by MDL 62.0 million (16.4 percent), accounting for MDL 439.9 million, provisions by MDL 4.0 million (4.2 percent), accounting for MDL 98.6 million (including provision for business restructuring, liabilities related to employee benefits, provisions related to damage costs arising from lawsuits against the bank, funding commitments and other provisions). Financial liabilities held for trading decreased by MDL 2.3 million, accounting for MDL 1.2 million (Table A.24).

The clients' deposits hold the largest share in banks liabilities - 78.6 percent as at December 31, 2014, decreasing by 6.8 percentage points compared to the end of 2013.

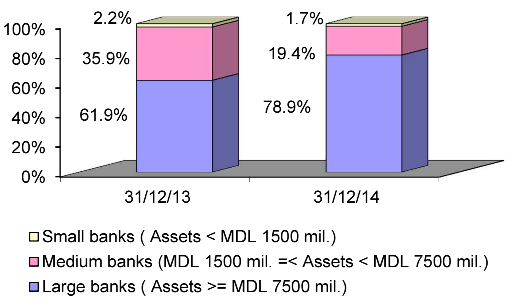
According to the prudential reports, the balance of deposits amounted to MDL 65462.5 million as at December 31, 2014, increasing by MDL 13572.6 million (26.2 percent) compared to December 31, 2013 due to the increase of banks' deposits by MDL 9512.9 million (225.3 percent), up to MDL 13735.4 million, deposits of individuals - by MDL 3241.4 million (10.3 percent), up to MDL to 34590.7 million and deposits of legal entities - by MDL 818.3 million (5.0 percent), up to MDL 17136.4 million.

Their share in GDP increased by 9.1 percentage points compared to December 31, 2013, representing 58.7 percent.

As at December 31, 2014, the deposits in foreign currency held a share of 52.1 percent in total deposits (equivalent of MDL 34073.9 million), increasing in absolute value by MDL 10889.5 million (47.0 percent) compared to the end of 2013. Thus, deposits in foreign currency increased on the account of funds attracted in the amount of MDL 8013.1 million and on the account of their revaluation - MDL 2866.5 million (deposits revaluation calculation was made based on EUR, USD, RUB, RON, and UAH, the share of other currencies was insignificant). Deposits in MDL was 47.9 percent (MDL 31388.6 million) of total deposits, increasing by MDL 2683.0 million (9.3 percent) compared to December 31, 2013.

The liabilities concentration in the banking system during the reporting year is shown in the Chart 3.53.

Chart 3.53: Dynamics of liabilities concentration of the banking system of the Republic of Moldova by group of banks




Source: NBM

The share of liabilities of large banks in total banking system liabilities was 78.9 percent as at December 31, 2014, increasing by 17.0 percentage points as compared to December 31, 2013. At the same time, the share of liabilities of medium banks has decreased by 16.5 percentage points, representing 19.4 percent and the share of liabilities of small banks - by 0.5 percentage points, accounting for 1.7 percent in total liabilities in the sector. These changes occurred as a result of changes in the composition of the bank groups.

## Liquidity of banks

Long-term liquidity, principle I, (assets with the reimbursement term over 2 years/financial resources with the potential withdrawal term of over 2 years $\leq 1$) accounted for 1.5, which is over the maximum limit. As at December 31, 2014, this indicator was respected by all banks, except one of the banks under special administration.

It follows from the above that, long-term liquidity indicator reflects banks' capacity (except one of the banks) to honour their long-term commitments.

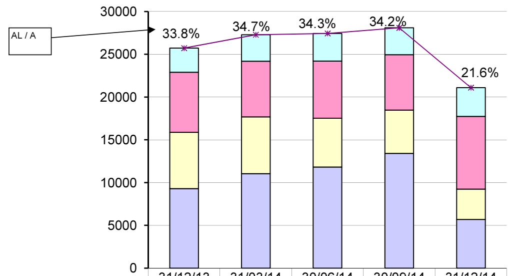
The current liquidity per sector, principle II, (liquid assets expressed in cash, deposits with the NBM, liquid securities, and net current interbank funds/total assets x100% $\geq$ 20.0 percent) equalled to 21.6 percent. This indicator was respected by all banks, except the 3 banks under special administration. Compared to the end of 2013, current liquidity per sector recorded a considerable decrease of 12.1 percentage points, as a result of its decrease at the 3 banks under special administration. However, this indicator per sector complied with the requirements as at December 31, 2014, but upon the expiry of the moratorium over the claims of the banks under special administration, this indicator will no longer comply with the requirements. Current liquidity per sector, except the 3 banks under special administration, accounted for 32.9 percent.

As at December 31, 2014, liquid assets totalled MDL 21105.2 million, decreasing by MDL 4613.4 million as compared to December 31, 2013 (17.9 percent).

Within the structure of liquid assets, net interbank loans up to 1 month decreased by MDL 3607.9 million (38.8 percent), liquid securities - by MDL 3025.3 million (46.0 percent). Simultaneously, the deposits with the NBM increased by MDL 1469.6 million (20.9 percent) and cash and precious metals - by MDL 550.1 million (19.6 percent) as shown in Chart 3.54.

Deposits with the NBM held the largest share in the structure of liquid assets - 40.3 percent, followed by current net interbank placements - 26.9 percent, liquid securities - 16.8 percent and cash and precious metals - 15.9 percent.

Chart 3.54: Dynamics of liquid assets (MDL, million) and thier share in total assets of the banking sector of the Republic of Moldova (%)

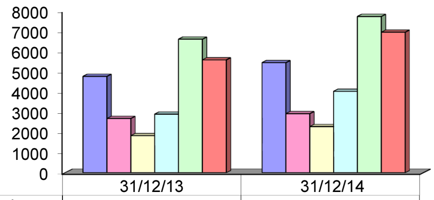



| | 31/12/13 | 31/03/14 | 30/06/14 | 30/09/14 | 31/12/14 |
|---|---|---|---|---|---|
| Cash and precious metals | 2,811.2 | 3,093.6 | 3,227.9 | 3,154.9 | 3,361.3 |
| Deposits at NBM | 7,034.6 | 6,508.0 | 6,671.4 | 6,465.9 | 8,504.2 |
| Liquid securities | 6,581.1 | 6,648.3 | 5,722.0 | 5,072.1 | 3,555.8 |
| Net current interbank means | 9,291.7 | 11,038.0 | 11,817.2 | 13,406.6 | 5,683.8 |
| Total liquid assets | 25,718.6 | 27,288.0 | 27,438.6 | 28,099.5 | 21,105.2 |

Source: NBM

## Income and expenses of banks

Chart 3.55: Dynamics of income and expenses per banking sector of the Republic of Moldova during 2013-2014 (MDL, million)




| | 31/12/13 | 31/12/14 |
|---|---|---|
| Interest-related incomes | 4,766.2 | 5,442.3 |
| Interest-related expenditures | 2,683.8 | 2,923.5 |
| Non-interest incomes | 1,835.5 | 2,282.8 |
| Non-interest expenditures | 2,895.1 | 4,023.4 |
| Total incomes | 6,601.7 | 7,725.1 |
| Total expenditures | 5,578.9 | 6,946.9 |

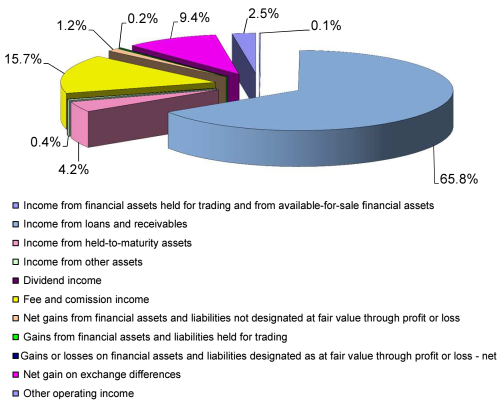
Source: NBM

As at December 31, 2014, the profit per banking sector amounted to MDL 778.2 million, but 3 banks registered losses as a result of assets depreciation, which influenced the profit obtained per sector.

At the same time, the profit of 11 banks that had no activity restrictions was MDL 940.2 million as at December 31, 2014 (2 banks registered losses), while the 3 banks under special administration registered losses in the amount of MDL 162.0 million (only one bank registered losses).

Compared to the same period of 2013, the profit decreased by MDL 244.6 million (23.9 percent), as a result of the increase of non-interest related expenses by MDL 1128.3 million (39.0 percent) and interest related income by MDL 239.7 million (8.9 percent). Simultaneously, the interest related income increased by MDL 676.1 million (14.2 percent) and non-interest related income by MDL 447.3 million (24.4 percent).

Chart 3.56: Incomes structure of the banking sector of the Republic of Moldova for 2014 (%)

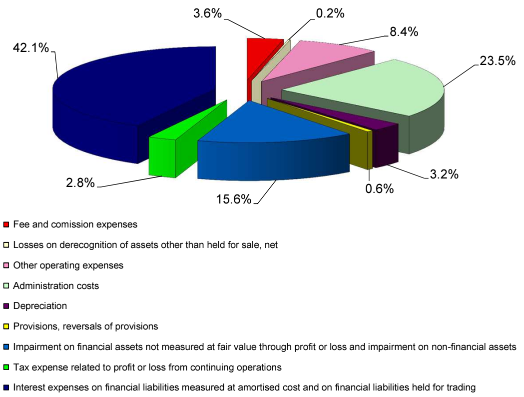



Source: BNM

The dynamics of income and expenses of banks in 2014 is shown in Chart 3.55.

Thus, the interest-related income amounted to MDL 5442.3 million as at December 31, 2014 or 70.4 percent of total income, increasing by MDL 676.1 million (14.2 percent) compared to December 31, 2013. The interest related income on loans and receivables held the largest share within the structure of interest-related income, which accounted for MDL 5081.1 million or 93.4 percent of total, increasing by MDL 655.9 million (14.8 percent) compared to December 31, 2013.

Chart 3.57: Expenses structure of the banking sector of the Republic of Moldova in 2014 (%)




Source: BNM

Non-interest related income amounted to MDL 2282.8 million as at December 31, 2014 or 29.6 percent of total income, increasing by MDL 447.3 million (24.4 percent) compared to December 31, 2013. Fees and commissions related income held the largest share in total non-interest related income, amounting to MDL 1212.1 million or 53.1 percent, up by MDL 145.5 million (13.6 percent).

The total amount of expenses equalled to MDL 6946.9 million, of which MDL 2923.5 million or 42.1 percent represented interest related expenses (increasing by MDL 239.7 million or by 8.9 percent compared to December 31, 2013).

Non-interest related expenses (including impairment of financial assets not at fair value through profit or loss and the impairment of non-financial assets) accounted for MDL 4023.4 million or 57.9 percent of total expenses (increasing by MDL 1128.3 million or by 39.0 percent compared to December 31, 2013).

As at December 31, 2014, the impairment of financial assets not at fair value through profit or loss amounted to MDL 861.6 million, increasing by MDL 550.8 million (177.2 percent) compared to the end of 2013.

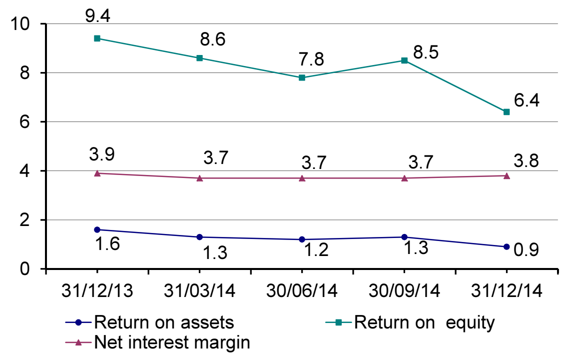
Impairment of non-financial assets of the banking sector recorded a value of MDL 223.1 million, increasing by MDL 275.2 million (528.2 percent) compared to the end of 2013.

Return on assets[28] and return on equity[29] of licensed banks in 2014 recorded a level of 0.9 percent and 6.4 percent respectively, decreasing by 0.6 percentage points and 3.0 percentage points compared to the end of 2013.

Net interest margin[30] was 3.8 percent as at December 31, 2014, remaining almost at the level of 2013.

The absolute value of interest-bearing assets decreased by MDL 11583.1 million in 2014 or by 18.1 percent, totalling MDL 52545.0 million as at December 31, 2013. Their share in total assets decreased by 32.5 percentage points compared to the end of 2013, accounting for 51.7 percent as at December 31, 2014.

Chart 3.58: Dynamics of net interest margin, the return on assets and return on equity in the banking system of the Republic of Moldova during 31.12.2013-31.12.2014 (%)




Source: NBM

## 3.7 Strategic Plan of the National Bank of Moldova for 2013-2017

To fulfil its role, functions and activities, so that to serve the best interests of Moldovan citizens, the National Bank of Moldova approved a Strategic Plan that draws the direction over the next five years. Strategic Plan of the National Bank of Moldova is approved for 2013-2017.

The Strategic Plan is intended to strengthen the NBM's role in society by fulfilling all tasks undertaken, ensuring an efficient use of resources and reducing the exposure to risks. Its priorities set through strategic objectives are aimed to ensure a high level of efficiency, transparency and performance, by aligning to the

[28]Return on assets = annualized net income / average assets.
[29]Return on equity = annualized net income / average equity.
[30]Net interest margin = annualized net interest / average interest-bearing assets.

best international practices of communication, credibility and corporate governance.

The Strategic Plan includes several key elements such as: mission, vision, values, basic fields of activity, strategic objectives, etc.

*Mission of the National Bank of Moldova*

The mission reflects the fundamental objective of the NBM and describes its exact reason to exist and indirectly indicates its primary stakeholders (citizens, partners, etc.). Based on the above, the NBM mission is:

*The primary objective of the National Bank shall be to ensure and maintain price stability. Without prejudice to the primary objective, the National Bank shall promote and maintain a financial system based on market principles and shall support the general economic policy of the State.*

*Vision of the National Bank of Moldova*

The vision of the NBM is the statement that concisely expresses the future aspirations of the institution. The declaration of NBM's vision is the starting point in formulating strategic objectives. Respectively, the NBM's vision is:

*National Bank of Moldova is an independent public authority, efficient and credible, which promotes an adequate monetary policy and helps ensuring the integrity and stability of the financial system, consistently applying the best international practices in the interest of society.*

*Values of the National Bank of Moldova*

The common values of the NBM are the basic principles guiding its activity and to which its decisions are aligned. The NBM's values are the followings:

*Civic engagement - activities oriented towards the benefit of public interest;*
*Efficiency - application of innovation and of modern technologies in resources usage;*
*Excellency - demonstration of competence and professionalism in exercising and adopting the best international practices;*
*Transparency - transparent and impartial attitude in the decision-making process;*
*Accountability - responsible attitude toward society in implementing the assigned tasks;*

*Integrity - ethical behaviour at bank and employee level;*
*Credibility - conduct that inspires and maintains public confidence*.

By establishing the basic fields of activity, the specific functions of the NBM are highlighted, these fields of activity actually reflecting the NBM's mission and constituting its basic pillars. The basic fields of activity are a source of formulation of strategic goals:

*Monetary policy* - application of monetary policy instruments and measures to ensure and maintain price stability;
*Currency issuance* – providing currency to the economy and promoting the credibility of the national currency;
*Supervision of financial institution* – regulation and supervision of the activity of financial institutions;
*Payment system* – promoting the efficiency, safety, accessibility and innovative character of payments.

*The strategic objectives* are those priorities of the NBM set based on the mission, for a definite period of time, in order to help to achieve its vision.

For the second consecutive year, since the Strategic Plan has been implemented, the NBM has continued to further strive to achieve its strategic objectives. The most imports achievements in 2014 related to the NBM strategic objectives are as follows:

| Strategic objectives | Major achievements in 2014 |
|---|---|
| **1. Ensure price stability** | Inflation fell within the range of ± 1.5 percentage points from the 5.0 percent target.<br>In order to support the monetary policy decisions and the capacities of macroeconomic and forecast analysis of the national economy and inflationary process, a number of forecasts and researches have been made in 2014, such as: the toolkit of medium-term inflation forecast was revised; gross domestic products forecast by categories of use was performed; central forecasting model has been supplemented with data on loans and deposits, historical evolution analysis has been developed, the unobservable variables of the model have been alternatively estimated, including real monetary conditions index, as well as an additional block has been added, which includes remittance behavioral equations.<br>It has been also improved the forecast methodology of the main international accounts indicators. |
| **2. Increase the credibility of the national currency** | To ensure a high level of cash in circulation, following the processing of cash provided by banks, the NBM withdrew in 2014 from circulation about 50 percent of worn-out cash and dealt with 785 cases, including counterfeits.<br>Cashiers of the NBM and licensed banks benefited from seminar organized in order to maintain the quality of cash in circulation, given the NBM requirements, which covered the newest trends and requirements in this filed. |
| **3. Develop the supervision function of the NBM** | The Twinning project strengthening the NBM's capacity in the field of banking regulation and supervision in the context of EU Directive 2013/36/EU and Regulation 575/2013 requirements (has been initiated for the implementation of Basel II/III (partly)).<br>A self-learning instrument, based on ISACA (Information Systems Audit and Control Association) requirements was made available to licensed banks, which refers to information technologies audit and information security aimed to promote the best practices in these fields.<br>The Memorandum of understanding between the National Bank of Moldova and the German Federal Financial Supervisory Authority (BaFin) concerning their cooperation in the field of supervision of banks was signed. |
| **4. Promote cashless payments and reduce cash in circulation** | NBM became a member of the European Automated Clearing House Association.<br>The Concept on IBAN code implementation for national transfers was approved.<br>NBM has contributed to the promotion of cashless payments aimed at increasing financial literacy of payment services/instruments users by launching a public information campaign at the national level. |
| **5. Strengthen the financial stability function** | There has been conducted crisis stimulation exercises aimed at testing and refining strategies for banking crisis resolution.<br>The methodology and study of the early warning system were developed. Simultaneously, the study on the vulnerabilities of banking system in the Republic of Moldova was updated. |
| **6. Improve external communication** | A consistent policy of informing the public on matters related to the NBM duties was promoted, in particular the systematic and timely information concerning monetary policy decisions and actions involving financial stability.<br>In addition, there were organized meetings with pupils, high school students and students of |

some educational institutions, where there were discussed issues of interest to the participants, the intended effect being to increase the level of financial education.

There were also organized some workshops for journalists and opinion makers in which they discussed issues related to the areas of activity of the central bank.

During 2014, measures have been taken to create a new official website of the NBM, which is one of the measures designed to achieve the strategic objective of improving external communication and is intended to give the general public access to accurate and operative information on NBM activity and the situation in the Moldovan banking system.

**7. Strengthen the image and credibility of the NBM**

It was promoted the information of the society about the principles, determinants and interdependencies of the inflationary process, other tasks of the NBM and macroeconomic phenomena underlying the decisions and actions of the NBM.

NBM organized the Doors Open Day, giving the public the opportunity to visit the exhibition hall of the bank and get more information about the banknotes and coins in circulation since the establishment of the NBM until now.

There have been implemented a number of measures to strengthen cash management.

**8. Increase the efficiency of the NBM operational activities**

The implementation of the Bloomberg single trading platform for open market operations has continued, such as NBM Certificates, sales and purchases of securities, deposits by auction.

NBM has aligned to new reporting requirements, according to the methodology of the IMF sixth edition of the Balance of Payments and International Investment Position Manual (BPM6). Thus, since the first quarter of 2014, NBM has elaborated the Balance of Payments and International Investment Position in a new version.

A new hardware software infrastructure has been put into service, which will ensure a proper functioning of the Automated interbank payment system (AIPS). From technical and technological point of view, the new AIPS platform has the following advantages: performance and efficiency, continuity, centralized management, modern technology, optimized use of resources.

In order to increase the efficiency, there have been transformed the NBM business processes, which are not related to new banking systems (core banking) and resource management (ERP), to be purchased and implemented under Transform NBM project as from 2015 (Table no. A.36 of the Annexes).

**9. Streamline the human resources management**

The NBM has initiated the implementation of employee performance management system, conducting in this respect a pilot project in the fourth quarter of 2014.

NBM employees were established competencies by functions and managerial levels.

**10. Develop the corporate governance**

In November 2014, the NBM hosted the Anti-fraud Week with a series of activities aimed at enhancing the perception of fraud, in order to strengthen the measures to combat it.

Several actions have been taken during the year, designed to develop team spirit and increase employee retention capacity.

