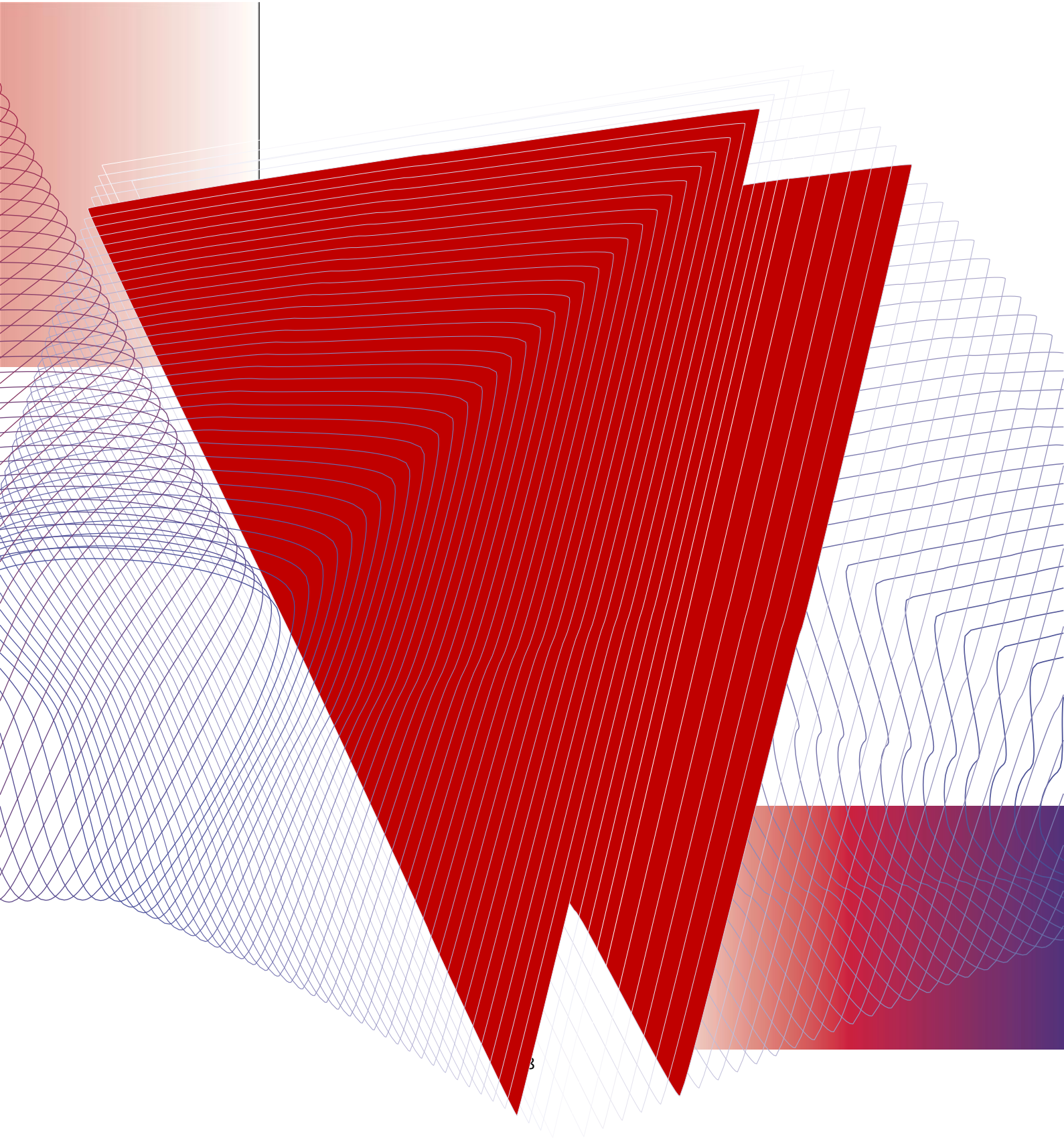




The National Committee for Macroprudential Oversight



Analysis of
NCMO Working Group
on
sustainable increase in financial
intermediation

