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THE IMPLEMENTATION OF EUROPEAN DIRECTIVES: IMPACT ON MACROPRUDENTIAL SUPERVISION OF THE BANKING SECTOR AND FINANCIAL STABILITY

Ludmila Cobzari ¹, Natalia Ștefîrță ²

^{1,2} Academy of Economic Studies, Chisinau, Republic of Moldova

E-mails: ¹ cobzari.ludmila@ase.md; ² Natalia.Stefirta@bnm.md

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Abstract. One of the major achievements of the Financial Stability Forum was the development, in partnership with the International Monetary Fund and the World Bank, of a key instrument for global financial supervision, namely the Financial Sector Assessment Program. This document, which substantially influences the policies that shape the development of the financial system, focuses on the European regulatory framework, including directives and capital requirements, as well as bank recovery and resolution. As a result, the implementation of European Union directives in the Republic of Moldova is the central pillar of the modernisation and securitisation of the financial sector, directly and profoundly impacting the country's economic stability. The adoption of these directives acts as a protection mechanism against crises and systemic fragility. In this context, the article aims to analyse macroprudential supervision, its impact on financial stability, and the extent to which the Republic of Moldova is prepared to participate in the conceptual framework for the systematisation and implementation of European directives.

Keywords: macroprudential instruments; debt service-to-income (DSTI); loan-to-value (LTV); countercyclical capital buffer; capital requirements; financial stability; macroprudential supervision; monetary policy (MP)

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JEL Classifications: E4, E5, E6, K10, K20

1. Introduction

Previous analyses and assessments of macroprudential policies from a financial stability perspective have largely been forgotten since the 2008 global financial crisis. Still, when anyone applies for a mortgage loan, two conditions are met: a maximum debt-to-income ratio and a minimum down payment. These are direct systematisations of the implementation of macroprudential instruments on borrowers in the form of DSTI (debt service-to-income) and LTV (loan-to-value).

To maintain financial stability, we anticipated that the potential for adverse side effects would be significantly higher under system-based regulation, with new indicators for analysis and monitoring and new public policy instruments being developed. Macroprudential policy plays a key role in ensuring financial stability, but it is not the only one in this endeavour (Polzer, Grossi & Reichard, 2022; Kenig, 2023). Macroprudential policy aims to safeguard the financial system's stability through proactive risk management. Strengthening institutional resilience and mitigating systemic vulnerabilities prevent financial disruptions and foster long-term, stable economic development (Chen, Deng & Peng, 2024). Microprudential policy acts in the same direction, by maintaining the health of the entities that make up the financial system (Gasparini et al., 2026).

At the same time, financial stability is maintained if the monetary policy (MP), in accordance with the Long-term Monetary Policy Strategy of the National Bank of Moldova (NBM), to ensure and maintain price stability in the medium term, will maintain inflation (measured by the consumer price index) at the level of 5.0 percent annually with a possible deviation of ± 1.5 percentage points, this being considered the optimal level for the growth and economic development of the Republic of Moldova in the medium term.

If we talk about the resolution policy, it ensures that, in the event of a crisis, situations are adequately managed. Resolution tools protect the public interest in maintaining financial stability. They are applied when they are necessary to achieve the resolution objectives, namely, when the bank cannot be liquidated in accordance with the forced liquidation procedure, as this could destabilise the financial system. Infrastructure policy (the payment and settlement system is critical) helps maintain financial stability.

Countercyclical policies cannot be separated from systemic risk, since the countercyclical capital buffer helps manage it. This macroprudential instrument requires banks to accumulate additional capital during periods of excessive credit growth. The NBM has decided to increase this rate from 0.5% to 1.0% (in November 2025), to reach 1.5% in May 2026, to strengthen the resilience of the banking sector. Such a correlation can arise through various channels: engaging in investment activities, using common funding sources, interbank connections, and the convergence of risk management practices and trading strategies. To make the results measurable and ensure the transparency of decisions, policies have well-established final objectives.

