Annual Report of the National Committee for Macroprudential Oversight for the year 2019

Overview

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At international level, risks to financial stability increased during 2019. Consequently, the consolidation of macroprudential policy continued, as most European countries implemented restrictive measures in an uncertain global macro-financial environment. Cyclical systemic risks called mainly for the adoption of mitigation measures, such as the build-up of countercyclical capital buffers, with half of the EU Member States choosing to use this macroprudential tool, while structural risks prompted the recalibration of buffers in some member countries. As regards the regulatory framework, the adoption of the CRD V[1]/CRR II[2] package seeks to ensure enhanced flexibility for macroprudential authorities and increased effectiveness of the tools employed.

In Romania, external and domestic vulnerabilities led to the adoption of a prudent macroprudential policy stance, primarily by keeping in place the measures concerning borrowers and the capital reserves built up in previous years. During 2019, the National Committee for Macroprudential Oversight assessed the need to recalibrate or implement the macroprudential instruments at its disposal, in line with the regulatory framework in force, and issued five recommendations to the National Bank of Romania regarding the capital buffers (four recommendations on the countercyclical capital buffer and one regarding the buffer for other systemically important institutions):

- As regards the countercyclical capital buffer (CCyB), the assessments made in the course of 2019 provided mixed signals on the opportuneness of increasing the requirement related to this macroprudential tool, the decision being to maintain the buffer rate at 0 percent;
- Looking at the buffer for other systemically important institutions (O-SII), nine systemically important institutions were identified; they were applied a differentiated buffer ranging between 1 and 2 percent of the total risk exposure amount. For the year 2020, the list of systemically important banks did not see any changes, the capital requirement being raised in the case of a single credit institution, in line with that applicable to the parent bank in the country of origin;

1 Directive (EU) 2019/878 of the European Parliament and of the Council of 20 May 2019 amending Directive 2013/36/EU as regards exempted entities, financial holding companies, mixed financial holding companies, remuneration, supervisory measures and powers and capital conservation measures.

2 Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019 amending Regulation (EU) No 575/2013 as regards the leverage ratio, the net stable funding ratio, requirements for own funds and eligible liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, reporting and disclosure requirements, and Regulation (EU) No 648/2012.

- The systemic risk buffer (SyRB) was kept throughout 2019 at the same level at which it was introduced in June 2018, the objectives being to ensure an adequate management of credit risk from a macroprudential perspective and safeguard financial stability, assuming that the tensions surrounding domestic macroeconomic equilibria and regional and global uncertainties persist. Given the steady improvement in the indicators on the non-performing loan ratio and the coverage ratio, the actual requirements regarding the SyRB witnessed a downward trajectory during 2019.

The NCMO activity during 2019 materialised in the issuance of a total of six recommendations on macroprudential instruments (capital buffers) and other aspects pertaining to macroprudential policy, as well as in the setup of inter-institutional working groups for (i) analysing the impact of the tax on bank assets, (ii) mitigating the vulnerabilities from the widening of the trade deficit on account of the food industry, and (iii) analysing sovereign exposures. The findings of the working groups are compiled into reports submitted for analysis to the General Board with a view to identifying potential measures to address the identified vulnerabilities. Moreover, in line with its mandate and complying with the principle of transparency and institutional accountability, the NCMO continued the communication activity in 2019, by posting press releases on its website after each meeting, as well as the adopted recommendations.

The year 2020 brings fresh challenges for the macroprudential policy, consisting in the effects of the global shock induced by the COVID-19 pandemic on the domestic and external macro-financial framework. In this sense, the National Bank of Romania has implemented a decision providing for the possibility of a temporary non-compliance with the built-up capital buffers, while also keeping in place the legal requirements for such flexibilities. The capital reserves built up during previous years, pursuant to NCMO recommendations, may be used by the banking sector to avoid any sudden halt in financing and to support the real economy in a period marked by uncertainty, thus fulfilling their fundamental objective.