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**NATIONAL BANK OF MOLDOVA'S INVOLVEMENT IN THE STABILIZATION OF
THE DOMESTIC BANKING SYSTEM**

**IMPLICAREA BĂNCII NAȚIONALE A MOLDOVEI ÎN STABILIZAREA SISTEMULUI
BANCAR AUTOHTON**

*SPÎNU Ana, PhD,
Free International University of Moldova, Chisinau
BURLEA Ecaterina, PhD,
Free International University of Moldova, Chisinau*

*SPÎNU Ana, doctor în științe economice, conferențiar universitar,
Universitatea Liberă Internațională din Moldova, Chișinău
BURLEA Ecaterina, doctor în științe economice,
Universitatea Liberă Internațională din Moldova, Chișinău*

Annotation: *The National Bank of Moldova promotes an active policy in the field of banking regulation and supervision in order to maintain financial stability and strengthening of the banking system. To protect the depositors and to not allow an excessive level of risk in the system, the National Bank of Moldova monitors the financial performance of each credit institution, but also of the whole banking system. Anyway there have been detected some problems: weak corporate governance in banks, the amount of capital requirement (regular capital) decrease because the non-performing assets increase, the effects of anti-inflationary monetary policy are not felt yet, low transparency of shareholding bank etc.*

Adnotare: *Banca Națională a Republicii Moldova promovează o politică activă în domeniul reglementării și supravegherii bancare în vederea menținerii stabilității financiare și consolidării sistemului bancar. Pentru a proteja deponenții și pentru a nu permite un nivel excesiv de risc în sistem, Banca Națională a Republicii Moldova monitorizează performanța financiară a fiecărei instituții de credit, dar și a întregului sistem bancar. Oricum s-au constatat unele probleme: guvernanta corporativă slabă în bănci, volumul necesarului de capital (capitalul obișnuit) scade din cauza creșterii activelor neperformante, efectele politicii monetare antiinflaționiste nu sunt încă simțite, transparența redusă a băncii cu acțiuni etc.*

Keywords: *bank regulation, banking, commercial banks, deposit insurance, policy, policy making, standard.*

Cuvinte-cheie: *reglementare bancară, sector bancar, bănci comerciale, asigurarea depozitelor, politica, elaborarea politicilor, standarde.*

Introduction

The banking system is a deeply integrated sector into the national economy, due to the specific activity of collecting free available resources in the economy and lending activities. Therefore, the banking system is directly affected by macroeconomic changes in the country showing a pro - cyclical behavior. The financial system also implies the existence of institutions oriented to regulation and supervision of the system. Typically, in the case of banks, the institution empowered with the right of supervision and regulation is the Central Bank.

The banking supervision is an integrated part of a continuous process, which ensures the establishment of a legal framework for the banking system, for regulators and supervisors, also

defines the conditions and criteria for granting operating licenses to the banks and the implementation of legislation which limits the risk that banks are exposed, the establishment of a framework for prudential reporting and supervision of the field. The efficient regulation and supervision of the banking system determines the stability of the entire financial system and a stable and secure financial system is an important precondition for the economic growth.

The Central Bank, also known as the "bank of banks" now held the key position in world economies, due to the functions it performs. The major role of the Central Bank as the supreme authority in the banking system is reflected by fulfilling a number of functions: the function of lender of last resort, the function of supervision and regulation of the banking system, regulatory and supervisory function of the payment system etc. Although the shift from centralized to market economy, in certain states has produced a series of changes within banking systems, the central bank activity have had significant implications on financial system stability. A consequence of transition to a market economy has been reorganizing the banking system dividing it in two levels, at the first level was the Central Bank and other banks were at the second level of the system. The central bank recover its traditional functions as monetary authority, but a number of other functions specific to the type "single bank" system are abandoned [3, p. 53].

Materials and methods of research

Lately, there has been noticed a number of factors that have a significant influence on the Central Bank, among them we could mention: the internationalization of banking operations, the increasing competition, changing interest rate margins etc. To meet all these changes, the Central Bank must quickly adapt to new environmental conditions and, the most important thing is to maintain its level of independence in relation to governmental authority.