We have highlighted several essential components of macroprudential policy: management of cyclical problems (accumulation of systemic risks); management of structural problems (resilience of the financial system); transversal dimension of risks. These components are monitored by the responsible authority in the Republic of Moldova, pursuant to Law no. 209/2018 on the National Financial Stability Committee (hereinafter – CNSF Law), the National Financial Stability Committee (hereinafter – CNSF) is the designated national macroprudential authority responsible for coordinating the implementation of macroprudential policy. CNSF members are representatives of the authorities that play an important role in maintaining financial stability: the NBM, the Ministry of Finance, the Ministry of Economic Development and Digitalisation, the National Commission for the Financial Market, and the Deposit Guarantee Fund in the Banking System. Also, the national framework for maintaining financial stability is completed by Law no. 232/2016 on bank recovery and resolution and Law no. 575/2003 on deposit guarantee in the banking system. The bank recovery and resolution framework provides a structured set of guidelines and mechanisms designed to manage failing financial institutions while preserving financial stability and minimising taxpayer exposure. NBM is a competent authority, as well as a resolution authority within the meaning of Law no. 232/2016 (see EUR-Lex, n.d. a,b,c,d).

2. Theoretical background

Each country in the European Union has established its own macroprudential authority. Macroprudential policy is designed and implemented by the macroprudential authority. For a central bank, it is important to know these effects as well as possible, because the institution is involved either directly or indirectly in the management/regulation of monetary policy, macroprudential policy, microprudential policy and resolution policy.

Thus, according to the Calvo model (or Calvo staggered contracts) (Nimark, 2005) being an economic mechanism used in neo-Keynesian macroeconomics to explain why prices do not adjust instantly to changes in the economy (a phenomenon known as nominal rigidity or sticky prices), three main types of institutional arrangements for financial supervision can be identified globally: the sectoral model, the integrated model and the partially integrated model.

In the case of the sectoral model (considered the traditional model), a national authority manages powers in the field of prudential banking supervision and usually also exercises supervisory duties over the business conduct of credit institutions (business conduct supervision). By conducting supervision, we must monitor how banks comply with their obligations to customers. Another authority deals with the insurance sector, and another with the capital market. We encounter this model in Spain, Luxembourg, Portugal, Slovenia, Bulgaria and Romania.

It is important to note that this model was widespread 20 years ago, but as the lines of separation between financial sectors have become more transparent and clearer in some countries (e.g., the universal bank model allows the combination of specific lending and deposit activities with investment activity, such as offering fund units or underwriting on the occasion of corporate bond or government securities issues; also, in some countries mortgage loans can be offered not only by banks, but also by insurance companies or pension funds), supervisory authorities have also merged and partially or integrated. In the case of the integrated (or unified) model, a single national authority – which can be the central bank or a separate authority – concentrates all powers of prudential supervision, business conduct/consumer protection, with responsibility for monitoring all sectors of the financial system. This model was introduced in the mid-1980s, first in Singapore (1984) and then in Europe, particularly in the Scandinavian countries, but became famous with its implementation in the United Kingdom in 1997, through the establishment of the Financial Services Authority (FSA). Currently, in Europe, we find this model organised around the central bank in Ireland, the Czech Republic, Hungary, Slovakia, and the one integrated into a separate authority in Germany, Austria, Denmark, Sweden, Finland, Estonia, Latvia, and Poland. This model groups supervisory responsibilities among several authorities, depending on the political objectives for the development of the respective sectors. Two variants are known: “Twin Peaks” and the “Two-Authority Model”. The model called “Twin Peaks”, proposed by Taylor (2021) and applied the following year in Australia, starts from the premise that the function of regulating and supervising the financial market has two different primary objectives: that of ensuring the financial health of the system and that of protecting consumers from “unscrupulous operators”. Since these objectives may conflict, they must be pursued separately to avoid confusion and problems. Taylor (2021) proposes assigning these objectives to two distinct authorities, one of which should deal strictly with the robustness of the financial system, including the banking, insurance and capital market sectors (e.g. to prevent the collapse of banks or insurance, thus protecting the entire economic system, to prevent abuses and to ensure that beneficiaries of financial services are treated fairly, etc.), and the second to ensure that institutions operating in these markets offer consumers fair services. In Europe, we find this model in the Netherlands, Belgium and the United Kingdom. An effective macroprudential policy needs durable and vigorous institutional foundations. And to achieve its objectives, macroprudential policy must overcome the inertia that can arise from inaction or late intervention.

