

Impact of Fees and Commissions on Banks Profitability in the European Union and the Republic of Moldova

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Abstract: The article analyzes the impact of fees and commissions on the profitability of the banking sector in the European Union and the Republic of Moldova during 2015-2024. The research tracks the structural evolution of the main components of total operating income, with a focus on net fees and commissions (F&C) income, in the context of transformations generated by digitalization, European regulations on the capping of interbank fees, increased competition from financial technology companies (fintechs) and changes in monetary policy. The study uses consolidated data published by the European Central Bank and the National Bank of Moldova and applies a comparative and structural analysis of banking profitability indicators. The results highlight the fact that fees and commissions represent a more stable and resilient source of income compared to interest income, especially in periods of macroeconomic volatility. At the same time, the research reveals that the banking sector in the Republic of Moldova is in a transition phase towards a more diversified revenue model but continues to show a high dependence on interest income and international payment processing infrastructures. The conclusions emphasize the need to strengthen the national payment infrastructure, optimize the costs of digital services and develop sustainable models for monetizing financial services.

Key-Words: profitability; fees and commissions; non-interest income; digital banking; interchange fees; banking system; financial stability.

JEL Classification: G21, G28, E42, O33, F36

1 Introduction

In recent decades, the international banking sector has undergone a broad process of structural transformation, driven by digitalization, regulatory changes, increased competition and changes in the behavior of financial services consumers. In this context, traditional profitability models based predominantly on interest income have begun to be complemented and, in some cases, gradually replaced by alternative sources of income, in particular fees and commissions (F&C) income.

The importance of non-interest income has increased significantly, especially after periods of economic and financial instability, when interest rate volatility and pressure on bank margins have led financial institutions to identify more stable and resilient sources of profitability. In parallel, the development of digital banking services, the expansion of electronic payments, the increase in the use of bank cards and the implementation of modern payment infrastructures have contributed to the diversification of fee-generating services.

At the same time, the European banking system has been significantly influenced by changes in the regulatory framework, including the implementation of the Payment Services Directive (PSD2), the capping of interchange fees for card transactions, and the strengthening of transparency and consumer protection requirements. These regulations have had a direct impact on the structure of banking revenues and the profitability of payment services activities.

In the Republic of Moldova, the evolution of the banking sector in recent years has been marked both by the processes of harmonization with European standards and by the need to modernize the financial infrastructure and increase the resilience of the banking system. The implementation of modern payment systems, the development of digital services, the introduction of the MIA instant payment system, as a national infrastructure for instant payments in Moldovan lei, and the accession to European initiatives such as the Single Euro Payments Area (SEPA) have accelerated the transformation of the banking business model and changed the structure of commercial banks' revenue sources.

In this context, the analysis of the impact of income from fees and commissions on banking profitability becomes particularly relevant from both a theoretical and practical perspective. Understanding how these revenues contribute to financial stability and the diversification of profit sources allows assessing the capacity of the banking system to adapt to new economic and technological conditions.

The purpose of this study is to analyze the evolution and role of revenues from fees and commissions in the structure of banking profitability in the European Union and the Republic of Moldova during the period 2015–2024. The research aims to identify the main structural trends, assess the impact of regulations and digitalization on this type of revenue, as well as highlight the differences between the European and national models of banking sector development.

2 Literature review

Bank profitability and diversification of income sources are some of the most intensively analyzed topics in contemporary financial and banking literature, especially in the context of transformations generated by digitalization, liberalization of financial markets and intensification of regulations on the banking sector. Thus, in recent decades, research has highlighted the fact that commercial banks tend to reduce their dependence on traditional interest income and develop alternative sources of profitability based on services and activities generating fees and commissions.

Early research on bank income diversification highlighted the fact that non-interest income can contribute to stabilizing banks' financial performance and reducing the risks associated with interest rate fluctuations (DeYoung & Roland, 2001). Later, Stiroh (2004) demonstrated that the expansion of non-interest income-generating activities can improve banks' ability to cope with periods of economic volatility, but this diversification can also generate additional risks if it is associated with more speculative or volatile activities. An important contribution to the analysis of the relationship between non-interest income and banking stability belongs to Smith, Staikouras and Wood (2003), who found that income from fees and commissions tends to be more stable compared to income from financial trading activities or from foreign exchange market fluctuations. At the same time, DeYoung and Rice (2004) emphasized that the development of modern banking services and the expansion of electronic payments have contributed to the increase in the importance of commission income in the structure of banking institutions' profitability.

In the European literature, the analysis of banking profitability is frequently associated with the effects of monetary policies and the regulatory framework on the structure of banking income. Molyneux and Thrall (1994) highlighted that European banks are significantly influenced by macroeconomic conditions and the level of interest rates, which determines the need to identify more stable sources of income. In the same vein, Howarth and Quaglia (2016) analyzed the impact of the European Banking Union on the operating model of credit institutions and highlighted the role of regulations in reshaping bank profitability strategies.

Digital transformations were another major topic addressed in recent literature. In this regard, Gomber et al. (2018) analyzed the impact of the fintech revolution on the financial sector and concluded that traditional banks are forced to adapt their business models by expanding digital services and developing new sources of income based on electronic financial services. OECD (2020) also highlighted that the digitalization of the banking system simultaneously contributes to both increasing operational efficiency and intensifying competition from new financial service providers.

Regulatory interventions regarding payment services and interchange fees have also played an important role in restructuring European banking revenues. According to the study conducted by Copenhagen Economics (2020), the capping of interchange fees in the European Union reduced the revenues generated by card transactions, but also stimulated the efficiency of payment infrastructures and the development of alternative models for monetizing banking services. At the same time, Busch (2017) emphasized that the implementation of the revised Markets in Financial Instruments Directive (MiFID II) and the revised Payment Services Directive (PSD2) increased transparency and competition in the financial services market, reducing the ability of banks to

maintain high margins for certain categories of fees. Regarding emerging economies, the specialized literature highlights the fact that banking systems undergoing European convergence show a higher dependence on interest income and macroeconomic fluctuations (Demirgüç-Kunt & Detragiache, 1998).

In the case of the Republic of Moldova, the process of harmonization with European regulations, the development of digital infrastructure and the modernization of payment services have accelerated the transformation of the banking business model. However, the specialized literature on the impact of fee and commission revenues on banking profitability remains relatively limited.

