

Annual Report
of the National Committee
for Macroprudential Oversight
for the year 2021

Overview

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The international macro-financial environment was marked by the evolution of the COVID-19 pandemic during 2021 as well, with the authorities further taking measures to mitigate the identified vulnerabilities and address new challenges. The main risks to financial stability remained manageable, but major vulnerabilities continued to build up during this period, such as high indebtedness, particularly of the public sector, asset overvaluation in some financial market segments, as well as the exposure of the economy and the financial system to climate change risks. Short-term risks related to the health crisis have abated, whereas other risks have gained prominence: the geopolitical risk and the risk generated by costlier fossil fuels. In this uncertainty-ridden context, macroprudential policy was one of the key elements in the mix of measures taken at European and national level to ensure financial sector resilience and the supply of finance in order to prop up the post-pandemic economic recovery. After the outbreak of the pandemic had prompted the launch of numerous measures fostering the real economy, especially by recalibrating the instruments so as to support financing, the year 2021 saw the entering into a new paradigm, i.e. the normalisation of macroprudential policy, amid overcoming the initial shock and with a view to preventing the build-up of systemic risks. Specifically, eight EEA countries decided to raise the countercyclical buffer (CCyB) rate in 2021, with most of measures applying as of 2022 and 2023, given the 12-month lag set forth in the legislative framework between the decision and the actual implementation thereof. Moreover, several Member States recalibrated the structural buffer rates (the buffer for systemically important institutions and the systemic risk buffer), mainly as a result of the new European regulatory framework (CRD V) becoming effective.

On the domestic front, the prudent stance of macroprudential policy materialised in an increase of countercyclical capital requirements, given the high levels of liquidity and profitability indicators of the banking sector, which allow capital conservation, without creating lending constraints and hindering eligible borrowers' access to credit. Furthermore, the National Committee for Macroprudential Oversight (NCMO) approved the use of a new methodology to calibrate the capital buffer for other systemically important institutions (O-SII buffer), which directly reflects the connection between the scores calculated based on EBA-recommended indicators and the level of applied requirements. In order to address the new challenges and vulnerabilities to financial stability, an interinstitutional working group was set up and a recommendation was issued to support green finance. The purpose was to underline the major role of climate change effects for the Romanian economy and the banking sector, in terms of both opportunities and costs associated with the transition to a green economy. During 2021, the NCMO analysed the macroprudential policy stance on a regular basis and issued five recommendations on capital buffers (four regarding the CCyB and one regarding the O-SII buffer):

- ➔ the countercyclical capital buffer (CCyB) was raised to 0.5 percent starting 17 October 2022, amid the fast increase in lending during 2021, the tensions surrounding macroeconomic equilibria, the high levels of voluntary capital reserves, and the normalisation trend of macroprudential policy at European level (NCMO Recommendation No. R/7/2021);
- ➔ looking at the buffer for other systemically important institutions (O-SII), nine systemically important institutions were identified; they are applied a differentiated buffer ranging between 0.5 and 2 percent, in equal increments of 0.5 percentage points, according to the new calibration methodology by score buckets (NCMO Recommendation No. R/8/2021);
- ➔ regarding the systemic risk buffer (SyRB), NCMO Recommendation No. R/9/2017 (as subsequently amended by NCMO Recommendation No. R/7/2018) was further operative, whereby credit institutions are required to apply a buffer level of 0 percent, 1 percent or 2 percent depending on the values of the non-performing loan ratio and the coverage ratio. SyRB requirements posted downward dynamics in 2021, given the improvement in the aforementioned prudential indicators across the banking sector in Romania.

During the four meetings of the NCMO General Board in 2021, nine recommendations were issued, of which four on other topical issues pertaining to macroprudential policy in Romania:

- ➔ extension of the period to refrain from dividend distribution until 30 September 2021 (Recommendation No. R/2/2021);
- ➔ compliance with the provisions of EBA Guidelines on the specification and disclosure of systemic importance indicators – EBA/GL/2020/14 (Recommendation No. R/3/2021);
- ➔ implementation of Recommendation ESRB/2020/12 on identifying legal entities (Recommendation No. R/5/2021);
- ➔ analysis of the working group on supporting green finance (Recommendation No. R/6/2021).

The sustainable increase in financial intermediation is one of the intermediate objectives of macroprudential policy laid down in the *Overall Macroprudential Strategy Framework of the National Committee for Macroprudential Oversight*. Given that Romania records the lowest level of financial intermediation in the European Union, the NCMO General Board decided, in its meeting of 15 December 2021, to set up an interinstitutional working group tasked with identifying possible measures to foster the sustainable rise in financial intermediation in Romania.

In line with its mandate and complying with the principle of transparency and institutional accountability, the NCMO continued its communication with the public in 2021, by posting on its website, in Romanian and English, press releases after each General Board meeting, the issued recommendations, as well as the 2020 *Annual Report* of the National Committee for Macroprudential Oversight.