Macroprudential policy is prone to such procrastination tendencies (inaction bias) because:

- the costs of the measures are immediate and visible, while the benefits only manifest themselves in the long term;
- the benefits are abstract and difficult to quantify (for example, it is difficult to demonstrate that the absence of a crisis is directly due to a particular policy);
- the costs are directly felt by specific interest groups in the financial industry, who can exert political pressure.

While fostering the willingness to act, institutional arrangements should ensure the capacity to act by providing macroprudential policymakers with appropriate powers. Finally, because of the close interdependence between micro- and macroprudential supervision, as well as the complex interactions among fiscal, monetary, and macroprudential policies, institutional arrangements need to ensure effective coordination among different authorities.

Any macroprudential framework put in place should be responsive to the emergence of new vulnerabilities, adapt as experience is gained, and ensure continued effectiveness. Good communication is essential at every stage of the macroprudential policy process (Table 1).

Table 1. Roles and functions of a Central Bank

	 Monetary stability	 Financial stability
 The role	 Maintaining currency stability	 Ensure seamless market operations and prevent economic imbalances.
 The functions	1. Issuance of currency 2. Regulation of monetary conditions (the implementation of monetary policy to ensure price stability and preserve the currency's purchasing power).	1.  Safeguarding payment infrastructures to prevent systemic disruptions and ensure settlement finality 2.  Providing backstop liquidity to curb contagion and mitigate liquidity-driven systemic crises 3.  Banking supervision

Source: authors, based on Moenjak (2017), p. 39.

In terms of the transparency and accountability of macroprudential policy, practices differ across countries (Nardo et al., 2017; Andrieş, Nistor & Sprincean, 2020; Kremen et al., 2021; Kladakis, Chen & Bellos, 2022).

"Post-meeting transparency practices vary widely across global macroprudential frameworks. Disclosure ranges from concise summaries of discussion points, as seen in France and Poland, to the detailed risk assessments published in the United Kingdom. These variations are often a function of the authority's institutional structure. Central bank-led models tend to adopt established monetary policy communication standards. In contrast, inter-agency bodies, like the Financial Stability Oversight Board in the U.S., integrate minute publication into standard public governance protocols (IMF Country Report No. 22/263).

Central bank frameworks must account for the secondary impacts of monetary actions on systemic financial stability. In this context, macroprudential policy has a key role in ensuring financial stability, but it is not the only one in this endeavour.

Resolution policy, being a set of administrative and financial measures, in the Republic of Moldova, the National Bank of Moldova (BNM) acts as the resolution authority, with the power to apply recovery measures and manage the Bank Resolution Fund. The Single Resolution Mechanism (SRM) will apply to banks in euro area Member States and to EU countries that choose to join the Banking Union, to ensure an orderly resolution of failing banks, with minimal costs to taxpayers and the real economy.

To ensure transparency and accountability, macroprudential policy should be employed to mitigate any undesirable side effects of monetary policy on financial stability. These effects typically manifest in borrower behaviour, excessive risk-taking by financial institutions, asset price volatility, and exchange rate fluctuations that affect trade competitiveness (Oyadeyi et al., 2026).

The borrower's balance sheet channel describes how shifts in interest rates affect creditworthiness. Lower rates stimulate demand by increasing net worth and encouraging higher leverage. In contrast, higher rates diminish collateral value and cash flows, restricting access to new financing as borrowing costs rise (Ciccarelli, Maddaloni & Peydró 2013; Mistrean, 2024).

The 'implicit channel' suggests that tightening monetary policy can deteriorate borrower credit quality, leading to higher default rates. Recognising this link is crucial for crisis prevention, as it highlights how rising interest rates expose underlying financial vulnerabilities (Allen, Carletti & Gale, 2000; Goodhart et al., 2009).

Through the balance sheet channel, higher nominal rates tighten payment-to-income constraints. This process erodes borrower net worth and collateral value, leading to credit rationing and increased financial fragility (Gertler & Gilchrist, 1994; Bernanke, Gertler, & Gilchrist, 1994; Clichici, Dragoi & Covalschi, 2025). The Transmission Channels of Monetary Policy to Financial Stability and the Corresponding Macroprudential Mitigants are summarised in Table 2 below.