At the same time, recent research highlights the fact that the development of national payment infrastructures and the reduction of dependence on international processing systems represent an essential factor for improving operational efficiency and reducing the costs of financial services (Koont, 2024). In this context, the implementation of instant payment systems and the integration of electronic payments into the European space are considered important elements for strengthening the resilience of banking systems in emerging economies.

The present article contributes to this underexplored area by providing a comparative analysis of the role of fee and commission income in the banking profitability structure of the European Union and the Republic of Moldova during 2015–2024. Its contribution consists in correlating the evolution of net fee and commission income, the structural shares of banking income and profit margins related to fee-based activities with the broader transformations generated by digitalization, the development of payment infrastructure and regulatory convergence. In this way, the study helps to clarify whether the Moldovan banking sector follows similar diversification trends to those observed in the European banking system and identifies the specific structural constraints that influence the sustainability of fee-based income in an emerging and converging financial system. Thus, the literature demonstrates that fee and commission income has become a strategic component of modern banking profitability, contributing to diversifying revenue sources and increasing financial stability. At the same time, the impact of regulations, digitalization and fintech competition highlights the need for continuous adaptation of banking business models to new economic and technological conditions.

3 Methodology and data

The research is based on a descriptive and comparative analysis of the role of fee and commission income in the structure of banking profitability in the European Union and the Republic of Moldova for the period 2015–2024. The study uses quantitative and qualitative methods, including structural analysis, analysis of indicator dynamics and comparative interpretation of banking income. The purpose of the research is not to estimate a causal relationship through an econometric model, but to assess the contribution and relative importance of fee and commission income in the general profitability model of the banking sector.

The empirical analysis is based on several indicators. Total operating income is used as a general measure of banking operating income and includes net interest income, net fee and commission income, income from financial instruments and foreign exchange operations, as well as other components of net operating income. Net interest income is defined as the difference between interest income and interest expenses. Net fee and commission income is calculated as the difference between fee and commission income and fee and commission expenses. Structural shares are calculated as the ratio of each income component to total operating income and are expressed as a percentage. The profit margin from fee-based activities is calculated as the ratio of net fee and commission income to gross fee and commission income, indicating the proportion of fee and commission income that remains for banks after deducting related expenses.

Data for the European banking system were extracted from the European Central Bank's consolidated banking statistics, while data for the Republic of Moldova were obtained from the supervisory reports published by the National Bank of Moldova. For the European Union, the analysis uses aggregate data expressed in billions of euros, while for the Republic of Moldova, aggregate data expressed in millions of Moldovan lei are used. Given the significant differences in size between the two banking systems and the differences in the reporting perimeter, the comparison is made mainly through relative indicators, such as structural shares, indicator dynamics and profit margins, and not by directly comparing absolute values.

Therefore, the comparison between the European Union and the Republic of Moldova is made at the level of systemic trends and the structure of banking income. This approach allows for the identification of similarities and differences regarding the diversification of banking income sources, the role of fee and commission income and the evolution of profit margins related to these activities. At the same time, the

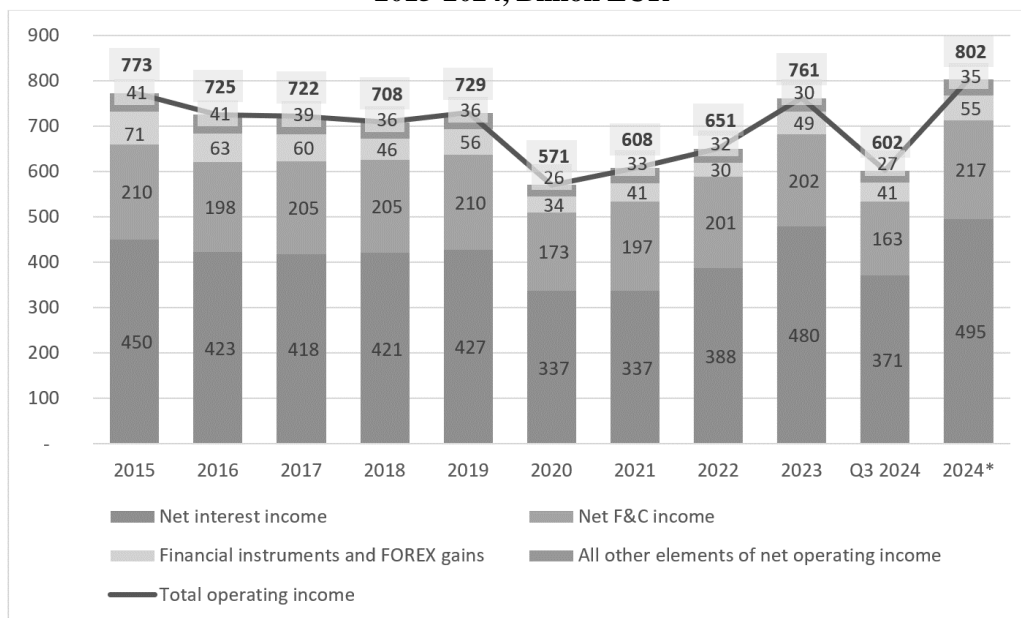
interpretation of the results takes into account the institutional and regulatory context specific to each banking system, including differences in market size, payment infrastructure, regulatory convergence and dependence on international payment processing providers.

For 2024, the European Union data marked with an asterisk are annualized estimates based on available data for the first three quarters of the year, calculated by multiplying the cumulative values for the third quarter by 4/3. For the Republic of Moldova, the values for 2024 are based on available annual data reported by the National Bank of Moldova. Therefore, the results for 2024 should be interpreted with caution, especially for the European Union, where the final year-end values may differ from the annualized estimates.

4 Analysis of income from fees and commissions in the total banking income in the European banking system

The analysis in this section is based on consolidated banking statistics published by the European Central Bank (ECB) for credit institutions from the European Union countries participating in the Single Supervisory Mechanism (SSM). The database includes profit and loss indicators for the period 2015-2024 and covers the aggregate evolution of the banking sector under the ECB supervisory reporting framework. The number of credit institutions included in the dataset decreased from 3278 in 2015 to 2453 as of the third quarter of 2024, reflecting changes in the structure and perimeter of the European banking sector, including consolidation processes, market exits and reporting coverage. Therefore, the results should be interpreted as system-level aggregate trends rather than as a strictly balanced panel of identical institutions over time. To improve comparability, the analysis focuses not only on absolute values, but also on structural shares, growth dynamics and fee-related profit margins. Figure 1 shows the evolution of total operating income and its main components. Thus, during the period 2015–2019, the European banking system was characterised by a relative stability of net interest income and net fee and commission income. However, total operating income recorded moderate decreases: 6.2% in 2016, 0.4% in 2017 and 1.9% in 2018, followed by a slight recovery of 2.9% in 2019. This evolution was mainly influenced by the decrease in income from foreign exchange operations and financial instruments.