During 2014, in accordance with the Strategic Plan of the National Bank for the years 2013 - 2017, a series of major projects to achieve strategic objectives have been conducted within the NBM. Table A.36 of Annexes presents an overview of the major projects and related achievements in 2014.

## 3.8 Payment system

### Oversight of payment services providers

In accordance with the Law on payment services and electronic money no.114 of May 18, 2012, the oversight of banks as payment service providers and electronic money issuers is one of the NBM duties as the supervisory authority. In terms of compliance by payment service providers to normative acts in the field of payment systems, there have been carried out in 2014 on-site inspections at licensed banks. Following the infringements or shortcomings detected during the inspections carried out in the area of payment systems, the NBM submitted proposals for actions and recommendations to comply with the legal provisions.

For oversight purposes of activities of non-bank payment service providers, internal procedures for on-site and off-site inspections were developed. Pursuant to the Law no. 114 of May 18, 2012, the NBM carries out off-site inspections of the activity performed by non-bank payment service providers.

### Oversight of payment systems

In accordance with Law no. 548-XIII of July 21, 1995 on the National Bank of Moldova, the oversight of the payment system of the Republic of Moldova is one of the basic tasks of the National Bank (NBM).

This task is carried out in accordance with the best international practices, recommendations, principles, standards in this area issued by the Bank for International Settlements, European Central Bank, International Monetary Fund, World Bank, etc., normative acts and internal oversight procedures for the automated interbank payment system, book-entry system of securities, the market for payment cards and money remittance systems.

According to the *Policy on payment system oversight in the Republic of Moldova* (approved by the Decision of the Council of Administration of the NBM, no.143 of June 30, 2011), the National Bank oversees payment and settlement systems, efficient and stable operation of which is essential for financial stability and monetary and foreign exchange policy implementation, as well as risk management mechanisms established within the systems widely used by the population for payments and transfers. National Bank carries out oversight of cashless payment instruments and systems of remote banking service to ensure efficiency and safety of their use.

In the field of payment and settlement systems, the followings are subject to oversight:

- automated interbank payment system - the system through which the interbank payments are made in MDL in the Republic of Moldova;
- book-entry system of securities - depository and settlement system of securities;
- financial risk management mechanisms related to settlements in MDL established in the card payment systems;
- financial and operational risk management mechanisms established in money remittance systems.

Payment and settlement systems oversight performed by the National Bank of Moldova includes: monitoring of systems / risk management mechanisms; regular assessment of compliance of systems / risk management mechanisms with the requirements set out in the normative acts in force and / or international standards; where appropriate, depending on the results of the oversight, imposition of sanctions and / or remedial measures in the form of recommendations or binding provisions implementation with deadlines for compliance with the legislation in force.

Oversight of cashless payment instruments and remote banking systems includes: collecting data on the safety and efficiency of cashless payment instruments and systems of remote banking; monitoring any new technologies in the field; efficiency and safety analysis of indicators based on information and data obtained from both the banks and as a result of their own research to identify the current situation and recent developments in the use of cashless payment instruments / systems for remote banking, their safety and the measures that can be taken to improve the indicators mentioned.

In case of finding deteriorating indicators related to safety and efficiency of payment instruments / remote banking systems, the National Bank intervenes by adjusting the regulatory framework, making recommendations or taking other measures to enhance their soundness.

***Automated Interbank Payment System***

*Statistical data*

Automated Interbank Payment System (AIPS) is composed of the real time gross settlement system (RTGS) and designated-time net settlement system (DNS). The RTGS system is designed for processing large-value and urgent payments, while the DNS system is designed for processing low-value payments.

In 2014, payments processed through AIPS declined by 3.1 percent, compared to 2013, while their total value increased by 4.5 percent. The number of payments stood at 13.7 million, and their value exceeded MDL 718.8 billion.

In terms of payments structure, the budgetary credit transfers hold the largest share (54.1 percent of total payments), followed by regular transfers of clients (44.6 percent). In terms of value, the structure of the payments changes: the value of ordinary transfers of clients (23.3 percent of total payments) exceeds the budgetary credit transfers (15.9 percent), but the transfers by banks in the name and on their own account holds the largest share (60.6 percent).

The number of payments distributed in the RTGS and the DNS system in 2014 accounted for 8.1 and 91.9 percent respectively. The share of transactions in the two systems component of AIPS depends on the value of settled payments. There were settled in RTGS system 93.2 percent of the total value of payments and only 6.8 percent in DNS system.

In 2014, averaged per day[31], there were settled through the RTGS system 4.4 thousands payments amounting to MDL 2.6 billion, and 49.7 thousands payments through the DNS system in the amount of MDL 196.6 million. The average value of a payment settled in the RTGS system amounted to MDL 605.2 thousands and a payment settled in the DNS system - MDL 3.9 thousands.

Table A.25 presents the evolution of payments settled through the AIPS, compared with 2013.

A new AIPS hardware and software infrastructure was put into operation on July 7, 2014.

[31] The term "day" means operational day.

At the end of 2014, there were registered 19 participants in AIPS:

- National Bank of Moldova;
- 14 licensed banks of the National Bank of Moldova;
- Settlement Centre from Tiraspol;
- State Treasury of the Ministry of Finance;
- National Securities Depository (NSD) of the Republic of Moldova;
- Centre for Electronic Governance.

As the AIPS administrator, during 2014, the National Bank continually monitored the activity of the participants in the system and tested their ability to respond to incidents. After applying those measures, it was found that the participants acted properly, without inducing substantial risks in the system and had the necessary capacity to organize themselves promptly and effectively in incidents.

*AIPS oversight*

AIPS oversight is carried out to ensure stable and efficient operation of the system. During 2014, the system's availability for its participants was 99.9 % and was within the limits set for the system parameter, while major incidents that disrupt the activity of AIPS and affect its participants did not occur.

***Securities book-entry system***

Book-entry system of state securities (BES) is a depository and settlement system for securities issued by the Ministry of Finance and the National Bank of Moldova, the final settlement of operations carried out in AIPS being achieved through real time gross settlement system (RTGS), under DvP principle (delivery versus payment/transfer of ownership). BES is organized and managed by the National Bank.

The state securities book-entry system is a system of indirect ownership of state securities, structured on two tiers:

1) Tier I - organized at the NBM, the securities are registered in the name of each participant;
2) Tier II - organized at licensed banks and the central depository, the securities are registered in the name of each

client - the owner of SS, as a result of operations performed on the primary and secondary markets.

*BES oversight*

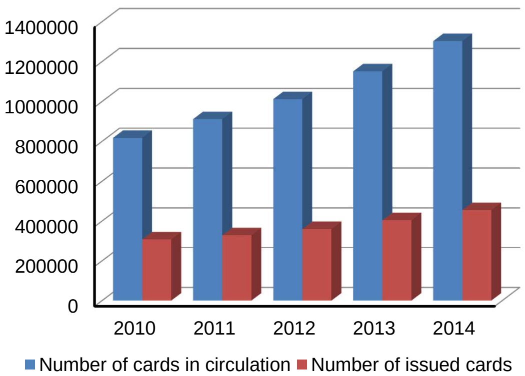
BES oversight is carried out to ensure stable and efficient operation of the system. During 2014, the system's availability for its participants was 100% and incidents that disrupt the activity of the system and participants did not occur.

***Cashless payment instruments***

Cashless payment instruments are essential components of the payment system in the country and the National Bank performs its oversight to ensure efficiency and safety of their use.

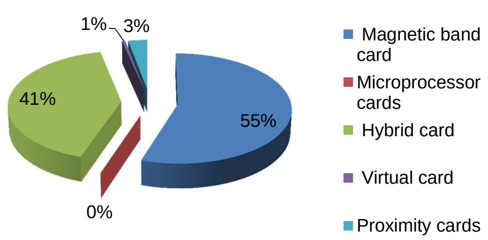
Payment cards are the most used by the population of all payment instruments, the remaining payment instruments being at the initial stage of use. It should be mentioned that, the NBM takes relevant measures agreed with other authorities and international institutions to promote cashless payment instruments.

Chart 3.59: Number of cards in circulation in 2010 - 2014




Source: NBM

Chart 3.60: Share of cards issued in 2014, by technical solution




Source: NBM

*Payment cards*

The number of cards in circulation at the end of 2014 exceeded 1.3 million (1302225 units), an increase of 13.1 percent compared to 2013. *Active cards*[32] constituted 61.0 percent of the total number of cards in circulation (794413 units).

Although the payment cards market of the Republic of Moldova is still prevailed by cards equipped only with a magnetic tape - 55.1 percent, the share of those endowed with both a magnetic tape and microprocessor (hybrid) increased significantly in 2014 and makes up 41.4 percent. In 2013, the share of cards only with a magnetic tape was 70.1 percent.

Virtual cards[33] hold an insignificant share - 0.52 percent, although the number has increased over the year by 10.6 percent compared with 2013. Contactless cards were issued from the third quarter of 2014 and held a share of 3.0 percent at the end of the year.

The positive trends that were seen on the cards market in the Republic of Moldova during 2014 were:

[32] Payment card through which at least one financial operation has been performed during the reporting period.

[33] Exclusively used for cashless payments through the Internet.

- the number of hybrid cards increased (+59.7 percent compared to 2013) and the share of the total number of hybrid cards increased (41.4 percent in 2014 to 29.3 percent in 2013);
- contactless cards started to be issued, which speeded up servicing of cardholders at trade points.

The basic indicator applied to assess the situation of payment card fraud is the share of the total amount of fraud committed in the total value of transactions with payment cards issued by local licensed banks conducted both at home and abroad. In the Republic of Moldova, this indicator amounted to 0.00796 percent for 2013 and 0.0071 percent for 2014, which is below the European level.

## Actions in the development of the national payment system

**National Bank of Moldova's accession to the European Association of Automated Clearing House**

On May 22, 2014, National Bank has obtained the membership of the European Association for Automated Clearing House (EACHA). EACHA is a forum of administrators of clearing and payment processing centres in the European Union (EU) and European Economic Area (EEA).

EACHA activity is concentrated in several directions: coordination of European clearing houses efforts aimed at implementing policies from the Community authorities in the field of payment systems, interconnection standards development, expressing the common opinion of the members in the relevant forums etc.

Membership of EACHA will provide the NBM with the opportunity to implement best practices in payment processing and create new opportunities for interconnection with other EU financial institutions, which in turn will allow minimizing operational expenses of banks to make payments in Euro.

In the context of European integration, this membership strengthens the position of our country for a future accession of the Moldovan banking system to the Single Euro Payments Area (SEPA).

**The national public information campaign on the benefits of cashless payment instruments**

On December 15, 2014, the National Bank of Moldova in partnership with the EFSE Development Facility (EFSE DF) launched the national public information campaign on the benefits of cashless payment instruments. The action aims mainly to inform the public about the benefits of such payments. In this way, the National Bank aims to encourage the use of cashless payment instruments.

The premise behind the launch of that campaign is that although the number of cards in circulation increased, the user preferences are largely limited to cash withdrawal from ATMs with subsequent use of cash for making various payment transactions.

A similar situation is seen for remote banking systems, such as internet banking, a service provided by most licensed banks. Although more and more bank clients become users of this service, few of them use it to perform remote payments, despite the fact that licensed banks have developed a range of products and services that enable customers to make payment transactions increasingly faster and more securely. The main objective of the campaign is to inform the public that cashless payments are simple, safe and convenient.

During the awareness campaign, which will run for half a year, there will be made advertising spots, broadcasts and interviews to various TV and radio channels on cashless payment instruments. Likewise, the interested public will have the opportunity to access a page dedicated to this topic on a social network and an on-line page, which include useful information on cashless payments.

## 3.9 Information technologies

In 2014, IT activity of the NBM was focused on major projects initiated in the previous years and on the initiation of new ones. In this regard, the major priorities targeted both the NBM transversal projects and internal projects of the IT department relate to the development and optimisation of the IT services.

The implementation of a software instrument for the IT services management is one of the main projects initiated in 2014. The implementation of such a solution was absolutely necessary for the NBM as the requirements to the IT infrastructure and services became more complex and the quality requirements have increased significantly.

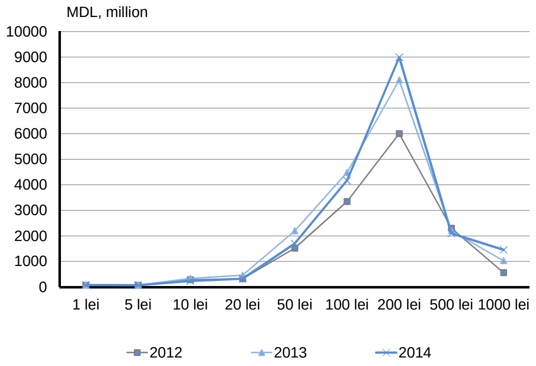
This project aims to improve the IT services by standardizing and automating IT processes, improving support services, by optimizing the use of human and IT resources, through better visibility of NBM needs and improved planning capabilities. To maximize the benefits of the use of such a tool, its implementation will be preceded by a transformation of IT processes in accordance with best practices such as ITIL v3.

In terms of hardware infrastructure and IT services, the primary aim was to ensure continuity of the work initiated in previous years for building the virtualisation capacity of IT resources. Projects for IT resources virtualisation of the NBM aim at ensuring on one hand, more efficient management of existing resources, and on the other hand to improve the capacity of how they are allocated, managed, monitored and disposed of use, capacity management and change, ensuring information security etc. It should be noted that during 2014, the virtualised servers increased by 34.0 percent, while the number of physical servers, the cost of licensing and operational costs decreased. At the end of the year, virtual server density averaged 2.3 virtual servers on a physical server, expecting to increase significantly in the coming years.

Virtual Desktop Infrastructure implementation is also aimed at developing information technology within the bank. This project was initiated during 2012-2013 and continued in 2014. The optimisation of the capacity and performance indicators of the virtualisation platform may be mentioned among the achievements recorded in 2014 within this project, which contributed directly to improving the quality of virtualisation, but also to the possibility of expanding the number of virtualised workstations.

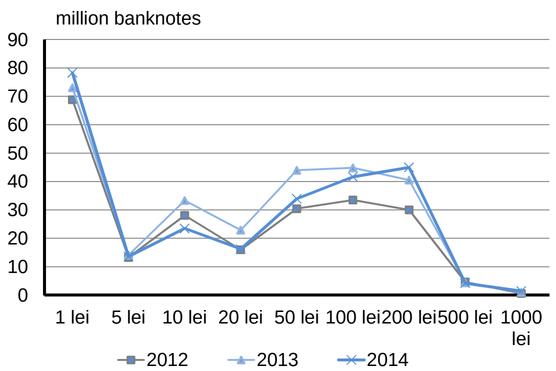
Another major project initiated during 2013 and completed in 2014 was the modernization of Automated Interbank Payment System (AIPS). Its objectives aimed at improving performance characteristics, reliability, security and functionality of AIPS. These objectives were based on two main factors: the criticality level of this system for the financial security of the country and the achievement of a high degree of obsolescence and wear and tear of the hardware/software infrastructure and of the technological platform, which were implemented in 2007. In 2014, the second phase of the project was completed, namely the modernization of the technological platform at the application level. As a result of the successful completion of the project, they were brought several benefits, including processing resource efficiency, while increasing AIPS

Chart 3.61: Evolution of banknotes in monetary circulation (in terms of value)



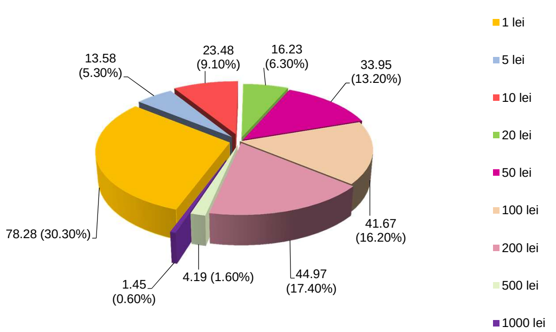

Source: NBM

Chart 3.62: Evolution of banknotes in monetary circulation (in terms of quantity)




Source: NBM

Chart 3.63: Structure of banknotes in circulation by face value as at the end of 2014 (in terms of quantity)




Source: NBM

performance parameters by 5 times (and for some types of operations up to 10 times), optimising licensing costs used for AIPS (e.g., reducing the cost of licensing for Oracle products by 47.0 percent), streamlining and automation of administration process (management from a single console, centralized monitoring of all system resources and events), and increasing reliability and resiliency to system failure by using the most modern high-availability technology etc.

There have been also recorded other important achievements in IT, but the main ones were related to the optimisation of the use of IT resources. One example is the achievements related to the optimisation of software license management. Succeeding to sign an agreement as an Enterprise Agreement with Microsoft, NBM has obtained several advantages, including a significant reduction in licensing costs, while gaining access to all the facilities provided by the licensing policies of Enterprise Agreement type.

## 3.10 Cash operations

At the end of 2014, cash in circulation, in terms of value, amounted to MDL 19222 million, by 1.0 percent more than at the end of 2013 when it recorded the amount of MDL 19045 million.

### *Banknotes and coins in circulation*

Banknotes in circulation accounted for MDL 19112 million at the end of 2014, in terms of value, by 0.9 percent more compared to the end of 2013 (Chart 3.61).

Cash in banknotes in circulation at the end of 2014, in terms of quantity, according to the face value structure, accounted for 258 million banknotes, by 7.3 percent less than in 2013 (Chart 3.62).

The quantitative change of the banknotes in circulation was due to the diminution of the share of banknotes with the face value of MDL 10, MDL 20, MDL 50 in total banknotes in circulation.

At the end of the reporting period, the nominal structure of banknotes, in terms of quantity, was as follows: for MDL 1 - 78.28 million banknotes, MDL 5 - 13.58 million banknotes, MDL 10 - 23.48 million banknotes, MDL 20 – 16.23 million banknotes, MDL 50 – 33.95 million banknotes, MDL 100 – 41.67 million banknotes, MDL 200 – 44.97 million banknotes, MDL 500 – 4.19 million banknotes and MDL 1000 – 1.45 million banknotes.

Details of the structure of banknotes in circulation, by face value, in terms of quantity and value, are shown in Chart 3.63 and Chart 3.64.

Divisional coins in circulation accounted for MDL 95.58 million at the end of 2014, in terms of value, by 7.9 percent more compared to the end of 2013 (Chart 3.65).

Divisional coins in circulation at the end of 2014, in terms of quantity, according to the face value structure, accounted for 673.9 million coins, by 7.5 percent more than at the end of 2013 (Chart 3.66).

The quantitative increase of coins in circulation was due to increased share of coins with the face value of 10 bani and 25 bani of total coins in circulation. As regarding the face value structure, at the end of period, the coins, in terms of quantity, accounted for 10 bani – 29.7 percent and 25 bani – 26.4 percent, while in terms of value these accounted for 20.9 percent and 46.5 percent respectively.

***Cash issuance, withdrawal and processing***

In 2014, the National Bank of Moldova issued cash in the total amount of MDL 5964 million, by 11.0 percent less compared to 2013.

The banknotes issued in 2014, which in terms of value amounted to MDL 5957.06 million, by 10.9 percent less compared to 2013, while in terms of quantity amounted to 89.98 million banknotes, by 16.5 percent less than in 2013.

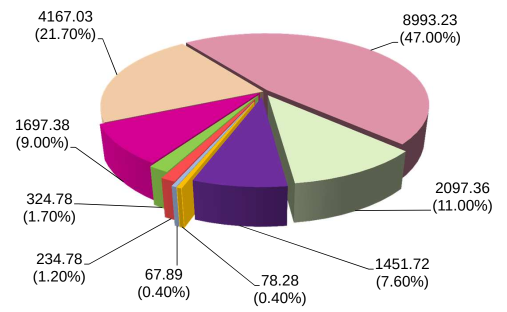
The quantitative change of the banknotes issued in circulation was due to the diminution of the share of banknotes with the face value of MDL 10, MDL 20, MDL 50 in total banknotes issued in circulation in 2014.

At the end of the reporting period, the nominal structure of banknotes, in terms of quantity, was as follows: for MDL 1 - 15.12 million banknotes, MDL 5 - 4.0 million banknotes, MDL 10 - 15.81 million banknotes, MDL 20 – 9.0 million banknotes, MDL 50 – 16.23 million banknotes, MDL 100 – 16.02 million banknotes, MDL 200 – 13.23 million banknotes, MDL 500 – 0.1 million banknotes and MDL 1000 – 0.47 million banknotes.