The transparency in the activity of Central Bank is another striking trend in reforming the monetary authorities. Thus, there must be ensured efficient communication policies between the central bank and other financial market participants, which involves a higher degree of responsibility for maintaining the credibility of the public/clients. The Central Bank's role in ensuring financial stability of the economy results from the specific functions that the Central Bank performs as a last resort lender, regulator and supervisor of financial and banking activities, and the currency center.

Nowadays the financial stability of the banking system is a primary objective of all states in the world. To ensure the stability of the financial system are developed and implemented laws and regulations, are created regulatory and supervisory authorities, are organized efficient systems for guaranteeing deposit etc. [7].

In Republic of Moldova the institution whose function is to maintain financial stability is the National Bank of Moldova (NBM). NBM is the Central Bank whose primary objective is to maintain and ensure the price stability within the country. The National Bank is a public legal person, it is characterized by autonomy but it is responsible to the Parliament [8]. For prevention of extraordinary financial shocks, in 2010 was adopted the decision to create the National Committee for Financial Stability (C.N.S.F.). It operates in accordance with decision no. 449 of 02.06.2010, regarding the creation of the National Committee for Financial Stability. The C.N.S.F has 8 members and has the responsibility to manage and adequately address systemic financial crises. Among the basic functions of the Committee are included: definition of systemic crises, restoring the credibility and security of the banking system, proposing the measures in case of occurrence of financial crises, etc. The meetings C.N.S.F. convenes whenever necessary, but no less than twice a year.

The prudential supervision of banking activity is conducted by NBM. based on the reports submitted by them to central bank (surveillance off - site) and through inspections at the premises of banks (surveillance on - site). The role of remote controls of banks aim is to monitor and analyze the financial situation of banks in the period between the on –site checks for the early identification of risks and the rapid adoption of the necessary measures to address them. The monitoring is conducted for prudential purposes, based on reports submitted by banks in accordance with the requirements imposed by B.N.M. and financial statements FINREP and other related reports. On-site controls aim to identify the level of risk to which the bank is exposed and to assess the capabilities of the bank’s manager to control and effectively manage the risk. In the on-site control is determined the overall situation of the bank and the risk factors that adversely affect the bank’s activity.

The prudential banking supervision that is carried out by NBM was continuously adapted to the needs of changing banking environment, but the basic objective remains the prevention of crisis situations. The mechanism created by NBM in the field of banking supervision and regulation complies with a series of requirements stipulated in the normative acts issued by the National Bank of Moldova, that must be followed by licensed banks. These requirements are constantly updated and improved in accordance with generally accepted international principles and best practices of the Basel Committee on Banking Supervision and EU Directives.

Based on the generally accepted standards, the NBM promotes an active policy of banking regulation and supervision by mean of:

- establishing the criteria for the authorization of banks, capital requirements for, the exigencies towards the shareholders and their shares as well as to the managers of banks;
- monitoring compliance with prudential requirements to limit risk exposure of banks;
- establishing requirements for banks' internal control functionality, including procedures related to preventing and combating money laundering and terrorist financing;
- applying corrective measures, sanctions, establishing special supervision or, where appropriate, special administration to solve the problems of banks exposed at risk.

The National Bank intervention in order to maintain financial stability can be achieved in several ways:

- The establishment of security schemes to ensure confidence in financial institutions, such as systems for deposits guaranteeing and function of last resort lender of the Central Bank;
- The supervision and regulation of financial and banking activity.

The latter way of intervention - supervise and regulate financial and banking activity, envisages four directions of expression:

- 1) prudential regulation, focused on the financial stability of individual institutions;
- 1) systemic regulation and supervision of the entire financial system;
- 2) the protection of consumers of banking products and services, which refers in particular to protect them against fraudulent practices and lack of complete and accurate information;
- 3) ensuring a fair competition within the system without anti-competitive practices.

One of the objectives of supervision pursued by the National Bank of Moldova is to maintain the customer confidence in the banking system and protecting the interests of depositors. The Central Bank has three ways to prevent the crisis: to assure the market discipline, banking supervision and supervision of all financial markets.