2022

Overview, key findings and proposals for recommendations

Developing financial intermediation is an important factor of economic growth if done in a sustainable way, while safeguarding financial stability. Romania has the lowest level of financial intermediation in the European Union, the indicators standing well below the other countries in the region. The analysis conducted by the working group shows that the positive results in terms of lending recorded by the countries in the region were determined by a higher absorption capacity of EU funds, a faster digitalisation process for financial services, an industrial policy that supported access to finance for competitive firms, as well as by a wider demand from non-financial corporations.

Higher cofinancing of projects from EU funds is an efficient mechanism towards the sustainable increase in financial intermediation. Romania is below the average both in the EU and in the countries in the region with regard to the absorption rate of these resources. In addition, the breakdown by components shows significant structural issues. The role of banks and NBFIs in financing firms that access European projects has considerable room for improvement. The first measure recommended is to harmonise, through dialogue with the banking sector, the process of operationalisation of financial instruments under the NRRP and the Operational Programmes, so that financial instruments ensure a significant transfer of risk for intermediaries. Other necessary possible steps to be taken are: to increase the predictability of the calendar for calls for projects and of the appropriate legislation; to improve the implementation flow of EU-funded projects (e.g. by creating an IT platform that can be accessed by banks and that contains information on applications for reimbursement and payment, the stage of project implementation). The second measure recommended is to extend the legal framework in order to admit NBFIs from the NBR's Special Register as direct partners in the process of financing and implementing EU-funded projects.

The digitalisation of financial services can sustain the increase in financial inclusion and intermediation. Romania ranks last among EU Member States in terms of both the level of digitalisation and the use of digital financial services. Facilitating the digitalisation process of financial services and supporting innovation in the banking and financial field should consider the development of the digital infrastructure, as well as the implementation of regulatory and supervisory tools dedicated to technological innovations in the field. The measures identified by the working group for supporting the digitalisation and innovation process are: (i) to facilitate integrated access to databases, both to simplify the lending procedure and to limit credit risks, as well as fraud, money laundering and terrorist financing risks, and (ii) to harmonise the national legislation to the European framework to ensure flexibility in the implementation of digital initiatives, by recognising the legal effect of both simple and advanced electronic signatures. Another measure recommended is to analyse the development opportunity for a Regulatory Sandbox instrument, as well as to analyse the

regulatory framework and certain Regulatory Sandbox models developed by other central banks.

Increasing the role of the local financial system in lending to firms can support economic growth by ensuring a more efficient resource allocation and improved payment discipline across the economy. Romanian companies rely to a relatively small extent on funding from financial institutions (13.3 percent of total liabilities), preferring instead loans from shareholders (30.4 percent) or trade credits (28.5 percent). This funding pattern generates a series of important vulnerabilities for the Romanian economy. For example, trade credits have a NPL ratio significantly higher than bank loans and limit firms' development capacity in the medium and long term. To address these vulnerabilities, the working group recommends setting up programmes to increase firms' awareness of the cost-benefit balance regarding trade credits and loans from shareholders. The development of financial intermediation is also sustained by improving debt restructuring procedure and facilitating firms' access to mediation mechanisms in the restructuring process; to this end, the working group recommends measures to ease companies' access to the activity of the Alternative Banking Dispute Resolution Centre to resolve disputes with financial institutions. Another important aspect that may significantly contribute to higher access to funding is to facilitate access to the capital market. Listing companies, especially SMEs, may also have considerable positive effects on the economy via better payment discipline, improved corporate governance, access to more efficient mechanisms to increase company size and diversified funding sources. The working group recommends simplifying procedures for listing on the capital market, *inter alia* by creating an electronic platform.