Chart 3.67 gives details on the structure of banknotes issued, by face value, represented quantitatively.

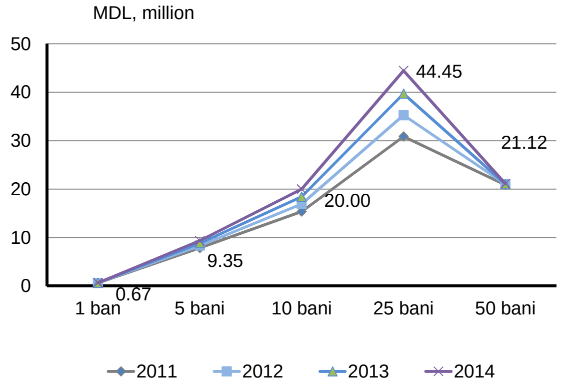
The coins issued in 2014, in terms of value, amounted to MDL 6.96 million, by 8.8 percent more compared to 2013, while

Chart 3.64: Structure of banknotes in circulation by face value as at the end of 2014 (in terms of value)



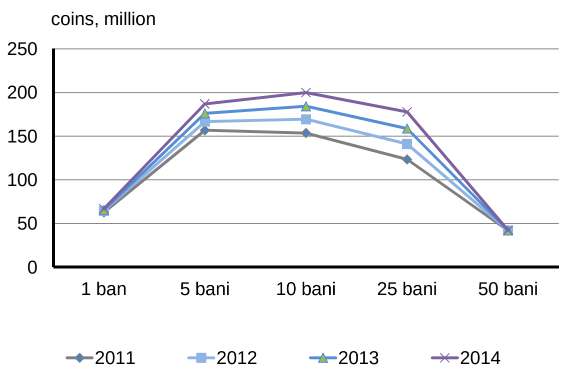

Source: NBM

Chart 3.65: Evolution of coins in monetary circulation (in terms of value)




Source: NBM

Chart 3.66: Evolution of coins in monetary circulation (in terms of quantity)




Source: NBM

in terms of quantity amounted to 47.06 million coins, by 9.5 percent more than in 2013.

The nominal structure of coins issued in 2014, in terms of quantity, was as follows: 1 ban - 1.48 million coins, 5 bani - 10.76 million coins, 10 bani - 15.63 million coins, 25 bani - 19.0 million coins, and 50 bani - 0.19 million coins.

In 2014, National Bank of Moldova withdrew from circulation, through licensed banks, banknotes in the amount of MDL 5794 million, by 2.6 times more than in 2013, and in terms of their quantity, there were withdrawn 110.3 million banknotes, by 2 times more than in 2013.

National Bank of Moldova processed 67.5 million banknotes in 2014, verifying both their authenticity and quality in order to preserve the quality and integrity of banknotes in circulation, according to the NBM criteria.

Following the processing of banknotes, a quantity of 41.4 million banknotes was identified as unfit for circulation. The attrition rate was 1.0 percent, decreasing slightly compared to 2013.

### *National currency counterfeiting*

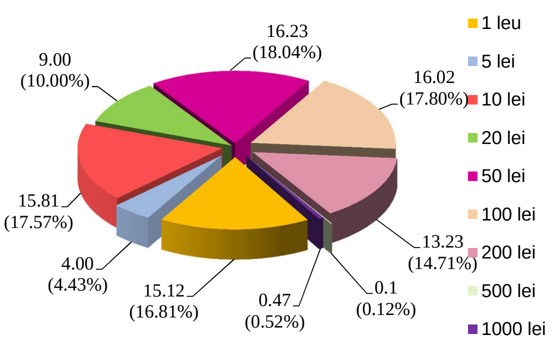
In 2014, the number of counterfeited banknotes in national currency identified by the experts accounted for 5560 banknotes, increasing by about 2.5 times compared to 2013. The number of counterfeited banknotes to the number of authentic banknotes in circulation at the end of the reporting period, which totalled 258 million banknotes, the number of counterfeits remains very low and represents 0.002 percent.

Counterfeiters showed predilection for the banknotes with the face value of MDL 100, totalling 5134 banknotes, MDL 50 - 183 banknotes, MDL 1000 – 107 banknotes, MDL 20 - 92 banknotes and MDL 200 - 26 banknotes of the total amount of counterfeits detected in 2014.

As for comparison, the number of counterfeit banknotes detected in 2013 totalled 2239 banknotes, the highest number of counterfeit banknotes was recorded for the banknotes of MDL 100, which accounted for 1499 banknotes, MDL 50 - 364 banknotes, MDL 20 - 200 banknotes, MDL 1000 - 82 banknotes, and MDL 200 - 69 banknotes.

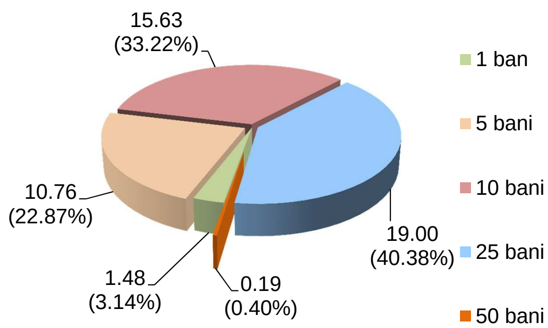
In order to combat counterfeiting of the national currency, the National Bank of Moldova recommends further to be alerted about the possibility of fraud, verify the authenticity of banknotes and coins, and in case of identifying counterfeits to

Chart 3.67: Banknotes issued in circulation in 2014 (in terms of quantity)



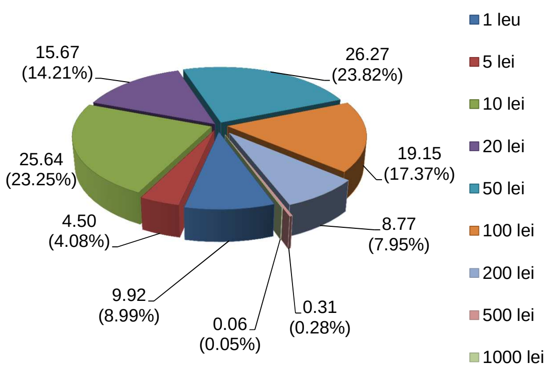

Source: NBM

Chart 3.68: Coins issued in circulation in 2014 (in terms of quantity)




Source: NBM

Chart 3.69: Banknotes withdrawn from circulation in 2014 (in terms of quantity)




Source: NBM

withdraw them from circulation and to notify the Ministry of Internal Affairs.

At the same time, the NBM through cooperation with the Ministry of Internal Affairs provides licensed banks with specialized courses on methods of detecting and withdrawing from circulation the counterfeits.

***Commemorative coins and banknotes issuance***

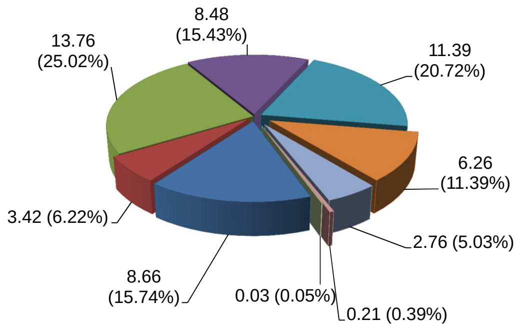
Pursuant to the Law no.548 – XIII of July 21, 1995 on the National Bank of Moldova, the Decision of the Council of Administration of the National Bank of Moldova no.134 of July 10, 2014 on the issuance of commemorative coins and the Decision of the Council of Administration of the National Bank of Moldova no.197 of October 02, 2014 on the issuance of commemorative coins for numismatic purposes and as legal tender, the National Bank of Moldova issued 9 commemorative coins in 2014, with various themes, including 1 gold and 8 silver coins. The volume of coins was different, according to the metal of which they were minted, in total being issued 300 gold coins and 5500 silver coins (Table A. 26).

## 3.11 Internal Audit

Key priorities of the Internal Audit Department in 2014 were related to the development of the internal audit function, as in the light of the strategic development of the NBM processes and dealing with the risks associated to the activities. The fully executed Annual Audit Plan for 2014 included a series of audit activities of major importance and different projects of medium importance. Additionally, at the request of the NBM top management, the Internal Audit Department conducted 3 ad-hoc audit missions. The audit missions ended up in findings, opinions and recommendations presented in audit reports, which were subsequently submitted to the audited subdivisions and the Council of Administration of the National Bank of Moldova.

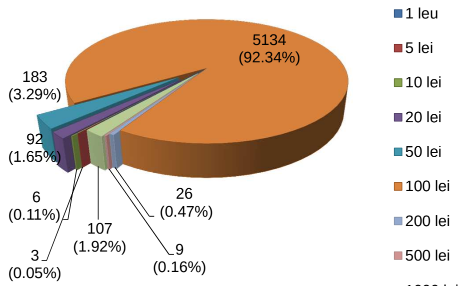
In parallel with the audit missions, a number of advisory activities have been conducted, consisting of participation in project teams or working groups with a consultant and/or observer role. The financial statements and budget execution of the NBM have been approved, including draft normative acts, the risk management and internal control being also analysed. In 2014, the IAD staff provided instructive assistance to NBM's employees on topics related to the areas directly related to the role and duties of IAD.

Chart 3.70: Banknotes withdrawn from circulation in 2013 (in terms of quantity)



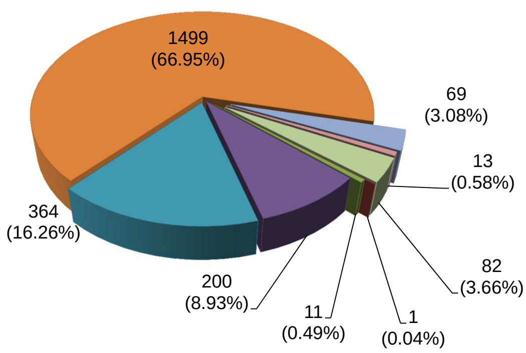

Source: NBM

Chart 3.71: Structure of counterfeited banknotes by their face value identified in 2014 (in terms of quantity)




Source: NBM

Chart 3.72: Structure of counterfeited banknotes by their face value identified in 2013 (in terms of quantity)




Source: NBM

A key element to improve the internal normative framework was the review and updating of the internal audit methodology. A new version of the Audit Manual has been drawn up and the internal related procedures have been improved as to coordinate and streamline the internal audit function.

From the perspective of enhancing the awareness and importance of fraud risk management, in November 2014, the third edition of the Anti-Fraud Week was held, with representatives of the Association of Banks and the banks of the Republic of Moldova. Several activities have been organized during this event, aimed at raising awareness, preventing and combating fraud, establishing integrated and developed governance, efficiency and quality oriented.

Developing internal auditors' skills remains an essential element in achieving the effectiveness of internal audit. During the reporting year, IAD employees participated in seminars/courses held externally and internally (in the area of the Republic of Moldova), addressing issues related to governance in a central bank, IT audit, risk management etc. In the context of membership in the IIA (*Institute of Internal Auditors, USA*), professional training was maintained and developed in compliance with auditing standards, mandatory rules of the international framework of professional practices, code of ethics, participation in IIA webinars. Additionally, in 2014, IAD participated in formulating opinions on the draft amendments to the *International Professional Practices Framework* (IPPF) issued by the IIA on August 4, 2014.

Under the program of ensuring and improving internal audit function, the audit activity has been monitored, the audit performances and the performances of each auditor have been assessed. In 2014, IAD initiated the periodic self-assessment of the NBM internal audit function, which seeks mainly the compliance of carried out activities with the *International Standards for the Professional Practice of Internal Audit*.

***Development of internal audit function in the NBM***

**2002-2004**

- Reorganization of internal audit function
- IAD Statute
- Implementation of an internal control system (COSO)

**2005-2009**

- Revision of IAD Statute
- Defining targeted risk procedure based on strategic and annual planning
- Extending audit areas Integrated audit
- Implementation of audit management software - Autoaudit
- Automation of audit findings and recommendations management
- Development of Audit Manual

**2010-2014**

- First external quality assessment of audit function
- Internal quality assessment
- Optimisation of audit structure
- Revision of internal control system
- Implementation of the register of electronic record-keeping of incidents
- Total revision and updating of the audit methodology
- Establishment of implementation of KPI at IAD level
- Implementation of anti-fraud policy
- Launch of anti-fraud week
- Risk mapping at the NBM level Assessment of fraud risks
- Time management automation
- Implementation of IDEA Data Analysis Software (Interactive Data Extraction and Analysis)
- Increasing performance audits
- Development of competences and skills

## 3.12 International Cooperation of the Republic of Moldova

*International Monetary Fund (IMF)*

International Monetary Fund is an organisation working to foster global economic growth and ensure economic stability. This international institution provides policy and financial advice to its members in economic difficulties and cooperates with developing countries to help them achieve macroeconomic stability and reduce poverty. The Republic of Moldova is a member of the IMF as from August 12, 1992.

As at December 31, 2014, the quotas of subscription of the Republic of Moldova to the IMF constituted SDRs 123.2 million (about USD 190 million) or 0.05 percent of IMF capital, which is 0.08 percent of the total votes.

By the end of 2014, the decision to increase the quota of the Republic of Moldova to IMF did not enter into force, which is determined by an insufficient number of votes from member states of the IMF, necessary for the adoption of reforms under the *Fourteenth General Review of Quotas and Reform of the Executive Board* initiated by the IMF.

During 2014, the National Bank of Moldova relations with the IMF were held in the context of regular consultations under Article IV of the IMF Statute[34], and post-program monitoring visits of the IMF[35].

In this regard, the IMF experts conducted two working visits to the Republic of Moldova on April 22 - 30, 2014 and thereafter September 25 - October 7, 2014. The main topics of the dialogue between the IMF experts and Moldovan authorities were related to macroeconomic developments forecasts in 2014, the budgetary outlook, the situation in the banking system and structural reforms promoted in various fields. IMF mission has appreciated the success of the NBM in achieving the objective of price stability in the context of inflation targeting and flexible exchange rate regime, which has helped to mitigate the impact

[34] Regular consultations provided by Article IV of the IMF Statute is an supervisory exercise which is mandatory for all member states, following their accession to the IMF.

[35] Post-program monitoring is a process that involves all member states after the expiry of IMF-supported programs and aims to ensure the viability of the country's economic framework and early warning about the state's ability to repay its debt to the IMF.

of external pressures. The experts also noted positively the significant reduction of the budget deficit, maintaining public debt at an appropriate level and foreign exchange reserves at a level sufficient to mitigate the impact of potential external shocks.

In the period February 17 - March 5, 2014, the International Monetary Fund and World Bank held a financial sector assessment program of the Republic of Moldova (Financial Sector Assessment Program - FSAP). During the program, mission experts conducted a thorough and detailed examination and analysis of the financial sector of the country.

Among the progresses achieved after the 2007 FSAP assessment, the experts pointed out the following: achievement of some macroeconomic objectives, significantly improvement of the regulation and supervision of financial sector, institutional and legal framework related to crisis management. The experts emphasized the need to continue the efforts aimed at reducing the main risks and vulnerabilities in the financial sector of the country by improving the quality of financial sector supervision, strengthening the financial crisis management and strengthening depositor protection system.

The last IMF assistance program for the Republic of Moldova was completed in April 2013 under which the Republic of Moldova received financial assistance amounting to SDRs 320.0 million, of which SDRs 225.0 million were received by the National Bank of Moldova and SDRs 95.0 million - by the Ministry of Finance.

In 2014, total payments related to the servicing of loans granted by the IMF to the National Bank constituted SDRs 20.90 million (equivalent to USD 31.75 million), of which the payments for the principal amount of the loan constituted SDRs 19.27 million (equivalent to USD 29.27 million) and payments for interest rates and commissions on loans - SDRs 1.63 million (equivalent to USD 2.48 million) (Table A. 27).

***European Union (EU)***

Consolidation of the Republic of Moldova's position in order to advance towards European integration is an important objective of foreign and domestic policy of the State. The year 2014 was marked by obtaining important results in achieving this goal.

On June 27, 2014, the Association Agreement between the Republic of Moldova on the one hand, and the European Union and the European Atomic Energy Community and its Member States, on the other hand, was signed in Brussels. The Association Agreement was ratified by the Parliament on July 2, 2014 and by the European Parliament on November 13, 2014. Pending the ratification of this document by all EU member states, some parts are applied provisionally from September 1, 2014.

Under the Association Agreement, the Republic of Moldova has taken a number of commitments. This document contains 395 directives and regulations, which, once implemented into national legislation, will accelerate the deepening of political and economic relations and the gradual integration of the Republic of Moldova in the Community market. The agreement will create a new climate for economic relations between the Parties and in particular for the development of trade and investment and stimulate competition, which are the decisive factors for economic restructuring and modernization.

Within its powers, the National Bank participates in fulfilling the commitments undertaken by our country in the Association Agreement by aligning the regulatory framework and its activities to the legislation and best practices of the European Union. In this context, it should be mentioned that the transposition of the EU provisions in national legislation on banking and financial fields will contribute to the development and stability of the financial system of the Republic of Moldova and will ensure regulatory compatibility of the national regulatory concept and model with the national regulatory concept and model of the Member States of the European Union.

On June 26, 2014, the Association Agenda between the Republic of Moldova and the European Union was approved. This document establishes a set of priorities for 2014-2016 in order to prepare and facilitate the implementation of the Association Agreement, creating the framework through which the primary objectives of political association and economic integration may be achieved. Association Agenda replaced the Moldova-EU Action Plan developed under the European Neighbourhood Policy.

A key tool to monitor the process of European integration over three years is the National Action Plan for the implementation of the Moldova-EU Association Agreement for 2014-2016, approved by the Government of the Republic of Moldova in October 2014. The plan includes actions to be taken by the responsible institutions, under the provisions of the Association Agreement and the Association Agenda priorities, within the set time limit and specifying the necessary financial resources.

National Bank has committed itself to contribute to the implementation of the plan through a series of targeted actions, such as alignment of the legislation on the central bank with the best EU practices, NBM capacity building in banking regulation and supervision, development and strengthening governance related requirements and bank risk management, transposition and implementation of EU legislation in the field of financial services etc.

In the context of cooperation between the Republic of Moldova and the European Union in 2014, National Bank representatives attended the EU-Moldova Cooperation Sub-Committee no. 2 on "Economic, Financial and Statistical issues" and the 18th meeting of the Moldova-EU Parliamentary Cooperation, which represented bodies responsible for monitoring of the implementation of the Partnership and Cooperation Agreement between the Republic of Moldova and the EU[36]. During these meetings, there were discussed a number of topics related to the evolution of some macroeconomic indicators; the current situation in ensuring the stability, transparency, reliability and efficiency of the financial sector; measures in preventing fraudulent practices in the financial sector and other aspects of the country's economic development in various sectors.

During 2014, the Republic of Moldova continued to benefit from financial assistance from the European Union in various fields. Thus, in June and December, the Republic of Moldova has received the third and the fourth tranche of EUR 8.85 million, and EUR 4.89 million respectively, under the *Sector Policy Support Programme in the Water Sector*. The overall objective of this programme is to support the implementation of reforms in the sector of water supply and sanitation.

European Commission disbursed in June the last tranche of EUR 6.0 million of the grant for the Republic of Moldova under the *Financial Support for Health Sector Policies*. The health system in the Republic of Moldova during the years 2008-2012 received financial support worth about EUR 50.0 million and technical assistance worth over EUR 3.0 million from the EU.

In October 2014, the Republic of Moldova has received the second tranche of EUR 13.2 million out of EUR 60.0 million planned in the *Support for Justice Sector Reforms Programme*.

As of April 28, 2014, visa regime for short-term travel of Moldovan citizens who hold biometric passports to the Schengen area was liberalised. In order to continue reforms in the justice sector and internal affairs, the Working Group to

[36]Partnership and Cooperation Agreement between the Republic of Moldova and the EU entered into force on July 1, 1998 and was the legal basis of relations between the Republic of Moldova and the European Union until its replacement with the EU - Moldova Association Agreement.

coordinate the liberalisation of visa regime with EU ensures the implementation of *Policy Matrix for the Implementation of the Action Plan on Visa Liberalization for 2014 - 2016* by means of budgetary support totalling EUR 21.0 million. In this regard, in November 2014, the Republic of Moldova received the first tranche of budget support in the amount of EUR 5.8 million.

