Annual Report of the National Committee for Macroprudential Oversight for the year 2023

Overview

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The economic picture of 2023 was dominated by a series of major intertwined and mutually-influencing themes, such as the geopolitical tensions, the slowdown of inflation globally and the frailty of the post-pandemic economic recovery. The evolution of the war in Ukraine remained deeply unpredictable and its overlapping with the very complicated situation in the Middle East warrants a further cautious stance of economic policymakers, in a potential scenario of short- or medium-term risks materialising. In this uncertain macro-financial context, the conditions that favour the normalisation of the international economic environment seem to take shape starting 2023.

Domestically, the persistence of twin deficits has remained a major vulnerability of the Romanian economy, which can be compounded by a potential delay in the structural reforms the authorities have committed themselves to and in the absorption of European funds, especially via the National Recovery and Resilience Plan (NRRP). From the perspective of domestic financial market stability, market risk remains elevated, tending to stagnate, amid contagion and interlinkages, with indices reacting promptly to the materialisation of tensions or risk factors. Conversely, the prudential indicators of the local banking sector paint a favourable picture, also in terms of comparisons at EU level – solvency and liquidity stand significantly above the European average, while the non-performing loan (NPL) ratio entered the EBA-defined low-risk bucket. Looking at the non-bank financial sector, the capital market has witnessed a sustained advance, *inter alia* amid the listing of Hidroelectrica, the largest initial public offering (IPO) in Europe in 2023. Private pension funds in Romania further reported asset increases, with the system still at an accumulation stage, with no sales pressures for carrying out payments.

In terms of macroprudential policies, a shift has been noticeable from the regime of speeding up the implementation of new measures to that of keeping in place the policies started one or two years earlier. Thus, in 2023 only a part of the European countries announced capital buffer increases for the following 12 months, the tightening of macroprudential policy being a feature of the 2021-2022 period in particular.

During 2023, the NCMO issued recommendations on the recalibration of capital buffers (i.e. four recommendations following the quarterly analyses on the countercyclical buffer and one based on the annual assessment of the buffer for other systemically important institutions), deciding as follows:

- The applicable countercyclical buffer (CCyB) rate is 1 percent as of 23 October 2023. The measure took into consideration the following: (i) the liquidity and profitability levels of the banking sector in Romania enabled the consolidation of macroprudential policy without negatively influencing loan supply to eligible borrowers; (ii) the consolidation trend of banking sector profitability continued, and credit institutions could allocate some of these profits for prudential purposes by strengthening capital reserves – in line with EU practices and recommendations (NCMO Recommendation No. R/1/2023, NCMO Recommendation No. R/2/2023, NCMO Recommendation No. R/3/2023 and NCMO Recommendation No. R/5/2023);

- Nine systemically important institutions (O-SIIs) were identified for 2024, their list remaining unchanged from the previous year (NCMO Recommendation No. R/4/2023). The level of the buffer applicable to the identified banks is proportional to the institutions' systemic footprint.

Similarly to previous years, credit institutions in Romania apply a capital conservation buffer, whose rate of 2.5 percent is set through European legislation, and a systemic risk buffer (SyRB), whose methodology is defined based on the identified vulnerabilities of a systemic nature.

Specifically, in Romania, the SyRB is calibrated based on an algorithm that takes into account the NPL ratio and the coverage ratio for non-performing loans in banks' balance sheet. The positive evolution of the two ratios has entailed a migration of the capital requirement towards the low risk level (0 percent), namely the case in which a credit institution records an NPL ratio lower than 5 percent and a coverage ratio above 55 percent. While nine banks were in the least favourable category at the time of implementing the measure, no credit institution is currently in that category, testifying to the sustained balance sheet clean-up efforts in the banking sector in Romania.

The NCMO General Board was informed on the result of the assessment of macroprudential instruments since their implementation in the national legislation and until the end of 2023. The analysis concluded that capital buffers had contributed significantly to improving credit institutions' prudential indicators and to increasing the banking sector's resilience, in line with European approaches.

Also during 2023, the NCMO decided not to apply through voluntary reciprocity the macroprudential policy measures adopted by Norway, Sweden and Belgium, given that the exposures of the Romanian banking sector to these states are well below the materiality threshold set by the competent authorities of the initiating countries. Moreover, the NCMO conducted an assessment on identifying material third countries for the Romanian banking sector in relation to the recognition and setting of countercyclical buffer rates, the Republic of Moldova being the only country included in this category. Hence, the NCMO would monitor the economic and financial developments in Moldova for as long as it preserved the material third country status within the annual identification exercise.

Furthermore, the NCMO issued a decision on developing the cooperation framework laid down in Recommendation ESRB/2021/17 on a pan-European systemic cyber incident coordination framework (EU-SCICF) for relevant authorities. In the context of intensive digitalisation and the current geopolitical situation, cyber risk has become increasingly relevant for the financial infrastructure and institutions. Thus, with a view to implementing the measures laid down in the recommendation, the NCMO decided to set up a standing inter-institutional working group within the Technical Committee on systemic risk, which would facilitate the development of the cooperation framework among relevant institutions at national and European levels.