Banking supervision is prudential and seeks to minimize risks that may arise in the economy, such as failures in the payment system, currency depreciation, financial loss, loss of confidence in the banking system etc. To achieve these goals the Central Bank could apply two methods of banking supervision [2, p. 88]:

- regulation or prohibition of certain transactions;
- ensuring prudent management, according to which the supervisory authority shall issue a set of guidelines aimed at ensuring prudent management of the banking institution cautious bank.

The indirect support of prudential banking supervision of the Moldovan banking system is carried out through the Bank Deposit Guaranty Fund of the banking system. Through the system of deposit insurance, banks, for a commission from the total volume of deposits, ensure that, in case of capital run, every deponent will be repaid a ceiling amount established by statute.

Like any modern entity, NBM should ensure a high degree of efficiency, transparency and performance through alignment with international best practices of corporate governance. As a central bank, NBM directs its efforts towards achieving its strategic objectives, aligned with the core business areas. The latter related to the monetary policy, supervision of financial institutions and payment system and money issue.

The activity of banking supervision plays a fundamental role in the economy since the failure of a bank can generate serious consequences on the entire financial system. If the bankruptcy of an economic agent can be an advantage for its competitors, the bankruptcy of a banking institution will undermine the credibility of other banks, resulting in the decreased public confidence in these institutions.

The regulation, in particular prudential supervision was imposed in recent years, as a necessity to ensure a reliable and competitive banking system. In this respect, developing prudential regulations aimed to align them with international standards on banking supervision.

Prudential regulations are expressed by certain relationships and comprises the main aspects of bank management. The compliance with this directs the bank strategy and allows the harmonization both with European legislation and with the international banking legislation [1, p. 135]. The activity of Moldovan commercial banks is regulated and supervised by the National Bank of Moldova, which is the sole authority having this right. According to its power NBM has the right to issue laws and to carry out checks on banks by examining the registers, accounting accounts, and other documents confirming transactions carried out. The legislative basis of banking regulation consists of laws, resolutions, norms, instructions and rules that form the legal framework necessary for carrying out the activity of commercial banks. All regulations issued by the National Bank are continuously updated in line with the Basel Committee on Banking Supervision and EU Directives. On 30 June 2015, the National Bank of Moldova with Romania's National Bank and De Nederlandsche Bank (the Dutch central bank) launched the Twinning project for the capacity building of NBM of regulation and supervision of banking activity in the context of the European Union provisions. The objective of the launched project aims in particular at improving prudential regulation of banks, oriented to consolidation of a sound and competitive banking sector. Thus, in the next years Moldovan legislation will be harmonized with EU provisions and international standards of Basel III. The mentioned requirements relate primarily to capital, financial leverage, liquidity, large exposures and disclosure of information. Their implementation will have a direct impact on the banking sector in terms of risk reduction. The twinning project will contribute to the implementation of banking supervision by NBM in a modern and efficient institutional context.

The performance of Moldovan commercial banks' depends unquestionably on the surveillance activities of the National Bank. Thus, surveillance activity can influence banking performance through three channels:

- promotes transparency of decisions and lead to a more efficient development of the banking system;
- stimulate the increase of the non-government credit share in GDP;

- strengthens the efficiency of intermediation of commercial banks.

The results of certain researches show that there is a direct relationship between exercising the supervisory function by the central bank and the banking prudential indicators: improve profitability of ROA, increase the share of loans in total assets, maintaining liquidity limits etc.

In Republic of Moldova banking supervision is performed in accordance with the model of conformity assessment, which involves measuring the level to which the requirements of prudential and accounting standards are met. However, currently, it is aimed to establish a risk-based banking supervision. The Basel Committee introduced this concept of risk-based prudential supervision for Banking Supervision in 1997. This model seeks to assess the significant risks faced by a commercial bank and its internal control system, relying on the idea that a bank that runs properly its activity this approach is more efficient than analyzing a large number of individual transactions. The significant risks refers to the risk that have a significant impact on the economic situation and reputation of the credit institutions.