Improving entrepreneurs' financial education and enhancing the professional training of staff in the financial system are essential for the sustainable increase in financial intermediation and financial inclusion. According to the results of a study conducted by the working group on the expertise of staff in the financial sector, less than half of bank employees in non-managerial positions involved in lending have degrees in economics, whereas less than 1 percent have international qualifications such as CFA, PRM, FRM, ACCA, ACI. To improve entrepreneurs' financial education it is recommended to set up programmes also depending on firms' stage of development and to create a national framework for training young people. To enhance the professional training of bank and NBFIs staff, the working group recommends taking steps regarding the minimum training requirements for staff involved in granting loans to companies and managing related risks, with emphasis on staff involved with companies that operate in innovative fields and sustainable economy. At the same time, it is recommended to increase collaboration between the financial and banking sector and academia, involving more extensively the NBR and the FSA, also in supporting and developing research in the fields covered by the two institutions mentioned.

The structural shift of the economy to a higher value added economy is mutually strengthened with

the increase in financial intermediation, which may support the funding of innovative sectors, the climate change agenda or the addressing of vulnerabilities in the food and energy sectors. Although the Romanian economy saw significant structural changes over the past years, the contribution of high-tech sectors remains low (less than 8 percent in 2020). The representation of these sectors in banks' portfolios is below the values in the structure of value added economy-wide, which has been the state of affairs for the past two decades. Exporting firms and those in knowledge-intensive service industries are also underrepresented in banks' portfolios. The recommendations formulated by the working group refer to authorities creating programmes to sustain competitive firms, *inter alia* by supporting their easier financing and implementing sectoral policies, correlated with economic and industrial policies to support the structural shift of the economy to a higher value added economy.

The working group identified 11 proposals for recommendations (detailed in the table below), which cover three key issues: (i) supporting the structural shift of the economy to a higher value added economy, *inter alia* by using European funds more extensively, (ii) improving entrepreneurs' financial education and enhance the professional training of staff in the financial system, and (iii) diversifying in a sustainable way the sources that may increase financial intermediation. The manner of implementation of the recommendations will be monitored in line with the provisions of *Law No. 12/2017 on the macroprudential oversight of the national financial system*.

Proposals for recommendations to the authorities

No.	Measure	Institution responsible	Deadline
A. To support the structural shift of the economy to a higher value added economy, <i>inter alia</i> by using European funds more extensively			
1	<p>Harmonise, through dialogue with the banking sector, the process of operationalisation of financial instruments under the NRRP and the Operational Programmes, so that financial instruments ensure a significant transfer of risk for intermediaries, for the purpose of full compliance with the provisions of Regulation (EU) No. 575/2013 on prudential requirements for credit institutions and investment firms, in order to facilitate the access to finance of the firms in the areas concerned, by:</p> <ul style="list-style-type: none"> • increasing predictability; • improving the implementation flow of EU-funded projects. 	Government (Ministry of Investments and European Projects)	September 2022
2	Extend the legal framework in order to admit non-bank financial institutions from the NBR's Special Register as direct partners in the process of financing and implementing EU-funded projects.	Government (Ministry of Investments and European Projects).	September 2022
3	<p>Set up government programmes for:</p> <ul style="list-style-type: none"> • supporting competitive firms, identified based on a public methodology, <i>inter alia</i> by supporting their easier financing; • implementing sectoral policies, correlated with economic and industrial policies to support the structural shift of the economy to a higher value added economy, which provides for supporting primarily firms in the sectors concerned; • developing the partnership of local authorities, business environment and universities, especially where the local business environment can efficiently use the expertise developed in universities. 	Government (Ministry of Economy, Ministry of Investments and European Projects, Ministry of Finance, Ministry for Development, Public Works and Administration)	March 2023
B. To improve entrepreneurs' financial education and enhance the professional training of staff in the financial system			