Table 2. Transmission Channels of Monetary Policy to Financial Stability and Corresponding Macroprudential Mitigants

Systemic Risk Factor	Transmission Channel	Impact of Policy Tightening ($\uparrow r$)	Macroprudential Tools to Limit Side Effects
Borrowing constraints	Balance sheet channel	$\uparrow$	Limits on Loan-to-Income (LTI) and Debt Service-to-Income (DSTI) ratios
Borrowing constraints	Default channel	$\downarrow$	Borrower-based measures to strengthen repayment capacity and reduce default risk
Risky behaviour of financial institutions	Risk-taking channel	$\uparrow$	Capital buffers; leverage ratio requirements
Risky behaviour of financial institutions	Risk-shifting channel	$\downarrow$	Net Stable Funding Ratio (NSFR); capital reserves
Externalities through aggregate prices	Asset price channel	$\uparrow$	Loan-to-Value (LTV) ratio limits; minimum down payment requirements
Externalities through aggregate prices	Exchange rate channel	$\downarrow$	Foreign exchange reserve requirements; limits on foreign currency lending; taxes on non-core foreign exchange liabilities

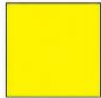
Source: authors, based on International Monetary Fund (2015)

Monetary policy significantly influences the risk appetite of financial intermediaries. According to Borio and Zhu (2012) and Jiménez et al. (2014), prolonged periods of low interest rates bolster bank capital ratios, incentivising institutions to expand their balance sheets and increase leverage, while potentially compromising borrower-screening standards. This phenomenon is driven by a reduction in perceived default probabilities, which leads to lower risk-weighted assets and encourages further risk accumulation. Conversely, when policy rates rise, particularly in environments characterised by maturity mismatch (short-term funding vs. long-term lending), intermediation margins may shrink. This pressure can compel thinly capitalised banks to "search for yield" by engaging in riskier lending to maintain profitability, especially when a flattening yield curve complicates traditional earnings models.

The relationship between monetary easing and asset price inflation remains a focal point of the macroprudential debate. Low interest rates can drive up real estate and financial asset valuations, fostering a feedback loop of rising leverage and collateral values—often termed the "financial accelerator" (Bernanke, Gertler & Gilchrist, 1996). However, empirical findings on this link are heterogeneous. While some argue that loose policy triggers bubbles, others suggest that the impact of interest rates on house prices is relatively modest compared to other fundamental drivers. In small open economies and emerging markets, monetary policy divergence from advanced economies introduces additional complexities. Interest rate differentials can trigger volatile capital flows, leading to currency appreciation (Hahm et al., 2012). This appreciation often masks underlying risks by encouraging unhedged foreign currency borrowing and excessive leverage. These vulnerabilities typically crystallise during the depreciation phase, creating significant systemic externalities (Bruno & Shin, 2012). *A central question for contemporary research is whether macroprudential tools can effectively neutralise the unintended side effects of monetary policy.*

Where monetary easing fuels credit expansion, targeted instruments such as Loan-to-Value (LTV), Loan-to-Income (LTI), and Debt-Service-to-Income (DSTI) ratios can serve as critical circuit breakers. For instance, DSTI limits are particularly effective in cushioning the impact of subsequent rate hikes on household solvency. However, the empirical evidence regarding the synergy between these two policy domains is mixed (see Table 3).

Table 3. Effects of macroprudential instruments and interaction with monetary policy

Collection Position	Requirements of			Terms of interaction		
	Capital (CR)	Reserve LTV (LTV)	Reserve requirements (RR)	MP*CR	MP*LTV	MP*RR
Credit growth						
Price increase						
The price of the house						

Source: the authors

The Independence Hypothesis. Aiyar, Calomiris, & Wieladek (2014, 2016) suggest that the efficacy of capital requirements on credit supply is independent of the monetary stance.

