Annual Report of the National Committee for Macroprudential Oversight for the year 2024

Overview

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Systemic risks remained high during 2024, mainly via the geopolitical tensions channel, compounded by an electoral effervescence globally, with elections held on various continents and in the world's major economies. The new US administration is promoting protectionism to a greater extent than in the first term in office, while the correction of the US trade deficit vis-à-vis Europe, in line with the promise of a reindustrialisation domestically, is becoming a central topic in transatlantic relations. The conflict in Ukraine is further a major uncertainty factor, with no clear solution by end-2024, whereas the difficult situation in the Middle East has witnessed developments in the second half of the year that pave the way for securing regional stability.

In 2024, the global economy advanced 3.2 percent, yet the performance was uneven across the world. The US economy boasted a sturdy 2.8 percent growth, supported by domestic demand, whereas that of the EU increased by a modest 1 percent. Inflation went down further, and the major central banks, such as the Fed and the ECB, lowered key rates by 100 basis points in order to stimulate the economy. These measures fostered the rise in risk asset prices, although financial markets recorded episodes of volatility, especially amid the uncertainties associated with economic policies. In Europe, sovereign debt concerns led to an increase in government bond yields, while the high public debt levels remain a major challenge globally.

The persistence of twin deficits is still a vulnerability of the Romanian economy, while the effective absorption of funds via the National Recovery and Resilience Plan (NRRP) and the swift implementation of projects become crucial, given the approaching 2026 deadline, after which access to these resources is no longer possible.

On the other hand, the prudential indicators of the local banking sector have stayed above the European averages, thus consolidating the recent years' positive trend. This favourable framework was underpinned by the implementation of a broad range of macroprudential instruments, which contributed to the stability and resilience of the financial system, despite a domestic and external environment riddled with challenges.

During 2024, 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, set at 1 percent as of 23 October 2023, was reconfirmed in all four meetings of 2024. Liquidity and profitability indicators remained at levels above the European averages, thus allowing the continuation of the macroprudential policy without negatively affecting credit supply to eligible borrowers. (NCMO Recommendation No. R/1/2024, NCMO Recommendation No. R/2/2024, NCMO Recommendation No. R/4/2024 and NCMO Recommendation No. R/5/2024);

- Starting April 2025, the number of systemically important institutions fell to 7, i.e. two less than a year earlier, given the mergers and the consolidation process in the local banking sector (NCMO Recommendation No. R/6/2024).

The list of macroprudential instruments applicable to the banking sector in Romania also includes a capital conservation buffer, whose rate of 2.5 percent is set through European legislation, and a systemic risk buffer, whose methodology is defined based on the identified vulnerabilities of a systemic nature.

Moreover, by publishing NCMO Recommendation No. R/3/2024, the NCMO decided on the compliance with the provisions of the European Banking Authority Guidelines EBA/GL/2023/10 amending Guidelines EBA/GL/2020/14 on the specification and disclosure of systemic importance indicators.

The NCMO also decided during 2024 not to apply through voluntary reciprocity the macroprudential policy measures adopted by Portugal, Italy and Denmark, 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. Furthermore, the NCMO identified the Republic of Moldova as a material third country for the Romanian banking sector in relation to the recognition and setting of countercyclical buffer rates.

The General Board also approved the decision to establish an NCMO working group on credit guarantee government programmes. The purpose of this working group is to identify possible measures for better channelling government-guaranteed loans towards strategically important sectors, while reducing this type of exposure over time. Following the analyses presented within the NCMO during previous years, the following five strategic areas could be considered: (i) the high value-added sectors, (ii) the knowledge intensive services, (iii) food security, (iv) energy security and, in view of geopolitical tensions, (v) the defence industry.