The analysis of banking system stability is performed based on economic, financial and prudential indicators of the bank that are reported regularly by commercial banks. Thus, the commercial banks prepare and submit for review to the National Bank a number of daily, quarterly and annual reports.

The FINREP consolidated financial statements are necessarily performed by authorized banks at the end of the day, operational period (year). For consolidated reports the amounts are expressed in national currency - MDL. The amounts in foreign currency shall be recalculated in Moldovan currency at the official rate of MDL against foreign currencies established by the National Bank of Moldova for the reporting day [5].

Herein we analyze the extent to which some of the most important economic - financial and financial indicators reported for the first five systemically important banks in Moldova – CB "Moldova - Agroindbank" JSC, CB "Moldindconbank" JSC, CB "Victoriabank" JSC, CB "Mobiasbanca - Groupe Societe Generale" JSC, CB "FinComBank" JSC comply with the regulatory and prudential requirements imposed by the National Bank of Moldova.

Results and discussion

According to the Law on financial institutions no. 550 - XIII from 21.07.1995 to obtain the authorization commercial banks should form a minimum initial capital of 100 million lei and the subscribed shares shall be fully paid in money.

Table 1. The evolution of minimum amount of social capital in Commercial banks of Moldova during 2013 - 2015 [prepared by the author based on 10]

Commercial bank		2013	2014	2015
		Social capital, mil. MDL	Social capital, mil. MDL	Social capital, mil. MDL
1.	CB „Moldova – Agroindbank” JSC	207,53	207,53	207,53
2.	CB „Moldindconbank” JSC	496,78	496,78	496,78
3.	CB „Victoriabank” JSC	250,00	250,00	250,00
4.	CB „Mobiasbanca – Groupe Societe Generale” JSC	100,00	100,00	100,00
5.	CB „FinComBank” JSC	131,54	131,54	131,54

From the presented data in Table 1, could be seen that the analyzed commercial banks comply with requirements of NBM related to the minimum social capital amount, this serves as

collateral for bank creditors that their economies will recover in case of unpredicted events that could affect the commercial bank.

According to the Regulation on Risk Weighted Capital Adequacy since 31.12.2012 the minimum amount set for Tier 1 capital is determined in the amount of 200 mil. MDL.

According to Table 2, the analyzed commercial banks meet the requirements of NBM on Total Regulatory Capital (TRC) stipulated in the Regulation on Risk Weighted Capital Adequacy. The amount of total regulatory capital is equal to the amount of Tier 1 capital. The value TRC varies among licensed banks and depends on its size and the volume of operations carried out but at the same time, the amount of total regulatory capital must be equal or more than 200 mil. MDL.

In 2015, there is a significant increase in the capitalization of these five licensed banks, registering an average TRC of 1337,03 mil. MDL, which is 255,78 mil. MDL more than for the previous year. Thus, analyzed banks maintain an adequate level of capitalization indicators, which mean a high capacity to cover losses.

Table 2. The amount TRC of the top five banks of RM, 2013 - 2015
 [prepared by the author based on 10]

Commercial bank		2013	2014	2015
		TRC, mil. MDL	TRC, mil.MDL	TRC, mil.MDL
1.	CB „Moldova – Agroindbank” JSC	1682,45	1806,94	2320,63
2.	CB „Moldindconbank” JSC	1024,07	1369,04	1552,74
3.	CB „Victoriabank” JSC	1002,72	1127,86	1496,67
4.	CB „Mobiasbanca – Groupe Societe Generale” JSC	761,15	818,76	1007,50
5.	CB „FinComBank” JSC	245,52	283,66	307,62

The capital adequacy is a restrictive measure imposed by the Central Bank in order to create a banking system consisting of highly capitalized banks that can overcome more easily the eventual difficulties.

After analyzing the capital adequacy indicators of these five commercial banks is noted an increase of risk-weighted capital adequacy indicator, which is assessed positively because it shows an efficient organization of banking activity. The average of risk-weighted capital adequacy for 2015 of the top five banks in the banking sector of the RM is 24.21%, the minimum value being 16%. A high level of solvency is the expression of an effective capital adequacy and competitive position in the market due to high capacity for future development of the banking activity. However, a too high coefficient of risk-weighted capital adequacy denotes a passive investment policy of the bank and a high opportunity costs. The efficient organization of risk management starts with the capital allocation by each credit institution.