Aiming to support the Moldovan Government in promoting sustainable economic growth, strengthening the democratic system and improving economic governance, the European Commission transferred our country a tranche of EUR 8.0 million out of EUR 30.0 million in December 2014, planned under the *Deep and Comprehensive Free Trade Agreement*.

In December 2014, the Republic of Moldova received a tranche of EUR 8.0 million to support implementation of the *Support to Public Finance Policy Reforms in Moldova Programme*. This program aims to strengthen effective fiscal policy, transparent public finance policies and strengthen public finance management system.

***Group of Banking Supervisors from Central and Eastern Europe (BSCEE)***

In 2014, the National Bank of Moldova participated in the 27th Annual Conference of BSCEE as a member of the Group of Banking Supervisors from Central and Eastern Europe. The conference was focused on financial stability and its importance. The conference aimed to exchange experiences between banking supervisors - BSCEE Group members.

Following the request of the BSCEE Group Secretariat to the members for the opinion on the intention of the Central Bank of Georgia and the National Bank of Kazakhstan to become members of the group, the National Bank of Moldova accepted their admission as members of the group, provided that the text of the Agreement on rules of organization and functioning of BSCEE and Operational status of BSCEE Secretariat to bring these documents in line with the number and characteristics of the countries - members.

In 2014, the National Bank has also continued to work with BSCEE Group Secretariat in order to organize different instructive events for banking supervisors for its member countries.

***External technical assistance and cooperation with other international institutions, central banks and state agencies of other states***

The development of banking supervision function is an objective of strategic importance to the National Bank of Moldova and requires a significant allocation of resources and capabilities both internal and external. To achieve this objective, the National Bank of Moldova benefits from technical assistance from multiple external partners.

To strengthen capacity in banking regulation and supervision, the National Bank of Moldova has undertaken a number of activities aimed at achieving the implementation of the requirements of Basel II/III through cooperation and assistance instrument of the EU - Twinning. Thus, during 2014, the NBM participated in selecting partners from the Member States of the European Union for the implementation of the Twinning project "*Strengthening the NBM's capacity in the field of banking regulation and supervision in the context of implementing the requirements of Basel II/III*". Subsequently, the NBM has negotiated and agreed the Twinning contract with the partners participating in the Twinning project (National Bank of Romania and the Central Bank of the Netherlands), including the work plan and the annexes to this project. At present, the documents are submitted to the EU Delegation in Moldova for assessment and approval. The project itself is expected to start in 2015, following the completion and signing of the Twinning contract.

In order to improve prudential regulation and banking supervision instruments, the National Bank of Moldova has benefited in 2014 from training organized by the Polish Financial Supervision Authority. Training activities were meant to familiarize the NBM staff with European practices applied in the licensing of banks and solving problems that may arise, as well as EU member states experience in the supervision of banks and bank resolution.

In order to strengthen the cooperation with banking supervisory authorities of the EU Member States, the NBM signed a Memorandum of understanding on November 3, 2014 with the German Federal Financial Supervisory Authority concerning their cooperation in the field of supervision of banks. This Memorandum was signed to create the necessary framework to enhance bilateral cooperation in order to facilitate the exchange of information necessary for the efficient supervision of banking institutions licensed by both authorities.

In the process of licensing of banks, the National Bank of Moldova continued to work with central banks and supervisory authorities of other countries (Romania, Ukraine, Kyrgyzstan, Albania and Macedonia) by sharing relevant information in this regard.

National Bank still orients its efforts toward achieving the goal of maintaining financial stability of the banking system in the Republic of Moldova. In this context, the National Bank has received in 2014 technical assistance from the US Treasury on ensuring the continuity of the activities related to banking supervision, the ways to develop plans for resolution of systemically important banks and international practices relating to contingency plans.

Improving mechanisms for early detection of crisis and taking action to address them have an important role in ensuring financial stability. Thus, at the NBM request, a team of World Bank experts conducted a simulation exercise of the crisis in order to evaluate the effectiveness of communication within the NBM and other relevant authorities in crisis situations.

In 2014, the National Bank of Moldova has benefited from technical assistance with the theme "Communication management in times of crisis" from an expert of the Bank of Slovenia through the instrument of the European Union - TAIEX. This project had the aim of sharing practices of Member States of the EU in crisis communication management. This assistance has helped to strengthen the knowledge and skills of representatives of government institutions, including NBM, which are responsible for communication with the public and media representatives in crisis situations.

According to the basic duties, the NBM holds and manages foreign exchange reserves. In this respect, in 2014, the National Bank of Moldova has further participated in the Reserves Advisory and Management Program (RAMP), organized by the World Bank. NBM employees participated in practical seminars in various areas of management of foreign reserves. At the same time, the NBM has received specialized technical assistance in managing operational risk.

The alignment of the Republic of Moldova to international standards for statistical data reporting and the improvement of reporting principles is of particular importance to economic development. In this regard, during the period of October 27 - November 7, 2014, the representatives of the Department of Statistics of the International Monetary Fund held in our country a technical assistance mission. This was targeted at expanding the standardized reporting form (FSR) 2SR "Banks and other financial institutions" through the inclusion of monetary statistics of savings and loan associations licensed by categories B and C, which attract deposits, and at developing new reporting forms for all segments of the financial environment, according to the methodology described in the IMF Manual on monetary and financial statistics, based on which the FSR 4SR "Non-bank financial environment" will be compiled. In the mission, the IMF experts stressed the importance of classification and validation of financial instruments and the need to ensure data reporting forms division into categories, such as residents and non-residents, national currency and foreign currency, institutional sectors.

A prosperous and result oriented activity in an institution may be achieved by establishing an effective system of performance management. During 2014, the NBM benefited from valuable assistance related to performance management system from the Central Bank of the Netherlands. In this regard it was organized an "ice-breaking" for the NBM's management, independent subdivisions heads and heads of divisions on providing support in setting performance management. Implementation of this project will bring benefits by the employee orientation towards performance, more efficient communication, better correlation between effort and results, as well as creating an attractive work environment, stimulating the necessary conditions for ensuring performance.

Sustainable economic development of the country depends largely on the level of financial education of the population. Promoting financial literacy is becoming increasingly important, once it allows people to make informed decisions in financial services, contributing in the long term, to increase financial stability and economic growth.

In this context, the National Bank expressed readiness to help promote financial education. As in previous years, the National Bank of Moldova participated in the International Financial Education Week (Global Money Week), organized in March by the CYFI International Institute (Child and Youth Finance International).

During this week, the National Bank coordinated the project "Open your heart to financial education", aimed at integrating financial education activities, held in Moldova at different levels of society. The participants of a conference that brought together representatives of public authorities, civil society and the educational environment, financial market participants in the Republic of Moldova, economic analysts and external partners, created a working group for drafting the national strategy financial education. In addition, there were organised seminars in which pupils and students had the opportunity to become familiar with different aspects of the NBM activity.

In November 2014, in the context of promoting financial education for children and youth, the NBM representatives attended the Conference on Scale and Sustainability in Financial Education, held in Portugal, Lisbon. The objective of this conference was to strengthen and expand social and financial education for children and young people in Europe and Central Asia through strategic partnerships.

## 3.13 Activity of the Council of Administration of the National Bank of Moldova

During 2014, there were held 70 meetings of the Council of Administration of the National Bank of Moldova, where 307 decisions have been examined and adopted with regard to the activity of the financial and banking sector, and normative acts have been approved and amended in the following fields:

- Monetary and Foreign Exchange Policy of the NBM.
- Payments System Oversight Policy of the Republic of Moldova.
- Accounting Policy of the National Bank of Moldova.
- Banking Regulation and Supervision.
- Bookkeeping.
- Balance of Payments.

During 2014, about 52 general decisions (according to the Table A.34 and Table A.35 of the annex) of the Council of Administration of the National Bank of Moldova have been submitted for publication in the Official Monitor of the Republic of Moldova.

## 3.14 The legislative activity in 2014

### Foreign exchange regulation

In 2014, the NBM's activities related to foreign exchange regulation were mainly focused on adopting and/or amending its normative acts related to the functioning of the interbank foreign exchange market of the Republic of Moldova, foreign exchange entities activities, as well as banks reporting to the National Bank of Moldova of foreign exchange operations.

**I.** In order to improve the regulatory framework of the NBM that regulates the operations carried out in the interbank foreign exchange market of the Republic of Moldova, the Regulation on the performance of transactions on the interbank foreign exchange market of the Republic of Moldova has been amended in 2014.

The main amendments refer to the following aspects:

- completion of the Regulation on the performance of transactions on the interbank foreign exchange market of the Republic of Moldova with a new chapter stipulating the conditions to carry out foreign currency swaps by the NBM on the interbank foreign exchange market (the provisions of this Regulations were the object of the Regulation on foreign exchange swaps between the National Bank of Moldova and banks, which was abrogated). As a result, a single normative act regulates the interbank foreign exchange transactions both in the form of direct interventions on domestic foreign exchange market (purchases and sales of foreign currency against national currency) and in the form of reversible transactions (foreign exchange swaps);
- indication of use of interbank foreign exchange transactions by the NBM as a monetary policy instrument (to inject or absorb liquidities in national currency), and the interbank foreign exchange transactions carried out for other purposes, according to the NBM duties, shall be performed without prejudice to the inflation target achievement;
- alignment of some conditions to carry out foreign exchange swaps as a monetary policy instrument to those to carry out operations with the most frequently used

monetary policy instruments of the NBM. Thus, the maturities of foreign exchange swaps are aligned to the maturities of overnight deposits accepted by the NBM and NBM Certificates sold to banks. It was also established that the interest rates in national currency shall be used when calculating swap point quotations, depending on the maturity of the foreign exchange swaps:

- interest rate applied by the NBM on overnight deposits accepted from banks - in case of foreign exchange swaps with overnight maturity;
- base rate of the NBM applied on main monetary policy operations on short-term - in case of foreign exchange swaps with the NBM Certificates maturity.

In the context of interest rates in foreign currency, it was provided to use LIBOR rate for the respective period, depending on the maturity of foreign exchange swaps. If the maturity covers two periods for which LIBOR rates are set, the longer period for which LIBOR rate is set shall be used.

Thus, these amendments were aimed at using foreign exchange swaps along with other similar instruments (such as overnight deposits and NBM Certificates), without generating additional costs for the NBM.

- exclusion of the requirement to submit supporting documents by the licensed bank to the NBM, relating to its client, when carrying out selling/buying foreign exchange swaps by the NBM with the respective bank. The exclusion of this requirement results from the essence of foreign exchange swap, which is a monetary policy instrument used to inject or absorb liquidity in national currency. This amendment is also conditional on fact that licensed banks carry out foreign exchange swaps with the NBM not only to cover clients' needs, but also to manage own liquidities.

As a result, the regulatory framework of the NBM, which regulates the operations carried out on the interbank foreign exchange market, has been optimised and the procedure of carrying out selling/buying foreign exchange swaps by the NBM has been simplified, and the conditions to carry out foreign exchange swaps by the NBM (with the maturities and interest rates in MDL) were aligned with the conditions of the most frequently used monetary policy instruments of the NBM.

**II.** The amendments to the Regulation on foreign exchange entities created conditions to optimise certain aspects of the foreign exchange entities activity.

In this regard, the possibilities of these entities were expanded as regards signing of orders on buying and selling exchange rates and orders on fees applied, namely by applying advanced qualified electronic signatures.

Simultaneously, the detailed requirements related to record-keeping of such orders were excluded, providing the foreign exchange entities with the right to independently establish the record-keeping and retention method of these orders. At the same time, the general provisions relating to the record-keeping of such orders by the foreign exchange entities have been developed.

**III.** In 2014, the NBM continued to optimise the foreign exchange regulatory framework that regulates the reporting process of the banks to the NBM, namely:

- in the context of switching to a new reporting system to the NBM (SIRBNM), three reports related to foreign exchange area have been amended in accordance with the requirements of SIRBNM;
- a number of amendments to the normative acts related to foreign exchange reporting was conditioned by the necessity to detail some information from some existing reports, aiming to provide the information needed to make a deeper analysis of developments in the foreign exchange market and to monitor exposure of banks to non-residents;
- detailed information contained in existing reports has enabled some reduction of the number of the reports submitted by banks to the NBM, two reports being excluded.

**IV.** Among other amendments and completions made to the foreign exchange regulatory framework of the NBM, the followings may be mentioned:

- amendments to the Regulation on banks open foreign exchange position specified the use of the size of total regulatory capital for calculating the foreign exchange position, and obliged banks to report daily to the NBM indicator "Ratio of balance sheet assets in foreign currency and balance sheet liabilities in foreign currency";
- introduction of the European single currency in Lithuania as legal tender determined the amendment of the Regulation on setting the official exchange rate of Moldovan Leu against other currencies, by excluding the Lithuanian litas from the list of foreign currencies against which the NBM quotes the Moldovan Leu;

- Instruction on reporting some foreign currency transactions by licensed banks was brought into compliance with the amendments made to the Chart of Accounts.

## Prudential regulation

In 2014, a number of actions have been taken to maintain banking system stability and ensure its development. To this end, prudential regulations and supervisory methods have been refined, taking into account the existing regulatory framework, acquis communautaire, and the generally accepted standards for banking supervision.

In order to refine the methods of banking supervision, the Instruction on preparing and presenting the reports by banks for prudential purposes (approved by the Decision of the Council of Administration of the NBM no.279 of December 1, 2011, published in the Official Monitor of the Republic of Moldova no.216-221, art. 2008 of December 9, 2011) was subject to a number of amendments and completions for transposition of mechanisms to enhance the legislation in force relating to ownership structure, shareholdings in the capital of legal entities, requirements for large exposures to affiliated persons of the bank, etc.

These changes were also aimed at reporting of detailed information related to bank shareholders with qualifying holdings and are entered in the register of holders of securities of the bank as at the reporting date, information on indirect owners, including beneficial owners of qualifying holdings in a bank's capital, as well as information on shares disposed of. Simultaneously, the reporting shall disclose information on the participation of shareholders that held shares above 1% in the share capital of the bank as at the last shareholders' meeting.

There has been also made a number of amendments aimed at optimizing the reporting process. Thus, in order to promote electronic reporting, some of the information, which was previously reported on paper, will be also reported in electronic form. At the same time, the information presented according to the instruction was adjusted to the new reporting system (SIRBNM), according to the Decision of the Council of Administration of the National Bank of Moldova no. 1 of January 16, 2014.

In order to properly implement the provisions of the Law no.190-XVI of July 26, 2007 on preventing and combating money laundering and terrorist financing, and in particular due diligence measures by banks to partner institutions in cross-border banking relationships and the beneficial owners of bank clients, there were developed the Recommendations on cross-border relations in the context of legislation on preventing and combating money laundering and terrorist financing and the Recommendations on the identification of the beneficial owner. These recommendations will also ensure compliance with Council of Europe experts' recommendations on preventing and combating money laundering and terrorist financing (MONEYVAL), presented in the 4th Assessment Report of the Republic of Moldova, and in particular compliance with the Recommendation 5 and 7 of the report.

The Recommendations on cross-border relations in the context of legislation on preventing and combating money laundering and terrorist financing are intended to provide banks and other payment service providers methodological guidance in the process of concluding a business relationship with a foreign correspondent institution (Decision of the Council of Administration of the NBM no.42 of February 27, 2014).

The Recommendations on the identification of the beneficial owner aimed to provide banks and other payment service providers methodological guidance on the application of legislation in preventing and combating money laundering and terrorist financing in the process of identification of the beneficial owner (beneficial owners) of the clients, either legal entities or individuals (Decision of the Council of Administration of the NBM no.147 of July 31, 2014).

Regulation on bank's activity regarding prevention and combat of money laundering and terrorist financing has been also amended and completed. These amendments to the Regulation are related to the implementation of the necessary requirements to be applied to opening of branches and representative offices in other states and completion of the list of persons with high risk, but also due diligence measures to be applied to them. At the same time, the completions to the Regulation are related to the implementation of the requirements for the identification and assessment by the bank of risks relating to money laundering and terrorist financing (Decision of the Council of Administration of the National Bank of Moldova no.135 of July 17, 2014).

During 2014, the new version of the Regulation on disclosure of information on the financial activity of the licensed banks from the Republic of Moldova was approved (published in the Official Monitor no.110-114/596 of May 09, 2014), which included amendments related to the technical requirements of publishing information (in the context of its extension), both qualitative and quantitative information related to financial and economic activity, services rendering and products, such as bank governance etc. The Regulation includes some additions in order to specify the aspects to be taken into consideration in the disclosure of information pertaining to the financial performance of the bank, accounting policies, bank governance, including criteria and method of disclosure by banks of information on shareholders and / or group of persons acting in concert and owning qualifying holdings in the capital of the bank and their beneficial owners. At the same time, the new version includes elements related to annual effective rate, currency of loan, taking into account the provisions of Article 4 of the Law on credit agreements for consumers. The content of the information provided and the risk profile of the bank have been taken into account when determining the level of disclosure and detail of information (Decision of the Council of Administration of the National Bank of Moldova no. 52 of March 20, 2014).

In connection with the restrictions imposed by the Russian Federation on imports of certain food categories from the Republic of Moldova, the National Bank established certain provisions related to the time limit for the recovery of payments from debts on loans/borrowings to economic agents from agriculture, food industry and wine sector.

For this purpose, it was examined the information on borrowers and their loans, whose core activity is the cultivation and/or processing and preservation and/or marketing of fruits and vegetables, the information on loans to borrowers whose core business is the production, processing and/or preservation of meat and meat products, as well as on loans to borrowers whose activities are related to viticulture, wine-making and trade with wine products.

Thus, there were created temporary indirect premises for the support of banks and debtors affected by the restrictions on food exports. Simultaneously, it should be noted that for the evaluation of conditional assets and commitments concerning these debtors, the bank will take into account the provisions of the Regulation on assets and conditional commitments classification, except for the period of reimbursement. These amendments and completions are aimed at stabilizing the situation created in terms of quality of loan portfolios of banks from the Republic of Moldova (Decision of the Council of Administration of the National Bank of Moldova no.153 of August 07, 2014).

The presence of an adequate capital requires the ability of the bank to cushion the negative impact of risks arising from the activity. According to international practice, reserves from the revaluation of unrestricted securities, whose issuers have rating not less than rated A-/A3 assigned by at least one of the agencies Standard & Poor's, Moody's and Fitch-IBCA may be qualified as part of the capital.

Qualification of revaluations of the unrestricted securities as part of bank capital is in line with the provisions of the document "International convergence of capital measurement and capital standards" of 1988 (for Basel I) and 2006 (for Basel II), which specifies that the reserves from revaluation and other differences from the revaluation of bank assets may be included in the calculation of Tier II capital as an additional capital at the discretion of the supervisory authority.

Thus, given that these securities have high liquidity, it was provided for the possibility of including the value of the reserves in the calculation of Tier II capital. At the same time, the issuer-companies are subject to the obligation of being simultaneously residents of countries with the ratings mentioned above. If the rating assigned to an issuer varies from one agency to another, the rating agency that assigned the lowest rating shall be taken into account (Decision of the Council of Administration of the National Bank of Moldova no.160 of August 20, 2014).

The amendments mentioned above have led to the amendment of the Instruction on preparing and presenting the reports by banks for prudential purposes, as regards the calculation of total regulatory capital ratio, which is drawn up taking into account the Regulation on risk-weighted capital adequacy (Decision of the Council of Administration of the National Bank of Moldova no.165 of August 21, 2014).

## Payment systems regulation

Following the entry into force of the *Law on payment services and electronic money no.114 of May 18, 2012*, which transposes two EU Directives (Directive 2007/64/EC on payment services in the internal market and Directive 2009/110/EC on the taking up, pursuit and prudential supervision of the business of electronic money institutions) and ensuring the necessary regulatory framework for the implementation of the Law on payment services and electronic money, in 2014, there were issued five licenses to carry out the provision of payment services as defined in Article 4 of the Law no.114 of May 18, 2012, and two licenses for the activity of issuing electronic money in accordance with this Law.

The *Concept of national transfers optimisation* has been approved by the Decision of the Council of Administration no.138 of July 24, 2014. The need to develop this act stemmed both from the experience of other countries in the implementation of IBAN (International Bank Account Number) and from the benefits of using straight through processing mechanism.