Figure 1: Evolution of Total Operating Income and its main components in the EU banking system, 2015-2024, Billion EUR



Source: Elaborated by authors based on the ECB consolidated banking data.

In 2020, the effects of the COVID-19 pandemic were associated with a significant reduction in banking activity. Total operating income decreased by 21.7%, while net interest income decreased by 21.2%. At the same time, net fee and commission income declined by 17.5%, indicating a less pronounced contraction and, implicitly, a higher degree of stability compared to interest income.

Starting from July 2022, the European Central Bank began to tighten its monetary policy after a prolonged period of exceptionally low interest rates. The main refinancing operations rate increased from 0% to

0.5% in July 2022 and subsequently reached 4.5% in 2023. This monetary policy shift took place in the context of strong inflationary pressures, rising energy prices and heightened geopolitical uncertainty following the outbreak of the war in Ukraine. Against this background, net interest income increased significantly from 2022 onwards and became again the main source of growth in banking income.

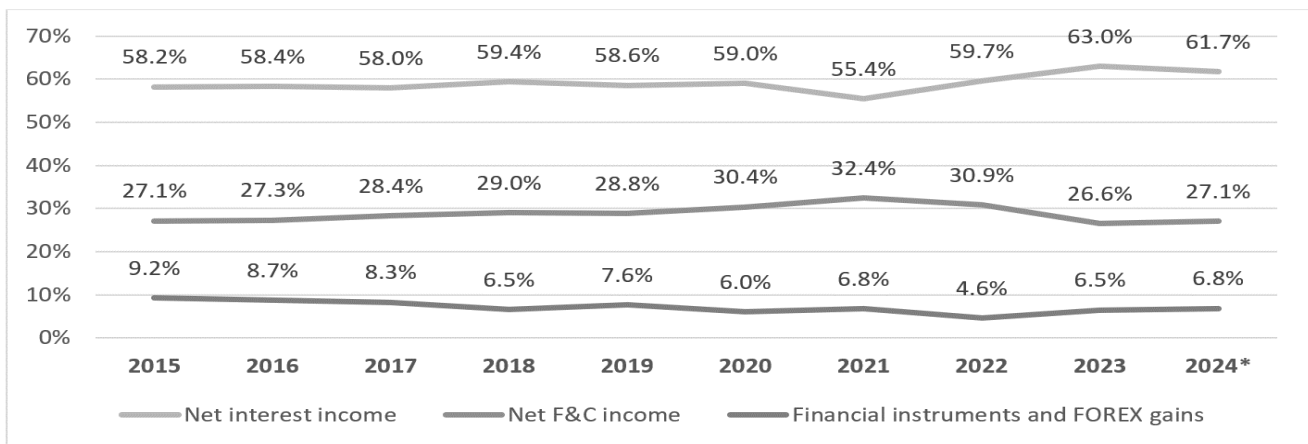
Overall, Figure 1 suggests that fee and commission income followed a more stable evolution compared to interest income. Although this income category was also affected by crises and economic changes, its variations were more moderate, which supports its role in diversifying and stabilizing the profitability of European banks.

The sustained growth of net fee and commission income highlights their increasingly important role in diversifying the sources of bank profitability. Unlike interest income or financial operations, which are strongly influenced by economic cycles, monetary policy and market volatility, fee and commission income is more closely linked to the current activity of customers, the use of banking services and the expansion of digital channels.

Thus, Figure 1 confirms that net fee and commission income has become an element of stability in the structure of total operating income of European banks. Their relatively resilient evolution, including in times of crisis such as 2020, demonstrates the importance of this segment for consolidating a more diversified, more flexible and better adapted banking model to digital transformations and current regulatory requirements.

Figure 2 reflects the change in the structure of banking operating income, analyzing its main components: net interest income, net fee and commission income, and income from financial instruments and foreign exchange operations. Thus, during the period 2015-2021, net fee and commission income had an upward trend as a share of total operating income, even though in the same period the interchange fee cap was applied in the EU: 0.2% for debit cards and 0.3% for credit cards. These caps targeted both domestic and cross-border transactions, and some states applied lower limits, such as Malta, where the cap for debit cards was set at 0.15% (Adyen, 2015). This evolution shows that fee and commission income has consolidated its role in the structure of European banking profitability, despite regulatory pressures.

Figure 2: Structural evolution of net interest income, fee and commission income, and income from financial instruments and foreign exchange operations in total operating income in the European Union banking system, 2015-2024, %



Source: Elaborated by authors based on the ECB consolidated banking data.

Prior to the implementation of the Interchange Fee Regulation (IFR), the level of fees charged on card transactions varied considerably between European Union Member States. For example, Visa fees for consumer cards were around 1.58% in Germany, 1.00% in Austria and 0.87% in the United Kingdom, highlighting the existence of significant differences between European markets before the harmonisation of the regulatory framework (Adyen, 2015).

These differences have highlighted the need to harmonise interchange fees across the European Union. According to a study carried out for the European Commission, the application of the Interchange Fee Regulation resulted in an estimated annual reduction of around EUR 2.7 billion in these fees between 2015 and 2017 (Copenhagen Economics, 2020).

However, the impact on the net fee and commission income of European banks was not structurally significant. Although net fee and commission income did not increase significantly in absolute terms over the period under review, their share of total operating income increased by 5.3 percentage points between 2015 and 2021. Over the same period, the share of net interest income decreased by 2.8 percentage points.