The Conditional Efficacy Hypothesis. In contrast, Tressel and Zhang (2016) find that LTV constraints are most effective when monetary policy is accommodative. Analysis of panel data (e.g., IMF surveys 2000–2011) indicates that while macroprudential measures—including capital gaps, LTV/DSTI limits, and reserve requirements—have a measurable impact on credit and house price growth, their marginal effectiveness often remains consistent regardless of the monetary policy stance. This lack of statistically significant interaction suggests that macroprudential tools function as robust, independent instruments for maintaining stability, even in highly accommodative monetary environments.

3. Research objective and methodology

Any policy generates synergies and conflicts with other policies. The last 15 years have brought the concept of "systemic risk" into the discussion to describe the shocks that have affected the global economy. At the international level, there are several definitions of systemic risk (Burucs, 2026).

Aligned with the regulatory framework of the National Bank of Moldova, systemic risk is conceptualised as the potential for widespread disruption within the financial infrastructure. Such instability poses a significant threat to both financial intermediation and the performance of the real economy, necessitating robust macroprudential oversight. At the same time, systemic risk represents a complex phenomenon, complicated to assess and monitor. Therefore they are indispensable for identifying, quantifying and monitoring the risks that can destabilise the entire financial system, through certain statistical techniques, namely:

- GARCH (Generalised Autoregressive Conditional Heteroskedasticity) models for estimating and persisting volatility and correlations between higher frequency (daily) time series are practical for indicators that monitor (systemic) stress in financial markets. They imply a series of restrictions on the parameters to avoid obtaining explosive solutions $\sum((\alpha_i + \beta_j) < 1)$ or to ensure a positive variation (the parameters have positive values). The optimal number of lags (p,q) can be determined empirically by evaluating the net benefit of including additional parameters, taking into account the risk of over-parameterising the model. A *lag* represents the application of the delay operator of a certain period on a time series the first *lag* of the variable $x_t = Lx_t = x_t - 1$. The Box-Jenkins methodology (Box & Jenkins, 2016) remains a cornerstone of time-series analysis,

providing a systematic three-stage iterative process—identification, estimation, and diagnostic checking—for developing robust forecasting models. Within this framework, model selection is typically optimised using specialised information criteria designed to balance goodness-of-fit with parsimony. And to determine the optimal number of *lags*, the specification with the minimum values is chosen, using only its past and present as the database. These models enjoy wide use due to the quality of the generated forecasts, the flexibility of the models, the rigour regarding the mathematical foundation of the model and the fact that it is an appropriate method for forecasting variables that present an irregular evolution:

- Early Warning Signals (EWS), an econometric method used to estimate the probability of a crisis;
- Quantile regressions can capture interactions between variables across the entire distribution, such as financial crises. Quantiles are the basis of modern risk management methods in the financial and banking fields, the most eloquent example being the VaR (Value-at-Risk) risk measure. Quantile regressions are of two types: conditional and unconditional models. The conditional regression model is used to determine the GaR risk measure for macroprudential policy. The unconditional regression model (often related to simple linear regression or an unconditional explanatory variable approach) analyses the relationship between a dependent variable (Y) and one or more independent variables (X), assuming that the values of X are not fixed/conditional but observed. This models the mean Y as a function of X. The theory of risk assessment is based on statistical information about the moments of the distribution of financial asset prices – the mean and the variance.

Therefore, we are talking about volatility, which is the standard deviation of a financial asset's returns over a given period (usually 1 year). For example, an investor's risk appetite can be determined by the level of volatility they are prepared to accept. Investors with a high risk aversion may be interested in instruments such as bonds or government securities whose prices do not vary significantly over time, while investors with a higher risk appetite are willing to invest in assets with significantly higher volatility, such as shares. Modelling volatility in financial markets is an approach of increasing interest, including for financial stability, especially for monitoring the emergence of systemic stress.