To create a favorable framework for the safe development of banking in our country, NBM adopted a number of prudential regulations on capital adequacy, foreign exchange position, large exposures etc. By imposing these regulations, the National Bank aims to limit broadening the scope of activities, considering that all bank investments should be correlated with its current potential. The National Bank supervises the volume of investments made by banks because the banks that show a rapid growth too quickly tend to take undue risks, and even if these banks are properly managed, may encounter problems related to risk management, resulting from excessive growth, especially in the loan portfolio. In general, the regulations are designed to prevent and mitigate the risks, to limit and reduce losses, and to protect bank's depositors. One of the main objectives is the protection of bank from manager's abusive tendencies.

To achieve this objective, each commercial banks has in place a committee ALCO (Asset and Liability Committee), which monitors the efficient management of assets and liabilities of a bank and the compliance with acceptable proportions between risk and expected profit.

The bank liquidity in Republic of Moldova is regulated by NBM through regulation on bank liquidity.

The commercial banks of Moldovan system are calculating the liquidity indicators according to 2 principles:

- principle I (long-term liquidity), the amount of bank assets with maturity period of more than two years shall not exceed the amount of its financial resources and should not be greater than one.
- principle II (current liquidity), It states that the current liquidity of a bank is expressed as a ratio of liquid assets to total assets and must not be less than 20% [9].

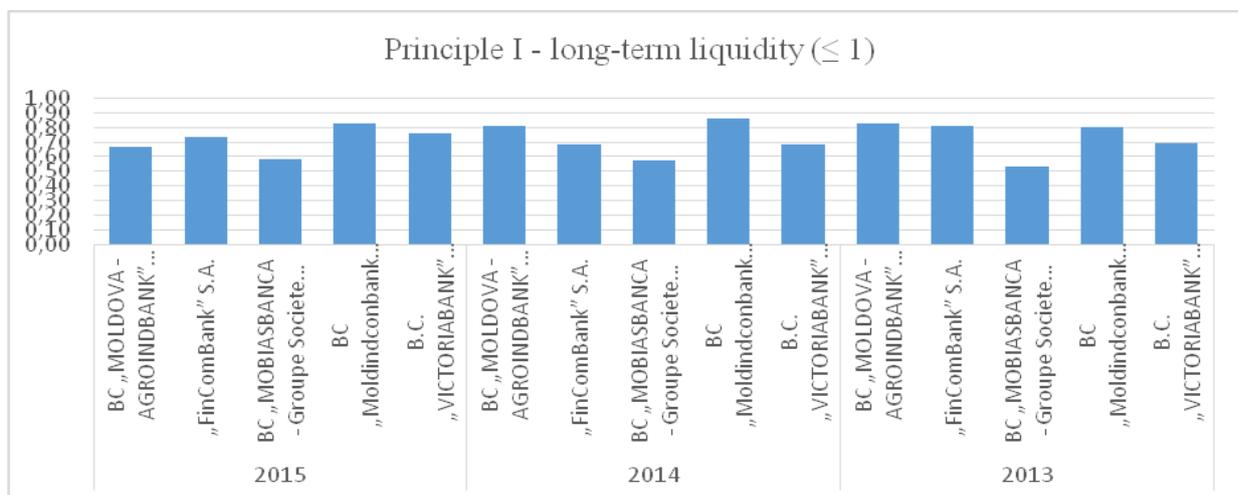


Figure 1. The long term liquidity for top 5 commercial banks, 2013-2015 [elaborated by the author based on 10]

The data presented in Figure 1 could be seen that the highest level of long-term liquidity ratio has the CB "Moldindconbank" JSC, this means that the bank has placed its resources for the same period of time for that the funds were attracted.

In general, analyzed banks comply with NBM requirements on long-term liquidity, which indicates the fact that the banks adequately correlate the investments made with raised funds. However, if a bank face difficulties in paying its liabilities, it may be financed by the National Bank of Moldova or get a line of credit from the group to which it belongs.