In addition, the *Regulation on automated interbank payment system (AIPS), Regulation on the activity of payment service providers within money remittance systems, Regulation on credit transfer, and the Regulation on payment cards* have been also amended and supplemented by the Decision of the Council of Administration of the NBM no.190 of September 25, 2014. These amendments and completions refer to the establishment by the NBM of special operational days for AIPS and requirements for AIPS participants in this respect, the right to initiate by the payment service provider of its activity within a card payment system or money remittance system, after receiving a confirmation from the NBM, the possibility of performing operations from the accounts that were linked to the payment cards, based on other cashless payment instruments other than payment cards and the implementation of certain provisions of the EU Regulation no.1781/2006 on information on the payer accompanying transfers of funds.

## 3.15 National Bank of Moldova employees and professional development

According to the Strategic Plan of the National Bank of Moldova, the Human Resources Department is responsible for the achievement of two of the ten strategic objectives: optimisation of human resources management and corporate culture development.

In 2014, this optimisation took place through several staff structural reorganizations, without employees losing their jobs. As at December 31, 2014, the NBM payroll was completed at the level of 94.75 percent (476 permanent employees).

In 2014, the NBM employed 55 persons, 51 persons - resigned, 49 persons were promoted and 129 persons were transferred to similar positions in other subdivisions. A number of 19 students completed their practical internship at the NBM, out of which 3 were employed with the NBM at the end of their practical internship. In 2014, there have been organised five editions of induction tour programmes, which aimed to facilitate the integration of new employees in the institution.

The average age of a NBM employee is 40.2 years. Nearly two thirds are women (63.50 percent) and nearly one-third (36.50 percent) are men. At the level of heads of subdivisions, the situation is currently 50/50 percent. Almost 74.26 percent (352 employees) have children and 62.0 percent (294 employees) are part of syndicates. Average year of service of employees is 10 years and 6 months. The most majority of employees completed higher education - 81.22 percent, with the exception of technical staff. There are 11 employees who hold a PhD degree in economics or technical sciences (2.32 percent), 86 employees have Master's Degree (18.14 percent) and other 288 employees have higher education (60.76 percent). During 2014, a number of 13 employees completed their postgraduate studies.

Over the year, 183 employees participated in 178 trainings abroad and 210 employees took part in trainings organized in the Republic of Moldova, both those related to their area of activity (ACAP certification courses, language competence development courses (English and French)), which contribute to their personal and professional growth and greater work motivation. Employees who participated in training courses abroad benefited from sponsorship from international organizations and from the NBM.

In 2014, several events that contributed to the strengthening of the corporate culture were organized, such as the organisation of football, volleyball, Ping-Pong championships, hiking, celebration of the Bank Worker's Day, Christmas party for the employees and their children.

In 2014, the fifth edition of a survey of employees has been organised, which evaluated their rate of satisfaction on various aspects of work, level of involvement, development, etc.

During the reporting period, a pilot project was implemented with regard to performance management system and professional development of employees of the National Bank of Moldova.

# 3.16 Analysis of the financial situation of the National Bank of Moldova for 2014

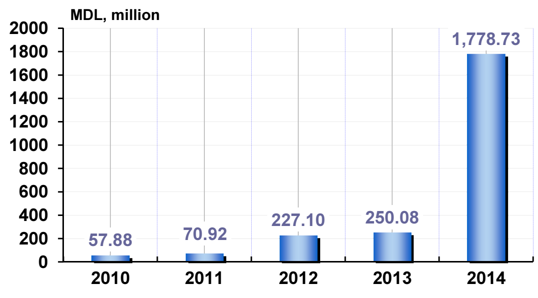
## General considerations

In accordance with the *Law on the National Bank of Moldova no.548-XIII of July 21, 1995*, the fundamental objective of the National Bank of Moldova is to achieve and maintain price stability.

The basic functions of the NBM are provided in the *Law on the National Bank of Moldova*. In accordance with the legal provisions, the NBM operations are performed in order to promote and support the monetary and foreign exchange policy in the state, to ensure the continuing stability of the banking system, national currency issuance, foreign exchange reserves management etc. Accordingly, maximizing the profit from the activity of the NBM is not a purpose itself and cannot serve as an impediment to achieve its fundamental objective and functions.

## Profit available for distribution

Chart 3.73: Evolution of profit available for distribution during 2010-2014




Source: NBM

The financial results of the NBM are directly dependent on the need to conduct monetary and foreign exchange operations in order to achieve the fundamental objective and fulfil the basic tasks of the NBM. Evolution of profit available for distribution during 2010-2014 is shown in Chart 3.73.

According to the *Law on the National Bank of Moldova*, the amount of profit available for distribution is distributed in the amount of 50.0 percent for the increase of statutory capital and the amount of 50.0 percent is transferred to the state budget.

According to the financial statements, the NBM recorded a profit available for distribution in the amount of MDL 1778.73 million at the end of 2014, which is characterized mainly by the following developments as compared 2013 (MDL 250.08 million):

Events that had a significant impact on the profit available for distribution:

- Increase of income from foreign exchange reserves management with about MDL 1351.0 million, which is characterised by the following developments:
  - increase of income from operations in foreign currency by approximately MDL 1269.0 million, due to exchange rate depreciation of MDL against major currencies from the sale of foreign currency and from conversion operations (including those of currency arbitration);
  - increase of income from interest on securities and investments in foreign currency with about MDL 56.0 million, due to the increase of portfolio of securities held to maturity by about 7.0 percent in 2014 compared to 2013;
  - increase of income from the revaluation of securities in foreign currency by about MDL 21.0 million, due to positive revaluation of securities in foreign currency at maturity or at the date of sale;
  - increase of income from interest on investments by about MDL 5.0 million, due to higher average investments in short-term placements.
- Reduction of production costs for national currency, including its transportation and storage by about MDL 104.0 million over the same period of 2013, due to lower production volumes.
- Reduction of spending on sterilization operations with about MDL 88.0 million, as a result of lower volume of NBM Certificates placed and the interest rate on NBM Certificates placed.
- Increase of income from interest on loans granted and Repos approximately by MDL 16.0 million, generated by:
  - increase of income from interest on Repos by approximately MDL 11.0 million due to a higher volume of Repos;
  - increase of income from interest on overnight loans by about MDL 5.0 million, due to more frequent use of overnight credit facility by banks, which recorded during the year an increased demand for liquidity and due to increased interest rate on NBM overnight loans in December 2014.

The impact of the aforementioned events on the profit available for distribution, by activities of the National Bank of Moldova conducted during 2014 is presented in Table A.28.

## The impact of monetary policy on the financial situation of the National Bank of Moldova

The persistence of excess liquidity in the banking system prompted the National Bank to use liquidity-absorbing instruments throughout 2014. During the reporting period, the average daily balance of liquidity sterilization operations was MDL 1623.9 million (in 2013: MDL 3713.8 million). At the same time, the costs of sterilization operations through the issuance of NBM Certificates decreased, accounting for about MDL 57.0 million in 2014 compared to MDL 145 million in 2013. The decrease of the expenses related to the amortization of the discount on NBM Certificates was due to the decrease of the interest rate of the NBM Certificates, as well as their volume. The average interest rate on NBM Certificates placed in 2014 was 3.51 percent (in 2013: 3.89 percent). NBM Certificates were issued at the NBM base rate, increasing from 3.50 percent in January 2014 to 4.50 percent in December 2014.

The monetary policy instruments applied by the National Bank in 2014 generated a net loss of MDL 0.98 million, representing a decrease of 99.10 percent compared to 2013 (Table A.29).

## The impact of state foreign exchange reserves management operations on the financial situation of the National Bank of Moldova

Foreign exchange reserves of the state held by the NBM decreased by 23.54 percent as at December 31, 2014 or by USD 664.00 million compared to December 31, 2013 (from USD 2820.63 million to USD 2156.63 million), invested mainly in instruments in USD and EUR. The average volume of official reserve assets increased by 3.38 percent in 2014 or by about USD 87.30 million (from USD 2584.53 million to USD 2671.83 million).

Returns from foreign exchange reserves management and other foreign exchange operations accounted for MDL 1862.38 million in 2014, increasing by about MDL 1340.0 million compared to 2013 (MDL 522.38 million).

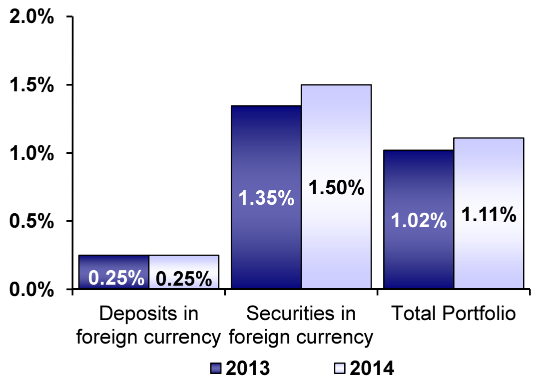
The increase of return from foreign exchange reserves management and other foreign exchange operations was generated by the following factors:

- the depreciation of the MDL against the main currencies in 2014 was 19.59 percent against USD, 5.71 percent against EUR and 12.82 percent against GBP;
- the increase of the average portfolio of securities to maturity by about 7.0 percent compared to 2013;
- obtaining additional income due to rebalancing, sale or reaching of maturity of securities in foreign currency in a volume higher than in 2013.

The impact of foreign exchange reserves management operations on the financial activity of the National Bank is presented in Table A.30.

Average profitability rate of the management of foreign exchange reserve increased up to 1.11 percent in 2014 (in 2013: 1.02 percent) as shown in Chart 3.74. Thus, the profitability of state securities issued by non-residents increased from 1.35 percent in 2013 to 1.50 percent in 2014, due to a higher volume of state securities in foreign currency sold in 2014. The securities issued by non-residents, but held by the NBM in its portfolio, are mainly represented by the securities issued by the Government agencies from the USA, EU, UK and securities issued by supranational institutions. The share of securities issued by non-residents in the total investment portfolio in the analysed period amounted 64.17 percent (2013: 63.70 percent). This has contributed to the increase of the profitability of total foreign exchange reserves in 2014.

Chart 3.74: Evolution of the foreign exchange reserves profitability in 2014 compared to 2013




Source: NBM

Weighted average rate of term deposits profitability remained at the previous year level - 0.25 percent.

It should be mentioned that in accordance with best international practices and the *Law on the National Bank of Moldova*, the reserve assets are selected based on safety of basic amounts and liquidity criteria. Thus, only after ensuring these two criteria, the instruments profitability in which the state foreign exchange reserves are invested shall be taken into account.

The evolution of the official foreign exchange rate of the MDL against the currencies in which the foreign exchange reserves are held had a significant impact on the financial situation of the National Bank of Moldova. Its dynamics and the average annual values are shown in Table A.31.

At the end of 2014, foreign exchange rate fluctuations resulted in unrealized income from foreign exchange rate differences from the revaluation of foreign currency stocks in an amount of

MDL 2372.84 million, and higher prices for state securities on international markets led to unrealized income from the revaluation of investment securities in the amount of approximately MDL 12.28 million. Unrealized income did not affect the size of the profit available for distribution, as according to the *Law on the National Bank of Moldova*, unrealised income was transferred to the respective reserve accounts of unrealised income.

At the end of 2014, unrealized income from the foreign exchange rate differences from the revaluation of foreign currency stocks amounted to MDL 1989.97 million, and the unrealized losses from the revaluation of investment securities in the amount of about MDL (73.08) million, which were transferred to the respective reserve accounts.

## Capital and reserves

The activities conducted by the National Bank during 2014 in order to fulfil its basic duties had an impact on the bank's balance sheet structure (Table A.32).

The situation of capital and reserves is reflected in Table A.33.

On December 31, 2014, the amount of MDL 889.365 million was allocated in the general reserve fund, as a result of recording a profit available for distribution in the amount of MDL 1778.73 million, which was used for statutory capital increase in a share of 50.0 percent, according to the *Law on the National Bank of Moldova*. Thus, on December 31, 2014, the general reserve fund recorded a positive level and amounted to MDL 418.01 million, increasing respectively the statutory capital, totalling MDL 748.02 million.

As at December 31, 2014, bank's *capital and reserves* amounted to MDL 6093.54 million, increasing as compared to December 31, 2013 amid registration of unrealized income from foreign exchange rate differences on revaluation of foreign currency stocks in the amount of MDL 2372.84 million and from the revaluation of investment securities in the amount of MDL 12.28 million, which were transferred to the respective accounts.

*Other reserves* comprise reserve income from the revaluation of state securities that amounted to MDL 0.02 million and the negative differences from revaluation of monetary gold in the amount of MDL (1.40) million.

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# Appendix A

# Statistical tables

Table A.1: Balance of payments of the Republic of Moldova (according to BPM6) (USD, million)

| | Q I 2014 | Q II 2014 | Q III 2014 | Q IV 2014 | 2014 |
|---|---|---|---|---|---|
| **CURRENT ACCOUNT** | **-162.10** | **-109.59** | **-119.76** | **-247.70** | **-639.15** |
| Goods and services | -630.60 | -727.25 | -783.46 | -834.23 | -2975.54 |
| Goods | -662.68 | -757.00 | -811.52 | -866.15 | -3097.35 |
| export (FOB) | 439.50 | 446.90 | 412.87 | 470.40 | 1769.67 |
| import (FOB) | 1102.18 | 1203.90 | 1224.39 | 1336.55 | 4867.02 |
| Services | 32.08 | 29.75 | 28.06 | 31.92 | 121.81 |
| export | 256.40 | 292.22 | 290.68 | 288.02 | 1127.32 |
| import | 224.32 | 262.47 | 262.62 | 256.10 | 1005.51 |
| Primary income | 158.55 | 211.50 | 227.72 | 196.83 | 794.60 |
| inflow, of which: | 224.41 | 306.27 | 321.61 | 262.12 | 1114.41 |
| compensation of residents employed abroad | 213.35 | 294.98 | 308.43 | 247.43 | 1064.19 |
| investment income | 11.74 | 12.19 | 13.75 | 15.34 | 53.02 |
| outflows, of which: | 65.86 | 94.77 | 93.89 | 65.29 | 319.81 |
| investment income | 49.51 | 77.49 | 75.53 | 45.50 | 248.03 |
| Secondary income | 309.95 | 406.16 | 435.98 | 389.70 | 1541.79 |
| inflow, of which: | 342.48 | 442.78 | 476.60 | 429.24 | 1691.10 |
| personal transfers | 213.89 | 270.39 | 297.82 | 228.28 | 1010.38 |
| outflows | 32.53 | 36.62 | 40.62 | 39.54 | 149.31 |
| **CAPITAL ACCOUNT** | **8.41** | **56.29** | **22.94** | **44.26** | **131.90** |
| **net lending (+)/net borrowing (-)** | | | | | |
| ***(balance on the sum of the current and capital accounts)*** | ***-153.69*** | ***-53.30*** | ***-96.82*** | ***-203.44*** | ***-507.25*** |
| **net lending (+)/net borrowing (-)** | | | | | |
| ***(balance on the financial account)*** | ***-154.25*** | ***-10.66*** | ***-86.86*** | ***-329.50*** | ***-581.27*** |
| **FINANCIAL ACCOUNT*** | **-154.25** | **-10.66** | **-86.86** | **-329.50** | **-581.27** |
| Direct investment | -137.98 | -4.32 | -74.34 | -102.22 | -318.86 |
| *net acquisition of financial assets* | -0.56 | 4.80 | 14.70 | 15.30 | 34.24 |
| *net incurrence of liabilities, of which:* | 137.42 | 9.12 | 89.04 | 117.52 | 353.10 |
| equity and investment fund shares | 46.90 | 81.73 | 55.91 | 30.93 | 215.47 |
| debt instruments | 90.52 | -72.61 | 33.13 | 86.59 | 137.63 |
| Portfolio investment | -5.19 | -4.15 | -0.92 | -2.92 | -13.18 |
| *net acquisition of financial assets* | -2.00 | 0.14 | -0.15 | -0.86 | -2.87 |
| *net incurrence of liabilities* | 3.19 | 4.29 | 0.77 | 2.06 | 10.31 |
| Financial and banking derivatives, net | -0.19 | 0.11 | -0.28 | -0.25 | -0.61 |
| Other investment | 85.60 | -16.86 | -1.03 | 222.12 | 289.83 |
| *net acquisition of financial assets* | 140.33 | 92.84 | 156.55 | -127.76 | 261.96 |
| currency and deposits | 126.98 | 112.56 | 175.71 | -211.99 | 203.26 |
| loans | -0.03 | -2.18 | 1.98 | 29.52 | 29.29 |
| trade credit and advances | 13.38 | -17.54 | -21.14 | 91.39 | 66.09 |
| other assets | - | - | - | -36.68 | -36.68 |
| *net incurrence of liabilities* | 54.73 | 109.70 | 157.58 | -349.88 | -27.87 |
| currency and deposits | 76.74 | 36.66 | 151.00 | -372.28 | -107.88 |
| loans | -1.32 | -7.41 | -49.22 | 83.34 | 25.39 |
| trade credit and advances | -18.32 | 81.45 | 56.80 | -59.94 | 59.99 |
| other liabilities | -2.37 | -1.00 | -1.00 | -1.00 | -5.37 |
| Reserve assets of the State** | -96.49 | 14.56 | -10.29 | -446.23 | -538.45 |
| Errors and omissions | -0.56 | 42.64 | 9.96 | -126.06 | -74.02 |
| **Information:** | | | | | |
| *Transfer of funds from abroad to individuals via licensed banks, net* | *314.14* | *454.03* | *487.47* | *357.32* | *1612.96* |

*(+) increase, (-) decrease; ** evaluated at daily rate;
Note: Data for Q I, II, III 2014 were updated
Source:NBM

Table A.2: Services Account (USD, million)

| | 2012 | 2013 | 2014 |
|---|---|---|---|
| **Services** | **108.97** | **146.32** | **121.81** |
| *Credit* | 1021.15 | 1137.62 | 1127.32 |
| *Debit* | 912.18 | 991.30 | 1005.51 |
| **Manufacturing services on physical inputs owned by others** | **112.71** | **144.40** | **163.94** |
| *Credit* | 115.72 | 147.79 | 165.83 |
| *Debit* | 3.01 | 3.39 | 1.89 |
| **Transport** | **11.35** | **33.35** | **1.17** |
| *Credit* | 380.22 | 419.49 | 388.74 |
| *Debit* | 368.87 | 386.14 | 387.57 |
| **Travel** | **-109.18** | **-108.15** | **-116.30** |
| *Credit* | 198.45 | 225.50 | 232.87 |
| *Debit* | 307.63 | 333.65 | 349.17 |
| **Telecommunications, computer and information services** | **107.89** | **97.66** | **97.81** |
| *Credit* | 178.79 | 184.17 | 185.05 |
| *Debit* | 70.90 | 86.51 | 87.24 |
| **Other services** | **-13.80** | **-20.94** | **-24.81** |
| *Credit* | 147.97 | 160.67 | 154.83 |
| *Debit* | 161.77 | 181.61 | 179.64 |

Source: NBM

Table A.3: Balance on primary income account (USD, million)

| | 2012 | 2013 | 2014 |
|---|---|---|---|
| **Primary income** | **813.19** | **859.77** | **794.60** |
| *Credit* | 1047.17 | 1161.12 | 1114.41 |
| *Debit* | 233.98 | 301.35 | 319.81 |
| **Compensation of residents employed abroad** | **957.49** | **1062.40** | **991.21** |
| *Credit* | 1010.10 | 1118.17 | 1064.19 |
| *Debit* | 52.61 | 55.77 | 72.98 |
| **Investment income** | **-143.35** | **-201.37** | **-195.01** |
| *Credit* | 39.27 | 45.21 | 53.02 |
| *Debit* | 182.62 | 246.58 | 248.03 |
| Direct investment and portfolio income | -113.89 | -164.53 | -162.6 |
| *Credit* | 6.37 | 7.04 | 7.69 |
| *Debit* | 120.26 | 171.57 | 170.29 |
| Other investment income | -59.59 | -63.49 | -62.41 |
| *Credit* | 2.77 | 11.52 | 15.33 |
| *Debit* | 62.36 | 75.01 | 77.74 |
| **Reserve assets** | **30.13** | **26.65** | **30.00** |
| *Credit* | 30.13 | 26.65 | 30.00 |
| **Other primary income** | **-0.95** | **-1.26** | **-1.60** |
| *Credit* | -2.20 | -2.26 | -2.80 |
| *Debit* | -1.25 | -1.00 | -1.20 |