In 2025, the National Bank continued to promote key reforms in banking regulation and legislative harmonisation, in line with European Union standards and Basel III requirements, thereby contributing to the modernisation of the banking system and advancing the European integration process. The financial situation of the banking sector during 2025 remained robust, reflecting the NBM's ongoing efforts to consolidate financial stability and bolster confidence in the banking system. During 2025, the banking system of the Republic of Moldova recorded solid positions in terms of capital and liquidity, with growth in assets, loans, own funds, and deposits from individuals and legal entities. The share of non-performing loans in total loans (prudential) remained at the level recorded at the end of the previous year, close to the lowest historical level. At the same time, banks fully complied with prudential requirements, maintaining key financial indicators at adequate levels and demonstrating a strong capacity to adapt and consolidate capital. However, banks must remain prepared to face potential challenges. In this context, it is essential to ensure prudent risk-taking and sound lending standards to prevent the accumulation of new non-performing loans. Basel III also introduced sector-specific capital requirements to control exposures to certain assets, such as mortgage/real estate loans. In addition to capital requirements, several countries have also introduced instruments targeting the demand for credit. These include loan-to-value (LTV) and debt-to-income (DTI) caps, which are designed to address the undesirable procyclicality of lending standards: fees during booms and accelerated growth during recessions. These quantitative restrictions, together with sector-specific capital requirements, aim to prevent banks from taking on large risk exposures. To the extent that these instruments temper asset expansion during the credit boom, the costs of adjustments during the recession will be significantly lower than in a no-intervention scenario. In addition, higher levels of capital serve as a buffer against losses, thereby reducing the risk of selling assets at distressed prices in times of recession. Basel III also uses liquidity requirements (such as the liquidity coverage ratio and the net stable funding ratio) to ensure that banks have adequate liquidity buffers when bank funding markets are disrupted. A related way to limit the use of secondary funding is to rely on fees calibrated to the cost difference between core and non-core funding, as well as between long- and short-term funding. A dual-objective framework characterises the current economic landscape: monetary policy aims at macroeconomic stability (inflation and output), while macroprudential measures target systemic risk. As shown in Figure 1, the

European banking sector harmonises these efforts via the Single Rulebook, ensuring that prudential standards and directives provide a consistent regulatory environment across the Eurozone.

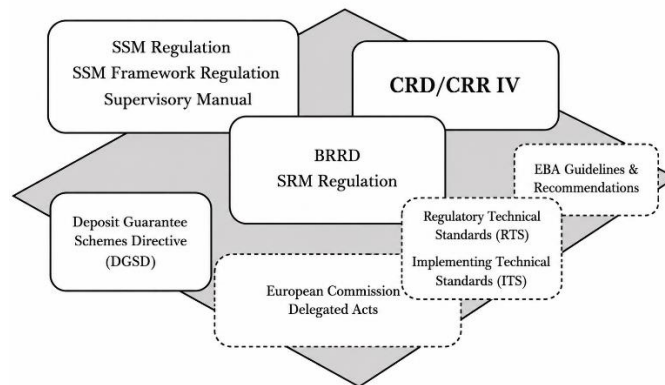


Figure 1. The single rulebook for the European banking sector
Source: the European Council (n.d).

The specialised literature from the Republic of Moldova addresses systemic risk, including the implementation of European directives on macroprudential supervision and its impact on financial stability, using statistical techniques (Secrieru, 2022; Stakhova, Zhyvko & Petryshyn, 2023; Paslari, 2023; Ababii, 2024).

The Moldovan academic and institutional landscape has seen a significant shift toward adopting sophisticated quantitative methodologies to address financial stability and macroprudential oversight. Central to this evolution is the integration of advanced time-series analysis and non-linear modelling to navigate the specificities of an emerging market.

1. Forecasting and Macroeconomic Volatility Building on the foundational Box-Jenkins methodology (Box & Jenkins, 2016), researchers have applied these iterative processes to forecast capital market indicators and inflation trends within the national economy (Bogatencov et al., 2021). This is complemented by the work of Mija (2022), who pioneered the application of GARCH (Generalised Autoregressive Conditional Heteroskedasticity) models to estimate exchange rate volatility and develop Early Warning Systems (EWS) for banking crises in the Republic of Moldova.
2. Risk Management and Systemic Resilience in the banking sector, the focus has shifted toward tail-risk assessment and shock resilience. Cobzari has utilised regression models to identify correlations between macroeconomic stability and external shocks, establishing a basis for early warning indicators (Cobzari et al., 2001; Cobzari & Mărgineanu, 2013; Cobzari & Ștefîrță, 2018).
3. Quantile Regression and Non-Linear Dynamics: a notable trend in recent Moldovan scholarship is the use of Quantile Regression to move beyond average effects and analyse extreme economic conditions. Public Sector Efficiency. Scientists have applied these methods to examine competitiveness and growth disparities (Sârbu & Cîmpoieș, 2018; Moraru, 2025). Institutional application: the National Bank of Moldova (BNM) has integrated Growth-at-Risk (GaR) frameworks—a methodology championed by the IMF—to estimate the distribution of future GDP growth based on prevailing financial conditions.
4. Toward a Harmonised Macroprudential Framework. The convergence of these individual research efforts provides a robust foundation for systematising the assessment of EU macroprudential directives. By synthesising high-frequency data monitoring (such as the Financial Stress Index) with the econometric models, current research aims to quantify the impact of European regulatory alignment on the long-term stability of the Moldovan financial system.