4	Start, alongside academia and the financial system, new programmes to increase firms' awareness that funding via trade credits and loans from shareholders might have, in the medium term, higher total costs than those of borrowing from financial institutions and those related to capital market-based funding.	Government (Ministry of Entrepreneurship and Tourism) National Bank of Romania Financial Supervisory Authority	December 2022
5	Set up programmes for: <ul style="list-style-type: none"> enhancing entrepreneurs' financial education, also depending on the firms' stage of development (start-ups and scale-ups), by organising workshops, conferences, financial education programmes at national level; creating a national framework for training young people, involving experts from banks and other financial institutions, entrepreneurs, pre-university and university teaching staff, in order to correlate the gradual and applied development of certain necessary business skills in lower, upper and post-secondary education, <i>inter alia</i> with regard to protection against cyber incidents and/or attacks. 	Government (Ministry of Entrepreneurship and Tourism, Ministry of Finance, Ministry of Education, Ministry of Agriculture) National Bank of Romania Financial Supervisory Authority	March 2023
6	Take steps, through dialogue with representatives of credit institutions and non-bank financial institutions, regarding the minimum training requirements for bank and NBFi staff involved in granting loans to companies and managing related risks, with emphasis on staff involved with companies that operate in emerging industries (technology, innovation, digitalisation, green agenda, etc.).	National Bank of Romania	December 2023
7	Involve more extensively the human and material infrastructure of the NBR and the FSA and increase collaboration with the financial and banking sectors and academia for: <ul style="list-style-type: none"> developing research in the banking and financial field, <i>inter alia</i> via visiting programmes; partnering for joint projects (i) to improve the theoretical and practical training of future professionals (undergraduate and master's students, doctoral candidates); and (ii) to organise master's programmes or other forms of post-graduate education and traineeships; supporting the adequate theoretical and empirical foundation of various national and European legislative initiatives or strategic decisions that might involve the financial system (e.g.: joining the Banking Union). 	National Bank of Romania Financial Supervisory Authority	June 2023
C. To diversify in a sustainable way the sources that may increase financial intermediation			

8	<p>Research development opportunities for financial and banking markets, by:</p> <ul style="list-style-type: none"> analysing the development opportunity for a Regulatory Sandbox instrument, as well as analysing the regulatory framework and certain Regulatory Sandbox models developed by other central banks; increasing the competitiveness of the Romanian capital market by supporting the implementation of innovative technologies based on distributed ledger technology (DLT) among entities ensuring market infrastructure, by implementing a pilot project for a trading system and a settlement system based on DLT, in accordance with the EU framework in the field. 	National Bank of Romania Financial Supervisory Authority	March 2023
9	<p>Encourage the listing of firms on the BSE's Multilateral Trading System, <i>inter alia</i> by:</p> <ul style="list-style-type: none"> simplifying listing procedures; 	Financial Supervisory Authority	December 2022
	<ul style="list-style-type: none"> implementing the use of an electronic platform that can be accessed by the issuer and the authorities tasked with approving listing requests, to ensure a fast process. 	Financial Supervisory Authority	June 2023
10	<p>Develop the necessary infrastructure for supporting the digitalisation process of financial services, <i>inter alia</i> by:</p> <ul style="list-style-type: none"> facilitating integrated access to databases regarding clients in order to improve the lending process, as well as to take actions to prevent and combat money laundering and terrorist financing; 	Government (Ministry of Finance, Ministry of Internal Affairs)	September 2022
	<ul style="list-style-type: none"> harmonising the national legislation to the European framework to ensure flexibility in the implementation of digital initiatives, by recognising the legal effect of both simple and advanced electronic signatures. 	Government (Ministry of Research, Innovation and Digitalisation)	December 2022
11	<p>Broaden firms' access to the activity of the Alternative Banking Dispute Resolution Centre, by amending accordingly the provisions of Government Ordinance No. 38/2015 on alternative dispute resolution between consumers and traders, regarding the power of the ABDRC, and on the dispute resolution between firms and traders whose activity is regulated, authorised and supervised/monitored by the NBR, as well as the branches of foreign traders that operate on Romania's territory, in the banking field, via ABDRC procedures.</p>	Government (Ministry of Economy)	December 2022