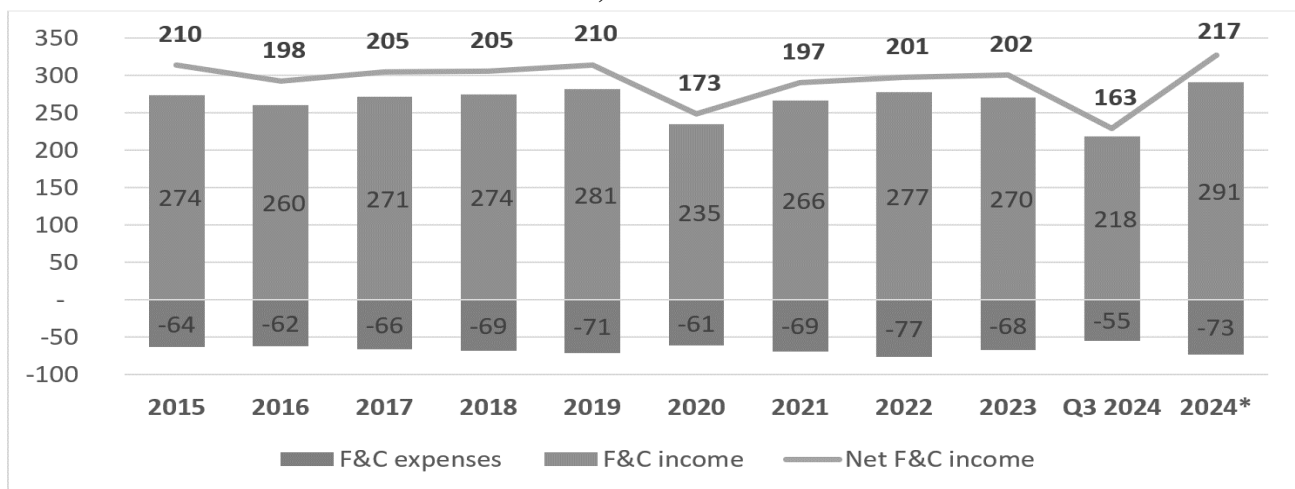
This development suggests that the cap on interchange fees has limited the income of issuing banks, but the negative effect has been partially offset by the development of other categories of bank fees. Therefore, net income from fees and commissions demonstrates a higher resilience not only in relation to macroeconomic factors, but also to regulatory interventions that directly affect them.

Starting with 2022, the share of net fee and commission income in total operating income decreased, although in absolute terms it started to increase. This development is explained by the significant increase in the base interest rate, which stimulated the faster growth of net interest income.

However, taking into account the estimates for the fourth quarter of 2024, the share of net fee and commission income in total income is estimated at least 27.1% at the end of the year. This level is comparable to that of 2015, when the interchange fee cap was not yet applied and the base interest rate was only 0.05%, compared to the range of 4.5%-3.15% recorded in 2024.

Figure 3 analyzes fee and commission income and expenses separately, to highlight the impact of each component on the net result. During the period 2015-2019, the evolution was relatively stable: fee and commission income increased by only 2.6%, while related expenses advanced by 10.9%. This difference reflects the pressure exerted by the cap on interchange fees and the increase in transaction processing costs through international providers, such as Visa and Mastercard. In 2020, fee and commission income reached the lowest level of the analyzed period, against the backdrop of the COVID-19 pandemic, which reduced economic activity, lending and transaction volume. Starting in 2021, the gradual relaunch of economic activity determined a 13.2% increase in income and 13.1% in expenses.

Figure 3: Evolution of the fee and commission income and expenses in the EU banking system, 2015-2024, Billion EUR

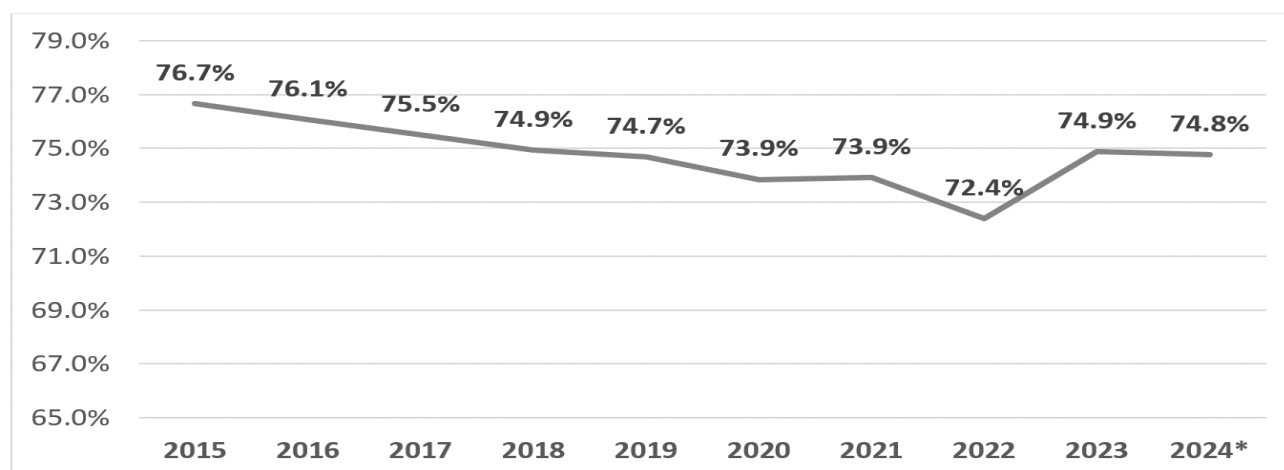


Source: Elaborated by authors based on the ECB consolidated banking data.

In the following years, the evolution remained relatively balanced, and an increase of 7.8% in revenues and 7.3% in expenses is estimated for the end of 2024. This dynamic suggests that revenues and costs related to commission-based activities evolve almost proportionally, which emphasizes the main challenge of banks: maintaining and improving the profit margin from these services.

Figure 4 shows the evolution of the profit margin from fees and commissions in the European Union banking sector over the past decade. The data show a downward trend over the period 2015-2022, followed by some stabilization in recent years. Overall, the margin decreased by approximately 4.3 percentage points, reflecting structural and regulatory pressures on this revenue segment.

Figure 2: Evolution of the fee and commission profit margin in the EU banking system, 2015-2024, %



Source: Elaborated by authors based on the ECB consolidated banking data.

The decrease in the margin may be associated with the tightening of the European regulatory framework, including the implementation of PSD2, MiFID II and the cap on interchange fees. These measures have strengthened consumer protection and market transparency, but have limited the ability of banks to maintain high margins for certain traditional services.

Second, competition from fintechs and non-bank financial institutions has put pressure on banks' fee policies. New providers offer similar services through more flexible and lower-cost digital platforms, which has forced traditional banks to adjust their prices to retain their customers.