4. Results and Discussion

The Single Supervisory Mechanism (SSM) is widely regarded as the cornerstone of the Banking Union for several key reasons. First, it was the pioneering pillar to become fully functional (November 2014).

Second, the scope of its continuous supervisory activities covers the most significant institutions within the Eurozone. Consequently, its robust framework is essential for maintaining market discipline and operational integrity across the European banking landscape. At the same time, the origins of the SSM are older; the idea of creating a supranational banking supervision system has been discussed, including in the European Parliament, several times since the early 2000s. For example, this proposal appears clearly in the European Parliament's resolution of 13 April 2000 on the European Commission's communication on the time horizon for the implementation of the 1999 financial markets action plan (European Commission, 1999).

At that time, however, Member States were not yet ready for such a fundamental change, which would have implied the surrender of sovereignty in a key area of their economies. Established by Council Regulation (EU) No. 1024/2013, the SSM Regulation empowers the European Central Bank to perform specific tasks in the prudential supervision of credit institutions. As an EU Regulation, the act has direct effect and is binding on all Member States. Starting with 4 November 2014, one year after the entry into force of the specific regulation, the SSM became fully operational, and the ECB began to effectively exercise its new tasks in the field of prudential supervision of credit institutions in the Eurozone. According to point 12 of the preamble of the SSM Regulation, this first step towards the establishment of the Banking Union was intended to ensure the coherent and effective implementation of the common policy in the field of banking supervision, the uniform and rigorous application of the single regulatory framework. It is also mentioned that this mechanism creates the prerequisites for large banking groups to be subject to prudential supervision to the highest quality standards, without prejudice from political or other interventions. The main objective of the SSM is to restore society's confidence in the financial markets, confidence that was seriously affected by the developments of the financial crisis which in the first phase generated huge losses in the banking sector, and in the next phase undermined the functioning of the government securities market, through the negative feedback loop between these financial instruments and the banking sector, endangering the very existence of the single currency. At the heart of the new financial supervision system is the ECB, which works with the "national competent authorities" (NCAs) of the participating Member States (the institutions exercising prudential supervision powers at the national level) that are part of the mechanism. The ECB's choice to exercise these supervisory powers, although criticised, was not surprising. First, in many EU Member States, the task of prudential supervision falls to the central bank. An alternative would have been to choose the EBA rather than the ECB, but this option was ruled out for political and legal reasons. Thus, according to the Meroni doctrine, prudential supervision of credit institutions in the Eurozone can only be exercised by a specialised body of the Eurozone, a condition that the EBA does not meet, and the creation of a new institution, strictly dedicated to this activity, would have required amending the Treaty on the Functioning of the European Union, a complicated and lengthy process.

The SSM Regulation addresses the 'conflict of objectives' dilemma by mandating a clear separation between the European Central Bank's monetary and supervisory functions. Article 25 specifically outlines the procedural and organisational safeguards designed to ensure that supervisory decisions are made independently of monetary policy considerations. The practical solution to this consists of clearly stating the principle of separation and applying organisational and corporate governance measures, which together form the so-called "Chinese wall": the supervisory and monetary policy functions are located in different buildings (the supervisory function in the institution's former headquarters), with different reporting and decision-making lines and distinct governance structures, which will be presented in detail below. The creation of the SSM required aligning the EBA's tasks with the new institutional philosophy and clearly separating the prudential supervision and banking regulation activities. The establishment of the SSM necessitated a revision of the European Banking Authority's legal framework. Consequently, Regulation (EU) No. 1022/2013 was adopted to harmonise the EBA's functions with the new prudential supervisory powers granted to the ECB by Council Regulation (EU) No. 1024/2013. Thus, the EBA's mandate was strictly limited to developing the single rulebook, including regulatory or implementing technical standards adopted at a later stage by the European Commission, or issuing guidelines and recommendations addressed to prudential supervisory authorities or