Source: NBM

Table A.4: Balance on secondary income account (USD, million)

| | 2012 | 2013 | 2014 |
|---|---|---|---|
| **Secondary income** | **1505.69** | **1615.44** | **1541.79** |
| *Credit* | 1628.89 | 1748.91 | 1691.10 |
| *Debit* | 123.2 | 133.47 | 149.31 |
| **Public administration** | **173.65** | **168.93** | **248.97** |
| *Credit* | 179.5 | 176.72 | 255.16 |
| *Debit* | 5.85 | 7.79 | 6.19 |
| **Financial corporations, non-financial corporations, households and non-profit institutions serving households sector** | **1332.04** | **1446.51** | **1292.82** |
| *Credit* | 1449.39 | 1572.19 | 1435.94 |
| *Debit* | 117.35 | 125.68 | 143.12 |
| Personal transfers (current transfers between resident and non-resident households) | 932.95 | 1023.51 | 936.58 |
| *Credit* | 976.56 | 1073.55 | 1010.38 |
| *Debit* | 43.61 | 50.04 | 73.8 |
| Other current transfers | 399.09 | 423 | 356.24 |
| *Credit* | 472.83 | 498.64 | 425.56 |
| *Debit* | 73.74 | 75.64 | 69.32 |

Source: NBM

Table A.5: Financial account in quaterly dynamics for 2014 (USD, million)

| | Q I 2014 | Q II 2014 | Q III 2014 | Q IV 2014 | 2014 |
|---|---|---|---|---|---|
| **Net lending (+)/net borrowing (-)** *(financial account)* | **-154.25** | **-10.66** | **-86.86** | **-329.50** | **-581.27** |
| **Direct investment** | **-137.98** | **-4.32** | **-74.34** | **-102.22** | **-318.86** |
| *net acquisition of financial assets* | -0.56 | 4.80 | 14.70 | 15.30 | 34.24 |
| *net incurrence of liabilities* | 137.42 | 9.12 | 89.04 | 117.52 | 353.10 |
| **Portfolio investment and financial derivatives** | **-5.38** | **-4.04** | **-1.20** | **-3.17** | **-13.79** |
| *net acquisition of financial assets* | -2.00 | 0.25 | -0.15 | -0.86 | -2.76 |
| *net incurrence of liabilities* | 3.38 | 4.29 | 1.05 | 2.31 | 11.03 |
| **Other investment** | **85.60** | **-16.86** | **-1.03** | **222.12** | **289.83** |
| *net acquisition of financial assets* | 140.33 | 92.84 | 156.55 | -127.76 | 261.96 |
| *net incurrence of liabilities* | 54.73 | 109.70 | 157.58 | -349.88 | -27.87 |
| **Currency and deposits** | **50.24** | **75.90** | **24.71** | **160.29** | **311.14** |
| *net acquisition of financial assets* | 126.98 | 112.56 | 175.71 | -211.99 | 203.26 |
| *net incurrence of liabilities* | 76.74 | 36.66 | 151.00 | -372.28 | -107.88 |
| **Loans** | **1.29** | **5.23** | **51.20** | **-53.82** | **3.90** |
| *net acquisition of financial assets* | -0.03 | -2.18 | 1.98 | 29.52 | 29.29 |
| *net incurrence of liabilities* | -1.32 | -7.41 | -49.22 | 83.34 | 25.39 |
| **Trade credit and advances** | **31.70** | **-98.99** | **-77.94** | **151.33** | **6.10** |
| *net acquisition of financial assets* | 13.38 | -17.54 | -21.14 | 91.39 | 66.09 |
| *net incurrence of liabilities* | -18.32 | 81.45 | 56.80 | -59.94 | 59.99 |
| **Other claims/commitments - other** | **2.37** | **1.00** | **1.00** | **-35.68** | **-31.31** |
| *net acquisition of financial assets* | | | | -36.68 | -36.68 |
| *net incurrence of liabilities* | -2.37 | -1.00 | -1.00 | -1.00 | -5.37 |
| **Reserve assets** | **-96.49** | **14.56** | **-10.29** | **-446.23** | **-538.45** |

(+) increase, (-) decrease;
Note: Reserves assets flows were evaluated at daily rate.
Source: NBM

Table A.6: Foreign loans (incurrence of liabilities) for 2012-2014 (USD, million)

| | 2012 | | 2013 | | 2014 | |
|---|---|---|---|---|---|---|
| | receipt | repayment | receipt | repayment | receipt | repayment |
| **Loans** | 1051.89 | 588.60 | 777.43 | 568.63 | 544.65 | 519.26 |
| **Central Bank** | 154.64 | 16.13 | | 21.61 | | 29.27 |
| *long term* | 154.64 | 16.13 | | 21.61 | | 29.27 |
| **Public administration** | 152.98 | 53.58 | 100.76 | 64.06 | 155.98 | 53.18 |
| *long term* | 152.98 | 53.58 | 100.76 | 64.06 | 155.98 | 53.18 |
| **Deposit-taking corporations, except the central bank** | 310.31 | 271.56 | 269.80 | 231.30 | 121.38 | 197.05 |
| *long term* | 137.58 | 109.23 | 227.07 | 192.29 | 91.41 | 165.56 |
| *short term* | 172.73 | 162.33 | 42.73 | 39.01 | 29.97 | 31.49 |
| **Non-financial corporations, households and non-profit institutions serving households** | 423.01 | 233.90 | 394.05 | 241.67 | 236.01 | 213.16 |
| *long term* | 388.77 | 203.36 | 366.41 | 237.34 | 220.73 | 186.17 |
| *short term* | 34.24 | 30.54 | 27.64 | 4.33 | 15.28 | 26.99 |
| **Other financial corporations** | 10.95 | 13.43 | 12.82 | 9.99 | 31.28 | 26.60 |
| *long term* | 10.95 | 13.43 | 12.82 | 9.99 | 31.28 | 26.60 |

Source: NBM

Table A.7: International investment position of the Republic of Moldova as of 31.12.2014 (USD, million)

| | **As of 31.12.2013** | **Changes reflecting** | | | | | **As of 31.12.2014** |
|---|---|---|---|---|---|---|---|
| | | **total dynamics** | **BP flow** | **price changes** | **exchange rate fluctuations** | **other adjustments** | |
| **International investment position (net)** | **-5326.64** | **-297.65** | **-581.27** | **-23.63** | **270.57** | **36.68** | **-5624.29** |
| **Assets** | **4054.31** | **-394.32** | **-238.08** | **-1.16** | **-191.76** | **36.68** | **3659.99** |
| Direct investment from abroad | 137.08 | 41.17 | 41.17 | | | | 178.25 |
| Share capital | 130.82 | 39.19 | 39.19 | | | | 170.01 |
| Other capital | 6.26 | 1.98 | 1.98 | | | | 8.24 |
| Portfolio investment | 7.21 | -2.73 | -2.87 | | 0.14 | | 4.48 |
| Shareholding | 2.68 | -0.03 | -0.17 | | 0.14 | | 2.65 |
| Receivables | 4.53 | -2.70 | -2.70 | | | | 1.83 |
| Financial derivatives | 3.89 | 0.11 | 0.11 | | | | 4.00 |
| Other investment | 1085.50 | 231.13 | 261.96 | | -67.51 | 36.68 | 1316.63 |
| Trade loans | 125.84 | 69.72 | 66.09 | | 3.63 | | 195.56 |
| Loans | 48.10 | 29.29 | 29.29 | | | | 77.39 |
| Currency and deposits | 902.54 | 132.12 | 203.26 | | -71.14 | | 1034.66 |
| Other assets | 9.02 | | -36.68 | | | 36.68 | 9.02 |
| Reserve assets* | 2820.63 | -664.00 | -538.45 | -1.16 | -124.39 | | 2156.63 |
| **Liabilities** | **9380.95** | **-96.67** | **343.19** | **22.47** | **-462.33** | | **9284.28** |
| Direct investment in national economy | 3614.53 | 32.35 | 207.39 | 19.53 | -204.83 | 10.26 | 3646.88 |
| Share capital and reinvested income | 2639.53 | 67.82 | 215.47 | 19.53 | -177.44 | 10.26 | 2707.35 |
| Other capital | 975.00 | -35.47 | -8.08 | | -27.39 | | 939.53 |
| Portfolio investment | 110.28 | 2.99 | 10.31 | 2.94 | | -10.26 | 113.27 |
| Shareholding | 110.19 | 2.99 | 10.31 | 2.94 | | -10.26 | 113.18 |
| Debt securities | 0.09 | | | | | | 0.09 |
| Financial derivatives | 3.36 | 0.70 | 0.72 | | -0.02 | | 4.06 |
| Other investment | 5652.78 | -132.71 | 124.77 | | -257.48 | | 5520.07 |
| Trade loans | 1066.57 | 4.87 | 59.99 | | -55.12 | | 1071.44 |
| Loans | 3240.90 | -200.92 | -39.23 | | -161.69 | | 3039.98 |
| Currency and deposits | 371.33 | -137.76 | -107.88 | | -29.88 | | 233.57 |
| Other liabilities | 792.70 | 211.89 | 211.89 | | | | 1004.59 |
| SDR allocations | 181.28 | -10.79 | | | -10.79 | | 170.49 |

*evaluated at daily rate

Note: The official cross exchange rates of original currencies against the U.S. dollar at the end of the period were used for the evaluation of stocks.

Source: NBM

Table A.8: Gross external debt of the Republic of Moldova at the end of the period (USD, million)

| | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|
| **Governmental sector** | **1116.18** | **1157.92** | **1265.59** | **1305.17** | **1320.37** |
| *Long term* | *1116.18* | *1157.92* | *1265.59* | *1305.17* | *1320.37* |
| Loans | 934.90 | 977.77 | 1084.14 | 1123.89 | 1149.88 |
| SDR allocations | 181.28 | 180.15 | 181.45 | 181.28 | 170.49 |
| **Monetary authorities** | **204.24** | **327.05** | **467.34** | **445.07** | **390.70** |
| *Long term* | *204.24* | *327.05* | *467.34* | *445.07* | *390.70* |
| Loans | 204.24 | 327.05 | 467.34 | 445.07 | 390.70 |
| **Banks** | **406.62** | **544.11** | **581.82** | **856.83** | **625.62** |
| *Short term* | *113.18* | *184.17* | *189.32* | *423.37* | *282.26* |
| Loans | 10.60 | 28.85 | 38.85 | 42.57 | 40.58 |
| Currency and deposits | 101.97 | 148.99 | 144.80 | 371.32 | 233.57 |
| Other debt liabilities | 0.61 | 6.33 | 5.67 | 9.48 | 8.11 |
| *Long term* | *293.44* | *359.94* | *392.50* | *433.46* | *343.36* |
| Loans | 293.44 | 359.94 | 392.50 | 433.46 | 343.36 |
| **Other sectors** | **2100.09** | **2372.80** | **2665.71** | **2938.52** | **3045.63** |
| *Short term* | *1320.76* | *1543.14* | *1646.73* | *1786.29* | *1950.51* |
| Loans | 18.85 | 18.93 | 21.34 | 43.68 | 20.34 |
| Trade loans | 775.72 | 947.34 | 987.77 | 1066.57 | 1071.44 |
| Other debt liabilities | 526.19 | 576.87 | 637.62 | 676.04 | 858.73 |
| Arrears | 93.35 | 121.80 | 125.87 | 136.76 | 203.40 |
| Other | 432.84 | 455.07 | 511.75 | 539.28 | 655.33 |
| of which debt for energy resources | 419.64 | 453.45 | 505.67 | 537.66 | 653.71 |
| *Long term* | *779.33* | *829.66* | *1018.98* | *1152.23* | *1095.12* |
| Loans | 779.33 | 829.66 | 1018.98 | 1152.23 | 1095.12 |
| **Direct investment: intra group lending** | **883.97** | **957.03** | **1039.36** | **1127.78** | **1112.56** |
| Liabilities to foreign investors | 883.97 | 957.03 | 1039.36 | 1127.78 | 1112.56 |
| *Short term* | *84.26* | *100.59* | *111.26* | *116.90* | *146.31* |
| Arrears | 84.26 | 93.57 | 97.72 | 107.19 | 136.81 |
| Loans from foreign investors | | 7.02 | 13.54 | 9.71 | 9.50 |

Source: NBM

Table A.9: The evolution of credit indebtedness of the banks to the NBM in 2014 (MDL, million)

| Purpose of credits | Balance as of 31.12.2013 | Credits granted in 2014 | Credits paid-off in 2014 | Balance as of 31.12.2014 |
|---|---|---|---|---|
| Credits granted for the protection of the integrity of the banking system | 186.3 | 0.0 | 93.2 | 93.1 |
| Credits granted for lending the cooperative housing | 8.1 | 0.0 | 2.6 | 5.5 |
| Emergency credits | 0.0 | 6450.0 | 0.0 | 6450.0 |
| **Total** | **194.4** | **6450.0** | **95.8** | **6548.6** |

Source: NBM

Table A.10: Total turnover of the domestic foreign exchange market operations (purchases/sales of the foreign currency against MDL) (equivalent in USD, million)

| | Domestic foreign exchange transfer market | | | | | | Domestic foreign exchange cash market | | | Domestic foreign exchange market |
|---|---|---|---|---|---|---|---|---|---|---|
| | NBM | Resident banks | Non-resident banks | Legal entities | Miscellaneous | Total | Foreign exchange bureaux of licensed banks | Foreign exchange offices | Total | |
| | | | | | *Equivalent in USD, millions* | | | | | |
| 2013 | 803.0 | 8635.6 | 61.5 | 7390.9 | 1316.0 | 18207.0 | 3519.1 | 1062.0 | 4581.1 | 22788.1 |
| **2014** | **2700.9** | **14946.0** | **97.1** | **9564.7** | **1370.9** | **28679.6** | **3143.6** | **1034.2** | **4177.8** | **32857.4** |
| | | | | | *Share in domestic foreign exchange market, %* | | | | | |
| 2013 | 3.5 | 37.9 | 0.3 | 32.4 | 5.8 | 79.9 | 15.4 | 4.7 | 20.1 | 100.0 |
| **2014** | **8.2** | **45.5** | **0.3** | **29.1** | **4.2** | **87.3** | **9.6** | **3.1** | **12.7** | **100.0** |
| | | | | | *Growth rate, compared to the previous year %* | | | | | |
| **2014** | **3.4 times** | **1.7 times** | **57.9** | **29.4** | **4.2** | **57.5** | **-10.7** | **-2.6** | **-8.8** | **44.2** |

Source: Report on purchases and sales operations of foreign currency made by licensed banks and the NBM data; Report on foreign exchange operations carried out by foreign exchange offices; Report on foreign exchange operations carried out by foreign exchange bureaus by hotels.

Table A.11: Structure of turnover of foreign exchange transactions on domestic foreign exchange market

| | Domestic foreign exchange transfer market | | Domestic foreign exchange cash market | | Total foreign exchange market | | In total |
|---|---|---|---|---|---|---|---|
| | purchases | sales | purchases | sales | purchases | sales | turnover |
| **2013** | | | *Share, %* | | | | |
| USD | 58.1 | 62.3 | 30.4 | 31.0 | 49.2 | 59.7 | 54.5 |
| EUR | 36.0 | 34.4 | 48.8 | 54.4 | 40.1 | 36.1 | 38.1 |
| RUB | 5.1 | 2.9 | 19.7 | 10.4 | 9.8 | 3.5 | 6.6 |
| Other currencies | 0.8 | 0.4 | 1.1 | 4.2 | 0.9 | 0.7 | 0.8 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| **2014** | | | *Share, %* | | | | |
| USD | 64.8 | 64.7 | 25.6 | 32.8 | 57.6 | 62.5 | 60.0 |
| EUR | 32.7 | 34.0 | 48.6 | 57.7 | 35.6 | 35.6 | 35.6 |
| RUB | 2.1 | 1.1 | 24.8 | 6.7 | 6.2 | 1.5 | 3.9 |
| Other currencies | 0.4 | 0.2 | 1.0 | 2.8 | 0.6 | 0.4 | 0.5 |
| **Total** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** |

Source: Report on purchased and sales operations of foreign currency performed by licensed bank, and the NBM data.

Table A.12: The main purchase sources of foreign currency by licensed banks of the Republic of Moldova on the domestic foreign exchange market (the equivalent in USD, millions)

| | Foreign currency purchases on the foreign exchange market against MDL, including foreign exchange swaps from: | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | NBM | Resident banks | Non-resident banks | Legal entities | Foreign exchange offices | Individuals | Miscellaneous | Total |
| | *Equivalent in USD, millions* | | | | | | | |
| *2013* | 249.2 | 4310.8 | 4.9 | 2360.5 | 2.2 | 3470.4 | 483.6 | 10881.6 |
| **2014** | **1701.8** | **7472.7** | **10.0** | **3473.5** | **6.8** | **2866.3** | **518.9** | **16050.0** |
| | *Share, %* | | | | | | | |
| *2013* | 2.3 | 39.6 | 0.0 | 21.7 | 0.0 | 31.9 | 4.4 | 100.0 |
| **2014** | **10.6** | **46.6** | **0.1** | **21.6** | **0.0** | **17.9** | **3.2** | **100.0** |
| | *Growth rate, compared to the previous year, %* | | | | | | | |
| **2014** | **6.8 times** | **73.3** | **2.0 times** | **47.2** | **3.0 times** | **-17.4** | **7.3** | **47.5** |

Source: Report on purchases and sales operations of foreign currency performed by licensed bank, and the NBM data.

Table A.13: The main selling directions of foreign currency by licensed banks of the Republic of Moldova on the domestic foreign exchange market (the equivalent in USD, million)

| | Foreign currency sales on the foreign exchange market against MDL, including foreign exchange swaps | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | NBM | Resident banks | Non-resident banks | Legal entities | Foreign exchange offices | Individuals | Miscellaneous | **TOTAL** |
| | *Equivalent in USD, millions* | | | | | | | |
| *2013* | 553.8 | 4324.8 | 56.6 | 5030.4 | 0.0 | 545.4 | 333.5 | 10844.5 |
| **2014** | **999.1** | **7473.3** | **87.1** | **6091.2** | **0.0** | **835.3** | **287.2** | **15733.2** |
| | *Share, %* | | | | | | | |
| *2013* | 5.1 | 39.9 | 0.5 | 46.4 | 0.0 | 5.0 | 3.1 | 100.0 |
| **2014** | **6.3** | **47.4** | **0.6** | **38.6** | **0.0** | **5.3** | **1.8** | **100.0** |
| | *Growth rate, compared to the previous year, %* | | | | | | | |
| **2014** | **80.4** | **72.8** | **53.9** | **21.1** | **0.0** | **53.2** | **-13.9** | **45.4** |

Source: Report on purchases and sales operations of foreign currency performed by licensed bank, and the NBM data.