Another important factor is the significant investments in digital transformation, including the development of mobile applications, process automation and the modernization of customer services. While these investments are essential for long-term competitiveness, they initially contributed to the compression of profit margins on non-interest income.

Therefore, Figure 4 highlights the process of strategic adaptation of European banks to a more regulated, more digitalized and more competitive environment. The decline in the margin from fees and commissions confirms the need to diversify revenues, optimize costs and adjust pricing strategies in the European banking sector.

5 Analysis of banking income structure and fee and commission dynamics in the Republic of Moldova

As banks diversify their income sources in a context marked by regulatory changes and technological innovations, the ratio between traditional interest income and non-interest income, especially fee and commission income, is gaining increasing strategic importance.

This section provides a statistical and comparative analysis of the main components of banking income, with a focus on the particularities of the banking system in the Republic of Moldova in relation to the trends previously identified at the European Union level.

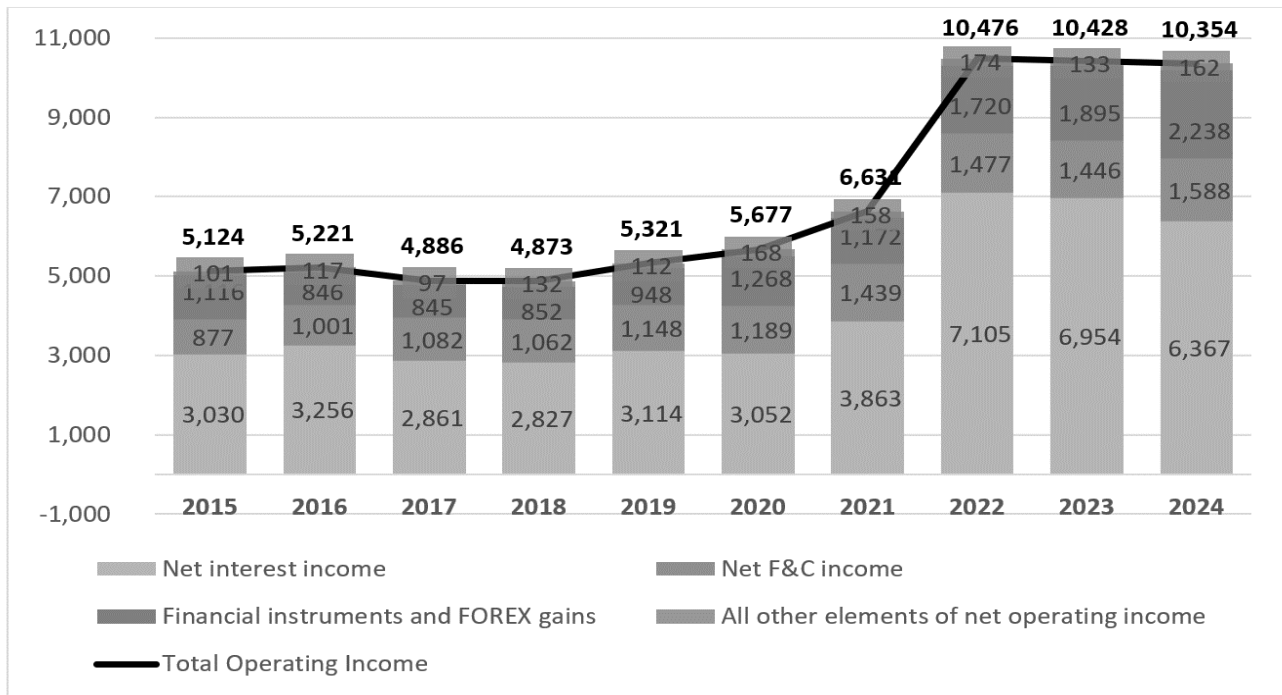
The structure of banking income in the Republic of Moldova is influenced by several external factors, such as European convergence requirements, financial inclusion objectives, the digitalization of services and competition from new financial providers. Although Moldova is a relatively small economy by EU standards, the national banking sector has made significant progress in recent years, including in terms of the development of income from fees and commissions.

The analysis is based on the supervisory reports published by the National Bank of Moldova for the period 2015-2024, including consolidated data for the 11 active commercial banks in the national banking system. Banks in liquidation were not included, and the data used are actual values, without estimates or forecasts.

Figure 5 highlights the evolution of total operating income and its main components in the banking sector of the Republic of Moldova during 2015–2024. Overall, total operating income almost doubled, increasing from 5,124 million MDL in 2015 to 10,476 million MDL in 2022, after which it slightly decreased to 10,354 million

MDL in 2024. The main source of income remained net interest income throughout the period. It remained relatively stable between 2015–2020, ranging between 2,827 million MDL and 3,256 million MDL, but starting in 2021 it registered an accelerated growth: from 3,863 million MDL in 2021 to 7,105 million MDL in 2022.

Figure 5: Evolution of Total Operating Income and its main components in the banking sector of the Republic of Moldova, 2015-2024, Million MDL



Source: Elaborated by the authors based on the NBM consolidated banking data.

In the following years, the indicator decreased slightly, reaching 6,367 million MDL in 2024, but remained at a level much higher than in the previous period. Net income from fees and commissions had a more stable and gradually upward evolution, increasing from 877 million MDL in 2015 to 1,588 million MDL in 2024. Unlike interest income, it did not register major fluctuations, which confirms its more resilient nature in relation to economic and monetary changes.

At the same time, income from financial instruments and foreign exchange operations showed higher volatility. If in the period 2015–2019 they ranged between approximately 845 million MDL and 1,116 million MDL, in 2024 they reached 2,238 million MDL, reflecting the influence of currency fluctuations and market conditions on banking profitability.

Thus, Figure 5 suggests that the increase in the profitability of the Moldovan banking sector after 2021 was largely associated with the growth of net interest income, in the context of rising interest rates and changing monetary conditions. At the same time, income from fees and commissions continued to provide a more stable and predictable source of income for banks.

Income from financial instruments and foreign exchange operations had a more volatile evolution, increasing from 1,116 million MDL in 2015 to 2,238 million MDL in 2024. This dynamic shows the high sensitivity of this source of income to market conditions and exchange rate fluctuations, which makes it less predictable in the long term. In contrast, net income from fees and commissions had a more stable evolution. After the level of 877 million MDL in 2015, they gradually increased, reaching 1,588 million MDL in 2024.