directly to financial intermediaries. These legal acts, which EBA originated, are also binding on the ECB. Given the size of the two institutions, there was a need to create the conditions for closer coordination between them, so that EBA representatives could participate in the meetings of the ECB Supervisory Board and vice versa, ECB representatives in those of the EBA Committee of Supervisors, even if without the right to vote. Some authors close to the European decision-making process (Boccuzzi, 2016) suggest that the ECB has made a consistent contribution to the development of the single rulebook by the EBA over time and that it has often advocated insistently for the issuance of certain regulatory acts as quickly as possible and has decisively influenced their final form. Regulation (EU) No. 1022/2013 confers some regulatory powers on the ECB. Still, these are limited to measures necessary to organise and clarify the way the tasks arising from the SSM Regulation are carried out. The SSM applies automatically to the Member States of the European Union that have adopted the euro and is optional for those with a derogation. They can participate in the SSM and implicitly in the Banking Union through the close cooperation procedure, provided for in the SSM Regulation in art. 7 – “Close cooperation with the competent authorities of participating Member States whose currency is not the euro”. Subsequently, to detail the conditions and functioning of this close cooperation procedure, the Governing Council of the ECB issued Decision ECB/2014/5 (2014/434/EU) of 31 January 2014.

Conclusions

The banking supervision priorities for the period 2026–2027 reflect the National Bank of Moldova's (NBM) medium-term banking supervision strategy for the next two years. NBM sets priorities based on a comprehensive assessment of the main risks and vulnerabilities for licensed banks. They are reviewed annually to reflect developments in the risk profile, as well as the results of various supervisory exercises, in particular the conclusions of the Supervisory Review and Evaluation Process (SREP), as well as the progress made in implementing the priorities set in previous periods. These priorities ensure an efficient allocation of available resources within the banking supervision process and, if necessary, can be adjusted, depending on the evolution of the risk spectrum. During 2026–2027, the NBM will focus its supervisory efforts on identifying, assessing, and appropriately managing relevant risks in key areas of banking supervision, through on-site inspections, to maintain a sound and sustainable banking sector.

The banking supervision priorities for 2026–2027 reflect the need for banks to remain resilient to geopolitical risks, macroeconomic uncertainties, and risks related to core activities. They aim to address vulnerabilities identified through SREP exercises and on-site inspections, while ensuring operational resilience and strong information and communication technology (ICT) capabilities.

The implementation of EU directives in the Republic of Moldova's financial sector is characterised by selective adoption, adaptation to local context, and ongoing efforts to harmonise with EU norms. While these reforms aim to enhance governance, regulatory compliance, and integration with European markets, significant challenges persist, including institutional capacity, local ownership structures, and the need to balance standardisation with flexibility. Moldova's experience reflects broader regional trends, where alignment with EU financial directives is gradual and shaped by both external influence and domestic realities.

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Author Contributions: Conceptualisation: *Ludmila COBZARI, Natalia ȘTEFÎRȚA*; methodology: *Ludmila COBZARI, Natalia ȘTEFÎRȚA*; data analysis: *Ludmila COBZARI*; writing—original draft preparation: *Ludmila COBZARI, Natalia ȘTEFÎRȚA*; visualisation: *Natalia ȘTEFÎRȚA*. The authors have read and agreed to the published version of the manuscript.

Ludmila COBZARI, Professor at the Academy of Economic Studies of Moldova (Chisinau). Research interests: Finance
ORCID: <https://orcid.org/0000-0001-7108-2670>

Natalia ȘTEFÎRȚA, PHD at the Academy of Economic Studies of Moldova (Chisinau). Research interests: Finance
ORCID: <https://orcid.org/0009-0006-2092-1116>

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