The Figure 2 denotes that in the period under review banks have maintained the current liquidity norm established by the National Bank of Moldova (20%). This can be considered both as positive and as "less" positive.

The existence of a surplus of liquidity allows the bank to honor its obligations towards its creditors. This means that the bank has sufficient short-term assets to meet the outflows of funds. This is particularly important as the banks that meet current liquidity difficulties are not able to "survive" a long period of time, even if they have enough long-term assets. Delay in payments to a client is spreading rapidly in the market and subsequently can install the panic and the phenomenon of "bank run" (simultaneous withdrawals of deposits).

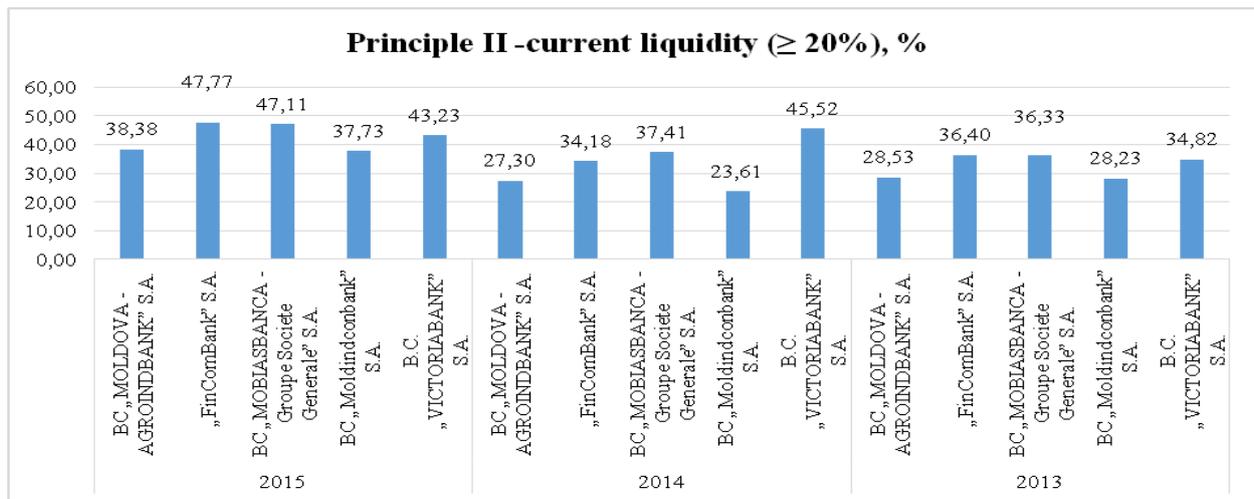


Figura 2. The current liquidity for top 5 commercial banks , 2013-2015
[elaborated by the author based on 10]

However, an excess of liquidity in the banking system is not seen too positive, because it denotes that banks do not invest available resources rationally.

The National Bank, as the regulator has all the necessary levers to ensure prudential supervision of the banking system. The legal framework regulating the banking activity in Moldova is very complex, adapted to the requirements of the European Union and Committee on Banking Supervision in Basel, following the aims to align all the rules governing international prudential standards. The National Bank, as the sole regulation and supervision institution of banking in Moldova, aims to ensure the stability of the banking system by setting requirements on prudential indicators.

Conclusions

The activity of banking supervision is needed for at least two reasons. First, banking activity particularly different from other economic activities: banks make investments using people's money, and there is the possibility of such situations when the bank cannot meet customer demand for deposit withdrawals, there are also difficulties in ensuring an optimal structure between outstanding funding sources and liquidity of bank placements etc.

To strengthen the capacity NBM prudential supervision is required:

- the implementation of corrective measures to improve corporate governance in banks and setting ethical standards for bank officers;
- to establish stricter prudential requirements for banks of systemic importance;
- to allow the commercial banks to develop and use their own rating systems for analyzing potential borrower's creditworthiness;
- to conduct regular crisis testing to identify possible events that could have unfavorable effects on overall banking activity;
- to apply stricter sanctions to the managers and/or leaders of the bank for engaging in risky operations affecting creditors of the bank.

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