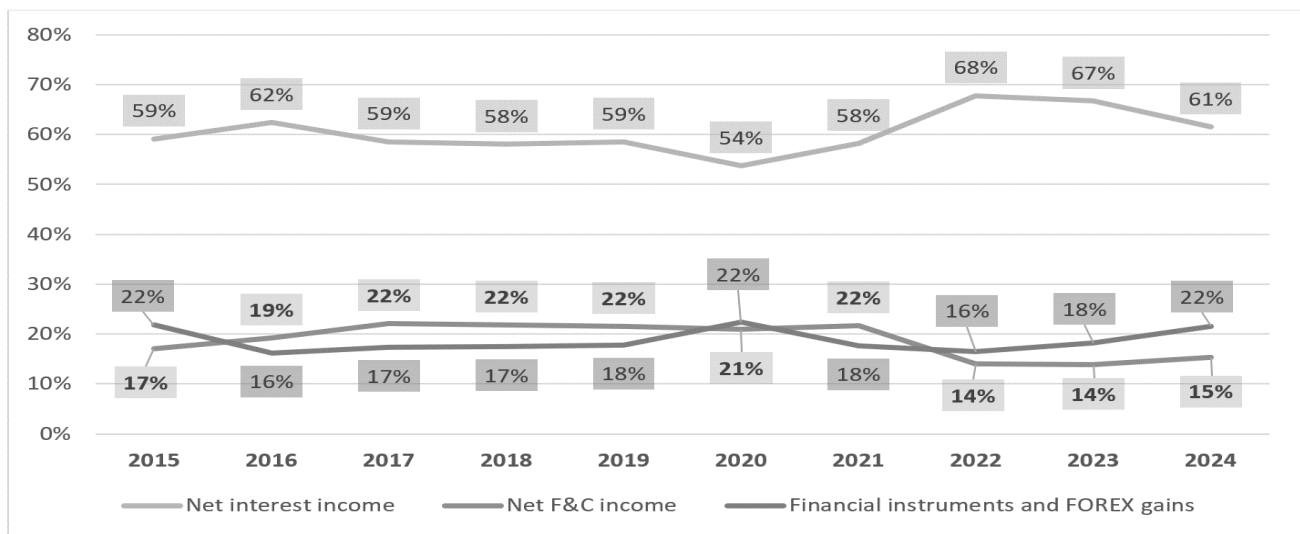
Even in times of crisis, this segment was not significantly affected; on the contrary, in 2021 it increased by approximately 21% compared to the previous year. Compared to the European banking system, the Republic of Moldova follows a similar trend by increasing the importance of net interest income in recent years. However, Moldova's fee and commission revenues have demonstrated more pronounced stability during the crisis, confirming their role in diversifying and consolidating banking revenues.

Figure 6 presents the structure of the total operating income of the banking system in the Republic of Moldova, analyzed through the main components: net interest income, net fee and commission income, and

income from financial and foreign exchange operations. The largest share over the entire period analyzed belongs to net interest income, which ranged between 54% in 2020 and 68% in 2022.

In the period 2016-2020, a gradual decrease in its share is observed, from 62% to 54%, which reflects the compression of interest margins in an environment characterized by low interest rates and higher competition. Subsequently, in the period 2021-2023, the share of net interest income increases significantly, reaching 68% in 2022, against the background of increasing interest rates and tightening monetary policy. In 2024, the indicator decreases to 61%, suggesting a slight diversification of income sources. Revenues from financial and foreign exchange operations have had a more volatile evolution, oscillating between 16% and 22% of total operating income.

Figure 3: Structural evolution of net interest income, fee and commission income, and income from financial instruments and foreign exchange operations in total operating income in the banking system of the Republic of Moldova, 2015-2024, %



Source: Elaborated by the authors based on the NBM consolidated banking data.

The increase to 22% in 2020 and again in 2024 indicates a greater dependence of banks on foreign exchange and market activities in periods marked by economic uncertainty and exchange rate volatility. At the same time, net income from fees and commissions has had a relatively stable evolution, increasing from 17% in 2015 to approximately 21-22% in the period 2017–2021. This trend reflects the expansion of digital banking services, the development of card payments and the increased use of electronic financial services.

However, in the period 2022-2023 their share decreased to 14%, against the background of the accelerated growth of net interest income and the impact of the cap on interbank commissions. In 2024, a slight recovery to 15% is observed. Compared to the European banking system, the contribution of income from fees and commissions to the profitability of banks in the Republic of Moldova remains lower. While in Moldova their share varied between 14% and 22%, in the European Union it was between approximately 27% and 32%. This difference highlights the fact that the Moldovan banking system continues to be more dependent on interest income and financial market fluctuations than the European banking system.

Unlike the Republic of Moldova, the European banking system has operated for a longer period in an environment characterized by relatively stable interest rates and exchange rates. Under these conditions, European banks have been more oriented towards identifying alternative sources of income, more stable and less exposed to market risks.

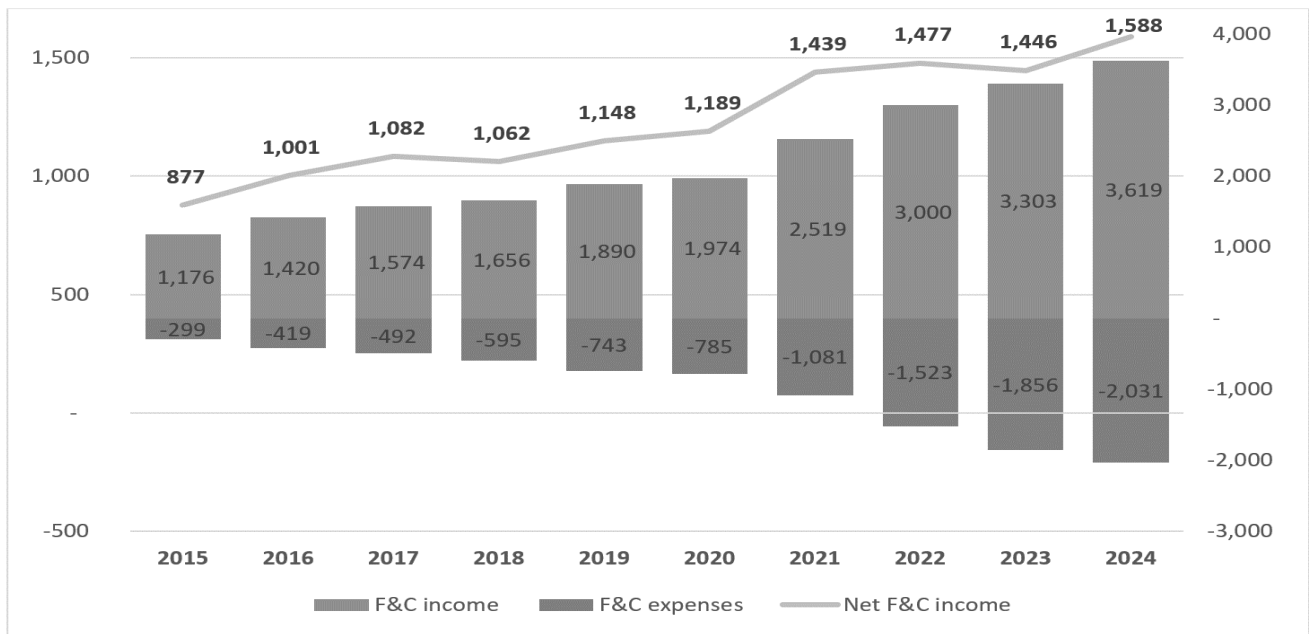
From this perspective, the European experience can provide a benchmark for the future evolution of the Moldovan banking system, as the national economy advances towards a higher level of financial stability and maturity. Overall, Figure 6 confirms that banks in the Republic of Moldova tend, in periods of stability, to gradually move towards a more diversified income model, although net interest income remains the dominant component.