Table A.14: Net balance of purchases/sales operations of foreign currency against MDL (equivalent in USD, million)

| | Net balance | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | NBM | Resident banks | Non-resident banks | Legal entities | Foreign exchange offices | Individuals | Miscellaneous | **TOTAL** |
| | | | | *Equivalent in USD, millions* | | | | |
| Quarter I | -20.9 | 0.7 | -8.9 | -573.6 | 0.6 | 570.5 | 58.3 | 26.7 |
| Quarter II | -13.0 | -17.9 | -17.7 | -730.9 | 0.5 | 735.5 | 37.0 | -6.4 |
| Quarter III | -228.5 | 2.7 | -20.2 | -705.1 | 1.0 | 930.9 | 39.0 | 19.8 |
| Quarter IV | -42.3 | 0.5 | -4.9 | -660.3 | 0.1 | 688.1 | 15.8 | -3.0 |
| **2013** | **-304.6** | **-14.0** | **-51.7** | **-2669.9** | **2.2** | **2925.0** | **150.1** | **37.1** |
| Quarter I | 75.6 | 0.8 | -9.6 | -550.8 | 0.1 | 464.1 | 33.3 | 13.5 |
| Quarter II | 57.2 | 0.6 | -21.1 | -754.6 | 0.3 | 634.2 | 48.3 | -35.1 |
| Quarter III | 43.8 | -1.3 | -20.7 | -639.1 | 5.6 | 591.6 | 67.3 | 47.2 |
| Quarter IV | 526.1 | -0.7 | -25.7 | -673.2 | 0.8 | 341.1 | 82.8 | 251.2 |
| **2014** | **702.7** | **-0.6** | **-77.1** | **-2617.7** | **6.8** | **2031.0** | **231.7** | **276.8** |

Source: NBM

Table A.15: Balance sheet assets in foreign currency of banks (equivalent in USD, million)

| | All local banks (14 banks) | | | | | Excluding banks under special administration (11 banks) | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | As of **31.12.2013** | Share % | As of **31.12.2014** | Share % | Change against **31.12.2013** % | As of **31.12.2013** | Share % | As of **31.12.2014** | Share % | Change against **31.12.2013** % |
| Granted loans | **1308.9** | 50.1 | **1022.3** | 34.0 | -21.9 | **1113.3** | 62.4 | **880.7** | 52.1 | -20.9 |
| Disposable funds in foreign currency | **980.9** | 37.6 | **606.8** | 20.2 | -38.1 | **394.6** | 22.1 | **561.8** | 33.2 | 42.4 |
| Required reserves in foreign currency | **206.4** | 7.9 | **224.2** | 7.4 | 8.6 | **169.6** | 9.5 | **175.8** | 10.4 | 3.7 |
| Other assets in foreign currency (1+2+3-4), including: | **19.6** | 0.8 | **1083.3** | 36.0 | 55.3 times | **14.8** | 0.8 | **2.1** | 0.1 | -85.8 |
| *1.Placements of licensed banks in other banks of the Republic of Moldova* | 43.3 | 1.7 | 433.8 | 14.4 | 10.0 times | 20.9 | 1.2 | 4.0 | 0.2 | -80.9 |
| *2."Nostro" accounts opened in licensed banks of the Republic of Moldova* | 2.1 | 0.1 | 69.4 | 2.3 | 33.0 times | 1.8 | 0.1 | 1.2 | 0.1 | -33.3 |
| *3.Other assets* | 60.8 | 2.3 | 691.3 | 23.0 | 11.4 times | 49.8 | 2.8 | 30.5 | 1.8 | -38.8 |
| *4.Adjustments and allowance for impairment losses* | 86.6 | 3.3 | 111.2 | 3.7 | 28.3 | 57.7 | 3.3 | 33.6 | 2.0 | -41.8 |
| Foreign currency-linked assets | **94.4** | 3.6 | **71.5** | 2.4 | -24.3 | **91.9** | 5.2 | **70.3** | 4.2 | -23.5 |
| **Total foreign exchange balance-sheet assets** | **2610.2** | 100.0 | **3008.1** | 100.0 | 15.2 | **1784.2** | 100.0 | **1690.7** | 100.0 | -5.2 |

Source: NBM

Table A.16: Loans granted in foreign currency by banks
(equivalent in USD, million)

| | As of **31.12.2013** | Share % | As of **31.12.2014** | Share % | Change against **31.12.2013, %** |
|---|---|---|---|---|---|
| EUR | **769.8** | 58.8 | **621.0** | 60.7 | -19.3 |
| USD | **534.6** | 40.8 | **398.7** | 39.0 | -25.4 |
| RUB | **4.5** | 0.4 | **2.6** | 0.3 | -42.2 |
| **Total** | **1308.9** | 100.0 | **1022.3** | 100.0 | -21.9 |

Source: NBM

Table A.17: Disposable funds in foreign currency of the licensed banks
(equivalent in USD, million)

| | Balance as of **31.12.2013** | Share % | Balance as of **31.12.2014** | Share % | Change as against **31.12.2013, %** |
|---|---|---|---|---|---|
| "Nostro" accounts opened abroad | **284.9** | 29.0 | **420.3** | 69.3 | 47.5 |
| Cash in foreign currency | **101.3** | 10.3 | **105.2** | 17.3 | 3.8 |
| Placements abroad | **84.1** | 8.6 | **47.6** | 7.9 | -43.4 |
| Overnight placements | **507.8** | 51.8 | **32.4** | 5.3 | -93.6 |
| Securities in foreign currency | **2.8** | 0.3 | **1.3** | 0.2 | -53.6 |
| **Total** | **980.9** | **100.0** | **606.8** | **100.0** | **-38.1** |

Source: NBM

Table A.18: Disposable funds in foreign currency of licensed banks, by types of currency
(equivalent in USD, million)

| | Balance as of **31.12.2013** | Share % | Balance as of **31.12.2014** | Share % | Change as against **31.12.2013, %** |
|---|---|---|---|---|---|
| EUR | **329.8** | 33.6 | **346.7** | 57.1 | 5.1 |
| USD | **612.8** | 62.5 | **241.6** | 39.8 | -60.6 |
| RUB | **33.8** | 3.4 | **13.1** | 2.2 | -61.2 |
| Other currencies | **4.5** | 0.5 | **5.4** | 0.9 | 20.0 |
| **Total** | **980.9** | **100.0** | **606.8** | **100.0** | **-38.1** |

Source: NBM

Table A.19: Balance sheet liabilities in foreign currency of licensed banks (equivalent in USD, million)

| | All licensed banks (14 banks) | | | | | Excluding banks under special administration (11 banks) | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Balance as of **31.12.2013** | Share % | Balance as of **31.12.2014** | Share % | Change as against **31.12.2013** % | Balance as of **31.12.2013** | Share % | Balance as of **31.12.2014** | Share % | Change as against **31.12.2013** % |
| Term deposits of clients* | **973.2** | 38.4 | **1028.8** | 38.1 | 5.7 | **824.4** | 46.6 | **880.3** | 52.3 | 6.8 |
| Current accounts of clients | **374.1** | 14.8 | **428.6** | 15.9 | 14.6 | **322.6** | 18.2 | **335.5** | 20.0 | 4.0 |
| Sight deposits of clients | **186.4** | 7.4 | **192.4** | 7.1 | 3.2 | **112.7** | 6.4 | **150.5** | 9.0 | 33.5 |
| Loans received | **472.4** | 18.7 | **304.7** | 11.3 | -35.5 | **413.3** | 23.4 | **278.1** | 16.5 | -32.7 |
| Term deposits of banks from abroad | **196.3** | 7.7 | **28.0** | 1.0 | -85.7 | **18.0** | 1.0 | **12.0** | 0.7 | -33.3 |
| "Loro" accounts of banks from abroad | **0.2** | 0.0 | **1.1** | 0.1 | 5.5 times | **0.2** | 0.0 | **0.2** | 0.0 | 0.0 |
| Other liabilities in foreign currency, including: | **328.2** | 13.0 | **715.9** | 26.5 | 2.2 times | **77.4** | 4.4 | **25.3** | 1.5 | -67.3 |
| *1.term deposits of licensed banks* | *43.3* | *1.7* | *433.7* | *16.1* | *10.0 times* | *12.7* | *0.7* | *0.0* | *0.0* | - |
| *2.other liabilities* | *284.9* | *11.3* | *282.2* | *10.4* | *-0.9* | *64.7* | *3.7* | *25.3* | *1.5* | *-60.9* |
| **Total** | **2530.8** | 100.0 | **2699.5** | 100.0 | 6.7 | **1768.6** | 100.0 | **1681.9** | 100.0 | -4.9 |

*except banks
Source: NBM

Table A.20: Total deposits in foreign currency of bank's clients, except those placed by other banks (equivalent in USD, million)

| | Recalculated at effective exchange rate | | | | | Recalculated at the constant exchange rate of 31.12.2014 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Balance as of **31.12.2013** | Share % | Balance as of **31.12.2014** | Share % | Change as against **31.12.2013** % | Balance as of **31.12.2013** | Share % | Balance as of **31.12.2014** | Share % | Change as against **31.12.2013** % |
| EUR | **966.9** | 63.0 | **1088.9** | 66.0 | 12.6 | **854.7** | 60.3 | **1088.9** | 66.0 | 27.4 |
| USD | **551.9** | 36.0 | **553.2** | 33.5 | 0.2 | **551.9** | 39.0 | **553.2** | 33.5 | 0.2 |
| RUB | **12.0** | 0.8 | **4.5** | 0.3 | -62.5 | **6.9** | 0.5 | **4.5** | 0.3 | -34.8 |
| Other currencies | **2.9** | 0.2 | **3.2** | 0.2 | 10.3 | **2.9** | 0.2 | **3.2** | 0.2 | 10.3 |
| **Total** | **1533.7** | 100.0 | **1649.8** | 100.0 | 7.6 | **1416.4** | 100.0 | **1649.8** | 100.0 | 16.5 |

Source: NBM

Table A.21: Conditional assets and liabilities in foreign currency of licensed banks (equivalent in USD, million)

| | Balance as of **31.12.2013** | Share % | Balance as of **31.12.2014** | Share % | Change as against **31.12.2013, %** |
|---|---|---|---|---|---|
| | | **Conditional assets in foreign currency** | | | |
| Current purchases | **335.2** | 94.9 | **238.4** | 94.1 | -28.9 |
| Purchases on term | **16.9** | 4.8 | **14.2** | 5.6 | -16.0 |
| Other conditional assets | **1.1** | 0.3 | **0.7** | 0.3 | -36.4 |
| Total conditional assets | **353.2** | **100.0** | **253.3** | **100.0** | **-28.3** |
| | | **Conditional liabilities in foreign currency** | | | |
| Current sales | **346.4** | 86.4 | **242.3** | 87.6 | -30.1 |
| Sales on term | **54.3** | 13.6 | **33.8** | 12.2 | -37.8 |
| Other conditional liabilities | **0.2** | 0.0 | **0.6** | 0.2 | 3.0 ori |
| Total conditional liabilities | **400.9** | **100.0** | **276.7** | **100.0** | **-31.0** |
| **Conditional assets - Conditional liabilities** | **-47.7** | | **-23.4** | | |
| **(Conditional assets - Conditional liabilities)/TRC (%)** | **-8.0%** | | **-4.0%** | | |

Source: NBM

Table A.22: Limits on investments and constraints imposed by the NBM in the management of investment risk process

| Risks | Methods of reducing risks |
|---|---|
| **Credit risk** | * Investment in reliable counter parties with high credit quality as established by international rating agencies Standard&Poor's, Moody's and Fitch Ratings (using average rating rated by the three agencies).<br>* Establishing a minimum acceptable rating of counter parties authorized to conduct transactions.<br>* Setting limits depending on the type, duration and rating of investment instruments and the currency composition.<br>* Daily monitoring of investment limits and compliance with credit limits.<br>* Credit risk quantification, using default coefficients determined by the Standard&Poor's rating agency for each type of rating and maturity. |
| **Market risk** | * Daily and monthly monitoring of market risk is carried out by assessing the market price of unrealized gains/losses from the fluctuation in exchange rates and changes in securities prices.<br>* Market risk of the investment securities portfolio is managed and monitored based on the value at risk methodology (VaR and CVARs), which estimates the potential economic losses based on a number of parameters and assumptions for various changes in market condition.<br>* Monitoring of interest rate risk and determination of price sensitivity of securities price from investment portfolios upon interest rate fluctuations is assessed by applying PV01.<br>* Establishment by the Council of Administration of the NBM of a normative foreign exchange structure of investment portfolio, which aims to cover currency risk and portfolio optimization through proper correspondence of foreign currency composition of assets and liabilities and through an acceptable investment horizon to ensure continuity of servicing current external obligations and implementing monetary and foreign exchange policies of the State. The normative foreign currency composition is determined based on a comprehensive analysis of the currency composition of trade in goods and services, foreign debt, currency in which the interventions are performed etc. The foreign currency composition of reserves may deviate within +/- 10% of the normative foreign currency composition.<br>* Establishment of foreign currency structure of each sub-portfolio and allowable deviations by the Investment Committee of the NBM.<br>* Compliance with normative foreign currency composition and foreign exchange structure of each sub-portfolio. |
| **Liquidity risk** | * Ensuring liquidity through sight deposits and by investing in securities with high liquidity and low risk.<br>* Daily monitoring of liquidity risk is also carried out by using market benchmarks established for investment sub-portfolios indexed by type of investment instrument and currency. Benchmarks are market indexes, used and recognized worldwide to measure the performance and risks of investment portfolios.<br>* NBM investment policy allows active management of the reserves, with tools and time deviations limited to +/- 20% to the benchmark. |

Source: NBM

Table A.23: Dynamics of the assets structure of the banking sector of the Republic of Moldova (%)

| Indicator | 31.12.2013 | | 31.12.2014 | | Dynamics 31.12.2014/ 31.12.2013 | |
|---|---|---|---|---|---|---|
| | MDL million | share in total assets (%) | MDL million | share in total assets (%) | MDL | +/- (%) |
| **Cash and cash equivalents** | 24346.1 | 32.0 | 29687.6 | 30.4 | 5341.5 | 21.9 |
| **Financial assets held-for-trading** | 173.5 | 0.2 | 157.0 | 0.2 | -16.5 | -9.5 |
| **Financial assets designated as at fair value through profit or loss** | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Financial assets available for sale** | 495.3 | 0.7 | 451.5 | 0.56 | -43.8 | -8.8 |
| **Loans and receivables** | 43724.1 | 57.4 | 42673.9 | 43.7 | -1050.2 | -2.4 |
| **Investments held to maturity** | 3815.5 | 5.0 | 3988.6 | 4.1 | 173.1 | 4.5 |
| **Tangible assets** | 1958.7 | 2.6 | 2197.7 | 2.3 | 239.0 | 12.2 |
| **Intangible assets** | 264.7 | 0.3 | 306.3 | 0.3 | 41.6 | 15.7 |
| **Claims on taxes** | 74.8 | 0.1 | 40.4 | 0.0 | -34.4 | -46.0 |
| **Other assets** | 713.3 | 0.9 | 17784.5 | 18.2 | 17071.2 | 2393.3 |
| **Fixed assets and disposal groups classified as held for sale** | 624.1 | 0.8 | 296.9 | 0.3 | -327.2 | -52.4 |
| **TOTAL ASSETS** | **76190.1** | **100.0** | **97584.4** | **100.0** | **21394.3** | **28.1** |

Source: NBM

Table A.24: Dynamics of liabilities structure of the banking sector of the Republic of Moldova (%)

| Name | 31.12.2013 | | 31.12.2014 | | Dunamics | |
|---|---|---|---|---|---|---|
| | Carrying amount (MDL, million) | Share (%) | Carrying amount (MDL, million) | Share (%) | MDL, million | % |
| **Financial liabilities held for trading** | 1.1 | 0.0 | -1.2 | 0.0 | -2.3 | -205.5 |
| **Financial liabilities designated as at fair value through profit or loss** | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Financial liabilities measured at amortized cost:** | 63851.4 | 98.6 | 80633.5 | 94.7 | 16782.1 | 26.3 |
| *including clients deposits* | *55270.4* | *85.4* | *66895.4* | *78.6* | *11625.1* | *21.0* |
| **Provisions** | 94.6 | 0.1 | 98.6 | 0.1 | 4.0 | 4.2 |
| **Debts on taxes** | 377.9 | 0.6 | 439.9 | 0.5 | 62.0 | 16.4 |
| **Other debts** | 428.2 | 0.7 | 3982.2 | 4.7 | 3554.0 | 829.9 |
| **TOTAL DEBTS** | **64753.2** | **100.0** | **85153.0** | **100.0** | **20399.8** | **31.5** |

Source: NBM

Table A.25: Evolution of payments settled through AIPS

| System | Year | Number (thousands of payments) | | Value (MDL, million) | | Average value per transaction |
|---|---|---|---|---|---|---|
| | | Total | Daily average | Total | Daily average | (MDL, thousands) |
| **AIPS** | **2013** | 14101.7 | 55.3 | 688007.7 | 2698.1 | 48.8 |
| | **2014** | 13669.7 | 54.0 | 718882.9 | 2841.4 | 52.6 |
| **Including:** | | | | | | |
| **RTGS** | **2013** | 1009.8 | 4.0 | 641049.7 | 2513.9 | 634.8 |
| | **2014** | 1107.0 | 4.4 | 669907.4 | 2647.8 | 605.2 |
| **DNSS** | **2013** | 13091.9 | 51.3 | 46958.0 | 184.2 | 3.6 |
| | **2014** | 12562.7 | 49.6 | 48975.6 | 193.6 | 3.9 |

Source: NBM

Table A.26: Commemorative coins issued in 2014

| Name | Face value | Metal | Weight (gr) | Diameter (mm) | Edition (ex.) |
|---|---|---|---|---|---|
| **Series Alley of Classics from the Stefan cel Mare si Sfint Public Garden in Chisinau** | | | | | |
| Nicolae Milescu Spătarul | 100 lei | Gold 999.9/1000 | 7.8 | 24 | 300 |
| | 50 lei | Silver 999/1000 | 13.0 | 28 | 500 |
| **Series Personalities** | | | | | |
| Dumitru Matcovschi – 75 years since birth | 100 lei | Silver 999/1000 | 13.0 | 28 | 1000 |
| Tamara Ciobanu – 100 years since birth | 50 lei | Silver 999/1000 | 13.0 | 28 | 500 |
| **Series Historical events** | | | | | |
| 20 years since the adoption of the Constitution of the Republic of Moldova | 100 lei | Silver 999.9/1000 | 13.0 | 28 | 1000 |
| 125th anniversary of the founding of the National Museum of Ethnography and Natural History | 5 lei | Silver 999/1000 | 16.5 | 30 | 5000 |
| **Series Monuments of Moldova** | | | | | |
| Candle of Gratitude | 50 lei | Silver 999/1000 | 13.0 | 28 | 1000 |
| **Series Red Book of Republic of Moldova** | | | | | |
| Glossy ibis | 50 lei | Silver 999/1000 | 16.5 | 30 | 500 |
| Paeonia Peregrina | 50 lei | Silver 999/1000 | 16.5 | 30 | 500 |

Source: NBM

Table A.27: Financial arrangements with the IMF received by the National Bank of Moldova

| Facility | Amount approved until 31.12.2014 | Amount disbursed until 31.12.2014 | Share of disbursements in the total amount approved | Stock as of 31.12.2014 | Stock as of 31.12.2014 |
|---|---|---|---|---|---|
| | (SDRs, million) | (SDRs, million) | (%) | (SDRs, million) | (SDRs, million) |
| Extended Fund Facility (EFF) | 319.80 | 236.62 | 73.99 | 147.45 | 213.56 |
| Extended Credit Facility (ECF) | 311.56 | 191.58 | 61.49 | 122.29 | 177.12 |

Source: NBM

Table A.28: Analysis of profit available for distribution in conjunction with the main activities of the NBM

| | 2014 Financial result | 2013 Financial result | Difference 2013/2012 | Absolute Difference |
|---|---|---|---|---|
| | MDL, thousands | MDL, thousands | % | MDL, thousands |
| **Activities managed by the bank** | | | | |
| Monetary and credit operations | (989) | (109,688) | (99.10) | 108,699 |
| Foreign exchange reserves management | 1,862,381 | 522,384 | 256.52 | 1,339,997 |
| National currency issuance | 13,045 | (71,864) | (118.15) | 84,909 |
| Other operations, including operating costs | (95,707) | (90,752) | 5.46 | (4,955) |
| **Profit available for distribution** | **1,778,730** | **250,080** | **611.26** | **1,528,650** |

Source: NBM

Table A.29: Net result from the monetary policy implementation

| | 2014 | 2013 | Difference 2014/2013 | Absolute Difference |
|---|---|---|---|---|
| | MDL, thousands | MDL, thousands | % | MDL, thousands |
| Standing Facilities | (1,832) | (1,966) | (6.81) | 134 |
| Required Reserves | (23,546) | (24,579) | (4.20) | 1,033 |
| Accounts and deposits of the Ministry of Finance | (27,626) | (29,820) | 7.36 | 2,194 |
| Open market operations | (56,928) | (144,953) | (60.73) | 88,025 |
| Leading activity and placement in state securities | 108,943 | 91,630 | 18.89 | 17,313 |
| **Net result** | **(989)** | **(109,688)** | **(99.10)** | **108,699** |

Source: NBM

Table A.30: Net result obtained from the management of foreign exchange reserves held by the NBM

| | 2014 | 2013 | Difference 2014/2013 | Absolute Difference |
|---|---|---|---|---|
| | MDL, thousands | MDL, thousands | % | MDL, thousands |
| Securities in foreign currency | 338,123 | 266,929 | 26.67 | 71,194 |
| Deposits | 26,759 | 23,775 | 12.55 | 2,984 |
| IMF loans | (34,522) | (31,017) | 11.30 | (3,505) |
| Differences from foreign exchange rate | 1,532,984 | 263,680 | 481.38 | 1,269,304 |
| Commissions and fees | (2,341) | (983) | 138.15 | (1,358) |
| **Net Result** | **1,861,003** | **522,384** | **256.25** | **1,338,619** |