Income from fees and commissions, as well as from financial and foreign exchange operations, is gaining increasing importance, reflecting the adaptation of the banking sector to a more competitive, more regulated and more digitalized environment. At the same time, the effects of recent changes, such as the capping of interbank

fees, the development of digital services and the alignment with European practices, are not yet fully visible, being partially masked by the macroeconomic volatility of recent years. In the medium term, these transformations could accelerate the convergence of the Moldovan banking model with the European one, in which non-interest income plays a more important role in ensuring financial stability and efficiency.

Figure 7 reflects the evolution of income and expenses related to fees and commissions in the banking sector of the Republic of Moldova during the period 2015-2024. The data highlights an accelerated expansion of fee-generating activities, especially after 2020, against the backdrop of the digitalization of banking services and the increased use of electronic payments.

Figure 4: Evolution of the fee and commission income and expenses in the Republic of Moldova banking system, 2015-2024, Million MDL



Source: Elaborated by the authors based on the NBM consolidated banking data.

Income from fees and commissions has grown steadily from 1,176 million MDL in 2015 to 3,619 million MDL in 2024, which represents an increase of more than three times over ten years. The evolution reflects the development of digital banking services, the expansion of card payments, the increase in the number of electronic transactions and the diversification of financial services offered by banks. At the same time, expenses related to fees and commissions have registered a much more accelerated growth after 2020. If in 2015 they amounted to approximately 299 million MDL, in 2024 they reached over 2,031 million MDL.

This evolution indicates an increase in the costs of processing payments and commissions paid to international payment service providers, especially Visa and Mastercard. Until recently, the Moldovan banking system was almost entirely dependent on international payment processing infrastructures. Unlike many European countries, which also have domestic clearing and processing systems, banks in the Republic of Moldova fully bore the costs imposed by international operators, which contributed to the continuous increase in expenses related to activities from fees and commissions.

In this context, the implementation of the MIA instant payment system in 2024 represents an important step towards reducing dependence on external providers and developing the domestic financial infrastructure. Although in the short term this may reduce some bank fee income, in the long term the system has the potential to reduce operational costs and increase the efficiency of payment processing.

A positive systemic contribution is also provided by Mold Media Card (MMC), a locally established payment processing company in the Republic of Moldova, which serves four of the eleven banks in the country. These banks collectively account for approximately 40% of all cards issued in Moldova, 40% of ATMs, and 45% of POS terminals.

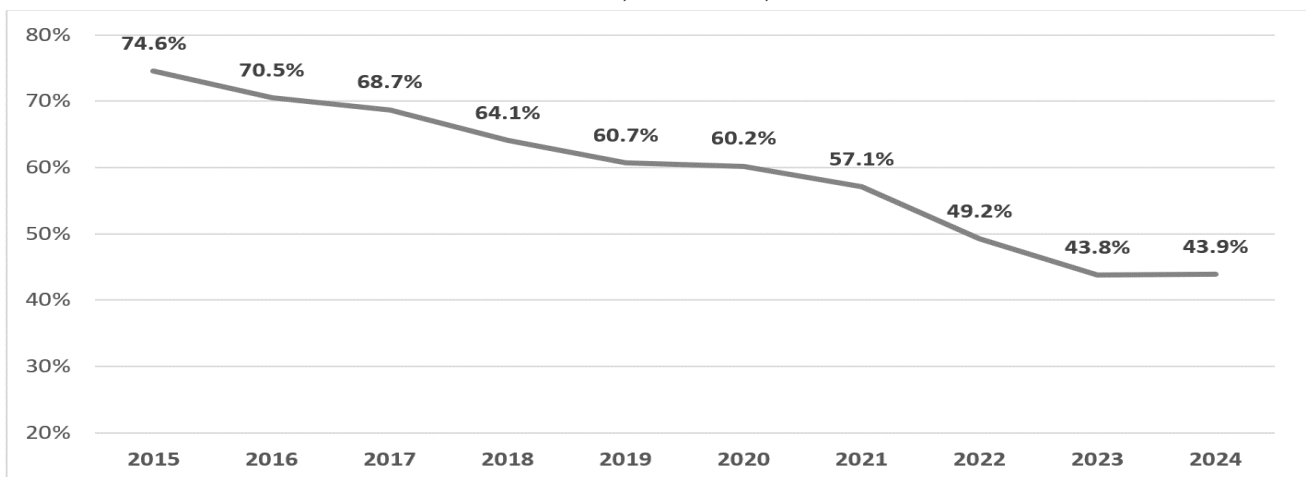
Notably, in early 2023, two banks, Energbank and Eximbank, completed their migration to Moldmediacard's card payment processing system. This integration involved comprehensive projects, including certification with international payment systems such as Visa and Mastercard, migration of card issuance and lending products, and certification of ATM/POS acceptance devices. Additionally, Moldova Agroindbank, the largest commercial bank in Moldova, is affiliated with Moldmediacard, as MMC is a subsidiary of the MAIB group. This has contributed to lower fee and commission expenses for those banks compared to the rest of the banking system.

Although gross fee and commission income increased significantly, net income from this segment advanced at a slower pace, reaching MDL 1,588 million in 2024, compared to MDL 1,189 million in 2020. This difference indicates a compression of the profit margin, as expenses associated with payment services and transaction processing grew faster than income. The trend is in line with European and global developments, where banks are placing increasing importance on fee and commission income.

However, in the Republic of Moldova, this direction is still at a development stage, being affected by high costs, compliance requirements, investments in digitalization, cybersecurity and payment infrastructure. Therefore, Figure 7 highlights both the growth potential of fee and commission income and the main challenge for Moldovan banks: controlling costs and maintaining a sustainable net margin. In the medium term, the efficiency of the digital infrastructure, reducing dependence on external suppliers and optimizing commissioning policies will be essential for consolidating the profitability of this segment.

Figure 8 shows the evolution of the profit margin from fees and commissions, an indicator that shows how much of the income generated by commissionable banking services remains for banks after deducting related expenses. These services mainly include card transactions, account management, interbank transfers and other non-interest activities. The downward trend in the margin indicates increasing pressures on the profitability of this segment. In 2015, banks retained approximately 75 MDL out of every 100 MDL obtained from fees and commissions. By 2023, this value had decreased to 44 MDL, a level that was maintained in 2024. Thus, although income from commissions increased, related costs advanced more rapidly, reducing the net profitability of these services.

Figure 5: Evolution of the fee and commission profit margin in the banking system of the Republic of Moldova, 2015-2024, %



Source: Elaborated by the authors based on the NBM consolidated banking data.

The decrease in the profit margin from fees and commissions may be associated with several cumulative factors. First, the expansion of digital services and the modernization of the payment infrastructure have generated higher costs for banks, including for the maintenance of POS terminals, ATMs, cybersecurity and transaction processing. Second, competition between banks with strong market positions has led to the adjustment of commissions, reducing the income obtained per transaction.

Another important factor is the cap on interchange fees, introduced in the Republic of Moldova starting with 2023, in line with European standards. This has reduced income from card transactions, especially for banks with extensive retail activity.

At the same time, the orientation of customers towards digital channels, which are usually less expensive for users, has contributed to the decrease in margins. In this context, the stabilization of the margin at 44% in 2023 and 2024 may indicate that banks have begun to adjust their cost structure and commission policies to maintain a sustainable level of profitability in this segment.

However, the fee and commission margin could fall below the current level of 44%, given that the final stage of implementation of the interchange fee cap is scheduled for September 2025. Also, the integration of the Republic of Moldova into SEPA may reduce some bank income from payments and transfers, putting additional pressure on the profitability of this segment.

Compared to the European Union, both European and Moldovan banks have recorded a downward trend in the profit margin from fees and commissions. However, the decrease was much more pronounced in the Republic of Moldova: in the period 2015-2022, the margin of European banks decreased by approximately 4.3 percentage points, while in Moldova the decrease was 25.4 percentage points. This difference is largely explained by the high dependence of Moldovan banks on international payment service providers, especially Visa and Mastercard. Unlike some European markets, where domestic processing infrastructures exist, the Republic of Moldova has been more directly exposed to the increase in fees imposed by international card schemes. According to The Brattle Group, these fees have increased cumulatively by 33.9% between 2018 and 2022, i.e. by an average of 7.6% per year, without a proportional improvement in the services offered to merchants and consumers (Reuters, 2025).

Therefore, there is significant room for intervention for banks in the Republic of Moldova in order to optimize costs, reduce dependence on external providers and develop more efficient profitability models for fee and commission revenues.

6 Conclusions

The findings of this study indicate that fee and commission income represents an increasingly important component of the banking profitability model both in the European Union and in the Republic of Moldova. The descriptive and comparative analysis conducted for the period 2015-2024 shows that this category of income has generally had a more stable evolution compared to net interest income and income from financial instruments and foreign exchange operations. This confirms the relevance of fee and commission income for diversifying bank income sources, especially in periods marked by macroeconomic volatility, changes in monetary conditions and transformations of payment services.

In the case of the European banking system, the results suggest that net fee and commission income has maintained a significant role in the structure of total operating income. Although the profit margin related to fee-based activities has decreased over the period under review, this development must be interpreted in relation to a broader set of contextual factors, including regulatory changes, increased competition from fintech companies, the expansion of digital banking services and the costs associated with technological modernization. Since the present research is based on descriptive and comparative analysis, these factors are considered as possible explanatory elements rather than individually isolated causal effects.

For the Republic of Moldova, the results highlight an ongoing process of transformation of the structure of banking income. Net interest income continues to represent the main source of banking profitability, especially after 2021, in the context of increasing interest rates and changing monetary conditions. At the same time, fee and commission income has increased in absolute terms and has become more relevant for diversifying banking income. However, compared to the European banking system, the banking sector in the Republic of Moldova remains less diversified and more dependent on interest income, foreign exchange operations and external payment processing infrastructures.

An important result of the research concerns the evolution of the profit margin related to fee and commission income. In the Republic of Moldova, this margin has decreased more sharply than in the European Union, which suggests the existence of stronger pressures on the net profitability of banking activities based on commissions. This development can be associated with the increase in payment processing costs, dependence on international payment service providers, investments in digital infrastructure and the gradual alignment of the national regulatory framework with European standards. At the same time, the implementation of the MIA instant payment system and the integration of the Republic of Moldova into the Single Euro Payments Area may create opportunities for increasing the efficiency of payment services, although their full impact will only become visible in the medium and long term.

The policy implications of the research point to the need to strengthen the national payment infrastructure, reduce excessive dependence on external processing providers and develop sustainable models for monetizing digital financial services. For banks, the main challenge is to maintain the profitability of fee-based activities, while ensuring accessible, transparent and competitive services for consumers and businesses. This requires a balanced approach between innovation, cost optimization, consumer protection and regulatory convergence with European standards.

Overall, the study confirms that fee and commission income is an important direction for modernizing and diversifying bank profitability. In the European Union, this segment already constitutes a mature component of the bank income structure, while in the Republic of Moldova it remains a developing direction, with significant potential, but also with important structural constraints. Future research could extend the analysis by using bank-level data and econometric methods, to more precisely assess the individual effects of regulation, digitalization, payment infrastructure and fintech competition on fee and commission income and bank profitability.

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