Source: NBM

Table A.31: Evolution of the official exchange rate

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | average on period | At the end of the year | average on period | At the end of the year |
| MDL/USD | 14.0388 | 15.6152 | 12.5907 | 13.057 |
| MDL/EUR | 18.6321 | 18.9966 | 16.7241 | 17.9697 |
| MDL/GBP | 23.1178 | 24.2574 | 19.7072 | 21.5015 |
| MDL/XDR | 21.3198 | 22.6168 | 19.137 | 20.1078 |
| MDL/XAU | 570.3802 | 595.6709 | 570.2558 | 504.3804 |

Source: NBM

Table A.32: Share of significant balance sheet items (%) and the annual average rates related to the financial instruments (%)

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | Share % | Annual average interest rate, % | Share % | Annual average interest rate, % |
| **ASSETS** | 100.00 | - | 100.00 | - |
| Foreign assets | 78.77 | 1.11 | 94.22 | 1.02 |
| State securities | 4.49 | 4.60 | 4.98 | 4.52 |
| Loans granted (short/medium term) | 16.57 | 0.1/0.01 | 0.67 | /0.01 |
| Other assets | 0.17 | - | 0.13 | - |
| **LIABILITIES** | 100.00 | - | 100.00 | - |
| National currency in circulation | 41.52 | - | 45.62 | - |
| Available funds of the Government, including: | 5.18 | - | 3.93 | - |
| *sight, MDL* | 3.16 | 1.82 | 3.84 | 1.98 |
| *sight, FCC* | 2.02 | - | 0.09 | - |
| Available funds of the banks, including: | 18.38 | - | 16.85 | - |
| *LORO accounts, including:* | 6.61 | - | 10.08 | - |
| *Required reserves in MDL, paid* | - | 0.56 | - | 0.83 |
| *required reserves in FCC, paid* | 7.56 | 0.57 | 6.46 | 0.49 |
| *Overnight deposits* | 4.21 | 0.80 | 0.31 | 0.86 |
| Certificates of the NBM (placed) | 0.48 | 3.51 | 6.24 | 3.89 |
| Loans received from IMF (EFF) | 13.18 | 1.09 | 13.51 | 1.08 |
| Other liabilities | 8.09 | - | 7.11 | - |
| Capital and reserves | 13.17 | - | 6.74 | - |

Source: NBM

Table A.33: Capital and reserves

| | 31 December, 2014 MDL, thousands | 31 December, 2013 MDL, thousands |
|---|---|---|
| Authorized capital | 330,017 | 330,017 |
| General reserve fund | (418,005) | (471,360) |
| **Total statutory capital** | **784,022** | **(141,343)** |
| Reserve of unrealized gains from exchange rate differences from the revaluation of foreign exchange stocks | 5,106,782 | 2,733,942 |
| Reserve of unrealized gains from the revaluation of investment securities | 240,117 | 227,835 |
| Other reserves | (1381) | (6672) |
| **Total capital and reserves** | **6,093,540** | **2,813,762** |

Source: NBM

Table A.34: List of Decisions of the Council of Administration of the National Bank of Moldova submitted for publication in the Official Monitor of the Republic of Moldova in 2014

| No. d/o | Decision no. | Date of approval | Decision of the CA | Published in the Official Monitor of the Republic of Moldova | |
|---|---|---|---|---|---|
| | | | | number/article | date |
| 1 | 1 | 16.01.2014 | On the amendment and completion of the Instruction on preparing and presenting the reports by banks for prudential purposes | 17-23/98 | 24.01.2014 |
| 2 | 4 | 23.01.2014 | On the abrogation of the Decision of the Council of Administration of the National Bank of Moldova no.196 of September 30, 2010 | 60-65/348 | 14.03.2014 |
| 3 | 5 | 23.01.2014 | On the amendment and completion of the Instruction on reporting some foreign currency transactions by licensed banks | 60-65/349 | 14.03.2014 |
| 4 | 11 | 30.01.2014 | On the level of interest rates of the National Bank of Moldova and required reserves ratio | 27-34/151 | 07.02.2014 |
| 5 | 12 | 30.01.2014 | On the level of base rate of the National Bank of Moldova on long-term loans | 27-34/152 | 07.02.2014 |
| 6 | 15 | 30.01.2014 | On the amendment and abrogation of certain normative acts of the National Bank of Moldova | 53-59/324 | 07.03.2014 |
| 7 | 37 | 27.02.2014 | On the level of interest rates of the National Bank of Moldova and required reserves ratio | 53-59/325 | 07.03.2014 |
| 8 | 42 | 27.02.2014 | On the approval of recommendations on cross-border banking relationships | 53-59/326 | 07.03.2014 |
| 9 | 44 | 03.03.2014 | On the abrogation of certain normative acts of the National Bank of Moldova | 53-59/327 | 07.03.2014 |
| 10 | 48 | 10.03.2014 | On the amendment and completion of the Regulation on the performance of transactions on the interbank foreign exchange market of the Republic of Moldova | 60-65/350 | 14.03.2014 |
| 11 | 52 | 20.03.2014 | On the approval, abrogation and amendment of certain normative acts of the National Bank of Moldova | 110-114/596 | 09.05.2014 |
| 12 | 59 | 27.03.2014 | On the level of interest rates of the National Bank of Moldova and required reserves ratio | 80-85/435 | 04.04.2014 |
| 13 | 71 | 04.04.2014 | On the amendment and completion of the Regulation on cash operations in banks in the Republic of Moldova | 103/518 | 30.04.2014 |
| 14 | 82 | 23.04.2014 | On the level of interest rates of the National Bank of Moldova and required reserves ratio | 103/519 | 30.04.2014 |
| 15 | 83 | 23.04.2014 | On the level of base rate of the National Bank of Moldova on long-term loans | 103/520 | 30.04.2014 |
| 16 | 88 | 06.05.2014 | On the terms of submissions of certain reports by banks | 110-114/597 | 09.05.2014 |
| 17 | 90 | 07.05.2014 | On the amendment of the Instruction on the procedure of submission of reports to the NBM in electronic form by banks | 115-119/669 | 16.05.2014 |
| 18 | 93 | 15.05.2014 | On the abrogation of certain normative acts of the National Bank of Moldova | 120-126/672 | 23.05.2014 |
| 19 | 100 | 29.05.2014 | On the level of interest rates of the National Bank of Moldova and required reserves ratio | 147-151/804 | 06.06.2014 |
| 20 | 119 | 26.06.2014 | On the level of interest rates of the National Bank of Moldova and required reserves ratio | 174-177/916 | 04.07.2014 |
| 21 | 134 | 10.07.2013 | On putting into circulation some commemorative coins as a means of payment and for numismatic purposes | 185-199/982 | 18.07.2014 |
| 22 | 135 | 17.07.2014 | On the amendment and completion of the Regulation on bank's activity regarding prevention and combat of money laundering and terrorist financing | 261-267/1286 | 05.09.2014 |
| 23 | 138 | 24.07.2014 | On the approval of the Concept on national transfers optimisation | 217-222/1094 | 01.08.2014 |
| 24 | 144 | 31.07.2014 | On the level of interest rates of the National Bank of Moldova and required reserves ratio | 223-230/1159 | 08.08.2014 |
| 25 | 145 | 31.07.2014 | On the level of base rate of the National Bank of Moldova on long-term loans | 223-230/1160 | 08.08.2014 |
| 26 | 147 | 31.07.2014 | On the approval of the Recommendations on identification of beneficial owners | 223-230/1161 | 08.08.2014 |
| 27 | 153 | 07.08.2014 | On the classification by banks of loans by categories of borrowers from agricultural sector | 238-246/1199 | 15.08.2014 |
| 28 | 154 | 07.08.2014 | On the amendment and completion of the Regulation on reporting the balance of payments information | 249-255/1245 | 22.08.2014 |
| 29 | 160 | 20.08.2014 | On the amendment and completion of the Regulation on risk-weighted capital adequacy, approved by the Decision of the Council of Administration of the National Bank of Moldova no.269 of October 17, 2001 | 256-260/1268 | 29.08.2014 |

Source: NBM

Table A.35: List of Decisions of the Council of Administration of the National Bank of Moldova submitted for publication in the Official Monitor of the Republic of Moldova in 2014 (continuation)

| No. d/o | Decision no. | Date of approval | Decision of the CA | Published in the Official Monitor of the Republic of Moldova | |
|---|---|---|---|---|---|
| | | | | number/article | date |
| 30 | 162 | 21.08.2014 | On the amendment and completion of the Regulation on branches, representative offices and secondary officies of banks | 275-281/1354 | 19.09.2014 |
| 31 | 165 | 21.08.2014 | On the amendment and completion of the Instruction on preparing and presenting the reports by banks for prudential purposes | 256-260/1269 | 29.08.2014 |
| 32 | 169 | 28.08.2014 | On the level of interest rates of the National Bank of Moldova and required reserves ratio | 261-267/1287 | 05.09.2014 |
| 33 | 179 | 18.09.2014 | On the amendment and abrogation of certain normative acts of the National Bank of Moldova | 319-324/1505 | 24.10.2014 |
| 34 | 182 | 25.09.2014 | On the level of interest rates of the National Bank of Moldova and required reserves ratio | 293-296/1384 | 03.10.2014 |
| 35 | 184 | 25.09.2014 | On the amendment and completion of the Regulation on banks open foreign exchange position | 293-296/1385 | 03.10.2014 |
| 36 | 188 | 25.09.2014 | On the amendment and completion of the Regulation on open market operations of the National Bank of Moldova | 293-296/1386 | 03.10.2014 |
| 37 | 190 | 25.09.2014 | On the amendment and completion of certain normative acts of the National Bank of Moldova | 325-332/1530 | 31.10.2014 |
| 38 | 191 | 25.09.2014 | On the amendment and completion of the Chart of accounts of the bookkeepying within lisenced banks of the Republic of Moldova | 293-296/1387 | 03.10.2014 |
| 39 | 197 | 02.10.2014 | On putting into circulation some commemorative coins as a means of payment and for numismatic purposes | 297-309/1448 | 10.10.2014 |
| 40 | 198 | 02.10.2014 | On the amendment and completion of the Instruction on preparing by banks of the Report on the volume of cash operations, approved by the Decision of the Council of Administration of the National Bank of Moldova no.256 of November 17, 2011 | 297-309/1449 | 10.10.2014 |
| 41 | 211 | 23.10.2014 | On the approval of Instruction on the reporting of data related to the use of payment instruments and services | 325-332/1531 | 31.10.2014 |
| 42 | 216 | 30.10.2014 | On the level of interest rates of the National Bank of Moldova and required reserves ratio | 333-338/1575 | 07.11.2014 |
| 43 | 219 | 30.10.2014 | On the level of base rate of the National Bank of Moldova on long-term loans | 333-338/1576 | 07.11.2014 |
| 44 | 239 | 13.11.2014 | On the completion of the Regulation on book-entry system, approved by the Decision of the Council of Administration of the National Bank of Moldova no.250 of October 25, 2012 | 352-357/1691 | 28.11.2014 |
| 45 | 243 | 27.11.2014 | On the level of interest rates of the National Bank of Moldova and required reserves ratio | 358-363/1773 | 04.12.2014 |
| 46 | 260 | 04.12.2014 | On the amendment of the Instruction on reporting some foreign currency transactions by licensed banks, approved by the Decision of the Council of Administration of the National Bank of Moldova no.11 of January 22, 2009 | 372-384/1894 | 19.12.2014 |
| 47 | 261 | 04.12.2014 | On the amendment and completion of the Instruction on preparing by banks of the Report on the monetary statistics, approved by the Decision of the Council of Administration of the National Bank of Moldova no.255 of November 17, 2011 | 366-371/1844 | 12.12.2014 |
| 48 | 266 | 11.12.2014 | On the level of interest rates of the National Bank of Moldova and required reserves ratio | 372-384/1895 | 19.12.2014 |
| 49 | 282 | 23.12.2014 | On the amendment of the Regulation on setting the official exchange rate of Moldovan Leu against other currencies, approved by the Decision of the Council of Administration of the National Bank of Moldova no.3 of January 15, 2009 | 386-396/1973 | 26.12.2014 |
| 40 | 288 | 23.12.2014 | On the terms of submissions of certain reports by banks | 386-396/1974 | 26.12.2014 |
| 51 | 295 | 29.12.2014 | On the level of interest rates of the National Bank of Moldova and required reserves ratio | 1-10/52 | 16.01.2015 |
| 52 | 302 | 30.12.2014 | On the amendment and completion of the Instruction on the procedure of submission of reports to the NBM in electronic form by banks, approved by the Decision of the Council of Administration of the National Bank of Moldova no.132 of July 17, 2008 | 1-10/53 | 16.01.2015 |

Source: NBM

Table A.36: Major projects of the NBM in 2014

| Nr. | Project | Strategic objective | Objectives | Initiation period | Achievements | Next steps |
|---|---|---|---|---|---|---|
| 1 | Transform BNM | 8. Increasing the efficiency of the NBM operational activities | Assess and transform the NBM business processes relating of banking operating, management of financial, material and human resources and to modernize the NBM banking IT system in order to achieve the objective of increasing the efficiency of the NBM operational activity. The aim of Transform NBM Project focuses on a multidimensional transformation of the organization with the purpose of ensuring maximum alignment to its strategic objectives. This approach is based on large-scale architectural model at the organization level (Enterprise Architecture), which, if implemented, provides correlation between the activity processes, organizational structure, staff, application systems, information technologies, etc. and the objectives of the organization. | March 2012 | In 2013, after the completion of the first phase of the project, during which the target model of the NBM organisation has been defined, based on aspects of activity processes, human resources, organisational structure and information technologies, in 2014, the activity processes have been transformed by implementing the Transformation Plan of the NBM. There have been implemented short-term measures for achieving fast performances in the processes of activity, human resources, and organisational structure. These performances contributed to the optimisation of banks internal resources use through optimisation and reduction of processes duration, acceleration of decision-taking process, and optimisation of documents circuit. At the same time, a repeated tender has been initiated for the procurement of a new core banking system, as the first tender ended without signing a contract. | Announce two international open tenders for the selection and implementation of certain modern and advanced information systems for the management of resources and banking operations conduct.<br>At the same time, there will be implemented the measures from the Action Plan for achieving rapid performances on medium and long term. The organizational structure of the bank will be also gradually adjusted in the following period as to achieve synergies by grouping similar activities and to simplify the hierarchical reporting structures.<br>The project completion is scheduled for 2017. |

| | | | | | | |
|---|---|---|---|---|---|---|
| 2 | Implementation of a single trading platform for the monetary foreign exchange instruments by means of Bloomberg information system | 8. Increasing the efficiency of the NBM operational activities | Ensure sustainable development of the monetary and foreign exchange market, by strengthening trading processes on a unique platform, through technological modernization of processes, ensuring a high degree of effectiveness, efficiency and transparency and through strengthening capacities of risks management. | October 2012 | After the implementation of the unique trading platform for the foreign exchange operations carried out on the domestic market, as well as for certain operations carried out on money market, in 2014, the NBM has collaborated with Bloomberg company to continue the carrying-out of other operations on open market through the same platform. Thus, the NBM Certificates, SS purchase/sale from/into NBM portfolio, placement of deposits via actions have been traded through the unique trading platform.<br>At the same time, the regulatory framework applicable to money market operations of the NBM has been adjusted. | In 2015, other monetary policy instruments of the NBM are planned to be traded through Bloomberg unique trading platform, such as Repo/Reverse Repo and collateralised loans. Subsequently, the trading process for attracting deposits, selling / buying NBM Certificates in the secondary market will be implemented. |
| 3 | Organisation of state securities trading with a term exceeding one year on the Stock Exchange *(joint project with the National Commission for Financial Market)* | 8. Increasing the efficiency of the NBM operational activities | Develop the secondary market of SS and broadening the investor base, raise the number and volume of transactions with SS. | January 2013 | Along with the operation in 2013 of the amendments to the regulatory framework and information systems of the NBM, thus being ensured the technical and legal inclusion of the National Securities Depository (NSD) as a Participant in Book-Entry System (BES), managed by the NBM, in 2014, the NBM has collaborated with the Ministry of Finance for submitted a request on behalf of the NSD with regard to its registration in BES as a participant. | A request on behalf of the NSD with regard to its registration in BES as a participant is to be submitted, information systems are to be put into service the NSD is to be assigned with the status of participant in BES at the NBM and the process of trading SS with the term exceeding one year on the Stock Exchange is to be implemented. |

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|---|---|---|---|---|---|---|
| 4 | Credit Risk Register | 3. Development of the supervision function of the NBM | A credit risk register will provide sufficient operational information to the National Bank of Moldova, which will optimize the prudential regulation and strengthen the banking supervision within a macro prudential framework of banks' lending supervision, in accordance with modern principles of credit risk management, allow for the assessment of banks' ability to overcome financial stress events, and will help tracking bank solvency and macroeconomic stability, etc. | January 2013 | Following the studies and researches with regard to central banks' practices carried out in order to identify and analyse the main and specific aspects of the field, in 2014, the tender procedure for the procurement of an information solution in this regard has been initiated. The tenders were in the evaluation process as at the end of 2014 and the tender process is still ongoing as of today. | Select the IT solution provider to implement the credit risk register and conclude a contract with such provider.<br>Implement the information solution.<br>Conduct the tender procedure relating to infrastructure development for credit risk register. |
| 5 | Implementation of Basel II/ III Agreement | 3. Development of the supervision function of the NBM | Implementation of the provisions of the Basel II/III Agreement will provide a more flexible prudential framework for setting the capital requirements (from a simplified level to a sophisticated level), proportionate to risk profile of the banking institutions. At the same time, the Basel II/III will significantly increase the banking system stability, allow identification of the nature of activity of each banking institution and its risk profile, as well as it will ensure the diversification of risks evaluation methods. As a result, the implementation of the Basel II/III Agreement requirements will stimulate the transparency and market discipline. | June 2013 | Following the approval of the Twinning Fiche "Strengthening the NBM capacity in banking regulation and supervision in the context of implementation of Basel Agreement provisions", the external development partner has selected the service provider. NBM has collaborated with the winner of the procurement procedure to finalize the draft TWG Contract, which also includes the Activity Plan, indicating resources, intermediate and final objectives of the project. The Contract was submitted to the EU Delegation office in the Republic of Moldova for approval. | Sign the TWG contract by counter parties and have it approved by the EU authorities.<br>Start the project according to the Activity Plan included in the Contract, namely:<br>* Evaluate the existing legal / regulatory framework related to the regulation of bank capital and develop a general action plan;<br>* Draw up drafts for the amendment of the legal / normative acts in the context of the implementation of Directive 2013/36/ EU and Regulation 575/2013;<br>* Develop supervisory framework based on Pillar 1 risk categories (standardized and advanced approach);<br>* Implement internal systems and procedures for risk management |

| | | | | | | |
|---|---|---|---|---|---|---|
| | | | | | | in banks by evaluating current systems and train the representatives from the banking system. |
| 6 | Modernization of the NBM official website | 6. Improve external communication | Launch the project of modernization and improvement of the structure, content and design of the NBM official website, which is one of the measures designed to achieve the strategic objective of external communication improvement. The NBM official website aims at providing access to the general public to accurate and operational information on the NBM activity and the situation of the banking system in the Republic of Moldova and it is considered to be one of the main instruments ensuring communication with stakeholders, contributing to the NBM image formation outdoors. Based on this, the project aims to conduct a comprehensive review of the structure and content, the web design, interactive elements, which will create necessary premises for optimizing the NBM communication with external parties. | November 2012 | Following the selection of a service provider, a new NBM official website has been developed. A series of activities have been performed in this regard, such as: creation of an interactive data base; development of data access technologies; transfer of data from the archives of the old website to the new website; training of writers and providers of information; synchronisation of old information content with the new website. | The new official website of the NBM is to be launched. |

| | | | | | | |
|---|---|---|---|---|---|---|
| 7 | Modernization of the NBM building | 7. Enhancing the image and credibility of the NBM | Strengthen the NBM image by improving the external appearance of the headquarters. | January 2013 | Once the final project for the modernization of the external appearance of the headquarters was received by the NBM, all documents related to the tender and the estimate for construction works have been prepared. | Initiate the procurement procedure through open tender for the construction works and select an executor of such works. Execute the works as according to the contract. |